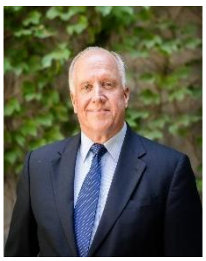
2026 – 1st Quarter Review & Outlook

Economic and Investment Review



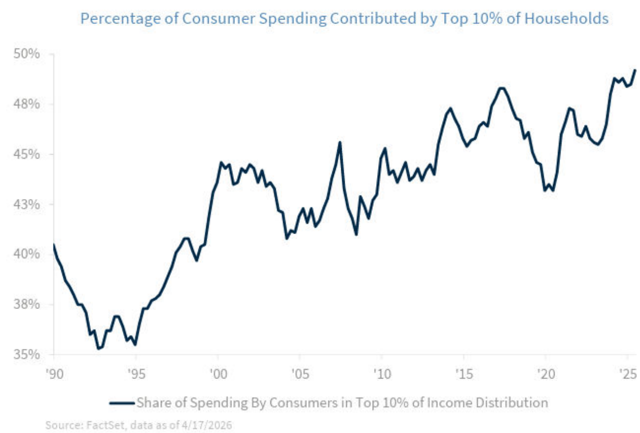
Mark Anderson

Chief Investment Officer

Economic Growth: The consensus GDP estimate indicates that the US economy is expected to grow 2.4% in 2026. The continued positive GDP forecast is supported by resilient consumer demand, tax cuts, strong business investment, and record AI-related capital spending. The estimate has risen from a 12-month low of 1.6% in August of last year. However, economic expansion appears more fragile and uneven due to the relatively unknown outcome and impact of the war in Iran.

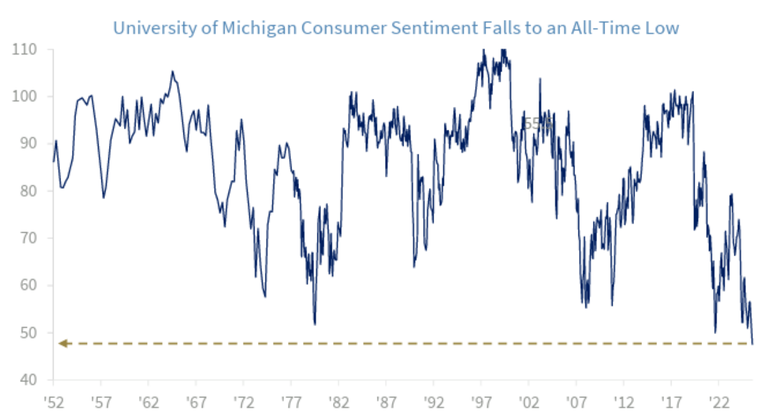
The International Monetary Fund warns that a prolonged Middle East conflict could significantly weaken global growth. They have reduced their forecast for global growth in 2026 from 3.4% to 3.1% based on the assumption that the conflict is relatively short-lived. Countries in the Middle East, Europe, and fuel-importing emerging market regions face the greatest unknowns. The US economy will likely fare better due to energy independence and AI-driven spending and productivity gains.

Major US banks have recently issued quarterly reports. They have generally indicated that consumers and businesses remain resilient despite geopolitical issues and economic uncertainty. However, they note that lower-income consumers are bearing more of the brunt of higher energy, food, and housing costs than higher-income consumers. Higher-income consumers are accounting for an ever-greater percentage of overall consumer spending.



Eugenio J Aleman, PhD, Chief Economist – Raymond James, states that "the top 10% of households generate nearly 50% of all spending, which translates to about one-third of US GDP." Spending by those households is largely based on asset/investment valuations. His concern is that anything that leads to valuation corrections could result in reduced spending and slower economic growth. Lower-income households would also be impacted by any reduced spending by the 10% group.

The University of Michigan Consumer Sentiment Index has recently fallen to all-time lows. The index is a survey of the state of current and expected



personal finances, the outlook for business conditions, and current buying conditions. The decline likely reflects concerns around higher gas prices and may be tempered if an agreement is reached with Iran.

