Global Market Commentary: First Quarter 2026

Summary

The first quarter of 2026 brought a sharp change in market conditions. U.S. equities began the year near record highs as investors responded to strong earnings expectations and easing inflation trends. That backdrop changed late in the quarter as conflict in the Middle East disrupted energy markets, pushed oil prices sharply higher, and renewed concern about inflation and global growth.

The S&P 500 fell 4.6% in the first quarter, while the Nasdaq Composite declined 7.1%. Growth and technology shares were hit hardest. Energy held up well, while more defensive areas such as Utilities and Consumer Staples also showed relative strength. Gold remained volatile throughout the quarter and reached a record high before pulling back.

The Federal Reserve left interest rates unchanged at its January and March meetings, keeping the federal funds target range at 3.50% to 3.75%. Policymakers acknowledged greater uncertainty tied to the Middle East conflict and its possible effect on inflation. At the same time, softer growth data and weaker consumer sentiment added to concern that the economy may be entering a more difficult phase.

A strong rally on the final trading day of the quarter helped lift equities off their lows. Even so, the market entered the second quarter facing several unresolved questions, including the path of the conflict, the durability of inflation pressures, and the timing of any Fed rate cuts.

The Quarter in Context

1Q2026 began as an extension of the 2025 rally. The S&P 500 reached an all-time high near 7,020 on January 28 as earnings expectations remained firm and inflation appeared to be moderating.

That momentum reversed after the conflict involving Iran escalated on February 28. The resulting disruption in the Strait of Hormuz, a critical route for global energy supply, drove oil prices sharply higher and forced investors to reassess inflation, growth, and policy expectations.

The quarter's central theme became the tension between slower growth and renewed inflation pressure. The second estimate of fourth-quarter 2025 GDP showed annualized growth of 0.7%, down from the advance estimate of 1.4%. With growth already slowing before the energy shock, investors began to focus more seriously on stagflation risk.

U.S. Equity Markets

U.S. equity markets experienced their most volatile quarter since early 2022. January was marked by optimism and record highs. February and March were defined by a broad selloff tied to geopolitical risk, rising energy prices, and concern about the economic outlook.

The S&P 500 peaked near 7,020 on January 28 before retreating steadily through the remainder of the quarter. The Nasdaq Composite fell 7.1%, its steepest quarterly decline since 2022. The Dow Jones Industrial Average and the small-cap Russell 2000 held up somewhat better in relative terms, though both posted meaningful losses.

Technology was the hardest-hit corner of the market. The group of large-cap technology and growth companies sometimes referred to as the Magnificent Seven declined roughly 13% year-to-date by late March, weighing heavily on cap-weighted indexes. The Nasdaq's concentration in these names amplified its drawdown relative to the broader market.

The final trading day of the quarter brought a sharp rebound. The S&P 500 rose 2.9%, the Nasdaq gained 3.8%, and the Dow advanced by more than 1,100 points. Analysts attributed the move to short-covering and quarter-end positioning, as well as cautious optimism around potential de-escalation in the Middle East. One strong session did not change the broader tone of the quarter. Market leadership narrowed, volatility remained elevated, and investors entered April on uncertain footing.

Sector Performance

Sector leadership shifted sharply in the first quarter. Energy was the clear standout as oil prices surged. Utilities and Consumer Staples also held up relatively well as investors moved toward more defensive areas of the market in response to geopolitical uncertainty and equity market volatility.

Technology, Consumer Discretionary, and Financials lagged. These sectors were hurt by a mix of valuation pressure, weaker risk appetite, and concern that higher energy prices could weigh on consumer and business activity. The Technology sector, which had driven much of the 2024–2025 bull market, gave back a portion of its gains as the Magnificent Seven complex retreated. Financials fell sharply in February, declining approximately 4% in that month alone.

Health Care offered some defensive support through the quarter. Real Estate remained sensitive to interest-rate expectations and broader macro uncertainty. Industrials were mixed, with defense-related names outperforming while more cyclically exposed companies struggled. Materials faced headwinds from growth concerns even as energy-driven commodity prices moved higher.

The rotation toward defensive and energy-related names was consistent with prior periods of geopolitical stress. Whether that leadership persists into the second quarter will depend heavily on how the situation in the Middle East evolves and whether the Fed is forced to change course on rates.

Commodities

Crude Oil

Oil was the defining commodity story of the first quarter. West Texas Intermediate crude began the year in the mid-$60s per barrel, reflecting expectations of an oversupplied global market. Those conditions changed abruptly when the conflict with Iran escalated and the Strait of Hormuz was effectively closed to tanker traffic beginning in early March.

