



Investment Strategy

Weekly guidance from our Investment Strategy Committee **March 16, 2026**

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- Oil prices spiked close to \$120 per barrel in response to the escalating conflict in the Middle East and disruptions in the Strait of Hormuz.
- We recognize the risk of near-term volatility in oil prices. However, we expect mounting supply headwinds through year end to be a strong headwind for prices.

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- Aerospace & Defense tends to become most topical during periods of geopolitical stress such as the current war in Iran.
- We would impress upon investors that we value the group’s long-dated visibility in both commercial and defense markets, with industry backlog currently in excess of \$1.6 trillion according to FactSet and company reports..

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- We believe the U.S. dollar’s (USD’s) strength during the Iran war has been driven by investors seeking perceived safe-haven assets as well as by higher oil prices, which could potentially slow the Federal Reserve’s (Fed’s) plans to cut interest rates.
- We expect this U.S. dollar strength to be temporary. If tensions fade, the U.S. dollar will likely weaken modestly from today’s levels.

Alternatives: Private equity’s role in U.S. military readiness 6

- Private capital will likely play a critical role in rebuilding U.S. military stockpiles, especially as we believe elevated demand may persist for several quarters or even years.
- Our expectations of a return of strategic corporate buyers may signal a healthier environment for private equity investment demand and potential for improved returns overall.

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Real Assets Spotlight

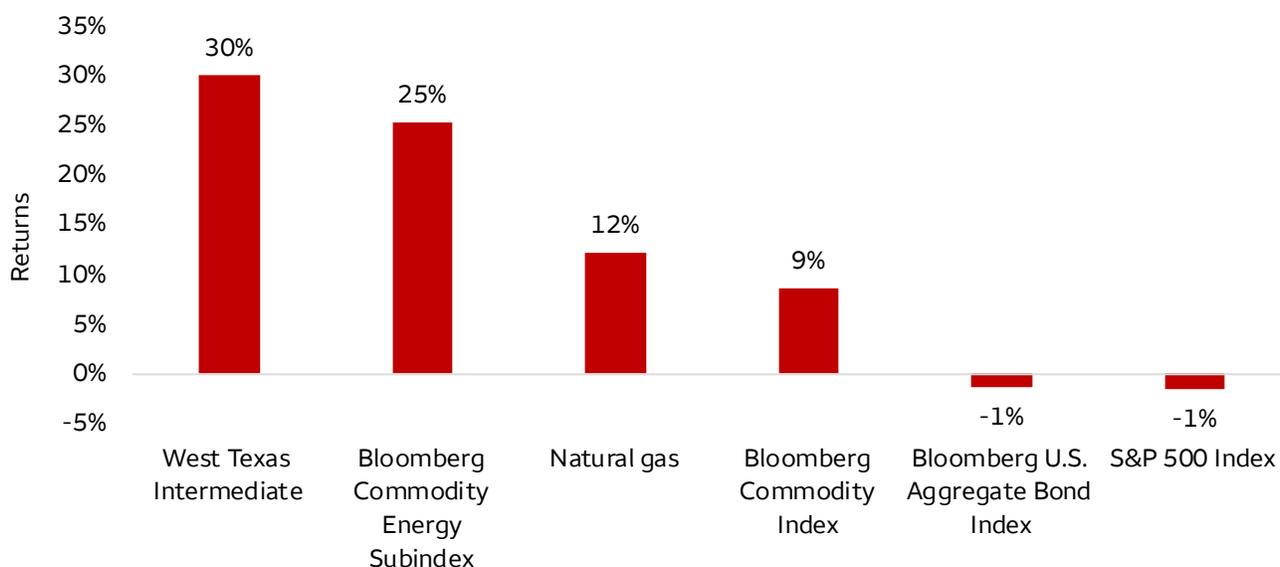
Mason Mendez

Investment Strategy Analyst

Unpacking oil’s recent volatility and the potential path ahead

Following the U.S. and Israeli strikes on Iranian military and government targets on February 28, West Texas Intermediate (WTI) oil prices surged to an intraday peak of \$119 per barrel on March 9. As a result, the Bloomberg Commodity Energy Subindex’s outperformance strengthened against the broader Bloomberg Commodity Index, and it is also outperforming U.S. large-cap equities and U.S. bonds (see chart below).¹

Chart 1. Energy commodities have outperformed other assets since the Iran war began



Sources: Bloomberg and Wells Fargo Investment Institute Data as of March 11, 2026. Daily data is from February 27, 2026 – March 11, 2026. Natural gas = front month natural gas future. An index is not managed and not available for direct investment. **Past performance is not a guarantee of future results.**

In the near term, we recognize the risk for elevated oil prices and volatility as the conflict persists. In our view, there are two main risks that investors should be aware of, which could help dictate the path of oil prices over the coming weeks:

1) Disruptions in the Strait of Hormuz: The Strait of Hormuz is a key trade route for global energy markets, facilitating roughly 20% of global oil supply and liquefied natural gas. Since the conflict began, trade in the region has effectively halted. The reluctance for ship operators to move through the region is the primary concern. Some producers, such as Saudi Arabia, have the option to utilize alternative routes for moving exports. This could help keep some supply flowing, but at a reduced capacity relative to normal export volumes. The bottom line is that the Strait remains a key chokepoint for the global oil trade, and shipments will likely need to normalize before prices begin to ease meaningfully.

