



MARKET UPDATE

Economic Market Update – First Quarter, 2026

April, 2026

- **A Historic Geopolitical and Economic Shock:** The military operation against Iran and the resulting disruption at the Strait of Hormuz have created a macroeconomic watershed moment, introducing a prolonged risk environment skewed to the downside.
- **The U.S. Resilience Advantage:** The United States remains structurally insulated from the worst of the global energy shock due to its energy independence and strong domestic consumption buffers.
- **Accelerated Growth-to-Value Rotation:** The quarter saw a historic widening in performance between value and growth stocks, driven by a 37.9% surge in the energy sector alongside significant valuation compression in mega-cap technology names.
- **Broadening Supply Chain Contagion:** The disruption extends far beyond crude oil, creating severe bottlenecks in global supplies of liquefied natural gas, critical fertilizers, and industrial metals that will likely cause durable inflationary pressures well into 2027.
- **A “Wait-and-See” Federal Reserve:** Fixed income markets remained largely flat as the Federal Reserve faces a quintessential stagflationary environment; the baseline expectation is that the FOMC will hold rates steady through the remainder of 2026 to avoid exacerbating growth damage.

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History doesn't announce itself; there's no calendar reminder to alert us of an upcoming historically significant event. It arrives suddenly – through the blast of ordnance over the Strait of Hormuz or a commodity price that doubles in a single trading session. What began on March 1, 2026, as a targeted U.S. military operation against Iran's leadership, nuclear facilities, and military complex has evolved into a geopolitical and economic watershed moment, rivaling the impact of the Arab Oil Embargoes of the 1970s. The full consequences are just starting to become apparent.

Three themes will recur throughout this quarter's outlook. The first is asymmetry; the risks to the global economy and financial markets are heavily skewed to the downside, while the windows of upside remain narrow and conditional. The second is duration; this is not a shock that resolves in a quarter. The closure of the Strait of Hormuz is not a wound that heals overnight, and neither are the resulting inflation expectations or supply chain reconfigurations. The third is differentiation: within every asset class and geography, this conflict creates winners and losers in roughly equal measure, and the difference between a portfolio that weathers this storm and one that is damaged by it lies entirely in the quality of that distinction.

However, differentiation is not merely a call to action for its own sake. It is a call for strategic preparation. We did not predict this exact conflict. But the current hostilities in the Middle East fit precisely within a framework we have been spotlighting for years: the ongoing shift away from the post-World War II rules-based international order and towards a more multipolar world defined by regional spheres of influence. In recognition of that dynamic and its potential effects on the global economy and markets, we've constructed portfolios that are structurally underweight to the geographies and exposures most vulnerable to the shift relative to the global market. That positioning was intentional and rooted in an investment thesis established long before the first strike on the Iranian regime.

Our most significant structural overweight — an allocation to U.S. equities that meaningfully exceeds the United States' weight in the global benchmark — was never conceived as a geopolitical hedge. It was conceived as an economic growth call. The evidence has been consistent: the IMF's January 2026 World Economic Outlook projected U.S. real GDP growth of 2.4 percent this year, compared with just 1.3 percent for the eurozone. Over the next five years, chief economists across Wall Street forecast the United States will average 2.6 percent growth compared to 1.7 percent for the average advanced economy. The engines of that advantage are structural: U.S. technology investment and AI infrastructure spending, the productivity gains flowing from them, and a domestic consumption base that has repeatedly absorbed shocks that derailed peers. This is not a new observation. It is a thesis we have held for some time, and one that the conflict has only reinforced.

What the conflict has done is transform a growth differential into a resilience differential as well. The Strait of Hormuz is not an abstraction. Nearly 20% of the world's oil supply transits that passage, and over 80% of it is destined for Asia. Europe has not been spared either; European gas prices surged by twenty percent in the days following the first strikes. The United States, by contrast, enters this period as the cleanest shirt in a very dirty laundry bin. Energy independence is not a political talking point in this environment; it is a structural advantage. While Asian and European manufacturers face rising input costs that compress margins and threaten demand, the American economy absorbs the inflationary impulse with far greater structural buffers.

The case for our overweight to U.S. small and mid-cap stocks follows much of the same logic. The conventional framing is that smaller companies are simply more volatile — more economically sensitive, more credit-dependent, more exposed to the business cycle. That framing is incomplete, however. What smaller companies are, in a structurally more important sense, is more domestic. Small-cap stocks derive around 83% of their revenue from the U.S., and mid-caps around 74% — compared to roughly 59% for large-caps. Large-cap U.S. companies, and particularly the mega-cap growth names that dominate the top of the S&P 500 Index, are genuinely global businesses. When global growth is challenged by an energy shock of the magnitude ushered in by the conflict in Iran, that international revenue base becomes a potential liability. Smaller domestic companies — many of which derive 100% of their revenues from within the United States — are not immune to everything this conflict can produce, but they are more insulated from a slowdown in economic growth elsewhere in the world. In an environment defined by supply chain reconfiguration,

surging input costs for foreign manufacturers, and a flight from global complexity toward domestic simplicity, domestic revenue concentration is not a limitation. It is a potential advantage that confers diversification benefits.

We believe we were well-positioned heading into the conflict, but none of this means the work is complete. Differentiation requires ongoing vigilance. In the following pages, we have aimed to connect macroeconomic observations to the real-world portfolio context. Our goal is to honestly assess the landscape — and to show that the map we are using accurately reflects the world as it truly is.

