



# CLEAR HARBOR

ASSET MANAGEMENT

## Q2 Outlook: *Conflict in Iran Highlights Shifting “Geo-Economic” Sands*

March 31, 2026

### Executive Summary

- **A Promising Start Disrupted by Geopolitics:** 2026 began with strengthening earnings, expanding economic activity, and a meaningful broadening of market leadership beyond U.S. mega-cap technology. Small caps, equal-weight indices, Japan, and Emerging Markets were outperforming—trends that have been partially reversed following the outbreak of war in Iran.
- **Reversal of Pro-Cyclical Leadership:** Prior rotation into industrials, materials, energy, and financials—supported by attractive valuations, global growth, and policy tailwinds (including accelerated depreciation and tariff-driven reshoring)—has stalled as markets reprice the risks of a prolonged energy shock.
- **Energy Shock Reshaping Markets:** Energy has been the clear outperformer, with oil and natural gas surging due to supply disruptions and geopolitical risk, particularly around the Strait of Hormuz. This has introduced renewed inflation pressures and challenged expectations for global growth.
- **Breakdown of Traditional Diversification:**
  - **Equities and bonds have declined simultaneously**, with Treasury yields rising sharply as inflation expectations increase.
  - **Gold has failed to provide near-term protection**, instead acting as a source of liquidity amid market stress.
  - These dynamics reflect a broader **breakdown in historically reliable cross-asset relationships**.
- **Fixed Income Under Pressure:** Rising yields across the maturity curve reflect a market increasingly concerned about inflation persistence, fiscal sustainability, and the need for higher real returns to attract capital.
- **Gold’s Weakness is Tactical, Not Structural:** Recent declines appear driven by liquidity needs and selective central bank selling rather than a fundamental shift in gold’s role as a long-term store of value and portfolio diversifier.

- **Some Alternatives Have Bucked Bearish Broader Market Trends:** We welcome the incremental ballast—and in many cases, positive absolute returns—generated by our broader set of Alternative strategies.
- **Economic Backdrop: Resilient but Softening:** The U.S. entered the year with solid momentum. However, recent data and current geopolitical uncertainty raise the specter of softer employment, inflation pressures, and weaker consumer and investor sentiment.
- **Two Potential Paths Forward:**
  - **Contained Conflict:** Energy markets stabilize, inflation pressures ease, and earlier trends—broader equity leadership and global outperformance—resume.
  - **Prolonged Conflict:** Sustained energy shock leads to higher inflation, weaker consumption, pressured margins, and continued volatility across equities and fixed income.
- **Monetary Policy Increasingly Constrained:** Central banks face a difficult tradeoff between inflation and growth. We continue to see a Fed more poised to cut than to raise.
- **Secular Themes Remain Intact:**
  - **Artificial Intelligence:** Continued advancement, though with increased scrutiny on capital intensity and returns.
  - **Industrial & Infrastructure Buildout:** Ongoing investment in manufacturing, energy systems, and electrification.
  - **Global Realignment:** Supply chain shifts, resource security, and the rise of the emerging market consumer remain durable drivers of growth.
- **Political and Policy Overlay Intensifying:** Rising energy prices, affordability pressures, and technological disruption are contributing to **greater economic nationalism, regulatory risk, and political sensitivity** ahead of U.S. elections.
- **Stay Calm and Carry On:** Periods of dislocation reinforce the importance of **long-term asset allocation, diversification, and alignment with client risk tolerance and liquidity needs**, rather than reactive or tactical shifts.
- **A Timeless Reminder:** Uncertainty and volatility are not anomalies but enduring features of investing. As Howard Marks reminds us: *“You can’t predict. You can prepare.”*



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Aaron J. Kennon  
*Chief Executive Officer & Chief Investment Officer*

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## **Q2 Outlook: Conflict in Iran Highlights Shifting “Geo-Economic” Sands**

Friend of Clear Harbor,

The conflict in Iran has suddenly blunted what had been impressive momentum to start the year. Earnings expectations had been improving, business activity was expanding, and market leadership was broadening after years of dominance by the mega-cap growth complex. In fact, the first two months of 2026 saw small-cap stocks and the equal-weight S&P 500 outperforming the tech-heavy cap-weighted S&P 500, while global equities—particularly Emerging Markets and Japan—largely outpaced the U.S.

