U.S. MARKET REPORT

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March 23, 2026 **+1-561-208-1081 kmm@fvcm.us**

War and the Stock Market

Wars and geopolitical events rarely cause long-lasting damage to equity markets. This truism reflects the fact that the value of businesses are primarily rooted in their expected profitability over a period of decades, and investor's comfort with inflation and the financial risk environment. Wars and geopolitical events spark anxiety and uncertainty, which impact stocks in the short-term, but such events rarely reach forward for years, let alone decades. Once the initial shock wears off, bargain hunters step in as investors realize business continues as nearly always.

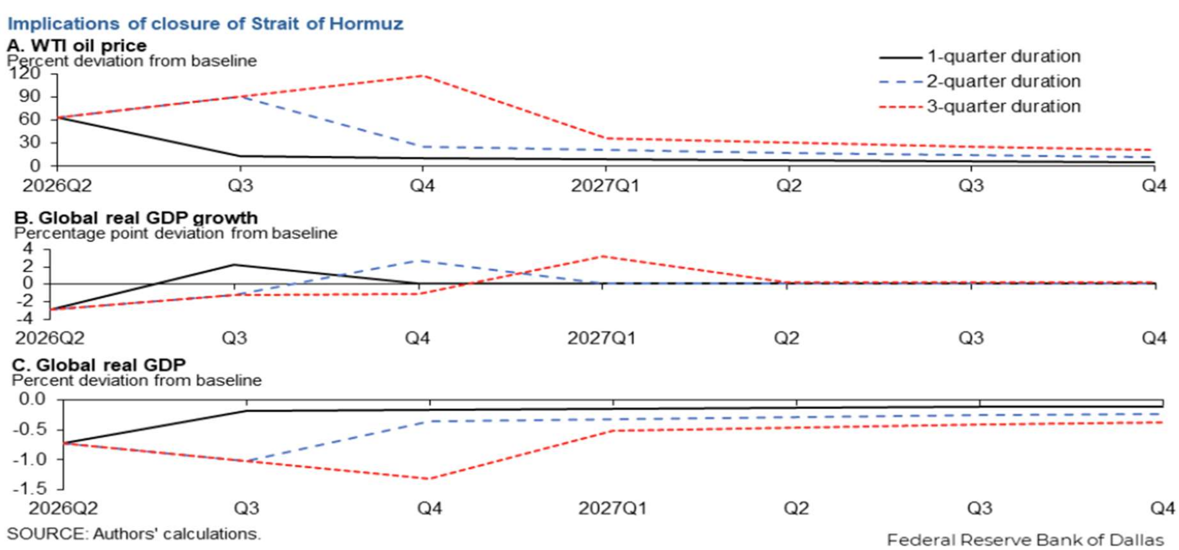
Examples of Geopolitical Events and Market Reaction:

Event	Start Date	Trading days to trough	% change to trough	Trading days back to even
Acts of war				
U.S.				
Bay of Pigs invation	April 15, 1961	6	-3.00%	14
Cuban Missle Crisis	October 16, 1962	6	-6.30%	13
Gulf of Tonkin Incident (Vietnam)	August 2, 1964	4	-2.20%	29
Tet Offensive (Vietnam)	January 29, 1968	25	-6.05%	46
Cambodian Campaign (Vietnam)	May 1, 1970	18	-14.90%	86
U.S. invades Grenada	October 25, 1983	11	-2.80%	15
Lead-up to U.S. Pananma invasion	December 15, 1989	2	-2.20%	8
Lead-up to Gulf War (Dessert Storm)	January 1, 1991	2	-5.70%	13
U.S. spy plane captured in China	April 1, 2001	3	-4.90%	7
War in Afganistan	October 7, 2001	1	-0.80%	3
Lead-up to Iraq War	February 5, 2003	24	-5.60%	28
External				
N.Korea invades S. Korea	June 25, 1950	15	-12.90%	56
Lead up to the Six-Day War	May 12, 1967	15	-5.60%	20
Yom Kippur War, Arab Oil Embargo	October 6, 1973	42	-16.10%	6 years*
Sovier-Afghan War	December 24, 1979	7	-2.30%	10
Iraq Invades Kuwait	August 2, 1990	50	-15.90%	131
Russia Invades Ukraine	February 24, 2022	12	-2.70%	14
Average		**14**	**-5.90%**	**30**
Terrorism / Other				
U.S. Embassy in Iran seized	November 4, 1979	3	-1.00%	6
U.S. Marines killed in Lebannon	October 23, 1983	12	-2.50%	15
Oklahoma City bombing	April 19, 1995	1	-0.10%	3
U.S. Embassy bombings in Africa	August 7, 1998	5	-2.50%	7
World Trade Center, Pentagon attack	September 11, 2001	5	-11.60%	19
Madrid Train Bombings	March 11, 2004	3	-1.70%	5
London underground bombings	July 7, 2005		No S&P Decline	
Paris Batacian, restuarants attacks	November 13, 2015	1	-1.10%	2
Bastille day attacks in Nice	July 14, 2016	1	-0.10%	2
COVID Pandemic	March 4, 2020	14	-29.00%	66
October 7th attack on Israel	October 7, 2023	16	-4.40%	20
Average		**6**	**-5.40%**	**15**

