FINE POINTS
*The Quarterly Investment Publication*

FINEMARK BANK & TRUST
A DIVISION OF COMMERCE BANK

April 2026 | Volume 11 | Issue 1



# First Quarter Review & Commentary

By Christopher Battifarano, CFA®, CAIA®
*EVP, Chief Investment Strategist*

*"The future is uncertain, but uncertainty does not imply negative outcomes."*

— Howard Marks

*Howard Marks founder and co-chairman of Oaktree Capital Management. Marks is a renowned investor with a net worth exceeding $2.2 billion. He began his career in the late 1960's with Citibank and went on to found Oaktree Capital Management, Inc. in 1995. The firm manages over $200 billion today and Marks remains actively involved at Oaktree today.*

Given the events of the quarter, we are pivoting this letter to heavily focus on the conflict in the Middle East, and the impacts the war will have on markets. While it's a departure from our regular newsletter, we believe the focus on this topic is critical to our readers today.

We recognize that war is a serious matter, and the loss of human life is tragic. While this letter focuses on economic impacts, the loss of life, both among members of the U.S. armed services and civilians in the broader regions, is deeply concerning. We look forward to a peaceful resolution as quickly as possible.

We included the quote from Howard Marks because it reflects our views. While we see significant uncertainty and have reduced expectations for both economic growth and further progress on inflation, we remain optimistic. Investment discipline requires updating our views as facts change, but perspective reminds us that not every period of uncertainty is unprecedented. Markets have weathered moments like this before, and patience has often proven more valuable than precision during periods of heightened uncertainty.

***FIGURE 1***

| RETURNS (AS OF MARCH 2026) | YTD | 1 YEAR | 3 YEAR | 5 YEAR | 10 YEAR |
|---|---|---|---|---|---|
| S&P 500 | -4.33% | 17.80% | 18.32% | 12.06% | 14.16% |
| Dow Jones Industrial Average | -3.19% | 12.23% | 13.77% | 9.11% | 12.49% |
| Russell 2000 | 0.89% | 25.72% | 13.05% | 3.77% | 9.88% |
| MSCI EAFE | -1.24% | 21.27% | 13.62% | 7.91% | 8.38% |
| MSCI EM | -0.17% | 29.55% | 14.84% | 3.69% | 7.80% |
| Bloomberg US Aggregate | -0.05% | 4.35% | 3.63% | 0.31% | 1.70% |
| Bloomberg US Municipal 5 Year | 0.01% | 4.09% | 2.83% | 1.11% | 1.81% |
| HFRX Equity Hedge | -1.48% | 8.20% | 7.43% | 5.74% | 4.91% |
| Barclay BTOP50 | 7.15% | 10.22% | 5.92% | 7.07% | 3.66% |

Source: eVestment

As the data in the figure highlights, traditional asset classes such as stocks and bonds faced selling pressure following the outbreak of hostilities in the Middle East. However, we saw stronger, uncorrelated returns from alternative strategies, specifically long/short equity and commodity trading advisors. We believe this period was another reminder of why diversification is so important.

The most consequential event of the quarter was President Trump's decision to join forces with Israel and go to war with Iran on February 28.

U.S. and Israeli forces quickly degraded the Iranian military, sinking naval forces and neutralizing air capabilities and defenses. Supreme Leader Ali Khamenei was also killed early in the conflict. Where the administration may have miscalculated was Iran's ability to continue launching missiles and drones targeting energy infrastructure and to disrupt traffic through the Strait of Hormuz despite its degraded state.

Thus far, Iran has chosen attrition over capitulation.

There remains a high degree of uncertainty about how the conflict will ultimately be resolved. The longer this continues, the more damage it could inflict on the economy and markets. The American public has little patience for foreign wars and that frustration could manifest in the midterm elections.

Despite heavy losses, Iran has remained capable of striking targets throughout the Gulf States, Saudi Arabia, and Israel. This capability has allowed it to disrupt traffic through the Strait of Hormuz. They have also begun charging certain vessels for guaranteed safe passage. Prior to the conflict, normal traffic through the strait was approximately 100 vessels per day. This revenue could allow the regime to rebuild its nuclear ambitions and continue funding its missile and drone programs, as well as proxy groups such as the Houthis, Hezbollah, and Hamas. These groups have historically conducted attacks targeting American, European, and Israeli interests.

Allowing Iran this level of control could be untenable. While transit fees exist for manmade waterways such as the Panama and Suez Canals, the Strait of Hormuz is a natural passage, and international law does not permit nations to levy fees for transit through natural chokepoints.

