

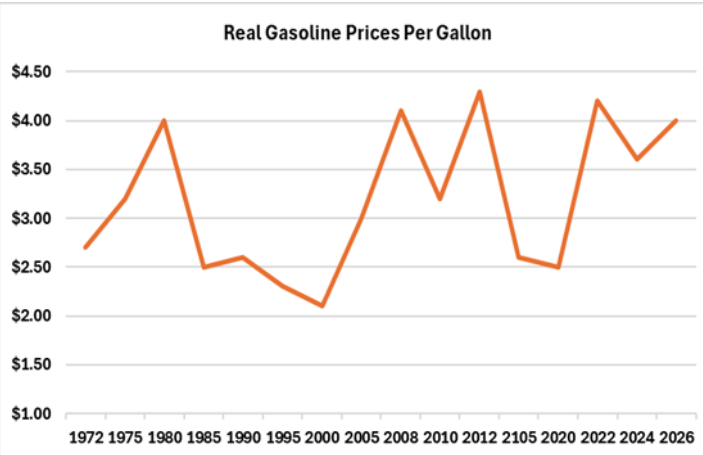


Market Musings

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The major impact on the world's economy from the war and the closure of the Strait of Hormuz is the choking off of global oil availability. Before the war, adjusting prices for inflation, gas prices had not trended upward. They tend to be cyclical around energy stocks and have been in the middle of the 50-year range until the war's impact raised prices.



War and Oil Prices

The bombing of Iran and subsequent response from that country have thrust the U.S. and a few allies into a wartime situation, even though there has been no declaration of war. This is an unexpected circumstance since only Congress has the right to declare war. The prospect of conflict, coupled with disruptions to global oil supply, has driven oil prices above \$100 per barrel. Further complications are likely in the short term, as other entities enter the fray on both sides. As expected, financial markets have been unusually volatile due to uncertainty about the war's outcome. What might investors expect during the next few weeks and months of the year?

History tells us that market weakness is short-term. Following the attack on Pearl Harbor, World War II began the day after December 7th, 1941, when President Roosevelt declared war on Japan. Four months later, the US stock market reached a low point on April 23rd, 1942, and rallied throughout the war. After the war, the US committed to rebuilding Europe through the Marshall Plan, providing enormous amounts of capital and support to countries that had attacked the US.

The last conflict in Iraq led to similar circumstances. In 1991, the US led a coalition of forces against Iraq after it had invaded Kuwait. Financial markets rallied on the day of the invasion and never looked back as the US convincingly defeated the Iraqi regime.

One disturbing development has been the closure of the Strait of Hormuz, restricting ships on a major transportation waterway for Middle Eastern oil. Unlike the 1973 OPEC embargo on oil shipments to the US, a global supply shortage is driving up prices. Fortunately, the US has become relatively self-sufficient in oil production, and the availability of liquefied natural gas (LNG) has eased price pressure in the US compared with the surging prices in countries that depend on Mideast oil shipments.

If the war continues, it is difficult to make reasonable short-term investment decisions. Diversification is paramount in waiting out the battle. Daily events drive stock prices in different directions, overlooking the underlying economic progress and accelerating technological advances. During such times, investors must adopt a wait-and-see approach rather than make short-term decisions based on temporary events affecting the war.

“I try not to worry about things I can't do anything about.”

- Christopher Walken

Market Commentary

Jitters escalated in March as the conflict in the Middle East reignited fears of stagflation, and hopes for Fed rate cuts dissipated. The S&P 500 finished down nearly 5%. Mid-and small-cap stocks were not spared, finishing March down 5.4% and 4.1%, respectively. The weakness in stocks extended to bonds that finished in the red for the month. Asia Pacific equities rallied, then reversed course, finishing down nearly 13% (as measured by the Pan Asia BMI), largely due to a decline in South Korea. European equities were heavily impacted by the war with Iran, with the S&P Europe 350 plunging 9% and giving up all 2026 gains, while Latin America fared the best, with a 2.9% decline in the S&P Latin America 40 index. The dollar rallied by more than 2% during the month on the back of safe-haven demand.

According to Morningstar, ETFs saw a record \$1.46 trillion in inflows in 2025, up \$350 billion from 2024's record. Vanguard's S&P 500 ETF (VOO) experienced the largest inflows of any single ETF at \$143 billion. Roughly 1 in 10 of the new dollars invested in ETFs in 2025 went into VOO.