Sources: RBC Wealth Management; RBC Global Asset Management; Wikipedia; National Security Archive at George Washington University; United States Naval Institute. *The long period to rebound in the '70s was due to monetary and other factors outside the embargo, which lasted only five months.

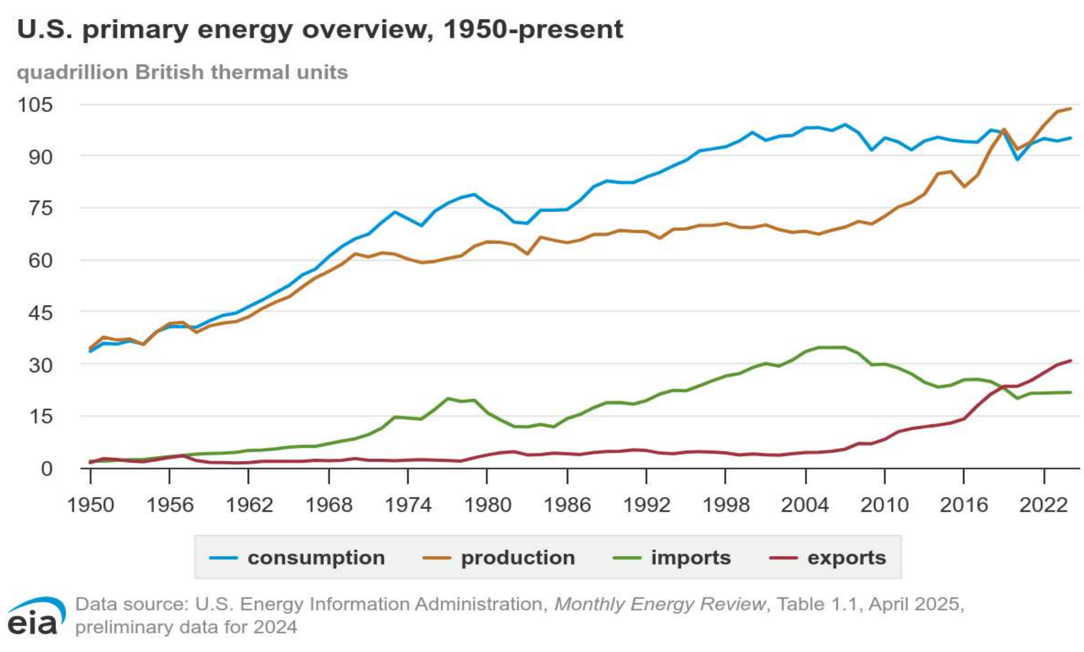
This is not to say that such events don't have a major impact on human life, which they clearly do. But markets reflect the temporary and limited nature of such events within the context of human history and full scale of development. The difficulty is in measuring the severity and length of events. Even something as impactful and global as the Covid pandemic has had effects that now seem minor compared to the sense at that time. Recall the zeitgeist on March 5th, 2020 when Italy announced that all schools and universities would close, California declared a state of emergency, and the U.S. House of Representatives passed a $7.8 billion "Covid-19" spending package. The S&P 500 fell 29% in the span of two weeks. Uncertainty was high, as was fear. And yet, in two months the stock market had already surpassed the previous peak.

