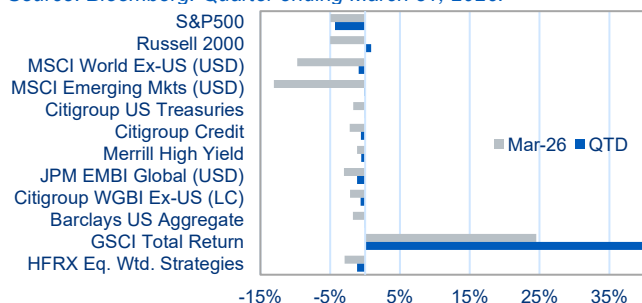


# Global Market Review

The fog of war enveloped markets in March, casting a pall over what had been a favorable start to the year for global equity markets. Oil markets experienced wild intra-day swings and spiking prices. Faced with uncertainty over the ultimate duration and impact of the war on output, inflation, and resource availability, global equities closed down for the quarter. Shifts in the U.S. Treasury yield curve suggested market hopes that the stagflationary shock of the Iran war would be short-lived. Major central banks kept their policy rates unchanged but struck a hawkish note. The U.S. dollar appreciated but not by as much as might have been expected for the world's ultimate reserve asset. Gold prices plummeted. Oil and other commodity prices soared, as the closure of the Strait of Hormuz disrupted trade in a broad range of key commodities. Shortages of jet and diesel fuel emerged in Asia and Europe. Regular U.S. gasoline prices rose by 36%. Diesel was up 46%.

## Exhibit 1 Performance of Major Market Indices

Source: Bloomberg. Quarter ending March 31, 2026.



Global stocks and bonds stumble, commodities soar.

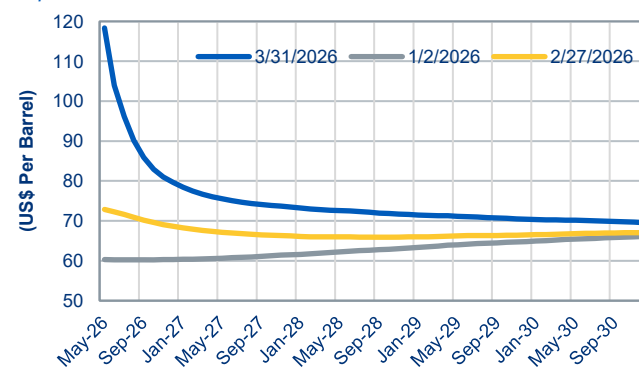
## Iran War Shock Shakes U.S. Equities

The shock created by the effective closure of the Strait of Hormuz has cut the supply of a broad range of key commodities, disrupting output and raising prices across several important economic sectors (see this quarter's special topic). The stagflationary forces unleashed by the Iran war will broaden and intensify as hostilities are prolonged.

For the present, markets are pricing in immediate, but not long-lasting, damage from the war (Exhibit 2). At the beginning of the year, the oil futures curve was slightly positively sloped, suggesting that spot prices would be relatively stable in future. As the war approached, the futures curve began to rise and invert. By the end of the quarter, the futures curve was steeply inverted, pointing to expectations that the spike in oil prices would be transient.

## Exhibit 2 Oil Futures Suggest Transient Price Impact

Source: Bloomberg. Brent crude prices at various points in the future as priced into futures markets on the indicated dates.

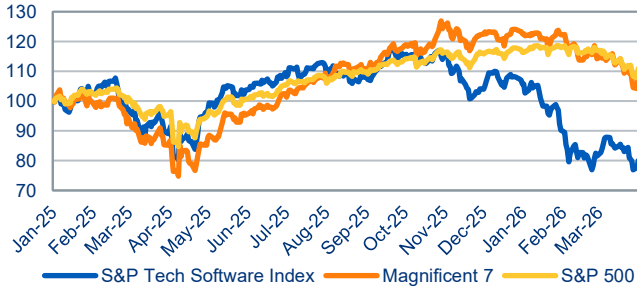


With war raging and the Strait of Hormuz closed, the S&P 500 fell 5.0% in March and is down 4.3% in the first quarter. Under the surface, there has been significant sector rotation. With the onset of the war, investors have increasingly shunned mega-cap tech stocks while favoring stocks in the energy, industrial and materials sectors. Software firms have also sold off heavily on fears that they will face increasing competition from AI (Exhibit 3). In contrast, defensive sectors, including utilities and consumer staples have benefitted from increasing investor caution.

