In-Depth Analysis of Global Economic Trends and Market Implications

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Crude Awakening: Portfolio Positioning for an Energy Shock

Key Takeaways

- **The conflict in Iran and the disruption of the Strait of Hormuz have delivered the most significant shock to global energy markets in years.** WTI crude is up more than 40% since the onset of the war, now hovering around USD95/barrel as of March 16, 2026. Our analysts believe oil could surpass USD100/barrel in the near term, with recession risks rising steeply if prices approach USD120/barrel.
- So far, markets have largely brushed off the impact of the war. The S&P 500 is just 5% below its late-January all-time high, even as WTI crude oil has risen nearly 70% this year. The Energy sector, the one place where you would expect the conflict to be reflected, is up only about 3% since the war began.
- Our colleagues at Washington Analysis, CFRA's Policy business, believe the conflict is likely to persist longer than markets are currently pricing in. We view escalation risk as high and expect energy prices to remain elevated even after hostilities subside.
- **In this report, we aggregate the views of our global fundamental equity research team on the implications of elevated oil and energy prices and rising inflationary pressures across industries and geographies.** This cross-sector, cross-geography analysis leverages the expertise of CFRA's global equity research team and its differentiated independent research platform.

Fundamental Context

Overview

The conflict in Iran and the disruption to the Strait of Hormuz have delivered the most significant shock to global energy markets in years. WTI crude is up 40% since the onset of the war and up nearly 70% this year (about USD95/barrel as of this report). Our analysts have reason to believe oil will return above USD100/barrel over the near term. We see recession risks rising steeply if oil prices approach USD120/barrel.

Markets appear to be treating this war as a "transitory disruption" – a term we do not use lightly, given that the last time Wall Street rallied around "transitory," it took the Fed two years and 525 bps of tightening to restore credibility. Yet, here we are: the S&P 500 sits just 5% below its late-January all-time high and is down just 3% since hostilities began. The Energy sector – the one area you would expect the conflict to be reflected – is up just 3% over that stretch, suggesting equity investors view the oil supply shock as a short-lived scenario. **CFRA believes a pullback (-5.0% to -9.9%) or correction (-10.0%-19.9%) is likely but that a new Bear Market (-20%+) will be avoided.**

The Trump administration has sent mixed signals on the war's duration – in some instances suggesting the conflict could last "four to five weeks," while in others insisting the U.S. will not stop until it achieves "unconditional surrender." Given that this is a midterm election year, with Republicans defending narrow majorities in both the House and Senate, one might assume the political calculus favors a short war – or at least incentivizes the administration to act on higher energy prices through diplomatic channels or changes to policy and regulation.

Our colleagues at Washington Analysis believe this conflict is likely to persist for longer than markets are currently pricing. Even once hostilities subside, energy prices are likely to remain elevated, as the conflict has exposed the vulnerability of Gulf energy infrastructure in a way that may have permanently repriced geopolitical risk.

Sector and Sub-Industry Impact

Communication Services

Interactive Media & Services (Negative) – Digital advertising is at risk amid rising costs and uncertain times. The Middle East conflict could drive a more cautious approach to advertising, with brands tightening discretionary spending and prioritizing return on ad spend amid economic uncertainty. Rising energy costs and supply chain disruptions could push retailers to reconsider marketing strategies and may lead to reduced advertising for products facing inventory shortages. We suspect sectors more heavily reliant on discretionary spending (e.g., travel and luxury goods) will experience more downside risk in ad spend as the conflict impacts global logistics and consumer sentiment. On a positive note, the Middle East represents less than 5% of total digital ad sales. Smaller ad players like Snap Inc. (SNAP USD5 ***) and Pinterest Inc. (PINS USD19 ****) would be more at risk than larger players like Meta Platforms Inc. (META USD628 ****) and Alphabet Inc. (GOOGL USD304 ****), which typically see more sustainable spending during uncertain times. – *Angelo Zino, CFA*

ETF EXPOSURE Global X Social Media ETF (SOCL USD47 ***) | **Negative**

European Telecommunications (Positive) – European telecommunications is likely to benefit from risk-off sentiment. Traditionally defensive with decent mid-single-digit yields, the industry faces margin pressure from elevated energy prices (a major input cost), but this is more than offset by positive market sentiment from heightened geopolitical risk. We believe near-term cash flows should improve, as 5G capex has peaked. However, the industry has already seen significant share price appreciation this year, led by larger-cap names maintaining stable dividends such as Deutsche Telekom AG (DTE GR EUR33 *****), Orange S.A. (ORA FP EUR18 ***), and Telenor ASA (TEL NO NOK172 ***). – *Adrian Ng, CFA*

Consumer Discretionary

Automobile Manufacturers (Negative) – We think auto manufacturers is likely to be hurt in a higher oil price environment, particularly those with a high degree of truck/SUV exposure, such as the "Detroit Three:" Ford Motor Company (F USD12 ***), General Motors Company (GM USD73 ***), and Stellantis N.V. (STLA USD7 **), all of which rank at the bottom of the industry in terms of real-world fuel economy according to Environmental Protection Agency data. The spike in oil prices is likely to raise the odds of a recession, hurt consumer confidence, and negatively impact auto sales overall, noting that road transportation (i.e., passenger vehicles and trucks) is oil's largest end market. A higher oil price environment could also restoke inflation and hurt the outlook for interest rates, reversing a key tailwind that has helped boost auto sales over the past several quarters. Prior to the oil price spike, the auto industry was already struggling with high inventory levels, which we consider very concerning. As of January 30, U.S. new vehicle inventories stood at 98 days' supply according to Cox Automotive data, well above the historical average of 60 days, which is considered ideal by many industry observers. – *Garrett Nelson*

In our view, F stands to lose the most from higher fuel prices, as trucks and SUVs accounted for 98.0% of the company's total U.S. vehicle sales in 2025. Just a few weeks ago, F appeared to have a lot of positive momentum, coming off a year in which its U.S. vehicle sales jumped 6.0% in 2025 (outperforming overall U.S. new vehicle sales growth of 2.2%). Sales of the F-series pickups and SUV models were poised to benefit from the combination of lower fuel prices and interest rates, but recent events have clouded its outlook. We think various Asian auto manufacturers such as Toyota Motor Corporation (TM USD212 ***) and Honda Motor Co. Ltd. (HMC USD26 ***), which generally produce more sedans, compact cars, and small SUVs and have a high degree of hybrid vehicle exposure, could be relative outperformers in a higher energy price environment. It is also worth noting the negative impact on RV manufacturers such as THOR Industries Inc. (THO USD84 ***) and Winnebago Industries Inc. (WGO USD34 ****), which fall under the automobile manufacturers sub-industry and are some of the most exposed to changes in fuel prices. – *Garrett Nelson*

