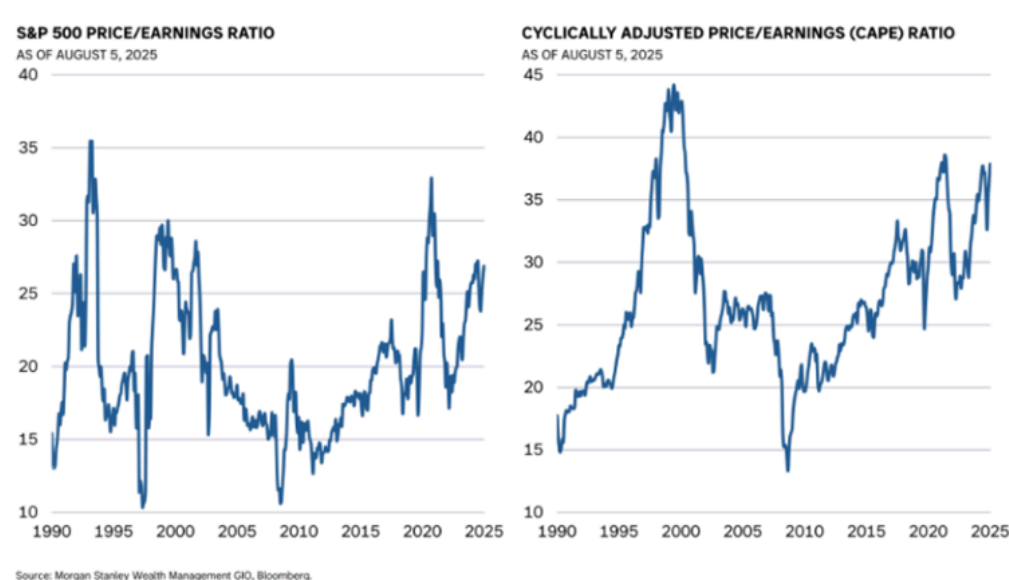


March was a difficult month for most investors as the Iran war intensified and markets pivoted hard into a “risk-off” stance. U.S. equities fell sharply across the board, with the selling pressure reflecting both heightened geopolitical uncertainty and tightening financial conditions as investors moved toward perceived safe havens. The S&P 500 declined **5.0%** for the month, the Dow Jones Industrial Average fell **5.2%**, and the NASDAQ Composite dropped **4.7%**. Smaller-company stocks did not provide shelter either—mid-caps (**Russell Midcap -5.3%**) and small caps (**Russell 2000 -5.0%**) also sold off, underscoring how broad the drawdown became.

Two related forces helped drive the tone. First, the Iran war kept markets swinging on shifting expectations about [escalation](#) vs. [negotiation](#), with oil and global risk assets reacting sharply to each new headline. Second, that uncertainty contributed to a classic “flight to safety” dynamic, and importantly, this manifest in a [reversal the dollar weakening theme](#) that had been in place since the Trump administration began advancing its trade policies last year. A firmer dollar can effectively tighten financial conditions and often creates an added headwind for non-U.S. assets and emerging markets in particular, which is consistent with the month’s weaker performance abroad. Consequently, international equities and emerging market equities were hit even harder than US stocks for two reasons. First, the [dollar strength](#). Second, especially in Asia, economies are [more dependent](#) on imported oil from the middle east which quickly becomes physically constrained as Iran blockaded the use of the Strait of Hormuz. Developed international stocks (MSCI EAFE) fell **10.2%** in March, and emerging markets (MSCI Emerging Markets) declined **13.0%**.

Bonds were not a [clean safe haven](#) during this episode either. Instead of providing the typical ballast, fixed income also fell as inflation concerns rose: the Bloomberg US Aggregate Bond Index declined 1.8% in March, while municipal bonds (Bloomberg US Municipal) dropped 2.3%. In other words, the same “flight to safety” impulse that supported the dollar did not translate into a straightforward bond rally as oil price shocks create both recessionary and inflationary impulses – sometimes referred to as stagflation.

