



## POST OAK PRIVATE WEALTH ADVISORS

ADVISORY, CONSULTING & INVESTMENT MANAGEMENT

First Quarter 2026

### Quarterly Market Commentary

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The Iran conflict is front and center right now, not only in the headlines but also in the minds of investors. The rationale given by the Trump Administration for launching airstrikes on Iranian military assets is justifiable—Iran has long posed a threat to U.S. interests and allies in the Middle East and regime change is imperative to countering that threat—but this reasoning does not change the consequences that are affecting the economy, the financial markets and the world at large.

These consequences are what I want to focus on in this quarterly letter. There are other and better sources for information on the political ramifications of this armed conflict, but as your investment advisor it is our duty to pay attention to the financial impacts—from stocks, to interest rates, to your portfolio.

Before I get into this discussion, it's important to recognize that we're in a very fluid situation where events in the region and impacts on the financial markets can change at any time. Sentiment can swing from fear to relief and back again at a moment's notice. We have already seen how word of negotiations and pauses in airstrikes from President Trump can move energy prices and stock market indices in just a few hours.

The biggest question about the present conflict is, how long will it last? The White House maintains it is expecting a temporary operation of just a few weeks. I believe that is a likely scenario. But four weeks into this conflict, the world is getting a better sense of how disruptive a prolonged conflict could become. The longer it lasts, the longer that energy supplies will be constrained by the Strait of Hormuz blockade. That means oil and gas prices could remain higher for longer too, putting pressure on many global economies—particularly in Asia—and complicate expectations for inflation and interest rates in the U.S. economy.

Adding higher inflation to the current mix of a soft labor market and slowing growth sets the stage for stagflation—a scenario that's difficult to fix without painful decisions made by government and Federal Reserve officials. That's a situation we would want to avoid, but the uncertainty of current events presents the possibility that stagflation is unavoidable.

#### **What is stagflation?**

To anyone who was alive in the 1970s, stagflation may have familiar ring. You may have been young enough to remember long lines and rationing at gas stations, or old enough to recall rampant inflation and sky-high interest rates strangling the U.S. economy.

For the uninitiated, stagflation is a period of slow economic growth combined with rising inflation and high unemployment. The stagflation period of the 1970s was bookended by the OPEC oil embargo in 1973 and the Iranian revolution in 1979. Both were supply-shock events

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that disrupted oil production, raised energy prices and pushed the inflation rate to nearly 15% by 1980. It wasn't until then-Fed Chair Paul Volcker jacked up the Fed funds rates to 20% by 1981 that inflation was effectively broken. Those levels are unthinkable these days. Americans haven't seen inflation that bad or interest rates that high since then, but the specter of stagflation has lingered in memories and history books.

Will stagflation emerge from the shadows in 2026 to haunt the U.S. economy? There are parallels between the current crisis and those of the 1970s in that supply shocks were the catalysts, but from there the similarities diverge. For one difference, the U.S. today produces much of its own oil and is not dependent on imports from the Gulf region. That shields the U.S. economy from the worst impacts of rising energy prices, although not fully; oil and petroleum products are integral to many goods and services in the broad economy, so higher prices on the global market will have some upward pressures on prices.

Another difference is that the U.S. economy in 2026 is much different than it was in the 1970s, oriented less to manufacturing and geared more toward services, technology and finance. That has created a more resilient economy with more versatile companies delivering solid earnings, especially in the last several quarters. A healthier U.S. economy is better able to absorb supply shocks and manage inflationary pressures. This has been the case recently with consumer price inflation remaining contained at 2.4% year-over-year, which has allowed the Federal Reserve to let last year's rate cuts do their work.

### **Piecing together an uncertain picture**

But some of the pieces of the stagflation puzzle may already be in place, and that presents a dilemma for investors. First, economic growth is slowing; the pace of Gross Domestic Product growth for Q4 of last year came in at just 0.7% year-over-year, a significant drop from 4.4% in the prior quarter. The Q4 figure was also a big downgrade from the advance estimate of 1.4% GDP growth reported back in February. The federal government shutdown in October and November last year did weigh temporarily on GDP growth, but slower consumer spending, business investment and international trade also were factors.