Electric Vehicle Manufacturers (Positive) – Electric vehicle (EV) manufacturers is a sub-group within automobile manufacturers that could benefit from higher oil prices. When fuel prices spike, the economics of EVs become more attractive in the eyes of consumers seeking to avoid higher prices at the pump. Investor sentiment toward EVs has been depressed for several quarters now, particularly since it became clear that the U.S. government was going to eliminate federal EV subsidies following the 2024 election. For smaller EV manufacturers like Rivian Automotive Inc. (RIVN USD15 ***), Lucid Group Inc. (LCID USD10 ***), and Polestar Automotive Holding UK PLC (PSNY USD17 **), concerns related to liquidity, balance sheet, and short interest have risen over this timeframe, and Q4 auto sales data showed a steep drop in U.S. EV sales (-36 % Y/Y) following the federal EV tax credit expiration on September 30, 2025. As the bestselling U.S. EV manufacturer and a company whose investment-grade balance sheet provides a level of flexibility not afforded to many of their peers, we think Tesla Inc. (TSLA USD400 **) could see an uptick in vehicle demand. However, the company's vehicle portfolio seems to be in a transition phase, as it is in the process of phasing out the Model S and X. EV manufacturers is an automotive sub-group we believe would benefit from higher oil prices, and high short interest creates conditions that are potentially ripe for a short squeeze. – *Garrett Nelson*

ETF EXPOSURE Global X Autonomous & Electric Vehicles ETF (DRIV USD31 ***) | **Positive**
iShares Self-Driving EV and Tech ETF (IDRV USD38 ****) | **Positive**

Hotels, Resorts & Cruise Lines (Negative) – Rising oil prices threaten cruise lines through three interconnected channels: direct fuel costs, demand erosion, and operational constraints. Cruise operators rely primarily on marine gas oil and heavy fuel oil, with fuel expenses reaching a mid-teens revenue percentage when WTI hit USD100/barrel in 2022 versus mid-single digits in 2024-2025. A 10% fuel price increase could reduce annual net income by about USD145 million (unhedged) for Carnival Corporation & plc (CCL USD25 ***) or about USD57 million (50%-60% hedged) for Royal Caribbean Cruises Ltd. (RCL USD284 ****). Higher fuel costs force operators to implement surcharges that deter price-sensitive consumers, while broader oil-led inflation reduces discretionary budgets and increases ancillary travel costs like airfare, collectively dampening cruise demand. Finally, elevated fuel expenses limit itinerary flexibility by making longer or fuel-intensive routes less viable, constraining cruise lines' ability to redeploy capacity to high-growth markets like Alaska, the Caribbean, and Mediterranean (a key growth driver in recent years), with Middle East geopolitical instability further eliminating historically popular routes that had been viewed as potential expansion opportunities. – *Alex Fasciano*

ETF EXPOSURE Invesco Leisure and Entertainment ETF (PEJ USD58 **) | **Negative**

Broadline Retail (Negative) – By definition, broadline retailers sell a wide array of product categories, with discretionary items accounting for the majority of their assortment. As a result, these retailers tend to be highly sensitive to macroeconomic conditions, particularly inflation in necessities such as shelter, energy, and food-at-home. Consumer sentiment also tends to be inversely correlated with fuel prices. Notably, sentiment reached all-time lows in June 2022, which coincided with the national average price of regular gasoline exceeding USD5 per gallon. However, one mitigating factor is that many e-commerce retailers in this sub-industry operate with relatively low fixed overhead and maintain asset-light business models, which could be advantageous if energy prices rise.
– *Arun Sundaram, CPA, CFA*

ETF EXPOSURE ProShares Long Online/Short Stores ETF (CLIX USD53 NR) | **Positive**

Consumer Staples

Consumer Staples Merchandise Retail (Positive) – Discount or value retailers should see market share gains as consumers seek value, cook/eat more at home, prioritize essentials over discretionary purchases, and seek discounted gas. For example, Costco Wholesale Corporation (COST USD998 ****) could see a sales lift if fuel prices increase, as the historical conversion rate for fuel traffic to store traffic has been about 50%, meaning about half of its members that fill up their tank also shop inside the warehouse. However, one offset is that fuel operators typically realize extremely low profits or margins on fuel sales, and during periods of fuel inflation, margins tend to compress even further. – *Arun Sundaram*

ETF EXPOSURE VanEck Retail ETF (RTH USD256 **) | **Positive**

U.S. Packaged Foods & Meats (Negative) – For packaged foods & meats in the U.S., accelerating inflation could be the straw that breaks the camel's back, as this sub-industry is facing a growing list of structural headwinds that could weigh on long-term demand and margins. Persistent inflation has left many consumers more value-conscious, increasing trade-down behavior and private label penetration. At the same time, the rapid adoption of GLP-1 medications like Ozempic and Wegovy is raising concerns about structurally lower calorie consumption, particularly in snacking categories (hurting food manufacturers). Broader dietary trends are also shifting toward fresher, less processed foods, which challenges many legacy packaged products. Policy dynamics add another layer of uncertainty, in our view. Initiatives tied to Robert F. Kennedy Jr.'s "Make America Healthy Again" agenda could pressure companies to reformulate products or adjust marketing practices, while potential changes to the Supplemental Nutrition Assistance Program may affect purchasing patterns among lower-income households. Taken together, these factors point to a more challenging demand environment and may require packaged goods companies to invest more heavily in innovation, renovation, and value positioning to sustain growth. – *Arun Sundaram*

