

MARKET VIEW QUARTERLY

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The first quarter of 2026 began with cautious optimism and (finally) broadening stock market leadership. The S&P 500 Equal Weighted Index outperformed the industry standard market-cap-weighted index over a full quarter by a substantial margin of more than 4.50%.¹ Value, international, and small-cap stocks also outperformed the S&P as labor markets appeared to normalize and monetary policy steadied. But the eruption of military conflict between Iran and the U.S.-Israel on February 28th completely derailed nearly every macroeconomic thesis and market outlook heading into the year. Major equity indices that had briefly flirted with new all-time highs in January finished the quarter in negative territory, Treasuries sold off sharply on renewed inflation fears, and oil, which permeates nearly every corner of the global economy, surged more than 35% since the onset of the war, stoking greater uncertainty and significant volatility. While the duration and ultimate impact of the conflict are difficult to project today, investors should be encouraged by the fact that economic fundamentals are sound, corporate earnings continue to surprise to the upside, and growth remains positive. Moments of heightened uncertainty have often rewarded patient investors who remain diversified, liquid, and ready to capitalize on mispricing and pullbacks.¹

► COMMODITIES & ALTERNATIVES

In what has become the defining theme across financial markets this year, commodity prices have increased sharply (Bloomberg Commodity Index up 24.41% year to date)¹ in an acute response to the spike in energy prices resulting from the Iran conflict and the closure of the Strait of Hormuz. Oil surged toward, and at times above, the psychologically important \$100-per-barrel level, which is amplifying inflation fears. Although many market participants share a generally bullish outlook for commodities over

the medium to longer term (largely predicated on the supply side's inability to meet projected demand), current levels imply consistently higher prices resulting from an ongoing conflict rather than the more probable temporary disruption to traffic through the Strait. Investors would be wise to anticipate a decline in energy prices once active conflict ends and energy flows normalize. Gold tells an interestingly divergent story, having surged to record highs earlier in the quarter only to fall sharply since the Iran conflict began, declining roughly 20% and defying its traditional role as a safe-haven asset, as rising yields and

a stronger dollar increased the opportunity cost of holding a non-interest-bearing asset. Higher oil prices are impacting the consumer via gas prices, which have climbed above \$4 per gallon on average nationally,² weighing on sentiment. For portfolios, this reinforces the need to diversify across real assets and geographical regions, as well as guard against inflation. While we maintain a constructive long-term view on commodities, given supply constraints and consistent underinvestment, current prices and volatility reflect temporary, event-driven shocks.

► DOMESTIC EQUITIES

U.S. equities entered 2026 with solid momentum, as the S&P 500 extended its late-2025 strength and delivered an early positive return, reaching multiple new record highs. But this initial burst of performance was short-lived, as a research report³ released in late February highlighted the potential impacts of artificial intelligence (AI) replacing many software functions, and, subsequently, firms, which in turn led to a sharp selloff. The selloff was narrow initially, mostly confined to tech and communication services, and market leadership actually broadened meaningfully compared to recent years. Small-cap stocks outpaced large-cap benchmarks as investors rotated toward more economically sensitive areas of the market, while value-oriented sectors – including energy and industrials – showed particular strength. Interestingly, those economically sensitive small caps, which generally outperform in solidly risk-on, high-growth environments, have held up very well in the volatility that followed the onset of the Iran conflict. Strong early-quarter earnings growth and continued investment in AI-related infrastructure helped bolster stock prices outside of the Software-as-a-Service (SaaS) sector. March changed the tone in markets as the U.S. launched joint strikes with Israel on Iran. The corresponding rise in oil prices drove equity prices down, creating further uncertainty and greater volatility in markets as investors speculated about when hostilities might cool down or the Strait of Hormuz could resume normal operations. By the end of the quarter, large-cap stocks finished down, with early gains lost to the SaaS selloff and widespread fears about a prolonged spike in oil prices. Small-cap stocks and value-oriented equities outperformed, rewarding investors who remained diversified and stayed invested in the face of geopolitical risks.