Labor Markets: The labor market continues to post weak job growth, but unemployment remains low due to positive economic growth, reduced immigration, and tight labor supply. The unemployment rate was 4.3% for March and has ranged from 4.1 – 4.5% over the past twelve months. The current environment is termed "low-hire, low-fire," due to employers largely retaining existing staff.

There is growing evidence that AI is displacing some workers. A Harvard study found that job postings for occupations with high automation potential (structured, repetitive tasks) decreased by 13% after the release of ChatGPT. A 2025 MIT study found that AI can already replace 11.7% of the US labor market. Conversely, AI is also creating and reshaping jobs. Dr. Aleman argues that higher education and advanced skills are more vital than ever, and that the ability to exercise judgement, understand context, and distinguish alternatives has increased in value.

The labor force participation rate has been declining over the past 25 years due to an aging population, lower teen employment, and a lower percentage of working-age men in the labor force.

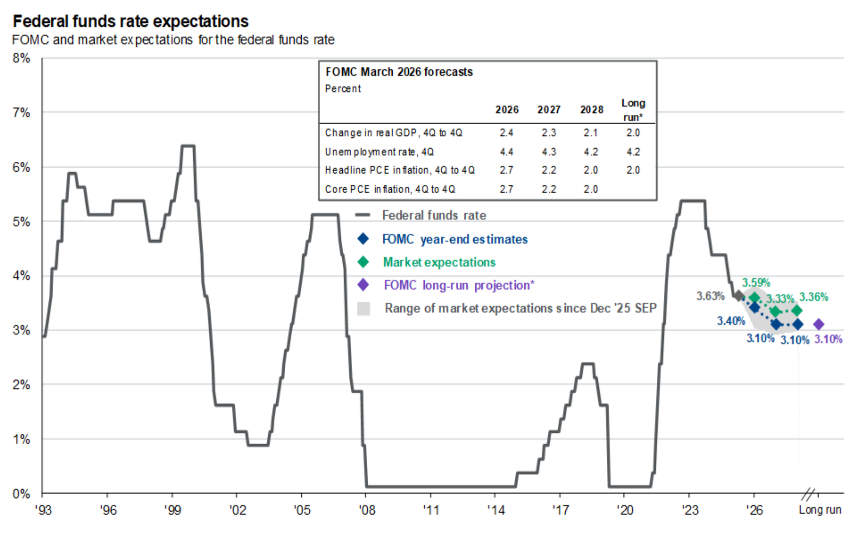
Workers are barely treading water so far as real wage growth (wages adjusted for inflation) is concerned. Real wage growth has been positive since 2022, but is in danger of pivoting to the negative, eroding consumer purchasing power.

Inflation: Companies have largely been able to manage around tariffs; however, the war in Iran has led to an increase in inflation and inflation forecasts. The consumer price index (CPI) increased to 3.3% in March, fueled by energy prices. March was the highest monthly reading since April 2024. Gasoline prices are expected to push inflation even higher in April 2026. Core CPI (all items less food and energy) has remained more subdued. Core CPI was 2.60% in March, but is expected to edge slightly higher as higher energy costs are passed through to final goods and services.

Most economists are basing forecasts on the assumption that the war in Iran will not continue indefinitely and that energy costs will decline from current levels. Brent crude oil is currently near $98 per barrel, and West Texas Intermediate is near $90. Raymond James expects oil prices to normalize around $60 per barrel after the disruption, with oversupply anticipated in the second half of 2026. Goldman Sachs expects oil prices to peak in April and fall to $80 by Q4 2026.

Goldman Sachs expects CPI to decline to 2.7% by the end of the year and core CPI to decline to 2.5%. Raymond James expects CPI to peak in Q4 at 3.8% and to trend down in 2027. JPMorgan expects inflation to peak mid-2026 and then decline below 2.0% in 2027.

Interest rates: The 10-year U.S. Treasury briefly broke below the 4.0% yield level before the war in Iran and the resulting spike in oil prices. Since then, the yield jumped to over 4.4% and has settled near 4.3% currently. The Fed has been on hold since the December meeting, when they reduced the Fed Funds target rate by 25 bps to a range of 3.50% to 3.75%. The market does not expect any additional rate cuts in 2026. However, the Fed year-end estimate indicates one additional rate cut.