ETF EXPOSURE iShares U.S. Consumer Staples ETF (IYK USD73 *****) | **Negative**

Asia Pacific (Ex-China) Consumer Staples (Positive) – By nature, tobacco producers, supermarkets, and fast-moving consumer goods (FMCG) manufacturers will have the opportunity to collectively raise prices, likely exceeding their cost increases as seen historically, while sales volumes should remain stable given the inelastic nature of their products. During post-Covid-19 inflation spikes, companies such as Indian FMCGs Hindustan Unilever (500696 IN INR2,174 ****) and ITC Limited (ITC IN INR307 ***); Australian/New Zealand supermarkets/department stores Woolworths Group Limited (WOW AU AUD36 ***) and Coles Group Limited (COL AU AUD21 ****); and Japanese tobacco producer Japan Tobacco Inc. (2914 JP JPY5,806 ****) successfully implemented price increases, with several achieving above single-digit core EPS growth. In recent quarters, these companies (except Japan Tobacco) have pursued low-price strategies and passed on lower raw material costs to consumers, providing a reasonable base for future price hikes. That said, while inflation may provide a favorable tailwind, some companies currently face other headwinds that may pressure earnings, such as tobacco tax hikes in India and supply chain transformation costs. However, on the inflation front, our view is positive. The key risk is when price hikes do not keep pace with cost increases. – *Jian Xiong Lim, CFA*

Energy

U.S. Midstream Natural Gas (Positive) – Midstream natural gas is a good opportunity here. One of the shocks in this war is liquefied natural gas (LNG) exports. Qatar is one of the Big Three suppliers of LNG to the world market, along with the U.S. and Australia. About 20% of global LNG shipments start their journey in the Persian Gulf, and those LNG tankers are not moving. Consequently, it creates an acute natural gas shortage in Asia. The U.S. has the cheapest gas among the Big Three and is already in the middle of capacity expansions. Cheniere Energy Inc. (LNG USD253 *****) has locations in Louisiana and Texas and is boosting capacity by 20% through 2028. Kinder Morgan Inc. (KMI USD33 ****) is a major provider of natural gas transportation to the U.S. Gulf Coast, so more demand for Cheniere is also more demand for KMI. Finally, Exxon Mobil Corporation (XOM USD158 ***) has a 30% stake in Golden Pass LNG, which is a brand-new U.S. Gulf Coast export terminal and will probably ship its first cargo later in March. – *Stewart Glickman, CFA*

ETF EXPOSURE First Trust North American Energy Infrastructure Fund (EMLP USD44 NR) | **Positive**

U.S. Oil & Gas Exploration & Production (Positive) – Players in the oil & gas exploration & production (E&P) sub-industry should be short-term winners, especially for those with liquids exposure, with the caveat that it depends on how much spot market exposure they have. We also cannot stress enough that, while we think oil prices will go above USD100/barrel, prices sustained above USD120/barrel would likely induce a recession, at which point oil prices would collapse – witness the over 70% crude oil collapse from July 2008 to February 2009. Therefore, these recommendations should be viewed as short-term tactical positions rather than long-term holdings. EOG Resources Inc. (EOG USD135 ****) is almost fully unhedged in 2026, which it can afford to do because it has a very good cost profile and extremely low net debt-to-capital (13%), near XOM and Chevron Corporation (CVX USD198 ***) and considerably better than the 25% peer average. Diamondback Energy Inc. (FANG USD182 ****) is only 36% hedged for 2026. Both EOG and FANG get approximately 70% of their production in the form of liquids, mainly crude oil. – *Stewart Glickman*

ETF EXPOSURE SPDR S&P Oil & Gas Exploration & Production ETF (XOP USD169 *) | **Positive**

European Energy (Positive) – European Energy majors like Shell plc (SHELL NA EUR40 ***), TotalEnergies SE (TTE FP EUR73 **), and BP p.l.c. (BP LN GBP5 **) are fairly correlated to Brent crude oil prices. Therefore, they benefited from the Brent crude oil price surging to above USD100/barrel and vice versa when oil prices dipped below USD90/barrel after U.S. President Trump indicated that the Iran conflict would be over soon. For now, the sector is outperforming as the only bright spot in European equities during the crisis. We expect integrated oil majors to generate strong near-term earnings from elevated crude prices and wider refining margins. However, it should be noted that: (1) Europe's position as a net energy importer makes the region particularly vulnerable to supply shocks, with natural gas prices spiking 14% and storage levels 23% below year-ago levels, and (2) surging energy costs are reigniting inflation concerns, potentially triggering European Central Bank (ECB) rate hikes and dampening economic growth across the continent. We believe the sector's relative outperformance should persist as long as oil prices remain elevated, though gains may be capped by broader economic headwinds if the conflict extends beyond several weeks. – *Alex Goh*

China Energy (Positive) – Operating under heavy government price controls on refined products, Chinese upstream energy producers have proven to be less correlated to oil prices than European peers over the past five years. The refined product price regulations prevent PetroChina Company Limited (857 HK HKD11 ****), Sinopec Shanghai Petrochemical Company Limited (338 HK HKD1 ***), and CNOOC Limited (883 HK HKD29 ***) from fully passing on cost increases to consumers when oil prices rise, hence higher upstream earnings are partly squeezed on refining margins. Even so, the share prices of these three companies outperformed the Shanghai and Shenzhen Composite Indices over the past year, as Chinese producers are still expected to generate strong margins from elevated oil prices. While China is the world's largest oil importer and exposed to Middle East disruptions, its strategic stockpiling and energy diversification provides a degree of insulation, positioning Chinese energy equities for relative outperformance during this crisis. This includes an estimated 400-500 million barrels of strategic crude reserves (around a month of reserves accumulated during low prices), rapid EV/renewable adoption providing a structural hedge, and access to discounted Russian crude outside the Strait of Hormuz. – *Alex Goh*

Financials

Financial Exchanges & Data (Positive) – While much of the Financials sector would likely underperform amid rising geopolitical uncertainty or rapid inflation given its cyclical nature, financial exchanges & data represents a compelling exception. Both Cboe Global Markets Inc. (CBOE USD291 *****) and CME Group Inc. (CME USD312 ****) are uniquely positioned to benefit from heightened geopolitical tensions through their transaction-based business models that thrive on volatility. When uncertainty escalates, market participants dramatically increase hedging and trading activity, precisely when these exchanges generate over 80% of revenue. CME's track record validates this thesis: EPS surged 44% during Covid-19 and 18% during Russia's invasion of Ukraine. CBOE similarly benefits, as its proprietary VIX products see explosive volumes during periods of fear, while its exclusive SPX options franchise captures surging demand for portfolio protection. – *Alexander Yokum, CFA*

ETF EXPOSURE Invesco Bloomberg Financial Data Providers ETF (FDIQ USD71 *****) | **Positive**

