



Market Commentary Q1 2026

Markets rarely move in a straight line, and the first quarter of 2026 was a reminder that periods of strength often come with renewed uncertainty. After a solid start to the year, markets turned lower in March as escalating geopolitical tensions in the Middle East drove oil prices sharply higher. The defining event of the quarter was the joint U.S.–Israel strikes on Iran, which triggered a notable pullback as investors reassessed risk. Rising geopolitical pressures, elevated energy costs, and persistent inflation

concerns created a more challenging backdrop for risk assets following last year’s strong gains. Volatility picked up, U.S. equities softened, and global markets delivered mixed results.

The S&P 500 fell 4.3%, its weakest quarter since 2022, while the S&P 100 Mega-Cap Index declined 6.9% as investors reassessed growth expectations and the uncertain path of monetary policy.² Mega-cap weakness weighed heavily on broader U.S. equity performance.

<u>Leading US Indices (Total Return)</u>	3Q'24	4Q'24	1Q'25	2Q'25	3Q'25	4Q'25	1Q'26 (sorted)	TTM
S&P 600 Small-Cap	10.1%	-0.6%	-8.9%	4.9%	9.1%	1.7%	3.5%	20.5%
S&P 400 Mid-Cap	6.9%	0.3%	-6.1%	6.7%	5.5%	1.6%	2.5%	17.3%
Russell 2000	9.3%	0.3%	-9.5%	8.5%	12.4%	2.2%	0.9%	25.7%
S&P/Citigroup Value	9.1%	-2.7%	0.3%	3.0%	6.2%	3.2%	0.0%	12.9%
S&P 500 Total Return	5.9%	2.4%	-4.3%	10.9%	8.1%	2.7%	-4.3%	17.8%
S&P 100 Mega-Cap	5.1%	4.6%	-6.0%	12.8%	9.7%	3.3%	-6.9%	18.9%
Nasdaq	2.8%	6.3%	-10.3%	18.0%	11.4%	2.7%	-7.0%	25.6%
S&P/Citigroup Growth	3.7%	6.2%	-8.5%	18.9%	9.8%	2.2%	-8.1%	22.7%

Strategas Securities, LLC – 04/06/2026

Sector leadership shifted meaningfully in the quarter. Energy outperformed on the back of higher oil prices and geopolitical stress, while defensive sectors held up relatively well. Technology and other growth-oriented areas

lagged as investors reconsidered valuations. The quarter reinforced the value of diversification, disciplined rebalancing, and avoiding emotionally driven decisions.

<u>S&P 500 Sectors (Total Return)</u>	3Q'24	4Q'24	1Q'25	2Q'25	3Q'25	4Q'25	1Q'26 (sorted)	TTM
Energy	-2.3%	-2.4%	10.2%	-8.6%	6.2%	1.5%	38.2%	36.3%
Materials	9.7%	-12.4%	2.8%	3.1%	3.1%	1.1%	9.7%	18.0%
Utilities	19.4%	-5.5%	4.9%	4.3%	7.6%	-1.4%	8.3%	19.7%
Staples	9.0%	-3.3%	5.2%	1.1%	-2.4%	0.0%	7.7%	6.3%
Industrials	11.5%	-2.3%	-0.2%	12.9%	5.0%	0.9%	4.6%	25.2%
Real Estate	17.2%	-7.9%	3.6%	-0.1%	2.6%	-2.9%	2.8%	2.3%
S&P 500 Total Return	5.9%	2.4%	-4.3%	10.9%	8.1%	2.7%	-4.3%	17.8%
Health Care	6.1%	-10.3%	6.5%	-7.2%	3.8%	11.7%	-4.9%	2.3%
Communication Services	1.7%	8.9%	-6.2%	18.5%	12.0%	7.3%	-6.9%	32.5%
Technology	1.6%	4.8%	-12.7%	23.7%	13.2%	1.4%	-9.1%	29.0%
Discretionary	7.8%	14.3%	-13.8%	11.5%	9.5%	0.7%	-9.2%	11.7%
Financials	10.7%	7.1%	3.5%	5.5%	3.2%	2.0%	-9.3%	0.7%

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After hitting a new all-time high in late January, equities retreated as geopolitical tensions and rising oil prices pressured sentiment. The outlook remains cautiously constructive, though monetary policy uncertainty and inflation risks may limit near-term return expectations. A notable theme was the performance gap across market segments. While the S&P 500 declined 4.3%, the equal-weight S&P 500 and the Russell 2000 each gained nearly 1%, signaling relative strength in smaller companies. The Nasdaq 100

fell 5.8%. Investors with diversified exposure across sizes, styles, and geographies experienced a more moderate quarter than headline index returns suggest.

