



# Quarterly Market Update

First Quarter, 2026 | April 2, 2026

## A CHAOTIC FIRST QUARTER

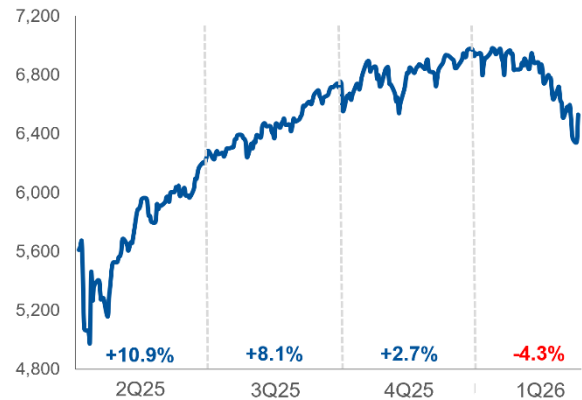
**Action-packed start to the year.** Well, what can one say about a quarter in which the U.S. engaged in not one but two major military “excursions”? (And don’t forget our brief flirtation with Greenland). Add to that the DOJ pursuing charges against the Fed chair, a government shutdown, growing concerns about the stability of the private credit industry, and existential questions about software companies and the future of work as we know it—and it’s somewhat surprising that the S&P 500 was only down 4.3% in the quarter (though the numbers were buoyed by the last trading day of the quarter, when the S&P 500 had its best session in 10 months).

**Where’s support?** Though a negative quarter is nothing to celebrate, it could have been worse for a stock market trading at a high valuation (23x earnings) and coming off three years of strong performance. If there is good news, it’s that earnings were strong in the last quarter of 2025 (up +14.0% year over year). More important, earnings expectations are unscathed, with Wall Street analysts currently expecting S&P 500 earnings per share for the first quarter to be up 14.3% from a year ago.

**Rates in focus.** Long-term interest rates are critical to this balance. Over the last four years, we have found that the 4.50% level on the 10-year Treasury has been an important line in the sand for stock market performance; the higher yields have gone, the tougher sledding it’s been for stocks. The 10-year Treasury yield dipped to 3.94% in late February just before the war with Iran started and rose as high as 4.43% in late March. The Treasury Department is skewing issuance to the short end of the yield curve in an attempt to manage the long-term rates so critical to long-duration assets like stocks (i.e., assets for which most of the payoff is expected far in the future)

**Market dispersion.** Judging by which sectors outperformed the S&P 500 in the quarter, investors appear to be hunkering down for a potential slowdown in economic activity due to the war in Iran. Commodity sectors like Energy and Utilities significantly outperformed pro-cyclical sectors like Technology, Consumer Discretionary, and Financials. High quality small-caps and Value outperformed large cap Growth, perhaps on concerns that problems in private credit will raise the cost of capital. Meanwhile, the market’s “it” stock of recent quarters, Nvidia, was down -6.5% despite another quarter of strong earnings for the company. This may reflect a shift in investor appetites.

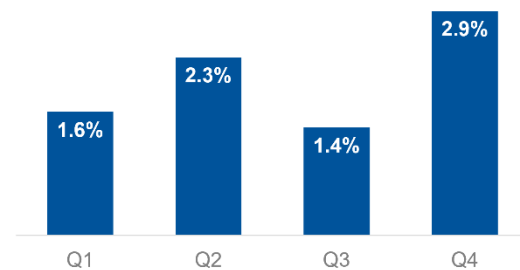
S&P 500



Performance by Asset Class

Asset Class	Representative Benchmark	Q1 2026 Total Return	FY 2025 Total Return
US Large Cap	Russell 1000	-4.2%	17.4%
US Small Cap	Russell 2000	0.9%	12.8%
International	MSCI AC World ex-USA (USD)	-0.6%	33.1%
Commodities	Bloomberg Commodity	24.4%	15.8%
Gold	LBMA Gold PM (\$/ozt)	5.5%	67.4%
Municipal Bonds	Bloomberg Municipal Bond	-0.2%	4.3%
Taxable Bonds	Bloomberg US Aggregate	-0.0%	7.3%
Cash	Bloomberg 3-Month T-Bill	0.9%	4.2%

S&P 500 Average Quarterly Return (since 1928)



Source: Data for this page come from data-provider Factset.