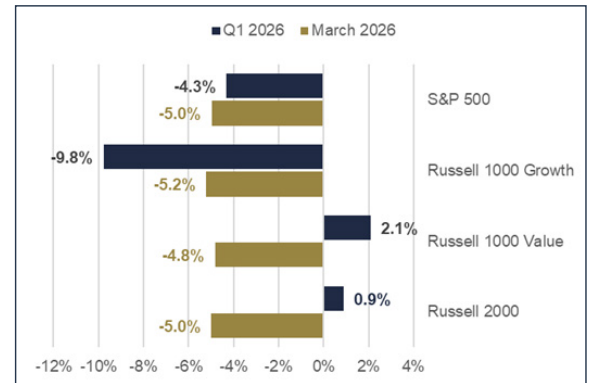
Q1 2026 MARKET PERFORMANCE

U.S. Equity

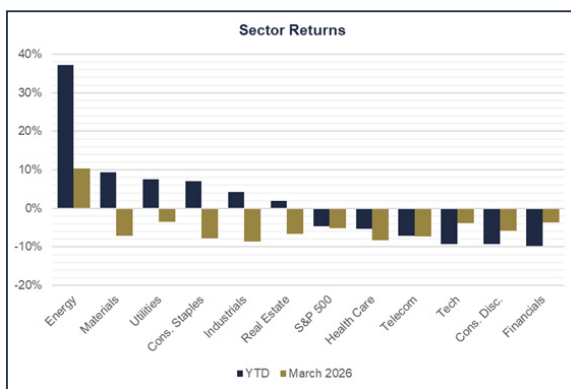
The U.S. equity market is off to a tough start in 2026, as a number of headwinds – a new geopolitical shock in the Middle East, a Federal Reserve that remained firmly on hold, and a sharp rotation away from the growth stocks that drove gains over the past few years – conspired to send the S&P 500 lower for the first quarter.

The S&P 500, the bellwether for U.S. stock performance, finished Q1 down –4.3%, while the broader Russell 3000 Index declined –4.0%. However, these headline figures hide a more complex picture beneath the surface: not all parts of the U.S. equity market succumbed to the selling pressure. Small-cap stocks held up considerably better than large-cap stocks, with the Russell 2000 rising 0.9% over the quarter. Mid-cap stocks also showed resilience, with the Russell Mid Cap Index increasing 1.3%.

The gap between large-cap and small- and mid-cap stocks partly reflects the outsized influence of a relatively small number of large-cap technology and consumer-oriented companies on the major indices—companies whose valuations came under sustained pressure as the quarter went on.



The growth-to-value rotation intensified significantly over the course of the first quarter, accelerating in March as market participants digested the implications of the joint U.S./Israeli campaign against Iran. The Russell 1000 Value Index rose by 2.1% during the quarter, while the Russell 1000 Growth Index dropped sharply, down –9.8% — a difference of nearly 12 percentage points, one of the widest single-quarter gaps in recent history. This trend was consistent across different market capitalizations. Mid-cap value outperformed mid-cap growth by nearly 10 percentage points, with the Russell Mid Cap Value Index increasing 3.7% compared to the Russell Mid Cap Growth Index’s decline of –6.3%. Small-cap value also outperformed its growth counterpart by a wide margin, with the Russell 2000 Value Index adding 5.0% versus the Russell 2000 Growth Index’s return of –2.8%. The strength of value stocks relative to growth indicates a market environment where investors favor companies with tangible assets, near-term earnings power, and pricing leverage — especially in energy and commodity sectors — over those whose valuations depend on long-term earnings growth.



The defining narrative of Q1 2026 at the sector level was the exceptional performance of the Energy sector. The S&P Energy Select Sector Index surged 37.9% during the quarter — one of the best single- quarter performances for any major sector in recent history — as oil prices increased sharply following the outbreak of military action against Iran and a near-blockade of the Strait of Hormuz, through which about one-fifth of the world’s crude oil is shipped daily. Brent crude, which started the year below \$65 per barrel, shot up well past \$100 by mid-March, its highest level since late 2023. The energy price shock’s ripple effects were felt across the market, with a clear divide along commodity-sensitive and growth-sensitive lines. Six of the eleven S&P 500 sectors ended the first quarter in

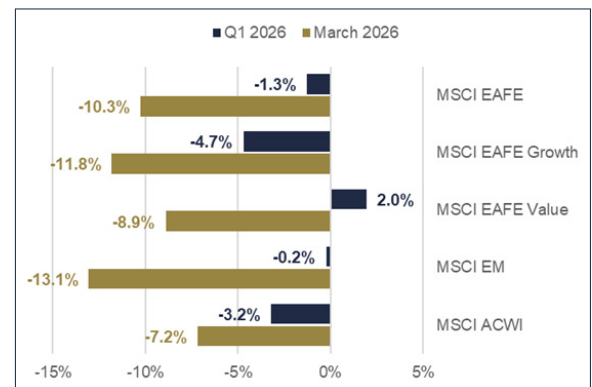
positive territory. Materials stocks gained 10.7%, benefiting from the broader commodity rally. Utilities rose 8.3%, and Consumer Staples increased 6.1%, as investors moved toward defensive, income-focused sectors amid heightened uncertainty. Industrials advanced 4.6%, driven by expectations for increased defense-related capital spending. Real Estate edged up 1.9%, supported by a temporary dip in longer-term Treasury yields in February. The five sectors that declined mainly belonged to growth-oriented and financial segments of the market. Financials led the decline, falling 9.3%, as the market considered the impacts of persistent energy-driven inflation, a steeper yield curve, and potential credit quality deterioration. Consumer Discretionary dropped 8.5%, as the prospect of higher energy costs constrained consumer spending. Information Technology and Communication Services — the dominant sectors of the past two years — declined 7.5% and 5.5%, respectively, due to valuation compression in the largest mega-cap technology names; the Bloomberg Magnificent Seven Index fell more than 13% during the quarter, significantly dragging down these growth-heavy sectors. Health Care declined 4.9% amid ongoing regulatory uncertainty and sector rotation toward more value-oriented stocks.

