Q1 2026

Market Update

April 2026



POWER
WEALTH MANAGEMENT

Q1'26 Market Performance, Key Drivers, & Go-Forward Outlook

"The essence of investment management is the management of risks, not the management of returns."
– Benjamin Graham

The first quarter of 2026 has been a reminder that markets do not move in a straight line. After a strong 2025, investors entered the year with high expectations, elevated valuations, and growing confidence that the Federal Reserve would be in position to continue easing policy. Instead, the market has had to absorb a more complicated mix of realities: inflation has re-accelerated, job growth has slowed and turned briefly negative, the Fed has remained firmly on hold, and an unprecedented energy shock tied to the outbreak of the U.S.-Israel war with Iran has introduced a new and consequential layer of uncertainty. On February 28, U.S. and Israeli forces launched strikes on Iran, triggering Iran's closure of the Strait of Hormuz — a chokepoint through which roughly 20% of global crude oil and LNG supplies move. The resulting supply disruption has been characterized by the International Energy Agency as the largest in the history of the global oil market. While a tenuous two-week ceasefire was announced in late March, the situation remains fragile and financial markets have responded accordingly. The Federal Reserve left rates unchanged at its March meeting, noting that economic activity has continued to expand at a solid pace while inflation has moved higher and the outlook has become more uncertain.

In equity markets, volatility picked up meaningfully in the first quarter, particularly after the outbreak of the Iran war in late February. As of March 31, the S&P 500 finished the quarter down approximately 4.6% year-to-date, having staged a relief rally on ceasefire hopes before pulling back again. The Nasdaq ended the quarter down roughly 7.3% year-to-date, while small caps, as measured by the Russell 2000, were down about 9.8%. In fixed income, the Bloomberg U.S. Aggregate Bond Index was modestly positive for the quarter as inflation concerns pushed rate-cut expectations further out. Using ETF proxies for non-U.S. markets, developed international equities held up comparably to U.S. stocks over the quarter, while emerging markets faced headwinds from higher energy costs and a stronger dollar.

Figure 1. Market Performance, Total Return

	Q1 2026	Full-Year 2025
Equities		
U.S. Total Market[1]	-4.6%	17.1%
International Developed[2]	~Flat	35.2%
Emerging Markets[3]	~Flat	26.4%
Fixed Income		
Aggregate Bond[4]	+.1%	7.3%

Source: Bloomberg; 1. S&P Total Market Index, 2. FTSE Developed ex U.S. Index, 3. FTSE Emerging Index, 4. Bloomberg U.S. Aggregate Bond Index. Q1 2026 data as of March 31, 2026. Full-Year 2025 data for reference.

The theme we think best describes the current environment is "**resilience meets resistance.**" The economy has not broken, corporate earnings expectations remain generally constructive, and many risk assets are proving resilient. At the same time, elevated valuations, sticky inflation, higher oil prices, and a more hawkish-than-hoped-for Fed are creating resistance. In an environment like this, we think thoughtful portfolio construction matters more than bold macro predictions.

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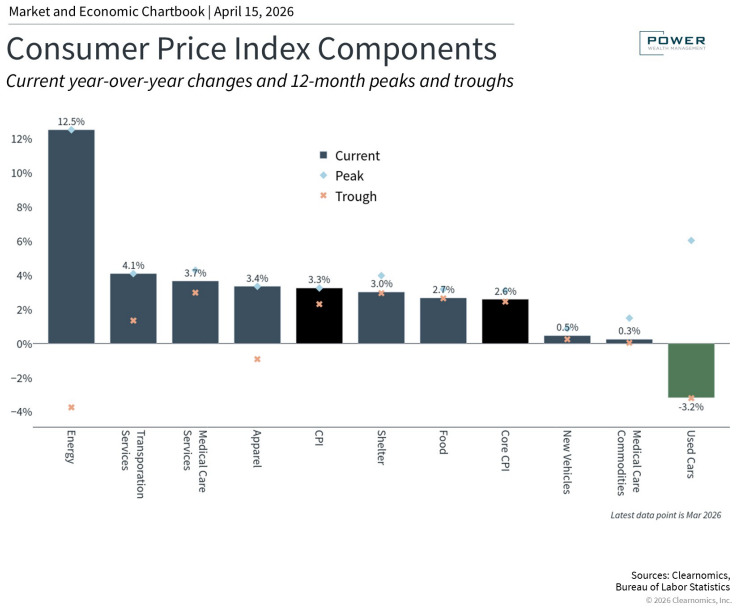
U.S. Economic Trends

