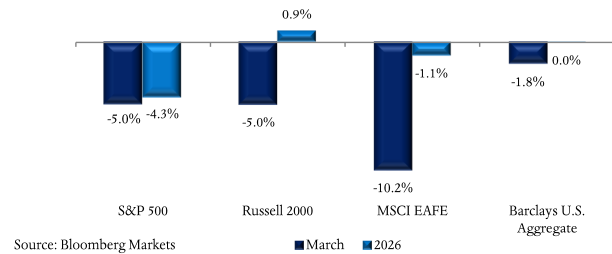




MARKETS

Global equities declined sharply in March, as geopolitical risk became the main driver of asset prices. The escalation in the US/Israel-Iran conflict led to a surge in energy prices, reignited inflation concerns, drove bond yields higher, and triggered a broad, correlated, selloff of risk assets. Coming off all-time highs, the S&P 500 index declined -5.0% during the month (-4.3% in Q1), while the tech-heavy Nasdaq and small-cap Russell 2000 indexes entered correction territory (-10% from their highs). The drawdown was notable for its breadth and speed as investors, seemingly unprepared, spontaneously de-risked. From a factor perspective, the mid-quarter rotation away from mega-cap technology companies (Magnificent Seven -12.0% in Q1) helped value stocks (+1.3%) outperform their growth counterparts (-8.4%) in the first quarter. Overseas, stocks bore the brunt of selling in March, giving back all of their prior two-month gains, and then some. The MSCI EAFE index dropped -10.2% in March (-1.1% in Q1), while the Euro Stoxx 600 index declined -7.5% (-0.8% in Q1). In general, trades that had been popular prior to the conflict unwound, most notably emerging markets stocks dropped -13.0% in March (-0.1% in Q1), while the US dollar rallied. Asian equities were particularly hard hit, namely Korea (-19.1%; +20.5% in Q1), Japan (-12.7%; +2.1% in Q1) and Taiwan (-10.2%; +9.8% in Q1), given that circa 80% of oil and gas destined for the Far East stems through the Strait of Hormuz.

The spike in energy prices and associated disruption of the global supply chain forced fixed income investors to reassess the durability of disinflation progress and the forward path of monetary policy. US Treasury yields rose sharply, led by the belly of the curve, where the 2-year rose 42 basis points (bps) to 3.79%, while the 10-year yield rose 38bps to 4.32%. Short-dated bonds were hit particularly hard as markets abruptly shifted from



pricing interest rate cuts from major central banks, to rate hikes. Overall, the US Aggregate bond index declined -1.8% during the month (-0.05% ytd).

The Bloomberg Commodity Index was a top performer in March, rising +11.2% (+24.4% ytd). The return was driven by the strongest gain in crude oil since the 1970's oil crisis (WTI +51.3% in March; +76.6% ytd). Market pricing reflects a much larger geopolitical risk premium tied to export availability, shipping insurance and re-routing risk. Meanwhile, traditional inflation hedges failed to perform their historical role, which may suggest, in part, markets are less concerned about the longer-term inflation impact of the closure of the Straits of Hormuz. Precious metals declined sharply (gold -11.6%; silver -19.9%), partially attributed to emerging market central banks selling bullion to support their currencies. The US dollar did, however, remain a safe haven on the back of demand for liquidity. The USD (DXY) index rose from 97.6 back above 100 for the first time since November 2025.

GEOPOLITICS

The US and Israeli military actions against Iran, Hezbollah in Lebanon, and the Houthis in Yemen, escalated during March. Even as aerial strike missions severely degrade Iran's military capability, the de facto closure of the Strait of Hormuz (where up to 20% of global crude oil transits) has introduced the element of economic warfare. The potential for a serious energy supply shock, as illustrated by bilateral attacks on energy infra-

structure, introduces a durable geopolitical risk premium for investors. Nevertheless, structural incentives for de-escalation remain intact on both sides. Domestically, the US administration faces mounting political pressure as conflict-driven inflation in energy and food markets threatens the Republican congressional majority ahead of the November midterm elections. Concurrently, Iran's depleted leadership faces an existential crisis amid local economic collapse and degraded civilian and military assets, which will likely cap escalation.

US

Concerns over stagflation (high inflation and low growth) rose as the US-Iran war triggered a surge in energy prices. On the inflation front, the latest CPI reading was stable at 2.4%, but tariff impacts elevated PPI (3.4% YoY vs 3.0% expected, 2.9% prior). Meanwhile, Q4 GDP was revised downwards, from 1.4% to 0.7% with broad deceleration including effects from the government shutdown. Consumer spending data printed above expectations, while manufacturing indexes remained in expansionary territory. Employment rose a seasonally adjusted 178,000 in March, better than the consensus estimate of 59,000, and a reversal from the 133,000 decline in February. The unemployment rate edged lower to 4.3%, attributed largely to a sharp reduction in the labor force. Wages also rose, but at a decelerating pace, with average hourly earnings up 0.2% for the month and 3.5% from a year ago.

The Federal Reserve kept its policy rate unchanged (3.50% to 3.75%) at the March FOMC meeting. Its statement and projections showed upward revisions to both growth and inflation, while the median path for rates was left broadly intact, implying only very gradual easing. While the short-term inflation risk from higher energy prices was clearly a focal point, the Fed is seen as leaning towards the employment side of its mandate, looking through the energy shock. The latest meeting erred on the hawkish side, with markets now pricing in approximately 10 basis points lower short term interest rates by year-end.

