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# Markets During (and After) Wartime

Market Commentary | April 10, 2026

By Simeon Hyman, CFA, Kieran Kirwan, CAIA, and Bryan Gao, CFA



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## Key Observations

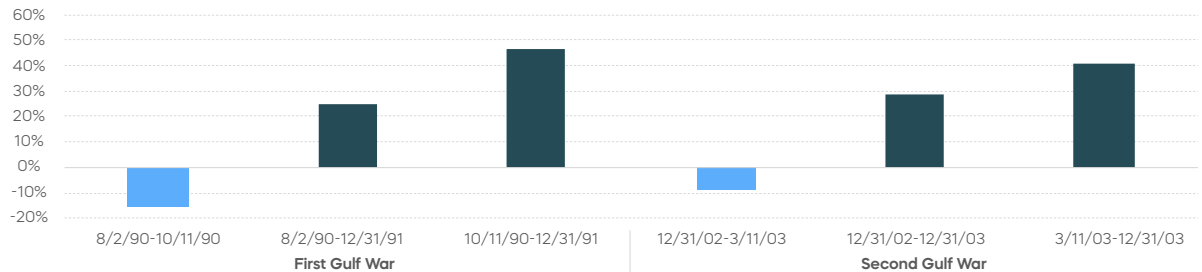
What do markets look like when conflict ends?

A ceasefire in the Middle East is the latest twist for investors who have grown increasingly reactive to each new headline. Volatility has surged: prior to the ceasefire, the VIX had roughly doubled this year and averaged 25 in March—about 67% above year-end levels—underscoring just how uncertain the path forward has been.<sup>1</sup>

If the ceasefire leads to a more lasting peace, history offers some guidance on where markets may go—but also a warning. While markets have often rallied following past conflicts, the timing and trajectory of those recoveries are notoriously difficult to predict. To put today’s environment in context, we look at market behavior during and after the First and Second Gulf Wars.

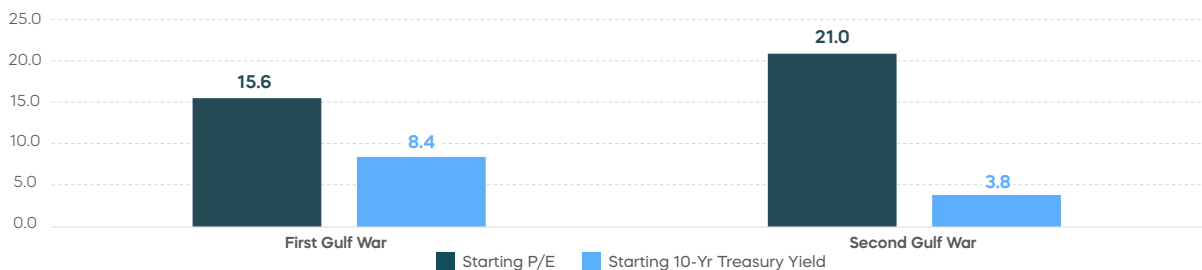
### Charts of the Month

#### S&P 500 Returns During and After Gulf Wars



Source: Bloomberg, based on S&P 500 total return data from 8/2/90 to 12/31/91 and 12/31/02 to 12/31/03.

#### Fundamentals Still Matter



Source: Bloomberg. First Gulf War data is as of 7/31/90. Second Gulf War data is as of 12/31/02. Starting P/E (price-to-earnings) is based on the S&P 500, and the Starting 10-Year Treasury Yield is based on the Generic 10-Year Treasury Note Index.

When considering positioning in today’s environment, fundamentals still matter. For example, lower valuations may have supported the rally following the first Gulf War, but interest rates were also significantly higher—suppressing multiples and limiting how attractive those equity valuations truly were.

The second Gulf War looks more like today. At the time, markets were emerging from the tech wreck, so it was reasonable to assume low valuations helped set up a rally there as well. They actually weren’t particularly low. Both price-to-earnings (P/E) multiples and interest rates were at similar levels to March’s: 25.6 and 4.3% respectively.<sup>2</sup>

<sup>1</sup> Source: Bloomberg, as of 3/31/26.