International equities were mixed, early-quarter momentum faded as volatility rose and investors rotated more selectively. Still, the period highlighted the long-term benefits of global diversification, especially when U.S. sector leadership narrows.

International Indices (Price Chg)	3Q'24	4Q'24	1Q'25	2Q'25	3Q'25	4Q'25	1Q'26 (sorted)	TTM
Kospi (South Korea)	-7.3%	-7.5%	3.4%	23.8%	11.5%	23.1%	19.9%	103.6%
Bovespa (Brazil)	6.4%	-8.7%	8.3%	6.6%	5.3%	10.2%	16.3%	43.9%
Bolsa (Mexico)	0.1%	-5.6%	6.0%	9.5%	9.5%	2.2%	6.7%	30.7%
S&P/TSX (Canada)	9.7%	3.0%	0.8%	7.8%	11.8%	5.6%	3.3%	31.5%
FTSE 100 (UK)	0.9%	-0.8%	5.0%	2.1%	6.7%	6.2%	2.5%	18.6%
OMX Stockholm 30 (Sweden)	2.2%	-5.5%	0.4%	0.0%	6.8%	8.3%	1.6%	17.5%
Nikkei 225 (Japan)	-4.2%	5.2%	-10.7%	13.7%	11.0%	12.0%	1.4%	43.4%
Shenzhen SE A Shares (China)	19.1%	1.6%	2.4%	3.5%	21.4%	0.5%	0.2%	26.5%
MSCI EAFE	0.3%	-0.9%	2.2%	3.7%	4.8%	5.8%	-0.5%	14.4%
IBEX 35 (Spain)	8.5%	-2.4%	13.3%	6.5%	10.6%	11.8%	-1.5%	29.8%
MSCI AC World	4.5%	1.0%	-2.5%	8.8%	7.6%	3.4%	-2.9%	17.5%
Hang Seng (Hong Kong)	19.3%	-5.1%	15.3%	4.1%	11.6%	-4.6%	-3.3%	7.2%
Swiss Market Index	1.5%	-4.7%	8.6%	-5.4%	1.6%	9.6%	-3.7%	1.4%
All Ordinaries (Australia)	6.5%	-1.4%	-4.4%	8.9%	4.1%	-1.3%	-3.7%	7.8%
CAC 40 (France)	2.1%	-3.3%	5.6%	-1.6%	3.0%	3.2%	-4.1%	0.3%
DAX (Germany)	6.0%	3.0%	11.0%	5.5%	-0.1%	2.6%	-7.7%	-0.2%
Sensex (India)	6.7%	-7.3%	-0.9%	8.0%	-4.0%	6.2%	-15.6%	-7.1%

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Fixed income faced headwinds as Treasury yields rose and the Federal Reserve (“Fed”) held policy steady. The Fed held rates steady at 3.50%–3.75%, reiterating a data-dependent stance.

Higher yields pressured bond prices, leaving broad fixed income returns modestly negative.

Municipal bonds also struggled, while credit markets remained resilient with spreads staying tight. Despite volatility, today’s yield environment offers a stronger foundation for fixed income than the post-pandemic low-rate era.

US Yields	4Q'24	1Q'25	2Q'25	3Q'25	4Q'25	1Q'26	Q/Q Chg (bps)	Y/Y Chg (bps)
Fed Funds Target Rate	4.5	4.5	4.5	4.3	3.8	3.8	0	-75
3-Month T-Bill	4.4	4.2	4.4	4.0	3.7	3.6	-3	-61
2-Year Note	4.2	3.9	3.7	3.6	3.5	3.8	32	-10
5-Year Note	4.4	4.0	3.8	3.7	3.7	3.9	22	-1
10-Year Bond	4.6	4.2	4.2	4.1	4.2	4.3	14	11
30-Year Bond	4.8	4.6	4.8	4.7	4.9	4.9	5	33

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Credit markets held firm even as equity and rate volatility increased. Tight spreads suggest markets are not pricing in a deep recession. While risks remain, a more meaningful widening would typically precede a major downturn.