The U.S. economy continues to send mixed signals. On the one hand, the Fed's March statement characterized activity as expanding at a solid pace. On the other hand, the labor market has clearly cooled from the pace of prior years. After a decline of 92,000 jobs in February — partly reflecting a healthcare worker strike — nonfarm payrolls rebounded to 178,000 in March, well above expectations of just 59,000. The unemployment rate edged down to 4.3%, though that reflected a shrinking labor force more than a surge in hiring. Meanwhile, March CPI came in at 3.3% year-over-year, sharply higher than February's 2.4%, pushed almost entirely by war-driven energy costs. Critically, core inflation remained relatively contained at 2.6% year-over-year — slightly below consensus — suggesting the broader economy has not yet experienced the kind of broad-based inflation that would force the Fed's hand.

The energy shock tied to the Iran war has been the defining macro development of the quarter. Brent crude was trading around $73 a barrel before the conflict began on February 28; it surged past $120 as the war deepened and Iran's closure of the Strait of Hormuz took hold, before pulling back to roughly $95 following ceasefire announcements. The most direct impact on consumers has been at the gas pump, with national average gasoline prices rising to $4.12 per gallon — the first time above $4 since Russia's invasion of Ukraine in 2022. The energy surge drove a 10.9% monthly jump in the March CPI energy index, with gasoline alone up 21.2% in a single month, the largest monthly increase since 1967. Importantly, that price shock accounted for nearly three-quarters of the entire monthly CPI increase, underscoring how concentrated — and in theory temporary — the inflationary pressure has been. The fact that core inflation held at 2.6% in March provides some comfort on that front, though the risk of a prolonged conflict remains a key wildcard.

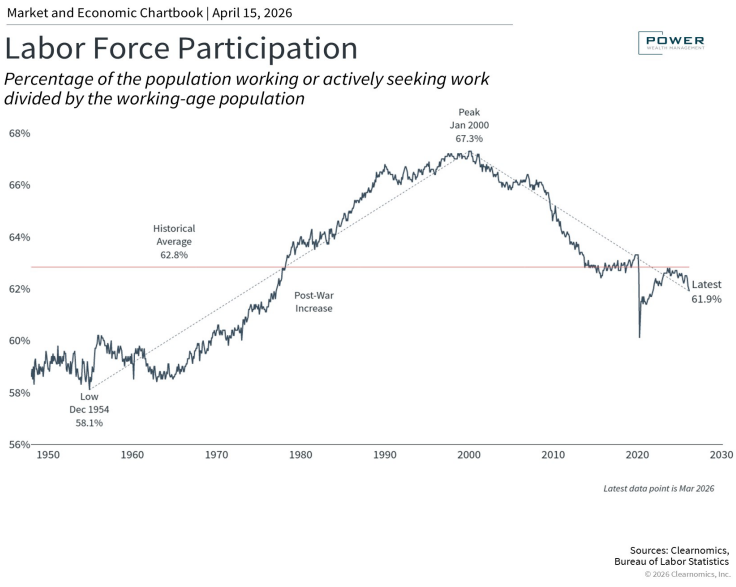
At the March meeting, the Fed kept the federal funds target range at 3.50% to 3.75% and penciled in just one rate cut for 2026. The updated Summary of Economic Projections reflected a more cautious stance, with policymakers acknowledging the inflation risk posed by elevated energy prices while also recognizing that underlying growth and core inflation remain relatively stable. Fed Chair Powell explicitly pushed back against comparisons to the stagflation of the 1970s, noting that a more serious set of circumstances would be required to justify that label. Still, markets are now pricing minimal probability of any rate cuts in the near term, and the bar for easing has clearly risen.