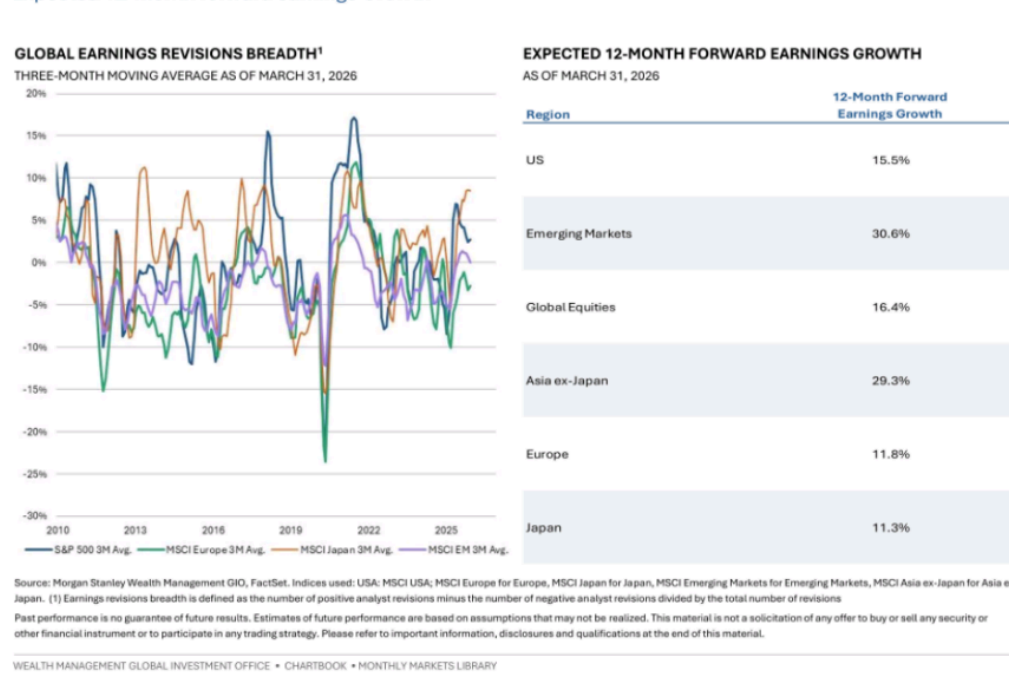
So where do we go from here? The events in Iran have made our team less optimistic on 2026 overall – particularly around the pace of disinflation and the potential for Federal Reserve rate cuts. That said, as Andrew Sheets, our Global Head of Fixed Income Research, wrote in the [month’s On the Markets](#), “if the Iran conflict ends and oil shipments resume through the Strait of Hormuz, momentum could swing back again, and we note that strong underlying fundamentals should make this business cycle unusually resilient.But until hostilities cease, the speed and scale of this flip have sapped performance and left investors in a difficult position.”



While US markets fell from their peaks by about **7 percent peak to trough**, it’s hard for our team to get excited about that decline relative to market valuations and recent performance. If we were placing money on this pullback, we would likely direct it overseas as international stocks and especially non-Chinese emerging markets stocks suffered a greater decline and were dramatically cheaper before they fell. Furthermore, their earnings growth seems to be accelerating. As Richard Bernstein Advisors [noted in February](#), “Investors need to remember that earnings growth matters far more than earnings levels. Today, profit expectations are accelerating across most major regions, while U.S. expectations appear to be flattening. That does not imply the U.S. is heading for an earnings downturn. Rather, it highlights an important shift: the gap between U.S. earnings momentum and the rest of the world is narrowing, and relative momentum tends to be a key driver of relative equity performance.”

Earnings Revisions and Expected Earnings Growth

[Expected 12-month forward earnings Growth](#)



With regard to fixed income, our team’s concerns about credit bonds and inflation expectations have increased so far in 2026 – not only because of the Iranian war. We are more concerned about the underlying signal than the daily noise in the news cycle. Even after hostilities abate or cease in Iran (markets began to price in such an eventuality starting April 7th), we have concerns about credit bonds in the age of AI/Robotics which we highlighted last month in our note. At the margin, we are considering lowering duration in portfolios and preparing for a market that might look more like the [1960s than the 1970s](#). As some pundits have already noted, the US is not dependent on foreign oil as it was during the energy crisis in the 70s. The financial character of the 60s may better match what we are currently observing – expansive fiscal policy and profligate defense spending all at once working to drive inflation expectations higher. The widening of the [spread between Brent and WTI](#) this month also adds weight to this idea. Said differently, we worry federal fiscal impulse and AI investment opportunities may steal resources from arguably economically necessary endeavors; over time that process may produce inflationary pressure. Such an environment likely favors shorter duration fixed income, shorter duration equities (high quality dividends), TIPS, and precious metals. Our team anticipates a return to dollar weakness and lower energy prices once the hostilities in the Middle East subside – but that reality may not necessarily lead longer-term inflation expectations to fall.

As Lisa Shalett, Chief Investment Officer, eloquently put it, “The bottom line is that while hostilities may end at any moment, we don’t think investors should assume that January’s bull case will be quickly resurrected. Much has happened, and outcomes are less certain amid performance dispersion. This argues for building portfolios that are maximally diversified by asset class and geography to hedge against uncertain growth and inflation, while managing idiosyncratic risk at the sector and company level to exploit opportunities.” In other words, our most important defense against uncertainty is true diversification by adding assets classes that provide positive expected return but low correlation.

As always, if you have any concerns, please don’t hesitate reach out to any member of the team.

Sincerely,

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