## ECONOMIC IMPACTS OF WAR

While the conflict is centered on eliminating Iran's nuclear weapons ambitions, the region produces commodities that are vital to the global economy, and the war has disrupted their flow to market.

Oil is the primary concern. Approximately 20–21 million barrels per day normally transit through the strait, representing about 20% of global consumption. Asia is highly reliant on the Middle East for its oil needs, receiving nearly 80% of its supply from the region. The major consumers include China, India, Japan, and South Korea.

The next largest commodity transiting the strait is liquefied natural gas (LNG). Nearly 20% of the world's LNG passes through the strait. Natural gas is difficult to transport over long distances, regionally it moves by pipeline, but moving it globally requires a costly process of liquefaction and subsequent regasification.

Liquefied petroleum gas (LPG), more commonly known as propane and butane, also transits the strait. India imports approximately 90% of its LPG from this region, and China is also heavily dependent on the Middle East for LPG.

Approximately 30% of fertilizer or its component elements normally pass through the strait in the form of urea, ammonia and phosphates. The biggest is nitrogen though the fixing of natural gas to produce NPK fertilizer.

Nearly 30% of the world's helium supply also passes through the strait. While often associated with party balloons, helium is essential in semiconductor manufacturing, specifically in Extreme Ultraviolet (EUV) lithography and in medical imaging, including MRI scanners. There is no known substitute for these applications.

Approximately 8% of the world's primary aluminum, meaning new rather than recycled, passes through the strait. The region's abundant natural gas and resulting low-cost electricity give smelters a significant competitive advantage. The major producers of aluminum in this region are Qatar, Oman, and Bahrain.

Clearly, the region is of vital importance to the global economy, and continued disruption to the movement of these commodities can have negative economic consequences.

## CRUDE REALITY

Unfortunately for consumers, the ascent in oil prices will likely not simply revert to prewar levels following a cessation of hostilities. There are several additional factors preventing that normalization process. One of the biggest unknowns is the extent of damage to oil infrastructure, both in Iran and in the surrounding Gulf states and Saudi Arabia. This includes the entire value chain, from rigs and pipelines to pumping stations and refineries. On the natural gas side, the Ras Laffan facility in Qatar, the world's largest LNG facility, has already sustained significant damage. It remains unclear how extensive the damage will be or how long repairs will take to restore output to prewar levels. At this point, full restoration is expected to take approximately two to three years.

In addition to supply constraints coming out of the Middle East, Russia, the world's third-largest producer of crude oil, is facing its own production and shipping challenges. These began with its invasion of Ukraine in 2022 and have recently intensified. This has been driven in part by efforts to evade sanctions through illicit oil sales on the black market via a network of tankers known as the shadow fleet. These vessels are old, uninsured, owned by shell companies, and operate under obscure flags, often from African or lesser-known island nations. Much of this oil has been sold at a steep discount, primarily to China and India. Beginning late last year, the U.S. and several European nations have increased efforts to interdict and seize these vessels, turning what began as an economic issue into a broader security concern. At its peak, this represented approximately 3 to 4 million barrels of oil per day. The greater impact will be on countries such as China and India, which were the primary beneficiaries of this supply and will now have to pay significantly higher market prices.

Additionally, Russia is facing increased pressure from Ukrainian drone attacks. Over the course of the now four-year war, Ukraine has become one of the world's leading operators in drone technology and manufacturing. Initially, Ukrainian forces targeted Russian freight moving through the Black Sea. That focus is now shifting to Baltic Sea shipping routes.

Targets have included the Russian port of Ust-Luga near Estonia, the endpoint of a major pipeline, as well as the Primorsk terminal in the same region. While these facilities have not been permanently shut down, they have sustained damage and experienced operational disruptions. Together, these ports handle roughly 40% of Russia's seaborne crude. Russia has managed to restore operations, but Ukraine appears undeterred.

The loss of any Russian production further constrains the global supply of crude in addition to the loss of Middle East production.

## MARKET IMPACTS AND OUR IMPRESSION

Since the conflict began, we have seen weakness in bonds. The 10-year U.S. Treasury yield has risen from just below 4% to approximately 4.3%, increasing borrowing costs for consumers. Over that same period, the average 30-year mortgage rate rose from below 6% to about 6.5%.

Prior to the war, we expected further easing from the Federal Reserve, including additional cuts to the fed funds rate. Our expectation was two 25 basis point cuts during the year. That outlook has since been reduced, with markets now forecasting no easing in 2026. We still expect cuts, but likely only one and later in the year. This reflects increased inflationary pressure driven by higher energy costs. As a reminder, much of the economy is tied to energy prices, from inputs such as fertilizer to the cost of bringing goods to market through higher shipping costs.