WTI surged more than 8% in a single session on March 1 as markets priced in the risk of a sustained supply disruption. The rally continued through most of the month, with crude gaining approximately 53% in March alone—its best monthly performance since May 2020. WTI briefly traded above $118 per barrel intraday before ending the quarter near $100, as diplomatic signals late on March 31 reduced some of the war-risk premium.

The economic consequences were immediate. Gasoline prices climbed above $4 per gallon, the highest since late 2023. Transportation costs, airline fares, and a range of energy-sensitive goods began to reflect higher input prices. The International Energy Agency described the situation as the most severe global energy security challenge in decades. Strategic petroleum reserve releases and supply rerouting provided some relief, but analysts warned those measures would lose effectiveness in April.

Gold

Gold moved sharply in both directions during the first quarter. The metal began the year near $4,384 per ounce and rose to a record intraday high of approximately $5,627 on January 29, driven by safe-haven demand, concerns about Federal Reserve independence, and continued central bank buying. China extended its gold purchases for a fifteenth consecutive month in January.

A sharp correction followed. Gold fell roughly 22% from its January peak to approximately $4,423 per ounce by early February before recovering. The Iran conflict sparked renewed interest in gold as a hedge, and the metal climbed back above $5,000 in early March. By quarter-end, gold traded near $4,732 per ounce, still well above its year-end 2025 level. The structural case for gold—built on elevated global debt, geopolitical fragmentation, and central bank demand—remained largely intact despite the volatility.

Federal Reserve Policy

The Federal Reserve left rates unchanged at both of its first-quarter meetings. The federal funds target range remained at 3.50% to 3.75%, where it has been since December 2025 following three consecutive 25-basis-point cuts in the second half of last year.

At the January meeting, two voting members dissented in favor of a cut, reflecting a view that policy remained somewhat restrictive. By March, only one dissent remained as officials coalesced around a wait-and-see approach. The FOMC statement acknowledged the uncertainty created by the Middle East conflict and its potential effect on inflation and economic activity.

Chair Jerome Powell struck a measured tone at the March press conference. He noted that policymakers had not made as much progress on inflation as they had hoped and acknowledged that the oil shock added a new layer of complexity to the outlook. His comment that the committee had struggled with whether to even publish an economic projections update reflected the degree of uncertainty officials were navigating.

The updated dot plot maintained the median projection of one rate cut in 2026, unchanged from December. Seven of the nineteen committee members projected no cuts at all this year. Core PCE inflation projections were nudged higher, to 2.7% from 2.5%, while the GDP growth forecast edged up slightly. The market's focus shifted from how quickly the Fed might cut rates to whether renewed inflation would delay easing further or eliminate it entirely for the year.

Inflation and Growth

Inflation data early in the quarter appeared manageable. CPI rose 2.4% year over year in both January and February—its lowest level since May 2025 and down from 2.7% in December. Core CPI, excluding food and energy, held steady at 2.5%. Those readings offered some encouragement that disinflation was continuing, even if progress remained slow.

The February CPI report, released March 11, was quickly set aside. It did not yet reflect any impact from the oil price surge, and economists widely characterized it as backward-looking. Projections for the March reading anticipated a meaningful jump in headline inflation driven by higher gasoline prices. Some estimates placed March CPI as high as 3.3% on a year-over-year basis, with further increases possible if oil prices remained elevated.

Shelter costs continued to ease, with rent posting its smallest monthly gain since early 2021. Apparel prices rose sharply in February, in part reflecting ongoing tariff pass-through. Egg prices, which had surged in 2025, fell sharply on an annual basis. Underlying trends in the inflation data were mixed but were largely overshadowed by the energy shock by quarter-end.

On the growth side, the second estimate of fourth-quarter 2025 GDP came in at a 0.7% annualized rate—half the advance estimate and significantly below expectations. The revision reflected weaker readings on exports, consumer spending, government outlays, and investment. Part of the shortfall was attributed to disruptions from the October–November 2025 government shutdown, which complicated data collection and reporting. Even so, the number reinforced the view that the economy entered 2026 on softer footing. The advance estimate for first-quarter 2026 GDP is expected in late April and will be a closely watched signal of how the economy absorbed the energy shock.

Consumer Metrics

Consumer confidence deteriorated meaningfully as the quarter progressed. The University of Michigan Consumer Sentiment Index began 2026 at 56.4 in January and edged up to 56.6 in February, its highest reading since August 2025. That recovery stalled in March.

The final March sentiment reading came in at 53.3, down sharply from the preliminary estimate of 55.5 and below the prior month. Survey director Joanne Hsu noted that roughly two-thirds of the March interviews were conducted after the start of military operations in Iran. The decline was broad-based across age groups and political affiliations, and was particularly pronounced among middle- and upper-income households that hold financial assets and are sensitive to both fuel prices and equity-market movements.

