

It Will Take Time To Know

Market Update From Advanced Asset Management Advisors

March 31, 2026

We asked a group of artificial intelligence sources when we should expect oil prices to decline.

The answer was long and rambling, and referred to long-term global supply and demand factors as well as the current situation in the Strait of Hormuz. There is currently much speculation in the media and by analysts. Daily posts introduce market volatility, with significant moves both lower and higher. The bottom line is nobody knows when the oil price spike will reverse.

If we turn to the markets, we find that West Texas Intermediate oil (WTI) is available for delivery next month at \$98. It is available for delivery one year from now at \$70¹. The markets expect the price of oil to drop over the next 12 months, but not back to the pre-Iran level of around \$60.

Other questions that are unanswerable include: How much will inflation increase? Will higher oil prices hurt the economy? Will the Federal Reserve alter its monetary policy stance? Will interest rates increase? And how will the uncertainty impact the stock market?

Let's start with what we do know, beginning with inflation.

Inflation

Over the three months through January 2026, The Fed's favorite inflation gauge (Super Core PCE) was 4.25% — the highest reading in a year².

— Topics —

Inflation, elevated energy and commodities prices, and impacts on future monetary policy

Interest rates, and **what bond yields tell us** about the market's inflation expectations

The economy, and how AI investment and elevated energy costs may play a factor in future growth

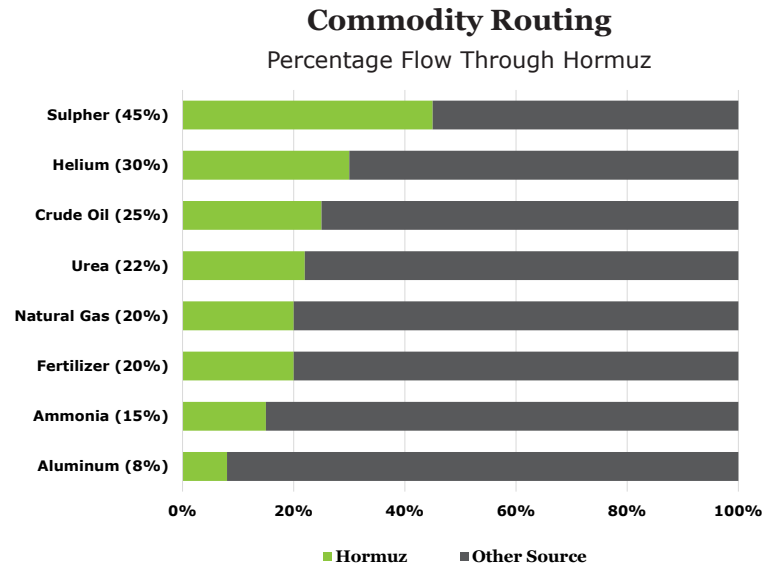
Stock valuations, and **where markets stand from a fundamental standpoint** following the first quarter drawdown

Where AAMA sees **relative value** in the equity and fixed income markets today

Short-term rates were reduced (against our advice) by 0.75% over the last year. The Fed seems to have an inflation problem. We recently suggested that Jerome Powell may have led the Fed down the easier money path to ensure his legacy was not darkened at the end of his term. The bothersome issue is inflation had been surging before Iran and before the spike in energy prices. Higher costs for energy and other commodities will make inflation worse. The extent and duration of the impact depend on the answer to the first unanswered question (How much will inflation increase?).

And it is not just oil. A significant portion of many other commodities flow through Hormuz, as shown in the attached chart.

Aside from oil and natural gas, higher fertilizer costs will impact farming costs. Helium is a key input for making computer chips. Each of these commodities is an underlying driver of cost across a variety of industries.



Suffice it to say that the bubbling inflation we saw before Iran will be made worse to some extent, and for some period of time.

Interest Rates

The two-year Treasury rate has increased by 0.40%, post Iran, which indicates the bond market has eliminated expectations for Fed rate cuts over the next 6-12 months. Ten-year bond yields have increased by 0.35% as well³. These increases tell us that markets are pricing in a less-dovish Fed and higher inflation. The ultimate extent and duration of higher interest rates is unknown. Interest rates across all maturities could reverse the recent increases if the market gets a whiff of a slowing economy or recession.

Short-term, high-quality bonds remain our preference due to their lower risk in a rising rate environment.

The Economy

The economy posted modest 0.65% growth in the 4th quarter of last year. Growth was 2.0% for the full year, including 3.84% and 4.38% in 2nd and 3rd quarters, respectively. Current tracking models suggest 2% growth in the first quarter of 2026, although this has been declining from 3.2%, forecasted before Iran⁴. Full details will be available in a month, creating a clearer picture.

The economy had been boosted over the last few years by the bulge in data center construction and AI investments — estimated to have contributed between 1 and 2 percentage points of real GDP growth last year (certainly a significant portion).

