

THE BIRCH LANE PERSPECTIVE

Preserving and Growing Wealth

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“With malice toward none with charity for all with firmness in the right as God gives us to see the right let us strive on to finish the work we are in to bind up the nation’s wounds, to care for him who shall have borne the battle and for his widow and his orphan ~ to do all which may achieve and cherish a just and lasting peace among ourselves and with all nations.”

– Abraham Lincoln

How to Approach the Middle East Conflict as an Investor

War in the Middle East has been back in the news and with it, market volatility. Despite the uncertainty this causes with oil and gas prices, and worries over supply disruptions, market volatility has been modest compared to past periods: a few percentage points down when things look to be getting worse, a few percentage points up when things appear to be getting better.

As with any world event, it’s impossible to know what the ultimate outcome will be. The worst mistake investors can make is reacting to the latest headlines and jumping in and out of the market based on fears and hopes. What has always been true is still true now: if you read it in the headlines, you are the last to know and the prices already reflect what is known. This means that if you buy on good news, you’re probably paying too much and if you sell on bad news you’re probably selling too low.

We are not predicting outcomes; rather, we are suggesting a practical approach to managing uncertainty while still helping to accomplish your goals.

What you want to do as an investor is make sure your financial plan and asset allocation is resilient to whatever happens. In other words, it’s a fool’s errand to base investments off of projections. Nobody, however much a market guru, makes accurate projections consistently about geopolitical or even macroeconomic events. Certainly not enough to make money reliably. Yet, it is possible to invest well without depending on predictions coming true.

Resiliency

The key to investing well in volatile and uncertain times is to have a resilient asset allocation that increases the likelihood of you achieving your goals while decreasing the vulnerability to catastrophe.

This can be done in a variety of ways, but a good way to start is to put your assets into different buckets according to the nature of your needs and the timing of when you need them. Different assets are relatively safer or riskier over different time periods. For example, what is best-suited for emergencies is not necessarily best suited for a house you want to buy in a couple years or funds needed to get your business through an extended downturn. Likewise, what works best for retirement 20 years from now would be different than any of the above.

This framework is also useful when looking at individual investments, such as stocks. Ask yourself: how much am I likely to lose if things don't turn out well vs. how much am I likely to make if things go great?

You don't need to be a genius at forecasting if you make more when you're right than you lose when you're wrong.

Upside Potential vs. Downside Risk

Let's go back to the Middle East conflict and analyze it based on that framework.

A bad case scenario could be something like this: the Strait of Hormuz remains closed, blocking oil shipments. Meanwhile, the oil and energy infrastructure of Iran and the Gulf countries is destroyed. The result would be significantly higher oil and gas prices and supply interruptions to Europe and Asia. Perhaps data centers in the Gulf states running artificial intelligence (AI) are also hit.

In the U.S., Europe, China, and Japan, the historical cost of oil and gas has been around 2-4% of the economy (GDP). The U.S. is mostly self-sufficient in oil supply while the other regions mainly import it. If oil production got severely damaged in the Middle East and doubled the price, it would cause a world recession, but we do not think it would be as bad as the 2007-09 financial crisis. Let's say a 2-4% direct impact to GDP plus some knock-on effects, which would be lessened over time by substitution and new production coming online.

What's more, while oil has a world price, we could set export restrictions and reduce the impact on the U.S., so the impact on Europe and Asia would likely be worse than the impact here.

We would guess the net impact of risks to the U.S. stock market would be inline with past modest market downturns. Nothing to worry about for long-term investors.

Now, on the positive side, valuations were approaching bubble territory before and this scare has cooled some of the froth. Valuations are not bargains, but they're more reasonable now. Ironically, that has made it less uncertain for long-term investors: no matter how great the company or opportunity, a high valuation can always make it risky.

Aside from valuation, the U.S. economy and corporate profits are still doing well overall. Direct AI investments may be risky, but companies using AI tools have a long runway to improve profitability and more easily make growth investments. The U.S. economy remains dynamic compared to much of the world and has a more favorable legal, tax, and economic framework than many alternatives.

From the perspective of long-term growth drivers and reasonable valuation, we are optimistic about potential market returns.

Furthermore, while the Middle East conflict is a near term risk, we are less concerned about the major long-term risk: China invading Taiwan. As we've mentioned in past letters, that would be a far greater risk to the U.S. economy given how many semiconductor companies manufacture their chips in Taiwan and how many U.S. companies in general manufacture in China. If China were to do that, we could see the market falling 50% very quickly. That would be inline with other great declines, such as the Global Financial Crisis, Dot.com bust, and 1970s stagflation.

