MARKET REVIEW & OUTLOOK

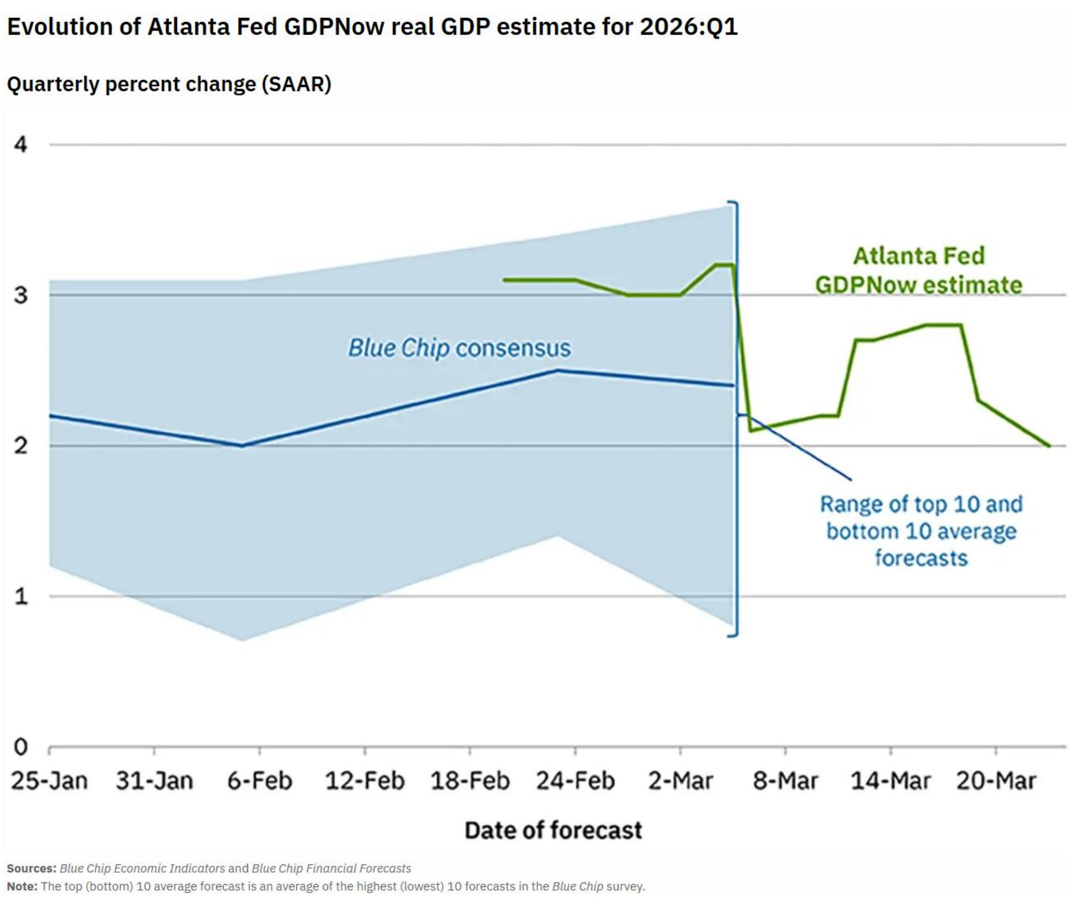
MARCH 2026

KEY TAKEAWAYS

- **Equities:** The markets had a steady drop throughout the month with occasional pops on Trump Tweets about the Iran conflict/war ending soon.
- **Fixed Income:** The U.S. 10-year Treasury Yield surged most of the month to near 4.5% on inflation fears from the Iran conflict/war but backed off at the end on growth fears.
- **Crude oil** romped higher as the Iran conflict/war impacted shipping lanes and a lot of energy infrastructure throughout the Middle East.

The U.S. Economy

The second read on 4th quarter GDP came in even weaker at 0.7% vs. the initial report of 1.4%. The revisions down were across a wide range of categories. The PCE, the embedded GDP inflation, eased to 2.9% vs the initial 3.0%. With the 4th quarter in the rearview mirror, the GDPNow estimate is at +2% and the Blue-Chip consensus forecast is higher at 2.3%, as shown in the chart below. The Iran conflict/war most likely makes this data irrelevant as the calculus has the potential to change significantly.