Year-ahead inflation expectations rose to 3.8% in March, the largest single-month increase since April 2025. That reading drew close attention from policymakers. When consumers expect inflation to remain elevated, that expectation can itself become a factor in price-setting behavior. The Conference Board's Consumer Confidence Index told a similar story, recovering from a twelve-year low in January to 91.2 in February before the March conflict began to weigh on the outlook.

Corporate Earnings

Despite the turbulent quarter, the earnings backdrop heading into results season remained constructive. S&P 500 companies are expected to report year-over-year earnings growth of approximately 13.0%, according to FactSet estimates as of March 2026 for the first quarter, according to FactSet. If that estimate holds, it would mark the sixth consecutive quarter of double-digit earnings growth. Revenue growth projections improved during the quarter as well, rising to 9.7% year over year from 8.2% at the start of the period.

The technology sector is expected to account for a disproportionate share of those gains. The largest technology and growth companies are projected to grow earnings by roughly 19% or more on an earnings-weighted basis. That concentration of earnings power in a small number of names continues to be both a strength and a vulnerability for the index. The gap between the largest technology companies and the rest of the S&P 500 is expected to begin narrowing in subsequent quarters as broader earnings growth catches up.

The forward twelve-month price-to-earnings ratio for the S&P 500 stood at 19.9 times at quarter-end, roughly in line with its five-year average. Of the S&P 500 companies that issued first-quarter guidance, more issued positive guidance than negative guidance—a result that was above the five-year historical average. Analyst target prices continued to rise even as stock prices fell in late March, suggesting that fundamental-oriented investors viewed the selloff as an opportunity rather than a signal of deteriorating earnings quality.

Looking Ahead

The second quarter begins with unusual uncertainty. The most important variable is whether the situation in the Middle East stabilizes or continues to disrupt energy markets. A faster diplomatic resolution could reduce pressure on oil prices, inflation expectations, and overall market sentiment. A longer disruption would keep those risks elevated and could push headline inflation meaningfully higher in the months ahead.

The Federal Reserve's next meeting on April 28–29 will be closely watched. Upcoming inflation data, particularly the March CPI report due April 10, will test whether the energy shock has begun to show up in broader price measures. If it has, the path to rate cuts becomes narrower and the risk of policy staying higher for longer increases. Chair Powell's term ends in May, and the appointment of his successor will also draw attention, though institutional guardrails are expected to preserve the Fed's operational independence.

First-quarter earnings season will run through April and into May. Results will test whether the strong earnings expectations embedded in current forecasts hold up in a more difficult operating environment. Technology companies with heavy capital investment in artificial intelligence infrastructure will face particular scrutiny, as will consumer-facing businesses exposed to higher fuel costs and weaker sentiment.

From a portfolio standpoint, the first quarter served as a reminder that diversification still matters. Energy exposure helped offset inflation risk. Defensive sectors provided support during periods of stress. High-valuation growth stocks proved more vulnerable when sentiment shifted quickly. Historically, markets have often experienced shorter disruptions during geopolitical events, though outcomes vary and are not guaranteed, while sharp, tend to be more transient than recession-driven downturns. Maintaining a disciplined long-term investment approach, rather than reacting to short-term volatility, has typically served investors well through similar episodes.

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Key Data Sources:

- *Market indices and levels: Standard & Poor's, S&P Dow Jones Indices, YCharts, MSCI, Nasdaq, Dow Jones, Russell Investments.*
- *Volatility and derivatives: CBOE, Barchart (VIX and related futures).*
- *Economic data: U.S. Bureau of Economic Analysis (BEA), U.S. Bureau of Labor Statistics (BLS), Federal Reserve, The Conference Board, U.S. Census Bureau.*
- *Global markets and flows: MSCI, iShares, Yahoo Finance, other public index and ETF providers.*
- *News and commentary: Reuters, major financial news outlets and index providers' public materials as of March 31, 2026.*

U.S. Bureau of Labor Statistics – Consumer Price Index (CPI) U.S. Bureau of Economic Analysis – GDP, Second Estimate, 4th Quarter and Year 2025 , **Board of Governors of the Federal Reserve System – FOMC Calendar, Statements, and Projections**, , **S&P Dow Jones Indices – S&P 500 and Sector Indices**, **Cboe Global Markets – VIX Historical Data**, **MSCI – International Equity Indices**, **University of Michigan – Surveys of Consumers**, **The Conference Board – Consumer Confidence Index**, **FactSet – Earnings Insight (S&P 500 Earnings Estimates)**, **CME Group – WTI Crude Oil Futures (Price History)**, **CME Group – Gold Futures (Price History)**, **International Energy Agency – Oil Market and Energy Security Commentary**, **Eurostat – Euro Area Inflation (HICP)**

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