Consumer Finance (Negative) – The consumer finance sub-industry is highly vulnerable to rising geopolitical risk and inflation due to its direct exposure to consumer credit quality and interest rate sensitivity. Inflation erodes consumers' purchasing power and increases debt service costs, leading to higher delinquencies and charge-offs. Rising rates to combat inflation could also compress net interest margins, while simultaneously weakening loan demand and spending volumes. Geopolitical tensions amplify these pressures by creating economic uncertainty that dampens consumer confidence and spending, disrupts supply chains, which is particularly harmful for auto lenders like Ally Financial Inc. (ALLY USD37 ***), and can trigger funding market stress. The sub-industry's exposure to subprime and near-prime borrowers, especially at Synchrony Financial (SYF USD65 ****) and portions of Capital One Financial Corporation's (COF USD181 ****) portfolio, makes it particularly sensitive to economic deterioration, as these customers lack financial buffers and default quickly when conditions worsen. – *Alexander Yokum*

ETF EXPOSURE Global X Fintech ETF (FINX USD25 **) | **Negative**

Property & Casualty Insurance (Positive) – Personal auto insurers such as The Allstate Corporation (ALL USD209 *****) and The Progressive Corporation (PGR USD206 ****) are positioned to emerge as relative winners from the current geopolitical event, in our view. While catastrophic events historically serve as catalysts for property & casualty (P&C) insurance stocks by driving rate increases and market hardening, the unique dynamics of geopolitical conflict may prove particularly favorable for auto insurers. We believe this segment offers the most compelling risk-reward profile within the broader insurance universe for several reasons: (1) their low-beta characteristics provide downside protection in a volatile market environment; (2) their products benefit from mandatory coverage requirements, making demand highly inelastic during economic uncertainty; (3) they have zero direct exposure to conflict-related claims; and (4) paradoxically, elevated fuel prices may serve as a tailwind to underwriting profitability. Higher gas prices typically suppress driving activity, which in turn reduces accident frequency, lowers claims costs, and thus improves loss ratios. This defensive positioning, combined with potential pricing power from heightened demand for risk transfer, suggests auto insurers should outperform within the insurance sector during this period of elevated geopolitical uncertainty. – *Cathy Seifert*

ETF EXPOSURE Invesco KBW Property & Casualty Insurance ETF (KBWP USD122 ***) | **Positive**

European Insurance (Negative) – Rising crude oil prices generally have a mixed-to-negative impact on European insurance stocks, stoking inflationary fears while constraining economic growth and affordability for insurance products. Rising oil prices fuel inflation, leading to higher repair and replacement costs, particularly for combined ratios of P&C insurers. Also, rotational plays could move investors away from the more defensive insurance sector to Energy stocks, which generally benefit from higher oil prices. As insurers hold significant bond portfolios, inflationary concerns can pressure bond values and reduce investment income in the short term. On the flip side, rising inflation could cause central banks like the ECB to raise interest rates, which generally improves investment income as insurers reinvest into higher-yielding, fixed-income assets from maturing lower-yield bonds, partially offsetting the overall negative economic impact. Hence, while life insurers are expected to generally fare better than P&C insurers (which face elevated claims), the impact is mitigated by most European insurance stocks being exposed to both segments. – *Alex Goh*

European Diversified Banks (Negative) – European banks could face modest downside risk in a scenario of sustained elevated oil and gas prices. While higher inflation may delay monetary easing by the ECB and support near-term net interest income, the broader macroeconomic impact is likely negative. Persistently higher energy costs would pressure European household disposable income and corporate margins, particularly in energy-intensive sectors such as manufacturing, transport, and chemicals. This raises the risk of weaker loan demand and a gradual normalization of credit costs after several years of benign asset quality. We think banks with higher small and medium-sized enterprises (SME) and domestic lending exposure in cyclical economies – such as Banco Santander (SAN SM EUR10 ****), Intesa Sanpaolo S.p.A. (ISP IM EUR5 *****), and UniCredit S.p.A. (UCG IM EUR65 *****) – may be more sensitive to this dynamic. – *Firdaus Ibrahim, CFA*

ETF EXPOSURE iShares MSCI Europe Financials ETF (EUFN USD34 ****) | **Negative**

Health Care

Health Care is a classically defensive sector in times of economic disruption and slowdown. The sector has several fundamental characteristics that make demand for its products and services relatively stable regardless of economic conditions and geopolitical uncertainties. Medical care, prescription drugs, and treatments are necessities rather than discretionary purchases, as people continue to need Health Care when sick or managing chronic conditions, whether the economy is strong or weak. This inelastic demand is further reinforced by insurance coverage and government health care programs (i.e., Medicare, Medicaid) that buffer consumer affordability concerns, in our view. As a result, Health Care companies typically generate predictable, recurring revenues with lower correlation to gross domestic product (GDP) growth, making their stocks less volatile during economic downturns and attractive safe havens for investors seeking portfolio stability during periods of market uncertainty. – *Sel Hardy*

U.S. Pharmaceuticals (Positive) – By nature, pharmaceuticals are a defensive sub-industry, showing more resilience during economic downturns, as the need to treat illnesses does not stop. In our view, the demand for essential medicines, particularly in the fields of oncology, immunology, and mental health, will remain strong, as they are seen as necessary treatments. During recessions, the demand for essential drugs remains stable, and the price elasticity of specialty drugs tends to be low. These medicines are considered critical for patients who depend on them to live their daily lives, a trend we expect to remain unchanged in case of a recession or market turbulence. In that sense, pharmaceuticals companies that manufacture essential drugs are well positioned during economic downturns, as they have less exposure to wider economic uncertainty compared to companies in cyclical industries. We expect strong growth in worldwide prescription drugs sales for the next five years. According to health care data provider Evaluate Pharma, worldwide prescription drug sales are expected to post a compound annual growth rate (CAGR) of 7.0% between 2025 and 2032 and reach nearly USD2.0 trillion by 2032. Evaluate expects Eli Lilly and Company (LLY USD982 *****) and AbbVie Inc. (ABBV USD222 ****) to be the top two prescription drug companies by 2032. We expect the trend of aging populations to continue to positively impact the demand for prescription drugs in 2026 and beyond, especially in key therapeutic areas like immune-oncology, endocrinology, cardiology, and neurology. Within our U.S. pharmaceuticals coverage, ABBV, Amgen Inc. (AMGN USD367 ****), Bristol-Myers Squibb Company (BMY USD59 ****), LLY, and Merck & Co. Inc. (MRK USD115 ****) have large exposures to these therapeutic areas in their portfolios and are expected to continue to benefit from the growing demand for key drugs in these fields. – *Sel Hardy*