Source : https://www.frbatlanta.org/cqer/research/gdpnow

Stocks and Bonds

The U.S. 10-year Treasury yield below 4% was very short lived as the bombs fell on Iran spiked oil prices driving up inflation concerns. The end of the month saw a slight reprieve in yields though on growth concerns which is almost as bad as inflation concerns. The Fed met in the middle of the month, and they came to the same conclusion as I did during the quarterly asset allocation review, it is too early to make any big adjustments/decisions given the high uncertainty around current events. The Fed meets again at the end of April. Hopefully there is more clarity on the situation, ideally an end to the conflict/war and the Strait of Hormuz reopened. The huge jump in yields was a meaningful headwind for High Quality fixed income, which as measured by the iShares US Aggregate Bond ETF dropped -1.94% for the month. The U.S. 10-year Treasury bond yield ended the month at 4.31%, up significantly from February's close of 3.96%.

The Dow Jones Industrial Average dropped -5.38%, the S&P 500 fell -5.09%, and the small cap iShares Russell 2000 ETF lost -5.03%. The International markets traded significantly worse than the U.S. markets. The MSCI EAFE iShares Core International Developed Markets ETF Index dumped -8.30%, and the MSCI Emerging Markets iShares Core ETF Index plummeted -9.82%.

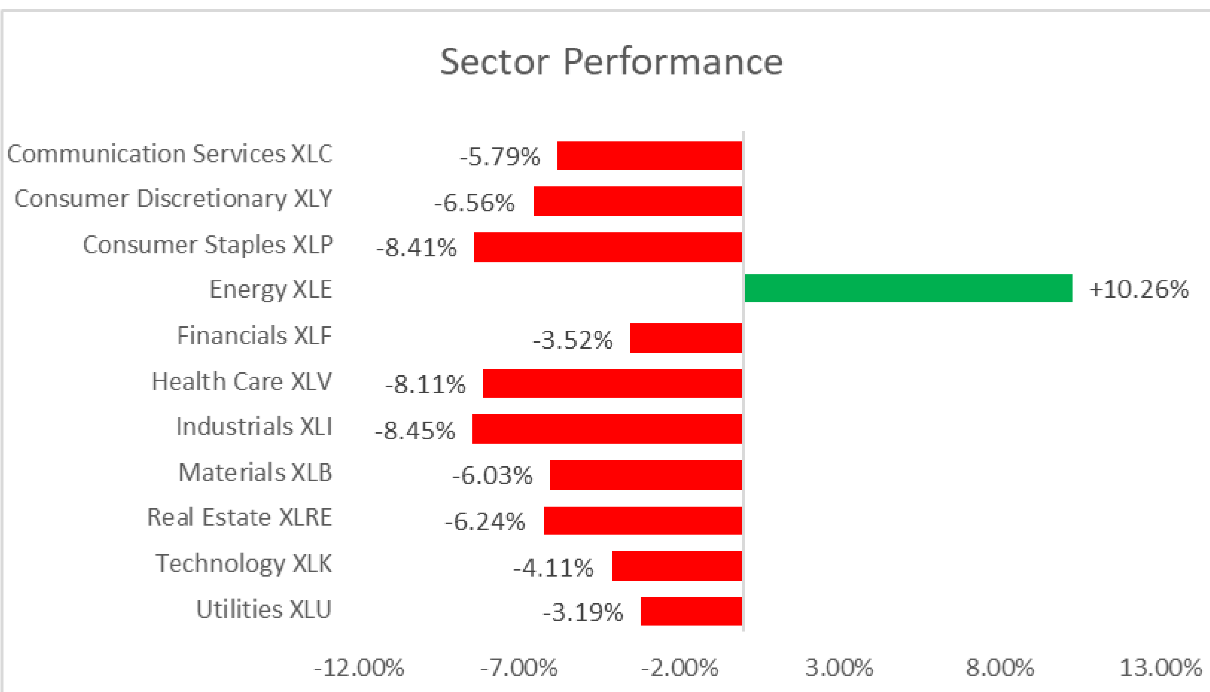
March's sector performance was dreadful except for Energy.

