

# Looking for the Off-Ramp

*The Iran War at Four Weeks, Rising Rates, and the Case for Discipline*

March 26, 2026

All data as of most recent market close

## What You Need to Know

- The Iran war is four weeks old with no ceasefire in sight. The Strait of Hormuz remains closed. Brent crude has traded between \$99 and \$112, and U.S. gasoline has surged above \$4.00 per gallon.
- The Fed held rates at 3.50% to 3.75% in March and now projects only one cut this year. Seven of nineteen FOMC members see no cuts at all. Markets are pricing in zero probability of a cut in April.
- Interest rates are rising, not falling. The 10-year Treasury yield has spiked nearly 50 basis points to above 4.40%. Stocks and bonds are declining together, breaking the historical pattern investors have relied on for decades.
- Private credit is under severe stress. Blue Owl Capital has lost two thirds of its value. KKR, Ares, Blackstone, and Apollo have declined 41% to 48% from their peaks, erasing over \$265 billion in market capitalization.
- All three GLR Pillars (Business Cycle, Monetary Policy, Market Conditions) are flashing caution. Our framework calls for reduced risk, diversified return sources, and an emphasis on cash flow quality.
- The GLR Alternative Allocation is having a challenging month, as there have been very few places to hide. Dollar strength has weighed on international holdings and gold. But on a year-to-date basis, it is still significantly outperforming the broad equity market.

## The Iran War: Four Weeks In

Since Operation Epic Fury began on February 28, the conflict has evolved from an initial strike campaign into a sustained military engagement with no clear resolution in sight. In our March 4 update, we identified the effective closure of the Strait of Hormuz as the single most consequential risk for markets. That risk has materialized fully. The Strait remains closed to commercial shipping. Iran has continued retaliatory strikes against energy infrastructure in Kuwait and Qatar, including strikes causing extensive damage to the Ras Laffan LNG facility, the largest LNG export complex in the world. Brent crude has traded between \$99 and \$112, and U.S. gasoline prices have surged above \$4.00 per gallon, up from under \$3.00 just five weeks ago. The IEA has authorized the largest coordinated emergency reserve release in its history, totaling 400 million barrels, but this is a temporary measure that does not address the underlying supply disruption.

Diplomatic channels have opened. The U.S. delivered a 15-point ceasefire proposal to Iran via Pakistan, but Iran rejected the initial proposal and has outlined preconditions for any talks. The pattern of hope-driven rallies followed by selloffs has become a defining feature of daily trading. The U.S. pause on strikes against Iranian energy infrastructure, recently extended to April 6, offers a narrow window for diplomacy, but reports indicate the U.S. is consuming munitions at a pace that could exhaust some critical weapon systems within weeks. This is not a conflict that lends itself to a quick resolution.

## The Fed's March Decision: On Hold and Watching

The Federal Reserve held rates steady at 3.50% to 3.75% at its March 18 meeting. Chair Powell acknowledged that inflation is not coming down as much as policymakers had hoped, and the updated dot plot now projects only a single rate cut in 2026. Seven of nineteen FOMC participants see no cuts at all this year. The Fed revised its PCE inflation forecast to 2.7% for year-end 2026, up from 2.5% in December. Markets are now pricing in zero probability of a cut in April, with a higher probability of a rate hike than a rate cut at the next meeting.

Adding to the uncertainty, Chair Powell's term expires in May. The nominated successor, former Fed Governor Kevin Warsh, has signaled a preference for lower rates but has not commented publicly on the current crisis. A transition in Fed leadership during an active energy shock introduces an additional layer of policy uncertainty that markets have not fully priced.

## **The GLR Three Pillars: All Flashing Caution**

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At GLR Partners, we evaluate markets through a consistent framework we call the Three Pillars: Business Cycle, Monetary Policy, and Market Conditions. All three are currently signaling caution. Here is what each pillar is telling us.

**Pillar 1: Business Cycle.** The economy is showing clear late-cycle stress, now compounded by the energy shock. Gasoline prices above \$4.00 act as a direct tax on household spending. Auto repossessions and loan delinquencies were already at their highest levels since 2009 before the conflict began. Job creation has effectively stalled, with Fed Chair Powell acknowledging as much. Private credit, once the market's golden trade, is facing its first real stress test. Blue Owl Capital has lost roughly two thirds of its value from its peak after redemption freezes, forced asset sales, and allegations of understated portfolio losses. KKR and Ares have each declined approximately 48% from their highs, while Blackstone and Apollo have fallen 46% and 41% respectively, erasing over \$265 billion in combined market capitalization. The private credit boom promised steady returns with less volatility. The results have been sobering.