Two key data points support a decreasing risk of China invading Taiwan: Chairman Xi has recently fired a lot of high-ranking military officials and the U.S. conflicts in Venezuela and Iran have demonstrated weaknesses in Chinese military technology, which both countries use. The combination of these two factors make it less likely that Xi could pull off a 2027 invasion as he had previously talked about. At this point, we believe there is a considerably lower chance of a Taiwan invasion happening.

Bottom Line

We believe there is significant upside potential to the market which offsets modest near-term risk and there is less long-term risk from China. If you have a resilient financial plan and asset allocation, you are well-positioned for any market scenario.

Next Steps

[Schedule a consultation](#) today to explore what a resilient financial plan, asset allocation, and investment strategy looks like for you.

Last Month's Winners and Losers

Winners	Losers
Value	Risk
Profitability	Momentum
Capital efficiency	Gold & Silver
Crude oil	Foreign stocks
Short-term bonds	Long-term bonds

Last month saw continued movement away from risk and toward quality (value, profitability, and capital efficiency). Crude oil also rose sharply given the supply constraints introduced by the Iran war. Long-term rates rose due to less risk appetite, greater future uncertainty, and perhaps countries selling dollar-denominated reserves.

Stocks

	S&P 500	Dow Jones U.S. Select Dividend	Russell 2000	Bloomberg US Long Treasury
1mo Return	-5.0%	-2.4%	-5.0%	-4.0%
YTD Return	-4.3%	8.2%	0.9%	-0.4%
10yr Return	14.2%	10.7%	9.9%	-0.8%
20yr Return	10.5%	8.9%	7.5%	3.5%
30yr Return	10.0%	10.5%	8.4%	4.9%

Source: FactSet as of 4/1/2026. We use the S&P 500 index as an illustration of the performance of large cap stocks, the Dow Jones U.S. Select Dividend index as an illustration of the performance of high dividend stocks, the Russell 2000 index as an illustration of the performance of small cap stocks, and the Bloomberg US Long Treasury index to illustrate the performance of treasury bonds with maturities greater than 10 years out.

U.S. stocks fell across the board, though not as much as international stocks. While a shock to oil supply via the Iran war hurts all developed countries, it hurts Asian and European countries more as they depend directly on oil imports from the Middle East.

Meanwhile, Big Tech and AI-related names are off from their highs even more. They were hurt both by the recent turbulence and by a compression of some of the bubble-level valuations they'd seen. There are also some multi-billion-dollar data centers in the Middle East that are exposed to the conflict and have been threatened by Iran.

That said, there are more stocks that are attractively valued now than a few months ago. We still believe there are substantial long-term growth drivers in the economy, so overall we view now as a less risky time for long-term investors than it was at the end of last year. Widespread bargains are still not available, but there are attractive opportunities, in our opinion.

	Large Cap Stocks	Dividend Stocks	Small Cap Stocks
Dividend Yield	1.2%	3.1%	1.5%
Earnings Yield	5.2%	6.0%	6.6%
Earnings Growth	11.1%	8.6%	14.7%
Return on Equity	16.4%	12.4%	10.5%
% Losing Money	6.2%	8.3%	36.0%

Source: FactSet as of 4/1/2026. Dividend Yield is an estimate based on the weighted average of all companies in the category (by market cap). Earnings Yield, Earnings Growth, and Return on Equity are estimates based on the median profitable company. The % Losing Money statistic represents the percent of stocks with negative earnings in the preceding 12-month period. Large Cap stocks are defined here as the stocks in the S&P 500, according to FactSet. Dividend Stocks are defined here as the stocks within the S&P 500 that pay an above-median dividend yield, according to FactSet. Small Cap stocks are defined here as U.S. stocks ranked 1,001 to 3,000 in market capitalization, according to FactSet.

Artwork



"The Spirit of '76" by Archibald Willard (1875). Source: [WikiMedia](#).

