

Market Update

Analysis of the fears driving the market today



The old saying goes “the market climbs a wall of worry.” If that holds true, then the market has plenty of fuel today.

GEOPOLITICAL RISKS, SHIPPING UNCERTAINTIES & SUPPLY SHOCKS

Let's start with the attack in Iran. It began at the end of February with the assumed goal of regime change in a nation ruled by extremists and to prevent a nuclear attack against the U.S. or Israel. Unlike last summer's brief attack, this one is much more comprehensive and could last quite a bit longer. The Trump administration is currently predicting a 4-6 week operation, but it seems as though they did not expect the robust response from the Iranian regime, including attacks against Arab neighbors and the closing of the Strait of Hormuz. As a result, the key questions today are – 1) How long will the conflict last?, 2) How high will oil prices rise?, and 3) How long will they remain elevated?

As of the open on Monday 3/16, WTI crude oil has risen by 46% to \$95/bbl, while the S&P 500 has fallen 4% since the military attack began on 2/28. Renewed inflation fears emanating from the rise in oil and gasoline prices have resulted in Fed Fund futures now pricing in fewer than one cut this year (see chart below), while the 10-year Treasury yield has risen by more than 30 bp to 4.28%. We believe it is reasonable to expect that a near-term end to the conflict would likely result in a sharp decline in oil prices, and a fall in longer term interest rates. So, the length of the conflict is a key factor. The closure of the Strait of Hormuz is the primary driver of rising oil prices, as 20% of global oil shipments flow through this channel, and ship transits through the narrow waterway have fallen from over 150 a day to single digits as of last week, according to monitoring firms. Iran is suspected in the attacks of at least 16 foreign commercial ships in the Persian Gulf area since the war began on Feb. 28.

There was a lot of uncertainty heading into this past weekend, with President Trump talking about wielding "unparalleled firepower" and reports of a 2,500-strong Marine expeditionary unit headed to the Mideast. There are no clear offramps from the conflict, though there has been some speculation the President may be looking to conclude the operation sooner in order to address oil/affordability concerns, especially given it being a mid-term election year and one of President Trump's key campaign promises was a reduction in inflation.



Source: Strategas As of 03.16.26

POSITIVE IMPACTS, HISTORICAL CONTEXT & ECONOMIC MOMENTUM

On the positive front, the US Dollar has risen 4%, which is normal in an environment such as this and acts as counterbalance to inflationary pressure. In an attempt to soften oil related inflation, the International Energy Agency said its member countries would release 400 million barrels of oil from their emergency stocks, the largest reserves distribution in history, in a bid to reduce crude oil prices. The quantity of 400 million barrels represents roughly 20 days of supply coming out of the Strait, as the crisis is reducing supply by more than 10 million (and potentially as much as 20 million) barrels a day. The U.S. Strategic petroleum reserve (SPR) from which half of these reserves will be produced, holds 415 million barrels of crude in 61 underground salt caverns in Louisiana and Texas. Also, note that oil supply shocks such as we are experiencing are generally not inflationary. Often, the cure for high prices is high prices, as a spike in cost generally leads to a fall in demand. Also, historically, higher gasoline prices in the U.S. have slowed the economy down and necessitated the need for more rate cuts on the other side. So, we believe that any resolution in the conflict will likely result in the odds of a rate cut increasing.

Other potential positives include the fact that historically, mid-east conflicts have had limited long-term impact on oil prices and have represented a buying opportunity for stocks.

S&P 500 Performance Before/After Major Historical Events					
Event	Date	Pre-Event		Post-Event	
		-6 Mo.	-3 Mo.	+3 Mo.	+6 Mo.
Gulf War I	1/16/1991	-13%	5%	22%	21%
Dot.com Peak	3/24/2000	19%	7%	-5%	-5%
Gulf War II	3/20/2003	4%	-2%	12%	17%
Bear Sterns Takeover	3/16/2008	-13%	-15%	5%	-3%
Lehman Brothers Failure	9/15/2008	-10%	-11%	-23%	-37%
Average:		-3%	-3%	2%	-1%

