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Market Commentary

Resilient, For Now

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The Iran conflict presents a predicament for investors. An extended conflict would certainly challenge global economic growth, but a quick resolution is likely to lead to a bounce-back in equity markets.

In the near term, we remain constructive about the economic outlook and the backdrop for risk assets:

- Oil prices are not yet high enough to cause a global recession (Fig. 1),
- The global economy is less sensitive to oil price changes than it has been historically, and
- US consumer spending on energy, as a percentage of personal income, is near all-time lows.

However, markets have been sanguine over the last two weeks with the S&P 500 only down about 2.5% since the end of February. For context, the 1973 Arab oil Embargo and the 1990 Gulf War led to US equity market (S&P 500) declines of -43.4% and -16%, respectively, but the 1979 Iranian Revolution and the 2022 start of the Russia-Ukraine did not lead to significant equity market sell-offs.

For now, we have not changed our allocation advice. To the extent possible, we believe a moderate investor (60/40 equities/bonds risk profile) should target 25% in high quality fixed income, 50% in global equities, 10% in asset-backed private credit, 5% in private equity, 5% in value-add real estate, 2.5% in hedge funds, and 2.5% in infrastructure.

A longer (+ 2 months) closure of the Strait of Hormuz increases the risk of global economic stagflation and an equity bear market, particularly if oil price exceeds \$125 a barrel for a sustained period. Spending on crude oil, as a percentage of global GDP, would reach 2% at \$125 a barrel and 3% at \$200 a barrel. We would likely reduce portfolio risk if such a scenario became more likely, but believe it is too early to do so at the current time.

Fig. 1: Historical oil prices and recessions



Source: Bloomberg, Mill Creek. As of 3/12/2026.

Fig 2: Crude oil spending as a percentage of global GDP



Source: Bloomberg, Mill Creek. As of 3/12/2026.

Fig. 3: US Consumer spending on gasoline and other energy good as a percentage of disposable personal income



Source: Bloomberg, Mill Creek. As of 3/12/2026.

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