

## **From the Desk**

### **SENTRY POINT PRIVATE WEALTH**

#### **Q1 2026: Navigating the Noise and the Price of Uncertainty**

If the closing months of 2025 were defined by a renewed focus on fundamental earnings and margin resilience, the first quarter of 2026 served as a stark reminder that macroeconomic narratives can pivot overnight. We entered the year anticipating a broadening equity market and a normalization of monetary policy. Instead, the sudden escalation of conflict in the Middle East, and the subsequent shock to global energy markets, rapidly consumed investor attention and redefined the quarter's risk profile.

Geopolitical events of this magnitude carry a heavy human toll, and they naturally introduce a profound degree of uncertainty into the financial system. The immediate reaction across asset classes in Q1 was swift and highly correlated: a sharp flight to safe havens, a repricing of energy assets, and a spike in cross-asset volatility. For investors, the headlines over the past several weeks have been undeniably alarming.

However, as stewards of your capital, our primary mandate at Sentry Point Private Wealth is to separate emotional, headline-driven panic from structural economic reality. Geopolitical shocks, while jarring, are a known variable in market history. Successfully navigating them requires a deliberate step back from the daily news cycle to assess the actual transmission mechanisms affecting corporate earnings and the broader economy.

#### **Economic Pulse**

Economically, the current Middle East conflict primarily transmits through an oil shock. Energy costs act as a highly visible, regressive tax on the consumer and serve as baseline input costs for nearly every corporation in the index. The immediate spike in crude prices to roughly \$90–\$100 per barrel has understandably reignited conversations around headline inflation, testing the hard-fought disinflationary progress we observed throughout late 2024 and 2025.

Yet, it is crucial to contextualize this energy spike. The U.S. economy entered this exogenous shock from a position of relative structural strength. Unlike the oil crises of the 1970s, the United States is now a net exporter of energy. While domestic consumers certainly feel the pain at the pump, the broader U.S. macroeconomy is far more insulated from Middle Eastern supply disruptions than it was in previous decades. Capital expenditures in domestic energy infrastructure provide a buffer that historically did not exist.

Furthermore, corporate balance sheets outside of the energy sector remain largely robust. The labor market, while cooling from its post-pandemic highs, continues to provide a stable income floor for millions of households. We are observing a shift in consumer behavior, a delay in discretionary spending and a pivot toward essentials but not a wholesale capitulation. We view this current environment as an inflationary hurdle and a temporary drag on growth, rather than a

systemic, cycle-ending event. The aggregate economy is bending under the weight of higher input costs, but it is not breaking.

## How Markets Moved

Through the end of the first quarter, market performance has been a story of two distinct regimes: the optimistic momentum of January, followed by the geopolitically driven re-pricing of February and March.

- **Equities:** The S&P 500 experienced an immediate spike in the VIX (volatility index) as the conflict escalated, leading to a swift, sentiment-driven drawdown. However, beneath the surface of the headline index, a massive rotation occurred. Unsurprisingly, the Energy and Defense sectors caught a bid, heavily outperforming the broader market. Conversely, transportation, airlines, and consumer discretionary stocks bore the brunt of the immediate sell-off as analysts rushed to price in higher fuel costs and compressed operating margins.
- **Fixed Income:** The bond market wrestled with violently conflicting forces throughout the quarter. On one hand, a flight-to-safety bid drove capital into U.S. Treasuries, pushing prices up. On the other, fears that the oil shock might keep inflation and therefore the Federal Reserve's policy rates higher for longer put a strict floor under how far yields could fall. The result was a volatile quarter for duration, with the 10-Year Treasury yield experiencing sharp, short-term swings before settling into a defensive posture.

## Our Investment Lens

When unexpected shocks occur, history is our most reliable guide. While the specific actors and geography of every conflict are unique, the financial market's reaction function to geopolitical trauma follows a remarkably consistent, well-documented pattern. Historically, markets digest global conflicts well, because markets are mechanisms for pricing the future. They hate uncertainty far more than they hate bad news. Once the "worst-case scenario" is understood, markets price it in and begin to recover.

To provide exact context, we reviewed historical market data analyzing major geopolitical events and subsequent oil shocks over the last several decades:

Geopolitical Event	Initial Market Drawdown	S&P 500 6-Month Return	S&P 500 12-Month Return
1990 Gulf War	-16.9%	+11.7%	+29.1%
2001 Terrorist Attacks	-11.6%	+5.3%	-17.3%*
2003 Iraq War	-14.1%	+20.8%	+35.3%
2014 Crimea Annexation	-2.0%	+8.0%	+12.3%
2022 Russia/Ukraine	-7.8%	-3.5%	-8.2%*

*(Note: Longer-term drawdowns in 2001 and 2022 were heavily driven by parallel macroeconomic factors the bursting of the Dot-Com bubble and the beginning of an aggressive Fed hiking cycle, respectively rather than the conflicts themselves.)*

#### Outlining the pattern:

1. **The Initial Shock:** Markets typically experience a swift, sentiment-driven decline of 5% to 15% as uncertainty peaks.
2. **The Bottoming Process:** Equity markets are ruthlessly efficient. They typically reach a durable bottom within 15 to 30 days of the initial event, long before the actual conflict resolves.
3. **The Recovery:** As supply chains reroute and the reality of the economic impact becomes quantifiable, equities historically recover their initial losses rapidly, often posting double-digit gains over the subsequent 12 months.

This exacting data underscores exactly why we do not make panicked, wholesale changes to your wealth plan based on news headlines. We remain anchored to the framework we established at the end of 2025: redefining "Quality." In an environment of oil shocks and sticky inflation, we are hyper-focused on **Pricing Power**. We want to own companies that have the dominant market position required to pass these higher energy and input costs onto the end consumer without destroying demand. Margin resilience is the ultimate defensive characteristic in 2026.

## What We're Watching

As we move into the second quarter, our focus remains strictly on quantifiable data. We are actively reviewing three specific variables:

- **Duration of the Supply Disruption:** A brief spike in oil to \$100 is an event the economy can digest; oil sustained at \$100+ for 12 months changes consumer psychology. We are closely monitoring global inventory levels, strategic petroleum reserve releases, and spare capacity in the Permian Basin to gauge whether this is a transitory spike or a structural shift.
- **Central Bank Rhetoric:** The Federal Reserve typically attempts to "look through" energy-driven inflation spikes, recognizing that raising domestic interest rates does not pump more oil or resolve Middle Eastern conflicts. We are watching Fed commentary closely to ensure core inflation expectations remain anchored, which would allow them to maintain a neutral policy stance rather than returning to rate hikes.
- **The Volatility Premium:** With the 2026 U.S. midterm election cycle approaching, the intersection of domestic political uncertainty and international conflict will likely keep the VIX elevated. We view this not as a threat, but as an opportunity to generate yield through tactical portfolio rebalancing.

## Final Word

Our approach to managing your wealth is built on the unwavering principles of balance, discipline, and historical perspective to look forward. We utilize genuine diversification not merely as a defensive measure or a buzzword, but as a fundamental, mathematical component of long-term portfolio construction. The inclusion of non-correlated assets is designed specifically for quarters exactly like this one.

Moments of headline panic are precisely when a disciplined investment process proves its worth. Emotional investing destroys capital; procedural, data-driven investing preserves and grows it. We will continue to evaluate the situation in the Middle East closely, using any unwarranted market dislocations as an opportunity to upgrade the quality of your portfolio at discounted valuations.

We offer insights to provide a clear view of how your capital is being managed. We are committed to remaining vigilant, adapting to changing economic conditions, and strictly upholding the long-term objectives we have set together.

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