Energy costs are driving overall inflation higher



Beyond inflation, the health of the labor market remains an important factor for investors to monitor. The rebound to 178,000 jobs added in March was encouraging after February's 92,000 decline, and the unemployment rate at 4.3% remains historically healthy. However, the unemployment rate's stability tells only part of the story. Labor force participation has declined to 61.9%, its lowest level since the pandemic, reflecting an aging population — with more than 11,000 baby boomers reaching retirement age every day — combined with sharply reduced immigration. As a result, the economy has averaged just 22,000 new jobs per month over the past year, a fraction of the 122,000 monthly average in 2024. Wage growth has moderated to 3.5% year-over-year, still running ahead of underlying inflation and providing some continued support for consumer spending. Consumers are facing higher costs at a time when the job market is softening — yet those who are working are generally still finding employment.

The job market has weakened, but demographics complicate the picture



U.S. Stocks

U.S. equities have struggled to build on 2025's gains. The S&P 500 finished the first quarter down approximately 4.6% year-to-date, with the Nasdaq faring worse at around -7.3%, reflecting continued sensitivity to rates, valuation, and growth expectations. That said, the picture for corporate earnings has remained more constructive than the headlines might suggest. Analysts estimate S&P 500 earnings grew approximately 13% year-over-year in the first quarter, which would mark the sixth consecutive quarter of double-digit earnings growth. Looking ahead, consensus estimates call for full-year 2026 earnings growth of roughly 15% — well above the trailing ten-year average of approximately 8.6%. The forward P/E on the S&P 500 has moderated to around 19.5x from above 22x at the start of the year, reflecting both the market pullback and some downward pressure on future estimates from oil and tariff uncertainty.

We think the market's behavior is logical. Periods of geopolitical uncertainty like this one tend to move stock prices more than they ultimately move earnings expectations. While that does not guarantee a quick rebound, it does mean that investors who maintain diversified portfolios and a long-term perspective are often rewarded for their patience. At the same time, an important longer-term lesson from the current episode is that geopolitical risk is becoming a more persistent part of the investment backdrop, not merely an episodic disruption. A world of regional blocs, strategic competition, and recurring supply-chain shocks requires investors to think more carefully about portfolio resilience. Sectors with structural demand support — such as defense, energy infrastructure, and industrial supply chains — have held up better during this period of volatility.

We would frame the current U.S. equity environment less as a "bearish" one, and more as a **selective** one. A resilient economy should be supportive of earnings broadly, but higher-for-longer rates, rising input costs, and full valuations argue for greater discrimination beneath the surface. We continue to see merit in diversification across size, style, and sector. In our view, this is an environment where owning only the market's most crowded winners may be less rewarding than it was over the last two years.

International Stocks

One of the more important developments over the last year has been the improved case for geographic diversification. International markets materially outperformed in 2025, and while the first quarter of 2026 was also volatile overseas, non-U.S. equities held up comparably to — and in some cases better than — U.S. equities through the end of March. The Iran conflict has had an uneven effect globally: energy-exporting nations benefited from higher oil revenues, while energy-importing economies in Asia and Europe faced a sharper cost shock.

The same arguments from our recent letters still apply. International equities remain less richly valued than U.S. equities, and they offer diversification both by sector composition and by currency exposure. At the same time, the current backdrop is not uniformly favorable. Higher energy prices are a headwind for many non-U.S. economies, especially energy importers, and emerging markets in particular can be more vulnerable when geopolitical risk rises quickly.

Even so, we continue to think the strategic case for international exposure remains sound. After a long period of U.S. dominance, many investors are still structurally overweight domestic assets. That may prove suboptimal if leadership broadens over the next several years, or if valuation dispersion between U.S. and non-U.S. markets narrows.

Fixed Income

Fixed income has had a more difficult start to 2026 than many expected. The Bloomberg U.S. Aggregate Bond Index finished the first quarter modestly negative, reflecting the reality that bonds struggle when inflation concerns re-emerge and rate-cut expectations are pushed further out. The sharp rise in headline CPI in March reinforced that dynamic, and markets are now pricing minimal likelihood of Fed rate cuts in the near term.

