

Key Takeaways:

- Operation Epic Fury enters second week.
- Strait of Hormuz is largely shutdown as war intensifies.
- Oil prices skyrocket as production slows due to limited storage and transportation options.
- Inflation expectations moving higher along with oil.
- History tells us past disruptions in the Strait of Hormuz can be buying opportunities.

The Importance of the Strait of Hormuz

As we enter the second week of Operation Epic Fury, the impact of the conflict has spread regionally and is impacting all asset classes. The situation changes regularly but with the appointment of Mojtaba Khamenei as the new Supreme Leader, a resolution to the war may take longer than the White House had anticipated. At this point, markets are focusing on the impact the conflict is having on the Strait of Hormuz. In this weekly insights, we educate investors about the importance of the Strait of Hormuz, discuss the impacts we have seen thus far and offer our view about the economy, inflation and asset classes in the coming months.

- **The Strait of Hormuz** carries ~20% of the global seaborne oil trade and traffic has dropped ~90-95% with hundreds of tankers waiting outside the Strait with nowhere to go. While the Strait is not legally closed, Iran has vowed (and already has) to attack ships passing through the crucial waterway. The Strait carries 20 million barrels/day of oil which is a substantial reduction in supply if the waterway remains closed.

- **Storage not supply issue:** Iran does not export oil to many countries (mainly China). The major oil producing countries can still produce oil. They just have no way to transport it, so storage is at or near capacity. Therefore, we have seen some oil producers (e.g., Iraq, Kuwait, UAE and Saudi Arabia) cutting or shifting production.
- **Impact on oil:** Crude oil prices have jumped to over \$100/barrel and are at the highest level since 2022. This is filtering into gas prices with the average price of a gallon of gasoline rising almost \$0.70 from its January low to a two-year high (\$3.48/gallon).
- **Risk asset impact:** Volatility is surging with the VIX above 30 this morning (highest since liberation day). Within equities the pain is being felt globally but more in emerging markets and Europe given their dependence on oil and proximity to the conflict. In the U.S., small and midcap stocks are bearing the brunt of the weakness along with high P/E sectors (e.g., growth).

The Bottom Line:

We have analyzed historical periods of conflict or aggression in the Strait of Hormuz and history suggests these periods often present buying opportunities for equities while oil prices tend to fall a year later.¹ In this conflict, stagflation is a risk because of the surge in oil prices. One year inflation expectations have jumped to 4.7% (the highest since 2022). This is likely to leave the Fed on the sidelines until the summer at a minimum. Higher energy prices and declining equity values can negatively impact spending. We think this can disrupt GDP in the near term but we are not talking about a recession. From an investment perspective, we reiterate our short duration recommendation in fixed income. While the conflict may go on longer than expected, we still see positive fundamentals in the U.S. economy and are not selling into the weakness. We are assessing all asset classes to see if valuations look attractive enough to put cash to work. The market was so overvalued prior to the conflict, that even with the recent pullback, valuations are not extraordinarily cheap.

Weekly Economic Recap –

Manufacturing and service strong; Labor market weaker

Manufacturing as measured by the ISM Manufacturing Index slipped in February but remained in expansion territory (a level above 50). While production and new orders were weaker, a surge in the backlog of orders and imports helped the Index remain in expansion territory. In addition, the prices paid component rose to a four year high.

Activity in the service sector, as measured by the ISM Services Index, rose in February to the highest level since July 2022. The rise in inventories, export orders and the backlog of orders led the gains. The prices paid component saw its biggest one month drop since January 2025.

The U.S. economy lost 92K jobs in February bringing the rolling 12 month sum to 89K, the lowest since 2021. The weakness was attributed to weather disruptions, a labor strike in the healthcare space and continued reduction in government employees. The unemployment rate also increased for the first time in three months (from 4.3% to 4.4%).

Retail sales declined at the headline level in January. The drop was due to slowing sales of autos, gas and health/personal care. When excluding volatile items like autos, food, gas and building materials, sales rose 0.3%. Spending at the core level was seen in furniture and internet sales.

Key Takeaways:

- Manufacturing and service activity remains strong.
- U.S. economy loses jobs in February.
- Consumer remains strong.
- Global equities see worst week since Liberation Day.
- Treasuries sell off on inflation fears.
- Oil prices rise drastically as the war intensifies.