► INTERNATIONAL EQUITIES

International equities continued their outperformance from 2025 into early 2026. Developed markets (MSCI EAFE) declined 1.24% in Q1 but still outperformed most U.S. indices, trailing only the Russell 2000. Attractive relative valuations, supportive fiscal and monetary policy, and ongoing trends like reindustrialization and remilitarization, which have increased government and defense spending, all support a positive outlook for foreign equities, particularly relative to overvalued domestic stocks. Emerging markets lead all major global equity sectors year-to-date, driven by stronger earnings growth potential and meaningful exposure to technology and AI. Investors remain historically under-allocated to the asset class after years of underperformance, which further supports their relative attractiveness. However, the Iran conflict has created major headwinds, as international markets are more sensitive to disruptions in oil supply, particularly to supply transiting the Strait of Hormuz. While the duration and outcome of the conflict remain key risks, international equities continue to outperform, and the fundamental case for the asset class remains intact.¹

► FIXED INCOME

Bond markets faced headwinds as interest rates moved higher and volatility increased towards the end of the quarter. The 10-year Treasury yield rose 16 basis points to 4.32%, reaching its highest level since July of last year. More broadly, the U.S. Treasury yield curve shifted upward amid rising energy prices driven by the Iran conflict, sparking concerns about potential inflation and pushing back market expectations for future rate cuts. While the Federal Reserve (the Fed) has

historically looked past energy supply shocks, this geopolitical event, and the first-ever closure of the Strait of Hormuz, qualifies as uncharted territory. Chairman Jerome Powell noted that, although the Fed kept rates unchanged in March as expected, the conflict adds uncertainty to growth and inflation, although it is still too early to assess the impact fully. In this environment, the Bloomberg U.S. Aggregate Bond Index declined -0.05% for the quarter, after posting gains of over 1.2% before the start of the Iran conflict. Investment-grade and high-yield credit also posted negative returns as heightened geopolitical risks and concerns about a potential bubble in private markets made investors cautious on corporate credit broadly. As a result, fixed income did not provide its usual diversification benefit during the quarter. While rising rates and geopolitical uncertainty created near-term volatility in Q1, high-quality fixed income and higher starting yields still offer attractive income potential and serve as a strong foundation for diversified portfolios.¹

► CONCLUSION

Although geopolitical shock and policy uncertainty ultimately defined Q1 2026, a quarter does not make a year. The economic fundamentals underpinning a generally positive market outlook are solid, the primary driver of stock market returns – earnings growth – continues to surprise to the upside, and, although impacted by the conflict, global economic growth remains positive. Yes, inflation will probably tick higher in the near term given the energy impact, and further interest rate cuts are likely to be delayed somewhat, but the long-term trends of lower inflation and interest rates remain intact. Broadening stock market leadership has driven diversified portfolios to outperform the S&P 500 year to date. Periods

of volatility and widespread uncertainty remind investors of the importance of diversification and remaining invested through temporary disruptions.¹

Economic Definitions

CPI (headline and core): Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

PCE (headline and core): PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.

Retail Sales: Retail sales (also referred to as retail trade) tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell

1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg US Agg Bond: The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg High Yield Corp: The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded.

Bloomberg Global Agg: The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Municipal Bond Index: The Bloomberg U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general

obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

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Vehicles that invest in lower-rated debt securities (commonly referred to as junk bonds or high-yield bonds) involve additional risks because of the lower credit quality of the securities in the portfolio. International investing involves special risks not present with U.S. investments due to factors such as increased volatility, currency fluctuation, and differences in auditing and other financial standards. These risks can be accentuated in emerging markets.

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- 1 Data obtained from Bloomberg Terminal as of 3/31/2026
- 2 [AAA Fuel Prices](#)
- 3 [Skittish investors spooked as dystopian AI outlooks go viral | Reuters](#)

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