International Equity

International stock markets extended their relative outperformance versus U.S. equities in Q1 2026, continuing the diversification trend that has rewarded investors for several quarters. However, a strengthening U.S. dollar tempered the gains for U.S.-based investors.

The MSCI EAFE Index, which tracks developed international markets, finished the quarter down -1.2% in U.S. dollar terms. In local currency, the index was essentially flat, gaining just 0.1% , as the U.S. dollar appreciated roughly 1.4% on a trade-weighted basis during the quarter. The dollar's strength reflected safe-haven demand triggered by the Middle East conflict, along with the Federal Reserve's decision to keep rates steady while other major central banks — particularly the European Central Bank — continued easing policy.

The growth-to-value rotation seen in U.S. markets was also clear in international developed markets. The MSCI EAFE Value Index increased by 2.0% in dollar terms, while the MSCI EAFE Growth Index fell by -4.7% , a spread of nearly 7 percentage points. Similar to U.S. equities, the outperformance of value reflects the significant exposure of value-oriented international indices to energy-producing and commodity-intensive companies that benefited directly from the surge in oil prices.

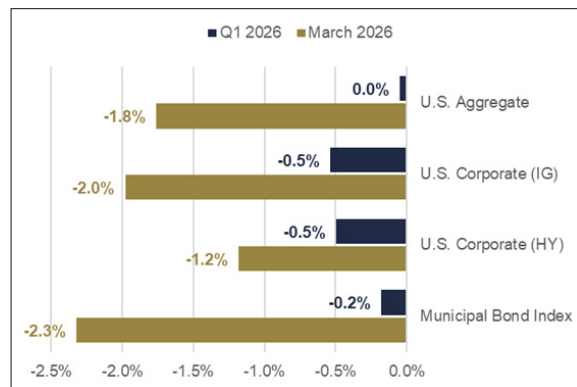


Performance varied across regions. Japanese stocks stood out, with the MSCI Japan Index rising 1.4% in dollar terms, buoyed by yen stability and the country's positive exposure to energy and industrial supply chain themes. European stocks, as measured by the MSCI Euro Index, declined -5.0% , as the region faced economic challenges from sharply higher energy import costs — a structural vulnerability for a region heavily reliant on imported hydrocarbons — along with ongoing weakness in the automotive sector. Emerging markets demonstrated notable resilience, with the MSCI Emerging Markets Index dropping just 0.2% for the quarter, as commodity-exporting economies across the Middle East, Latin America, and Africa saw meaningful benefits from the surge in energy prices. The MSCI ACWI ex USA Index fell 0.7% in dollar terms. **Overall, in Q1, the MSCI All Country World Index declined 3.2% , with the sharp drop in U.S. large-cap growth stocks — particularly within the technology and consumer discretionary sectors — being the main factor driving global equity market weakness.**

Fixed Income

The fixed-income market delivered a nearly flat result in Q1 2026, as opposing forces of expected monetary easing and a resurgence of inflation fears driven by energy prices pulled in different directions and largely offset each other, leaving most major bond indices close to where they started the year. The Bloomberg U.S. Aggregate Bond Index, a broad measure of the performance of investment-grade fixed-income markets in the U.S., was essentially unchanged for the quarter, returning -0.05% . Investors looking for rate guidance from the Federal

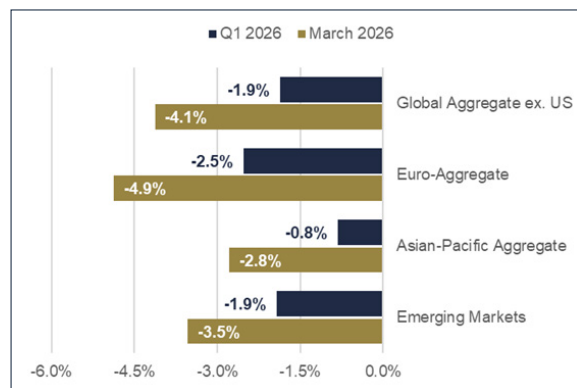
Reserve saw an institution in wait-and-see mode: the FOMC kept its federal funds target rate steady at 3.50%–3.75% during both its January and March meetings, as policymakers balanced a somewhat softening labor market against inflation concerns complicated by energy prices that more than doubled during the quarter. Fed officials raised their median PCE inflation projection to 2.7% for 2026, and market participants pushed back expectations for the first rate cut to late in the year at the earliest. In this environment, short-duration fixed-income assets provided modest but consistent positive returns. The Bloomberg U.S. Aggregate 1–3 Year Index returned 0.3% for the quarter, and money market instruments continued to reward patient investors, with the Bloomberg U.S. Treasury Bill 1–3 Month Index returning 0.9%.