### Commodity prices back to 2022 highs

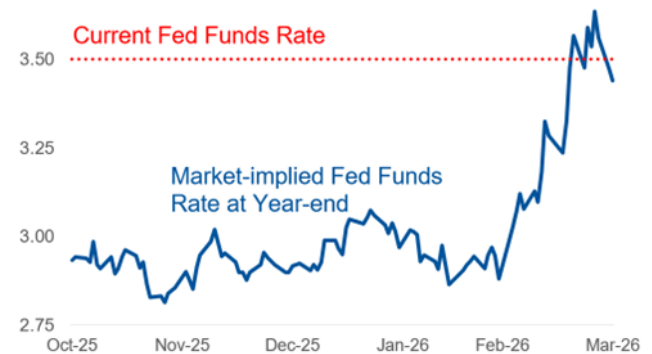
Bloomberg Commodity Index, Source: Factset



Damage to energy infrastructure in the Middle East is likely to have lasting implications for global commodity supply. So far, productivity gains and strong margins have helped absorb higher input costs. But a prolonged conflict risks undermining those offsets. More broadly, although precious metals have been regarded as a hedge against currency debasement in recent years, strength in commodities may also reflect greater resource scarcity in a period of deglobalization and reindustrialization. Against this backdrop, we expect that commodities will occupy a larger place in institutional asset allocations going forward.

### Market removing rate cuts from forecast

Source: CME FedWatch Tool



The war in Iran has also affected the U.S. economic outlook. Over the last month, fed fund futures went from pricing 2+ rate cuts across 2026 to pricing a hold (at best) and rate hikes (at worst). But tightening monetary policy into an energy supply shock would greatly increase the chances of a recession outside the U.S. Today, money supply growth is below its historical average and over the intermediate-term, higher oil prices will act as a tax on U.S. consumers and slow the economy. In our view, the Fed should be more worried about economic growth than inflation. But higher rates are a headwind regardless.

### Existing home sales at recessionary levels

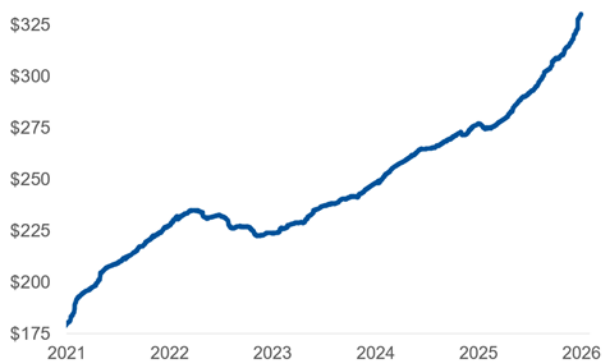
Source: FactSet



The energy shock and resultant change in Fed expectations have contributed to higher long-term rates as well. Mortgage rates, which in late February dipped below 6% for the first time since 2022, have spiked. The jump in rates is likely to freeze housing activity, which had already been fairly weak. U.S. new home sales plunged in January, and existing home sales have remained at levels typically only seen in recessions. The labor market has held together (claims for unemployment insurance remain historically low) and consumer spending is ok. But high mortgage rates still matter greatly for housing.

### Earnings growth expectations accelerating

S&P 500 Next 12 Month Earnings Per Share Estimate, Source: FactSet



As we noted on page one, the earnings outlook continues to be an outrigger for the market. Estimates have accelerated in recent weeks as the outlook for Energy firms has improved. One development that continues to surprise is the lack of downward revisions to growth expectations across consumer sectors. But consumer spending remained resilient in March, according to high-frequency credit card data, and above-typical tax refunds from One Big Beautiful Bill (OBBB) provisions have continued to accumulate. Ultimately, we find it difficult to get too negative on the economy or the equity market when profit growth is still so strong.

### Manufacturing PMI signaling expansion

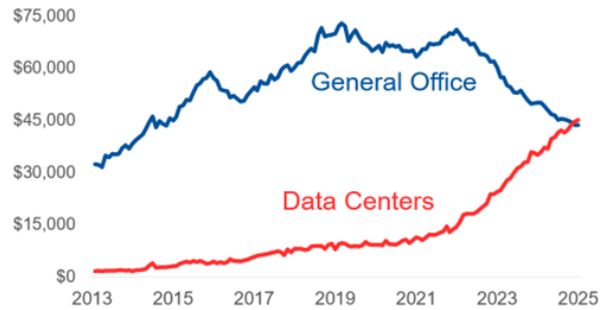
Source: FactSet, ISM



For the first time since late 2022, the ISM manufacturing PMI (based on monthly surveys of purchasing and supply managers) has reflected expansion in the sector (a reading >50) for three consecutive months. Industrial production data has also improved lately. Even in an economy ruled by services like healthcare and finance, manufacturing still matters. It is tied closely to capital spending, inventories, and trade and it is a more cyclical corner of the economy so shifts in economic momentum can show up in this data first.