### Exhibit 3

#### Software Firms Fall Victim to Obsolescence Fears

Source: Bloomberg. Index. January 1, 2025 = 100.



### War Reverses Non-U.S. Equities Gains

Emerging equity markets declined 13.1% in March, erasing earlier first quarter gains. Asian emerging markets fell particularly sharply, falling 14.4% in March and 1.5% for the quarter. Korean shares were especially volatile. After gaining 85% in 2025 and a further 48% in the first two months of 2026, they plummeted 25.6% in March as war dimmed the prospects of Korea's chip producers.

The MSCI World ex-US index of advanced non-U.S. equities fell 9.7% in March. The index is down 0.9% in the first quarter, reflecting the inflationary impact of energy prices, speculation about potential ECB tightening, and the stronger U.S. dollar.

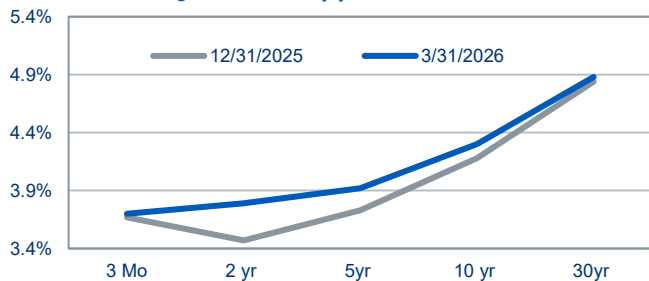
### Monetary Policy in the Fog of War

Although most major central banks kept their rates on hold in March, they all pointed to the heightened uncertainty about the outlook for inflation and signaled that rising price pressures may require a shift toward tighter policies. Futures prices, which had been indicating up to two rate cuts this year, now suggest that the Fed funds rate will remain unchanged in 2026. During the first quarter, three-month U.S. Treasury yields and yields for maturities of 10+ years were little changed, while 2-year yields rose (Exhibit 4). This shift suggests expectations that the war's stagflationary impact will be transient. U.S. Treasury and investment grade bond prices were little changed in the first quarter. High yield bonds fell by 0.6%.

### Exhibit 4

#### Treasury Yield Curve Points to Near-Term Price Pressure

Source: Bloomberg. U.S. Treasury yield curve on indicated dates.



### Oil Tarnishes Gold's Safe Haven Status

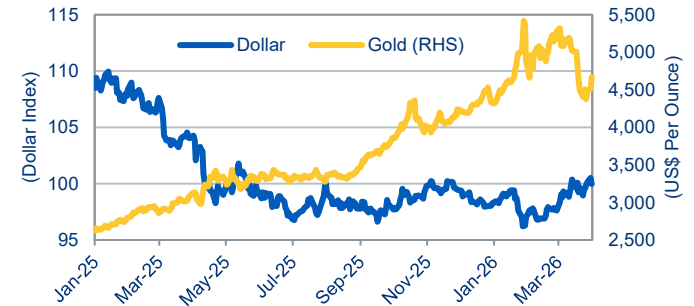
Since the onset of hostilities, gold prices have plummeted, tarnishing its reputation as a safe haven asset (Exhibit 5). The main drivers of its collapse include a partial unwinding of gold's

excessive price increase over the past two years and gold sales by central banks seeking to defend their currencies in the face of deteriorating external balances. The U.S. dollar, in contrast, rose marginally in the wake of the war. But its anemic appreciation did not appear commensurate with the dollar's status as the global financial system's ultimate reserve asset. Its lackluster response reinforced fears that the dollar's preeminence may be eroding gradually in the face of erratic trade policies, excessive fiscal debts and deficits, and concerns over continued Fed independence.

### Exhibit 5

#### Safe Havens Fail to Deliver in Wake of War

Source: Bloomberg. Trade-weighted dollar index and gold prices.



### Equity Strategies Hurt Hedge Fund Returns

The HFRX equal-weighted hedge fund index fell 1.1% in the first quarter. Equity market neutral and equity hedge strategies were the main detractors to performance, while macro strategies were the only positive index segments.