Second, the employment picture remains soft; nonfarm payroll growth has varied from 126,000 new jobs added in January (mostly in health care and social services) to 92,000 jobs lost in February. Job growth has zigzagged over much of the past year with the net effect of essentially no change in payrolls during this time. If there is bright spot in the labor market, it's that the unemployment rate hasn't moved much in the last six months, sitting at 4.4% in February. That's mostly due to the drop in immigration since President Trump took office.

When we assess the data that's available to us at present, it raises the prospect of no or fewer Federal Reserve interest rate cuts in 2026. The Fed held rates steady at its two meetings last quarter, with Fed Chair Jerome Powell acknowledging the challenge of an uncertain economic outlook. The expectations for monetary easing shifted significantly in the last month. At the start of the year, investors expected the Fed to deliver one or two rate cuts in the second half of 2026. As of this writing, the next likely rate cut won't happen until later in 2027. There has been talk of a rate hike as the Fed's next move, although the probability of that happening is low at present. We'll get a better sense in the coming weeks of how the near closure of the Strait of Hormuz is affecting the economy and consumers.

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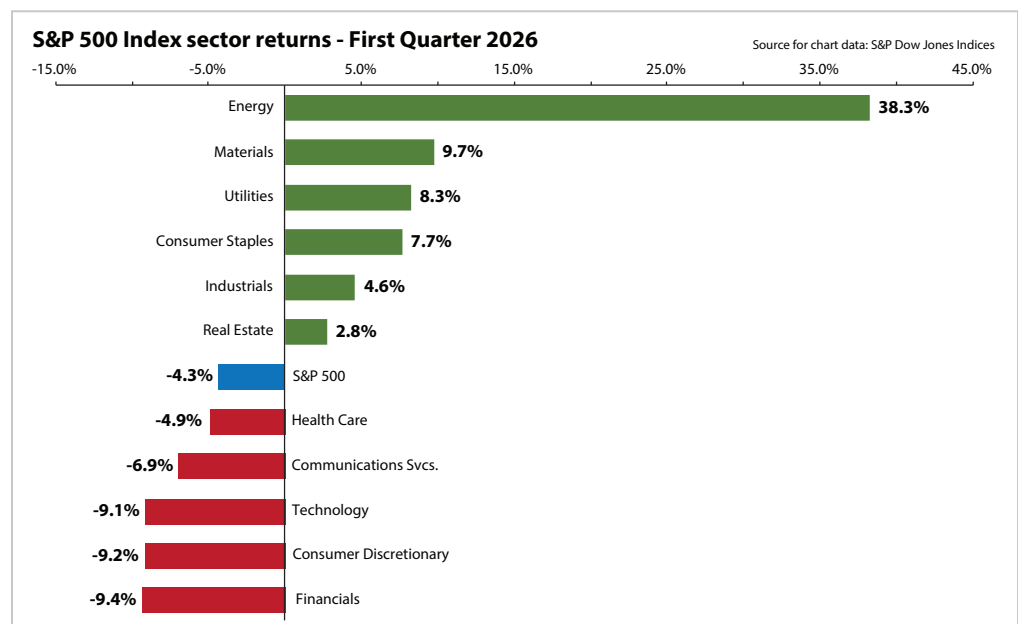


The economic outlook is dependent almost solely on oil prices. Opening the strait to start the flow of energy into global markets is what's needed, and that's dependent on negotiations between the U.S., Israel and the current Iranian leadership. It appears that Trump wants to make good on his wish for a swift conclusion to this conflict, but increased militarization—including the arrival of ground troops in the region—and mixed signals on negotiations from the different parties involved clouds the picture for the way forward. While statements from the President may seek to put the markets at ease, investors will remain on edge until they see concrete evidence of progress in easing the current conflict.

### Investing in times of military conflict

Looking back at stock market performance over the quarter, the losses in March in reaction to the Iran conflict and the spike in oil prices truly defined the period. Over the first two months of the year, the S&P 500 was positive, if by a mere 0.7%, and the narrative was focused on tech valuations and AI disruption. Investors were looking to lighten their exposure to large-cap technology, which despite strong earnings remained highly overvalued, by shifting to the more value-oriented sectors. Industrials and materials enjoyed gains from the money being spend today by big tech firms investing in AI infrastructure, but the rotation was helping nearly all sectors outside of technology and growth.