Income Investing

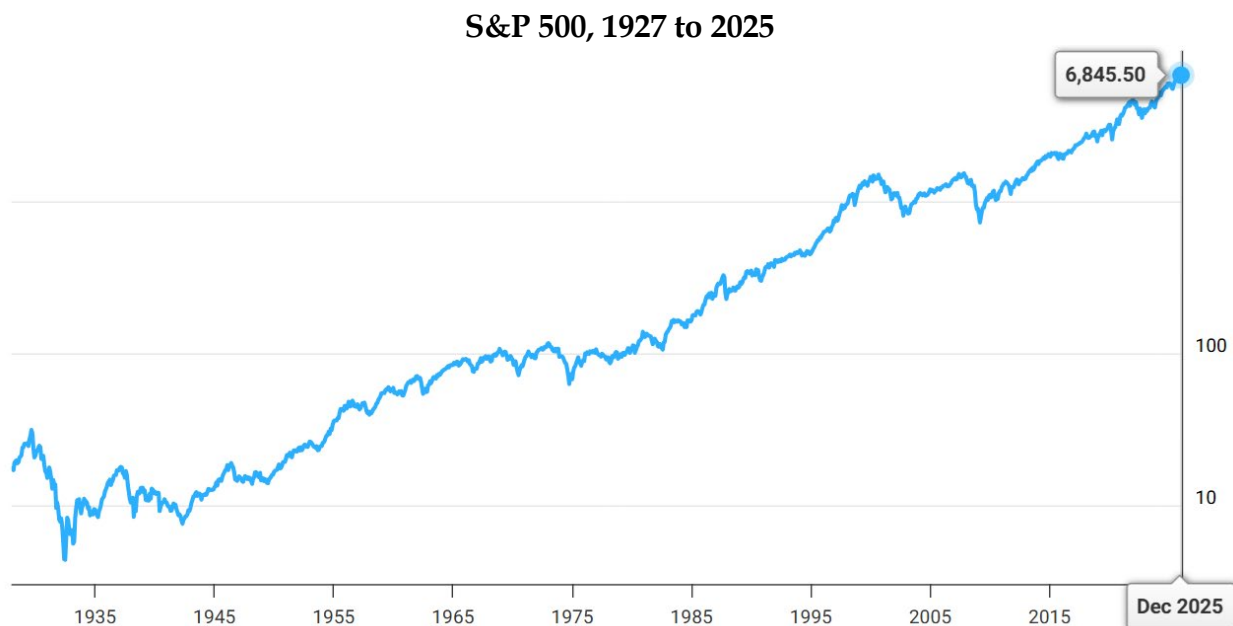
Interest Rates	
1yr Treasuries	3.7%
10yr Treasuries	4.4%
10yr TIPS	2.0%
Muni Bonds (10yr AA)	3.5%
Corp Bonds (10yr A)	5.1%
30yr Fixed Rate Mortgages	6.5%

Dividend Yields	
Common Stocks	1.2%
– Top 25%	4.2%
– Next 25%	2.4%
Preferred Stocks	6.5%
Real Estate (REITs)	4.3%
Limited Partnerships	6.9%

Source: Interest rates from Raymond James' Weekly Interest Rate Monitor as of 4/6/2026 and The Wall Street Journal as of 4/9/2026. Source for the Dividend Yields is from FactSet as of 4/1/2026. Common Stocks uses the estimated weighted average dividend yield for the S&P 500. The top 25% yield is the median yield of the top quartile of dividend-paying stocks out of the largest 1,000 stocks. The next 25% yield is the median of the second quartile. Preferred Stocks is the median dividend yield of the 100 largest traded preferred stocks (by dollar volume, per FactSet). REIT and Utilities dividend yields are the median of those sector stocks included in the 1,000 largest common stocks. Limited Partnerships dividend yields are the median of U.S. exchange-traded limited partnerships.

Interest rates rose over the last month due to investors requiring greater compensation for the risk of tying up capital in this environment. As before, we continue to favor short-term to intermediate-term bonds over long-term bonds as the spread on long-term bonds does not justify the risk, in our opinion.