Inflation-linked securities performed well in Q1, with the Bloomberg U.S. TIPS Index rising 0.3% as breakeven inflation expectations increased due to higher short-term energy prices. Long-duration Treasury bonds showed more resilience than the inflationary environment might indicate, with the Bloomberg U.S. Treasury 20+ Year Index falling only -0.3%, as concerns about long-term growth from elevated energy costs partly offset short-term inflation pressures. Investment-grade credit also had muted results, with returns nearly flat across different maturities. High-yield bonds declined slightly, with the Bloomberg U.S. Corporate High Yield Index down -0.5%, reflecting tension between strong energy sector fundamentals and broader uncertainty about consumer and macroeconomic prospects. Municipal bonds generated slightly positive returns, supported by favorable supply-demand dynamics and the relative stability of state and local government finances. International fixed income underperformed during the quarter, as U.S. dollar appreciation created headwinds for non-dollar bonds; the Bloomberg Global Aggregate ex-USD Index fell -1.9% in U.S. dollar terms. **Overall, the global fixed income market in Q1 saw the Bloomberg Global Aggregate Index return -1.1%, influenced by competing pressures from rising near-term inflation expectations driven by the energy price shock, the Federal Reserve’s prolonged pause, and currency headwinds impacting non-U.S. fixed income.**

U.S. ECONOMY

The conflict in Iran is not a distant geopolitical abstraction — it is the single most consequential variable in the global economic outlook today, and its ripple effects are arriving faster than most forecasters anticipated. What began as a military confrontation has become an economic stress test of the first order, transmitting through energy markets, supply chains, inflation expectations, and central bank policy frameworks with a speed and severity that demands clear-eyed analysis over reactive positioning. The Strait of Hormuz — the narrow chokepoint through which roughly one-fifth of the world’s tradeable oil flows — has become the fulcrum on which global growth prospects now rest. Markets that spent the better part of two years navigating the aftermath of pandemic-era inflation are now contending with a second supply shock, one with a different origin but familiar consequences: higher prices, slower growth, and a Federal Reserve caught between competing mandates. Understanding the economic mechanics of what is unfolding — and where the genuine tail risks reside — is the essential starting point for any serious portfolio conversation in this environment.



The Inflation Transmission Mechanism

Oil price shocks of this magnitude transmit to the U.S. economy through three distinct channels, each operating on a different timeline. The first and most immediate is the direct price effect: gasoline, diesel, jet fuel, and

heating oil all track crude with a lag measured in days to weeks. The second is the indirect input cost effect, which flows through manufacturing, transportation, and agriculture over weeks to months. The third – and this is where the real tail risk exists – is the second-order inflation expectations effect, which operates over months to years and represents the most dangerous longer-term risk if the shock proves large and sustained enough to de-anchor consumer and market-based inflation expectations.

Experts have substantially revised inflation forecasts in response to the prevailing shock. Under the baseline scenario — which presumes Brent crude prices averaging approximately \$105 in March, \$115 in April, and decreasing toward \$80 by the fourth quarter of 2026 as the Strait gradually reopens — U.S. headline Personal Consumption Expenditures (PCE) inflation is estimated to reach 3.1% by December 2026, up from an earlier projection of 2.1% prior to the conflict. Core PCE inflation, excluding volatile food and energy components but reflecting secondary transmission effects, is anticipated at 2.5% for the same period. An adverse scenario in which Brent peaks at \$140 could raise headline PCE to 3.6%-3.8%, thereby complicating the Federal Reserve’s policy trajectory.

Growth Headwinds: GDP and the Labor Market

The inflationary pressure resulting from the oil shock coincides with a substantial obstacle to real economic growth — a quintessential stagflationary environment that poses considerable challenges for both policymakers and investors. Elevated energy prices constitute a regressive tax on consumers, reducing real disposable income and constraining discretionary expenditure. For the United States economy, predominantly sustained by personal consumption, this represents a significant headwind by any measure.

How significant? Chief economists across Wall Street have revised downward their forecast for U.S. GDP growth in 2026 by an average of 0.4% in the last month. These revisions incorporate the direct decline in consumption attributable to elevated energy prices and diminished business investment amid prevailing uncertainty, which influences capital expenditure decisions. Reassessment of recession probability models indicates an increase, with most suggesting that the likelihood of a recession within the next twelve months is now substantial relative to the unconditional baseline. Although a recession remains less probable — the base case is that growth continues, albeit at a slower pace — the growing prospects merit due consideration. The labor market, which has maintained a “low hire/low fire” equilibrium for several months, would not remain unaffected should economic activity decelerate. The sectors most acutely vulnerable are those characterized by high energy intensity and consumer demand that is highly sensitive to price changes, including leisure and hospitality, retail trade, and transportation-related industries. It is worth noting that the contemporary U.S. economy is significantly less oil-intensive than it was during the stagflation of the 1970s. Improvements in energy efficiency, the shale revolution, and a structural shift toward services have decreased the sensitivity of U.S. GDP and employment to oil price shocks by about two-thirds compared to the period from 1975 to 1999. That means we won’t see a return to the gas lines and rationing of the 1970s. This context is important for arguing against panic while still recognizing the significance of the current disruption.