2) Potential production shut-ins from a prolonged conflict: The risk of potential shut-ins from producers in the region is a growing risk as the conflict drags on, especially considering that the OPEC+² members with the most spare production capacity are being impacted by the conflict. As ships anchor outside the Strait of Hormuz, producers are forced to fill storage rather than exporting. Notably, some estimates show that Iraq has already shut-

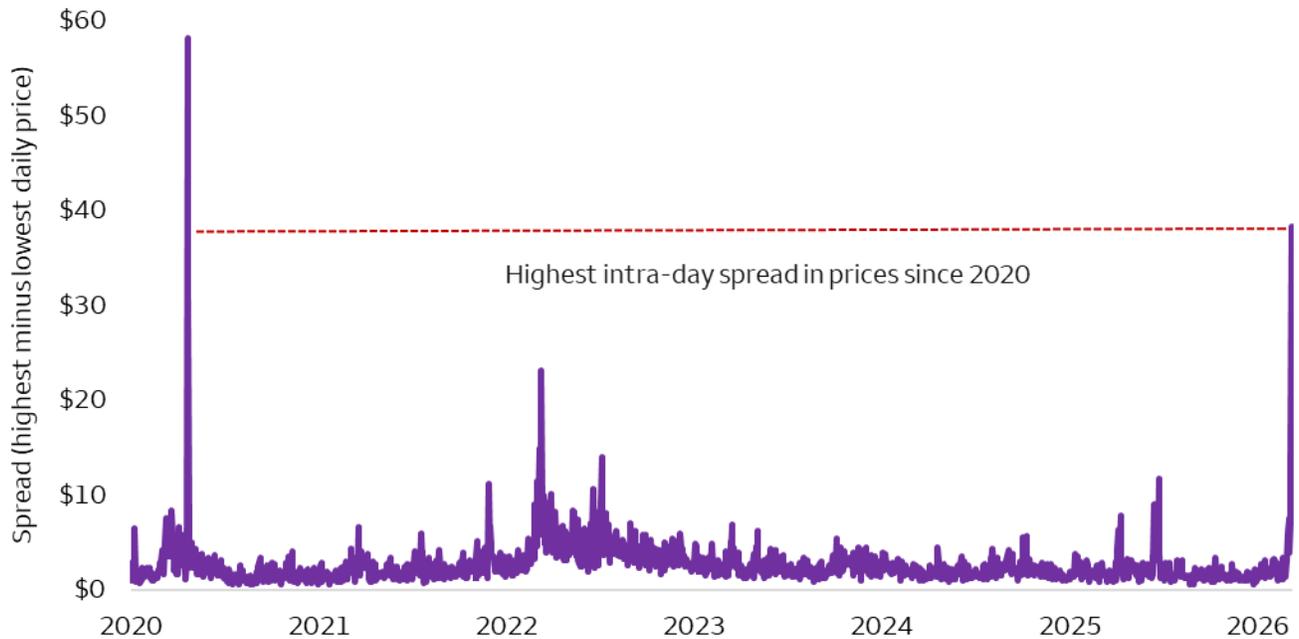
1. U.S. large-cap equities represented by the S&P 500 Index and U.S. bonds represented by the Bloomberg U.S. Aggregate Bond Index.

2. Organization of the Petroleum Exporting Countries and other allied oil-producing countries.

in roughly 60% – 70% of its normal production.³ While the remaining Gulf states are not in as dire of a storage situation as Iraq, stresses could build the longer the conflict drags on.

These concerns combined with more positive rhetoric from the Trump administration have led to significant volatility in oil prices. The chart below highlights this volatility and shows that the spread between the highest daily price and lowest daily price spiked to the highest level since COVID-19.

Chart 2. Oil price volatility spiked to highest level since COVID-19



Sources: Bloomberg and Wells Fargo Investment Institute. Daily data is from WTI front month futures January 1, 2020 –March 9, 2026. **Past performance is not a guarantee of future results.**

Looking ahead, we suspect that heightened volatility in oil prices will likely continue as investors weigh near-term geopolitical risks against evolving rhetoric as well as expectations for global oversupply headwinds to mount through year end.

Specifically, we see headwinds in OPEC+’s plans to unwind roughly 1.2 million barrels per day (mbpd) of cuts through year end, with another tranche of 2 mbpd in existing cuts that can be reversed still on the table. Additionally, efficiencies drove U.S. production to new highs late last year. After months of weak sentiment and pricing among shale producers, we believe a prolonged spike in oil prices could incentivize more robust U.S. production growth, which would be a headwind for prices. Lastly, the International Energy Agency’s decision to release 400 million barrels could alleviate near-term supply concerns. The timing is still uncertain, however, initial reports on the release did help bring oil prices down significantly from their intraday peak.

The bottom line is that we recognize the likelihood for oil prices to be volatile and remain elevated as the conflict and disruptions in the Strait of Hormuz persist. That said, the recent spike in prices is at odds with fundamentals, which point to ample global supply growth and an easing of prices over the tactical horizon (6 – 18 months). Therefore, at these price levels, we see further risks to the downside rather than to the upside. We would use the bounce in Energy and Commodities as an opportunity to consider trimming allocations back to neutral weights in favor of equities, where we see a stronger outlook for outperformance through year end. With respect to commodity sectors, we would consider rotating out of Energy into Precious and Industrial Metals. Equity sector opportunities include rotating out of the S&P 500 Energy sector into Financials, Industrials, and Utilities.

3. Oilprice.com. ‘Iran to Hold Oil Output Near 1.4 Million Bpd as War Strangles Exports’. March 12, 2026. UK.finance.yahoo.com. ‘Iran oil output plunges about 0% as Iran war blocks tankers, Bloomberg reports’. March 8, 2026.

