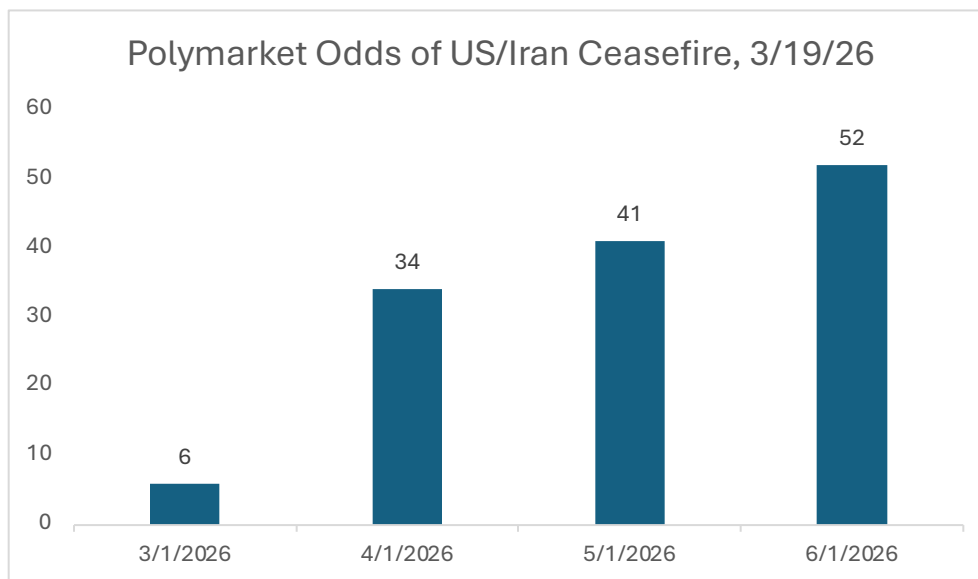


Iran War Update

Insights from Harison Sidhu, BridgePort Chief Investment Officer

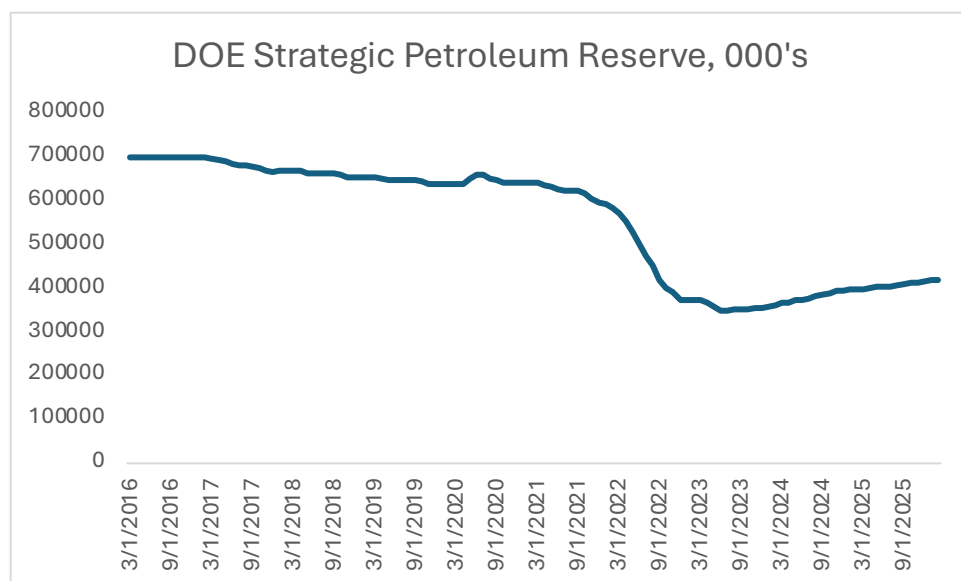
The U.S./Israel conflict with Iran has continued to cause significant volatility within markets, and given that, we felt it was important to write an additional update. Given the importance of the Middle East from an economic perspective, a prolonged conflict would pose significant economic damage to the global economy. Unfortunately, it appears that we are entering a heightened escalation phase, with reports of strikes on critical energy infrastructure and continued disruptions to shipping lanes, while the Strait of Hormuz remains mostly choked off.