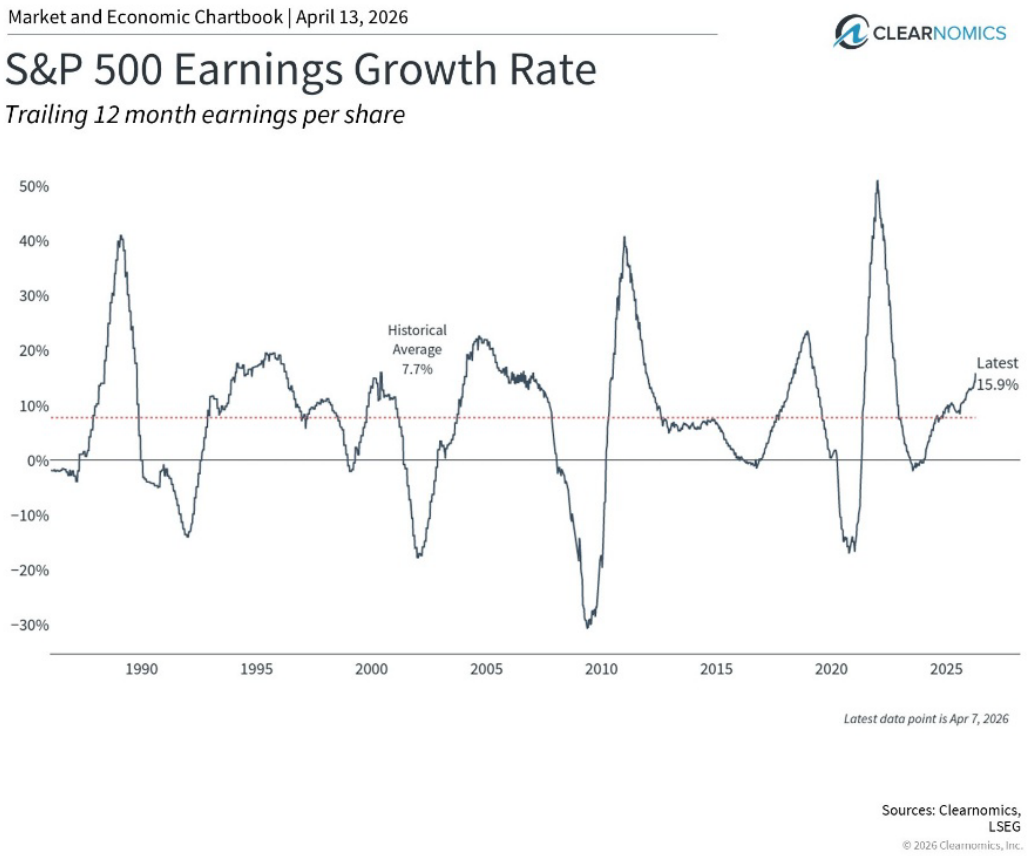
The key issue, in our view, is that the market began the year assuming the Fed would have ample room to continue easing. Instead, the combination of only gradual disinflation, low-but-not-collapsing job growth, and an oil shock has complicated that narrative. The March FOMC statement and projections reinforced that policymakers remain cautious. If inflation proves sticky, the front end of the curve may not rally as much as expected. If inflation expectations rise, the longer end may also remain under pressure.

That said, we continue to view fixed income as an important source of ballast, income, and liquidity in diversified portfolios. The role of bonds is not simply to generate returns every quarter; it is also to provide stability and optionality. In an environment where equities are more volatile and macro-outcomes are less predictable; we think quality matters. We continue to favor an emphasis on high-quality fixed income and a measured approach to duration and credit risk.

Closing Thoughts

The first quarter of 2026 has not invalidated the constructive case for long-term investors, but it has made the path more complicated. The economy remains resilient, yet inflation has re-accelerated on the back of an historic energy shock. Markets are no longer pricing a simple glide path toward lower rates and ever-rising multiples. That is uncomfortable in the short run but may also be healthy in the long run. What the current environment reinforces, more than anything, is that geopolitical risk is becoming a persistent feature of investing — not an occasional distraction. Strong corporate earnings, a still-functioning labor market, and more attractive valuations following the quarter's pullback provide a constructive foundation. The critical variable, as it so often is, is whether policymakers and markets have the patience to look past near-term noise toward longer-term fundamentals.

Corporate earnings growth remain strong



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Thank you for your continued trust, and as always, we remain available to address any questions or concerns.

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Power Wealth Management

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