

## MARCH: STOCKS & BONDS FALL AS OIL PRICES SPIKE GLOBAL CONFLICT, OIL & RECESSION RISKS

**Figure 1: 3/31/2026 Returns** (source: FactSet)  
Conditional formatting: green (high) to red (low) for each time period

| Bonds                          | ETF  | Month | YTD   | 1YR   | vs. 52-wk vs. 52-wk |       |
|--------------------------------|------|-------|-------|-------|---------------------|-------|
|                                |      |       |       |       | High                | Low   |
| US Aggregate Fixed Income      | AGG  | -1.8% | 0.0%  | 4.4%  | -2.2%               | 3.2%  |
| Investment Grade Corp Bonds    | LQD  | -2.1% | -0.4% | 4.9%  | -3.5%               | 5.4%  |
| U.S. 20+ YR Treasuries         | TLT  | -4.2% | 0.2%  | -0.5% | -7.9%               | 4.1%  |
| Muni Bonds                     | MUB  | -2.3% | -0.4% | 3.9%  | -2.6%               | 5.8%  |
| US High Yield                  | HYG  | -1.0% | -0.4% | 6.9%  | -2.2%               | 6.0%  |
| Non-US Corp Bonds              | IBND | -4.5% | -2.8% | 8.2%  | -6.4%               | 6.0%  |
| Emerging Markets Bond LC       | EMLC | -5.1% | -1.9% | 11.8% | -5.7%               | 9.2%  |
| <b>Global Equity</b>           |      |       |       |       |                     |       |
| ACWI Global Equity             | ACWI | -6.1% | -2.2% | 20.9% | -7.0%               | 36.7% |
| ACWI Global Equity ex US       | ACWX | -8.0% | 2.0%  | 27.2% | -8.6%               | 39.8% |
| International Developed        | EFA  | -7.8% | 1.1%  | 23.1% | -8.3%               | 34.6% |
| Emerging Markets               | IEMG | -9.1% | 3.8%  | 33.1% | -10.2%              | 47.5% |
| <b>Global Equity by Region</b> |      |       |       |       |                     |       |
| United States                  | VTI  | -5.0% | -4.0% | 18.1% | -6.9%               | 35.7% |
| Europe                         | IEUR | -8.2% | -1.0% | 20.5% | -8.7%               | 32.2% |
| Asia ex-Japan                  | AAXJ | -9.7% | 3.4%  | 32.7% | -10.7%              | 49.7% |
| China                          | MCHI | -4.9% | -6.5% | 5.6%  | -16.6%              | 25.7% |
| Japan                          | BBJP | -8.6% | 4.6%  | 29.3% | -10.4%              | 40.5% |
| Latin America                  | ILF  | -2.6% | 16.7% | 58.1% | -5.1%               | 69.4% |
| <b>US Equity</b>               |      |       |       |       |                     |       |
| US S&P 500                     | IVV  | -5.0% | -4.4% | 17.7% | -6.8%               | 35.0% |
| NASDAQ 100 QQQ                 | QQQ  | -4.8% | -5.9% | 23.7% | -9.4%               | 43.4% |
| US Large Growth                | IWF  | -5.2% | -9.8% | 18.5% | -13.5%              | 38.1% |
| US Large Value                 | IWD  | -4.9% | 2.0%  | 15.6% | -5.6%               | 30.9% |
| US Eqwt S&P 500                | RSP  | -6.0% | 0.6%  | 12.6% | -6.5%               | 27.6% |
| US Mid Cap                     | IJH  | -5.3% | 2.6%  | 17.3% | -6.9%               | 34.7% |
| US Small Cap                   | IJR  | -4.0% | 3.6%  | 20.5% | -6.9%               | 39.3% |