Equities

Lawrence Pfeffer, CFA

Equity Sector Analyst

Highlighting Aerospace & Defense fundamentals

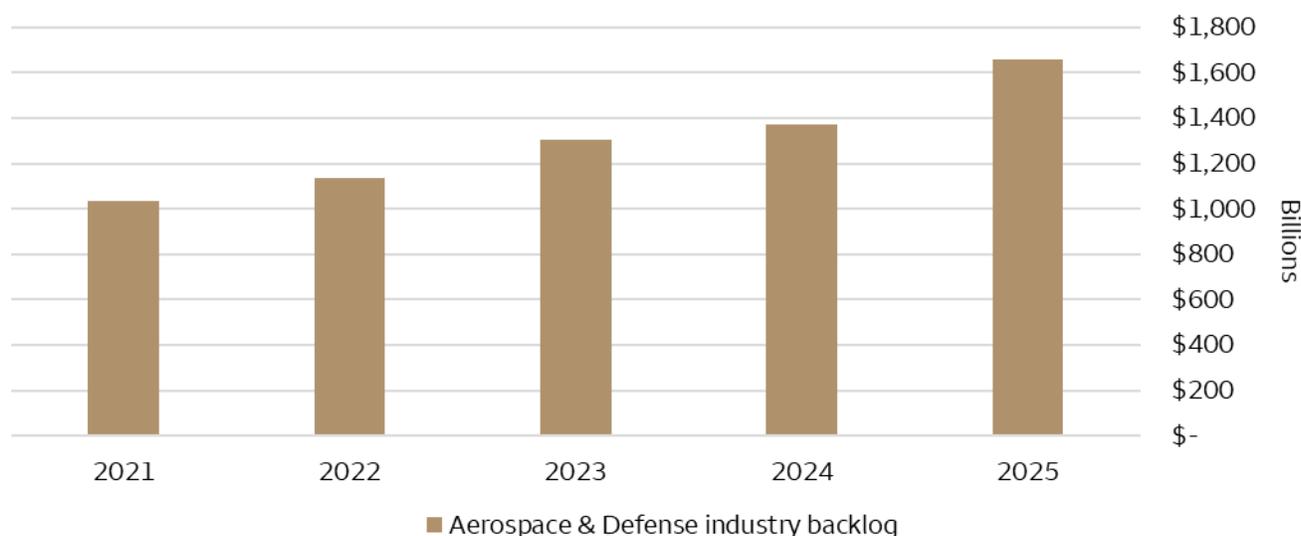
Just since the beginning of 2026, three leading defense contractors have announced sizeable multi-year contracts with the Department of War for various missile families, with production slated to grow by a factor of two to five times current levels for a number of key programs by the end of the decade.⁴

It is key to point out that this occurred before the Iran war, which is likely to see the U.S., Israel, and Gulf Cooperation Council (GCC) countries expend significant amounts of interceptormunitions. We view the ongoing strategic takeaway from conflicts in Ukraine and the Middle East as having reinforced the importance of missile defense, providing visibility for potential growth beyond recent contract extensions as well as incremental opportunities for foreign sales.

On the commercial side, we would remind investors that the two largest aircraft producers in the world have over 7 and 12 years respectively of backlog at forecasted consensus 2026 revenue run rates.⁵ These levels remain above pre-pandemic norms due to persistent challenges in ramping the aerospace industry supply chain and strong secular demand growth in travel. We expect total airframe production to accelerate in the coming years if supply conditions improve further, while we also believe aftermarket demand will remain robust due to a tight aircraft supply backdrop.

We reiterate our favorable view on Aerospace & Defense and would note that while this group’s historical earnings stability during periods of geopolitical conflicts can be viewed valuable attribute in a tactical sense, what we most value is the visibility provided by high levels of backlog that are in turn driven by what we believe to be secular demand drivers in global military spending, travel, and high-value trade.

Chart 3. Aerospace & Defense industry backlog billions of U.S. dollars



Sources: FactSet, Company Reports, and Wells Fargo Investment Institute. Data as of March 6, 2026. Includes all S&P 500 Index Aerospace & Defense constituents for whom backlog data is available over the time period.

4. Department of War and company reports, as of February 2026.

5. Company reports and FactSet, as of February 2026.

Fixed Income

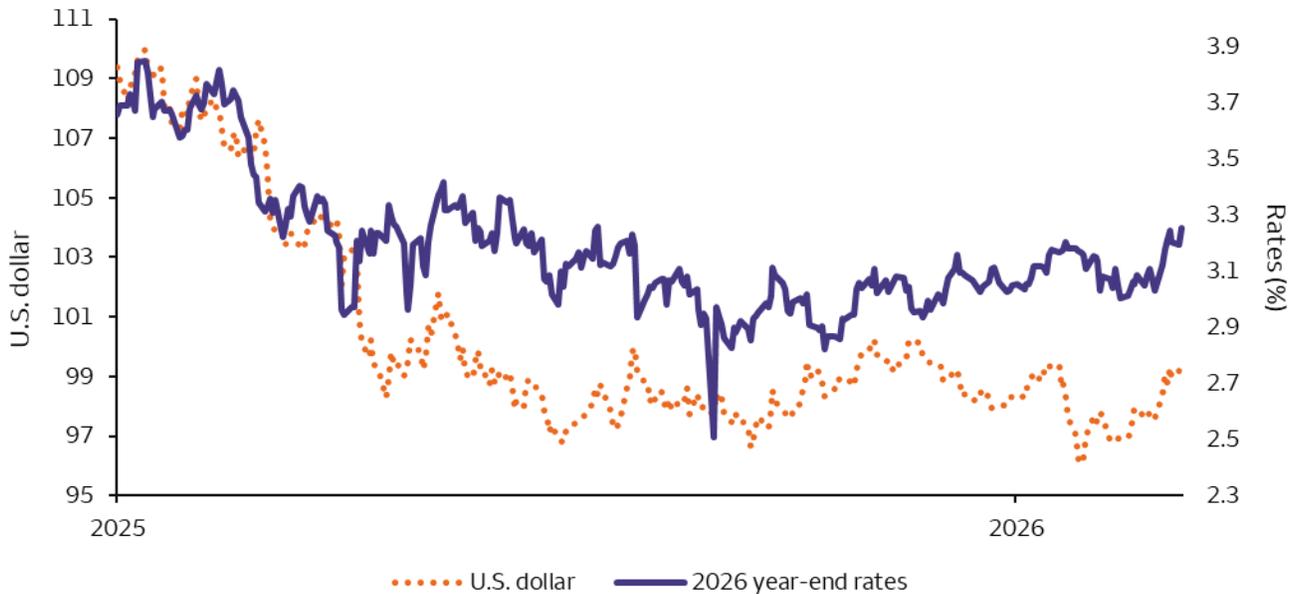
Tony Miano, CFA, CAIA

Investment Strategy Analyst

Why the U.S. dollar has been rising during the Iran war

During the Iran war, oil prices have become volatile and major assets such as stocks, bonds, and even gold have all struggled. The U.S. dollar has been one of the beneficiaries. After a 10% decline in 2025⁶, recent market volatility has supported the value of the U.S. dollar as investors often move money into perceived safer assets in geopolitical volatility. We question if that support will last beyond what we believe may be a short-lived conflict.