Since the launch of the war on February 28, the YTD outperformance of those segments has been reduced or reversed. Yet typical safe havens such as Treasuries and gold have not delivered the ballast expected of them at moments of equity volatility: on the contrary, they have repriced alongside other major asset classes. Why is that? What makes this moment different from past crises? I believe the direct market and economic impacts of the current “combat operation” deserve a closer look, and that several aspects of it shed new light on crucial ongoing geopolitical transitions. At the same time, Artificial Intelligence and other secular investment themes seem poised to keep evolving on their own terms.

### **War in Iran: The Immediate Re-Rating of Equity Risk**

As the year began, several factors supported a constructive rotation in global equities. Japan was benefiting from corporate reform, reflation, and improved capital discipline; emerging markets lured investors with their higher structural growth rates and cheaper valuations. Both segments were aided by a weaker U.S. dollar and Chinese exporters seeking to forge new sources of demand for their exports.

On a sector basis, investors cited uncertainty over the next leg in the AI trade as good reason to rotate from high-flying tech stocks, which make up one-third of the S&P 500, into pro-cyclical and value-oriented sectors such as industrials, materials, and energy. Funding provisions and incentives in the “Big Beautiful Bill”—most notably accelerated depreciation for capital investment—alongside the Trump Administration’s evolving tariff posture, appear likely to catalyze a new wave of capital spending. This

spans data center, manufacturing facilities, and broader industrial capacity, reinforcing and potentially accelerating the pro-cyclical investment dynamic that has been building since 2025.

Taken together, these shifts were realizing a prospect we had highlighted for several quarters: a world in which sectors involved with the infrastructure and industrial build-out both home and abroad would broaden leadership beyond U.S. mega-cap tech. Even after a month of war in the Gulf, a degree of this outperformance persists. The iShares MSCI Emerging Markets ETF<sup>i</sup> is still up 0.07% YTD, significantly above the -7.1% return of the S&P 500 Index<sup>ii</sup>. Within U.S. equities, Big Tech—despite periodic rebounds—has been punished more than broader market measures, with the equal-weight S&P 500<sup>iii</sup> down just 1.4% on the year and 6 of the 11 core sectors of the market still positive over this period.

Nevertheless, the change in momentum since the start of Operation Epic Fury on February 28th has been stark and wide-ranging. Cyclical sectors have faltered as threats of a longer global energy supply shock challenged expectations for growth, corporate margins, and consumer demand: Materials companies are off approximately -9% since the outbreak of the war, while Industrials have declined more than -10%. (On a YTD basis, these sectors remain better by 7% and 3%, respectively.) Equity declines have also been significant in Europe, Japan, and across EM—all net energy importers, and thus heavily impacted by their inability to access oil and LNG to meet current demand. In fact, more than 80% of the oil and natural gas that exits the Persian Gulf through the volatile Strait of Hormuz is exported to Asia. This moment has forced many countries to ration energy supplies.

Energy has been the clear outlier and standout sector, gaining 13% since the war started and some 41% YTD. The commodity has, of course, benefited as well: After trading in the \$60-70 range throughout February, oil jumped 10% immediately after the February 28 strikes and within two weeks moved above \$100. Natural gas markets also tightened materially, as damage to Qatar's Ras Laffan gas complex and disruptions in the Strait of Hormuz altered the global LNG balance. Western gas producers and LNG exporters and related companies sharply outperformed. By March 30<sup>th</sup>, Brent crude was trading at \$114.26<sup>iv</sup>, higher on the year by 87%.

### **Fixed Income Takes a Hit, Too**

Fixed income has been unusually disappointing during this episode. In a more conventional geopolitical shock, we would expect Treasury prices to rise as equities fall. Instead, yields have moved higher and bonds have sold off alongside equities. Unlike many other threats to growth we have seen over the years, the Iran oil shock has upended short term inflation and rate forecasts, driven Treasury-market volatility to its highest level in nearly a year, and forced selling serious enough to impair liquidity and the performance of some recent U.S. Treasury note auctions. All told, the 10-year Treasury yield has risen 42 basis points in March to about 4.35%<sup>v</sup>; the 2-year is up 46 basis points to about 3.87%, and the 30-year yield has risen by 30 basis points to 4.91%.