Source: Strategas, Bloomberg

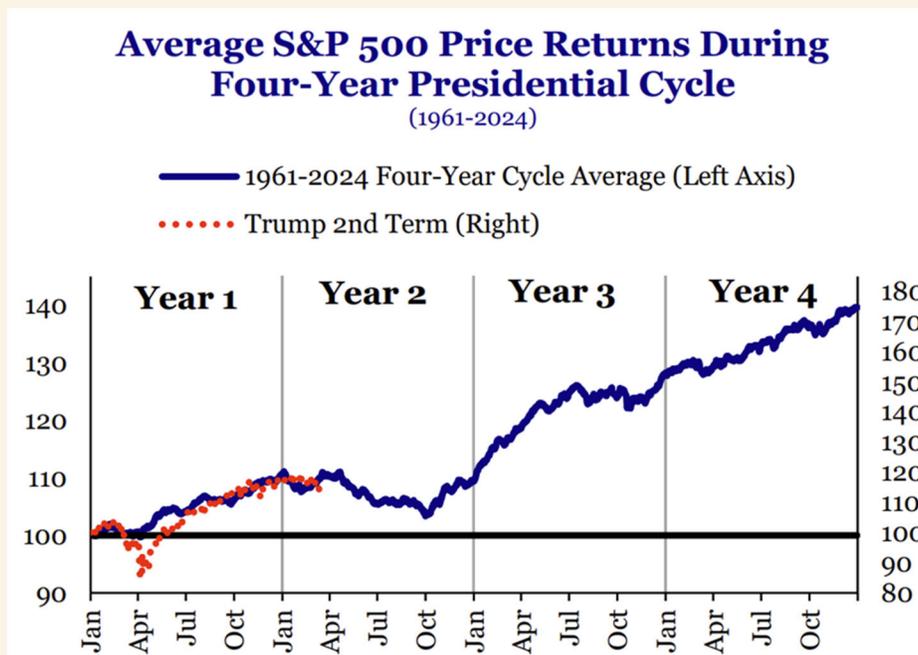
Additionally, the U.S. is theoretically in a better position than much of the world, given that we currently produce 112% of the crude oil we consume domestically.

10 Largest Global Stock Markets vs. Domestic Petroleum Production vs. Consumption			
	Country	Market Cap (USD Bn.)	Domestic Production as a % of Consumption
1.	Canada	\$3,846	245.8%
2.	U.S.	\$59,935	111.6%
3.	U.K.	\$3,532	52.9%
4.	Australia	\$2,190	34.3%
5.	China	\$7,896	32.6%
6.	Germany	\$2,274	8.9%
7.	France	\$2,890	7.0%
8.	S. Korea	\$2,840	4.5%
9.	Japan	\$5,693	3.3%
10.	Taiwan	\$3,274	2.9%

Source: Strategas, Bloomberg, EIA, Data as of 2024
 Note: Figures shown = 2024 production / consumption of total petroleum/other liquids

The U.S. economy was in relatively good shape going into the attack, and seemingly able to absorb a brief period of higher oil prices. Notably, there has been a recent string of solid economic data, including ADP's weekly measure of payrolls, which continued to expand in late February, while the job openings rate ticked higher to 4.2% in January. Existing home sales rose +1.7% m/m last month, and housing starts rose +7.2% m/m in January. Real average hourly earnings are positive, while both the Manufacturing and Services PMIs were stronger than expected in February. Consumer savings rates are up, while corporate earnings continue to beat expectations.

Interestingly, the stock market performance year-to-date is tracking very closely to the average performance in a mid-term election year.



Source: Strategas As of 03.16.26

PRIVATE CREDIT RISKS – FACTS OR FICTION?