The nomination of Kevin Warsh as Fed Chair, to replace Jerome Powell, comes at a critical time of elevated inflation concerns and a weak housing market. The Fed is challenged with maintaining full employment without adding fuel to the inflation fire. The Federal Open Market Committee is expected to continue to proceed with caution and gradual policy adjustments.

Equity Markets

The S&P 500 dropped 9.1% from the high of 6976 on February 2nd to the low of 6343 on March 30th during Q1. The index declined by -4.3% for the quarter due to investor concern about equity valuations, the war in Iran, increased energy costs, and higher interest rates. Growth stocks pulled back as investors reallocated to more defensive positions. Mid-cap and small-cap stocks were beneficiaries of reallocation and more attractive valuations.

2026 Q1 Returns				
EQUITY	Q1 2026	YTD 3.31.26	1 Year 3.31.26	3 Years Annualized
S&P 500	-4.33	-4.33	17.80	18.32
S&P 500 Value	0.03	0.03	12.91	13.90
S&P 500 Growth	-8.11	-8.11	22.67	21.91
Dow Jones Ind Avg	-3.19	-3.19	12.23	13.77
NASDAQ Composite	-6.99	-6.99	25.55	21.83
S&P Mid Cap 400	2.50	2.50	17.35	12.09
S&P Small Cap 600	3.51	3.51	20.50	10.51

Source: FactSet

The S&P 500 has rebounded sharply since the end of Q1 to set all-time records. Growth stocks have outpaced value stocks during the recent rally. The rebound has been driven by investor hopes for a quick resolution to the war and expectations of continued strong earnings growth. Earnings growth is projected to be 17% in 2026 and 16% in 2027.

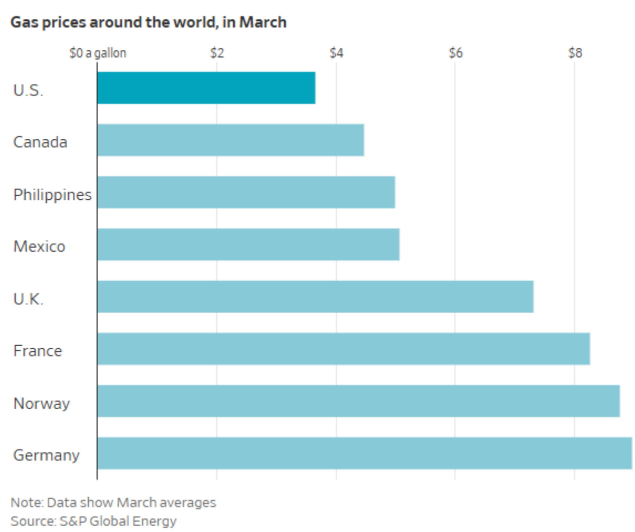
Our year-end forecast for the S&P 500 is 7,900. The forecast assumes 17% earnings growth in 2026 and 15% in 2027. Goldman Sachs forecasts 7,600 for 2026, and Yardeni Research forecasts 7,700.

International benchmarks also had negative returns for the quarter, but were leaders for one year through the period. The MSCI EAFE index fell -1.23% in the quarter, but returned 21.27% for one year. The MSCI Emerging Markets Index edged lower -0.17%, but returned 29.55% for the trailing twelve months. Both benchmarks have pushed higher in April.

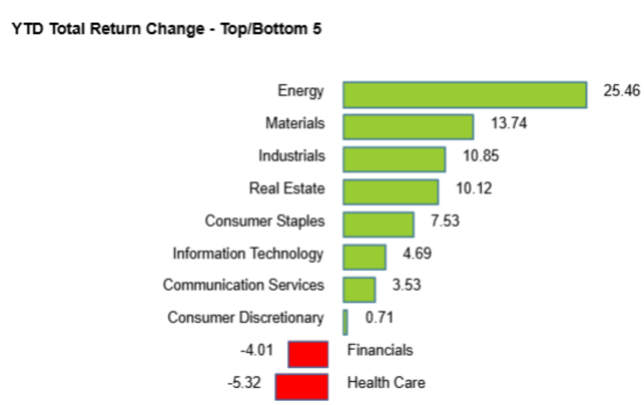
2026 Q1 Returns				
EQUITY	Q1 2026	YTD 3.31.26	1 Year 3.31.2026	3 Years Annualized
MSCI EAFE	-1.23	-1.23	21.27	13.62
MSCI Emerging Mkts	-0.17	-0.17	29.55	14.84

Source: FactSet

The S&P 500 and the EAFE benchmarks are trading at similar multiples relative to their respective 10-year ranges. If the energy disruption drags on, international companies will see a greater impact on their margins than U.S.-based companies. Gas prices are up around the globe, but more so for areas outside of the United States.

