

Energy Shocks, Inflation Pressures, and Market Positioning

Key Takeaways

- **Geopolitical risk drove a broader shift to risk-off positioning.** The Iran conflict and concerns around energy supply, particularly the Strait of Hormuz, lifted oil prices and inflation expectations, increased volatility, and weighed on global equities, with U.S. markets holding up better than international peers.
- **Inflation and policy expectations were repriced quickly.** Higher energy prices pushed markets from anticipating rate cuts to pricing in potential Fed hikes, pressuring fixed income and driving sharp sector dispersion, with energy outperforming and consumer discretionary lagging amid weakening confidence.
- **Diversification and flexibility continued to add value.** Year-to-date allocations to mid- and small-cap equities, equal-weighted large caps, emerging markets, and a duration-neutral fixed income stance proved resilient, reinforcing the importance of diversification and tactical flexibility during periods of market stress.

Indicator	Impact	Insights
Economic Growth	●	Growth remains resilient, supported by solid GDP, stable inflation, and a steady labor market despite geopolitical noise.
Inflation	●	Inflation is contained but facing near-term pressure from higher oil prices, with impacts expected to be manageable.
Fed Policy	●	The Fed remains patient and data-dependent, but reduced expectations for rate cuts and rising energy risks warrant caution.
Stock Market	●	Equity leadership broadened toward mid-cap and value stocks, reflecting healthier market participation.

● = Positive ● = Neutral ● = Negative

Economic and Market Review

In March 2026, global markets were largely shaped by geopolitical developments surrounding the Iran conflict and the resulting implications for energy supply, inflation expectations, and market volatility. Ongoing uncertainty around the conflict's duration and scope, particularly Iran's control of the Strait of Hormuz, heightened risk sensitivity across asset classes.

Equity markets weakened broadly over the period, with domestic equities outperforming international counterparts even as both posted month-to-date losses. Sector dispersion remained pronounced. Energy stocks outperformed as oil prices rose, while consumer discretionary sectors lagged. **Fixed income markets** experienced increased volatility. U.S. Treasury yields moved higher, as inflation expectations rose from the start of the month and Fed funds expectations shifted from anticipated rate cuts to potential rate hikes, a meaningful change in market outlook. **Macroeconomic indicators** pointed to weakening confidence across consumers as the University of Michigan's Survey of Consumers reported declining month over month and year over year results. Labor market conditions remained stable, with unemployment coming in at 4.4% in February.⁴

Overall, March reflected a shift toward risk-off positioning, with elevated volatility and heightened sensitivity to geopolitical and inflation-related developments across global markets.⁴

Outlook and Positioning

Our 2026 base case remains constructive, with the potential for broader equity participation as earnings breadth improves. However, March demonstrates that short-term outcomes can be volatile: geopolitical shocks that threaten energy supply can raise inflation expectations, increase rate volatility, and compress diversification benefits temporarily. Year-to-date results support our diversification into mid- and small-cap equities and equal-weighted large caps within domestic equities, as well as the increased allocation to emerging markets within international equities. Our duration-neutral positioning in fixed income was also rewarded during a month when duration risk was not. Importantly, we continue to preserve tactical flexibility to add risk or implement overlays during periods of market dislocation.

Sources: Members Trust Company Research, 1 U.S. Bureau of Economic Analysis, 2 U.S. Bureau Labor of Statistics, 3 CME Group, 4 FactSet, ETF tickers SPY, IJH, IJR, IDEV, EEM, and AGG used as index proxies. Non-deposit investment products available through Members Trust Company are not deposits of or guaranteed by the trust company, a credit union or credit union affiliate, are not insured or guaranteed by the NCUA, FDIC or any other governmental agency and are subject to investment risks including possible loss of the principal amount invested. Members Trust Company, owned and managed by credit unions nationwide, is a special purpose federal thrift regulated by the Office of the Comptroller of the Currency. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. Net return includes stock price and net dividend income performance, which includes the impact of taxes on dividends. Past performance is not indicative of future results. Any opinions expressed are those of the presenter and do not necessarily reflect the position of Members Trust Company. The information above is obtained or compiled from sources we believe to be reliable. We do not guarantee that such information will be free from errors or omissions, whether human or mechanical, nor do we guarantee its timeliness, accuracy or completeness. This material is intended for general informational purposes only and does not constitute legal or tax advice. Please consult a qualified professional for legal or tax guidance.