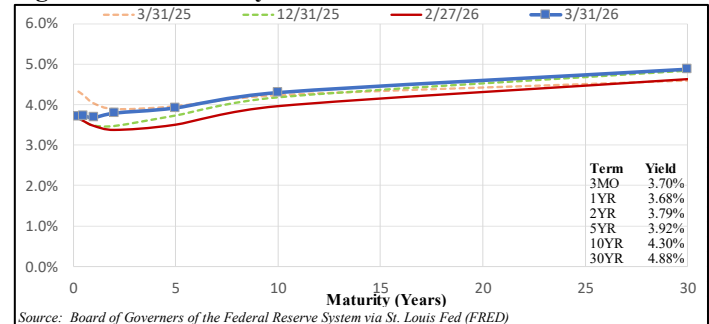
Global markets were volatile and weak as war escalated in the Middle East, shutting off the vital Strait of Hormuz and causing oil prices to spike over \$100 per barrel. Stocks were weak and bonds sold off as inflation concerns drove yields higher. Performance highlights for March and year-to-date (YTD) include:

- **Bonds:** The US Aggregate index (AGG) fell 1.8% this month (+0.0% YTD). Long-term Treasuries (TLT) are most sensitive to interest rates, losing 4.2% (+0.2% YTD) as yields rose. High yield (HYG) fell as credit spreads widened. Non-US bonds underperformed as the US dollar strengthened this month.
- **Global equity:** ACWI fell 6.1% in March (-2.2% YTD).
- **US Equity:** The broad market (VTI) fell 5.0% (-4.0% YTD); the S&P 500 (IVV) lost 5.0% (-4.4% YTD). Losses were broad based across size and style cohorts. The S&P 500 barely avoided a 10% correction as stocks rallied on the last day of the month on hopes for resolution of the Iran conflict and is now 6.8% below all-time highs. The energy sector (XLE) gained 10.3% (+37.9% YTD) as oil prices spiked above \$100/barrel.
- **Non-US Equity:** Stocks outside of the US were hit harder this month due to heavier reliance on oil and natural gas that must traverse the treacherous Strait of Hormuz. European stocks (IEUR) were down 8.2% (-1.0% YTD) but Asian markets were hit harder: Japan (BBJP) lost 8.6% (+4.6% YTD); India (INDA) was down more than 10% (-13.3% YTD); but China (MCHI) fared marginally better, losing “only” 4.9% (-6.5% YTD). While a weak US dollar has been a tailwind for the past year, renewed dollar strength was a headwind this month.

## Interest Rates and the Economy

Interest rates rose this month as spiking oil prices caused inflation concerns and reduced investors’ hopes for further Federal Reserve (Fed) rate cuts. The Fed held rates steady again this month and is in wait-and-see mode as inflation and employment conditions conflict; weaker employment suggests the need for rate cuts, but persistent inflation argues for hikes. Markets are pricing in no more rate cuts for the foreseeable future, erasing prior expectations for two cuts over the next year. The yield curve (Figure 2) plots the interest rates for various US Treasury maturities. After dipping below 4%, US 10-year Treasuries now yield 4.30%.

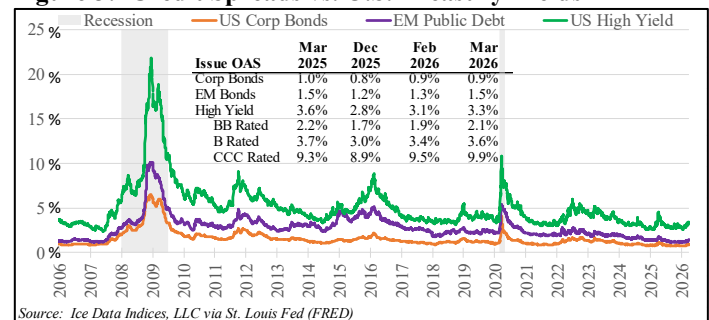
**Figure 2: US Treasury Yield Curve**



For bonds other than US Treasuries, we track the option-adjusted spread (OAS) between their yields and Treasuries of comparable maturities (Figure 3). Low or narrowing spreads signal optimism; high or widening spreads signal fear. Spreads widened marginally this month, reflecting the “risk off” tone of global markets.