### Income Drives Real Estate Returns

Real estate, as measured by the NCREIF Open-End Diversified Core Equity Index (reported with a delay), rose 3.8% in the 12 months through December 2025, reflecting income growth that more than offset a slight decline in prices. The office sector was the worst performer over the one-year period, while retail and apartments led other property types. Real estate cap rates have recently increased but remain below real 10-year Treasury yields. Property prices as measured by broad indices are some 18-20% below their peaks and are hovering near 2021 levels.

### AI Fuels Rebound in Venture Capital

The Thomson Reuters/Cambridge Index (reported with a delay) was up 9.6% for the year ending September 2025. Venture capital (+16.2%) and growth equity (+10.3%) strategies outperformed buyout (+7.6%) over this one-year period. Over longer periods, however, buyout and growth equity strategies have outperformed venture. Rapidly growing AI firms have recently fueled a substantial increase in venture capital investments and valuations. The dominance of AI firms in venture capital funding has resulted in increasing concentration on a limited number of mega deals. Although private equity exit activity picked up in the second half of 2025, it continues to significantly lag previous peaks.

# Outlook & Strategy

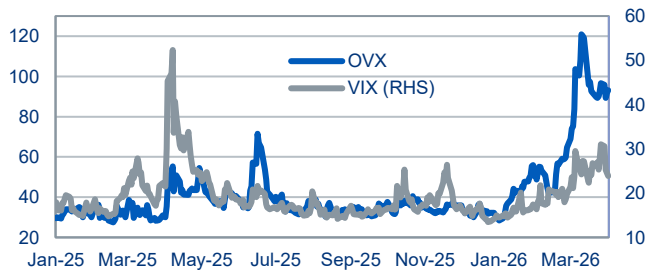
## War Shakes Market's Relative Calm

Since the onset of hostilities at end-February, oil price volatility has spiked and global equity markets have fallen, reversing earlier gains. Intraday oil price swings hit record levels, prices soared, and near-term expected volatility spiked (Exhibit 1). Given the breadth of the supply shock, other key commodities also experienced heightened volatility and rapidly rising prices. Financial asset markets, although shaken by the stagflationary forces unleashed by the effective closure of the Strait of Hormuz, remained relatively calm.

### Exhibit 1

#### U.S. Equity Volatility Subdued Despite Oil Volatility Spike

Source: Bloomberg. The OVX index represents the implied volatility of near-term options on crude oil. The VIX index, AKA the fear gauge, represents the implied volatility of near-term options on the S&P 500.



The war and in particular the closure of the Strait of Hormuz has revealed complex supply chain connections whose disruption is having divergent consequences for regions and industries.

- Oil exporters in the war zone face an immediate loss of revenue and long-term reconstruction costs. In the near term, the loss of import revenue will likely be replaced by a drawdown of FX reserves, reducing at the margin the demand for U.S. Treasuries.
- Other exporters outside of the war zone, notably Brazil and Russia, are experiencing a revenue windfall from higher prices. This windfall is likely to lead to currency appreciation and an improvement in external balances. In part reflecting this, Latin American equity markets have been the best performing regional market of the first quarter, gaining 14.6%.
- Advanced economy importers of oil and other commodities face a sudden steep tax on disposable incomes, a classic stagflationary supply shock, that is only beginning to have an impact on household pocketbooks.
- Oil importing emerging economies face a significant deterioration of their terms of trade that is pressuring their external balances, exchange rates, and FX reserves. Turkey's sales from its gold reserves are a case in point.
- Energy intensive sectors of advanced and emerging economies face higher input costs, and in some cases shortages that will lead to lost output.
- The transport sector – including land, sea, and air – is being hard hit by higher prices and fuel shortages. Higher

transport costs will eventually ripple through the entire spectrum of traded goods and services, including tourism.

- The disruption of LNG and propane supplies is having a major impact on prices in Asia, which are up 90%. Propane is widely used by households in Asia for cooking and hot water, while LNG is used for electricity production and as an industrial fuel.
- A jump in fertilizer prices coinciding with the spring planting season in the Northern Hemisphere will hurt farmers and raise food prices. Low-income households and countries whose consumption baskets are heavily tilted toward food will be hit especially hard.
- The loss of helium supplies previously shipped through the Strait is having a major impact on chip producers. This has been a factor driving the high volatility of the South Korean equity market that is heavily dominated by chip producers.
- Cuts in sulfur supplies are hurting metal manufacturing, with far reaching knock-on effects.

