

MARKET COMMENTARY

Q1 2026

MARKET REVIEW

Patience has always been an investor's most important asset. The first quarter of 2026 put it to the test. The S&P 500 fell 4.3% as a combination of geopolitical shock, sector rotation, and rising inflation expectations converged on markets that were already navigating a complex backdrop. Yet beneath the headline decline, the market's story was more nuanced. Energy stocks surged, international equities outperformed, and a long-awaited broadening of market leadership continued to take shape.

The defining event of the quarter was the escalation of the Middle East conflict into a direct confrontation involving Iran. From a human perspective, the toll has been devastating: thousands of lives lost, cities destroyed, and millions displaced across the region. From a market perspective, the consequences are more narrowly transactional, as fighting disrupted tanker traffic through the Strait of Hormuz, one of the world's most critical oil chokepoints. Brent crude surged to \$118 per barrel, an increase of almost 93% by quarter's end. Energy was the clear sector beneficiary, posting its strongest quarterly gain in years. The broader market, however, absorbed the shock with difficulty, as investors reassessed inflation expectations and recalibrated their assumptions about Federal Reserve policy.

Technology stocks bore the brunt of the selling, though the damage was not evenly distributed. Concerns mounted that emerging AI capabilities, particularly in software automation, would threaten the software-as-a-service business model that underpins many of the market's most highly valued companies. Companies viewed as potential victims of AI disruption, those reliant on software subscription models, bore the sharpest losses, with Microsoft falling 23.3% and Oracle declining 24.3%. Companies seen as AI enablers fared better, with Nvidia falling 6.5% and Broadcom declining 6.6%, as demand for AI infrastructure remained intact. The divergence reflected a market beginning to draw distinctions between the winners and losers of the AI transition, rather than treating the sector as a monolith.

International stocks dramatically outpaced U.S. markets through January and February, as capital rotated into cheaper market segments and the dollar softened. That outperformance narrowed sharply in March, however, as the energy shock hit oil-importing economies particularly hard. By quarter's end, international stocks finished slightly below where they started, and outperformed the S&P 500 by approximately 3.3%, reinforcing the case for maintaining global exposure.

Bond markets finished the quarter roughly flat, as rising inflation expectations were offset by a flight-to-safety driven by geopolitical uncertainty. The Federal Reserve held rates steady at its March meeting, keeping the benchmark federal funds rate in the 3.50% to 3.75% range. Policymakers updated their projections to reflect only one rate cut in 2026 and one in 2027, a significant step back from the more accommodative path markets had anticipated entering the year. Fed Chair Powell cited the sharp rise in oil prices as a key driver, while acknowledging that the economic impact of the conflict may prove temporary.

US economic data held up better than the market's performance might suggest. GDP growth likely accelerated, the unemployment rate fell slightly, and retail sales rose despite abysmal consumer sentiment reports. Corporate earnings continued to come in broadly in line with expectations, suggesting that the underlying fundamentals of the U.S. economy, while facing new headwinds, remain intact.

LOOKING FORWARD

THE STRAIT OF HORMUZ AND WHAT COMES NEXT

The disruption to global oil markets this quarter was not simply a geopolitical headline. It was a structural stress test for the global economy. Roughly 20% of the world's traded oil passes through the Strait on a normal day, and even a partial disruption carries far-reaching consequences for transportation costs, manufacturing inputs, and consumer prices.

The critical question for the months ahead is duration. History offers a useful frame. The Gulf War shock of 1990 was sharp but brief, with oil prices spiking roughly 70% over three months before collapsing as the conflict resolved, and the broader economic damage proved limited. The 1973 Arab oil embargo was another matter entirely. Sustained supply curtailment over many months contributed to a decade of stagflation that took years to unwind. The current disruption sits somewhere between those poles, and which historical analog proves more accurate will likely determine whether this quarter's volatility represents a temporary setback or something more enduring.

It is also worth noting that even a swift resolution to the conflict would not immediately normalize oil markets. Tanker routes take time to reopen, supply chain adjustments do not unwind overnight, and the risk premium embedded in energy prices tends to fade gradually rather than vanish. The market's path back to pre-conflict price levels, whenever it comes, is likely to be measured in months rather than days.

Energy exposure has shifted from a contrarian position to a strategic consideration, and the opportunity set is broader than traditional oil and gas. Sustained high oil prices improve the economics of clean energy, as renewable alternatives become increasingly cost-competitive. We view this as a durable tailwind for the global energy transition regardless of how the geopolitical situation ultimately resolves.

From a policy perspective, the current administration has demonstrated a consistent pattern of allowing markets to influence its decisions, softening or reversing course when equity prices drop or interest rates climb. Our base case is that this dynamic continues, and that the administration moves to ease tensions if financial conditions tighten meaningfully. The tail risk, however, is worth acknowledging. With approval ratings declining and mid-term elections on the horizon, there is a scenario in which the administration doubles down on a more confrontational posture before seeking accommodation. Investors should hold this range of outcomes in mind rather than anchoring too firmly to a single path.

