

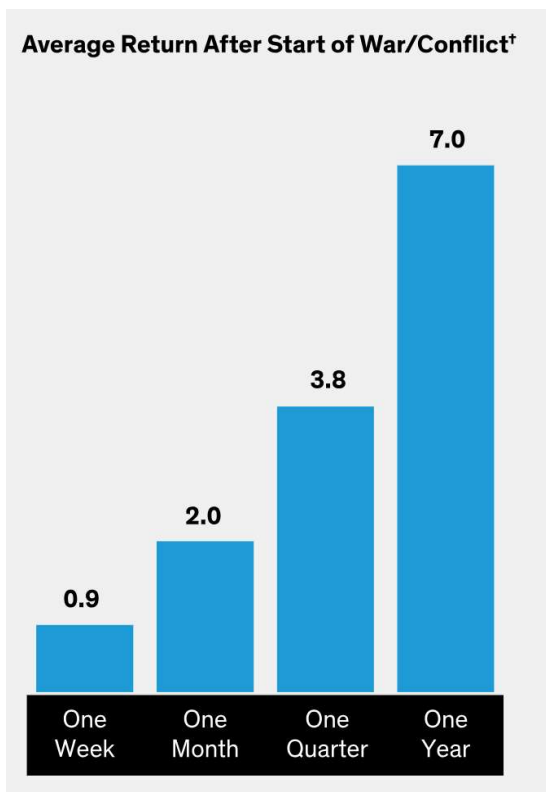
Good morning,

There is no shortage of alarming headlines these days, due to yet another war in the Middle East. Oil prices have shot up above \$100/ barrel and, as of this writing, remain elevated. This raises the specter of an increase in inflation, waning consumer demand, and a slowdown in both corporate earnings and GDP growth.

The biggest variables at the moment are how long the current conflict lasts, and how long oil prices remain above \$100/ barrel. To start, I'd like to take a look at the historical record for similar situations regarding geopolitical conflict, especially in the Middle East.

### **How does war impact the stock market?**

Historically, wars do not typically have a lasting effect on the market. Looking at the eight major conflicts since 1970, the S&P 500 was up 7% one year after the onset of each conflict. To be sure, volatility was often elevated at the start of hostilities, but ultimately the market looked past the geopolitical shocks.



Source: Bernstein, Bloomberg, Fact Set

I think a more relevant way to assess the potential impact of the current conflict in the Middle East is to look at the spike in the price of Crude Oil. Previous spikes have resulted in 12 month returns that have been well above the S&P 500's long term average of around 10%.

