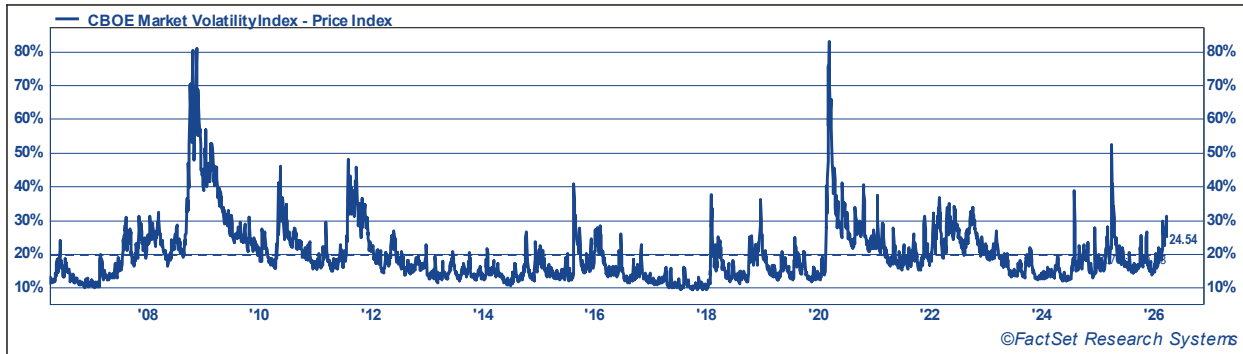


The first quarter of 2026 began with a promising economic and capital market backdrop. It ended marked by a significant global event that could greatly affect the outlook for U.S. capital markets and the broader economy. The Iran war ushered in new layers of complexity for investors and policymakers as market dynamics were influenced by oil supply and price shocks, sharply higher bond yields, rising inflation expectations, elevated volatility, and considerable uncertainty.

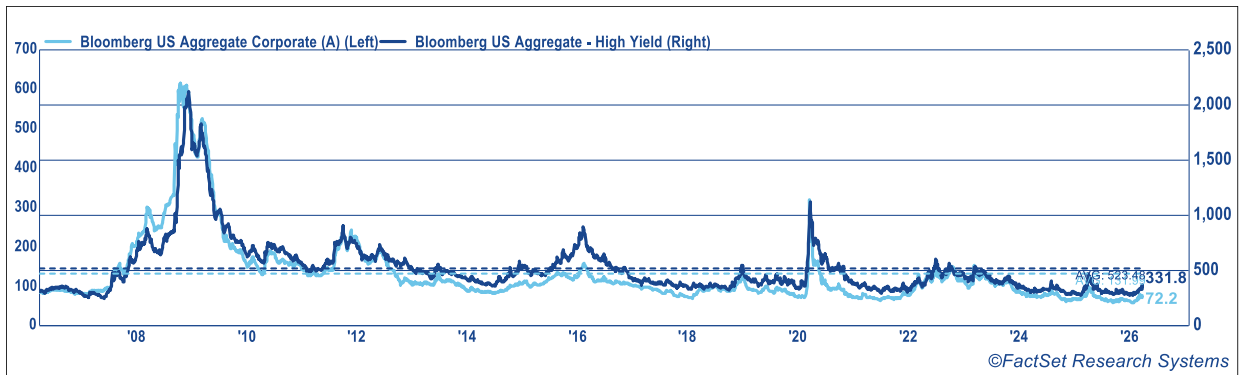
Chart 1 – CBOE Market Volatility Index - VIX



While capital markets experienced what could be labeled as sharp declines in March, relative to the level of uncertainty and historical oil-shock precedent, the selloff has remained remarkably contained. Risk measures such as the VIX (Fear Index) and corporate credit spreads have risen but are not even close to levels reached with far less significant geo-political and financial events of the recent past. Chart 1 above reflects the subdued VIX response to this conflict so far.