These anecdotes of interconnectedness provide a flavor of the complexity of the global supply chains being disrupted by the closure of the Strait of Hormuz. Markets appear, at least for the present, to be pricing in a relatively short-lived impact of the Iran war on output, inflation, and asset prices. This is evidenced in the steep inversion of the oil futures curve, the relatively muted sell-off and relatively low expected volatility of U.S. and non-U.S. equity markets, and the limited change in U.S. Treasury yields and credit spreads.

However, the full extent of the Iran war's stagflationary supply shock has yet to be revealed. If the war is prolonged, more interconnections will emerge and their impact may intensify.

## Building Portfolios from the Bottom Up

How and when the Iran war will end is unknowable. A return to the status quo ante is unattainable. Pending a resolution to the crisis, heightened uncertainty and rising risk premiums appear inevitable. Through it all, our belief that portfolios should be built from the bottom up using many highly diversified sources of potential value added remains unshakeable. Indeed, the heightened uncertainty created by a war with no clear end game only reinforces our focus on building portfolios from the bottom up.

We therefore continue to minimize top-down risk and aim to keep portfolios broadly neutral relative to asset class target weights. We remain underweight the most expensive market segments. However, in light of elevated uncertainty, we have reduced our over- and underweights to non-U.S. and U.S. equities while retaining a neutral stance relative to the overall equity benchmark. This will further reduce top-down risk in portfolios. We are also steadily reducing our real estate underweight given the repricing of the market and the emergence of favorably valued market segments. At the same time, we are striving to enhance portfolio diversification and the potential for excess returns.

Our opportunistic investments are one element of our focus on diversifying portfolios across a broad range of idiosyncratic sources of potential value added and risk factors. These investments include mortgage servicing strategies, healthcare focused investments, Italian real estate opportunities, trust preferred securities, and strategies focusing on private credit and collateralized loan obligations.

We are also pursuing a number of themes across asset classes that appear to provide promising opportunities for value added. We describe the main themes below.

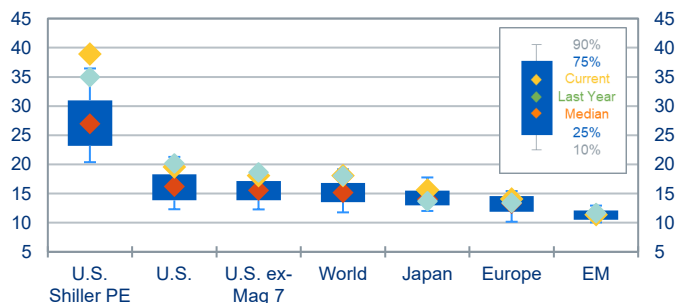
## Public Equity Pricing and Positioning

Our allocation to public equities targets a benchmark weight structured as an underweight allocation to U.S. equities given their high valuation and an offsetting overweight to more favorably valued non-U.S. equities (Exhibit 2).

### Exhibit 2

#### U.S. Equity Valuations Near Record Highs

Sources: FactSet and Strategic estimates. Data as of March 31, 2026.



Our active public equity manager structure encompasses a range of investment strategies and themes.

- Quantitative strategies comprise about one quarter of the portfolio. These strategies have the advantage of combining tight risk controls, a highly diversified set of risk factors, an ability to exploit numerous small inefficiencies, and deliver a relatively predictable distribution of outcomes.
- We complement this core of quantitative strategies with more concentrated fundamental strategies employing a different skill set and featuring higher expected tracking error.
- We also include risk-controlled extension and portable alpha strategies in the portfolio as a means of introducing the possibility of adding value through short positions, thus expanding the scope for managers to apply their insight.
- A relatively small segment of the public equity portfolio is devoted to niche strategies in key sectors such as biotech, where we have found managers with highly specialized insights that can potentially add another layer of diversified added value.
- Our non-U.S. equity portfolio includes a Japan specialist seeking to exploit structural changes in that market.
- We also seek to exploit the relatively inefficient and attractively valued small cap segment of advanced and emerging equity markets using specialist managers. We are currently overweight non-U.S. small cap equities.

This structure increases the scope for adding value through security selection, diversifying the sources of portfolio return, and enhancing the resilience of the portfolio.

