

Investment Insights Monthly

From the Desk of Bill Hornbarger, Chief Investment Officer

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Geopolitical Risk Takes Center Stage

Investors have had an eventful start to calendar-year 2026 with a host of macroeconomic events, including the removal of Venezuelan President Nicolas Maduro, the Supreme Court decision on tariffs, Federal Reserve Chairman Powell investigation, and the European/U.S. clash over Greenland. However, both the investing climate and the world in general seem like more perilous places as the calendar has turned to March. Between concerns over private credit, spiking energy prices, conflict in the Middle East and deterioration in the U.S. labor markets, investors have a multitude of issues to potentially navigate.

Operation Epic Fury began on February 27 with the nine-word order from President Donald Trump: "Operation Epic Fury is approved. No aborts. Good luck." That order kicked off a major military operation that had been months in the making. It is the latest Middle East military action with a long history.

Here is a list of the previous military campaigns involving the United States in the region:

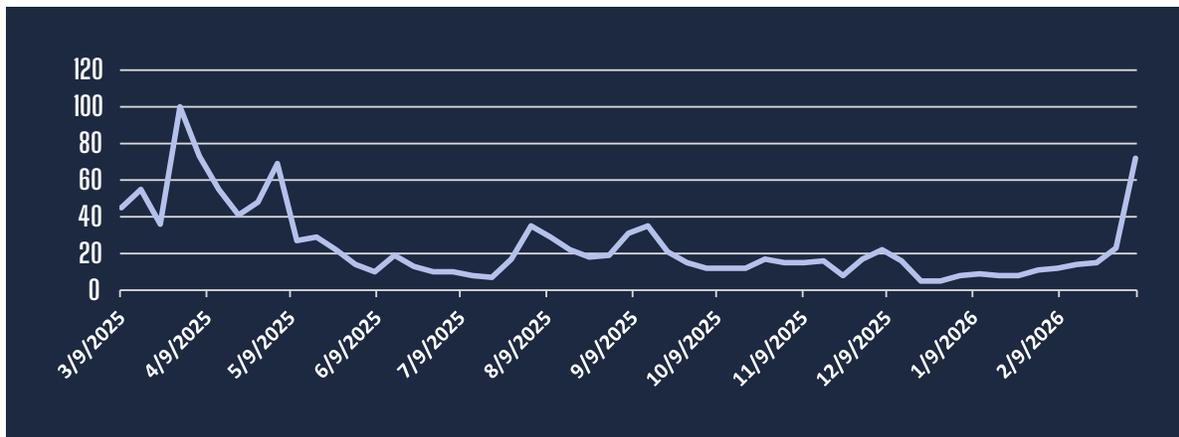
- **1982–1983:** Israel invades Lebanon
- **1986:** War on Libya
- **1991:** First War in Iraq/Operation Desert Shield
- **1991–2003:** Iraq (Desert Storm, Desert Fox)
- **1998:** Afghanistan and Sudan
- **1998:** Iraq Again (Operation Desert Fox)
- **2001–2021:** War on Afghanistan
- **2003–2011:** Second War on Iraq
- **2011:** War on Libya (Operation Odyssey Dawn)
- **2018:** Attack on Syria
- **2021:** Syria Again
- **2014–Current:** War on ISIS (Yemen, Somalia, and other parts of the Middle East and East Africa)
- **2000–2023:** War on Yemen

Markets have been volatile in the first week of the military campaign highlighted by the Dow's 1,250-point and oil's \$38/barrel ranges on Monday, March 9. Global equity and fixed-income markets were generally lower in the first week of the clash, and the widely followed U.S. stock market indices (S&P 500, NASDAQ and Dow Jones Industrial Average) are now in negative territory for the year. Crude oil and gasoline prices are higher, as are gold and silver, and the dollar has rallied further, continuing the move started in late January.

Energy prices will be the most visible indicator of the economic consequences of Epic Fury. About one fifth of the world's oil consumption and a quarter of liquefied natural gas ("LNG") pass through the Strait of Hormuz, and maritime traffic through this vital waterway has ground to a halt since the weekend of March 7-8, stalling about 20 million barrels per day of oil shipments. There are two things to monitor as they relate to energy prices: the degree of any increase and the duration of that increase. A spike in oil prices that quickly dissipates has less of an impact than a slow grind higher for 6-9 months and that proves to be "stickier."

The spike in oil prices has increased the fears of stagflation (as measured by the increase in searches on Google). Inflation remains above the Fed's target rate of 2% core inflation, and February's poor employment report has increased concerns over the labor market outlook. Higher energy prices for an extended period would negatively impact inflation (we expect March inflation to tick higher) with higher energy prices acting as a "tax" on consumers and providing a headwind for the economy. Policymakers are keenly aware of the negative impact of higher oil prices, and discussions around the world's largest economies deploying emergency reserves are ongoing as we write this. At the same time, President Trump provided some additional relief with his recent comments that the U.S. Navy will escort tankers through the Strait of Hormuz, and the U.S. Development Finance Corp. will provide political risk insurance and guarantees for the financial security of maritime trade through the Gulf. Some immediate pressures have been relieved, but the geopolitical backdrop remains far from stable, and the markets remain vulnerable to additional bouts of volatility.