Federal Reserve Policy: Navigating the Stagflationary Tightrope

The Federal Reserve faces its most challenging policy environment since the Volcker era. Elevated inflation argues for maintaining restrictive policy. Slowing growth and a rising unemployment rate argue for accommodation. Historically, the Fed has navigated supply-driven oil shocks differently than demand-driven ones. Because a supply shock is inherently stagflationary, attempting to fight the inflation component with rate hikes would amplify the growth damage. The Fed’s current communication suggests it understands this distinction.

Our base case is that the FOMC will remain on hold through the remainder of 2026. This path reflects a Fed that is willing to “look through” the transitory, supply-driven component of the inflation pickup while remaining attentive to second-order effects, allowing the data to guide the policy path. The key risk to this forecast is an adverse oil price scenario in which headline inflation remains elevated through the third quarter – in that case, rate cuts would almost certainly be deferred into 2027, and whispers of rate hikes would start to become louder, with meaningful implications for rate-sensitive sectors and fixed income duration positioning.

GLOBAL ECONOMY

The Global GDP Rule of Thumb

A useful starting framework for assessing the global economic impact is the well-established empirical relationship between oil price changes and global GDP. The consensus from institutional research is that a sustained 10% increase in the oil price reduces global GDP by about 0.10 percentage points on an annualized basis. Under our baseline scenario – which implies a roughly 40–60% increase in Brent from pre-conflict levels for the March through June period – the impact on global GDP ranges from 0.40 to 0.60 percentage points. This decline would be meaningful, but not catastrophic in aggregate.

But the aggregate conceals an enormous dispersion of outcomes across economies. The global oil shock does not affect all nations equally: net oil importers bear the brunt of the damage, while net oil exporters — including those whose production is not directly disrupted by the conflict — stand to benefit from structurally higher prices. Understanding this distribution is the bellwether of sound portfolio positioning in the current environment.

Beyond Crude: The Far-Reaching Effects of Trade Disruption in the Persian Gulf

The commodity shockwave goes far beyond the crude oil headlines most investors are fixating on. Strip away the breathless focus on Brent futures, and what emerges is a more insidious threat — a cascade of supply disruptions spreading across natural gas, fertilizers, agricultural commodities, and industrial metals that, combined, could be more lasting and economically consequential than the oil shock itself. The Strait of Hormuz, a chokepoint barely 21 miles wide at its narrowest point, has always been the world's most important maritime artery. What is now becoming clear is just how many vital veins it supplies.

Natural gas is where the immediate pain is sharpest, and the least well understood by the average investor.

The near-total shutdown of Qatar's Ras Laffan complex — the world's largest liquefied natural gas facility, responsible for about 17% of global LNG exports — landed like a depth charge on markets that had only recently exhaled after the energy crisis promulgated by the Russian Invasion of Ukraine. Dutch TTF, the primary European natural gas benchmark, jumped more than 50% above pre-conflict levels within days of the Ras Laffan disruption. As a result, nearly 30 vessels scheduled to load at Ras Laffan are circling the Indian Ocean with nowhere to go. QatarEnergy has issued force majeure notices to long-term buyers. Qatar supplies roughly 30% of China's LNG imports, 45% of India's, and an astonishing 99% of Pakistan's annual supply. Europe, meanwhile, enters this disruption with gas storage levels already below seasonal norms, meaning the buffer that cushioned the continent during the early months of the Ukraine conflict simply does not exist today. The evidence points to European energy markets experiencing a prolonged period of elevated volatility that no amount of diplomatic optimism can wish away in the near term.

Perhaps the most underappreciated second-order consequence of the Hormuz closure is its impact on the global fertilizer complex — and by extension, the food security calculus for billions of people across the developing world. The Strait is not just an oil route; it is the artery through which roughly 20-30% of global fertilizer exports — including urea, ammonia, phosphates, and sulfur — ordinarily flow. Timing, as always in markets, is everything. The disruption has hit right during the Northern Hemisphere's spring planting season — a collision of cyclical demand and structural supply shock with no modern precedent. The price of granular urea — a bellwether of nitrogen fertilizers — has risen toward \$700 per metric ton from a pre-war range of \$400 to \$490, while urea and ammonia prices have jumped approximately 50% and 20%, respectively, since late February. From the start of the conflict through the end of March, fertilizer prices increased broadly by as much as 40%. The knock-on implications for global food inflation are not theoretical. Experts estimate the shortage could lead to a 20-25% reduction in fertilizer application in Brazil and India alone — and with Brazil accounting for nearly 60% of global soybean exports, any significant drop in yield potential will have consequences that will be felt in grain markets well into 2027.

Commodity markets outside of energy and agriculture are sending mixed signals. The metals sector presents two very different stories simultaneously. Aluminum has become one of the clearer victims of the conflict — about 9% of

global supply comes from the Middle East, and up to 5 million tons of regional production might already be disrupted. Rio Tinto, a major producer, recently offered Japanese buyers aluminum contracts at an 11-year record premium of \$350 per ton for the second quarter of 2026. Conversely, copper is trading lower — LME warehouse inventories have surged to their highest levels since 2019 as demand wanes and risk-off sentiment strengthens the dollar, putting pressure on a metal that depends on economic confidence and industrial activity to sustain elevated prices.