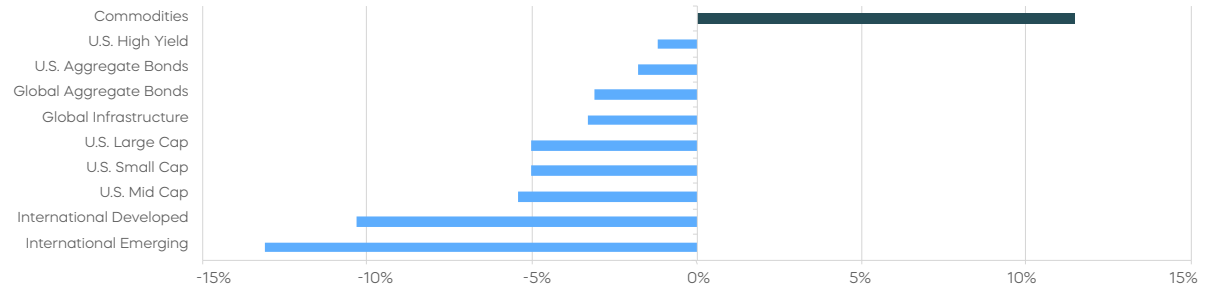
<sup>2</sup> Source: Bloomberg, as of 3/31/26.

Still, history is only a guide—not a blueprint. Markets were still digging out from a burst tech bubble in 2002, for example. That may not be the case today. And until conflicts subside, there can be little expectation of a return to reliable market direction.

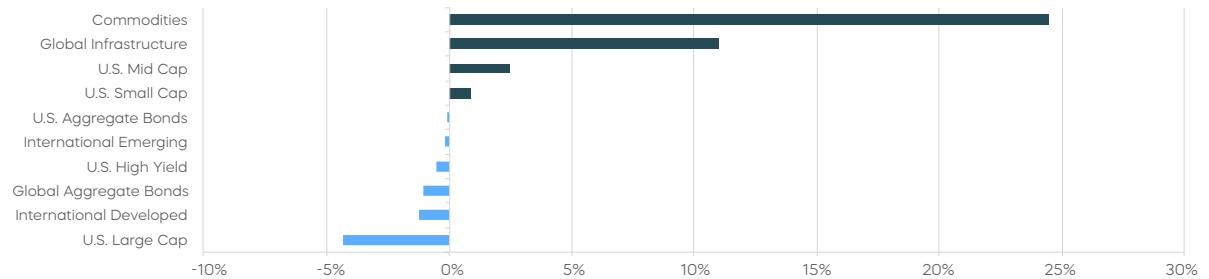
In the current environment, discipline may matter more than precision. Maintaining liquidity for near-term needs and adhering to a defined risk management and asset allocation framework may be more effective than attempting to time turning points.

## Asset Class Perspectives

### Asset Class Returns – March 2026



### Asset Class Returns – Year-to-Date 2026



Source: Bloomberg. March returns 3/1/26–3/31/26; year-to-date returns 1/1/26–3/31/26. Index returns are for illustrative purposes only and do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

The following are observations on a range of asset classes. For each, green indicates a constructive backdrop, yellow indicates a neutral environment, and red would indicate a challenging backdrop.

Asset Class	Key Observations
<b>Equity</b>	
U.S. Large Cap	● Broadening of fundamental participation may combine with a material rebound potential if the war ends.
U.S. Mid Cap	● Positives include a strong start for cyclicals and a pent up valuation discount.
U.S. Small Cap	● Higher commodity prices may hinder Fed cuts that can benefit small caps.
International Developed	● Last year's outperformance barely dented a substantial valuation discount.
International Emerging	● Last year's rally pushed valuations higher than post GFC levels, but higher commodity prices may provide a boost.
<b>Fixed Income</b>	
U.S. Aggregate Bonds	● Potential bleed-through of oil prices into inflation presents a risk to bond prices.
U.S. High Yield	● Modest spread widening may provide additional breathing room, but spreads still appear materially tighter than the post GFC average.
Global Aggregate Bonds	● Performance may be hampered if the end of the dollar's decline persists beyond the end of the war in the Middle East.
<b>Alternatives/Real Assets</b>	
Commodities	● A modest overweight may be timely during periods of heightened geopolitical risk and conflict.
Global Infrastructure	● Maintain a view toward owners of infrastructure assets, whose business models are generally inflation and recession resistant.