Google Trends Over Time Search Term: "Stagflation" (United States)



As of February 28, 2026
Source: Google Trends*

Bloomberg recently conducted a snap survey of private economists on the potential impacts of the conflict on energy prices, GDP and inflation. In terms of inflation, a broad consensus formed around little change to slightly higher inflation, with GDP little changed. The question surrounding energy prices ("Assuming global energy

prices increase because of the conflict, how long are these elevated prices likely to persist?") resulted in 57% of respondents saying less than three months and 86% less than six months. This view is confirmed by oil futures trading in backwardation, with spot prices trading higher than prices in the futures markets.

The same group of economists is forecasting 2.5% gross domestic product growth and 2.7% core inflation for 2026 and currently places the odds of recession at 25% (they are never 0%). These forecasts represent some level of complacency about the outcome, which can potentially present risks if the conflict deepens in nature or extends for a longer period. If crude oil and natural gas prices remain elevated (>\$100/barrel for crude), lower-income Americans will be the first to feel effects, and they have less margin for error in their budgets. We could also see stressed consumers rein in spending for things like travel, big-ticket purchases, dining out, etc.

Recent developments have changed the market's expectations around potential Fed rate cuts. Prior to Epic Fury, the first rate cut was priced for July and a total of two rate cuts (totaling 50 basis points) were priced for the end of the calendar year. Currently, the first cut is now priced in for September, and the market has reduced expectations to a single rate cut by the end of the calendar year. At the same time, Treasury yields have shifted higher by 10-15 basis points reflecting changing Fed expectations and acknowledging heightened inflation risks.

In terms of equities, stocks follow economic growth and corporate earnings over time. Both components remain on solid footing, but a prolonged conflict could lead to sustainably higher energy prices, which would hinder economic growth and weigh on investor sentiment. In approximately 20 military incursions since World War II, the S&P 500 has fallen less than 10% on average and has taken less than a month to regain pre-conflict levels. Performance across market sector, size, style and geographic results vary, and there are exceptions. Conflicts paired with spikes in crude oil prices (1956 Suez Crisis, 1973 Arab Oil Embargo, 1990 invasion of Kuwait) tend to have a larger impact on markets. Looking at markets following 20%+ weekly spikes in oil (crude finished last week up 35.8%) over the next year, it was up six of seven times for an average gain of 28%.

The net effect of higher oil prices on S&P 500 earnings per share should be roughly neutral, but with variation across industries. Higher oil prices directly benefit

the earnings of energy firms but are a headwind for industries that rely on oil as an input, such as airlines, and industries exposed to consumer spending. Near-term volatility could pose a buying opportunity as earnings remain strong domestically.