### Data center construction now larger than general office construction

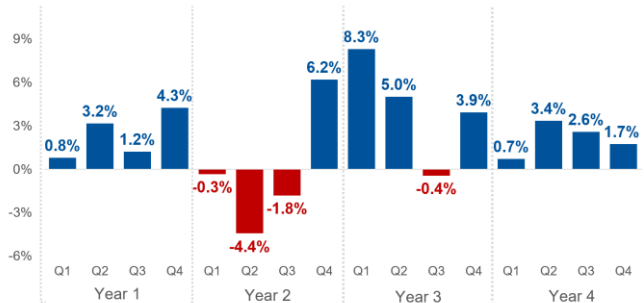
Source: US Census Bureau, Private Construction, Millions of Dollars, SAAR



The One Big Beautiful Bill (OB BB) passed last July allows companies to expense 100% of their capex, R&D, and factory production. These tax changes have helped bolster non-residential fixed investment for datacenters, but also other activities outside AI. This broadening beyond AI is critical. Datacenters are not going to produce a lot of employment, and the relationship between investment and job creation could crack. Broadening out allows for other types of investment that can boost job creation and help in reshoring critical industries.

### Presidential cycle affects the S&P 500

Avg. S&P 500 return by presidential cycle, 1961 - 2024, Source: FactSet



The U.S.-Iran conflict is entering its second month, which coincides with the toughest part of the four-year presidential equity market cycle and the coming April tax liquidity squeeze (when consumers and businesses pull cash out of the private financial system to pay taxes, temporarily tightening financial conditions). This is a lot for investors to chew on. We caution that equity markets tend to get more defensive in the middle of midterm election years, and investors may need to exercise patience. But it is also good to remember that the S&P 500 has not declined in the 12 months following a midterm election since 1938.

### High policy uncertainty not a bearish signal

S&P 500 returns, based on level of U.S. Policy Uncertainty Index  
Source: Factset, Strategas



Not coincidentally, policy uncertainty is inching towards levels last seen in April 2025 when the Trump administration announced sweeping tariffs. Policy uncertainty indices often spike around elections, fiscal standoffs, wars, and regulatory shocks. But much like investor sentiment, policy uncertainty has historically been a contrarian indicator—with high levels of policy uncertainty associated with stock market outperformance over the ensuing three-, six-, and twelve-month timeframes. In these moments, markets tend to price in overly pessimistic outcomes. Once the most pressing uncertainty resolves (even without obviously great news) stocks have tended to rebound.

**S&P 500 Index (Large Cap / U.S. Stocks):** A representative sample of 500 leading companies in leading industries of the U.S. economy. These are equity securities of large capitalization (generally \$7 billion plus market cap) companies having growth and value characteristics. • **Russell 2000® Index (Small Cap / Small Core):** Measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represent approximately 10% of the total market capitalization of the Russell 3000® Index. These are equities of small capitalization. • **MSCI EAFE Index Net (International / Developed Markets):** A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US and Canada. As of December 2024, the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. • **BBgBarc Aggregate Bond Index (Taxable Bonds / Bonds):** Composed of approximately 6,000 publicly traded bonds, including U.S. Government, mortgage-backed, corporate, and Yankee bonds with an average maturity of approximately 10 years. • **BBgBarc Muni Bond Index (Municipal Bonds):** Bonds must have a minimum credit rating of at least Baa, an outstanding par value of at least \$3 million, part of a transaction of at least \$50 million, issued after December 31, 1990, and have a year or longer remaining maturity • **FTSE 3-month T-bill Index (Cash):** This index measures monthly return equivalents of yield averages that are not marked to market. It consists of the last one-month and three-month Treasury bill issues, respectively. • **Bloomberg Commodity Index (Commodities):** Composed of commodities traded on U.S. exchanges, with the exception of aluminum, nickel and zinc, which trade on the London Metal Exchange (LME). Subindices include Petroleum, Grains, Industrial Metals, Livestock, Precious Metals, and Softs.

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