In short: Long-duration Treasuries have not delivered the degree of risk mitigation that investors expect, for fear that inflation could short-circuit not only hopes for lower rates this year but also the trajectory of longer-term inflation expectations. Furthermore, as our debt continues to grow at its current

irresponsible pace of 6% per year—with our debt-to-GDP ratio already above 120%—the bar for incremental buyers in this environment of fiscal and inflationary risk may warrant a higher real yield.

While the Treasury market is hardly facing an outright funding crisis today, investors have clearly begun to demand more compensation at this remarkable convergence of fiscal, inflation, and geopolitical uncertainties. We have previously discussed the growing context for de-dollarization to continue as the U.S. proportion of the overall global economy and related trade, though still large, ultimately declines.

### **Gold Takes a Punch**

Gold's behavior has also surprised many investors. The archetypal "safe haven" asset peaked in late January and has corrected along with equities, even as headlines depict a more dangerous world. Spot gold has fallen by roughly \$900 per ounce, with single-day drops of more than 4% despite renewed inflation concerns and reduced expectations for monetary policy easing—both of which are typically bullish context for the yellow metal. Gold remains up approximately 5% YTD, but has clearly not kept the simple "war equals higher gold" promise many investors take for granted.

Whereas the recent poor performance in Treasuries reflects a complex interplay of several long-term trends with more recent factors, the recent uncharacteristic weakness in gold appears to reflect two highly idiosyncratic dynamics. One is liquidity stress: In acute episodes of cross-asset pressure, investors often sell what they can rather than what they want. Gold is liquid, globally traded, easy to monetize—and for many investors today, represents substantial embedded gains whereas selling other assets might force a loss.

Another is that many central banks have not seized on the uncertainty of this moment to allocate their reserves further into gold. Turkey's central bank, besieged by its own deteriorating currency and rising energy costs denominated in U.S. dollars, has gone further and actively sold gold. In fact, it recently recorded its largest weekly drop in gold reserves in seven years, with nearly 60 tons of its holdings hitting global markets over just two weeks.

That trend could very well shift in the weeks and months ahead as oil trade resumes and reserve currencies are invested. I would also note that despite Turkey's recent action, other (and larger) central banks continue to exhibit long-term accumulation trends. Today, gold's share of global central bank reserves, only second to that of U.S. dollar assets, has reached its highest level since the early 1990s.

These factors suggest that while recent weeks may have seen gold deployed as a source of liquidity instead of protection, its historically unique qualities have not necessarily been permanently undermined. We still view gold as money and therefore an alternative currency to those of the fiat system. While no one should expect a repeat of last year's approximately 64% jump, I believe gold can still serve as a long-run diversifier and reserve asset in thoughtfully constructed multi-asset portfolios.

### **(Some) Alternatives Punch Back**

We have kept our alternatives focus on areas where we anticipate a long-term return profile that is positive and less correlated (or non-correlated) to broad equity and fixed income markets. The team

here is generally pleased that a broad swath of our alternative allocations have not just outperformed other asset classes so far this year, but have generated positive absolute returns in the face of declines in nearly all others.

### **Economic Outlook: Two Paths Forward**

We are fortunate that like the markets, economic conditions at the start of the year had a bit of a buffer to draw against when the Iran war began. U.S. manufacturing PMI stood at an expansionary 52.4 in February and ISM services rose to 56.1, its highest reading since July 2022. Both measures suggest that the U.S. economy entered the late-winter period with underlying momentum from 2025 intact. Nor has all the corporate news since been bad. Earnings estimates have actually risen, not fallen, over the last few weeks—though long-term inflation expectations have declined as well.

At the same time, employment and sentiment data are no longer unambiguously strong. The February payroll report showed the U.S. unexpectedly lost 92,000 jobs and the unemployment rate rose to 4.4%, yet weekly jobless claims remain relatively low around 205,000 to 210,000. This suggests a labor market that is not collapsing, but is clearly softening. Nor is business sentiment racing to the rescue. Just last week, the S&P Global Services PMI data declined to its lowest level in 11 months, though still showing expansion. Consumer sentiment indicators, albeit notoriously fickle, late last week showed a deterioration in confidence and greater expectations of higher short-term inflation, particularly among the higher-income segments that dominate consumer spending. Rising gasoline prices, market volatility, and overall uncertainty related the war seem to be having an impact on the animal spirits not just of Asian and European consumers but also those here in the U.S.