Chart 4. USD has risen with market pricing of year-end 2026 federal funds rate



Source: Bloomberg. Data as of March 10, 2026. USD is represented by the U.S. Dollar Index, a trade-weighted index of the currencies of several key U.S. trade partners. 2026 year-end rates represented by futures market derived pricing for market expectations of the federal funds rate at year-end 2026. An index is not managed and not available for direct investment. **Past performance is not a guarantee of future results.**

We believe the USD has strengthened for two reasons. First, higher oil prices raise the risk of inflation. That could make it harder for the Federal Reserve (Fed) to cut fed funds rates later this year. If U.S. interest rates stay higher than rates in other major economies, the U.S. dollar may benefit while potentially tempered by international rate expectations also rising. Second and more importantly, fears of an oil crisis may make the U.S. more attractive than other developed-markets currencies as the U.S. produces more oil than it uses.

As we see little long-lasting impact of the Iran war, the U.S. dollar's support should begin to wane with some depreciation from current levels. However, the U.S. dollar's response in this conflict shows some insulation of the U.S. economy from global energy shocks, which has driven our preference for U.S. assets. If the USD is set to weaken, international investments such as emerging-markets stocks and bonds priced in foreign currencies could become attractive for U.S. investors. However, inflation-driven risks to Fed rate cuts were already present before the Iran war and could rise as the conflict continues.

6. As measured by the U.S. Dollar Index (DXY), which had a value of 109.39 on January 1, 2025, and a value of 98.32 on December 31, 2025, per Bloomberg.

Alternatives

Mark Steffen, CFA, CAIA

Global Alternative Investment Strategist

Private equity’s role in U.S. military readiness

Many investors may assume that large publicly traded defense contractors are the primary beneficiaries when U.S. defense spending rises or geopolitical tensions increase. However, what may be overlooked is the extent to which these large public companies depend on supplier networks consisting of small- and mid-sized private firms. Many of these private suppliers design and manufacture highly specialized components that underpin advanced weapons systems and aerospace technologies. As national munition stockpiles are drawn down, we believe many suppliers will likely face constrained manufacturing capacity, which may limit overall supply-chain responsiveness. If elevated demand persists, these capacity pressures could translate into a prolonged increase in orders for critical components.

Though it remains unclear when current geopolitical conflicts will be resolved, some analysts view these conflicts as part of a broad competition for essential resources in the race to deploy artificial intelligence related technology. If that view holds, persistent geopolitical tensions may represent a longer-term structural dynamic instead of a brief period of instability.

Recent U.S. defense spending has trended higher over time (Chart 5), and data from PitchBook indicates the potential for above trend growth in 2026. While the relationship between rising defense budgets and private equity deal volumes has been modest in recent years (Chart 6), we believe transaction activity in defense-related sectors may strengthen if industry visibility improves and corporate leaders revisit strategic acquisitions aimed at mitigating future supply-chain bottlenecks. Moreover, our expectation of an improving economic landscape and easing financing conditions may also contribute to an improved market for dealmaking, strengthening a case for private equity investors. Yet, several risks remain, including the potential for higher inflation and a broad deterioration in the economic outlook.

Charts 5 and 6. While defense spending has trended higher over time, defense-related private equity deal volumes remain muted



Sources: Pitchbook. Data through December 31, 2025 (left chart). E = estimated. Department of Defense. Data as of December 31, 2025 (right chart).

Alternative investments, such as hedge funds, private equity, private debt and private real estate funds are not appropriate for all investors and are only open to “accredited” or “qualified” investors within the meaning of U.S. securities laws.

Tactical guidance*

Cash Alternatives and Fixed Income

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
	U.S. Long Term Taxable Fixed Income U.S. Short Term Taxable Fixed Income	Cash Alternatives Developed Market Ex-U.S. Fixed Income Emerging Market Fixed Income High Yield Taxable Fixed Income	U.S. Intermediate Term Taxable Fixed Income	

Equities

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
	U.S. Small Cap Equities	Developed Market Ex-U.S. Equities Emerging Market Equities	U.S. Large Cap Equities U.S. Mid Cap Equities	

Real Assets

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
		Commodities Private Real Estate	Private Infrastructure	

Alternative Investments**

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
		Hedge Funds—Equity Hedge Hedge Funds—Macro Hedge Funds—Relative Value Private Equity Private Debt	Hedge Funds—Event Driven	

Source: Wells Fargo Investment Institute, March 16, 2026. Please see Wells Fargo Investment Institute's Asset Allocation Strategy Report for more detailed, investable ideas in each asset group.

*Tactical horizon is 6-18 months

**Alternative investments are not appropriate for all investors. They are speculative and involve a high degree of risk that is appropriate only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund and for which the fund does not represent a complete investment program. Please see end of report for important definitions and disclosures.

Risk considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Foreign investing** has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. These risks are heightened in emerging markets. **Small- and mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. **High yield (junk) bonds** have lower credit ratings and are subject to greater risk of default and greater principal risk. The **commodities** markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility. Investments in the **energy** sector are subject to the adverse economic events within that industry. A downturn in the energy sector of the economy, adverse political, legislative or regulatory developments or other events could have a large impact on a portfolio's investments. **Real estate** has special risks including the possible illiquidity of underlying properties, credit risk, interest rate fluctuations and the impact of varied economic conditions.