**Pillar 2: Monetary Policy.** The Fed held rates steady at 3.50% to 3.75% in March and now projects only a single cut this year. But the more significant development is what is happening in the bond market. The 10-year Treasury yield has spiked nearly 50 basis points since the conflict began, surging from 3.93% to above 4.40%, its highest level since July 2025. The 30-year yield has approached 5%, and mortgage rates have climbed back to 6.5%. This is counter to what investors have experienced in past crises, when Treasury bonds rallied as stocks fell. This time, the opposite has occurred. Stocks are falling and bonds are falling alongside them. The reason is straightforward: this is a supply-side shock, not a demand-side recession. Rising oil prices are stoking inflation expectations, not dampening them, which means the Fed cannot cut rates to cushion the blow. For investors relying on a traditional 60/40 stock-bond allocation, both sides of the portfolio are losing value simultaneously. The historical correlation between stocks and bonds has broken down, and it may not return until the inflationary impulse from the energy shock subsides.

**Pillar 3: Market Conditions.** The S&P 500 has fallen roughly 6% from its all-time high set in late January and is trading below its 200-day moving average for the first time since late 2023. The Dow is tracking its worst month since 2022. The Russell 2000 has slipped into correction territory. The VIX has remained elevated in the mid-20s with readings as high as 35. Technology and software stocks have been hit hardest, with the iShares Expanded Tech-Software ETF down 23% year-to-date. The Magnificent Seven trade has decisively broken down, while energy, industrials, materials, and defense stocks have outperformed significantly. A word of caution: it is tempting to chase the sectors that have already moved the most. Energy and defense names have repriced dramatically, and much of the near-term upside depends on an escalation scenario that remains uncertain. We believe the better approach is disciplined rebalancing, not performance chasing. Valuations remain historically stretched at approximately 38x cyclically adjusted earnings, driven by a handful of mega-cap names.

When all three pillars are flashing caution simultaneously, our framework calls for reduced risk, diversified sources of return, and an emphasis on cash flow quality over growth promises. That is precisely how we have been positioning client portfolios.

## **How We Are Positioned**

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Our allocation shifts over recent quarters were built for exactly this type of environment. Diversification beyond mega-cap concentration through strategies like COWZ, which screens for the highest free cash flow yields across the large-cap universe, has provided meaningful outperformance. While the broad market has declined year-to-date, COWZ has delivered positive returns over the same period, a clear illustration of how cash-flow-focused value strategies hold up when growth and momentum falter. Our emphasis on valuation discipline is being rewarded as rate cuts come off the table. And our non-correlated alternative allocations are earning their place as traditional stock-bond diversification fails.

**The results speak to the value of preparation.** The GLR Alternative Allocation is having a challenging month, as there have been very few places to hide during an energy shock of this magnitude. The primary headwind has been the

strengthening U.S. dollar, which surged from its February lows near 96 on the DXY to above 101 as safe-haven flows poured into the greenback. That move has weighed on holdings with international exposure, including the First Eagle Global Fund (SGIIX) and the Third Avenue Value Fund (TAVFX), which face currency translation drag when the dollar strengthens. Gold, meanwhile, pulled back sharply after approaching all-time highs earlier in the month as the stronger dollar and rising real yields pressured the metal. These are positions we hold with conviction over a full cycle, and the dollar's war-driven strength is unlikely to persist once a resolution takes shape. On the other hand, COWZ has been a bright spot, with its significant energy weighting benefiting directly from the surge in oil prices and providing a natural offset within portfolios. On a year-to-date basis, the GLR Alternative Allocation is still significantly outperforming the broad equity market. One difficult month does not undo the work of recent quarters. The positioning is working.

*This is the type of environment our recent positioning has been built for.*

## **Looking Forward**

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The weeks ahead will be defined by three variables: the trajectory of the Iran conflict, the path of oil prices, and the Fed's response to incoming inflation data. The U.S. strike pause, recently extended to April 6, represents a near-term inflection point. If hostilities escalate further, oil could test new highs and the market selloff would likely deepen. If a ceasefire framework materializes, the relief rally could be substantial, but the underlying late-cycle dynamics we have identified will not disappear.

March inflation data, due in mid-April, will be the next critical data point. The energy shock will almost certainly push headline CPI higher, but the real question is whether rising costs are filtering into core prices. If they are, the Fed's path narrows further. A rate hike, while still not our base case, is no longer unthinkable. The April FOMC meeting will be closely watched for any shift in language.

The transition in Fed leadership adds another dimension of uncertainty. Chair Powell's term expires in May, and the confirmation process for Kevin Warsh will take place against a backdrop of elevated inflation, a war in the Middle East, and a bond market that is already testing the limits of fiscal credibility. How the new Chair navigates the tension between supporting growth and containing inflation will shape the second half of 2026 and beyond.

For client portfolios, our approach remains unchanged. We are not making dramatic moves in response to headlines. The allocation work we have done over recent quarters was designed for sustained periods of volatility and uncertainty, not just a single event. We will continue to rebalance opportunistically, maintain our emphasis on cash flow quality, and lean into the diversification that is proving its value in real time.

*Environments like this reward preparation and discipline. That is exactly where we are focused.*

We remain committed to positioning portfolios for the environment as it is, not as markets wish it to be. Please do not hesitate to reach out with questions.

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