The outbreak of war with Iran on February 28, 2026 will also have material short-term effects but, measured in decades, likely not. The greatest effect has thus far been the closure of the Strait of Hormuz. According to the U.S. Energy Information Administration (EIA), about 20% of the worlds oil and oil products, and about 20% of global liquified natural gas (LNG) passes through the strait. The EIA has further reported that over 80% of oil and LNG passing through the strait goes to countries in the Asia-Pacific region. China, India, South Korea and Japan are among those most impacted as they have become highly reliant on imports of oil and LNG from countries like Saudi Arabia and Qatar. But even this is somewhat simplistic. Oil and LNG are commodities that trade on global markets. As we all know, prices have risen sharply as supply has been blocked. What the price mechanism does—the rise in oil to around $100/bbl for example, is the reallocation of the remaining supplies of oil and LNG to those who can pay the high prices. Countries like Japan and South Korea will bid for energy from alternative suppliers and energy resources will be redirected to them. Most at risk are countries like Pakistan and Bangladesh, which have little reserves in storage and lesser ability to pay the higher prices.



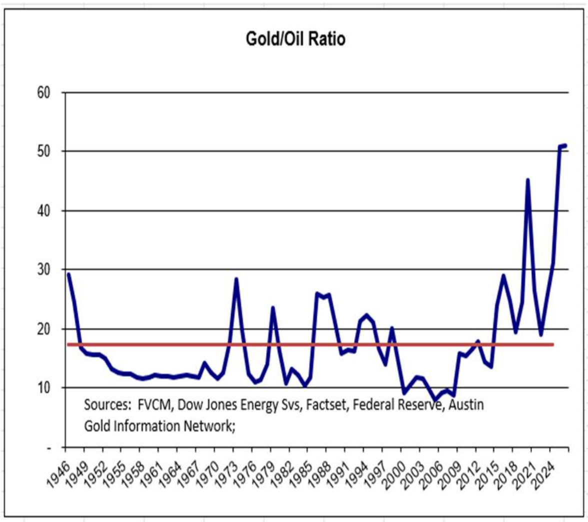
From a global perspective, the war and the closure of the Strait of Hormuz means slower economic growth. The magnitude of that impact on growth depends on how long the strait remains closed. For one simple point of perspective, the 1973 oil crisis began in October and ended in March 1974. There is some hope that this closure will not last 5 months as Iran's capacity to control the strait is quickly becoming degraded as their means to produce and store weapons is being eliminated. That said, on March 20th three researchers with the Federal Reserve of Dallas published a study that attempts to quantify the energy disruption on global growth (charts above). The authors of the study considered three scenarios, with the strait closure lasting one, two or three quarters. Regardless of when the strait reopens, the model implies that a 20% reduction in global oil supplies will raise the average price of West Texas Intermediate (WTI) to $98 per bbl for the second quarter of 2026 and lower global real GDP by an annualized rate of 2.9%. The model implies that the price of oil tracks back toward the original baseline (~$60 bbl) over time, depending, of course, on how many quarters the strait is closed. Similarly, global GDP is expected to gradually track back toward the original baseline depending on the length of closure. Again, the temporary nature of such crisis' explains why the effect is limited on stock prices, which are a discounting mechanism that considers corporate profitability for many decades into the future.