Given America's position as the world's largest oil producer, which still surprises many, we expect the impact of this war on the U.S. to be less significant than on major economies in Asia and Europe that are more dependent on imported energy. Prior to the war, our expectation for real GDP in the U.S. for 2026 was approximately 2.25%. Based on historical trends, a 10% increase in oil prices reduces economic output by roughly 10 basis points. In 2025, West Texas Intermediate (WTI) averaged approximately $65 per barrel. Since the war, prices have risen to a range of $90 to $110 per barrel. Assuming an average price of $95 per barrel in 2026, we estimate a reduction of approximately 30 basis points in GDP due to higher oil prices. That is in addition to growth curtailed by tighter monetary conditions and the broader economic impact we expect in Europe and Asia, which will also weigh on U.S. multinational companies. Broadly, we see U.S. growth coming in closer to 1.50% to 1.75% in 2026. While this is less robust than our original forecast, we believe the U.S. economy remains on stable footing and will likely avoid a recession.

## INFLATION

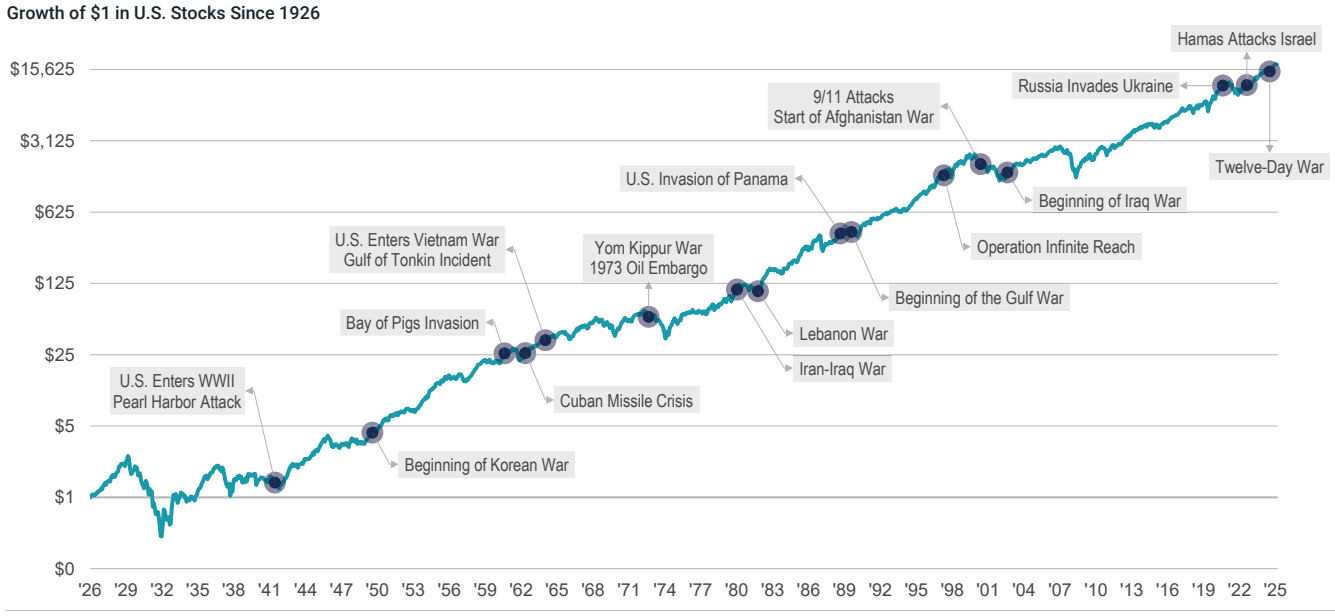
Since the aftermath of COVID, the Fed has been working to bring inflation back toward its 2% target. While it has made significant progress, that target remains elusive. Higher energy costs will likely slow that progress. CPI is currently at 2.4% on a year-over-year basis, though it does not yet reflect the recent rise in oil prices. Given the increase in prices, oil's weighting in CPI, and the indirect effects on other goods, we could see CPI move into the 3.5% to 3.9% range.

Some forecasts call for higher levels, but we do not expect inflation to reach those levels as shelter costs continue to moderate. The recent rise in mortgage rates should further pressure housing, which had already been trending lower.

## OUR BOTTOM LINE

If a picture is worth a thousand words, then we ask you to please look at figures 2 & 3.

***FIGURE 2***




Source: Ken French Data Library

These two charts present the same data, one in graphical form and one in table form, as we know different people prefer to view returns in different ways. Regardless of your preference, they showcase nearly a century of U.S. market returns in the context of military conflicts, dating back to America's entry into World War II with the attack on Pearl Harbor.