Similar to the VIX, corporate bond credit spreads have widened only modestly (and remain historically tight) during the ongoing war, in contrast to sharper or more sustained credit widening seen in several past geopolitical events like the U.S. debt downgrade (2011), Eurozone debt crisis (2012), China GDP/commodity slump (2015/2016) and Russian/Ukraine war (2022).

Chart 2 – Corporate Credit Spreads



This begs the question as to why investors have maintained a cautious optimism approach to this major conflict. Analysts postulate several interlocking reasons for the market’s resilience:



- Historical precedent for quick fade-outs (Desensitization):** Recent geo-political shocks typically trigger shallow, short-lived pullbacks but sometimes none at all (Iran Nuclear Facility attack and Venezuela). Markets have often “shrugged off” past conflicts or headline events once the scope clarifies, and the current modest losses fit this exact playbook. Most shocks “fade from markets quickly” barring sustained major disruption.
- Strong underlying fundamentals and resilient earnings:** The underlying strength of the U.S. economy is highlighted by resilient consumer spending, robust business investment, AI optimism, accommodative Federal Reserve policy, a slowing yet stable labor market, cooling inflation, and forecasted robust earnings growth for 2026 and 2027. S&P 500 earnings estimates for 2026 have actually risen the past couple of weeks!
- Expectation of limited duration and “peak panic” still ahead:** Many experts believe the conflict will be short lived and won’t drag on indefinitely. Strategists note that true “peak war panic” (deeper global risk-off) is likely still weeks away if the conflict persists. So far, investors aren’t assuming worst-case prolonged chaos.

Major US benchmarks like the S&P 500 are down (5-7%) from recent highs with frequent intraday/weekly see-sawing swings. Downside participation has been broad-based as 10 out of 11 sectors within the S&P 500 were down in March (-3.2% to -8.4%) with Energy being the lone outlier, which rose +10.4%.

Table 1 – Equity Total Returns – as of March 31, 2026

Equity	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year
S&P 400	-5.39	2.50	2.50	17.35	12.09	6.92	10.58
Russell 2000	-5.00	0.89	0.89	25.72	13.05	3.77	9.88
MSCI Emerging	-13.06	-0.17	-0.17	29.55	14.84	3.69	7.79
MSCI Developed	-10.29	-1.24	-1.24	21.27	13.62	7.91	8.37
Dow Jones Industrial	-5.20	-3.19	-3.19	12.23	13.77	9.11	12.49
S&P 500	-4.98	-4.33	-4.33	17.80	18.32	12.06	14.15
NASDAQ	-4.68	-6.96	-6.96	25.60	21.75	11.08	17.10

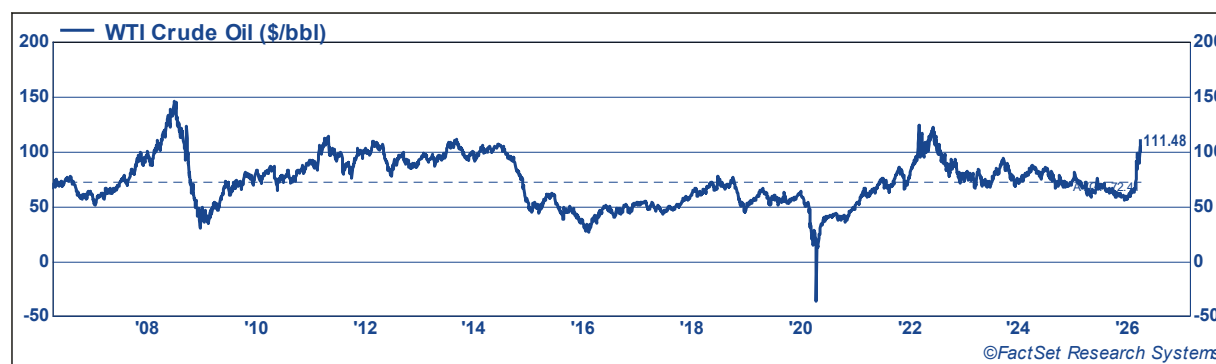
In short, markets are treating this as a classic temporary risk-premium event rather than structural economic damage—buying dips on any whiff of de-escalation while leaning on pre-war economic strength and history. That said, analysts warn this containment could crack if oil stays elevated long term or escalation widens—potentially pushing the S&P into correction (down 10% from recent high) or bear market (down 20% from recent high) territory.