ETF EXPOSURE VanEck Pharmaceutical ETF (PPH USD105 *) | **Positive**

Heath Care Distributors (Positive) – We see pharmaceutical distribution as one of the most defensive areas within the Health Care sector. Pharmaceuticals are an essential product with reliable demand across strong and weak economic periods. We also think aging populations in developed markets and economic growth in emerging markets will drive long-term demand for drug therapies. Barriers to entry are significant, with the Big Three of McKesson Corporation (MCK USD951 ****), Cencora Inc. (COR USD350 ****), and Cardinal Health Inc. (CAH USD220 ****) estimated to control over 90% of the U.S. drug distribution market. Historically, we have seen pharmaceutical drug distributors outperform with their fee-for-service model that supports the ability to pass through price increases and maintain margins despite inflationary environments and other economic disruption, most recently seen in the record U.S. inflationary period of 2021-2022. Relative to peers, we note that CAH maintains relatively more exposure to inflationary energy/transportation costs through its Global Medical Products and Distribution segment, representing approximately 5% of sales in the latest quarter (Q2 FY 26 [Jun.]). – *Daniel Rich, CFA*

European & Asia-Pacific Pharmaceuticals (Positive) – Pharmaceuticals in Europe and Asia-Pacific should remain among the most resilient segments within Health Care. Large European pharma companies' significant U.S. exposure makes U.S. pricing dynamics an important factor, while Asia-Pacific pharma companies are generally more domestically focused, with growth driven more by volume and innovation than pricing. With oncology the largest therapy area and obesity the fastest-growing, companies with strong oncology exposure such as AstraZeneca PLC (AZN LN GBP143 *****) and Hansoh Pharmaceutical Group Company Limited (3692 HK HKD32 ****) and strong obesity exposure such as Novo Nordisk A/S (NOVOB DC DKK247 ***) and Innovent Biologics (1801 HK HKD84 ***) are well positioned, though company-specific risks such as pipeline execution remain relevant. – *Wan Nurhayati*

ETF EXPOSURE iShares Global Healthcare ETF (IXJ USD95 **) | **Positive**

Industrials

Aerospace & Defense (Positive) – Rising defense budgets across NATO allies (targeting over 3.5% of GDP growth by 2032-2035) and heightened procurement activity are creating multiyear demand tailwinds that more than offset potential input cost pressures. While aerospace & defense (A&D) manufacturers face inflationary headwinds on materials, labor, and specialized components, the sub-industry's cost-plus-contracting structure (particularly defense platforms) enables pass-through of inflation to governments, protecting margins. Moreover, elevated geopolitical risk accelerates rearmament cycles and reduces procurement delays. Prime contractors like Lockheed Martin Corporation (LMT USD644 ***), RTX Corporation (RTX USD207 ***), and General Dynamics Corporation (GD USD354 ****) benefit from robust backlogs and strong pricing power across fighters, missiles, and combat systems. With its record backlog and pure-play defense focus, Northrop Grumman Corporation (NOC USD734 ****) is particularly well positioned given direct exposure to the current Middle East conflict through unmanned reconnaissance systems (i.e., Global Hawk/Triton drones) and accelerating B-21 bomber production, while its 20% international sales growth and Integrated Battle Command System missile defense expansion provide additional upside. As the sole U.S. nuclear aircraft carrier builder, Huntington Ingalls Industries (HII USD411 ****) stands to benefit significantly from the largest shipbuilding procurement increase in the 2026 defense budget, driven by urgent naval superiority requirements in response to Strait of Hormuz tensions. The commercial aerospace segment may experience some margin pressure from higher jet fuel costs affecting airline customers, but record backlogs and limited production capacity mean order flows remain resilient. Overall, A&D represents a compelling defensive play, with offensive growth characteristics in an environment of energy price volatility and inflation.
– *Matthew Miller, CFA*

ETF EXPOSURE iShares U.S. Aerospace & Defense ETF (ITA USD232 ***) | **Positive**
REX Drone ETF (DRNZ USD27 *) | **Positive**

Air Freight & Logistics (Negative) – Air freight & logistics firms, particularly United Parcel Service Inc. (UPS USD98 **) and FedEx Corporation (FDX USD355 **), are likely to face compounding headwinds in a situation where surging fuel costs lead to inflationary, and potentially stagflationary, conditions. The first and most likely smaller impact comes directly from higher diesel and jet fuel costs, which will immediately pressure margins before fuel surcharges kick in on a lagged basis. The far more impactful and longer-lasting concern is a sharp reduction in demand as higher fuel costs factor into consumer purchasing patterns and become a drag on goods expenditures. In December 2025, real personal consumption expenditures on goods posted its first Y/Y decline since March 2023, while goods spending as a percentage of real disposable personal income pulled back alongside a steady decline in personal savings rates. Higher fuel costs will spike already persistent inflation and likely hit real GDP. This dynamic, combined with rising unemployment, creates a situation in which consumers and industrial customers alike will likely pull back spending and reduce package volumes for UPS and FDX. Given their asset-heavy structure, both companies will face a margin squeeze without sufficient volumes to offset fixed costs. – *Devyn DeLange*

ETF EXPOSURE iShares U.S. Transportation ETF (IYT USD73 **) | **Negative**

Cargo Ground Transportation (Negative) – While higher gas prices will hurt transportation companies (both rail and trucking) due to higher operating costs from increased fuel expenses, rail and trucking companies charge a fuel surcharge in times of rising gas prices. These surcharges are typically indexed to the Department of Energy's weekly diesel price reports and are passed through to customers with a one- to two-week lag. In times of rising gas prices, these surcharges not only fully offset the higher operating costs but can sometimes actually contribute to top-line revenue growth, as the surcharge revenue flows through at a higher rate than the incremental cost increase.

