

## Bumps in the Road | 03.06.2026

Markets have encountered their first speed bump of the year after the U.S. and Israel began a major military operation against Iran. The campaign is aimed at crippling Iranian leadership and degrading the country's nuclear and military infrastructure. Iran has responded with strikes on Israel, U.S. bases in the region, and civilian and energy infrastructure across the Gulf. Of greatest concern for markets, Tehran has halted tanker traffic through the Strait of Hormuz, sidelining roughly 20% of the world's oil shipments. This disruption has pushed crude prices higher and weighed on stocks, leaving the S&P 500 down about 1.4% year to date through March 6. Even so, the pullback remains modest for a shock of this size and comes after a period of labor market stabilization and moderating inflation.

While it is difficult to predict how the conflict will unfold in the near term, history suggests geopolitical flare-ups rarely have a lasting impact on markets. Oil prices are typically the primary channel through which these events affect the global economy. Yet since the Gulf War, oil prices have fallen by an average of 5.7% in the year following major military conflicts or terrorist attacks. Stock market reactions have been similarly resilient. The S&P 500 gained 21% in the six months following the start of the Gulf War and 17% in the six months following the start of the Iraq War.

We find it more constructive to focus on the core factors that influence stock performance. Through the first two months of the year, the U.S. economy appears to be on solid footing. While there has been some choppiness in both the labor and inflation data, the broader trends remain favorable. The job market has normalized from its post-pandemic tightness, mainly through slower hiring rather than widespread layoffs. As inflation has continued to ease from its pandemic highs, the Federal Reserve has been able to lower interest rates and stop draining its balance sheet. Looser monetary policy is arriving just as key provisions of the One Big Beautiful Bill Act (OBBA) take effect, providing an additional boost to overall economic momentum.

Despite the noisy headlines and uneven data, analysts' earnings growth estimates have remained steady. Most still expect profits for S&P 500 companies to grow more than 15% this year and next. This reflects both the resilience of the economy and the productivity gains emerging from artificial intelligence. Just as important, earnings growth is starting to spread beyond the market's largest companies. Profits for the S&P 500 outside the mega caps are expected to accelerate into the second half of the year. Prior to the escalation of the Iran conflict, this shift had already begun to show up in the market through a noticeable shift where more stocks, not just the big ones, are driving the market higher.

We would not be surprised to see more bumps in the road over the coming months. Wartime is inherently unpredictable, and we are entering a portion of the presidential cycle that has historically been associated with weaker stock market performance. Still, we remain focused on fundamental economic factors. If unemployment stays low, inflation remains contained, and earnings estimates hold up, we believe any short-term market decline should be viewed as an opportunity.

Thanks,  
Preston May, CBE® | Assistant Portfolio Manager & Analyst

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