

Interim Market Report - Middle East Conflict

March 13, 2026

For months now, we have been calling to attention the historically elevated valuations in the market, the choppy sideways action of most indices, and rotation out of growth and into defensive staples that typically does not indicate underlying market strength. This was all before the recent escalation of geopolitical tensions in the Middle East added another layer of uncertainty to the market and global economy.

The recent breakout of new conflict and open intervention in the Middle East has done little to support the idea that markets will go from sideways and defensive to bullish. Monday's market reversal was thanks in part to Donald Trump stating that the war with Iran "will be over soon", a positive, albeit vague statement coming from the President. Despite an initial positive response to that sound bite, the conflict continues, with no end in sight, and major indices have now retreated below where they were when that 'news' first came out.

Since the start of the conflict, the most immediate reaction has been in energy markets. Oil prices have surged to roughly **\$120 per barrel**, their highest level in almost four years before retreating back down to the still historically elevated \$100 level. The last time oil reached similar levels was at the start of 2022, a period that was followed by a broad market pullback of roughly **30% across major equity indices**. That period, too, was characterised by a market that was rotating out of growth, an economy that was wrestling with triple digit oil prices, and a new open conflict in the Ukraine war.

A central factor behind the spike is disruption to shipping through the **Strait of Hormuz**, one of the most critical energy corridors in the world. Approximately **20% of global oil shipments** move through this narrow channel under normal conditions. Recent tensions have made tanker navigation increasingly difficult, reducing the flow of crude and raising concerns about sustained supply constraints (**Figure 1**). Even if the current conflict were resolved quickly, energy producers that have already scaled back shipments and production may be reluctant to resume normal export levels immediately, potentially leaving global supply tighter and for longer than markets had previously assumed.

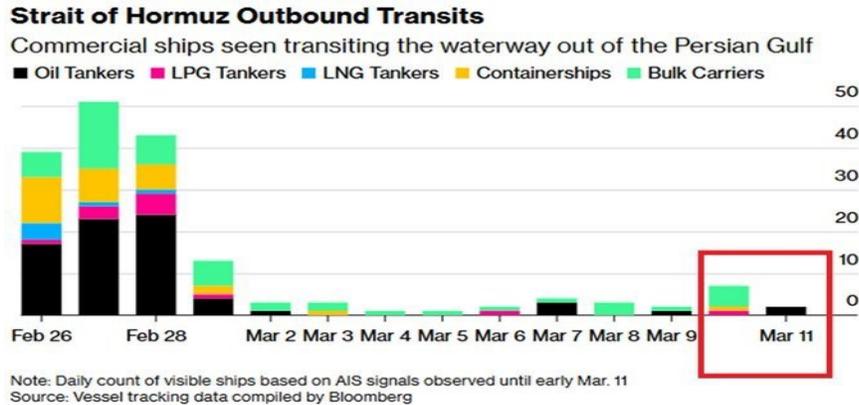


Figure 1: Commercial shipments through the Strait of Hormuz have declined drastically since the start of the War in Iran.

Higher oil prices carry implications that extend far beyond the energy sector. Historically, sharp increases in oil function as a **tax on the global economy**. Energy costs rise for businesses and consumers alike, compressing corporate margins while reducing disposable income. When this occurs, the broader economic system has less capacity to absorb additional shocks, and equity markets typically face greater headwinds as earnings expectations come under pressure.

At the same time, signs of softening economic momentum are beginning to appear in the labor market. Recent **U.S. nonfarm payroll data printed a negative reading last Friday, its fourth time doing so in the last eight reports**, a pattern that has historically emerged during the transition toward recessionary conditions. Similar deterioration in employment data was observed ahead of the downturns in **2000 and 2008**, periods that ultimately coincided with substantial equity market drawdowns.

Despite these developments, financial markets have so far remained relatively resilient. Major equity indices have experienced bouts of volatility but have not yet undergone a sustained decline, despite markets trading at the low end of the narrow trading range of the last 6 months. It is natural for investors—particularly after almost two decades of strong market performance—to view geopolitical and economic risks as temporary disturbances rather than structural threats. But these threats are real and are not likely to abate anytime soon.

Despite the latent optimism, a less favourable outcome remains entirely possible. A prolonged geopolitical conflict that keeps oil prices elevated, combined with weakening economic indicators and already stretched valuations, could create a convergence of pressures on the global economy. In such a scenario, rising energy costs, slowing growth, and deteriorating sentiment could combine to produce a period of economic contraction that ultimately pushes markets into recession.

If these forces were to materialize simultaneously, the resulting market decline could exceed the scale of the pullbacks experienced so far during the current bull cycle. Periods such as this highlight the importance of risk management and portfolio positioning in environments where uncertainty is elevated and valuations leave little margin for error.

How Are We Positioning Portfolios in an Environment of Elevated Uncertainty?

All this, of course, brings us to our *Safe Harbour Fund*. One of the reasons why we have been able to beat the market with our proprietary equity model is because of our confidence, not just in the model, but in our tail risk hedge that actually pays us when the market has a sizable drawdown. With our Partners at Universa Investments, we have a dedicated sleeve that essentially acts as Fire Insurance in the event of a major market downturn. When the market is up, we are up, and when the market is significantly down, our hedge ensures that we can come out alive and better positioned than most.

We don't know why others have not adopted this same strategy, but frankly we don't care because it allows us to take capital and grow it, protect it, and preserve it. This is a strategy that has served previous Universa investors in previous sharp market downturns and will serve us if and when the next big market correction comes...and it will come. The question is not of if, but when, and the current conditions are aligning in a way that suggests that time may be sooner than we think.