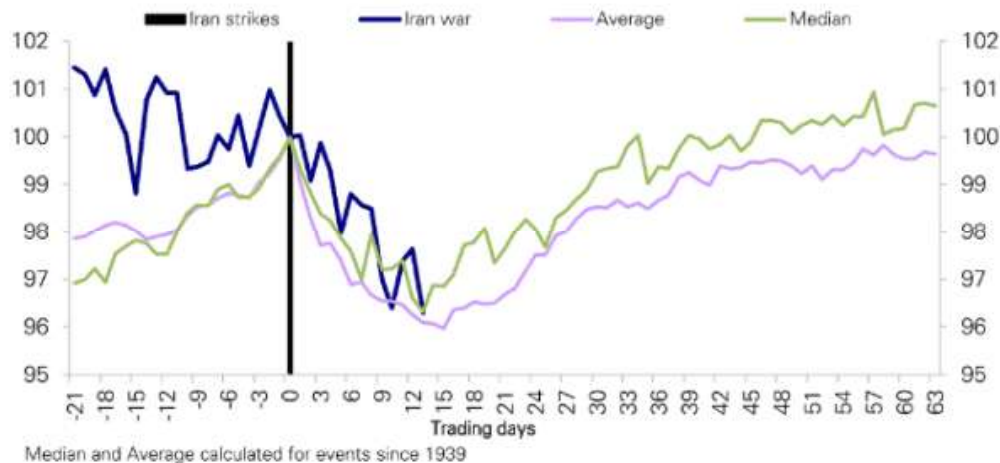
### History as a Guide

Start Date	Initial Shock Peak	Oil Crisis	Crude Oil Price %	12M Forward S&P 500 %
2/27/2026	3/6/2026	2026 Iran Conflict	33%	–
2/23/2022	3/8/2022	2022 Russian-Ukraine Invasion	37%	-4%
2/16/2011	3/2/2011	2011 Libyan War	14%	5%
3/19/2003	4/9/2003	2003 Iraq War	-15%	32%
8/1/1990	10/15/1990	Iraq's Invasion of Kuwait	91%	29%
12/31/1978	4/30/1980	Iranian Revolution	120%	25%
1/10/1973	12/16/1974	Arab Oil Embargo	354%	34%

Source: Bloomberg

A bit of history from Jim Reid, strategist at Deutsche Bank, provides another reason why the crisis-induced selloff may be coming to an end.

### S&P 500 around 30 major geopolitical events since 1939



Source: Bloomberg, Deutsche Bank

“In date terms, the average worst point [for the S&P 500] tends to come around three weeks after the initial shock, and we are now closing in on that window,” says Reid. “Looking further out, median returns are back to pre-shock levels by day 34, which is just under seven weeks after the event, while average returns are also close to full recovery by then.”

### Introducing the Fear Index (VIX)

Warren Buffet has famously said “Be fearful when others are greedy and be greedy when others are fearful.” What if there was a way to monitor and quantify this? Turns out, there is: The CBOE Volatility Index, or VIX for short.

Spikes in the level of the VIX have historically coincided with larger drops in the market. We are presently experiencing another such spike. This does not mean the market is due for an immediate reversal. However, consider the following:

The VIX closed at 29.5 on March 6, marking the 265th time the index closed above 29 over the last 15 years. That hints at substantial forward returns in the stock market. What does that mean for investors? In the last 15 years, the S&P 500 has recorded an average 12-month gain of 24% following a VIX reading above 29 (source: WSJ)



Source: Charles Schwab

### How do we use cash in a portfolio?

Another method we employ to both reduce volatility and ensure funds are available when needed is via a modest cash allocation. We do not automatically reinvest dividends but use them for income needs or to strategically reinvest where we see the greatest value at the time.

Maintaining a 2–3% cash allocation provides essential liquidity to support portfolio rebalancing, ongoing trading needs, and near-term cash flows without forcing sales at inopportune times. It also allows us to act decisively when attractive opportunities emerge, giving the portfolio flexibility to add risk thoughtfully rather than reactively during periods of market volatility.

### Portfolio updates

1. **Remaining defensive** Given that the current conflict has no clear signs of ending, it is best to keep the more defensive posture we implemented last year. If the situation resolves in a favorable manner, I will likely shift out of investments such as the Buffered Index into other equity investments with greater upside potential.

- 2. Reducing Private Credit** There have been concerns recently that private credit loans may be facing increasing headwinds due to the advent of Artificial Intelligence and the rise in intermediate term interest rates. Default rates remain low, but investment firms such as Cliffwater have been limiting quarterly redemptions. I'll be gradually reducing our investments and replacing them with other higher yielding, but more liquid, investments such as the JP Morgan Premier Equity Income ETF (JEPI) as redemptions allow.
  
- 3. Roth Conversions** Now might be a good time to explore converting assets from a regular IRA to a Roth. With the market off its highs and down year-to-date, converting now affords the opportunity for the funds to appreciate tax-free inside the Roth. While there is no way to perfectly time the conversion, this is one way to use the market volatility to one's benefit.

Note: If converting a Traditional IRA to a Roth IRA, you will owe ordinary income taxes on any previously deducted Traditional IRA contributions and on all earnings. A conversion may place you in a higher tax bracket than you are in now. Because Roth IRA conversions may not be appropriate for all investors and individual situations vary we suggest that you discuss tax issues with a qualified tax advisor.

As always, please let me know if you have any questions or comments on the markets or economy, or your investments in particular.

Very truly yours,



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