Adaptive Asset Program - Hybrid
First Quarter 2026 in Review

Oil prices rose sharply and stocks sold off (with the exception of energy stocks) following the start of the war in Iran. After outperforming in recent months, international equities sold off more than US stocks in the last month since many other countries rely on imported oil and liquefied natural gas (LNG). The US Supreme Court struck down the tariffs Trump implemented unilaterally last year. Rising energy costs will hit consumers and farmers and contribute to higher inflation. The Federal Reserve System (The Fed) kept interest rates unchanged and additional rate cuts this year now look less likely.

Outlook:

Iran closed the Strait of Hormuz, through which around 20% of the world's oil and LNG, as well as fertilizer, chemicals, and refined products, are normally shipped. Some oil may get exported from the region, but this is likely to remain the largest reduction in oil supply in history. Drones could allow Iran to keep the strait closed indefinitely and damaged infrastructure could take years to repair even after the war is over. Iran's blockade highlights the risk of dependence on vital supplies from this region.

The US became the world's largest producer of oil in 2018 and of natural gas in 2011. In 2016, America began to export LNG, which is produced in expensive liquefaction plants. The US produces the most LNG of any country; more production is scheduled to come online this year that should offset shortages from the Middle East. Buyers will be looking to source more reliable supplies from the US. Countries without their own fossil fuel resources will be further incentivized to develop renewable and nuclear energy. Due to massive manufacturing expansion in China, utility-scale batteries and solar energy costs have dropped 80% in the last 10 years, making them economically competitive and more readily available.

The loss of tariff revenue and the costs of the war will worsen the government deficit, which was already on an unsustainable trajectory. At some point investors may become wary of US Treasuries. Options to address this include raising taxes, cutting spending, allowing higher inflation, boosting economic growth, or some combination of these. Although the US's role as an energy exporter has strengthened the dollar since the start of the war, out-of-control spending by the US government could cause it to resume its downward trend.

Your account:

Our oil and gas investments have performed well due to the rise in oil prices. Our pipeline companies should benefit from further buildout of natural gas infrastructure. We have retained our overweight position in international equities, which are cheaper than US stocks and an important hedge for dollar weakness. Short-term bond and money market investments help reduce volatility in our portfolio and provide liquidity to take advantage of drops in equity markets.

03/31/2026