Alternative investments, such as hedge funds, private equity/private debt and private real estate funds, are speculative and involve a high degree of risk that is appropriate only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund and for which the fund does not represent a complete investment program. They entail significant risks that can include losses due to leveraging or other speculative investment practices, lack of liquidity, volatility of returns, restrictions on transferring interests in a fund, potential lack of diversification, absence and/or delay of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than mutual funds. Hedge fund, private equity, private debt and private real estate fund investing involves other material risks including capital loss and the loss of the entire amount invested. A fund's offering documents should be carefully reviewed prior to investing.

Hedge fund strategies, such as Equity Hedge, Event Driven, Macro and Relative Value, may expose investors to the risks associated with the use of short selling, leverage, derivatives and arbitrage methodologies. Short sales involve leverage and theoretically unlimited loss potential since the market price of securities sold short may continuously increase. The use of leverage in a portfolio varies by strategy. Leverage can significantly increase return potential but create greater risk of loss. Derivatives generally have implied leverage which can magnify volatility and may entail other risks such as market, interest rate, credit, counterparty and management risks. Arbitrage strategies expose a fund to the risk that the anticipated arbitrage opportunities will not develop as anticipated, resulting in potentially reduced returns or losses to the fund.

Definitions

The Defense Base Budget refers to the portion of U.S. Department of Defense (DoD) funding that supports normal, recurring, and peacetime military operations, excluding temporary or emergency supplemental appropriations. It covers long term, foundational military expenses such as personnel, operations and maintenance, procurement, research and development, and military construction. The 2026 estimate created by Pitchbook based on Pentagon funding requests for the current fiscal year. The defense-related private equity deal value measures the dollar value of private equity transactions classified in the defense sector by Pitchbook.

Bloomberg Commodity Index is comprised of 22 exchange-traded futures on physical commodities and represents 20 commodities weighted to account for economic significance and market liquidity.

Bloomberg Sub Energy Index is a commodity group subindex of the Bloomberg CTR. The index is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return on fully collateralized futures positions and is quoted in USD.

Bloomberg U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

U.S. Dollar Index measures the value of the U.S. dollar relative to majority of its most significant trading partners. This index is similar to other trade-weighted indexes, which also use the exchange rates from the same major currencies.

An index is unmanaged and not available for direct investment.

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Market Commentary

Weekly perspective on current market sentiment

March 18, 2026



Luis Alvarado

Co-Head of Global Fixed Income Strategy

Last week's S&P 500 Index: -1.6%

What “well behaved” credit markets are quietly signaling

Key takeaways

- Public credit markets — often looked at historically as a sector that provides early warnings — remain relatively calm.
- For diversified investors, “well behaved” credit markets should reinforce the value of maintaining exposure to high-quality income assets, avoiding excessive concentration, and staying focused on long-term objectives rather than short-term headlines.

Public credit markets — often looked at historically as a sector that provides early warnings — remain relatively calm. Corporate bond spreads look well contained, having widened only slightly from 15-year lows. In other words, public credit markets appear “well behaved.” We understand that when investors hear that credit spreads are “tight,” it can sound concerning, as if markets are ignoring risk. But, in our view, stable spreads reflect risk that appears contained and differentiated rather than broad and systemic.

We see markets rewarding companies with stable business models, predictable revenues, and manageable debt levels. Borrowers with weaker fundamentals are facing higher costs or reduced access to capital. We believe this selective behavior is a sign of a functioning market, not an overheated one. For investors, this reinforces an important lesson: In this environment, quality matters more than chasing yield at all costs.

We would be remiss if we didn't mention what we are currently observing in private credit markets. We see many different factors coming together at the same time, but let us highlight two main ones. First, company valuations and loans made to companies in this sector are under scrutiny by lenders. Keep in mind that many of these companies don't trade often (or at all) and innovation and disruption from artificial intelligence (AI) are putting many companies to the test of higher default risks. Also, we think some investors, attracted by higher yields, may not have fully considered that private credit investments are designed to be long-term and are not easy to sell quickly. As conditions have changed, it appears more investors are now looking for an exit, but because these investments do not trade often, selling takes time and often requires accepting lower prices — adding pressure to the sector.

In summary, we believe that public credit markets are signaling that large corporations with access to capital are doing fine so far. We expect them to continue to benefit from the AI infrastructure buildout and a resilient consumer. The stress we currently see in private credit seems like a “growing pain” as the sector matures and liquidity expectations reset.

Credit markets rarely command the same attention as stocks, but we believe their message can be just as important — especially in periods of heightened uncertainty. In our view, calm conditions in public credit markets suggest that portfolios do not need to be positioned defensively for systemic risk, even if volatility persists elsewhere. We believe this argues for discipline, not complacency.

For diversified investors, well-behaved credit markets should reinforce the value of maintaining exposure to high-quality income assets, avoiding excessive concentration, and staying anchored to long-term objectives rather than reacting to short-term headlines.

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Risk considerations

Asset allocation and diversification are investment methods used to help manage risk. They do not guarantee investment returns or eliminate risk of loss including in a declining market.

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates.