## Casting Wide Net for Credit Opportunities

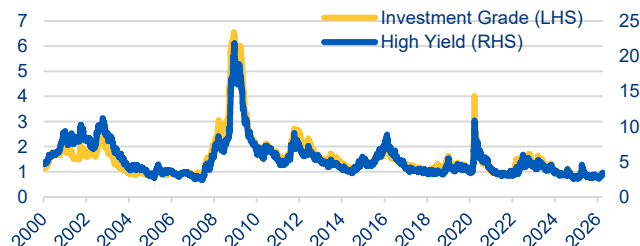
Our fixed income portfolio features a barbell approach that combines U.S. Treasury securities at one end of the barbell and niche credit manager and portable alpha strategies at the other. This structure affords us flexibility in managing the duration, liquidity, and credit exposure of the fixed income portfolio.

Although investment grade and high yield credit spreads are quite compressed, overall yields are at attractive levels and downgrades and defaults remain limited (Exhibit 3). We continue to see opportunities to add value through security selection in the credit markets. The heterogeneous and segmented credit markets offer opportunities to specialist managers with the requisite experience to discriminate among issuers in niche segments.

### Exhibit 3

#### Spreads Remain Tight Across Credit Spectrum

Source: Bloomberg. Yield spread over U.S. Treasuries in percentage points.



We complement the public fixed income portfolio with direct lending and opportunistic investments in less liquid credit investments as well as distressed credit strategies. These investments have higher expected returns than our public fixed-income investments and provide a degree of diversification to the portfolio, albeit at the cost of lower liquidity.

## Hedge Funds as the Ultimate Diversifier

Our hedge fund portfolio comprises a balanced allocation across the full range of hedge fund strategies from equity hedge and equity market neutral to credit, macro, and multi-strategy funds. In structuring our hedge fund portfolio, our overarching aim is to minimize the portfolio's beta to broad equity and credit market factors. While our hedge fund portfolio includes some strategies with high market beta, we design the portfolio such that the total portfolio minimizes market beta while encompassing highly diversified sources of potential alpha. This structure makes our hedge fund portfolio the ultimate diversifier. Moreover, a hedge fund portfolio whose return is mainly driven by alpha is an ideal building block for portable alpha strategies that we use in our public equity and fixed income portfolios.

## Moving to a Neutral Real Estate Allocation

The real estate sector has repriced significantly. Broad market indices suggest that prices are 18-20% below their peak and have returned to 2021 levels. In view of these improved valuations, we are implementing a phased increase in our real estate allocation from underweight to neutral. Our commitments have focused on both open-end and closed-end fund investments in the warehouse, retail, hotel, and residential sectors as well as core, value add and opportunistic strategies.

## Private Equity Portfolio Construction

Our private equity portfolios combine buyout and growth equity funds at their core with smaller positions in more volatile venture capital investments, with a view to striking a balance of risk and return. We focus on lower and middle market firms with solid earnings growth in the industrial, technology, and consumer sectors. In addition, the portfolio comprises co-investments with select managers. We are also considering opportunities in the growing secondary market across private equity strategies.

# Special Topic

## Oil Shocks Past and Present

The global economy has experienced two iconic and highly disruptive oil shocks, the 1973 OPEC oil embargo and the 1979 Iranian revolution. Other, less significant shocks, include the 1990 Iraqi invasion of Kuwait and the ongoing Russian invasion of Ukraine. So far, the Iran war shock appears less consequential than the 1973 and 1979 crises, which had a major and lasting impact on output and inflation.

### Oil Shocks Past

The 1973 OPEC oil embargo reduced global crude output by about 9%. The output lost in 1979 as a result of the Iranian revolution amounted to about 7% of global crude production. With demand inelastic, these supply shocks led to dramatic price surges. Oil prices in 1973 rose by 300% and jumped a further 160% in 1979 as oil prices over the period rose from \$3 per barrel to \$34. It was a period of gas shortages, long lines at gas stations, reduced speed limits, and other ad hoc measures to conserve energy.

The macroeconomic impact of the eleven-fold jump in oil prices was magnified by the highly energy intensive nature of production at the time. With price pressures already in the pipeline, the jump in oil prices contributed to an inflationary spiral in the U.S. that peaked at over 14% in 1980 and required massive monetary tightening and a prolonged recession to contain.