However, the most overlooked vulnerability in the supply chain is helium. Qatar makes up about 30% of the world's helium production capacity, mostly as a byproduct of natural gas processing — a fact that worries Samsung Electronics and TSMC about potential inert gas shortages that could directly affect semiconductor manufacturing yields. It turns out that the plumbing of the global industrial economy runs deeper through the Persian Gulf than many casual observers realized.

Our base case remains that a negotiated resolution will eventually restore most of these commodity flows — but the structural damage to supply chains and market psychology may prove more durable than the conflict itself. Just as the 1973 oil embargo sped up France's nuclear efforts and the 1979 Iranian Revolution pushed Japan to become more energy-efficient, the current crisis — simultaneously exposing Asia's dependence on Gulf LNG and the fragility of fertilizer supply chains — could serve as a strong catalyst for diversification, redundancy, and strategic stockpiling. The key difference now is that structural adjustments take years, and in the interim the damage accumulates. The practical implications are threefold: commodity-sensitive inflation expectations deserve a more prominent place in asset allocation discussions; the contrast between North American energy and chemical producers versus global competitors remains a durable investment theme worth owning; and the fertilizer-to-food price transmission lag means the full inflationary consequences of this disruption likely won't be visible in headline CPI until late 2026 at the earliest. As usual, the markets may be focusing on the wrong headline entirely.

Regional Impacts: A Matter of Degree

The Middle East region faces the most severe economic consequences of the conflict. Even among Gulf states that are net oil exporters, the physical inability to ship hydrocarbons through the Strait of Hormuz is devastating to near-term fiscal revenues. Consider the paradox: Saudi Arabia exports approximately seven million barrels per day, the vast majority of which transits the Strait, and faces an acute revenue shock even as the price of oil rises. The Gulf Cooperation Council economies, which had only recently achieved fiscal sustainability at oil prices in the \$70–80 range, are being forced to draw on sovereign wealth fund reserves at an accelerated pace. While these reserves are substantial — the Saudi Public Investment Fund alone manages over \$700 billion — the drawdown rate under a prolonged scenario is not trivial. Defense spending across Gulf states is expected to surge meaningfully as defense ministries absorb the geopolitical reality of operating in a contested maritime environment.

Europe enters this shock from a position of greater energy security than before 2022, but being stronger doesn't mean it is immune. The continent has significantly diversified its energy sources since the onset of the Russia–Ukraine conflict by expanding LNG import capacity and reducing reliance on natural gas. However, a considerable portion of Europe's crude oil imports still comes from the Persian Gulf, and ongoing disruptions will necessitate prolonged re-routing of supplies from other sources at higher costs. Europe's energy-intensive industries — particularly in Germany — face renewed competitiveness challenges as energy costs climb. Sectors such as chemicals, automotive, and manufacturing will likely face margin pressure, exacerbating an already tough structural adjustment. The European Central Bank faces a policy dilemma similar to, but potentially more urgent than, the Fed's; euro-area inflation was also above target before the shock, but the link from energy prices to overall CPI is more direct and shows up faster in Europe than in the U.S.

Asia, especially the major economies of China, India, Japan, and South Korea, is the most energy-import-dependent region among the world's leading economies. Japan and South Korea rely almost entirely on oil imports, with little domestic production, and both predominantly source their imports from the Persian Gulf. India, the third-

largest global oil consumer, faces worsening terms of trade as its oil import costs rise. Elevated oil prices challenge the current account and fiscal stability of all four economies, tend to weaken their currencies against the dollar, and are likely to slow industrial output due to higher energy and transportation costs.

The comprehensive body of evidence depicts a global economy absorbing a significant but asymmetric shock — one in which geographical location, energy reliance, and geopolitical alignments decisively shape the distribution of winners and losers. The overall decline in gross domestic product may conceal a more salient narrative beneath the surface: a world undergoing a quiet reconfiguration along energy security fault lines. Europe now faces a second structural challenge within a span of a few years, Asia grapples with the full extent of its hydrocarbon dependence vulnerability, and Russia paradoxically emerges as one of the few large economies for which the current turmoil has proven financially advantageous. For investors, the discipline required in this environment extends beyond merely recognizing macroeconomic headwinds; it involves resisting the temptation to treat the aggregate economic indicators as the sole basis for portfolio decisions. The variation in outcomes across regions, sectors, and asset classes is precisely where opportunities reside — and where meticulous analysis, rather than succumbing to herd mentality, will emerge as a crucial factor in determining outcomes.

EQUITY MARKETS

U.S. Equity Markets

U.S. equity markets entered the conflict priced for perfection – and perfection is not what they received. The strong risk-on environment that had prevailed through much of 2025 and early 2026 had pushed valuations to elevated levels. The initial market response to the March 1 strikes was characterized by the kind of elevated volatility and classic risk-off rotation that students of market history would recognize immediately: energy-sector outperformance, consumer-discretionary and transportation underperformance, and a broad de-risking across sectors most sensitive to oil prices.

Where might U.S. stocks head from here? Our base case for the S&P 500 assumes the modest drawdown we are currently experiencing continues as long as the situation in the Middle East remains uncertain, followed by a gradual recovery as the geopolitical situation resolves. The downside case – an adverse or severely adverse oil price scenario in which a recession materializes – would see U.S. stocks fall materially from current levels. The upside case, contingent on an early and decisive reopening of the Strait of Hormuz, would limit the damage to growth and inflation and trigger a relief rally. The dispersion between upside and downside scenarios is extraordinary by historical standards, underscoring the importance of active management in this environment.