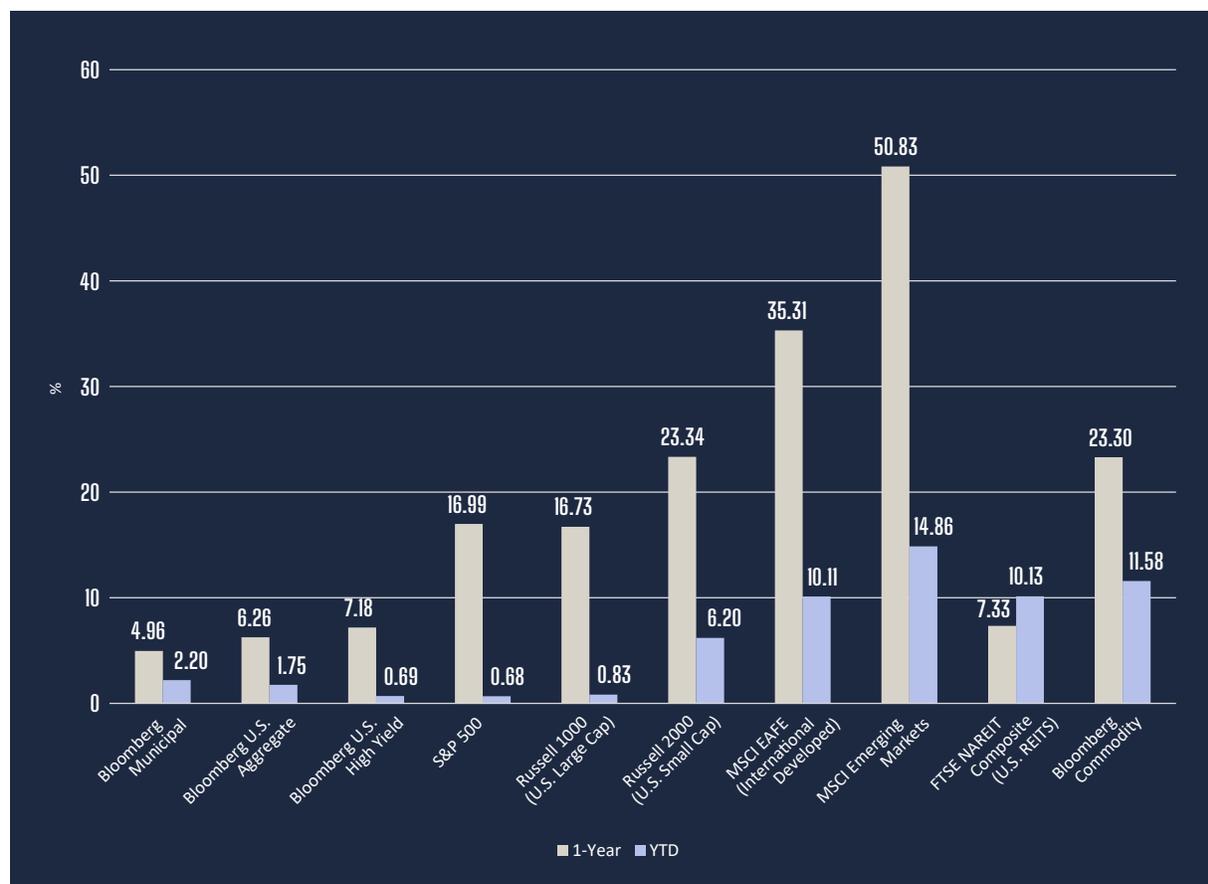
S&P 500 price action is in line with the equity market's pattern during past geopolitical risk shocks, including the Korean War, Cuban Missile Crisis, Gulf War, 9/11, Iraq War, Russia Ukraine War and Israel–Hamas War. Bigger picture, at the March 9th lows, the S&P 500 was down 5.2% from its January all-time high, representing the 32nd pullback >5% since the March 2009 low. Each time the market hit new highs.

And we would be remiss if we didn't point out three historical patterns as they relate to equities. The first is that over the past 20 years stocks have consistently bottomed out in March. The second is that the average annual drawdown (peak-to-trough decline) for the S&P 500 is 13.8%. Last year was a great example with stocks declining almost 20% post-Liberation Day and still finishing with a full-year gain of 17.4% (price plus dividends). And finally, the largest up days tend to be clustered around the weakest days, and missing those best days can severely hamper performance. Since 1994, the 15 best days happened during the Global Financial Crisis, COVID-19 and the Tech Wreck.

*Interest over time. Numbers represent search interest relative to the highest point on the chart for the given region and time. A value of 100 is the peak popularity for the term. A value of 50 means that the term is half as popular. A score of 0 means there was not enough data for this term.

Asset Class Returns

Comparing Recent 1-Year and Year-to-Date Total Returns



As of February 28, 2026

Source: Conway Investment Research

Fixed Income

- Fixed income across the globe posted strong gains in February as rates declined and investors clipped coupons.
- The decline in interest rates was particularly good for core fixed income and municipal bonds.
- Credit continues to broadly display healthy fundamentals and near-historic tight spreads. Despite the noise, most of the weakness has occurred in the lowest-quality issues.

Equities

- U.S. equities struggled in February on the surface, largely due to weakness in the Magnificent 7 and other large-cap tech names.
- Growth underperformed value across all market capitalizations and small caps continue to lead large caps in 2026.
- The S&P 500 equal-weighted index leads the market-cap-weighted index YTD.
- Stocks outside the U.S. posted solid gains, driven by emerging markets, value stocks and small caps.
- Europe, Australasia and Far East (EAFE) markets outperformed U.S. equities with the best gains coming from Japanese equities.
- Emerging markets rose another 5.5% in February, with strong gains coming from Latin America and Asia ex-China. U.S. dollar volatility hurt EAFE returns by 83 basis points (bps) but boosted emerging-market returns by 54 bps.

