

Maclura Investments

1Q26 Review - Geopolitical Turbulence Should Settle



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Major U.S. equity benchmarks started the year on a positive note before dropping 5% in March due to uncertainty surrounding U.S. military operations in Iran. The first quarter ended with a negative return of 4.6%, mirroring the market's reaction during Q1 2025, leading up to President Trump's "Liberation Day" tariffs.

Exhibit 1. Investment-Style Returns

Morningstar Index Market Returns		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026 1st Qtr.
Growth	U.S. Growth	29.52%	0.78%	35.90%	44.65%	24.79%	-36.70%	38.48%	23.42%	14.00%	-6.19%
	Large Growth	31.15%	2.94%	33.81%	38.86%	21.47%	-40.36%	47.26%	27.75%	19.64%	-12.76%
	Mid Growth	25.67%	-3.16%	36.01%	46.17%	14.97%	-32.37%	25.38%	20.33%	5.42%	-2.44%
	Small Growth	23.77%	-5.67%	27.60%	43.52%	-1.00%	-33.13%	26.65%	12.89%	14.12%	-1.42%
	US Market	21.47%	-5.05%	31.22%	20.99%	25.78%	-19.43%	26.44%	24.09%	17.35%	-4.18%
Value	U.S. Value	14.23%	-7.51%	25.09%	-1.31%	23.98%	-0.72%	11.98%	13.77%	17.24%	3.03%
	Large Value	15.09%	-5.90%	25.70%	-0.62%	21.49%	0.26%	11.82%	14.69%	18.18%	2.37%
	Mid Value	13.02%	-10.63%	24.81%	-3.76%	29.02%	-2.39%	10.94%	12.28%	15.93%	5.15%
	Small Value	8.40%	-16.61%	19.96%	1.01%	31.79%	-6.60%	14.58%	9.67%	11.84%	2.75%

Source: Morningstar

Growth stocks underperformed value stocks, primarily due to the heavy weighting of the technology sector. Legacy software companies faced a difficult quarter as investors questioned their ability to compete with emerging AI products. This downward trend in public software companies also sparked liquidity concerns in the private credit market, where investor redemption requests exceeded allowable withdrawal limits.

Despite these short-term struggles, the AI industry may currently be oversold as the technological race continues to attract record capital. SpaceX, which acquired Elon Musk's xAI in February 2026, is planning a historic \$1.75 trillion IPO in June. Leading AI providers like OpenAI and Anthropic are also raising billions of dollars. Moving forward, AI investments in data centers, services, and enterprise efficiency will continue to drive massive industry momentum, forcing legacy companies to adapt or risk being "innovated" out of business.

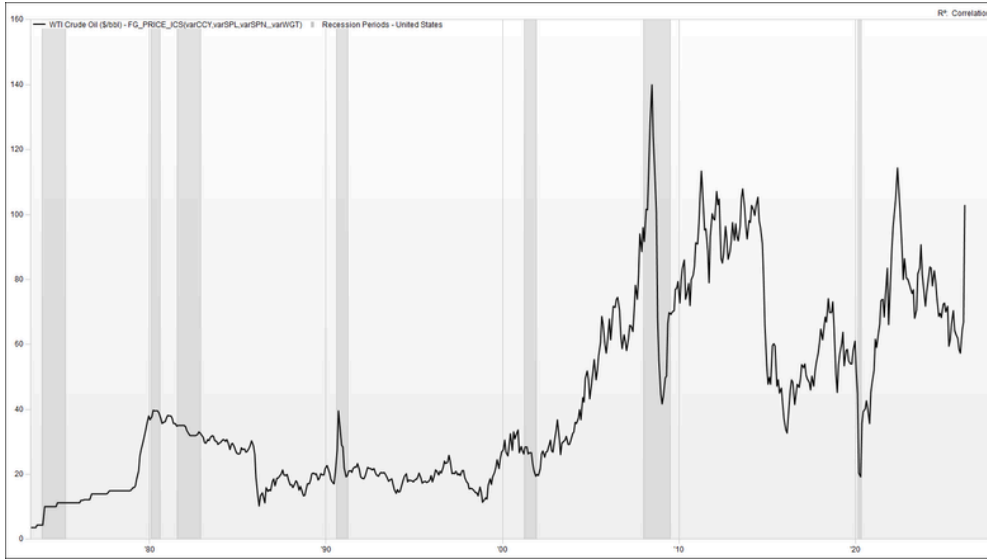
While the first quarter saw other major events—a U.S. military strike in Venezuela and a Supreme Court ruling limiting the President's unilateral tariff powers under the IEEPA—the Iran conflict and the upcoming Trump-Xi summit will be the primary drivers of short-term economic momentum for the rest of the year and beyond.

Military Operations Against Iran

Historically, the U.S. economy has shown resilience against recessions, but the military operations in Iran have caused crude oil prices to surge 96.5% to \$112.90 by early April. As illustrated in the chart below, higher oil prices have been a consistent indicator in recessions over the past several decades, except the Covid-19 recession. The conflict has essentially closed the Strait of Hormuz, reducing daily ship transit from an average of 129 to just six. Because the Strait handles 25% of global seaborne oil trade, these disruptions threaten to significantly burden the global economy, particularly in Asia, which received 84% of the Strait's shipments in 2024. This significantly raises the risk of a global recession unless a lasting peace resolution is agreed upon in the coming weeks.



Exhibit 2. Oil Prices with Recession Periods Shaded



Source: Factset

Fortunately, the U.S. and Iran agreed to a two-week cease-fire on the evening of April 7th. If diplomatic efforts succeed, and in dealing with the Iranians, this would be a big if, then oil prices should normalize quickly to a lower level, minimizing long-term damage to the world's economy. Upon the news of the two-week ceasefire, oil prices recorded their largest one-day percentage decline since the spring of 2020, dropping nearly 13%. While the cease-fire is dependent on the Strait of Hormuz being open, there is significant uncertainty in the details of how that will be accomplished. Regardless of the timing of the reopening, the disruption of cargo transiting through the Strait will reverberate through the world's economy for a while.

The Trump-Xi Summit & Future Outlook

Rescheduled for mid-May, the Trump-Xi summit is being framed by both sides as a "historic" and "monumental" step toward normalizing relations. China's unusual silence regarding the U.S. intervention in Iran—despite China's heavy reliance on Iranian energy—highlights Beijing's strong desire to secure a bilateral agreement, with some media reporting that China had significant influence with Iran to accept the two-week cease-fire.

Given America's reliance on Chinese manufacturing and supply chains, alongside China's need for the U.S. export market and investment, this mutual dependence makes a successful agreement at the May summit highly probable. A positive trade resolution would be a boon for the stock market and help ease consumer struggles with ongoing inflation and affordability concerns.

While most investors didn't have "Iran War" on their fictitious "bingo card" at the beginning of the year, if President Trump can bring the "military operations" to a timely conclusion and not get caught in a military quagmire like Russia and Ukraine's never-ending war, the market should recover from the pullback experienced since the beginning of March. Nonetheless, favorable diplomatic outcomes in both the Iran conflict and the China summit are expected to provide strong market tailwinds for the remainder of the year, rewarding investors with another year of positive stock market performance.

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