However, the broader macroeconomic impact of rising fuel prices presents a more significant concern. Rising inflationary pressures – driven by higher energy costs – tend to dampen consumer spending and industrial production, which directly reduces freight volumes and pricing power. This demand destruction would particularly hurt trucking companies such as XPO Inc. (XPO USD187 ***), Old Dominion Freight Line Inc. (ODFL USD183 ***), J.B. Hunt Transport Services Inc. (JBHT USD204 **), and Knight-Swift Transportation Holdings Inc. (KNX USD53 **), which are more sensitive to spot market rates and discretionary shipping volumes than their rail counterparts. – *Emily Nasseff Mitsch*

U.S. Passenger Airlines (Negative) – Sustained oil prices would increase pressure on passenger airlines as jet fuel costs surge at a time when lower jet fuel costs had been one of the only drivers of cost relief. Jet fuel prices have nearly doubled in recent weeks, representing a shock to airlines' second-largest operating expense after labor. The problem is particularly acute for U.S. airlines, which have largely abandoned fuel hedging practices over the past two decades and now face full exposure to spot-market volatility. Price spikes typically require ticket price increases to offset the impact that threatens demand destruction, particularly for leisure travel but less so for business travel. Beyond direct fuel costs, airlines are facing compounding operational challenges from route disruptions that require expensive detours around Middle East airspace, increasing flight times, fuel burn, crew costs, and overall reduction of aircraft utilization. Major Middle East carriers like Emirates, Qatar Airways, and Etihad Airways have seen severe service disruptions, tightening capacity on key international routes and creating knock-on effects throughout the global aviation network. Airlines are responding by trimming capacity on thinner or marginally profitable routes where higher fuel costs quickly erase earnings, deploying more fuel-efficient aircraft where possible, and using dynamic pricing strategies to balance costs with demand. Airlines with stronger balance sheets, modern fuel-efficient fleets, and greater exposure to premium and business travel segments like Delta Air Lines Inc. (DAL USD61 ***) and United Airlines Holdings Inc. (UAL USD87 ***) should prove most resilient in this challenging environment, while budget carriers operating on thin margins like JetBlue Airways Corporation (JBLU USD4 NR) and those with significant Middle East route exposure face the greatest financial pressure heading into what was expected to be a record summer travel season. U.S. airlines have limited exposure to travel in the Middle East, though UAL has direct flights to the UAE and Tel Aviv, Israel, which is one of its most profitable international routes. – *Ana Garcia*

ETF EXPOSURE U.S. Global Jets ETF (JETS USD24 ***) | **Negative**

European & Asia-Pacific Passenger Airlines (Negative) – European and Asian passenger airlines are among the most vulnerable to sustained elevated oil prices, given jet fuel typically represents 25%-35% of operating costs. European legacy carriers such as Deutsche Lufthansa AG (LHA GR EUR8 ***) and Air France-KLM SA (AP FP EUR10 ****) face additional headwinds from weaker intra-European travel demand and exposure to long-haul routes where fuel costs are magnified. Asian carriers present a mixed picture: while Chinese carriers like Air China Limited (753 HK HKD5 *****) and China Southern Airlines Company Limited (1055 HK HKD5 *****) benefit from government support and domestic market recovery, they still face margin pressure from elevated fuel costs. Higher inflation also pressures discretionary spending, particularly impacting leisure travel demand. Most carriers have limited ability to fully pass through fuel surcharges without demand destruction. – *Alan Lim, CFA*

Environmental & Facilities Services (Positive) – Environmental & facilities services companies, specifically waste service providers like Waste Management Inc. (WM USD238 ****), Republic Services Inc. (RSG USD224 ****), and Waste Connections Inc. (WCN USD167 ****), would likely benefit from any risk-off rotation into defensive areas of the market amid geopolitical/inflationary concerns. The waste services industry is relatively insulated from broader macroeconomic shocks given the essential nature of traditional waste hauling and processing, which is underpinned by multiyear contracts. Customer agreements often factor in price-escalation clauses tied to consumer price index (CPI) data, in addition to fuel surcharges, which have been a net positive for margins in recent years. Pricing power among waste haulers has become a key driver of record profitability and earnings growth, with WM, RSG, and WCN posting an average three-year operating earnings CAGR of 11%. While event-driven waste volumes could be impacted by a pullback in the consumer and business spending environment, this result would be more than offset by inflation-led pricing adjustments. From both a sentiment and fundamentals standpoint, we see the waste services industry outperforming in the event of dampened consumer spending or recession. – *Jonathan Sakraida*

ETF EXPOSURE VanEck Environmental Services (EVX USD40 ***) | **Positive**

Information Technology

U.S. Semiconductors (Positive) – A short Middle East conflict would not derail AI spending plans, as demand is strong and has proven resilient to external shocks (e.g., tariffs, geopolitical conflicts). AI remains highly prioritized with a focus on scale deployment. Although a longer conflict could add risk via available capital and resources, we anticipate that AI spending would likely be more resilient than other investment types, but not immune to worst case scenarios. Some considerations that need to be monitored include memory availability, tighter access to capital, and higher energy/non-technology component costs. The tail risk would be a sustained super spike in oil prices (closer to USD150) that drives up inflationary pressures to unsustainable levels. This is the one scenario where AI spending would finally feel the pinch. Names we like most within the chip space include NVIDIA Corporation (NVDA USD184 *****), Advanced Micro Devices Inc. (AMD USD200 *****), Broadcom Inc. (AVGO USD328 ****), Marvell Technology Inc. (MRVL USD88 ****), and Micron Technology Inc. (MU USD449 ****). – *Angelo Zino*

ETF EXPOSURE Global X Data Center & Digital Infrastructure ETF (DTCR USD25 *) | **Positive**

Technology Hardware, Storage & Peripherals (Negative) – The conflict in Iran will only add further pressure to consumer technology hardware spending. Higher oil prices and greater inflationary pressure from components and supply chain disruption risk could further crimp demand. With device category prices already rising due to memory shortages, we expect consumers to delay PC, tablet, and smartphone replacements. Smartphone demand in the Middle East, as well as globally, was already expected to decline in 2026, and this will likely deteriorate further. Industries in the Middle East like travel and real estate could experience a spending freeze, hurting enterprise IT investments. Negative implications in this space would be most apparent for HP Inc. (HPQ USD19 **), Dell Technologies Inc. (DELL USD157 ****), and Apple Inc. (AAPL USD253 ****), although AAPL is better positioned than others. – *Angelo Zino*

Software (Positive) – We expect the software industry to remain resilient to the ongoing conflict in the Middle East as AI and automation initiatives remain a priority area of software spending for many organizations. Software budgets were healthy entering 2026, and businesses reported strong demand for core modules, boosted by rising adoption of AI tools and solutions across the product portfolio. The recurring nature of SaaS business models adds to the resilience, and we believe budgets will stay relatively stable if the war is a short one and oil prices do not stay elevated for long. Should the conflict extend for months with a sustained spike in oil prices, IT spending would be curtailed amid greater uncertainty. In that scenario, we anticipate reduced demand for software purchases and longer sales cycles. Firms that we believe will be best positioned to navigate headwinds are Salesforce Inc. (CRM USD198 *****), Microsoft Corporation (MSFT USD398 *****), and ServiceNow Inc. (NOW USD115 *****). Palantir Technologies Inc. (PLTR USD152 ****) is an interesting case as an AI data analytics software company with significant business contracts with the U.S. Department of War. PLTR's technologies are embedded and used in military operations and would be a key beneficiary of continued military engagement. – *Janice Quek*