**In our view, the duration of the war in Iran is the single most important variable for the market path in 2026.** Even if data coming over the horizon in the coming weeks is poor, it can be short-lived if the conflict itself proves to be. If the conflict is contained and energy markets begin to normalize, then the constructive forces seen in January and February could reassert themselves: broader equity-market leadership, renewed support for Japan and emerging markets, and a better chance that bond yields stabilize as inflation fears recede and animal spirits return to the economy.

On the other hand, if the conflict extends deeper into the year, we may well have to contend with a more durable oil and gas shock, worsening headline inflation, weaker consumer spending, and more persistent pressure on equity multiples and bond prices. This will be particularly hard on lower-income consumers in the U.S.—the lower half of our “K-shaped” economy—and across Europe, where gas prices are already up more than 80% since the war began. The longer this persists, the more it becomes a macro regime change rather than a temporary geopolitical shock.

### **The Monetary Conundrum Continues**

Monetary policy—already a tense subject before the Iran war began—has become meaningfully more complicated as the bombing campaign has continued. So far, the U.S. Federal Reserve has responded with restraint: At its March 18 meeting, the FOMC left rates unchanged at 3.50% to 3.75% and

maintained a forecast for only one rate cut in 2026, while describing inflation simply as, “somewhat elevated.”

This is precisely the type of policy environment central bankers dislike. Before the war, the mixed data noted above could be interpreted as reflecting a slower but still-intact expansion, with inflation within a point of target. Now they must weigh an oil-driven inflation shock against weakening labor demand and a business sector starting to show strain. Policymakers are thus balancing inflation fears against growth concerns, employment softness, and financial-market fragility—all amidst moves in energy prices large enough to potentially alter inflation expectations and investor psychology.

The risk now is not simply that policy, mortgage, and other important rates stay higher for longer. It is that policy becomes more reactive, less predictable, and more hostage to incoming geopolitical headlines—particularly ones that augur employment pain and a softer “wealth effect” from spongy 401(k) balances in the months and quarters ahead. We believe the Fed will err on the side of waiting or perhaps taking a more dovish posture if employment and growth were to deteriorate markedly from current levels, even if raising rates might otherwise seem an equally reasonable policy prescription.

### **War Won't Hold Back Some Long-Term Themes...**

Some core long-term investment themes are not waiting for the outcome of the conflict in Iran or the next move by the Fed. One, of course, is artificial intelligence. Progress is rarely linear. After years of seemingly unimpeded growth, many of the largest technology and social media companies now find themselves navigating a much more complex backdrop. Regulatory scrutiny is accelerating, and investors increasingly question both the timing and magnitude of returns on the substantial capital being deployed toward AI. At the same time, software-as-a-service companies have come under pressure amid concerns that AI could disrupt established business models in a sector long defined by durable revenue growth, asset-light balance sheets, and strong future cash flow generation. Markets reflect this pressure: The software component of the technology sector<sup>vi</sup> is off approximately -27% YTD, versus just -12% for technology as a whole.

Yet companies, sectors, and even nations will undoubtedly be transformed for the better as AI's use cases for individuals and for industry evolve. As we have discussed previously, this is a focus for our firm at a granular level as industries ranging from pharmaceutical discovery to electric grid operators stand to see dramatic gains in efficiency and speed to market. We are similarly attuned to the robotic revolution that is not only hitting the factory floor, but also the operating room in hospitals and living rooms nationwide—someday, perhaps, in your own home.

In addition to these and other fast-growing economic segments, we remain focused on foundational drivers of growth that receive less attention but are no less critical. This includes demand for essential materials, the continued expansion of global travel and leisure, the broad-based impact of a rising middle class across emerging markets. Additionally, the ongoing pursuit of lighter, faster, and more cost-efficient products and services continues to drive innovation across industries, while also underscoring a growing recognition among policymakers and corporate leaders that securing critical resources and

technologies domestically—or with trusted, allied jurisdictions—is increasingly paramount. These include subjects we have discussed in prior quarterly commentaries as well as the [2026 Outlook](#).