THE FRAYING ALLIANCE: DE-GLOBALIZATION ACCELERATES

The conflict in the Middle East did not emerge in a vacuum. It is the latest stress point in a world that has been quietly fracturing for several years. The broad consensus that defined global trade and security relationships for much of the post-Cold War era is giving way to something more fragmented, more transactional, and more uncertain. What is new in 2026 is the pace at which that fragmentation is accelerating, and the degree to which it is now affecting relationships among longstanding allies, not just rivals.

Countries that once assumed they could rely on shared frameworks for energy supply, military protection, and free trade are increasingly being forced to reckon with their own vulnerabilities. Supply chain disruptions during the pandemic planted the first seeds of doubt. Trade disputes, sanctions regimes, and now a major conflict disrupting global energy flows have transformed that doubt into policy. Nation after nation is investing in domestic energy production, onshoring critical manufacturing, and building strategic reserves in ways that would have seemed unnecessary, even wasteful, just a decade ago.

For investors, this structural shift carries both risks and opportunities. On the risk side, a less integrated world is generally a less efficient one. The cost of producing goods domestically, building redundant supply chains, and maintaining strategic reserves is real, and those costs are ultimately passed along to consumers and shareholders. Inflation may prove more persistent than models built on a globalized world would suggest, precisely because the deflationary tailwind of cheap imported goods is weakening. On the opportunity side, the companies and sectors that enable self-reliance stand to benefit enormously. Defense, domestic energy, infrastructure, industrial manufacturing, and critical materials are all areas where policy spending and private investment are likely to grow regardless of which political party holds power in any given country.

We believe this is one of the defining investment themes of the coming decade. The transition away from hyper-globalization will not be linear, and it will not be painless. But for portfolios positioned to benefit from the buildout of domestic capacity, energy independence, and infrastructure resilience, the long runway of policy-driven investment creates a durable and compelling opportunity.

BROADENING THE BENCH

The story of artificial intelligence in the first quarter of 2026 was one of recalibration, not rejection. For the past two years, AI-linked technology stocks had been the engine of market returns, drawing capital from across the investment landscape and accounting for a disproportionate share of index gains. In Q1, that trade reversed sharply, as investors began asking harder questions about which companies will benefit from AI and which might be disrupted by it.

The catalyst was a growing recognition that rapidly improving AI tools, particularly those capable of automating software development and service delivery, could pose a material threat to traditional software subscription models. Companies built on recurring-license software products saw their valuations questioned, and the market did not wait patiently for answers.

We view this rotation as genuinely healthy. One of the most persistent concerns heading into 2026 was the degree to which market returns had become concentrated in a small number of relatively expensive names. That concentration left the index vulnerable and made diversification feel unrewarding for anyone who had strayed from the biggest technology holdings. The pullback in mega-cap tech has meaningfully eased those concerns. Valuations across the technology sector have come down to more reasonable levels, and the market is once again giving investors credit for owning a broader range of companies.

Critically, the earnings story for technology has not changed. Analyst expectations for technology sector earnings in 2026 and 2027 remain intact, and in many cases continue to grow. What has changed is the price investors are willing to pay for those earnings today. That is exactly the kind of valuation reset that creates better long-term entry points. The AI investment cycle is real, the infrastructure buildout is ongoing, and the productivity benefits are beginning to manifest across the broader economy. With valuations now more grounded, we see the technology sector as increasingly attractive for investors with a multi-year horizon, favoring companies that enable AI infrastructure over those most exposed to software subscription disruption.

OUR TAKE

The first quarter was a reminder that preparation matters more than prediction. Proactive planning and broad diversification served as a genuine safe harbor against the quarter's turbulence, and the decisions made in calmer times proved their worth when it mattered most.

The S&P 500's decline, while meaningful, does not represent a fundamental break in the market's longer-term trajectory. Economic growth remains positive, earnings are holding up, and the financial system is not under the kind of stress that typically precedes deep, prolonged bear markets.

We view the rotation within equities as a healthy and overdue correction. Technology prices have fallen while earnings forecasts continue to grow, directly addressing the valuation and concentration concerns that defined the market entering 2026.

The Middle East conflict is the most uncertain variable, and we will not pretend otherwise. We are not in the business of predicting when or how it will be resolved, but we believe investors need to plan for a range of outcomes, including a scenario in which elevated energy prices persist longer than the market currently expects. That argues for meaningful exposure to energy and real assets, continued caution on long-duration bonds, and a recognition that inflation may prove stickier than the consensus assumed entering the year.

The fragmentation of alliances, the push toward self-reliance, and the redrawing of trade and security relationships are not short-term phenomena. They are generational shifts that will shape capital flows, inflation dynamics, and sector leadership for years to come. This realignment presents both meaningful risks and compelling opportunities, and we are actively positioning portfolios accordingly.

Consumer confidence has softened, and many households are experiencing real pressure from higher prices and borrowing costs. In this environment, investors should be careful not to conflate household economics with macroeconomics. Corporate earnings, capital investment, and productivity gains are increasingly driving market returns, and by those measures the backdrop remains more constructive than sentiment surveys suggest.

Staying invested through periods of uncertainty is not a passive choice. It is an active and often more difficult one, and history has consistently rewarded it. We remain committed to staying invested, staying diversified, and staying focused on your long-term financial well-being.

As always, we welcome the opportunity to discuss how any of these themes may affect your individual investment strategy.