Crude oil plays a critical role in the global economy, serving as an essential input for numerous industries and thousands of goods. Historically, unexpected supply shocks, such as the Arab Oil Embargo (1973-74), Iranian Revolution (1978-79), Iran/Iraq War (1980-81), and Gulf War (1990-91), resulted in oil supply reductions of 7-10%, inflation increases of 5-12%, and recessions

ranging from -0.5% to -3%. Globally, approximately 100 million barrels of crude oil are consumed daily, with 20-25% transported via the Strait of Hormuz. Iran's closure of this critical passage has effectively halted nearly all oil tanker traffic.

Add into the mix that Iran has successfully targeted Gulf neighbors' energy production infrastructure, and the end result is the largest supply disruption on record. Oil prices have consistently risen over the past month on supply concerns. As oil prices have risen,

Chart 3 – Crude Oil Price



so have bond yields. Bond yields have risen sharply over the past five weeks across the yield curve amid rising inflation expectations and greatly diminished Federal Reserve (Fed) rate-cut expectations. The 2Yr Treasury yield has moved from a low of 3.39% (2/27) to 3.85% and the 10Yr Treasury has moved from a low of 3.96% (2/27) to 4.35%.

The conflict has flipped bond market dynamics from dovish (lower rates) to hawkish (higher rates), and the chance of a Fed rate cut this year has vanished. Prior to the conflict, the CBOE FedWatch tool was showing a high probability of two rate cuts in 2026. Post conflict, the likelihood of the next rate cut has been pushed back into late 2027. Indeed, the probability of a rate hike, albeit small, has been priced into the fourth quarter of this year.

Table 2 – Fixed Income Total Returns – as of March 31, 2026

Fixed Income	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year
Bloomberg Inter Gov't/Credit	-1.22	-0.02	-0.02	4.41	4.24	1.33	2.04
Bloomberg U.S. Aggregate	-1.76	-0.05	-0.05	4.35	3.63	0.31	1.70
Barclays Michigan Muni	-2.07	-0.12	-0.12	4.39	3.13	0.85	2.31
Bloomberg Municipal	-2.32	-0.18	-0.18	4.29	2.87	0.84	2.16
Bloomberg High Yield	-1.18	-0.50	-0.50	7.01	8.60	4.23	6.12

A prompt resolution could rapidly stabilize prices and minimize economic consequences, whereas a prolonged interruption may lead to sustained inflation, supply chain shortages, and much broader and deeper economic challenges. While March returns were solidly negative for both stocks and bonds, on a year-to-date basis, well-diversified portfolio returns have ranged from flat to slightly down (-1%-2%).



From an investment strategy perspective, we remain in the cautiously optimistic camp favoring stocks over bonds. The U.S. economy entered the conflict with solid economic and earnings growth, a stable labor market, and moderating inflation. If the conflict ends up being relatively short in duration, we expect some lingering effects but overall, a limited impact as easing energy price pressures and greatly reduced uncertainty should be a net positive on inflation and growth. We will continue monitoring war developments very closely and will adjust strategy accordingly.

Prepared by Perry Adams – SVP & Director – West Shore Bank Wealth Management – April 3, 2026

Sources: FactSet, Federal Reserve, Morningstar, FactSet Earnings Insights, S&P Global, J.P. Morgan, International Energy Agency, U.S. Energy Information Administration, and CBOE

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