The Long View



Source: MacroTrends.net

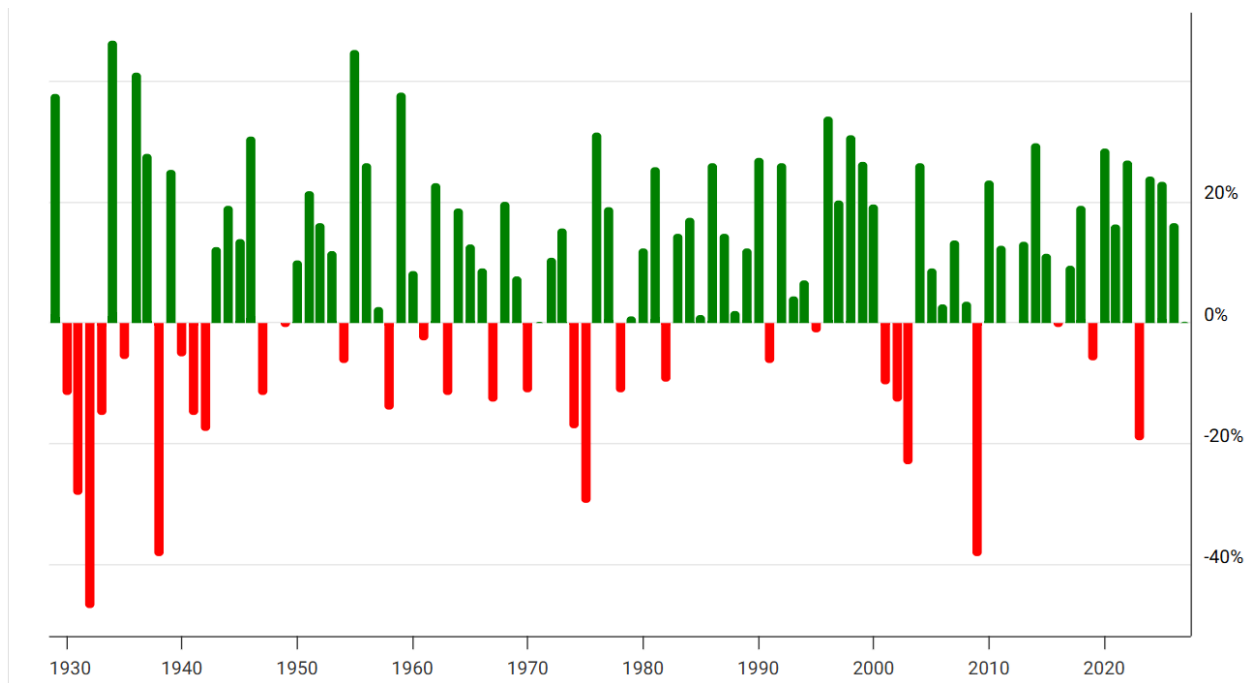
For the last 20, 30, and 100 years, stocks have averaged around an 8-10% annual return, driven by dividend yield, reinvestment of earnings, and earnings growth. Long-term bonds have yielded about 5% on average over the last century while inflation has been about 3%.

Throughout this period, there have been major upheavals, such as the Great Depression, World War II, the Korean War, the Vietnam War, dropping the gold standard, 1970s high inflation, 1987's Black Monday Crash, the Dot.com bust, the 9/11 terror attacks, the Global Financial Crisis, and the Covid Crash, among others.

These events led to severe market downturns about once every decade, with a median price decline of 33% and a median time to recover back to the previous high of 3.5 years. If we were to include dividends, the recovery to previous highs is actually a little faster. *

Meanwhile, a 3% inflation rate results in a 59% decline in the value of a dollar over 30 years. Meaning that people who retire at 60 years old on a fixed income face a high risk of a lower quality of life as they get further into retirement. *

The Price of Market Returns: Significant Volatility



S&P 500 Yearly Returns, 1927 to 2025. Source: MacroTrends.net

** Source: Morningstar Direct via cfainstitute.org, FactSet. Past performance is not necessarily indicative of future performance. Depreciation of the dollar: $\$1 / (1 + 3\%)^{30} = \0.41 real value 30 years later.*

Market Outlook

Now we'll put on our "Nostradamus Hat" and make some predictions, for whatever they're worth. We believe:

- Inflation will average 2-5% over the next 10 years.
- Interest rates will fall in the 3-6% range for 10yr Treasuries over the next several years, in line with inflation and historical experience.
- The economy will grow 2-3% in real terms over the next several years.
- Stocks in general will average an 8-10% return over the next 10+ years. There is likely to be at least one big decline every decade or so.

From the standpoint of where you and your family will be in 30 years, none of this matters. What matters is finding good quality investments that are likely to grow over the decades. For this reason, we largely ignore our own general market forecast and invest whenever we find a business that we are confident in and that trades at an attractive valuation.

Review

To set up a time for a consultation or review of your finances, please visit my calendar online at [Calendly](#) or email me at Randall.Watsek@RaymondJames.com.

Sincerely,
Randy Watsek

P.S. If you know anyone who might benefit from this letter, please pass it along.

The Birch Lane Group of Raymond James

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The Birch Lane Group advises clients collectively holding over \$300 million in assets, as of 12/31/25. The team consists of:

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