The best performers were…

- Energy: +10.26%
- Utilities: -3.19%
- Financials: -3.52%

The worst performers were…

- Industrials: -8.45%
- Consumer Staples: -8.41%
- Health Care: -8.11%



Source: https://www.morningstar.com

Oil Report

Crude Oil's rally hit overdrive as the Iran geopolitical concerns erupted into a regional conflict/war. Israel and the US focused on Iran, Iran focused on Israel and the rest of the Middle East. Widespread energy infrastructure was damaged, and the Strait of Hormuz is not flowing freely. The other geopolitical hotspots, Cuba, and the Ukraine/Russia conflict took a backseat to the Middle East. The current, it seemingly changes every minute, is Israel has stated Iran is no longer a threat, Trump says he is ready to pack his bags and leave the Strait of Hormuz to Europe and Asia to figure out. Iran is the tricky one, especially with so many in senior leadership having been killed. At a minimum, it appears the Iranian political side is ready for peace, the IRGC may or may not agree with that statement. The IRGC seems to operate as more of a kill switch once senior leadership is eliminated, which is scary as there may not be a stop from them until they run out of weapons. The main arbitrator of the situation is the energy markets. The equity markets finished the month all excited about what was described above. The energy markets seem less convinced as prices didn't drop precipitously as though the conflict/war might actually be nearing an end. The current NYMEX WTI Crude Oil futures settled at $101.38, surging over 50% from the prior month's close of $67.29 a barrel. RBOB gasoline jumped almost $1, wasn't quite as strong as Crude, surging by almost 43% for the month, on the back of a strong February, vs. February's close. The usual slow winter season has been anything but with the huge jump in gas prices, the summer driving season could be expensive.

The Rest of the Data

The February ISM Manufacturing Index eased to 52.4 from January's reading of 52.6, again over the 50 level. The ISM Services Index jumped to 56.1 in February, from January's print of 53.8, remaining above the 50 level. Any reading below 50 generally indicates deteriorating conditions and any reading above 50 generally indicates improving conditions. The prices paid component for Manufacturing surged back to elevated levels, but Services' prices eased closer to only high levels. Consumer confidence increased to 91.8 in March, which compares to 91.2, as reported in February and the data was collected during the first 24 days of March. The unemployment rate rose in February, to 4.4%, while the number of jobs dropped by 92,000, far worse than expectations of +55,000, though the horrible weather had an impact as many people couldn't get to work. The Consumer Price Index for All Urban Consumers (CPI-U) for February came in at 0.3% versus 0.2% for the month of January, on a seasonally adjusted basis. Over the last 12 months, the All-Items Index rate held at +2.4% on a non-seasonally adjusted basis. The CPI ex Food and Energy held at +2.5% over the last year. Economic growth reports were good, though with lots of noise, the government shutdown, significant snow fall impacting employment, and now looking forward, the impact from the Iran conflict/war. We will continue to monitor economic activity, policy announcements, and inflation reports for potential shifts.

Summary

The Iran conflict/war is trumping all else that was going on. The known is that no matter how fast the conflict/war may be resolved, real damage has been done to energy infrastructure and time will be needed to untangle the logistics of all the ships that have been floating around in the Persian Gulf. What is unknown is the duration of the conflict/war, which compounds the impact as it continues.

Ultimately, Asia is the most reliant on the Persian Gulf and will likely have the largest impact, followed by Europe. The US is relatively insulated as we are generally energy independent and grow a lot of food. What the US won't avoid is the inflationary impact that is already taking place. The challenge with making any big shifts is how will the market look through the impact if the conflict/war is resolved in a relatively short period of time. For now, we will continue to take it one day at a time and stay focused on our process.

More than ever, the markets can be emotional, so we retain our focus on what we can control, which is the amount of equity risk that is taken in a clients' portfolio in concert with the clients' risk tolerance and long-term goals. The markets will always face different "worries", today it is inflation/tariffs vs. growth and interest rates, tomorrow it will be something else. We have built our asset allocation models with dynamic features and quarterly rebalancing, both in fixed income and equities, which in US Large Cap has transitioned to a 50% of weight to Treasury Bills.

If you have specific questions about your portfolio or financial situation, we are here to help. Long-term financial planning is designed to deal with uncertainty like those we discussed above. Our portfolio management process is to design a prudent allocation across many asset classes. Equities are for long-term growth and several vehicles that we utilize offer defensive mechanisms to mitigate equity market declines.

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