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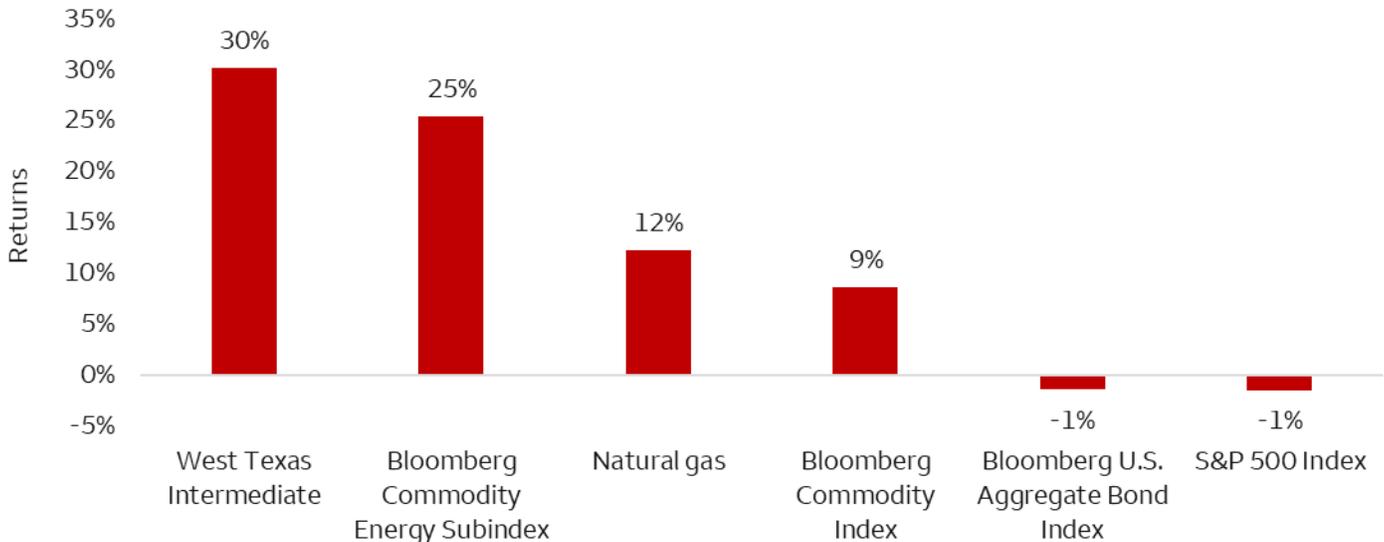


Chart of the Week

Weekly analysis of key themes in markets

March 17, 2026

Using energy outperformance to rebalance



Sources: Bloomberg and Wells Fargo Investment Institute. Daily data is from February 27, 2026 – March 11, 2026. Natural gas = front month natural gas future. **Past performance is no guarantee of future results**

Oil returns have surged, but looking ahead, we think downside risks to prices outweigh upside risks

As shown in the chart above, oil prices surged following the outbreak of the Iran war, with West Texas Intermediate crude oil shooting up 30% over the span of eight trading days. Energy commodities followed, increasing 25% over the same time frame (held back by the smaller gain in natural gas). Meanwhile, commodities broadly saw more limited upside with a 9% gain, and U.S. large-cap stocks and U.S. bonds both declined slightly.

Looking ahead, we recognize the risk for elevated oil prices and volatility as the conflict persists. However, we also believe that the recent spike in prices is at odds with fundamentals, which point to ample supply growth and an easing of prices over the next 6 – 18 months (as explained in our March 16 Investment Strategy report). Ultimately, at current levels, we think downside risks to oil prices through year end outweigh upside risks.

What it may mean for investors

Our base case remains that the conflict will wind down in the coming weeks and months and that the jump in oil prices will be temporary. We would therefore use the bounce in Energy and Commodities as an opportunity to trim allocations back to neutral weights in favor of equities, where we see a stronger outlook for outperformance through year end. With respect to commodity sectors, we would rotate out of Energy into Precious and Industrial Metals.

Mason Mendez, Investment Strategy Analyst

Excerpted from Investment Strategy report (March 16)

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S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

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FOMC Meeting: Key Takeaways

March FOMC meeting

March 18, 2026

Policy announcement

The Federal Open Market Committee (FOMC or the Committee) left the federal funds rate unchanged at 3.50% – 3.75%. The FOMC stated that available indicators suggest economic activity has been expanding at a solid pace while job gains have remained low. The Federal Reserve (Fed) will continue purchases of shorter-term Treasury securities to maintain an ample supply of reserves.

Stated reasons

- Available indicators suggest that economic activity has been expanding at a solid pace. Job gains have remained low, and the unemployment rate has been little changed in recent months. Inflation remains somewhat elevated.
- In support of its goals, the Committee left the target range for the federal funds rate unchanged at 3.50% - 3.75%. Uncertainty about the economic outlook remains elevated. The Committee is attentive to the risks to both sides of its dual mandate (price stability and full employment).

Looking forward

- In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee's assessments will take into account a wide range of information including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

What else?

- The Fed leaving the federal funds rate unchanged at today's meeting was expected by markets. There was one Fed governor that dissented: Stephen Miran, who would have preferred to lower the rate by 0.25%. No Fed governors had a preference to raise rates.
- The official statement was little changed from the January statement. The Summary of Economic Projections was released, which looks at FOMC members' future expectations of the economy and the federal funds rate. The median federal funds forecast for 2026 was unchanged, implying one rate cut before year-end 2026. Change in GDP and personal consumption expenditures (PCE) inflation expectations increased slightly for 2026 from 2.3% to 2.4% and 2.5% to 2.7%, respectively. The median change forecast in the unemployment rates was unchanged for 2026 at 4.4%.
- In our opinion, the uncertain geopolitical environment may inject more uncertainty into the ultimate path of the federal funds rate. For now it appears that any potential Fed rate cuts are on hold until later this year or next. Ultimately the economic data will impact the timing of any Fed rate cuts. The Fed stated that the implications of developments in the Middle East for the U.S. economy are uncertain.
- The Committee continues to judge that reserve balances have declined to ample levels and will maintain purchases of shorter-term Treasury securities as needed to maintain an ample supply of reserves on an ongoing basis.

Upcoming meeting schedule:

- April 29 | June 17* | July 29 | September 16* | October 28 | December 9*

*Indicates the meeting is associated with a summary of economic projections. In addition, every meeting will be accompanied by a press conference.

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Forecasts and targets are based on certain assumptions and on views of market and economic conditions which are subject to change.

All investing involves risks including the possible loss of principal. Investments in fixed-income securities are subject to interest rate, credit/default, liquidity, inflation, and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity. Although Treasuries are considered free from credit risk, they are subject to other types of risks. These risks include interest rate risk, which may cause the underlying value of the bond to fluctuate.

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News or events that may affect your investments

March 16, 2026

Paul Christopher, CFA

Head of Global Investment Strategy

Iran war update: a short conflict remains our base case

Key takeaways

- The Iran War last week delivered some surprises, but we still see the path developing for a war of weeks, not several months, as we wrote in our March 2 report, “New fighting in the Middle East and market impact”.
- The sequence of escalations by both sides has developed as we have been expecting, albeit at a faster pace that suggests both sides are facing growing constraints that may prevent a long conflict.