February 27, 2026	MTD	QTD	YTD	1-Year	3-Year	5-Year	10-Year
FIXED INCOME INDICES							
Bloomberg U.S. Treasury Bill 1-3 Month	0.28%	0.58%	0.58%	4.17%	4.88%	3.36%	2.23%
Bloomberg Municipal	1.25%	2.20%	2.20%	4.96%	4.44%	1.44%	2.43%
Bloomberg US Govt/Credit Intermediate	0.52%	0.75%	0.75%	4.92%	5.01%	2.12%	2.10%
Bloomberg U.S. Aggregate	1.64%	1.75%	1.75%	6.26%	5.12%	0.42%	1.97%
Bloomberg U.S. High Yield	0.19%	0.69%	0.69%	7.18%	9.42%	4.51%	6.71%
Bloomberg Global Aggregate	1.12%	2.06%	2.06%	8.23%	4.74%	-1.23%	1.16%
U.S. EQUITY INDICES							
DJ Industrial Average	0.31%	2.12%	2.12%	13.59%	16.61%	11.73%	13.89%
S&P 500	-0.76%	0.68%	0.68%	16.99%	21.80%	14.19%	15.50%
NASDAQ Composite (Price)	-3.38%	-2.47%	-2.47%	20.27%	25.55%	11.43%	17.40%
Russell 1000	-0.54%	0.83%	0.83%	16.73%	21.42%	13.32%	15.32%
Russell 1000 Growth	-3.36%	-4.82%	-4.82%	14.78%	26.11%	14.36%	18.23%
Russell 1000 Value	2.59%	7.28%	7.28%	18.36%	16.03%	11.79%	11.90%
Russell Mid Cap	3.82%	6.99%	6.99%	16.82%	14.83%	9.02%	12.40%
Russell 2500	2.45%	7.56%	7.56%	21.97%	13.80%	6.95%	12.06%
Russell 2000	0.80%	6.20%	6.20%	23.34%	13.14%	5.05%	11.30%
Russell 2000 Growth	-0.24%	3.72%	3.72%	21.88%	13.77%	2.30%	11.32%
Russell 2000 Value	1.93%	8.92%	8.92%	24.95%	12.39%	7.67%	10.90%
Russell 3000	-0.48%	1.07%	1.07%	17.02%	20.93%	12.80%	15.08%
NON-U.S. EQUITY INDICES							
MSCI World	0.76%	3.03%	3.03%	21.83%	21.12%	12.98%	13.85%
MSCI ACWI	1.31%	4.33%	4.33%	24.72%	21.28%	12.23%	13.53%
MSCI ACWI Ex-U.S.	5.04%	11.33%	11.33%	40.46%	20.53%	10.32%	11.03%
MSCI EAFE	4.64%	10.11%	10.11%	35.31%	19.38%	11.34%	10.80%
MSCI EAFE Growth	3.23%	8.09%	8.09%	24.02%	14.44%	6.77%	9.54%
MSCI EAFE Value	5.94%	11.99%	11.99%	47.11%	24.40%	15.84%	11.78%
MSCI Europe	3.29%	7.89%	7.89%	32.62%	18.92%	12.46%	10.97%
MSCI Japan	8.59%	15.75%	15.75%	44.47%	22.98%	10.05%	10.85%
MSCI AC Asia	6.78%	14.97%	14.97%	47.87%	22.32%	7.42%	11.09%
MSCI EAFE Small Cap	4.81%	10.88%	10.88%	42.39%	17.58%	7.84%	9.97%
MSCI ACWI Ex-U.S. Small Cap	5.27%	12.06%	12.06%	45.13%	18.91%	9.14%	10.67%
MSCI Emerging Markets	5.51%	14.86%	14.86%	50.83%	22.14%	6.79%	11.14%
MSCI EM Asia	6.25%	15.05%	15.05%	50.77%	22.55%	5.93%	11.84%
MSCI China	-5.77%	-1.34%	-1.34%	14.93%	11.28%	-4.46%	7.29%
MSCI EM Eastern Europe	-0.08%	8.83%	8.83%	61.01%	38.52%	-9.53%	1.45%
MSCI EM Latin America	3.82%	19.76%	19.76%	73.34%	21.33%	15.51%	11.36%
MSCI EM Small Cap	4.15%	11.73%	11.73%	40.51%	19.19%	10.08%	10.90%
MSCI Frontier Markets	2.45%	6.43%	6.43%	49.56%	23.83%	11.32%	9.39%
HEDGE FUND INDICES							
IQ Hedge Multi-Strategy	1.74%	4.23%	4.23%	12.59%	10.16%	4.48%	4.51%
REAL ASSETS INDICES							
FTSE NAREIT Composite	7.13%	10.13%	10.13%	7.33%	8.46%	6.19%	7.17%
Alerian MLP	7.09%	15.68%	15.68%	12.83%	23.81%	26.32%	11.80%
Bloomberg Commodity	1.10%	11.58%	11.58%	23.30%	9.75%	11.10%	7.25%
S&P Global Infrastructure	7.45%	12.88%	12.88%	35.06%	18.77%	14.00%	10.74%
OTHER							
Oil Price Brent Crude	2.53%	19.11%	19.11%	-0.67%	-4.76%	1.85%	7.26%
CBOE Market Volatility (VIX)	13.88%	32.84%	32.84%	1.17%	-1.37%	-6.61%	-0.34%

Source: Morningstar

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