

# INVESTMENT PERSPECTIVES

MARCH 2026

## Key Takeaways —

- Is it time to rethink China?
- How oil and the bond market mix.
- Do wars derail markets?



## UP AT YUAN ■

Mark Luschini, Chief Investment Strategist

For some, investing in Chinese equities is a bridge too far. In the context of the discord and adversarial relationship that exists between the U.S. and China on many levels, that

may be construed as a rational response. Plus, there are many options for investors seeking global diversification to consider when allocating capital, both here, and abroad, that can be accomplished without investing in Chinese equities.

However, consider that in many cases those investing in a variety of popular global and international mutual and exchange-traded funds may already be exposed to companies domiciled in China. Looking at several equity benchmarks against which these funds are often compared gives us an illustration of the exposure that often accompanies these investments. For instance, the MSCI All Country World Index, a broad proxy for a basket of developed and emerging market stocks, in which the U.S. has a huge weighting of almost 61%, allocates just over 2% to Chinese equities. Another common international benchmark that excludes the U.S. is known as the MSCI All Country World ex. U.S. Index and holds almost 6% in Chinese equities. Lastly, the granddaddy of emerging-market indices, the MSCI Emerging Markets Index, a proxy that excludes developed-market economies, holds just under 19% of its portfolio in Chinese companies. Meanwhile, some investors also choose to own individual China-domiciled stocks whose U.S.-based equivalents are similar to Amazon, Meta, or Alphabet, to name a few.

The ongoing trade tensions between the U.S. and China, along with the sharp decline in Chinese imports, may lead some to believe that the country's heavy reliance on exports has hindered its economic growth. Not so fast. Indeed, China's total trade with the rest of the world has expanded, in large part because goods are being

rerouted into new markets, and, indirectly, to the U.S. through channels such as Mexico and Vietnam. Despite this shift in trade, the U.S. remains China's largest export market, and China remains America's second-largest source of imports. This demonstrates a delicate symbiotic relationship as geopolitical rivals and economic partners.

One of the tools China possesses to assuage the U.S. is its currency, the Yuan. Under Trump 45, the Administration threatened to label China a currency manipulator, suggesting it deliberately weakened its currency to accomplish two goals: primarily to boost its exports, and secondarily, to make the Dollar cross stronger, thereby disadvantaging U.S. exports to China due to their higher costs.

Today, the Yuan is strengthening and recently reached a level last seen in 2023, up about 4% since President Trump's electoral victory for his second term and almost 8% from its nadir slightly less than a year ago. Given China's ability to steer its currency and its massive trade surplus, which would naturally put upward pressure on a country's currency, the increase appears sustainable. Furthermore, as China attempts to rebalance its economy toward greater domestic consumption, an objective hinted at by officials but that we expect to learn more about with the delivery of their 15th Five-Year Plan at an upcoming conference, strengthening the Yuan will only aid that initiative by increasing the buying power of Chinese households.

As investors have rotated into other markets outside the U.S., evidenced by the outperformance of many international bourses since the beginning of 2025, some have viewed the potential for a rebound in Chinese growth, should Beijing embark on more stimulative policies post March's National People's Congress legislative confab, as alluring. A rising Yuan could potentially amplify returns for investors whose home currencies would conversely weaken.

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We expect Chinese policymakers to implement measures later this year to stimulate growth through incentives to boost household demand. If the Yuan continues to strengthen, as appears probable, investors seeking international diversification while accepting exposure to Chinese equities might want to consider consumer services companies that could potentially benefit. ■



## ENERGY PRICES AND FIXED INCOME MARKETS

Guy LeBas, Chief Fixed Income Strategist

March is unfortunately the month for writing about geopolitical stresses and fixed-income markets. Our last discussion on the topic came following the 2022 Russian invasion of

Ukraine; this time around, it is US-led strikes on Iran. Leading up to these strikes, the bond markets have been chopping around in a narrow range for the better part of a year. In the days before the current conflict, the U.S. Treasury markets took on their traditional role as a safe-haven asset and a hedge against geopolitical stress. That hedge evaporated unusually quickly, underscoring the importance of energy prices in the global economy and bond markets.