What it may mean for investors

- Market movements continue to support energy equities and commodities, the U.S. dollar over gold, and U.S. Large Cap Equities over international markets. Fixed income returns have fallen on inflation concerns.
- The main risk is a longer engagement that damages the global economy and undermines financial markets. Effective hedging may remain challenging and expensive. We favor rebalancing in a diversified portfolio.

Key events in the war during the week of March 7-14, 2026

Throughout the week: Israel and the U.S. further reduced Iran’s missile and drone resources. Israel continued to push Hezbollah (a proxy army of Iran) out of southern Lebanon. Reports of Iranian attacks on the Gulf states continued.

March 7-8: Sharp political divisions emerged among Iran’s leaders about how to run the war.¹

March 9: Global equity and commodity markets opened volatile after a weekend of limited access to the Strait of Hormuz. Later in the day, the Group of Seven (G7) countries promised to take measures to support oil markets.²

March 10: The USS George H.W. Bush carrier strike group was reported heading to the Mediterranean Sea.³

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1. Ria Reddy, et al. “Iran Update Evening Special Report”, Critical Threat Project, March 7, 2026.

2. “G7 to take necessary measures to support energy supplies”, British Broadcasting Company, March 9, 2026. The G7 is an informal forum of the leaders of Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

3. “US Navy prepares third carrier strike group deployment with USS George H.W. Bush near Iran”, Army Recognition, March 10, 2026.

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March 11: Iran attacked multiple commercial vessels in the Persian Gulf and near the Strait of Hormuz.⁴ The International Energy Agency (IEA) announced a planned release by its 32-country membership of 400 million barrels of oil over the coming months, including 172 million from the U.S. Strategic Petroleum Reserve.⁵

March 12: Computer hackers supporting Iran claimed responsibility for a cyberattack on a U.S. medical device company. Hackers also have targeted industrial facilities, an airport, and a school in the Gulf countries. The attacks have destroyed internal data or helped Iran target its projectiles.⁶

March 13: The Pentagon approved a request from military commanders in the Middle East to send the 31st Marine Expeditionary Unit (roughly 2,500 Marines) to the region from Japan, arriving the coming week.⁷

March 13-14: The U.S. attacked Kharg Island, the main point where Iran loads oil onto tankers.⁸

Market reactions so far in the war (through March 13)

A sharp — if not sustained — rise in oil prices is driving market movements. U.S. West Texas Intermediate oil futures and options markets are pricing in a peak by May. Global equity prices slid, but the S&P 500 Index has outperformed international equity benchmarks. Higher energy prices likely raise inflation globally but should weaken the major international economies faster and deeper than the U.S. economy, a significant energy exporter.

War can attract investors into fixed income as perceived safe havens to bridge over the hostilities, but not this time. The main impact of the oil price surge is to raise inflationary pressures and yields across maturities. Expectations for central bank rate cuts (U.S.) are dimming and prospects for European rate hikes are rising.

The price of gold weakened, underperforming the U.S. dollar, whose composite index of exchange rates against six major currencies gained 3%.⁹ Gold also underperformed the U.S. 10-year Treasury note and the S&P 500 Index. Gold has several disadvantages versus the dollar in this oil-price driven war. The European and Asian economies are net importers of oil, but the U.S. exports energy. Also, oil is denominated in dollars, so a higher price increases the demand for dollars needed to buy energy. Rising U.S. yields also weigh on gold. Finally, selling gold can produce cash to cover sometimes significant daily equity losses from mid-January.

Our perspective: the escalation question

Looking ahead, the war's market impacts likely depend on two related factors, escalation and constraints, that both sides seem to be managing. So far, the events of the past two weeks show the sequence but not the pace of escalations we were expecting in our March 2 report. Iran has attacked U.S. regional bases and Israel but jumped more quickly than we had expected to attacking Iran's Gulf neighbors. We also have been expecting heavier bombardment with B-52 bombers but not U.S. troops on the ground.

The cyber threat we have been expecting also arrived last week. Hackers siding with Iran broke into the computer system of a U.S. medical device firm and into various private businesses in the Gulf states. Iran and its proxies may attempt further hacking, but U.S. and Israeli attacks may increasingly limit their resources.

Our March 2 report names a complete shutdown of the Strait of Hormuz as the highest stage of Iranian escalation, and that remains our thinking. This escalation includes attempts to destroy the Gulf states' oil production and

4. Mohammed Omar, "Iran War Traps 3,000 ships and 20,000 sailors in the Persian Gulf", Houseofsaud.com, March 14, 2026.

5. U.S. Will Release 172 Million Barrels of Oil From the Strategic Petroleum Reserve, Institute for Energy Research, March 10, 2026.

6. David Klepper, "Iran-linked hackers take aim at U.S. and other targets, raising risk of cyberattacks during war", PBS, March 12, 2026.

7. Lara Seligman and Shelby Holliday, "More Marines and Warships Head to Middle East as Hormuz Mission Intensifies", The Wall Street Journal, March 13, 2026.

8. "Iran update special report", Institute for the Study of War, March 14, 2026.

9. The ICE U.S. Dollar Index is a weighted average of the value of the U.S. dollar relative to a basket of U.S. trade partner currencies, composed of the euro, Japanese yen, pound sterling, Canadian dollar, Swedish krona, and Swiss franc.

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pumping facilities. We think it notable that both sides have avoided closing the Strait and a coordinated destruction of the region's oil infrastructure.

That pattern was visible again in last week's events. The U.S. bombed Iran's Kharg Island oil pumping station but hit only military targets, leaving the oil pumps alone. Even with roughly 15 Iranian attacks on commercial vessels so far, this is a small fraction of the approximately 3,000 vessels parked outside the Strait and in the Gulf of Oman.¹⁰ The Strait remains open and we are not seeing a systematic campaign against commercial traffic.