The current environment is emphatically not uniformly negative for U.S. equities. Within the S&P 500, meaningful dispersion of outcomes exists at the sector level. Energy companies, particularly U.S.-based exploration and production firms operating outside the Gulf — Permian Basin producers, deepwater Gulf of Mexico operators, and LNG exporters — are direct beneficiaries of elevated oil and gas prices. Defense contractors, already riding the tailwind of elevated global defense budgets, face a new cycle of weapons-system replenishment demand driven by the torrid munitions consumption of the current campaign. These are the picks and shovels of a geopolitical gold rush.

Conversely, the sectors most exposed to headwinds are those with the highest energy cost intensity or the greatest exposure to discretionary consumer spending. Airlines, cruise lines, trucking, and logistics companies face direct headwind costs. Retail trade, leisure and hospitality, and consumer services face demand compression as household real disposable income declines. Technology, the driver of much of the U.S. market's strong performance in recent years, is more nuanced. Large-cap platform businesses with low physical asset intensity are relatively insulated, while semiconductor manufacturers and data center operators — the very infrastructure of the AI capex supercycle — could potentially face higher energy costs that compress margins at the worst possible moment.

Global Equity Markets

Since the March 1 strikes, differences in global equity market performance have clearly followed the economic logic discussed above. Markets in energy-exporting countries and defense-focused indices have done better, while energy-importing nations and sectors heavily influenced by oil prices have underperformed. The biggest sector gap is in European markets: the Eurostoxx Oil & Gas sector has reached its highest peak relative to the broader Eurostoxx index since 2019, highlighting the notable variation within the index during this period.

Our base case for international equities mirrors our U.S. base case — a modest recovery from post-conflict lows, with a resolution timeline measured in weeks, not stretched into months. European equities trade at a significant valuation discount to their U.S. counterparts, which provides some cushion. Still, the earnings vulnerability of European industrials and energy-intensive manufacturers is a structural headwind that discounted valuations only partially mitigate. Asian equity markets present the most bifurcated picture: Japanese stocks, which had been riding the tailwinds of the BOJ's monetary normalization and corporate governance reform, now face the countervailing headwinds of yen strength and deteriorating terms of trade. Gulf Cooperation Council equities face the paradox of benefiting from the oil price surge in earnings terms while being simultaneously impacted by the physical inability to export product.

For investors with a long time horizon, the correction is creating entry points worth taking seriously. Defense and energy security themes, the semiconductor memory supercycle, and rate-sensitive commodity cyclicals all carry forward earnings trajectories that are largely insulated from the oil shock's direct impact. These are not speculative ideas plucked from a moment of volatility — they are structurally grounded themes within our “emerging multipolar world” framework that a geopolitical disruption has temporarily discounted.

The critical variable comes back to energy prices. Risks are skewed to the downside if the Strait of Hormuz disruption proves more prolonged than markets currently anticipate. A sustained move higher in oil would force further cuts to GDP and earnings estimates, pressure central banks to delay or reverse their easing cycles, and weigh heavily on currencies most exposed to energy import costs. The flip side is equally worth considering. Any credible de-escalation could catalyze a rapid relief rally. The extent of investor de-risking through March has been significant, but the underlying global growth cycle, for now, remains intact. Volatility, as we have said before, is a feature of investing — not a bug. The question is whether you are positioned to benefit from it when the pendulum swings back.

FIXED INCOME MARKETS

U.S. Fixed Income Markets

The interest rate market is sending a nuanced signal that, in our view, is being underappreciated by much of the investment community. The front end of the yield curve — the 2-year Treasury yield — which had been relatively stable amid expectations for Federal Reserve rate cuts in the second half of 2026, rose materially in March. The long end, however, struggling with both the inflation risk premium associated with a potentially prolonged supply shock in energy markets and concerns about the hit to economic growth. The spread between the 2-year and 10-year Treasury has compressed to approximately 45-50 basis points — at its tightest since Liberation Day, the series of tariff announcements in early 2025 that briefly inverted the curve.

This flattening pattern is textbook during historical episodes of supply-driven oil shocks. The front end reflects shifting Fed policy expectations, which have begun to signal rates are unlikely to be cut in 2026 – markets are no longer merely questioning the timing of the next cut but have begun pricing in a non-trivial probability that the Fed's next move could be a hike. The long end has moved significantly less on a relative basis. The current configuration is not yet signaling recession in the manner that a deeply inverted curve would, but the direction of travel bears close monitoring. Coming into the year, tariffs enacted in 2025 were expected to produce a transient inflation bump that was manageable enough for the Fed to look through, allowing it to continue its easing campaign in 2026 as that year-over-year transitory effect rolled off. The Iran conflict and its attendant energy shock have materially complicated that calculus. The spike in oil prices is a supply-side inflationary impulse that the Fed and other central banks around the world may struggle to easily dismiss as noise.

