

GLOBAL CONFLICT AND AI UNCERTAINTY RESHAPE MARKET LEADERSHIP

GEOPOLITICAL CONFLICT, AI DISPLACEMENT FEARS, AND A BROAD ROTATION TO SAFETY ARE RESHAPING MARKET LEADERSHIP.

Markets are under pressure from a combination of real-world risks that have little to do with earnings or interest rates. Conflict spreading across the Middle East from Iran's borders has triggered a sharp flight to safety, pulling capital out of growth stocks and into value names, commodities, and staples. At the same time, concern that AI could displace entire knowledge-based industries is adding a second layer of selling in the technology sector.

DATA HIGHLIGHTS AND ANALYSIS

The data suggests a shift in investor behavior. Over the past three months, the Magnificent Seven—the group of mega-cap tech stocks that drove most of the market's gains over the prior two years—have declined an average of 6.5%. Gold, by contrast, has surged more than 26%, a move that reflects deep demand for assets with no counterparty risk.

This divergence is not just about one sector falling and another rising. It signals a shift in what investors are willing to pay for. Momentum and AI-fueled optimism are giving way to tangible value, steady cash flows, and commodity exposure. Value stocks and consumer staples have quietly outperformed in a market where the headline indexes mask significant turbulence underneath.

Meanwhile, crude oil has stayed elevated on Middle East supply concerns, and the VIX has drifted higher as portfolio managers increase hedging activity. These indicators are often associated with risk-off environments that tend to reinforce each other.

MARKET AND INVESTMENT IMPLICATIONS

The rotation from growth to value is the defining market story right now, and it's being driven by two separate but reinforcing forces.

First, geopolitical risk. Markets are panicked as investors assess whether the blast radius from the Iran-linked conflict may be larger than initially feared. Energy markets are pricing in supply disruption potential. Defense and commodity-linked equities are benefiting. Safe-haven flows are lifting gold, Treasuries, and the U.S. dollar. This is a classic event-risk pattern—one that tends to persist until

there are credible signs of de-escalation, which are not yet visible.

Second, AI displacement anxiety. The concern that artificial intelligence could replace not just tasks, but entire knowledge-based companies and industries has added a new dimension to the tech selloff. Software companies and other asset-light business models that were already under pressure from an AI driven repricing are now being further hit by the broader flight to safety. In other words, these stocks are getting hit from two directions at once.

For equities broadly, historically, similar environments have tended to favor sectors with pricing power, tangible assets, and lower geopolitical exposure. Consumer staples, healthcare, utilities, and select industrials are seeing inflows. High-valuation growth names, particularly those without clear near-term profitability, remain vulnerable.

In fixed income, the flight to quality is compressing yields on investment-grade and government bonds. Credit spreads in high yield could widen if risk sentiment continues to deteriorate.

There is an irony worth noting. For years, Wall Street worried that market gains were too concentrated in the

Magnificent Seven. There were sighs of relief whenever the rally broadened. Now that broadening is happening—but not because of a healthy expansion of earnings growth. It's happening because the leaders are falling faster than everything else. That is a different kind of rotation, and it carries different risks.

STRATEGIC CONSIDERATIONS AND OUTLOOK

Safe-haven demand may persist if geopolitical conditions remain elevated. Few signs point to a near-term de-escalation in the Middle East, and the AI displacement narrative is still gaining momentum rather than fading. Investors who built portfolios around the assumption that Big Tech leadership would persist may need to reconsider their exposure.

That said, historically, rotations driven by sentiment can sometimes overshoot underlying fundamentals. Value and defensive sectors may become crowded trades. Gold at these levels reflects significant geopolitical premium, and a diplomatic breakthrough or ceasefire could reverse some of those gains quickly.

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CLADIS

INVESTMENT ADVISORY, LLC

180 S 32nd Street West, Suite 1
Billings, MT 59102

*"Know what you
own and know why
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- PETER LYNCH

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Several crosscurrents are worth watching. Earnings season will test whether the rotation has a fundamental basis beyond sentiment. Economic data, particularly the labor market, will signal whether the broader economy is absorbing these shocks or beginning to buckle. And the Federal Reserve's posture matters: if financial conditions tighten materially from risk aversion alone, the Fed may need to respond even without new inflation data to justify it.

For investors, the practical takeaway is straightforward. This is a moment to stress-test portfolios for concentration risk, ensure adequate diversification across asset classes and geographies, and remind clients that concentrated gains—no matter how impressive—are never a sure bet compared with a diversified approach.

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