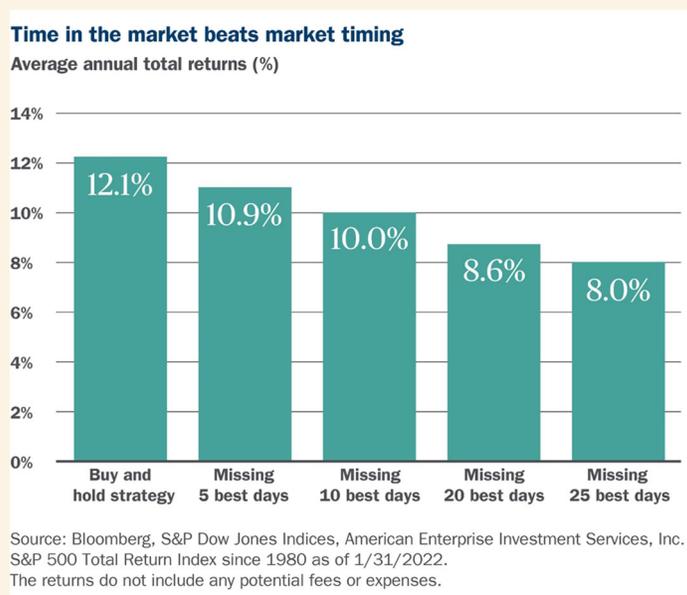
Another worry plaguing markets today is the health of Private Credit funds. While the limited opacity of the asset class combined with the tremendous flow of capital seeking better yields than those found in the public markets (see chart below) can be cited as causes for concern, we believe the fears are likely an overreaction to a few defaults seen over the past several months as well as public statements made by high profile folks in the industry, including JP Morgan CEO Jamie Dimon. Notably, default rates remain low, while most of the underlying loans and fund stakes are all trading at 97-100% of par, so we do not believe there are any real signs of stress at the loan level despite the sensational headlines. In addition, note that we target high quality Private Credit managers with strong operating histories for the Turtle Creek Credit Fund. Software in particular is an industry that has received a lot of scrutiny in the space given fears of AI competition negatively impacting software companies. However, software companies have the lowest trailing 12-month default rate, which goes against the prevailing narrative, while direct lending in general has lower default rates on a trailing 12-month basis than broadly syndicated and high-yield loan markets.

Private Asset AUM Breakdown			
Year	Private Equity AUM	Private Credit AUM	Credit as % of Combined
2016	\$3,950B	\$580B	12.8%
2017	\$4,510B	\$660B	12.7%
2018	\$5,120B	\$730B	12.5%
2019	\$5,840B	\$850B	12.7%
2020	\$6,320B	\$1,050B	14.2%
2021	\$7,410B	\$1,210B	14.0%
2022	\$7,580B	\$1,520B	16.7%
2023	\$8,110B	\$1,750B	17.7%
2024	\$8,240B	\$2,100B	20.3%
2025 (P)	\$8,900B	\$2,500B	21.9%

Source: McKinsey Global Private Markets Reports, Preqin, and the Alternative Credit Council

INVESTOR TAKEAWAYS

No one can predict the future, but we are confident in saying that diversification has historically been an effective way to help mitigate volatility in markets. In addition, as the chart below demonstrates, the most effective strategy historically has been to remain invested and avoid the temptation to “time the market”



Thanks for your continued support of Turtle Creek. Please contact us if you have any questions.



Turtle Creek Wealth Advisors, LLC (“Turtle Creek”) offers investment advisory services and is registered with the U.S. Securities and Exchange Commission (“SEC”). SEC registration does not constitute an endorsement of the advisory firm by any regulatory authority, nor does it indicate that the advisory firm has attained a particular level of skill or ability. All content available in this commentary is general in nature, not directed or tailored to any particular person, and is for informational purposes only. Neither this commentary nor any of its content is offered as investment advice and should not be deemed as investment advice or a recommendation to purchase or sell any specific security. The information contained herein reflects the opinions and projections of Turtle Creek as of the date hereof, which are subject to change without notice at any time. Turtle Creek does not represent that any opinion or projection will be realized. The information contained herein has been obtained from sources considered reliable, but neither Turtle Creek nor any of its advisers, officers, managers, or affiliates represents that the information presented in this commentary is accurate, current, or complete, and such information is subject to change without notice. The information contained [in this commentary does not purport to be a complete description of the securities, markets, or developments referred to in this material. Any performance information must be considered in conjunction with applicable disclosures. Past performance is not a guarantee of future results. Neither this commentary nor its contents should be construed as legal, tax, or other advice. Individuals are urged to consult with their own tax or legal advisors before entering into any advisory contract. Any investment is subject to risks, including the possible loss of principal. Individual investor’s results will vary. Investing involves risk, and you may incur a profit or loss, including the entire loss of investment, regardless of the strategy selected. In appropriate cases, certain family office services will be provided by Turtle Creek Family Office Services, LLC, a wholly owned subsidiary of Turtle Creek Wealth Advisors, LLC.