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Tumultuous Start

Markets entered the new year with seemingly uniform optimism, buoyed by expectations of AI-driven productivity gains, resilient economic growth, robust earnings growth projections, and a supportive policy backdrop. These conditions seemingly left assets vulnerable as a series of escalating concerns challenged investor conviction. Worries about AI hyperscaler capex spending pressured large cap tech stocks as investors questioned the ROI on hundreds of billions of dollars of spending. Potential AI disruption to software businesses and SAAS licensing and distribution models triggered a 20%+ drawdown in the software sector[1]. Private credit markets fears continued: software sector concentration came under scrutiny, listed BDCs saw discounts to NAV widen to > 25%[2], and semi-liquid credit funds wrestled with elevated redemption requests. Finally, the escalation in the Iran conflict drove a spike in oil prices – with Brent Crude peaking near $120 barrel[3] – and a sharp selloff in global equities, bond markets, and risk assets broadly.

The S&P 500 corrected nearly 9% from its January peak before recovering to roughly flat for the year as of mid-April[4]. The US Dollar surged in March on safe-haven demand before giving back most of its gains on de-escalation hopes, now up about 0.5% for the year[5]. Gold peaked in January then sold off > 20% in February and March on shifting monetary policy expectations, rising yields, and foreign currency dynamics, disappointing as a geopolitical risk hedge, although returns on the yellow metal are still positive year-to-date[6].

Hot War, Less Hot Economy

In January, we wrote that the administration was "running it hot," promoting fiscal and monetary stimuli against a backdrop of strong growth momentum and contained inflation risks. The Iran conflict has since turned the dial decidedly cooler—less hot, one might say—by injecting a classic stagflationary impulse. In other words, we now anticipate modestly lower growth and higher near-term inflation as higher energy costs erode real incomes and weigh on consumption. Morgan Stanley's US Economics team has revised their Real GDP forecast down to 2.2% on a year-over-year basis for the fourth quarter and now expects the Federal Reserve to cut rates in September and December, vs. the earlier anticipated June and December timeline[7]. March Headline CPI came in at 3.3% year-on-year, (up sharply from 2.4% in February), driven almost entirely by the energy component, while Core CPI came in at 2.6%, suggesting inflation should be contained if the oil-driven impulse proves largely transient.

Having said this, with a two-week ceasefire continuing to hold, we see the U.S. growth backdrop as broadly intact, supported by resilient consumer balance sheets, healthy corporate investment intentions (particularly in AI-related capex), and solid labor demand. We view any resulting supply-chain friction and margin compression as limited in duration. With the volatility index below 20 and the S&P 500 now up 7% from the low just a few weeks ago, markets appear to be looking through supply disruptions to normalization later in the year[8]. That said, the trajectory is contingent on oil prices moderating and a gradual resumption of oil flows from the Persian

Gulf. Sustained levels above $85-90/barrel would likely transmit more persistent cost pressure through supply chains, particularly for Europe and Asia.

De-escalation Puts Earnings Back in Focus

Assuming the US and Iran can achieve a durable peace deal, 1Q corporate earnings season is poised to set the tone for the coming weeks. Consensus forecasts for earnings growth entered the year at strong levels and have seen further upward revisions in recent weeks, with first-quarter expectations now centered around 12-19% year-over-year and full-year projections holding near 19%[9]. These figures reflect broad-based strength across sectors, with technology and industrials leading the upside. At current levels, the S&P 500 trades at approximately 20 times forward earnings—a multiple that is elevated relative to the 19x 5-year average yet reasonable considering the magnitude of earnings growth, margin resilience, and the secular tailwinds from AI adoption[10]. Management commentary, forward guidance, and estimate revisions over the coming weeks should shed light on whether and to what extent expectations are coming to fruition.

Ongoing Concerns

Looking ahead, several sources of volatility warrant close attention, in our opinion. AI disruption remains a double-edged sword: transformative for productivity yet potentially destabilizing for certain labor-intensive and legacy software business models. Private credit continues to navigate a more selective funding environment, as M&A picks up this year and refinancing pressure starts to build in 2H 2026. The Iran conflict, while contained for now, underscores persistent geopolitical tail risks. Supply-chain normalization is progressing but remains vulnerable to secondary shocks, and the approaching midterm elections introduce the familiar layer of policy and fiscal uncertainty. Collectively, these factors argue for a disciplined approach to risk management rather than outright defensiveness.

Positioning

In this environment, it may be beneficial to consider a balanced investment approach. While our portfolio advice is always bespoke and fact specific, we see opportunities for investors seeking diversification to consider complementing US Large Cap exposure with allocations to international equities, emerging markets equities, investment grade fixed income, select private credit, commodities, infrastructure, and private equity – particularly secondaries and late-vintage venture capital and growth capital strategies.

In Equities, it may be beneficial to blend broad index exposure with active management that targets high-quality businesses, strong free-cash-flow generation, pricing power, competitive moats, and valuation discipline. In Fixed Income, extending duration in investment-grade credit could help position for anticipated policy easing, while maintaining a tactical approach to high-yield exposure. In Private Credit, focusing on later vintage, senior secured strategies, with conservative loan-to-value ratios, opportunistic sleeves, and shorter duration profiles could be prudent. Geopolitical and supply-chain risks could be addressed through modest commodity and inflation-linked exposures, along with select absolute return hedged strategies. Overall portfolio construction could benefit from prioritizing liquidity, diversification, and the ability to capitalize on volatility-induced dislocations.

As always, we invite you to reach out to discuss how best to align your portfolio with your personal and financial planning priorities. We will be monitoring conditions carefully and wish you and your family the best this Spring!

Sources:

[1] The $1.6 Trillion Dollar Meltdown that Swept Through Software Stocks, The Wall Street Journal, 2/26/2026
[2] BDC Redemptions: Looking Behind the Gates, iCapital, 3/3/2026
[3] Oil Market Report, International Energy Agency, 3/12/2026
[4] Stocks stage a big comeback Monday with the S&P 500 wiping out Iran war losses, CNBC, 4/13/2026
[5] Dollar Erases 2026 Gains as Iran Cease fire Saps Haven Demand, Bloomberg, 4/8/2026
[6] Gold Has Been a Terrible Iran War Hedge – Why? Bloomberg, 3/24/2026
[7] Global Fixed Income Outlook: April 2026, Andrew Sheets, Morgan Stanley & Co. International PLC+
[8] VIX falls below 20 for the first time since the conflict began in the Middle East, Seeking Alpha, 4/8/2026
[9] April's stock market rebound is about to face its first major test, MarketWatch, 4/12/2026
[10] FactSet Earnings Insight, FactSet, 4/10/2026

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