### **...and Could Even Accelerate Some Others**

War and economic transformation always carry a political dimension. Right now, some who fear that AI will leave them behind rather than improve their productivity, incomes, and standard of living are pursuing greater regulation of this explosive technology, and even protection for jobs thought to be obsolescent. Both at home and abroad, there are signs this could add a new strain of populism to a body politic already experiencing rising economic nationalism, fiscal activism, and a deepening affordability crisis for many, especially those on the younger and poorer ends of the socioeconomic spectrum. As allocators of capital, we find it unlikely that these passions will stay confined to the political realm: they are likely to reshape regulatory environments and the future development of technologies and services.

The U.S. midterm elections are also drawing closer. Because the Iran conflict directly affects the price of gasoline and everything transported with it, a prolonged conflict could intensify, rather than compete with, longstanding cost-of-living grievances in campaign rhetoric. Beyond commodity-driven inflation, the average 30-year mortgage rate rose to 6.38% on March 26—a six-month high, with housing affordability already a key political issue. If these factors—or the duration and scope of the war itself—continue to suppress the administration’s approval ratings, it could not only affect the course of the conflict but constrain the administration’s capacity to pursue broader fiscal, regulatory, and economic initiatives for the rest of President Trump’s term.

For all of those valid points, the reality is that Iran has long posed a significant threat to trade, economic growth, and stability in the Middle East and indeed throughout the world. Whether we were prepared for this moment from a military and strategic standpoint is a whole other kettle of fish—and a critically important kettle at that. Yet U.S. success in Iran would bring broad geopolitical benefits that most media outlets on both ends of the political spectrum are failing to contemplate in any great detail. While defeat or quagmire might embolden American adversaries, victory in the form of military success and regime change would be a massive blow to both Russia and China and could create a foundation for a more peaceful globe and a more prosperous economy. To ignore at least the possibility of either outcome would be to invite unaddressed risk into portfolios.

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We are in a market where the old relationships seem less reliable. Stocks and bonds have both fallen, gold has failed to provide immediate protection, and the best-performing assets have been the very commodities and energy-linked exposures that benefit from scarcity and disruption. At the same time, the pre-war trend toward broader, more globally diversified market leadership should not be forgotten. It was real, it was supported by data, and it may well return if the geopolitical shock proves finite. And many “market breakdowns” investors perceive have reasonable explanations for those willing to dig.

Until the market has more clarity on the duration of the Iran conflict, we are likely to see macro forces, energy prices, policy uncertainty, and political developments dominate asset class and sector

performance. Such realities can widen the range of potential outcomes meaningfully in the short term. Yet we must remember that uncertainty and market volatility are not new features of markets: they are permanent and necessary ones. Without them, all current and future inflation would already be flawlessly priced into markets, and long-term returns would prove tepid.

That is clearly not the case. Instead, investors must contemplate the potential path of outcomes across companies, sectors, asset classes, and the overall economy—then allocate according to their own goals, priorities, and tolerance for risk. As the great investor and market observer Howard Marks once proclaimed: “You can’t predict. You can prepare.”

This remains our North Star, alongside our commitment to open dialogue with our clients. On behalf of the firm, I again thank you for your trust in Clear Harbor. We look forward to our next opportunity to speak as market conditions and your own wealth picture continue to change.

Best,

A handwritten signature in black ink, appearing to read "Aaron Kennon". The signature is fluid and cursive, with a long horizontal stroke at the end.

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<sup>i</sup> Market data for this and other ETFs or Indices is as of end of day on March 30, 2026. The iShares MSCI Emerging Markets ETF (ticker: EEM) is used to derive performance data.

<sup>ii</sup> The State Street SPDR S&P 500 ETF (ticker: SPY) is used to derive performance data.

<sup>iii</sup> The Invesco S&P 500 Equal Weight ETF (ticker: RSP) is used to derive performance data.

<sup>iv</sup> Price as of 4pm EST on March 30, 2026.

<sup>v</sup> Data is as of end of day on March 30, 2026.

<sup>vi</sup> The iShares Expanded Tech-Software Sector ETF (ticker: IGV) is used to derive software performance data. Actual S&P 500 Index Technology sector data is used to compare.