

## In Brief

March was characterized by increased volatility across both equity and fixed income markets, driven primarily by the escalation of the conflict involving Iran and the resulting surge in energy prices. Equity markets declined over the course of the month, before rebounding strongly on the last trading day (+2.9%) with the S&P-500 recovering a meaningful portion of its earlier losses. Rising oil prices, at times exceeding \$100 per barrel, combined with geopolitical uncertainty and shifting expectations for monetary policy weighed on investor sentiment. Despite this backdrop, market behavior remained relatively orderly, which is notable given the magnitude of the geopolitical shock. Fixed income markets faced ongoing pressure, as well, with Treasury yields remaining elevated due to persistent inflation concerns, particularly driven by higher energy prices. At the same time, higher yields have improved the attractiveness of fixed income from an income perspective, especially in high-quality segments. Overall, March reinforced that, even in the face of heightened uncertainty, financial markets have continued to function in an orderly manner, and the strong recovery into month-end suggests that investors are already pricing in a stabilization of geopolitical risks.

### **Economy**

Economic data in March presented a mixed, but generally resilient picture. Growth indicators remained stable, supported by continued consumer spending and a solid labor market, while manufacturing activity showed signs of softness. Inflation declined only gradually and remained above central bank targets, with higher energy prices adding renewed upward pressure. As a result, expectations for monetary easing were pushed further out. Despite these headwinds, there are no clear signs of a sharp economic slowdown at this stage, and the underlying economy continues to expand at a moderate pace.

### **Labor Market**

Employment growth continued at a moderate pace, and unemployment remained low by historical standards. Wage growth showed signs of gradual moderation but remained supportive of consumer spending. While some sectors have begun to normalize hiring, there are no indications of a broad-based deterioration in labor conditions. At the same time, risks are gradually emerging. The lagging impact of higher interest rates is beginning to slow hiring, particularly in more rate-sensitive sectors, with companies increasingly favoring hiring freezes over layoffs. This dynamic may mask underlying weakness and raises the risk of a more abrupt adjustment if economic conditions soften further. In addition, continued wage pressure related to productivity could weigh on corporate margins, potentially leading to more cautious employment decisions.

### **Monetary Policy**

While headline inflation has declined from prior peaks, it remains above central bank targets, with energy prices adding renewed upward pressure amid geopolitical tensions. Core inflation, particularly in services, has proven more persistent, reflecting ongoing wage dynamics and structural factors within the economy. As a result, the Federal Reserve has maintained a cautious stance. Expectations for near-term rate cuts have been pushed further out, reinforcing the view that policy will remain restrictive for longer than previously anticipated. Financial

conditions have adjusted accordingly, with higher yields and tighter liquidity conditions influencing both equity valuations and fixed income markets. The path of inflation will remain the key determinant of monetary policy. A more sustained decline would allow for gradual easing, while continued stickiness, particularly driven by energy and services, would likely keep policy restrictive. In this environment, markets are likely to remain highly sensitive to inflation data and central bank communication.

### **Corporate Earnings**

The key risk to earnings is persistent inflation, elevated interest rates, and margin pressure beginning to weigh more meaningfully on corporate profitability. Despite increased volatility and an uncertain macro environment, overall earnings results continued to come in broadly in line with or slightly ahead of expectations. Technology and communication services remain at the top, followed by healthcare and energy, while industrials and consumer discretionary occupy the middle, and financials, real estate, and small-cap companies continue to lag. This resilience has helped support equity valuations. Forward earnings estimates remain constructive, although the pace of upward revisions has slowed. Nevertheless, despite a material economic slowdown, earnings are expected to remain the primary driver of equity market performance over the medium- to long term.

### **Thoughts**

As highlighted by Nick Raich of Earnings Scout, the current market environment reflects an unusual divergence between earnings trends and equity performance. His framework, which tracks forward earnings for the S&P-500, shows that markets have historically tended to rise even as earnings begin to weaken, until the gap becomes unsustainable and correct. Today, the pattern is reversed: earnings continue to improve while equity prices have declined, indicating that valuation compression driven by higher interest rates and elevated geopolitical uncertainty dominate fundamentals. This dynamic suggests that markets are currently discounting macro risk rather than earnings strength and are likely to respond quickly once uncertainty diminishes. Any credible expectation of a de-escalation, or end to the conflict could act as a catalyst for a market recovery, allowing prices to realign with still-positive earnings trends. Historically, equity markets have recovered quickly after wars or major geopolitical shocks. In most cases, markets experience an initial decline driven by uncertainty, followed by a recovery once the scope of the conflict becomes clearer. Across more than twenty geopolitical crises since World War II, the median market drawdown has been roughly 5–8%, with the median recovery period typically between one and three months. Those patterns reflect the fact that markets tend to price in worst-case scenarios quickly. Once uncertainty declines, long-term drivers, such as economic growth, innovation, and corporate earnings, reassert themselves and guide equity performance. Importantly, markets have historically recovered well before geopolitical conflicts themselves are resolved, underscoring the importance of maintaining long-term investment discipline during periods of uncertainty.

### **Stock Market Outlook**

The outlook for financial markets remains shaped by the interaction between resilient economic activity, restrictive monetary policy, geopolitical uncertainty, and still-elevated inflation. While volatility is likely to remain above the unusually low levels seen in prior years, the broader environment continues to favor a disciplined and selective investment approach. For equities, the medium-term outlook remains constructive, supported by still-positive earnings growth and the absence of clear signs of recession. At the same time, elevated valuations and uncertainty around inflation and interest rates suggest that gains are likely to be more selective and accompanied by periodic corrections. The fixed-income environment has become more balanced. Higher yields provide a more attractive income base, particularly in high-quality fixed income, although sensitivity to inflation data and central bank policy remains elevated. Gold corrected despite heightened geopolitical tensions, as a stronger U.S. dollar and elevated real interest rates outweighed safe-haven demand. In addition, the absence of incremental support from central bank buying limited upward momentum, reinforcing that markets are not pricing a systemic crisis. The U.S. dollar

has strengthened meaningfully, supported by higher relative yields, resilient economic performance, and continued global demand for U.S. assets. While some consolidation is possible, the dollar remains structurally supported in the current environment. The current market backdrop favors selective equity exposure, high-quality fixed income, and a measured role for gold as a hedge. Considering these conditions, we have taken a more cautious stance by modestly reducing equity exposure across the aggregate of our equity positions and increasing cash levels to approximately 10%. This adjustment provides additional flexibility while preserving the ability to re-engage as opportunities arise.

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