ETF EXPOSURE SPDR S&P Software & Services ETF (XSW USD151 ****) | **Positive**

Cybersecurity (Positive) – Cybersecurity emerges as a relative beneficiary within overall IT spending, even if broader macroeconomic conditions soften. Even in an extended conflict scenario, security investments remain relatively resilient. Security is typically the last IT budget cut in uncertain environments and is likely to expand in this environment across managed detection and response, security operations center modernization, zero-trust architecture, endpoint detection and response, identity and access management, and cloud workload protection. We expect greater security investments across Energy, Financials, Communication Services, government systems, and cloud platforms/SaaS providers. Cybersecurity companies that are the biggest beneficiaries of demand are Palo Alto Networks Inc. (PANW USD168 *****), CrowdStrike Holdings Inc. (CRWD USD430 ****), and Zscaler Inc. (ZS USD154 ****). – *Janice Quek*

European Electrical Components & Equipment (Positive) – European names like Schneider Electric S.E. (SU FP EUR250 ***) and ABB Ltd (ABBN SW CHF67 ****) are positioned to benefit from accelerated demand for energy efficiency solutions, grid infrastructure upgrades, and electrification projects, as utilities and industrial customers seek to mitigate high energy costs. These companies have strong pricing power given their mission-critical products and multiyear project backlogs that provide revenue visibility. However, they face near-term margin pressure from higher input costs (i.e., copper, steel, aluminum) and energy-intensive manufacturing processes. – *Alan Lim*

Asia Pacific Electrical Components & Equipment (Negative) – Asian players like Japan's Mitsubishi Electric Corporation (6503 JP JPY5,523 ****) and Chinese equipment manufacturers are more vulnerable than their European counterparts, given thinner margins and greater exposure to commodity price volatility. The infrastructure and industrial automation segments should hold up better than residential-exposed businesses. Overall, we favor the larger European diversified players with pricing power and exposure to the energy transition theme, while being more cautious on smaller Asian manufacturers with limited ability to pass through costs. – *Alan Lim*

Asia-Pacific Semiconductors (Positive) – Asia-Pacific semiconductors companies are likely to see a positive impact from continued investment in digital infrastructure despite elevated geopolitical risk and higher energy prices. Semiconductor demand linked to AI, data centers, and high-performance computing should remain relatively resilient even if macroeconomic conditions weaken. Elevated energy prices are a negative for industry margins as semiconductor manufacturing is highly electricity intensive, but strong utilization and structural demand should help offset some of this pressure. Foundries such as Taiwan Semiconductor Manufacturing Company Limited (2330 TT TWD1,845 ****) and United Microelectronics Corporation (2303 TT TWD61 ***) remain well positioned given their scale and technological leadership, while companies such as Samsung Electronics Co. Ltd. (005930 KS KRW188,700 ***) should continue to benefit from ongoing investment in memory and AI infrastructure. – *Adrian Ng*

Asia-Pacific IT Services and Consumer Hardware (Negative) – Information technology (IT) consulting & other services and technology hardware, storage & peripherals companies are likely to be more vulnerable to higher-for-longer energy prices and inflationary pressures. While the sector has limited direct exposure to energy costs, technology spending tends to be cyclical and could weaken if higher oil and gas prices were to contribute to slower global economic growth. IT services firms such as Infosys Limited (INFO IN INR1,246 ***), Tata Consultancy Services Limited (TCS IN INR2,401 ***), and Wipro Limited (WPRO IN INR194 ***) could see slower deal momentum if enterprises delay discretionary digital transformation projects. Consumer electronics manufacturers including Xiaomi Corporation (1810 HK HKD35 ****) and Lenovo Group Limited (992 HK HKD10 ***) may also face softer demand if inflation and energy costs reduced household spending on devices. – *Adrian Ng*

Materials

Commodity Chemicals (Negative) – Higher oil prices present a mixed but ultimately challenging outlook for petrochemical/commodity companies like LyondellBasell Industries N.V. (LYB USD71 **), Dow Inc. (DOW USD36 **), and Westlake Corporation (WLK USD110 **). While these companies could benefit from reduced Middle Eastern competition and temporary margin expansion if product prices rise faster than their feedstock costs, the net impact likely skews negative in any sustained conflict scenario where oil prices rise/stay elevated, in our view. All three are already operating in a weak demand environment for polyethylene, polyvinyl chloride (PVC), and other chemicals. Importantly, LYB and DOW have significant international operations where they use naphtha as a raw material rather than natural gas, which eliminates a meaningful portion of their feedstock cost advantage over global competitors. This reduces their ability to benefit from the natural gas-naphtha spread widening during oil price spikes. Prolonged energy price volatility would compress margins as feedstock costs rise while simultaneously destroying industrial and consumer demand for their products with rising inflationary pressure. The cyclical nature of petrochemicals makes these companies particularly vulnerable to recession risk – higher energy costs would dampen economic activity and reduce end market demand across automotive, packaging, construction, and consumer goods sectors. The fundamental issue is that higher oil and gas prices hurt demand more than they help competitively – even accounting for their partial natural gas feedstock advantages. For WLK specifically, its heavy exposure to housing and construction markets through PVC and building products makes it particularly vulnerable to demand destruction from higher energy costs dampening economic activity. – *Emily Nasseff Mitsch*

ETF EXPOSURE State Street Materials Select Sector SPDR ETF (XLB USD49 *) | **Negative**

Paper & Plastic Packaging Products & Materials (Negative) – Packaging companies most heavily reliant on consumer spending will see demand destruction as expenditures pull back. Names with the greatest exposure include International Paper Company (IP USD38 *), Packaging Corporation of America (PKG USD214 **), and Smurfit Westrock Plc (SW USD39 ***). Like the shipping providers, these companies face headwinds from more frugal consumers reducing discretionary spending and thereby lowering demand for the corrugated boxes used to ship purchases. While more resilient non-discretionary segments like food and beverage packaging will partially offset these headwinds, the broader pullback in consumer spending – and its ripple effects on industrial demand for packaging – will likely prove more significant. The manufacturing of paper container products is energy intensive, making the inflationary impact of higher fuel costs twofold: rising energy expenses increase variable costs and compress gross margins while falling volumes create operating deleverage on the fixed cost base. – *Devyn DeLange*