Weekly Market Recap –

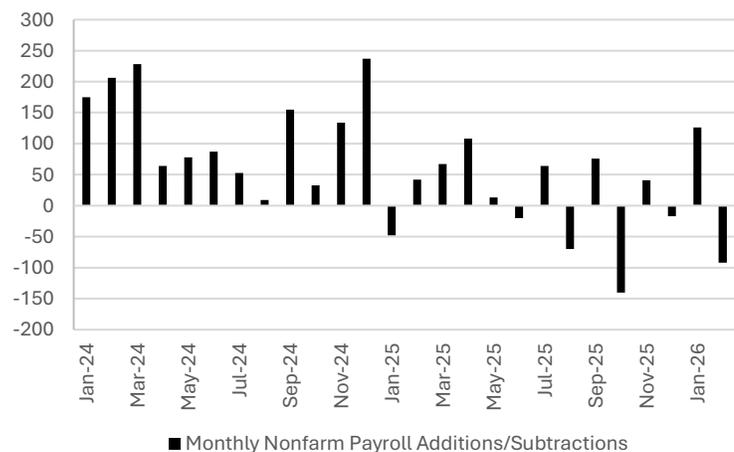
War leads to massive derisking of portfolios

Equities: The MSCI AC World Index saw its worst one week decline since the market sell off in the week of “Liberation Day” (April 2025). All the major global indices declined as the U.S./Israel and Iran war continued and broadened to other countries. International equities (both developed and emerging markets) led the weakness. The MSCI EAFE dropped the most since April while emerging markets were dragged lower after Korea saw its worst one day drop on record.

Fixed Income: The Bloomberg Aggregate Index posted its worst one week decline since April 2025. The surge in energy prices led to inflation fears and sent yields higher. Long term Treasuries (10 and 30 year) bore the brunt of the weakness.

Commodities/FX: The Bloomberg Commodity Index posted its best one week gain in four years as energy prices skyrocketed on the war and the impact of disruptions in the Strait of Hormuz.

U.S. Economy Loses Jobs in February



Footnotes: Data is as of February 2026.

Data Source: Bloomberg Finance LP, Verdense Capital Advisors.

Broad Assets Weaker as War in Iran Intensifies

		Current	1WK	1MO	3MO	1YR	YTD			Current	1WK	1MO	3MO	1YR	YTD
U.S. Equities	Dow Jones Industrial Average	47,502	-2.9%	-5.0%	-0.6%	13.5%	-0.9%	International Equities	MSCI AC World (USD)	1,017	-3.7%	-2.3%	0.9%	21.3%	0.4%
	S&P 500	6,740	-2.0%	-2.6%	-1.6%	18.9%	-1.3%		MSCI EAFE (USD)	2,964	-6.7%	-2.9%	5.0%	21.2%	2.7%
	Russell 1000 Growth	4,499	-0.7%	-2.1%	-6.5%	19.2%	-5.5%		MSCI Europe ex UK (USD)	3,222	-7.7%	-5.3%	1.8%	15.3%	-1.1%
	Russell 1000 Value	2,139	-3.4%	-3.1%	4.0%	17.8%	3.6%		MSCI Japan (USD)	5,192	-6.5%	-0.3%	8.4%	29.1%	8.2%
	Russell 2500	4,420	-4.4%	-5.0%	2.1%	22.0%	2.8%		MSCI UK (USD)	1,638	-6.1%	-2.0%	7.6%	27.1%	3.8%
	Russell 2000	2,525	-4.0%	-5.3%	0.5%	23.9%	2.0%		MSCI EM (USD)	1,500	-6.9%	-0.4%	8.6%	35.4%	6.9%
	Nasdaq	22,388	-1.2%	-2.7%	-4.9%	24.7%	-3.6%		MSCI Asia ex Japan (USD)	978	-6.4%	1.0%	8.6%	34.6%	7.2%
Fixed Income	U.S. Aggregate	4.4%	-1.0%	0.4%	1.1%	5.7%	0.8%	Commodities	Bloomberg Commodity Index	333	8.1%	11.8%	18.5%	31.1%	20.7%
	U.S. Govt/Credit	4.3%	-1.0%	0.4%	1.0%	5.3%	0.7%		Crude Oil (USD/bbl)	\$106.0	48.8%	41.6%	47.8%	39.0%	48.6%
	U.S. 10 Year Treasury	4.1%	-1.4%	0.8%	1.0%	5.8%	0.8%		Gold (\$/oz)	\$5,171.7	-4.6%	0.4%	20.7%	74.6%	17.6%
	U.S. TIPS (1-10YR)	3.9%	-0.1%	0.7%	1.3%	6.1%	1.2%		Copper	\$575.7	-3.8%	-4.9%	8.2%	21.1%	-0.2%
	U.S. High Yield	6.9%	-0.4%	-0.4%	0.7%	7.0%	0.3%		Wheat	\$616.8	4.3%	14.4%	13.6%	-2.2%	18.9%
	EM Bonds (USD)	5.9%	-1.1%	-0.1%	0.9%	9.1%	0.5%		U.S. Dollar	99	1.1%	2.8%	0.3%	-4.2%	1.2%
	Municipal Bonds	3.4%	-0.8%	0.2%	1.6%	4.7%	1.4%		VIX Index	29.5	48.5%	66.0%	91.4%	18.6%	97.3%

Footnotes: Data is as of March 6, 2026.

Source: Bloomberg Finance LP, Verdense Capital Advisors.

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