Higher energy costs will dampen consumer spending in other areas, especially among middle- and lower-income consumers who have yet to recover from the historic inflation of the last 5 years. The extent and duration of energy cost increases will be key (our first unanswered question). Currently, we view the odds of a recession developing over the next twelve months at 50% and rising.

Whether or not forecasted AI spending can offset potential weakness in consumer spending depends on whether AI spending is headed for some trimming, and whether further weaknesses in the economy are revealed in the future.

This leads us to an update on the “Bubble?” question we raised six months ago.

The “Bubble?” Update

“Bubbles are typically not identified in advance...only after a collapse are bubbles confirmed” (excerpt from, Bubble?, AAMA’s Q3 2025 Market Commentary).

The stock market reached extreme valuations last fall (22.9 forward P/E ratio), but have since declined⁵.

Looking at each index’s respective high, broad-based indices (Dow, S&P, Russell) are down 6-8%. The Nasdaq 100 is not much worse, down 9%. The Semiconductor Index (the core investment supporting AI investment) is down 10%⁶.

All these declines fall into a “normal correction” category. However, the cloud computing and software indices are down 26-32%, and are starting to exhibit bubble-like declines.

	Decline From 6-Month High
Dow Industrials	-7.4%
S&P 500 Large Cap	-6.2%
Russell 2000 Small Cap	-7.9%
Nasdaq 100	-9.0%
VanEck Semiconductor Index	-10.0%
Cloud Computing Index	-25.9%
Software Sector Index	-32.0%

Source: Morningstar

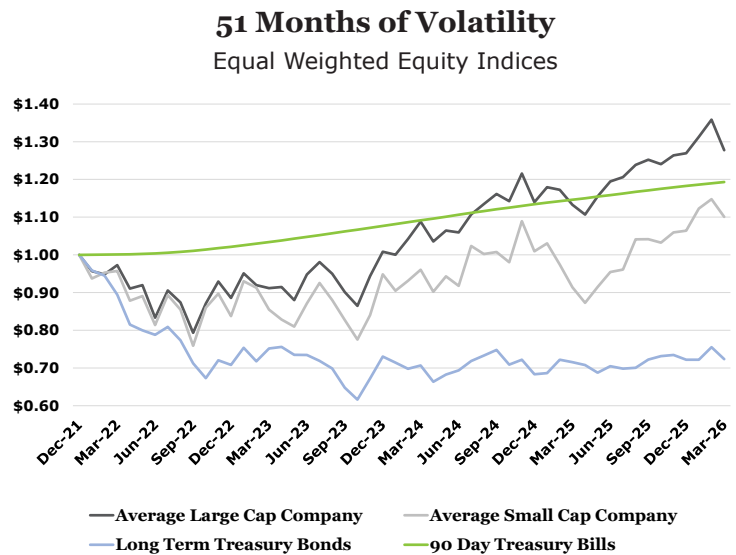
Stodgy, large cap, value stocks (S&P 500 Value) made their last high in February (Just before Iran), and have declined only 4.6%. The average S&P 500 stock has declined by 6.0% from its February all-time high⁶.

With these declines and relatively stable earnings forecasts, stock valuations have improved but remain relatively expensive.

The current forward P/E ratio is 19.2, which is still more expensive than 78% of observed levels over the past 25 years. Corporate earnings are forecasted to improve by 13.5% over the next twelve months, which is robust⁵. Assuming the geopolitical backdrop cools (thus reversing the questions about energy prices, inflation, and economic growth), the market has room to grow. However, the prospects for growth remain relatively muted compared to situations when markets start a rally from below median valuations.

High quality, large cap value stocks remain our preference along with select large cap growth stocks.

Looking at the past 51-months, since the Fed began raising interest rates, we can see that the average large cap company has delivered only marginally higher returns than treasury bills, and with much higher volatility. Recent shakiness has all but erased the divergence created through 2025's strong equity market. Long-term bonds remain the only category with a negative cumulative return, down 28% for the period⁶.



It Will Take Time To Know

We have raised a lot of questions and not answered any of them. There is simply too much uncertainty at the moment and “it will take time to know” the answers.

The key factor for the world economy (and answers to the above questions) is the status of the straight of Hormuz. The United States may have a definition of victory (e.g. significant degradation of military and nuclear facilities). Iran may have its own definition of victory (e.g. survival of a 47-year-old theocratic regime). No matter who (if anyone) claims “victory” in this conflict and no matter what the post “victory” world looks like, consistently safe passage through the straight will answer a lot of questions. It is key.

¹CME Group ²Bureau of Economic Analysis ³Federal Reserve Bank of St. Louis ⁴Federal Reserve Bank of Atlanta & Federal Reserve Bank of New York

⁵Standard & Poor's ⁶Morningstar

Disclosures

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