Investment-grade corporate credit enters Q2 with a spread to Treasuries that has, by any historical measure, continued to run very tight. The volatility that pervaded risk markets in March spared high-quality U.S. credits, but that means the current credit risk premium offers thin compensation for any deterioration in corporate fundamentals, a dynamic we are watching closely. This is precisely the environment that separates disciplined credit selection from undifferentiated yield-chasing. Coupon income is doing the heavy lifting, and we believe that is appropriate — price appreciation from spread compression is largely exhausted at these levels.

High yield, by contrast, warrants genuine caution. On the surface, the sector offers attractive income, but current spread levels that still reflect cycle-peak optimism rather than cycle-aware prudence. The incremental compensation for moving down the credit quality spectrum is insufficient relative to where we are in the credit cycle, particularly in light of the dynamic created by the current conflict with Iran. Agency mortgage-backed securities, another important lever in the fixed income tool kit, present a different calculus. The sector continues to benefit from the housing market's supply-constrained stability and provides high-quality duration at a meaningful yield premium to Treasuries without the idiosyncratic default risk present in corporate credit.

Global Fixed Income Markets

Global fixed income markets have experienced a fundamental structural shift over the past three years, and U.S. investors who have largely been content to fish in domestic waters are now facing a world where the yield gap with American bonds has largely closed. For the first time in a decade, developed-market government bonds outside the United States offer meaningful real yields to U.S.-domiciled investors. European sovereign bonds — German Bunds, French OATs, UK Gilts — are no longer the financial purgatory of negative real yields that characterized the post-financial crisis era. They are, for the first time since the eurozone debt crisis era, genuine candidates for allocation within a globally diversified fixed income portfolio.

This dynamic is not without complexity. The Iran conflict presents tangible risks to European economies. Energy dependency, the inflation transmission mechanism through consumer prices, and the potential for forced central bank policy recalibration are all live risks for fixed income markets outside the United States. But for the first time in recent memory, international fixed income markets represent a truly competitive opportunity set. Much depends on the ultimate trajectory of the current hostilities, but it's an opportunity we will be monitoring closely in the weeks and months ahead.

The most significant development in global fixed income since the conflict began has been the repricing of UK gilts. The UK 10-year gilt yield has risen to its highest level since the Global Financial Crisis — a move reflecting a combination of inflation re-acceleration risk, fiscal concerns, and a flight of risk capital away from UK-specific assets. This move is notable not only for its magnitude but also for what it signals about the broader European fixed-income risk premium: investors are demanding higher compensation for holding longer-duration assets in economies facing elevated inflation uncertainty.

In emerging markets, the fixed income landscape varies greatly depending on oil trade status. Oil-exporting governments benefit from stronger fiscal conditions as prices rise. Meanwhile, oil-importing countries — such as India, Turkey, Egypt, and South Africa — experience worsening current accounts, currency pressures, and rising sovereign spreads. This divergence in emerging market fixed income presents both significant risks and opportunities for active managers with the analytical skills to distinguish them. The assumptions built into passive EM debt indices are exactly the kind of blunt tools that tend to underperform in such a complex environment.

Across the investment opportunity set in equity and fixed income markets, whether one looks domestically or abroad, dispersion is the overarching story. This presents an opportunity for investors to rebalance portfolios to remain within their appropriate risk tolerance while also taking advantage of potential tactical opportunities amid the current geopolitical tumult.

NAVIGATING UNCERTAINTY WITH DISCIPLINE AND CONVICTION

The investment landscape facing us in the spring of 2026 is complex. The U.S.–Iran conflict has caused a historic oil supply shock, introduced a potential stagflationary shock into an already fragile global economy, and created conditions for cross-asset volatility that tests the true strength of an investment manager's process. We do not believe in softening this assessment. The risks are real, the uncertainty is genuine, and the range of possible outcomes is broad.

But uncertainty is not synonymous with danger for the disciplined investor – and history is an unambiguous teacher on this point. The 1973 oil embargo, the 1979 Iranian Revolution, the 1990 Gulf War, the September 2001 attacks, the 2008 financial crisis, the 2020 pandemic – every episode of acute geopolitical or economic shock has, in retrospect, presented both a test and an opportunity. The investors who emerged strongest were not those who predicted the future with certainty — an impossible task — but those who managed risk thoughtfully, maintained a long-term orientation, and had the conviction to act when necessary while maintaining the fortitude to avoid making decisions driven by emotion in the heat of the moment. We build portfolios and financial plans with these principles in mind – **in short, our process is built exactly for moments like this.**

Our current positioning is based on three core principles we apply consistently in environments like the one we face today. The first is scenario discipline: we avoid betting on a single outcome. Instead, we build a balanced portfolio that can deliver reasonable returns in the base case, safeguard capital in adverse scenarios, and participate significantly if the conflict resolves more quickly than consensus expects. The second is quality bias: during periods of high uncertainty, the premium for owning high-quality businesses with strong balance sheets, durable competitive advantages, and pricing power is at its peak. We do not sacrifice quality to chase short-term cyclical momentum. The third is active management: the wide range of outcomes across sectors, geographies, and asset classes in today's environment makes active, research-driven investment management especially valuable compared to passive approaches.

We are monitoring the situation in real time, with direct access to the most current research from the world's leading analysts. Our team is in continuous dialogue, and we will update you as the situation develops and our views evolve.

If you have any questions about this report or wish to discuss your portfolio in light of these developments, please do not hesitate to reach out directly to me or anyone on our team. We are here for you at every step, and we welcome your thoughts, concerns, and conversations at any time.

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