Over the last several decades, the impact of conflict on the U.S. bond markets has been progressively reversing faster. On average, it has taken just nine days from the onset of hostilities until the bond markets sell-off and completely reverse their safe-haven rally. Fortunately, the instances of conflict remain too few to identify a clear trend, but it appears the pace of the bond market reversal has been accelerating. Moreover, bond markets are increasingly anticipating geopolitical tensions before they escalate into outright conflict—a classic buy-the-rumor, sell-the-news trade.

What makes the 2026 Iran conflict somewhat more complicated is its potential impact on the energy patch. Two days into the violence, there have been a few retaliatory attacks on Middle East energy infrastructure. Global oil prices, at the time of authorship, are up 12–15% from pre-conflict levels and about 30% so far in 2026. European natural gas futures were, meanwhile, up as much as 45% immediately after the onset of hostilities, though natural gas is a famously volatile trader.

The relationship between the energy and bond markets is complex. Energy is a key global economic input, so when the cost of energy rises from a supply shock (such as conflict), the cost of everything in the global economy rises. The degree of that rise has been declining, and World Bank data as of 2022 indicates that the U.S. economy uses about 4.2 megajoules (mj) of energy per inflation-adjusted unit of GDP. That’s down from about 8.5mj when the World Bank first started estimating in the 1980s. So, while higher energy costs arguably increase inflation and, in turn, interest rates, the effect is ultimately negative. It also helps that the biggest energy input into U.S. manufacturing and power generation is natural gas. Though global natural gas prices are spiking, domestic natural gas prices are only marginally higher in the conflict and remain 10% below their decade-average.

Chart 1: US Natural Gas Prices Little Moved Post-Iran Conflict

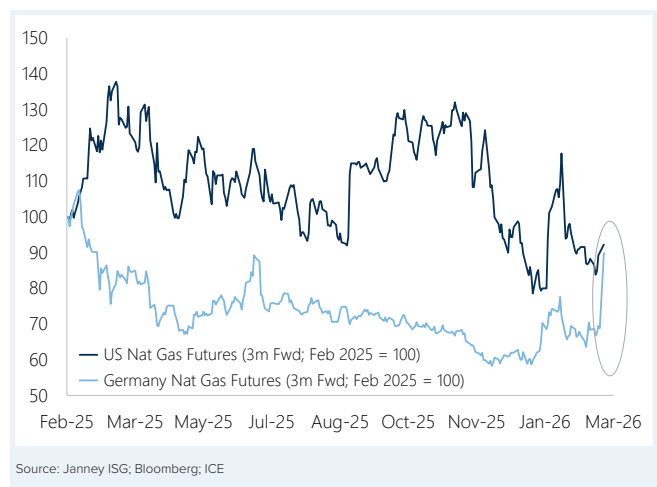


Table 1: Bond Buying Around Conflicts Increasingly Short-lived

Conflict	Peak-to-Trough Decline in 10yr Yields	Time from Onset of Hostilities to Trough	Reveral in 10yr Yields	Time from Onset of Hostilities to Reversal
2026 Iran Conflict	-0.17%	1 Day		
2022 Ukraine Invasion	-0.31%	1 Day	0.30%	3 Days
2014 Crimea Annexation	-0.16%	19 Days	0.19%	22 Days
2011 Syrian Conflict	-0.12%	3 Days	0.16%	5 Days
2008 Georgia Invasion	-0.07%	1 Day	0.26%	1 Day
2003 Iraq War	-0.31%	10 Days	0.21%	15 Days
2001 Afghanistan War	-0.43%	14 Days	0.61%	11 Days
1999 Kosovo Conflict	-0.20%	5 Days	0.22%	5 Days
1994 Bosnian Civil War	-0.20%	9 Days	0.25%	6 Days
1991 Gulf War	-0.25%	6 Days	0.46%	5 Days
1982 Falklands War	-0.47%	7 Days	0.29%	10 Days
<b>Average</b>	<b>-0.25%</b>	<b>8 Days</b>	<b>0.30%</b>	<b>9 Days</b>

Source: Janney ISG; Bloomberg

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The upshot for interest rates here is that the Iran conflict is unlikely to generate a lasting safe-haven bid in Treasuries, provided the conflict does not escalate significantly. While global oil prices have a modest inflationary effect, the measurable impact on the U.S. consumer or producer prices is likely to be small. What has arguably changed since the prior conflicts is the U.S. bond market's greater focus on U.S. Treasury supply. Conflict is expensive. The Trump Administration, even before these Iranian attacks, has been pushing Congress for increased Defense budgets, and it is hard to imagine those requests shrinking. More spending means incremental U.S. Treasury issuance and, for a bond market that still remains wary of supply, a potential upside risk for yields into the spring—provided economic conditions remain stable. ■