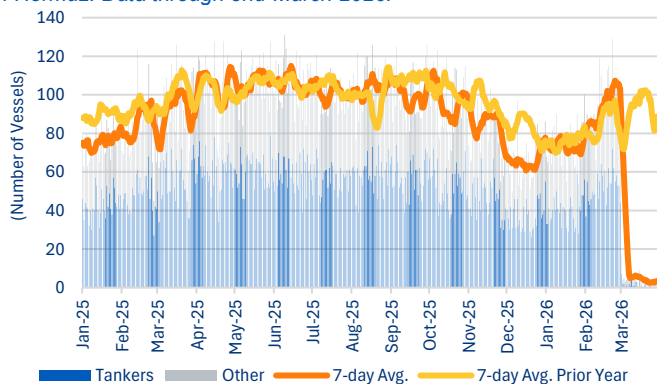
### Iran War Impact

Fortunately, the Iran war is unlikely to leave an equally destructive legacy. Since the oil crises of the 1970s, energy efficiency has increased dramatically, and renewable energy sources have increased in importance, thus reducing the oil intensity of output. However, the disruption of trade caused by the Iran war has cut the supply of a broad range of key commodities, not just oil (Exhibit 1).

#### Exhibit 1

##### **Strait of Hormuz Ship Traffic Plunges**

Source: IMF. Daily traffic of tankers and other ships through the Strait of Hormuz. Data through end-March 2026.



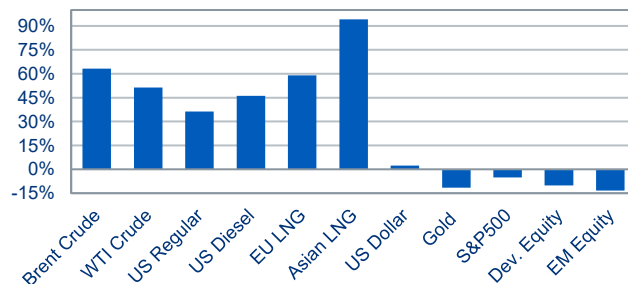
The effective closure of the Strait of Hormuz has bottled up between a fifth and a quarter of the global trade in crude oil, LNG, and refined products. The disruption also extends to fertilizers (30% of global trade), sulfur (45%), aluminum (10%) and helium (25%).

For importers, the closure of the Strait is a supply shock that reduces disposable incomes, increases external deficits, increases inflation, reduces growth, and pressures currencies and foreign reserves. In the U.S., for example, consumer pocketbooks are being drained by a 36% increase in gasoline prices and a 46% increase in diesel (Exhibit 2).

#### Exhibit 2

##### **Wages of War – Impact on Key Commodities and Markets**

Sources: Bloomberg, FRED, IEA, and EIA. Price change since war's onset through March 2026.



There are stark differences in the impact of the disruption across regions and industries. Asian importers of LNG face price hikes of over 90%, while European LNG prices have risen “only” 60%. Shortages and higher prices of diesel and jet fuel are hurting the transport sector across land, sea and air. Petrochemical plants producing plastics face shortages of essential feedstocks. The steep cut in fertilizer supply is threatening the spring planting season. With sulfur supplies constrained, metal producers face higher input costs, with significant knock-on effects. For example, Indonesia, which produces half of the global output of nickel used in EV batteries, sources its sulfur from the Middle East. Reduced helium supply will hurt the semi-conductor industry, with ramifications for the rapidly growing AI industry.

Safe haven assets have not performed as well as might have been expected (see Exhibit 2). The U.S. dollar is up only 2.4% since the onset of hostilities while gold has fallen 11.6%. The anemic appreciation of the dollar seems to suggest doubt about its long-term position as the world's ultimate reserve asset. The fall in gold prices reflects a partial reversal of speculative retail flows as well as sales by central banks raiding their reserves in the face of deteriorating terms of trade.

From tariffs to the Iran war, the global economy has so far proven itself to be remarkably resilient. However, if the closure of the Strait is prolonged, the full extent of the knock-on effects of the trade disruption will become clearer and their impact will intensify.

Note: Opinions expressed herein are current as of the date appearing in this material and are subject to change at the sole discretion of Strategic. This document is not intended as a source of any specific investment recommendations.