- Investment grade corporate bond spreads were steady at +0.9% but have been relatively stable over the past year.
- High yield (non-investment grade) spreads widened to +3.3% last month but remain at historically low levels. Spreads of the riskiest bonds (rated CCC & below) widened to +9.9% and are wider than +9.3% spreads one year ago.
- Emerging market spreads widened to +1.5% but have been stable over the past year; investors see low risk in EM debt.

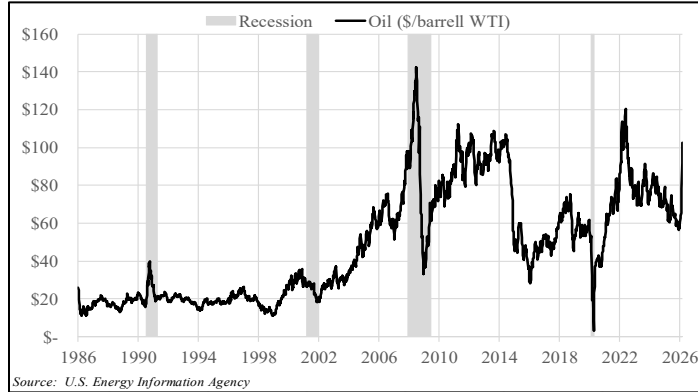
**Figure 3: Credit Spreads vs. U.S. Treasury Yields**



## Global Conflict, Oil and Recession Risks

The escalating conflict in the Middle East was the key driver for markets in March, and shifting rhetoric regarding US geopolitical goals and timelines increased uncertainty and market volatility. The main issue is the closure of the Strait of Hormuz, a key shipping lane for about 20% of the world's supply of oil and natural gas, which caused oil prices to spike above \$100 per barrel, a rise of more than 50% since hostilities began. Figure 4 illustrates this spike in context of oil prices over the last 40 years.

**Figure 4: WTI Crude Oil Prices Over the Past 40 Years**



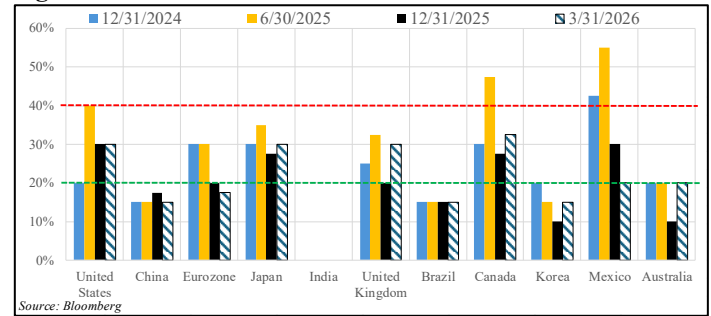
Oil prices are volatile and have endured multiple spikes and crashes over the last four decades:

- Prices spiked in the 1970s (not shown in the graph) during the OPEC oil embargo, causing the WTI crude price per barrel to triple to over \$40 before falling back below \$20 by the 1980s.
- The first Gulf War caused another spike in 1990-91, which helped push the US economy into recession.
- The oil boom peaked in 2008 as prices reached \$147 per barrel, largely driven by the rapid expansion of China's economy and their ever-increasing demand for energy.
- Oil prices plummeted in 2008-9 as economic growth and energy demand collapsed during the Global Financial Crisis, falling below \$40 per barrel before recovering post-recession.
- Oil crashed again in 2014-2015 as US production ramped up during the shale and fracking boom, causing a global oil glut and sending the price per barrel back below \$40.
- The global pandemic and COVID lockdowns led to recession in 2020 and another oil price crash as global demand collapsed.
- Russia's invasion of Ukraine led to another significant supply disruption and an energy price spike in 2022 as Russian oil was sanctioned and largely taken off the global market. Prices had fallen back below \$60 per barrel prior to the current spike.