While markets may be volatile in the short term given the uncertainty created by military conflicts, historically they have experienced recovery over time. While that recovery may not occur in days or even weeks, we have consistently emphasized the importance of maintaining a long-term perspective.

While each scenario could be different, we remain focused on long-term prospects and the role equities have historically played within diversified portfolios.

***FIGURE 3***

| EVENT | DATE | 3 MO (%) | 1 YR (%) | 3 YR (%) |
|---|---|---|---|---|
| U.S Enters WWII/Pearl Harbor Attack | 12/8/1941 | -8.14 | 16.49 | 21.96 |
| Beginning of the Korean War | 6/25/1950 | 11.74 | 27.78 | 16.37 |
| Bay of Pigs Invasion | 4/17/1961 | 2.62 | 1.76 | 8.76 |
| Cuban Missile Crisis | 10/16/1962 | 18.30 | 34.01 | 21.13 |
| U.S. Enters Vietnam War/ Gulf of Tonkin Incident | 8/2/1964 | 4.18 | 10.83 | 10.24 |
| Yom Kippur War/1973 Oil Embargo | 10/6/1973 | -10.72 | -31.30 | 1.79 |
| Iran-Iraq War | 9/22/1980 | 9.21 | -2.01 | 16.65 |
| Lebanon War | 6/6/1982 | 11.58 | 67.02 | 26.15 |
| U.S. Invasion of Panama | 12/20/1989 | -3.33 | -6.02 | 11.62 |
| Beginning of the Gulf War | 8/2/1990 | -0.22 | 28.85 | 18.36 |
| Operation Infinite Reach | 8/7/1998 | 21.74 | 39.30 | 7.56 |
| 9/11 Attacks/Start of the Afghanistan War | 9/11/2001 | 12.55 | -17.87 | 5.93 |
| Beginning of the Iraq War | 3/20/2003 | 16.68 | 39.18 | 19.34 |
| Russia Invades Ukraine | 2/24/2022 | -6.91 | -8.67 | 11.79 |
| Hamas Attacks Israel | 10/7/2023 | 16.47 | 38.49 | - |
| Twelve-Day War Between Israel and Iran | 6/22/2025 | 8.48 | - | - |

Source: Ken French Data Library

## CONCLUSION

As we transition from winter into spring, many of our clients in Florida, Arizona, and South Carolina may be setting their sights on cooler locales. We remind you that we are here for you wherever you may be.

We consider your trust in FineMark to manage your wealth both a great honor and a serious responsibility, and we thank you for your continued confidence. We believe our strength as an investment organization has deepened as a result of our merger with Commerce Bank and look forward to continued collaboration and integration later this year.

Please do not hesitate to contact us with any investment questions.

FINEMARK BANK & TRUST
A DIVISION OF COMMERCE BANK

Fort Myers • Bonita Springs • Charleston • Estero • Jupiter • Naples • Scottsdale • www.finemarkbank.com • (877) 461-5901

The opinions and other information in the charts and commentary are provided as of 4/13/2026.

The information contained herein is not directed to, designed for, or individually tailored to any particular investor or potential investor. This information should not be construed as investment advice or a recommendation for any specific investment product, strategy, or plan.

The information and opinions provided in the commentary are subject to change based on changes in the market or other conditions. FineMark Bank & Trust does not undertake to advise you of any change in its opinions or the information contained in this commentary.

Past performance is no guarantee of future results. Diversification does not guarantee a profit or protect against all risk. In considering whether to trade or invest, you should inform yourself and be aware of the risks. When investing there is always the risk of loss of principal and there is no guarantee that investment objectives will be achieved. Different types of investments have varying degrees of risk and the asset classes and investments discussed in this commentary may not be appropriate for all investors.

You, as the investor, are fully responsible for any investment transaction you choose to enter into, including determining whether such investment is appropriate in light of your investment objectives and personal circumstance. You shall not have relied on any of the proceeding information from FineMark Bank & Trust as the basis for any investment decision. This material is not intended to replace the advice of a qualified attorney, tax advisor, or investment professional. You should consult your financial, legal and/or tax advisors before making any financial decisions.

Data contained herein is derived from proprietary and non-proprietary sources deemed by FineMark Bank & Trust to be reliable but are not necessarily all-inclusive and are not guaranteed as to accuracy.

CAIA® is a registered certification mark owned and administered by the Chartered Alternative Investment Analyst Association.

FineMark Bank & Trust, a division of Commerce Bank

Investment Products: Not FDIC Insured | May Lose Value | No Bank Guarantee