



QUARTERLY INVESTMENT REVIEW & OUTLOOK – Q1 2026

It was a strong start to the year on the backdrop of higher expectations due to fiscal stimulus from the One Big Beautiful Bill Act (OBBBA), a favorable corporate earnings and economic outlook, moderating inflation, and forecasts of continued Fed easing. This shifted after the first month as pressures arose around persistent inflation and greater dispersion in earnings expectations, which then culminated with rising escalation of conflict overseas as the war in Iran became a dominant macro driver. The end results were declines across most equities and rising yields within fixed income, resulting in slight losses.

- **Equities:** Despite a strong start to the quarter that saw the S&P 500 rise to new highs surpassing the 7,000-mark in late January and a broadening of returns with International, Small Cap and Value stocks leading the way, Q1 ended with mixed results. The US-Israel war with Iran contributed to market volatility as oil prices surged. March experienced declines of around 5% in U.S. Equities across the board, taking returns from positive territory to a loss for the S&P 500 for the quarter (-4.3%) and reduced gains in Mid Caps (+2.5%) and Small Caps (+0.9%). Developed International Equities took on a larger reduction in March (-10.3%), pushing year-to-date returns into negative territory (-1.1%) while Emerging Market Equities shifted from strong positive returns to finish the quarter relatively flat (-0.2%) after a decline of 13.1% during the last month. Even the shine of Gold lost its luster, declining 11.6% in March, although it still maintained a positive return year-to-date (+8.1%). As the market shifts toward a greater emphasis on the fundamentals going forward, including valuations, earnings and growth, it appears to be repricing away from mega-cap growth to a broader set of opportunities. This has been the trend over the past year with value outperforming growth, small caps better than large caps, and international ahead of domestic stocks. If the geopolitical conflict eases with little implications to earnings expectations, these trends are likely to continue.
- **Fixed Income:** Renewed inflation pressures and evolving expectations around Fed policy caused stress within fixed income investments during the quarter. As a result, the US Aggregate Bond Index declined 0.1% for the quarter after a tough March (-1.8%). This was primarily driven by a rise in rates as bond prices fell, however there also was spread widening within the credit markets. High Yield Bond spreads widened by over 0.5%, representing enhanced risk in this segment and resulting in declines overall (-1.2% last month, finishing -0.5% for the quarter). Federally Tax-Free Municipal Bonds were down as well on the quarter (-0.2%) with the March decline (-2.3%) driving prices lower. The headlines were filled with strain on Private Credit as liquidity issues developed while investors demanded return of capital and rapid repricing occurred, especially within software lending segments. Risks appear contained but remain elevated so selectivity and caution appear warranted. Spreads remain at multi-decade lows, continuing our preference for high quality over riskier fixed income and prioritizing liquid areas of the market. The US Treasury yield curve bounced around but generally saw movement higher



with the 2-year yield adjusting from 3.5% to 3.8% and 10-year from 4.2% to 4.3% while the 3-month yield remained flat at 3.7%. Consensus at the start of Q1 expected two rate cuts in 2026 along with more ahead, but this evolved quickly and there is a wide range of views with many leaning toward fewer to no cuts now during the year.

- **Economy:** The U.S. economy continued its positive growth, although at a more mundane level. Still despite the impact from the government shut down in late 2025, the annualized rate came in at 0.5% in Q4 due to a resilient and strong consumer. Importantly, profitability and earnings growth at the corporate level demonstrated strength as well. As we continue along in 2026, there are expectations of a rebound in Q1, reflecting strong business investment and consumer spending. Recent ISM Manufacturing PMI data signaled growth with its March reading (52.7), beating expectations, while ISM Services PMI declined slightly (54.0), lagging consensus but still demonstrating expansion. That being said, the war in Iran (and its related impact on energy prices) presents a wild card to monitor closely. Particularly, watching the impact that inflation might have under a sustained war scenario will be top of mind. CPI (0.9% in March and 3.3% compared to a year ago) matched expectations while PPI (0.5% in March and 4.0% versus a year ago) came in below consensus. Still, inflation remains sticky and above the Fed’s target, while labor demand remains soft. Job cut announcements picked up early in the year but have eased recently and remain in an overall low-hiring, low-firing environment. This creates competing pressures on the Fed to determine its next move, balancing its dual mandate of inflation and employment. Policymakers will continue to be watched closely.

2026 PERFORMANCE – BENCHMARK INDEXES

| Index | Quarter | YTD | 5 Yr Ann | 10 Yr Ann | 15 Yr Ann |
|---|---------|-------|----------|-----------|-----------|
| <i>S&P 500 (US large cap stocks)</i> | -4.3% | -4.3% | +12.1% | +14.2% | +13.3% |
| <i>S&P 400 (US mid cap stocks)</i> | +2.5% | +2.5% | +6.9% | +10.6% | +10.2% |
| <i>Russell 2000 (US small cap stocks)</i> | +0.9% | +0.9% | +3.8% | +9.9% | +9.0% |
| <i>MSCI EAFE (devel int'l large cap) - US\$</i> | -1.1% | -1.1% | +8.5% | +8.9% | +6.8% |
| <i>MSCI EM (emerging mkts int'l) - US\$</i> | -0.1% | -0.1% | +4.2% | +8.2% | +4.1% |
| <i>Bloomberg US Aggregate (US bonds)</i> | -0.1% | -0.1% | 0.3% | +1.7% | +2.4% |

Data as of 3/31/26. Returns represent total returns (dividends & capital appreciation/depreciation). Past performance is NOT predictive of future performance.