## Economic Calendar

Date Time	Event	Prior
4/14/2026 8:30	PPI Ex Food and Energy YoY	3.90%
4/15/2026 8:30	Empire Manufacturing	-0.2
4/15/2026 8:30	Import Price Index MoM	1.30%
4/15/2026 14:00	Fed Releases Beige Book	-
4/15/2026-4/23/2026	Leading Index	-0.10%
4/16/2026 9:15	Industrial Production MoM	0.20%
4/16/2026 9:15	Capacity Utilization	76.30%
4/21/2026 8:30	Retail Sales Advance MoM	-
4/21/2026 10:00	Pending Home Sales MoM	1.80%
4/28/2026 10:00	Conf. Board Consumer Confidence	-
4/29/2026 8:30	Wholesale Inventories MoM	-
4/29/2026 8:30	Housing Starts	1487k
4/29/2026 8:30	Durable Goods Orders	-
4/29/2026 8:30	Building Permits	1386k
4/29/2026 14:00	FOMC Rate Decision (Upper Bound)	3.75%
4/29/2026 14:00	FOMC Rate Decision (Lower Bound)	3.50%
4/30/2026 8:30	Personal Income	-
4/30/2026 8:30	Personal Spending	-
4/30/2026 8:30	PCE Price Index YoY	-
4/30/2026 8:30	Core PCE Price Index YoY	-
4/30/2026 8:30	GDP Annualized QoQ	-
4/30/2026 8:30	GDP Price Index	-
5/01/2026 10:00	ISM Manufacturing	-
5/04/2026 10:00	Factory Orders	-
5/05/2026 8:30	Trade Balance	-
5/05/2026 10:00	ISM Services Index	-
5/05/2026 10:00	New Home Sales	587k
5/05/2026 10:00	JOLTS Job Openings	-
5/07/2026 7:30	Challenger Job Cuts YoY	-
5/07/2026 10:00	Construction Spending MoM	-0.30%
5/08/2026 8:30	Change in Nonfarm Payrolls	-
5/08/2026 8:30	Average Hourly Earnings YoY	-
5/08/2026 8:30	Unemployment Rate	-

Source: Bloomberg, data as of 4/2/26.



**Kieran Kirwan, CAIA**  
**Director, Senior Investment Strategist**

## Equity Perspectives

### Don't Be an Accidental Market Timer

The risks of trying to time the stock market are well known, particularly during periods of geopolitical conflict. Yet many investors, despite their best intentions, end up doing exactly that.

Faced with near-term concerns, rather than exiting equities for cash or short-term bonds, investors often look for defensive equity strategies. Their objective, of course, is to avoid at least some near-term drawdown risk while maintaining the ability to participate in a recovery. The challenge is that many so-called defensive strategies don't deliver.

Case in point: traditional covered call strategies. Many investors view such investments, often represented using the Cboe S&P 500 BuyWrite Index, as an option for defensive equity positioning. Events like last year's tariff tumult challenge that assumption, however. Beginning with Liberation Day on April 2, 2025, the S&P 500 fell roughly 12%, while the "defensive" traditional monthly covered call strategy declined 10.5%—offering limited downside protection.