While not a perfect measure of what is to come, prediction markets like Polymarket may offer a real-time snapshot of investment sentiment and collective expectations. As can be seen in the chart below, percentage odds of a durable ceasefire happening do not become likely before June according to this system today.



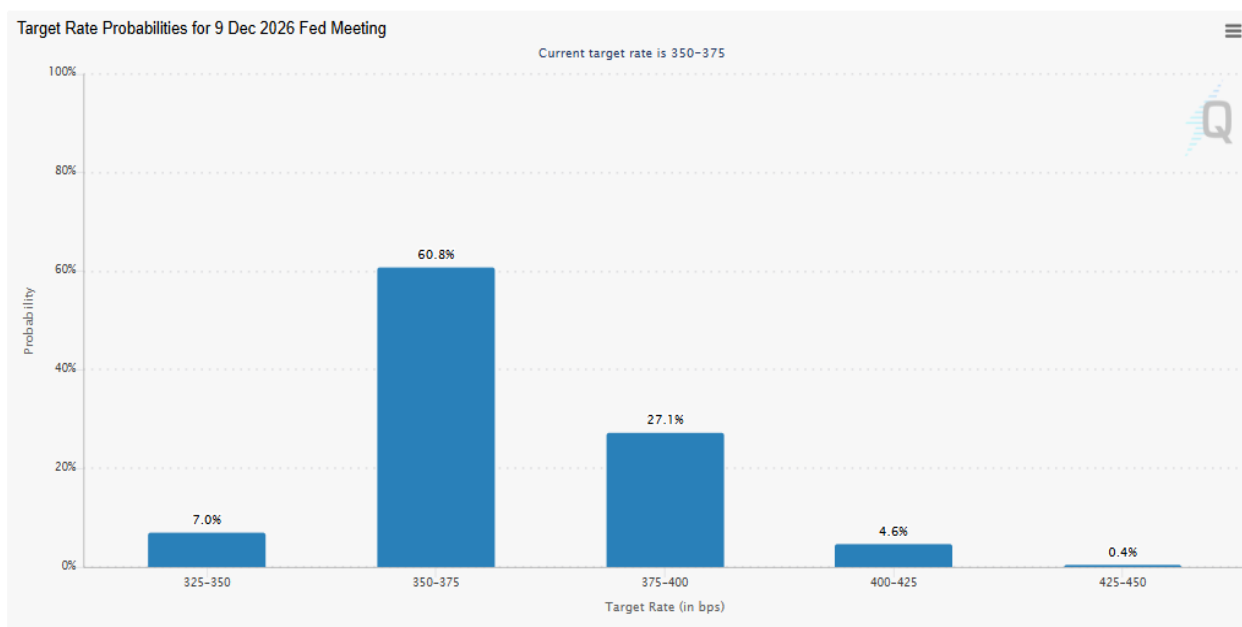
Source: Polymarket (as of March 19, 2026)

Energy analysts broadly agree that sustained shipping disruptions or extensive damage to energy infrastructure would push energy prices, constrain discretionary demand, elevate input costs, and weigh on marginal growth. The global benchmark price for crude oil has risen to nearly \$110 per barrel, nearly doubling since the start of the year. According to AAA, national gasoline prices have also risen from \$2.82 at the start of the year to \$3.91 as of March 19, 2026. The administration has attempted to counter some of these price increases with an announcement of 172 million barrels of oil to be released from the Strategic Petroleum Reserve (SPR) over the coming weeks and months. The market has largely looked through this announcement though, viewing the release as limited and insufficient to offset sustained supply disruptions. The U.S. (and other allies that have pledged releases) picture is complicated by the fact that the SPR was drawn down in the aftermath of the Russia-Ukraine war and has not been meaningfully rebuilt in the years since that conflict began.



Source: Bloomberg (as of February 28, 2026)

How this war affects the economy in the coming quarters is still coming into view, but rates markets are beginning to question the Federal Reserve's ability to cut rates in this environment. In fact, markets are pricing in a 27% chance of an interest rate hike, a scenario that was assigned a 0% probability just one week ago.



