

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.

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International investing involves special risks including the possibility of substantial volatility due to currency fluctuations and political uncertainties. The Federal Reserve System (the Fed) is the central banking system of the United States. The Fed is composed of 12 regional Reserve banks, which supervise state member banks. It controls the Federal Funds Rate (aka Fed Rate), an important benchmark in financial markets used to influence the supply of money in the U.S. economy. Inflation is the rise in prices of goods and services, as happens when spending increases relative to the supply of goods on the market. Moderate inflation is a common result of economic growth. Hyperinflation, with prices rising at 100% a year or more, causes people to lose confidence in the currency and put their assets in hard assets like real estate or gold, which usually retain their value in inflationary times. Although bond funds may pay higher yields than other fixed income investments it does not negate the fact that the market value of all bonds fluctuate due to interest rate movements and other factors. The views and opinions expressed herein are those of the author and may or may not represent the views of Capital Analysts or Lincoln Investment. The material presented is provided for informational purposes only, from sources deemed to be reliable, however, there can be no guarantee as to the accuracy of the information. Nothing contained herein should be construed as a recommendation to buy or sell any securities. As with all investments, past performance is no guarantee of future results. No person or system can predict the market. Neither asset allocation nor diversification guarantee a profit or protect against a loss. All investments are subject to risk, including the loss of principal.