CRI Quarterly Review

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After touching new highs in January, the S&P 500® ended the first quarter in negative territory, largely due to the conflict in the Middle East. Investors are now entering the second quarter with uncertainty regarding how long the conflict will persist and what the ramifications might be. We asked CBIS' Chief Investment Officer Tom Digenan to share his perspective on this challenging environment.

It was quite a quarter. What is your first high-level thought on the dramatic shift in momentum?

The defining feature of this geopolitical event was oil, which climbed around 50% during the quarter. This is hardly a constructive development for the broader economy. Rising oil prices slow growth and push inflation higher simultaneously - the definition of stagflation - and stagflation is something all of us as investors should take seriously.

What markets were most affected?

In March, global equity markets fell roughly 7%. Emerging markets were hit especially hard, declining more than 10%. The U.S. held up somewhat better than other regions, in part because of its position as an energy-independent economy.

What did all of this mean for a diversified portfolio?

Diversification is, in a sense, your first line of protection in a market shock. And, with some important caveats, it served that purpose across the quarter. The traditional diversification playbook — where bonds rise when equities fall — did not fully play out this quarter.

Did the threat of stagflation play a part in this?

I think it did. The challenge of rising inflation fears combined with the possibility of slowing growth created upward pressure on yields and pulled fixed income lower alongside risk assets.

Often when talking about oil, investors think of gold.

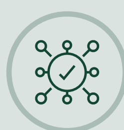
Gold, which historically serves as a store of value in periods of fear, declined roughly 10%. Trading activity in March is an important reminder that during acute geopolitical shocks, correlations across asset classes can converge in ways that reduce near-term protection. Diversification works over the long run. It does not eliminate short-term drawdowns.

Do you, in your role, maintain an outlook on the Mideast conflict?

We're always thinking about the best way to navigate uncertainty, we believe there are two reasonable paths forward.

The first path is a temporary shock. If the geopolitical situation stabilizes, central banks may find room to become more accommodative despite inflation currently running around 2.5% and potentially rising. In that scenario, easing monetary conditions could provide a meaningful tailwind.

The second path is a prolonged conflict. That scenario carries materially different implications like sustained higher energy prices, central banks tightening rather than easing, further pressure on growth, and a more durable stagflationary environment.



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Do you have any thoughts on portfolio positioning as we move into the second quarter?

Economic signals right now are genuinely mixed. Growth and inflation are both trending higher, but labor markets are showing signs of softening.

That is an unusual combination, and it warrants caution. Given that uncertainty, our guidance is the same one CBIS has always advocated - diversify broadly, be opportunistic when dislocations arise, and stay focused on the long term.

So, your message, then, is to stay committed to diversification?

Absolutely. Markets move sharply in both directions in the short term, and the day-to-day noise of geopolitical developments can make it tempting to react.

The investors who tend to be best served are those who maintain discipline around their long-term allocations and remain attentive to valuations.

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