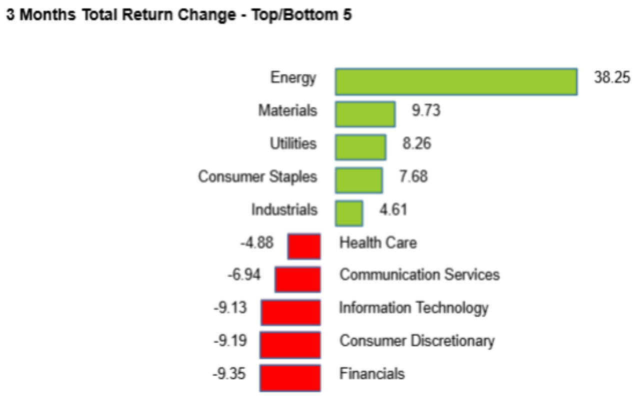


The Energy sector was the dominant leader in Q1 as supply was constrained and prices jumped higher.



Source: FactSet

All sectors except for Financials and Health Care now have positive returns YTD after the third week in April.



Source: FactSet

Fixed Income Markets

Taxable investment-grade fixed Income was flat in the quarter at -0.05%. Municipal bonds and high-yield bonds were slightly weaker. Municipal bonds

2026 Q1 Returns				
FIXED INCOME	Q1 2026	YTD 3.31.26	1 Year 3.31.2026	3 Years Annualized
Bloomberg US Agg Bond	-0.05	-0.05	4.35	3.63
ICE AMT-Free Nat'l Muni	-0.22	-0.22	4.21	2.70
Markit iBoxx USD Liquid High Yield Index	-0.44	-0.44	7.13	8.41

Source: FactSet

were down -0.22%, and high-yield bonds were down -0.44% for Q1. One-year returns remained positive.

The outlook for bonds remains favorable in 2026 due to positive economic growth, moderating inflation, strong corporate balance sheets, and additional Fed rate cuts to come.

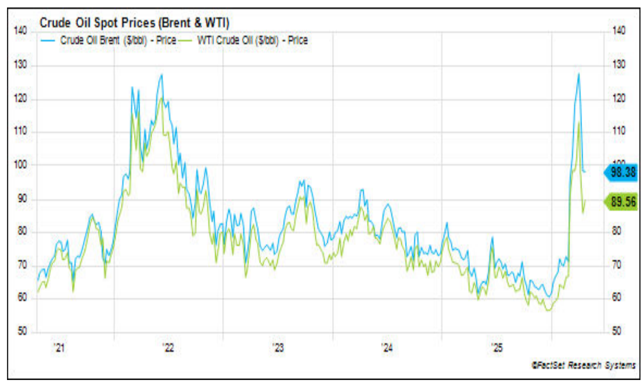
Real Assets

The GSCI commodities benchmark shot higher in the quarter as oil became the focus of investors and consumers. The benchmark was up 40.02% in Q1.

2026 Q1 Returns				
REAL ASSETS	Q1 2026	YTD 3.31.26	1 Year 3.31.2026	3 Years Annualized
Dow Jones U.S. R/E	1.06	1.06	1.48	6.82
S&P GSCI	40.02	40.02	43.00	18.17

Source: FactSet

Oil prices spiked in March to near the highest levels in five years. Prices have moderated somewhat in April as investors hold out hope for a resolution in Iran and as producers make adjustments.



Source: FactSet

Alternatives

Private credit has faced increased scrutiny due to isolated defaults and concerns about software sector exposure. However, there does not appear to be any significant deterioration in credit quality or performance. Known liquidity constraints are playing a part in investor uneasiness.

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Disclosures

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