Diversified Metals & Mining (Positive) – Precious metals miners stand to benefit substantially, with gold and silver prices appreciating as investors seek inflation hedges and safe-haven assets amid geopolitical uncertainty. We forecast continued appreciation in gold and silver driven by heightened geopolitical risk, while silver's industrial demand (EVs, solar, data centers) also contributes to its bullish outlook. We favor Newmont Corporation (NEM USD109 *****) and Royal Gold Inc. (RGLD USD248 *****) to gain exposure to precious metals and Freeport-McMoRan Inc. (FCX USD57 ****) and First Quantum Minerals Ltd. (FM CAD33 ****) for copper leverage. We are concerned about copper demand (and other industrial metals) in the near term amid strength in the U.S. dollar and increased recession risk. However, copper's long-term fundamentals are driven by energy transition demand and supply constraints; therefore, we remain bullish on copper miners. Aluminum producers are benefiting from Middle East supply disruptions affecting about 9% of global capacity and lifting LME benchmark prices, though vertically integrated producers with significant alumina exposure – such as Alcoa Corp. (AA USD66 ***) – face a partial offset as Middle East smelter shutdowns depress alumina demand and pricing. – *Matthew Miller*

Asia-Pacific Base Materials & Metals (Positive) – Amid the current U.S.-Iran war, we believe this environment has significantly bolstered the outlook for gold, which has surged to record highs as investors flock to the safe-haven asset to hedge against market volatility and inflation. The conflict has pushed gold prices above USD5,100 per ounce, and we anticipate further gains due to persistent global tensions and robust central bank purchasing. Similarly, the outlook for aluminum is strengthening as the war disrupts crucial supply routes like the Strait of Hormuz, a key channel for about 9% of global aluminum production from the Gulf region. The surge in energy prices further supports higher aluminum prices, given that its production is highly energy intensive. In this context, several top mining companies are expected to benefit. Zijin Mining Group Company Limited (2899 HK HKD37 ****), a major Chinese gold and copper producer, is poised for significant growth, having forecasted a substantial net profit increase for 2026 and planning a 17% boost in gold production for 2026. Australia's Evolution Mining Limited (EVN AU AUD13 ****) also presents a strong case, reporting record cash flow and providing positive production guidance for gold and copper in FY 26. Lastly, Aluminum Corporation of China Limited (2600 HK HKD13 ****), a global industry leader, stands to gain from higher aluminum prices and favorable market dynamics, supported by strong demand from the EV and renewable energy sectors and China's cap on primary production. – *Navin Kalaiselvam*

Real Estate

Hotel & Resort REITs (Negative) – Hotel REITs represents the real estate that is most negatively exposed to elevated energy costs and inflation. Higher jet fuel and gasoline prices directly suppress leisure travel demand while increasing operating costs (energy represents a significant hotel expense line). Unlike other property types with lease protection, hotels reprice daily, making them highly sensitive to real-time demand fluctuations. Business travel faces pressure as corporate cost controls intensify during inflationary periods or while the macroeconomic outlook uncertainty is increasing. This sub-industry's high operational leverage means modest revenue declines translate to outsized net operating income and funds from operations. Additionally, hotel REITs face compressed valuation multiples (relative to other REITs) as investors demand higher yields to compensate for earnings volatility during macroeconomic uncertainty. – *Nathan Schmidt, CFA*

Retail REITs (Ex-Essential/Grocery-Anchored) (Negative) – Non-essential retail REITs face downside from sustained energy price elevation and inflationary pressures that hinder consumer discretionary spending. Higher gasoline prices function as an effective tax on disposable income, directly reducing foot traffic and sales productivity for discretionary retailers, particularly those in less dense suburban locations requiring longer commutes. This decline in demand hurt REIT's leasing outlook and re-leasing spreads with new store openings likely slowing. This sub-industry's sensitivity to consumer confidence and discretionary spending patterns makes it particularly vulnerable to inflation-driven demand destruction. – *Nathan Schmidt*

Industrial REITs (Positive) – Industrial REITs, particularly those with large exposure to logistics and warehouse properties, stand to benefit from prolonged elevated energy prices and inflation through multiple channels. These properties typically feature shorter-term leases (three to six years) that allow for faster repricing to current market conditions, enabling REITs to pass through elevated inflationary costs quickly to tenants. Additionally, higher transportation and fuel costs incentivize companies to further optimize supply chains and expand near-shoring strategies, driving increased demand for strategically located distribution facilities. This sub-industry's structural growth tailwinds from e-commerce remain intact even as operating costs rise. – *Nathan Schmidt*

ETF EXPOSURE Pacer Industrial Real Estate ETF (INDS USD39 ****) | **Positive**

Utilities

U.S. Utilities (Positive) – We think U.S. utilities are relatively insulated from the inflationary impacts of an elevated energy price environment, while the sector's defensive characteristics may support outperformance relative to cyclical industries if we see weakening economic growth. Though oil prices have risen sharply, natural gas prices have remained relatively stable. The U.S. Energy Information Administration recently forecasted just a 6.5% increase in the average Henry Hub spot price during 2026, as higher domestic natural gas production in response to higher global oil prices may help keep spot prices down. With natural gas accounting for roughly 40% of U.S. electricity generation by fuel type, along with nuclear and renewables accounting for 37%, we see fuel costs for Utilities as largely protected from a period of higher oil prices. We view rate-regulated electric and multi-utilities, particularly those that do not generate electricity and focus solely on transmission and distribution, as the least exposed, as these companies are generally able to pass through fuel costs to customers. We think independent power producers (IPPs) face greater risks from volatile power and commodity prices, which can sometimes result in supply and demand shocks, though we think recent fleet diversification by companies like Constellation Energy Corporation (CEG USD303 ****), Talen Energy Corporation (TLN USD321 ****), and Vistra Corp. (VST USD161 ****) may reduce these risks. We believe IPPs may also provide less downside protection than traditional utilities during an economic slowdown or recession, as the pace of electricity demand growth and long-term power purchase agreement dealmaking could slow. – *Daniel Rich*

ETF EXPOSURE Vanguard Utilities ETF (VPU USD203 *****) | **Positive**

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