TARGET RATE (BPS)	PROBABILITY(%)			
	NOW *	1 DAY 19 MAR 2026	1 WEEK 13 MAR 2026	1 MONTH 20 FEB 2026
200-225	0.0%	0.0%	0.0%	0.2%
225-250	0.0%	0.0%	0.0%	2.4%
250-275	0.0%	0.0%	0.4%	10.9%
275-300	0.0%	0.0%	3.5%	25.9%
300-325	0.0%	0.3%	16.7%	33.2%
325-350	7.0%	14.2%	40.3%	21.8%
350-375 (Current)	60.8%	80.3%	39.1%	5.7%
375-400	27.1%	5.2%	0.0%	0.0%
400-425	4.6%	0.0%	0.0%	0.0%
425-450	0.4%	0.0%	0.0%	0.0%

Source: CME FEDWATCH, March 20, 2026

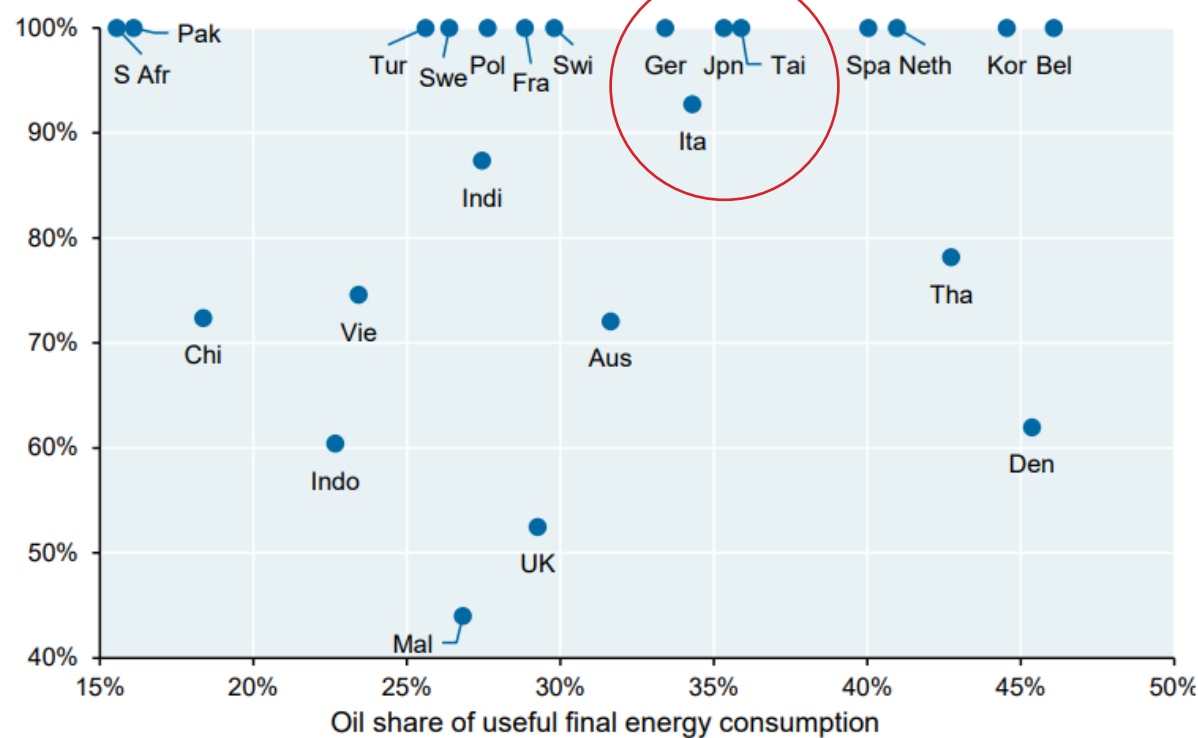
We have felt for some time that additional rate cuts are justified, so seeing the likelihood of additional rate cuts fade gives us pause. With that said, recent reviews of real-time estimates of GDP growth are still solidly positive, and as we mentioned in our 2026 Market Outlook the global economy enjoys several tailwinds that should keep it from slipping into recession even if important commodity prices remain elevated.

We should also note that wartime conditions necessitate significant government spending to be sustained, which also automatically boosts GDP as well. This conflict is no different, as it is being reported the White House is requesting an additional \$200 billion in funding related to war with Iran.