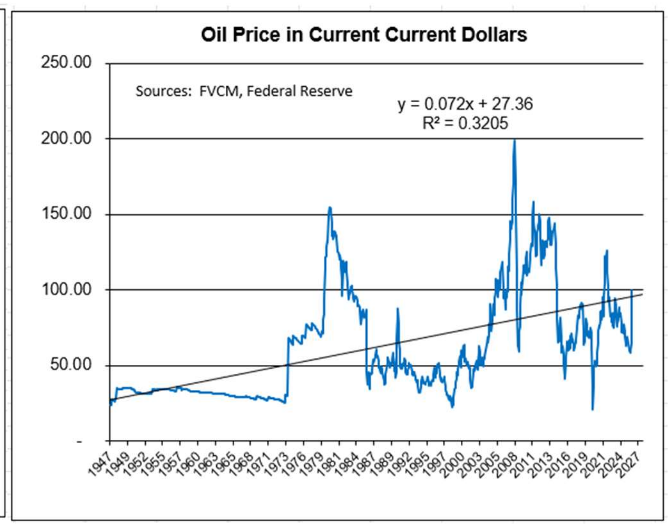
Through technology the United States has transformed itself from a net energy importer to a net energy exporter. That is not to say that the U.S. is immune from the effects of the strait closure and the rise in energy prices, but the impact should be lesser. The authors of the study above make the argument that since U.S. energy trade is close to balance (actually, it's in surplus; see chart below), the U.S. economy is not so different from a global economy model in which there is no trade in oil by design. However, partly due to physical limitations in the ability to transport energy, particularly natural gas, as well as the cost of transportation, there are variances in the real-world impact. For example, West Texas Intermediate (WTI) in the past year has often traded at a 3%-4% discount to the global "Brent" price of oil. Now, with supplies and production still abundant in the U.S., that spread has widened to 17%. Eventually, if the supply disruption lasts long enough, foreign buyers will bid up the price of WTI and the spread will narrow, but Brent will never be as cheap as oil in Texas. And in the meantime, the widening spread means the impact on the U.S. is lower. Similarly, natural gas in the U.S. has recently been trading at about $3.10 per million British thermal units (MMBtu), DOWN from as much as $5 during December of 2025. In contrast, Asia spot LNG prices are up sharply since the Iran conflict started and are around $18 MMBtu. The energy supply disruption is not affecting all regions equally.



Higher oil prices have resulted in higher prices for gasoline at the pump. But the effects are not as bad as they have been in the past. The U.S. Energy Information Administration put out a release in September (spot oil at $68 at that time) that U.S. drivers were spending less than 2% of their personal disposable income on gasoline, the lowest share since 2005. Even if oil doubles to $140/bbl., this suggests that the damage will be unpleasant, but not severe. On other hand, just as lower income nations will be most impacted, so too will lower income individuals who spent a larger portion of their income for transportation. Wealthy individuals who own shares in U.S. energy producers, are likely to be net beneficiaries of the spike in oil. Increasing oil and gas costs to U.S. consumers get recycled back into the U.S. economy via higher profitability of energy companies.

Oil is not particularly expensive in a historical context, and it's quite cheap when priced in terms of gold. Gold has recently traded at about $5,100 per oz. or about 51 times the price of $100/bbl oil. From that perspective, either oil is dirt cheap or gold is super expensive. Seems to us you're better off long energy stocks more so than physical gold or miners. Adjusting historic oil prices for inflation and looking at them in current dollars, also leaves one with the perspective that oil is not cheap, but it's also not close to the highs after the Iranian Revolution in 1979 or just prior to the 2008-9 financial crisis. The overall risk to the U.S. economy is probably not great—at least not at this point.





Corporate earnings are a bright spot amid all the geopolitical uncertainty. According to FactSet's Earnings Insight, "the Street" is looking for S&P 500 earnings growth of +11.6% in the first quarter of 2026, following the +14.1% recorded for the fourth quarter of last year. This would be the sixth straight quarter of double-digit earnings growth. The consensus is also looking for 9.4% revenue growth, marking second straight quarter of 9%+ growth. Eight of eleven economic sectors are expected to post year-to-year earnings growth.

Expectations that the Fed may reduce interest rates have diminished as tariffs and higher energy costs are raising inflation concerns. Clearly, higher gasoline and natural gas costs will impact inflation data. However, the impact and importance is not the same as inflation resulting from a permanent increase in the supply of money. The war with Iran will be resolved one way or another, and energy markets are expected to ultimately repair and prices decline. Temporary increases in a commodity price, followed by declines in that price, is not the sort of inflation that causes vicious and lasting damage as when a central bank prints too much money. Again, this is a transition that markets should be able to digest.

In summary, current Middle East tensions cause volatility but are unlikely to create lasting market or economic damage. Energy independence and historically low gasoline burden provide strong resilience for the U.S. even in the near term. Even a sharp oil spike to $140/bbl hurts but does not devastate. Stock prices are a discounting mechanism that looks at business prospects over decades. Stay focused on company earnings – history shows that's what ultimately matters.