Energy prices are notoriously volatile, and history suggests that price spikes are followed (eventually) by lower prices. The duration of the US-Israel-Iran conflict will determine how much spiking oil prices will weigh on economic growth. High energy prices hinder growth through inflation, pinching consumer spending and corporate profits. This impact could be transitory if the conflict is resolved quickly and the Strait of Hormuz is reopened, but a prolonged disruption in the global supply of energy would negatively affect US and global economic growth. We note that spiking oil prices have been a cause or a contributing factor in almost every recession in the modern era (with the notable exception of the COVID pandemic recession in 2020), but we are not seeing a meaningful increase in global recession risks so far.

Figure 5 illustrates how recession risks have evolved over the past 15 months in the US and around the world. In aggregate, the economies listed in the figure account for about 80% of global GDP.

**Figure 5: US & Global Recession Risks**



Recession risks spiked in early 2025 as tariff and trade war concerns roiled markets and threatened global growth (yellow bars above), but risks moderated by year-end as tariffs were paused, reduced, negotiated lower, then ruled unconstitutional by the Supreme Court. Tariff rates are still significant but are lower than initially feared. Despite the escalating conflict in the Middle East, recession probabilities remain low (less than 20% risk) or moderate (20-40% risk) as of this writing (hashed bars above).

## Bottom Line

Global markets have been volatile and weak as war in the Middle East escalated and threatened the global supply of energy. Economies in Europe and Asia have been particularly impacted as a large share of their energy imports must pass through the Strait of Hormuz. Although the US, Canada and much of South America are net energy exporters, these economies are not insulated because energy prices are driven by global supply and demand. History suggests that energy prices will eventually come back down, but when and by how much are open questions. Volatility is likely to continue, so portfolio diversification remains critical (as always). We are not yet seeing recession risks rise materially and are heartened by the historical performance of US stocks following historical global conflicts and shocks (Figure 6). Markets tend to recover within months and move higher over time.

**Figure 6: Geopolitical Conflict & Future US Equity Returns**

| Event                        | Date       | 3 MO (%) | 1 YR (%) | 3 YR (%) |
|------------------------------|------------|----------|----------|----------|
| Pearl Harbor Attack          | 12/8/1941  | -8.1     | 16.5     | 22.0     |
| Beginning of the Korean War  | 6/25/1950  | 11.7     | 27.8     | 16.4     |
| Bay of Pigs Invasion         | 4/17/1961  | 2.6      | 1.8      | 8.8      |
| Cuban Missile Crisis         | 10/16/1962 | 18.3     | 34.0     | 21.1     |
| Guld of Tonkin Incident      | 8/2/1964   | 4.2      | 10.8     | 10.2     |
| 1973 Oil Embargo             | 10/6/1973  | -10.7    | -31.3    | 1.8      |
| Iran-Iraq War                | 9/22/1980  | 9.2      | -20.1    | 16.7     |
| Lebanon War                  | 6/6/1982   | 11.6     | 67.0     | 26.2     |
| U.S. Invasion of Panama      | 12/20/1989 | -3.3     | -6.0     | 11.6     |
| Beginning of the Gulf War    | 8/2/1990   | -0.2     | 28.9     | 18.4     |
| Operation Infinite Reach     | 8/7/1998   | 21.7     | 39.3     | 7.6      |
| 9/11 Attacks                 | 9/11/2001  | 12.6     | -17.9    | 5.9      |
| Beginning of the Iraq War    | 3/20/2003  | 16.7     | 39.2     | 19.3     |
| Russia Invades Ukraine       | 2/24/2022  | -6.9     | -8.7     | 11.8     |
| Hamas Attacks Israel         | 10/7/2023  | 16.5     | 38.5     |          |
| Twelve-Day War Israel & Iran | 6/22/2025  | 8.5      |          |          |

Source: Avantis



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