It is not clear yet how the additional U.S. Marines may be used, but it bears remembering that the U.S. wants to remove the regime. Destroying the regime's ability to project power beyond Iran's borders is one tactic, but suffocating the economy could be another. Those Marines might try to take Kharg Island and stop Iran's ability to pump oil. That could escalate Iranian activity to close the Strait or attack oil infrastructure in the region.

Our perspective: the constraints question

A second consideration for the war's duration is how quickly each side's constraints finally bind enough to discourage further fighting. We see the same constraints that we observed in our March 2 report. Iran's main limitation is the pace of losing ballistic missile and drone weapons. Independent Israeli and western sources estimate that the U.S. and Israel have destroyed between 60%-66% of Iran's mobile ballistic launchers, so far, but the total did not materially increase last week.¹¹ Perhaps to avoid revealing the locations of its remaining mobile launchers, Iran may be conserving its ballistic missiles. For now, Iran is relying comparatively more on its less sophisticated cruise missiles that are low-cost but more easily shot down than ballistic missiles.¹²

From the U.S. side, adding the Bush carrier strike group addresses several U.S. constraints. One is the limit of seaborne firepower in a mountainous country twice the size of Texas. The Bush group adds squadrons of primarily F/A-18E/F Super Hornet fighters, for precision ground attacks and ground defense suppression.¹³ The three carrier groups spread across the Mediterranean, the Red Sea and the Arabian Sea add firepower and thin out Iran's defenses. The third carrier also deepens the U.S. arsenal and allows one of the carrier groups to pause operations on station for occasional repairs and rest, while the other two still attack from different directions.

Political constraints appear to be building. One of the interesting events last week was the public friction among Iranian government officials. Those internal divisions are likely to build as Iran's military force projection fades. Meanwhile, the Trump administration's statements have at times suggested that the war is already won, while at other times that work remains to be done.¹⁴ The contrast suggests to us some time pressure.

Escalation can intensify the constraints. As both sides expend or lose weapons, or if Iran loses its Kharg Island oil revenue, we could see Iran escalate with more ballistic missiles, try to physically close the Strait or, more likely, directly attack oil production across the region. The U.S. might then put more troops on the ground, in addition to the air attack. In our view, if one escalation prompts another, the political pressure for either side (especially the U.S.) could intensify and force a withdrawal, even if this brings longer-term risks of its own.¹⁵

If escalations increase the pressure from constraints, the scope of the war may come down to weeks, not exceeding several months. We note from options markets in West Texas Intermediate crude oil futures that the demand for call options (i.e., options to buy at a particular price) show interest in the hundreds and thousands of contracts at

10. Mohammed Omar, "Iran War Traps 3,000 ships and 20,000 sailors in the Persian Gulf", Houseofsaud.com, March 14, 2026.

11. Gerry Doyle, "Iran Missile Launcher Arsenal Holds Steady Despite Strikes", Bloomberg, March 12, 2026.

12. *Ibid.*

13. "FA-18 super hornet and EA-18 Growler", Boeing, March 14, 2026.

14. Amanda Terkel, "'Already won' or 'got to finish the job' - the Trump administration's mixed messages on Iran, NBC, March 13, 2026.

15. It's possible that a wounded but surviving regime in Tehran in the coming months or years could prepare a revenge strike on the U.S. before the U.S. is ready to counter it, for example.

possible prices (called strike prices) of \$98 in May, \$95 in June and \$90 in July.¹⁶ We also note that those option prices need not imply a war that lasts until mid-summer. The war could end in May, even if it takes producers some additional weeks to restart production. Options markets are expecting a severe conflict, but not a long one.

The main risk we see to our outlook is that markets still appear very unsettled. On March 9, the oil market opened to the news that commercial vessels largely were refusing to cross the Strait. That was enough to send the global benchmark Brent crude oil futures contract for delivery in April up to \$103/barrel at the open of trading and as high as \$110 intraday, before settling near \$94, once the G7 promised to support global oil supplies. The options markets also mirror this volatility with extreme sensitivity to oil prices and to overall oil market volatility. In short, markets are paying close attention to events that may extend the war beyond May.

What investors should do now

One can try to hedge particular risks, but the challenge is that the hedge may be the wrong one or very expensive. Gold may not be a good hedge for a war that affects markets through oil prices and inflation. Alternatively, one could buy call options on oil, but investor sentiment has settled on a few price levels and the large volume of calls at prices between \$98-\$100 per barrel between May and June may make the option route expensive. After the shooting stops, any hint of lingering geopolitical stress in the region may leave oil in the \$75-\$85 per barrel range.

We prefer what we believe will be a less costly and more comprehensive approach to risk. For context, when we think back on the past 25 years, the events that were unexpected and negative for economies and markets include a wide range from the 9/11 attacks, to the Great Financial Crisis of 2008, to COVID, to two wars in this decade. Rather than try to predict what may come next, we prefer to maintain a diversified portfolio.

This approach doesn't attempt to guess the next shock but historically has benefited from some form of maintenance rebalancing. This basic process involves selling assets whose prices appear to have outrun their fundamentals and reallocating the proceeds to cheaper looking assets whose fundamentals look solid. Our tactical guidance has employed this approach several times since 2023 around the ups and downs in technology-related sectors.

Our base case foresees a limited if intense war in Iran. Oil equities and oil prices have run up, but we expect the price surge to reverse and for excess supply to drive global oil prices lower. More attractive sectors in our guidance include Utilities, Industrials and Financials. At a higher level, we would add to equities before fixed income and within equities, favor U.S. Large- and Mid-Cap Equities over U.S. Small Cap Equities and international markets.

16. Demand is paltry for put options (i.e., options to sell, popular if prices are expected to fall sharply), nearly zero across those three months.
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S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

ICE U.S. Dollar Index is a weighted average of the value of the U.S. dollar relative to a basket of U.S. trade partner currencies, composed of the euro, Japanese yen, pound sterling, Canadian dollar, Swedish krona, and Swiss franc.

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