Since then, investors began a “flight to safety” as they sold off nearly all risk assets, which weighed on stock returns across the board. With market volatility elevated, there really was nowhere for investors to hide from the daily gyrations; bonds fell as interest rate climbed to their highest levels in eight months and even gold lost some of its record-high luster. The S&P 500 dropped 5.0% in March and was down 4.3% for the first quarter, with the Nasdaq Composite also fell 5.0% for the month and was down 7.1% for the year-to-date. All sectors except energy were in the red for the month, but because of the gains made by the non-growth sectors earlier in the year the quarterly performance picture was more mixed. Just over half of S&P 500 sectors were positive for Q1, led by energy, utilities and materials. Technology, communications and consumer discretionary were down big for the three months, but financial led the underperformers.



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The current climate may feel more like a bear market than what the numbers actually show, but the fear is palpable and the uncertainty is real. Military conflicts inject a significant level of risk into the markets, but markets also have a history of looking past the initial shocks of these risks and continuing on an upward trajectory while these events are eventually resolved. In the major military conflicts since World War II, stocks have posted median returns of 9.7% one year after the start of the conflict. And as the timeline increases, so does the occurrence of positive stock market returns.

Military event (Start date)	S&P 500 Index price return				
	3 months later	1 year later	3 years later*	5 years later*	10 years later*
Germany Invades France (May 1940)	-15.3%	-22%	-0.9%	4.1%	4.2%
Pearl Harbor (December 1941)	-12.4%	0.4%	11.7%	9.5%	9.6%
Korean War (June 1950)	1.5%	11.2%	8.1%	16.4%	11.7%
U.S. Bombs Cambodia (April 1970)	-4.6%	27.1%	9.4%	0.9%	2.6%
U.S. Bombs Libya (April 1986)	-0.5%	19.9%	8.3%	9.9%	10.5%
Operation Desert Storm (January 1991)	21.5%	32.3%	14.5%	14.0%	15.4%
WTC and Pentagon Terrorist Attacks (September 2001)	2.5%	-16.7%	0.9%	3.5%	0.6%
Iraq War (March 2003)	15.6%	27.0%	14.3%	8.2%	5.9%
Russia Invades Ukraine (February 2022)	-13.0%	-11.0%	9.5%		
Hamas Attacks Israel (October 2023)	9.7%	33.6%			

\* Annualized returns

Source for table data: Hartford Funds "Military Conflicts May Rattle Markets, But Not for Long"

As the situation in Iran and the Middle East continues, we may get close to a market correction, which is a drop of 10% from the latest market peak, but corrections themselves are not unusual. Since 1945, we've had 37 stock market corrections (13 of which turned into bear markets) or one every 2.2 years. More important to long-term investors is what happens after the downturn; on average, stocks have returned 31% in the 12 months after a market correction of 10% or more.

### Stocks for the long term

Not all corrections come as a result of geopolitical conflicts, but they have all been temporary and followed by recoveries, many times strong recoveries. In a sense, the market losses experienced during a correction are the costs long-term investors pay for higher returns. And when you consider how much stocks have historically returned over inflation over time, those costs are a relative bargain.

As we look ahead, we are watching the events in Iran and related market and economic developments closely. While finishing this month's commentary on March 31, the S&P 500 gained over 2.5% on the days on news that a negotiated end to the conflict appears to be very likely. But I believe a cautious approach makes sense for the time being as it is likely there will be significant ebbs and flows as the negotiations continue. Our view is that even with the overhang of stagflation fears, the stock market will end 2026 on a positive note as investors turn their focus to earnings. There is optimism as we enter a new earnings season in the coming weeks and expect to see company fundamentals continue to bolster the resilience of the U.S. economy.

I thank you for your confidence and trust in our investment advisory services. We are always available to talk if you would like to discuss your portfolio or how current events are shaping the investment markets.



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