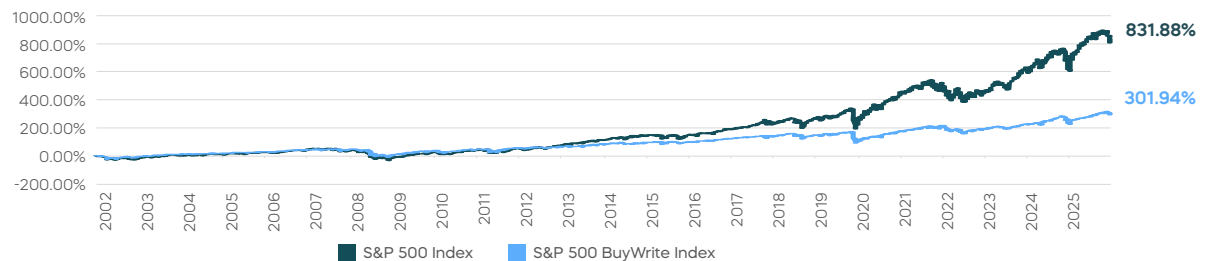
	Return 4/2/25–4/8/25	Return 4/2/25–12/31/25
S&P 500 Index	-12.1%	21.8%
Cboe S&P 500 BuyWrite Index	-10.4%	11.7%

Source: Bloomberg, data from 4/2/25 to 12/31/25.

The reason these traditional covered call strategies often fail to offer significant defense is a matter of timing. Option premiums, which make up the income portion of covered call strategies, can help offset gradual declines over time, but are less effective during sharp selloffs. And when markets rebound, especially if they do so quickly, these strategies tend to lag because their upside is consistently capped.

By the end of 2025, for example, the BuyWrite Index had captured only about half of the S&P 500's recovery—an unfavorable trade-off given the limited protection on the downside. The story is similar over the longer term. The Cboe S&P 500 BuyWrite Index has only delivered about 40% of the cumulative return of the S&P 500.

### Monthly Covered Call Strategies Have Significantly Underperformed Over Time



Source: Bloomberg, data from 4/11/02 to 3/31/26. Index returns are for illustrative purposes only and do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

A recent innovation—a daily approach to covered calls—may offer a better alternative. The S&P 500 Daily Covered Call Index, which follows the performance of a daily option strategy on the S&P 500, offers the potential to target both high income and equity market returns over time. That income can provide for near-term needs and help keep investors “in their seats” in tumultuous times, while preserving potential participation during rebounds and avoiding fraught attempts at market timing.



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## Fixed Income Perspectives

### Temporary Energy Relief, Persistent Inflation Risk

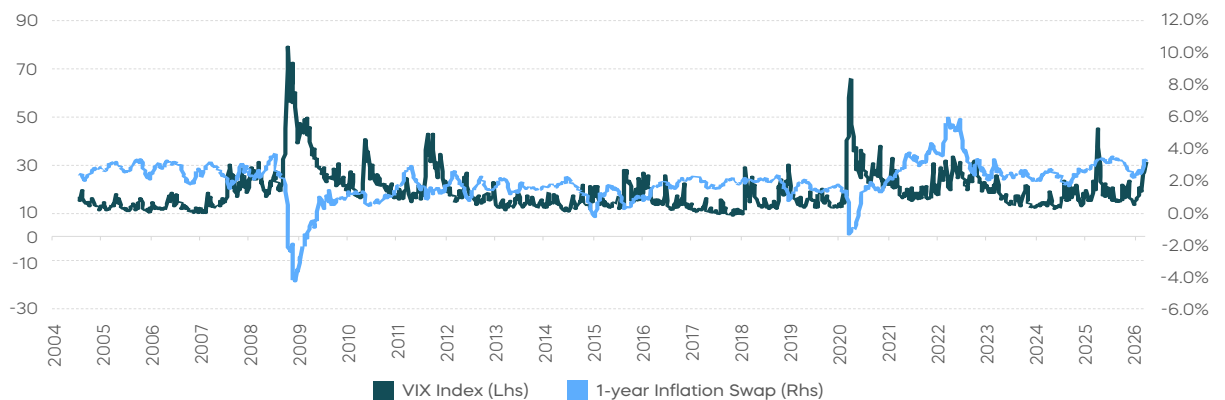
With a ceasefire announced on April 7 in the war in the Middle East, bonds rallied in a sign of relief. Even so, front-end yields in the U.S. remain meaningfully higher than before the war began over a month ago. Near-term inflation expectations also remain elevated, with the one-year inflation swap still more than 50 basis points above its February level as of April 8.<sup>3</sup>

If lower oil prices are sustained, the near-term pressure on inflation could ease. Still, markets remain wary of any premature conclusions. Higher oil prices can lift headline inflation directly through increased prices for gasoline and energy-related services. In addition, Fed research suggests that a 10% rise in oil prices can feed into 0.15% of additional core inflation (before accounting for any offset from weaker demand).

