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Q1'2026 Newsletter

Economy & Market Valuation

First quarter of 2026 exhibited return of volatility in US stock market caused by the US- Iran war. US- Iran war blocked oil flow through Hormuz Strait. 20% of world oil supply flows through Strait of Hormuz. Anytime you take out 20% of world oil supply for long term, it will cause a global slowdown and lead to recession. A war that continues for a long time will lead to significant economic and stock market decline. Donald Trump and Iran have announced a two-week ceasefire as of April 7. We think both sides have strong incentives to stop the war. It is to be seen if a comprehensive agreement will be reached between USA and Iran or whether the war flare up again. We think that if the war ends now, the damage to the USA economy will be contained. If the war continues for another 3 months and beyond, it will cause considerable damage to the economy. The damage may be less to the US economy as compared to other countries that are dependent on oil from middle east. US is not dependent upon middle east oil and is rather an oil exporting nation. But even US consumers will be paying a higher price at the pump as oil prices are global.

We are of the view that the war will be short-term and will come to an end soon and that oil will soon start flowing again through Strait of Hormuz.

Our portfolio is almost fully invested in the market based on our assumption that the war will be short term. We are sticking to our philosophy of buying good companies at fair prices. We have used the recent downturn to add to our positions and open some new positions.

2026 investment strategy

We plan to stay almost fully invested in the market based on our view that war in Middle East will not be a prolonged one. The US economy can withstand the Middle East war. We could see interest rate cuts in the USA in the second half of 2026. Interest rate cuts and end to war will be positive for the market. Given the impending increase in inflation, we have added oil exposure, and we plan to keep some oil exposure for the long term.

We invest for the long term as we cannot predict what will happen in the short term. We want to emphasize to our clients again one more time that they should only invest money with us or in the stock market on their own with a long-term view. Expectations of any short-term gains are very risky.