## THE IDES OF MARCH CAME EARLY

Gregory M. Drahuschak, Market Strategist

The January issue of Investment Perspectives concluded that corporate earnings appeared on track to provide a solid base for stocks. Although the path was bumpy last month, earnings

continued that track as the S&P 500 2026 estimate edged up to \$312.32, with the Technology and Materials Sectors leading. The seven largest S&P 500 companies by capitalization reported earnings growth of 27.2% in the fourth quarter, up from 18.4% growth rate in the third quarter. This was the 10th time in the past 11 quarters that the top seven companies have reported earnings growth above 25%. However, the blended fourth-quarter earnings growth rate for the other 493 S&P 500 companies was 9.8%. Fourth-quarter earnings surprises were most notable in the Materials, Technology, Energy, and Communication Services Sectors.

As February ended, it was not earnings surprises but rather the 2:30 a.m. March 1 post on the Truth Social website announcing that the U.S. and Israel had begun a joint offensive targeting military infrastructure, command-and-control centers, and Iran's leadership, which resulted in the death of Iran's Supreme Leader, Ali Khamenei. Almost instantaneously, investors' attention turned to the potential economic consequences and, of course, what this would do to the price of energy-related products. Initially, the price of West Texas Intermediate crude rose more than 8%. Reportedly, the U.S. initially had no plans to tap the strategic petroleum reserve, but OPEC+ agreed to a larger-than-expected oil production increase for April.

Military conflict of any kind has the potential to create major short- or long-term disruptions, but history offers a guide as to how the equity market typically reacts to news, as we heard as March began.

The September 11, 2001, attacks that brought down the World Trade Center towers produced a one-day, 4.9% market drawdown, but North Korea's attack on South Korea on June 25, 1950, generated the worst drop, -5.4%. The December 7, 1941, attack on Pearl Harbor produced a 3.8% one-day market drop. The World Trade Center attack, the start of the Korean War, and the declaration of war against Japan, respectively, led to eventual drawdowns of 11.6%, 12.9%, and 19.8%, taking 11, 23, and 143 days to reach a bottom and 31, 82, and 307 days to recover completely.

However, these events were among the three worst examples of hostilities and their impact on the stock market. On the other hand, the assassination of President John F Kennedy captured the collective mind of the U.S., but it had only a one-day effect on the stock market. The market's reaction to the attempted assassination of President Ronald Reagan prompted a one-day drop that took only two days to recover.

Chart 2: iShares U.S. Aerospace & Defense ETF



Source: Stockcharts.com; Janney Investment Strategy Group

When assessing market reactions to events like the current situation in Iran, consider the period leading up to the event.

The market had been considering an eventual U.S. move against Iran for months. The iShares U.S. Aerospace & Defense ETF is a good proxy for the market's views on the need for, and perhaps use of, military equipment. From late November last year, it was in an obvious upturn that gained significant momentum in February.

Chart 3: Light Crude Oil — Spot (EOD)



Source: Stockcharts.com; Janney Investment Strategy Group

Anything that potentially impacts the Middle East has a corresponding effect on energy prices. The price of West Texas Intermediate crude oil has been on a steady upward move since the middle of December 2025.

Although numerous factors can influence how a specific market sector might perform, market sectors that are often considered to be defensive can reflect growing concerns. The Consumer Staples Select Sector SPDR ETF has been in a strong upturn since New Year's Day.

Gold, considered a defensive asset, has been in a strong upswing for more than 2 years. However, it jumped more than \$300 an ounce in the three weeks before the US-Iran conflict began.

Chart 4: Consumer Staples Select Sector SPDR Fund



Source: Stockcharts.com; Janney Investment Strategy Group

Often, the items that most obviously would react to an event like what is happening in Iran become great examples of an old Wall Street cliché: buy-the-rumor and sell-the-news. In some market sectors, and perhaps the S&P 500 overall, the rumors of a U.S.-Iran conflict led to buying in some areas of the market. March might determine if the sell-the-news portion of the cliché applies this time, as it often has in the past.

Above all else remember that the underlying economy will determine how the equity market performs. As regrettable as military conflict can be, it has the potential to boost economic activity. ■

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