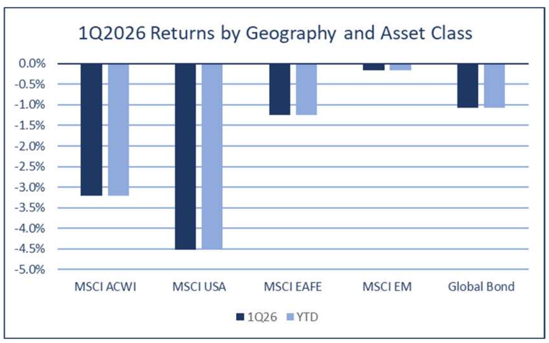
A Look Back…1st Quarter 2026

We call our quarterly review "A Look Back" to remind our readers that is all it is – backward looking. While it is important to keep tabs on what your portfolio is doing, it is equally important to ignore short-term results. Keep focused on the long-term goals of your portfolio and whether it is achieving them.

The Markets

During the first quarter of 2026, stocks started out the year on a positive note as economic data was on track and there still appeared to be room for a couple of Federal Reserve rate cuts. However, cracks began to show during February, especially in the US, as tensions began to rise with Iran. Hopes for a swift resolution dissolved in March and indices tumbled everywhere, particularly overseas. A spike in the price of oil stoked massive inflation fears and all but took Fed rate cuts off the table. There were moments of hope that negotiations were moving along and it would not be a protracted war, but those hopes were quickly dashed. Economic data ceased to matter as all eyes were on the Strait of Hormuz and the price of oil. Global fixed income, as measured by the Bloomberg Barclays Global Aggregate Index, also fell for the quarter.



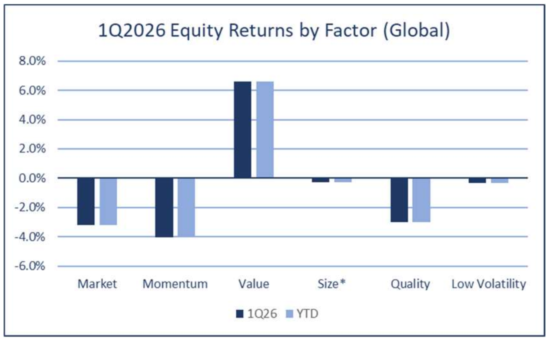
Source: Morningstar; As of 3/31/2026

Outlook

2026 was supposed to be a "recovery year" as inflation was expected to subside with tariffs already accounted for. That would allow for a resumption of earnings growth and Federal Reserve rate cuts. It is not to say that those things cannot still happen, but the picture has been muddied by the war in Iran and the longer it lasts, the cloudier things become. Oil is a major cost input into everything businesses and consumers do. So either earnings will suffer or consumers will pay higher prices…on top of the higher prices they were already paying. Higher interest rates have found their way into higher mortgage costs. As a result, any outlook or forecast is a guess or a hope that world leaders will solve their differences or, more likely, squash them for the good of their countries' citizens. In the meantime, the pass-through to inflation of higher oil prices is not a forecast; it is a reality. The Producer and Consumer Price Indices are showing that real-time. This leaves the Federal Reserve in a quandary. The job market is softening and economic growth is flattening, which would ordinarily compel them to lower their benchmark rate. But lowering the rate generally spurs economic growth, which can lead to more inflation. Unless the war is resolved quickly and oil prices back off meaningfully, the central bank is most likely to leave their rate unchanged at their April 28-29 meeting. Some are betting they may actually increase the Fed Funds rate. All in all, forecasting earnings and economic data is difficult; forecasting what people will do is near impossible and the latter is driving the current picture.

The Factors

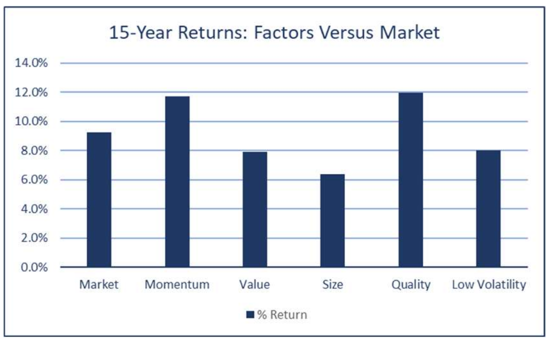
For the quarter, factor returns broadened out in a meaningful way. Globally, all factors except Momentum outperformed the MSCI All Country World Index (ACWI). Value actually had a sharply positive return in a down market and Size was just below flat. When combined with the US's bounceback (on a relative basis) in March, that allowed us to outperform the ACWI for the quarter given our overweight to US stocks.



Source: Morningstar; As of 3/31/2026

The Long-Term Record

While factors can be cyclical in that they will go through periods of doing better and worse than a simple market index like the MSCI ACWI, the long-term track record is clear as shown below. Although some of the record includes back-tested returns (i.e. before the indexes were actually created), the methodologies (how they screen for stocks) remain consistent. We include for full disclosure the inception dates of all indexes.



Source: Morningstar; As of 3/31/2026
Global Stocks = MSCI ACWI NR USD Index (Inception: 1/1/01)
Global Momentum= MSCI ACWI Momentum NR USD Index (Inception: 11/30/95)
Global Value = MSCI ACWI Enhanced Value NR USD Index (Inception: 5/29/15)
Global Quality = MSCI ACWI Quality NR USD Index (Inception: 5/29/92)
Global Low Vol = MSCI ACWI Minimum Volatility (USD) NR USD Index (Inception: 5/28/93)
Global Size = MSCI ACWI Risk Weighted NR USD Index (Inception: 4/6/11)

lower costs. better results.

Disclosures

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The Factors

Momentum: Data suggests that stocks that have outperformed recently may continue to do so in the near-term.
Value: Data suggests that relatively cheap stocks may outperform more expensive ones over time.
Size: Data suggests that smaller company stocks may outperform those of larger ones over time.
Quality: Data suggests that stocks of high quality companies may outperform those of lesser quality over time.
Low Volatility: Data suggests that low volatility stocks may outperform on a risk-adjusted basis over time.