While the Fed is generally less concerned with one-time price increases such as an oil shock, it is more vigilant about whether a one-off shock evolves into sustained inflation. The risk is that the economy may currently be more susceptible to higher inflation expectations taking hold than at any point in decades.

Between the Global Financial Crisis in 2008 and the Covid-19 pandemic in 2020, near-term inflation expectations and equity volatility were strongly negatively correlated, as illustrated by the relationship between one-year inflation swaps and the VIX index in the chart below. In that environment, inflation risk was minimal: rising volatility in risk assets was often associated with recessionary signals and declining inflation expectations. However, that relationship flipped when inflation surged in the post-pandemic era. Inflation and volatility became positively correlated, and they have remained so even as inflation has moderated. That shift complicates the Fed's ability to treat an oil shock as fully transitory. Although the Fed left its year-end 2026 projection of one 25 basis point rate cut unchanged at the March 18 FOMC meeting, markets may be right in assuming that further rate cuts this year would likely require a sustainable reopening of the Strait of Hormuz.

### Have We Moved from a Disinflation to Inflationary Regime?



Source: Bloomberg. Weekly data from 7/23/04 to 3/27/26. Index returns are for illustrative purposes only and do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

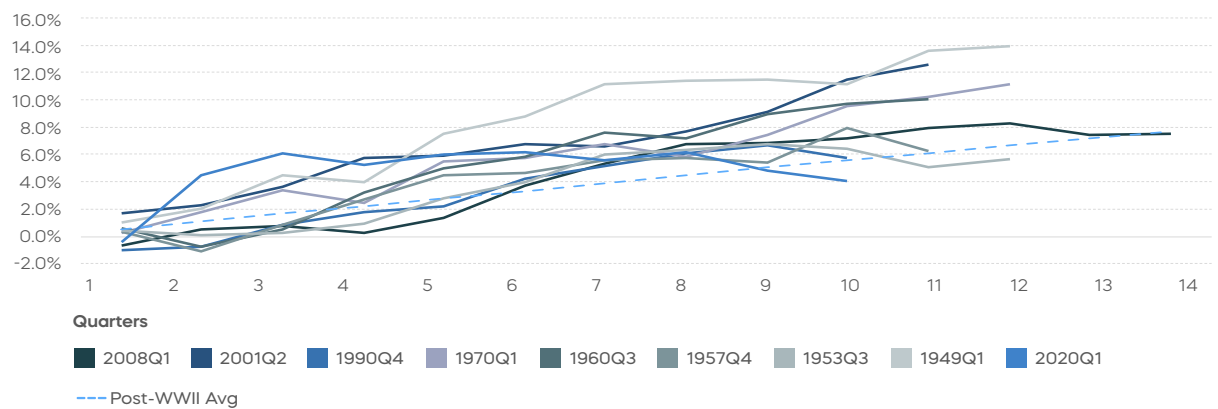
<sup>3</sup> Source: Bloomberg, as of 4/8/25.

Additionally, an end to the war would not automatically eliminate the inflation risk. Even before the current oil shock, the U.S. economy was already moving toward a scenario of inflationary growth. The rising price of goods in 2025 showed the inflationary effects of tariffs were still working their way through the economy. Importantly though, many firms were able to absorb a majority of those cost increases because labor productivity growth was above its long-term trend for much of the year. While some observers and many CEOs have attributed these gains to AI, we think they more likely reflect residual post-pandemic efficiency gains.

Since World War II, many U.S. recessions have been followed by periods of high productivity growth as firms cut costs and improve efficiency. After the pandemic lockdowns, hours worked fell sharply, mechanically boosting measured productivity in the second quarter of 2020. But as the economy reopened, those productivity gains faded and the labor market quickly returned to very tight conditions.

