

FROM THE OFFICE OF THE CIO

Market Commentary: Middle East Ceasefire and Financial Market Response

Overview

Global financial markets are responding favorably today following the announcement of a two-week ceasefire in the Iran conflict. As part of the agreement, the U.S. and Israel will suspend airstrikes on Iran, contingent upon the reopening of the Strait of Hormuz. Today's events have eased immediate concerns regarding further escalation in the Middle East.

Recent market reaction

The broader tone across markets is more constructive, resulting in a relief rally. Tensions that had driven recent market volatility higher, stoked inflation fears, and put downward pressure on asset prices have eased and risk appetite has improved. Key metrics that reflect the change in market tone include:

- Oil prices fell sharply, declining more than 15% overnight after surging higher in early March. West Texas Intermediate (WTI) and Brent Crude Oil prices sit below \$95 per barrel.
- Global equity futures spiked following the announcement and markets rallied on their respective openings.
- Gold rose approximately 3%.
- Measures of volatility in the equity (VIX) and fixed income (MOVE) markets receded.
- Global bond yields declined notably, particularly across Europe.
- The U.S. Dollar Index weakened.
- The possibility of a Fed rate cut began to be repriced back into the market.

Historical perspective

It is important to keep perspective on today's developments. The ceasefire is a near-term pause, rather than a permanent resolution. Negotiations are expected to continue, bringing further developments to the situation.

As we have consistently emphasized in our communications, portfolio diversification is essential to achieving successful outcomes. Geopolitical events can create sharp moves across markets, but as history shows, knee-jerk reactions to headlines often do more harm than good. We believe that portfolios are best served by staying aligned with long-term objectives rather than making sudden shifts based on short-term events.

Looking ahead

News of the temporary ceasefire is a welcome development and has reduced some near-term risks, but it does not change our broader investment approach. We remain focused on maintaining a quality bias in portfolios, adhering to our investment discipline and process.

As we approach mid-April, corporate earnings results and forward guidance will be a critical signal of how corporations are assessing the impact of recent events in their business. As of late March, consensus expectations still pointed to low-teens earnings growth for the S&P 500 Index for the calendar year. Following the recent course of events analysts will probe as to whether these projections still stand.

Providing guidance along the way

As always, we will continue to monitor developments closely and keep you informed. Please do not hesitate to reach out, if you would like to discuss how these events fit into your broader investment strategy.

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