



## Market Review and Outlook

### 1st Quarter 2026

Global equity markets declined in the first quarter of 2026 amid the war in Iran and the resulting energy price shock. The MSCI EM, MSCI EAFE, and S&P 500 returned -0.2%, -1.2%, and -4.3%, respectively. Value stocks outperformed growth stocks globally as volatility increased and interest rates rose.

In fixed income, the best-performing asset in the first quarter was cash. Interest rates rose sharply as markets priced in higher inflation expectations. Global central banks could respond to higher inflation by hiking, although the Fed is more likely to remain on hold for longer. Long-duration U.S. Treasury bonds provided little diversification against equity risk. Since the start of the war, the U.S. Aggregate Bond Index has returned -1.5% (and -0.1% for the first quarter). In the flight to quality, credit spreads widened in EM and U.S. corporate debt.

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### Outlook

The near-term market outlook will likely be determined by how the war in Iran evolves. In our baseline scenario, the Strait of Hormuz gradually reopens to shipping by the end of April. Whether that occurs through a negotiated settlement or a unilateral U.S. and Israeli withdrawal (with Iran continuing to charge tolls for safe passage) is ultimately less important to markets than the normalization of shipping volumes. In that scenario, oil prices would likely fall quickly from elevated levels, consistent with the current oil futures curve. Risk assets would likely rally, and rates would likely decline in the near term.

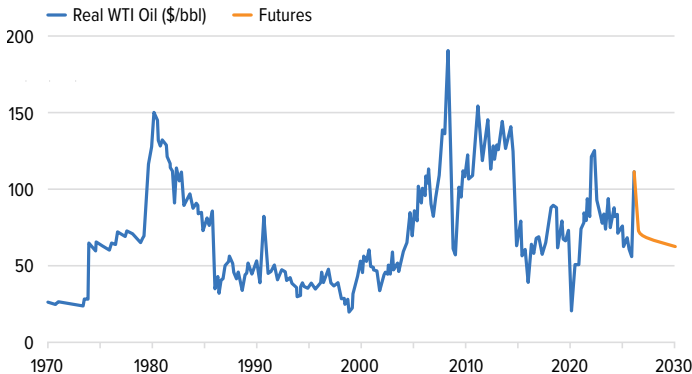
While not our base case, investors should also consider the substantial risk of a more extended closure of Hormuz and longer-term damage to regional energy infrastructure. Key triggers to watch for are an escalation in the bombing of civilian infrastructure or a ground invasion of Iran. This scenario is likely not priced into market expectations and could push oil and other energy commodity prices higher. Risk assets could take another step down due to the negative impact on economic growth.

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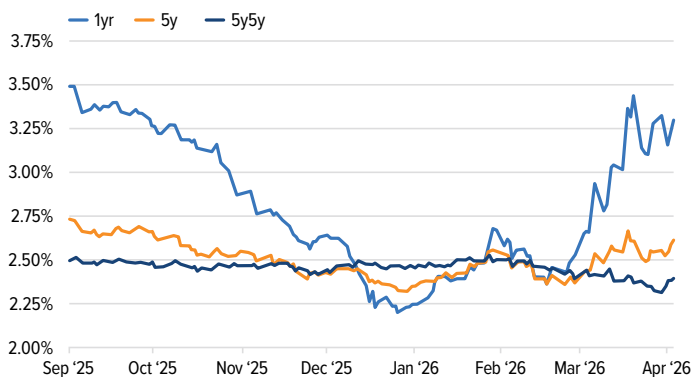
Real Oil Price (deflated by CPI)



Source: Bloomberg, Federal Reserve Economic Data

The energy price shock has pushed inflation expectations and interest rates substantially higher. In the U.S., the one-year inflation swap rate has risen to 3.25%, while longer-term inflation expectations have remained contained. The Fed will likely look through another supply shock and keep rates unchanged for longer. Internationally, the risk of central bank hikes has increased. We think the risk of an inflation shock as extreme as 2022 (when core CPI reached 6.6%) remains distant—the fiscal expansion is smaller today, and supply-chain disruption is less widespread than it was after COVID. Nevertheless, bonds continue to be a poor diversifier of equity risk in a high-inflation regime.

US CPI Inflation Swap Rates (%)



Source: Bloomberg

The U.S. is more insulated from the economic effects of the Iran war than much of the rest of the world. Expectations for 2026 U.S. real GDP growth were healthy going into the year; the consensus estimate has declined from 2.5% before the war to 2.3%. If the conflict is resolved soon, the U.S. can likely weather the shock without entering a recession. Other countries—particularly energy importers in Europe and Asia—may be more exposed. Reducing risk in equities and bonds of the most exposed countries and regions is prudent during such a volatile period.

Beyond the energy price shock, another major market risk is rising concern over private credit. Some of the largest private credit managers have seen significant year-to-date stock price declines (e.g., Apollo: -26%, Ares: -36%, and Blue Owl: -43%). The S&P index of publicly traded business development company (BDC) stocks has also declined in the first quarter, and many private credit interval funds saw redemption requests exceed their 5% quarterly limits. Investors are rushing for the exit amid concerns that AI could disrupt the business models of private credit borrowers, particularly software companies. Software borrowers have not yet shown a meaningful rise in default rates, and some of the AI-driven credit spread widening may be sentiment-driven and temporary.

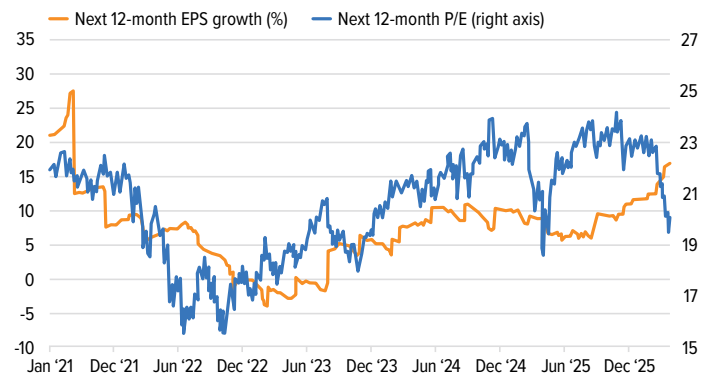
S&P Business Development Companies



Source: Bloomberg

Earnings expectations for U.S. companies continue to rise. The consensus estimate for EPS growth over the next 12 months has increased to 17%. Combined with lower stock prices, the S&P 500 forward P/E has declined to 20x. Robust profitability and healthy growth could set equities up for a sharp recovery if the war in Iran ends soon.

S&P Earnings Estimates



Source: Bloomberg

Overall, markets remain tightly linked to the path of the Iran conflict and the speed at which energy flows normalize. Higher inflation expectations and stickier rates continue to limit the diversification benefit of long-duration bonds and raise the bar for risk assets. We are watching for signs of stress in private credit as spreads adjust while also recognizing that dislocations may create selective opportunities where fundamentals remain intact. In this environment, managing exposure to the most energy-sensitive regions and assets is key. Long-term investors should manage short-term volatility while aiming for long-term growth.

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