March 2026 Economic Statistics

	Mar-26	Dec-24	Dec-23
Federal Funds Target Rate	3.50 - 3.75%	4.25 - 4.50%	5.25 - 5.50%
Consumer Confidence Index	91.8	104.7	110.7
Manufacturing PMI Index	52.7%	49.3%	47.4%
Unemployment Rate	4.3%	4.2%	3.7%
JPY / USD	158.71	157.18	141.06
USD / EUR	1.1552	1.0353	1.1036
Gold / oz.	\$4,669.56	\$2,623.81	\$2,062.59
Oil (WTI) / bbl	\$101.38	\$71.72	\$71.65

Sources: see disclosure *

EUROPE

The European macroeconomic recovery narrative was halted by the Middle East war due to the union's vulnerability to the energy supply shock. Inflation rose to 2.5% in March, from 1.9% prior, with expectations for an acceleration to 3.0% by May. Sentiment surveys also weakened, with Consumer Confidence dropping to -16.3 (from -12.3 prior). The March Composite PMI dropped from 51.9 to 50.5, a larger decline than seen at the start of the Russia-Ukraine war, with weakness driven by Services, while the manufacturing PMI actually increased in March, from 50.8 to 51.4. Reduced consumption is expected to lead to a 0.5% reduction in regional GDP, to 1.1% for 2026.

The European Central Bank left interest rates unchanged at its March meeting but strongly signaled a higher path. The central bank's baseline scenario sees headline inflation hitting 3.1% year-over-year in Q2, based on data through mid-March. The ECB is now expected to increase interest rates twice in 2026.

Abating UK price pressures, that had fueled expectations for near-term rate cuts from the Bank of England (BoE), abruptly reversed, with forecasts calling for inflation now peaking at 4%, with GDP growth decelerating to 0.5%, from 0.8% in 2026. The energy shock has left the UK particularly vulnerable, given the country's relatively high dependence on natural gas. The BoE struck a decisively hawkish tone at its March meeting and indicated that it "stands ready to act as necessary," strongly implying a hiking bias. Similar to the ECB, the

BoE is expected to increase short-term interest rates twice over the coming quarters.

ASIA

China is navigating a complicated backdrop of weaker domestic demand, a still fragile property sector, and external shocks from the Middle East war. At its “Two Sessions,” Beijing set a 2026 GDP growth target range of 4.5% to 5.0% and emphasized a shift toward higher quality, more sustainable expansion. Policy emphasis remained on targeted liquidity support, credit guidance and selective fiscal measures, rather than broad rate cuts, aiming to stabilize growth while containing financial risks.

Japanese business sentiment among major manufacturers increased for the fourth straight month in March, but conditions are expected to worsen going forward on account of the energy price jump, according to the Bank of Japan’s quarterly “tankan” survey. Japan’s inflation has so far remained relatively moderate, but is set to accelerate. Consumer prices in the Tokyo metropolitan area, excluding fresh food, rose 1.7% in March from a year earlier. At its recent meeting, the Bank of Japan left rates steady at 0.75% with the door open to near-term interest rate hikes and indicated that, on balance, it is more concerned about upside inflation spikes than downside growth risks stemming from the energy shock.

OUTLOOK

Investors have had to contend with a variety of financial market cross-currents thus far in 2026. Mega-cap technology companies have come under increased scrutiny given large and rapidly growing AI-related capital expenditures. Tariff uncertainty resurfaced after the US Supreme Court ruled against the use of the International Economic Emergency Powers Act to justify the Trump administration’s “reciprocal” import taxes of 2025, prompting Washington to implement an alternative flat 10% duty on all imports. Most recently, geopolitical tensions ratcheted higher, with war in the Middle East significantly impacting oil and gas supply as well as the global supply chain’s use of feedstocks in transportation, agriculture and semiconductors.

The recent repricing across interest rates, commodities, and equities reflects an adjustment to a more complex backdrop rather than a breakdown in underlying trends, but bears watching in the event of a prolonged conflict.

For the upcoming corporate earnings season, S&P 500 companies are forecasting 13.2% earnings growth. This would mark the sixth consecutive quarterly double-digit increase. From a valuation perspective, the forward 12-month price-to-earnings ratio for the bellwether index sits near 19.9, roughly in line with the five-year average, but still above the longer-term norm. While corporate fundamentals should continue to anchor equities, sustained energy price pressures and geopolitical friction may widen the distribution of near-term outcomes, driven by inflation, monetary policy, and risk asset pricing. Consequently, we anticipate heightened headline sensitivity and episodic volatility, which will require increased investor fortitude and a longer-term perspective.

While the bond market has also come under pressure, fearing that a prolonged conflict increases the risk of both inflation and recession, the income component should play a critical role in bolstering portfolios. With the caveat that short-term rates are more likely to rise than fall, we continue to recommend short-duration fixed income.

With the inflation and growth outlook highly uncertain, it is important for investors to consider the potential effects of stagflation. Alternative asset diversification, utilizing some of our favored hedge funds, offers an important tool to combat such a scenario. Meanwhile, unique non-market correlated investments in cybersecurity, water infrastructure, and natural resources offer compelling opportunities to deploy offensive capital. Precious metals have historically protected purchasing power during inflationary and unstable periods, and currently offer an unexpected buying opportunity. For contrarian investors, liquid software-related equities also present an attractive entry point given highly publicized investor fears of the disruptive nature of AI. Lastly, our proprietary efforts to source direct investments are gaining traction, with several interesting small and middle market prospects.

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*Sources: Reuters, Bloomberg, Bureau of Labor Statistics, Conference Board, Federal Reserve, Institute for Supply Management, MSCI, Russell, Standard & Poor’s, Financial Times and the Wall Street Journal.