Private credit, long a standout performer, faced its most significant stress test in over a decade. Surging redemptions, rising defaults, liquidity mismatches, and regulatory scrutiny reshaped sentiment across the \$1.8–\$2.0 trillion sector.² Concerns are concentrated in software-sector borrowers, where AI-driven disruption has raised questions about credit quality. The stress is broad but uneven, with institutional capital remaining committed but more selective.

Gold and other metals strengthened on safe-haven demand amid geopolitical tensions, inflation concerns, and monetary policy uncertainty. Price swings were more pronounced, but demand for hard assets underscored their diversification value.

The macro environment shifted sharply in late February when the Iran conflict escalated and Iran closed the Strait of Hormuz on March 4, disrupting a waterway that carries roughly 27% of global maritime oil trade.² The resulting supply shock pushed Brent crude above \$100 per barrel by mid-March, its highest level since 2022.² A temporary ceasefire on April 7 eased prices slightly, but uncertainty remains high. The duration of the disruption, not just its magnitude, has become the key variable for markets.

Heading into the second quarter, the Middle East situation and its impact on oil prices remain central. A resolution would ease energy costs and inflation pressures, giving the Fed more flexibility. A prolonged disruption risks higher inflation, weaker consumer spending, and softer business investment.

U.S. STOCK PERFORMANCE AFTER CONFLICTS

EVENT	DATE	3 MO (%)	1 YR (%)	3 YR (%)
U.S Enters WWII/Pearl Harbor Attack	12/8/1941	-8.14	16.49	21.96
Beginning of the Korean War	6/25/1950	11.74	27.78	16.37
Bay of Pigs Invasion	4/17/1961	2.62	1.76	8.76
Cuban Missile Crisis	10/16/1962	18.30	34.01	21.13
U.S. Enters Vietnam War/Gulf of Tonkin Incident	8/2/1964	4.18	10.83	10.24
Yom Kippur War/1973 Oil Embargo	10/6/1973	-10.72	-31.30	1.79
Iran-Iraq War	9/22/1980	9.21	-2.01	16.65
Lebanon War	6/6/1982	11.58	67.02	26.15
U.S. Invasion of Panama	12/20/1989	-3.33	-6.02	11.62
Beginning of the Gulf War	8/2/1990	-0.22	28.85	18.36
Operation Infinite Reach	8/7/1998	21.74	39.30	7.56
9/11 Attacks/Start of the Afghanistan War	9/11/2001	12.55	-17.87	5.93
Beginning of the Iraq War	3/20/2003	16.68	39.18	19.34
Russia Invades Ukraine	2/24/2022	-6.91	-8.67	11.79
Hamas Attacks Israel	10/7/2023	16.47	38.49	-
AVERAGE		6.38	15.86	14.12

Source: *Avantis* – 04/13/2026

History offers perspective. While three years is too short an investment horizon, looking back shows that markets have risen through nearly constant global conflict. Even narrowing the lens to the past few decades, markets are more than 500% higher despite multiple major drawdowns, including the tech bubble, 9/11, the 2008–09 Great Financial Crisis, and COVID.² Markets have a long track record of resilience.

The quarter's central thread was the interplay between oil prices, inflation, and Federal Reserve policy. Higher energy costs have shifted expectations for rate cuts, and upcoming inflation data will capture the full impact. These readings will shape the outlook for rates and the broader economy.

Corporate earnings remain a bright spot. Fourth-quarter earnings grew roughly 14% year-over-year, double the consensus forecast, driven by genuine improvements in sales and record-high margins. Forward earnings estimates continue to rise, providing a fundamental anchor for valuations at a time of uncertain sentiment.

Periods like the first quarter highlight that hesitation during volatility can be costly. Pullbacks, shifting leadership, and sudden sentiment changes are normal. Long-term outcomes are typically improved by staying invested, maintaining diversification, and avoiding emotionally driven decisions rather than waiting for uncertainty to clear.

To discuss this commentary further, please contact us at 914-825-8630.

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¹ Strategas Securities, LLC – 04/06/2026

² Y-Charts – 04/06/2026

³ <https://creativeplanning.com/insights/investment/q1-2026-market-commentary/> - 04/13/2026

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