With respect to markets, it is also important to note that the U.S. is a modest net energy exporter, largely due to shale oil and natural gas production, which provides some insulation from global energy shocks. In contrast, European and Asian countries are highly exposed to a Middle East energy shock. The chart below lays out these relationships, and countries more situated towards the top right are more exposed. Notably, large economies like Germany, Japan, and Taiwan are among the more exposed. Interestingly, China is far more insulated than other large Asian countries.

Sensitivity to OIL price spikes

Import share of oil consumption



Source: Energy Institute, IEA, JPMAM

Equity markets have reacted to these realities accordingly, as U.S. equities have outperformed international stocks by nearly 5% since the start of the war. With that said, international equities still lead U.S. stocks for the year-to-date period through March 19. This highlights the importance of maintaining diversification and sticking with a long-term investment strategy. This is especially important in the face of difficult headlines and elevated market volatility.

While we have not recommended any large changes to allocations as a result of recent market movements, we are watching the increased levels of market pessimism among equity investors to see if there is an opportunity. Historically, periods of geopolitical uncertainty have often created short-term valuation dislocations rather than long-term earnings impairment. Therefore, price declines across the major indexes would represent declines in valuations, a welcome change in our view as equities had become overpriced in many cases.

We share our asset class recommendations and notes below, which will have more detail on these items in our upcoming quarterly investment update report. As always, we hope this information is helpful and please reach out to us if you have any questions.

Equities	Current Weighting	Outlook
U.S. Large Cap	Neutral	Excellent fundamental outlook and technical backdrop given large ongoing buybacks. High concentration of largest names and high valuations keep us neutral on this asset class. We favor high quality, defensive investments and certain sectors we favor like healthcare and financial stocks.
U.S. Mid and Small Cap	Neutral	Modest valuations and falling interest should provide a tailwind to investors here. We currently recommend a neutral weight but might look to change to overweight as the year progresses.
EAFE	Neutral	Japanese equities look interesting, and the currency diversification into Yen and Euros could still provide a tailwind. Weak European growth and worrisome trends in sovereign yields keep us neutral.
EM	Neutral	Some of the lowest equity market valuations available to investors. There are still economic risks in China that keep us neutral here, as it represents the largest country weight in the index.

Duration	Current Weighting	Outlook
Treasuries	Underweight	While rates are solidly positive across the yield curve, huge potential net new treasury supply and continuing refinancing needs keep us modestly short duration relative to benchmark expressed primarily through a treasury underweight.
IG Corporates	Underweight	Narrow spreads keep us underweight this segment despite our economic outlook. If spreads normalize we will look to upgrade our outlook.
Agency Mortgages	Overweight	Wide spreads relative to both treasuries and high quality corporate bonds make this our preferred way to obtain duration exposure. We expect technical buying pressure to continue into 2026 as institutional investors rebuild allocations here.
Munis	Neutral	Ratios of yields between AAA munis and treasuries have normalized. There is also only modest amounts of spread to be gained by reducing the quality profile of a muni portfolio today. Term spreads, the difference between long and short-term municipal bonds are solid though, providing investors an opportunity barbell exposures to produce additional yield.

Credit	Current Weighting	Outlook
High Yield	Neutral	Fundamental changes to the index with respect to quality composition and duration, along with our economic outlook means we expect defaults to remain subdued. Relatively narrow spreads keep us from an overweight recommendation in this asset class.
Leveraged Loans	Underweight	Years of poor underwriting standards along with potential technical selling pressure from retail investors makes us maintain an underweight recommendation here despite our economic outlook.
Structured Credit	Overweight	Structured credit remains our favored way to gain credit exposure, as this segment offers solid yields with modest credit and duration risk. Our favorite segments within this asset class include Non-Agency RMBS and CMBS, as the collateral values for both are likely to rise in 2026, improving their respective credit quality.

Alternatives	Current Weighting	Outlook
Private Equity	Overweight	Reinvigorated capital markets should promote portfolio realizations and returns. Our economic outlook, combined with lower borrowing costs leads us to believe these asset classes should provide total return that outperforms public markets. Manager selection is key here.
Private Debt	Neutral	We have seen some concerning defaults in this arena, along with some concern around underwriting standards. However, we still think this asset class will deliver solid liquid returns even as there has been softness in broader bond markets. We expect the private debt market to continue to grow. Like private equity, manager selection is key.

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