For that reason, we believe the recent strength in productivity may be less of a structural shift and more low-hanging fruit created by the dynamics of the pandemic era. If that proves to be correct, and demand remains firm, businesses may become more willing to pass higher input costs onto consumers once labor cost savings become less available.

### Cumulative Labor Productivity Growth Since Start of Recession



Source: Bloomberg. Quarterly SAAR labor productivity from Q2 1947 to Q4 2025. Recessions based on NBER business cycle dates. Cumulative productivity growth shown from the start of recession through eight quarters post the end of recession. Supply shock-driven recessions in the 1970s and 1980s are omitted.

The ceasefire makes the current oil shock easier for the Fed to look through than it appeared just weeks ago. Long-term inflation expectations have also remained relatively stable, giving the Fed room to avoid overreacting to near-term price pressures.

However, the risk of a return to inflationary growth may persist even if the conflict reaches a durable resolution. Against this backdrop, we continue to favor a steepening bias while remaining attentive to further developments.

Sources for data and statistics: Bloomberg, FactSet, Morningstar, and ProShares.

The different market segments represented in the performance recap charts use the following indexes: U.S. Large Cap: S&P 500 TR; U.S. Large Cap Growth: S&P 500 Growth TR; U.S. Large Cap Value: S&P 500 Value TR; U.S. Mid Cap: S&P MidCap TR; U.S. Small Cap: Russell 2000 TR; International Developed Stocks: MSCI Daily TR NET EAFE; Emerging Markets Stocks: MSCI Daily TR Net Emerging Markets; Global Infrastructure: Dow Jones Brookfield Global Infrastructure Composite; Commodities: Bloomberg Commodity TR; U.S. Bonds: Bloomberg U.S. Aggregate; U.S. High Yield: Bloomberg Corporate High Yield; International Developed Bonds: Bloomberg Global Agg ex-USD; Emerging Market Bonds: DBIQ Emerging Markets USD Liquid Balanced.

The different market segments represented in the fixed income returns charts use the following indexes: Global Agg Bond Market: Bloomberg Global-Aggregate Total Return Index Value Unhedged USD; Mortgage Backed Securities: Bloomberg U.S. MBS Index Total Return Value Unhedged USD; Treasury Bonds: Bloomberg U.S. Treasury Total Return Unhedged USD; U.S. Agg Bond Market: Bloomberg U.S. Agg Total Return Value Unhedged USD; Corporate Bonds: Bloomberg US Corporate Total Return Value Unhedged USD; High Yield Bonds: Bloomberg U.S. Corporate High Yield Total Return Index Value Unhedged USD; Interest Rate-Hedged High Yield Bonds: FTSE High Yield (Treasury Rate-Hedged) Index; Treasury Inflation Protected (TIPS): Bloomberg U.S. Treasury Inflation Notes TR Index Value Unhedged USD; Short term (1-3 Yr) High Yield: Bloomberg U.S. Corporate 0-3 Year Total Return Index Value Unhedged USD; Senior Loans: Morningstar LSTA U.S. Leveraged Loan 100 Index; Short term (1-3 Yr) Corp Bonds: Bloomberg U.S. Corporate 1-3 Yr Total Return Index Value Unhedged USD; Floating Rate: Bloomberg U.S. FRN < 5 yrs Total Return Index Value Unhedged USD; Interest Rate-Hedged Corporate Bonds: FTSE Corporate Investment Grade (Treasury Rate-Hedged) Index.

The S&P 500 is a benchmark index published by Standard & Poor's (S&P) representing 500 companies with large-cap market capitalizations. The Cboe SP& 500 BuyWrite Index is designed to measure the total rate of return of a hypothetical monthly "covered call" strategy applied to the S&P 500. The Cboe Volatility Index (VIX Index) is a leading measure of market expectations of near-term volatility. **THESE ENTITIES AND THEIR AFFILIATES MAKE NO WARRANTIES AND BEAR NO LIABILITY WITH RESPECT TO PROSHARES.**

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