

April 2026

Quarterly Market Review

First Quarter of 2026



Resilient Economy, Rotating Leadership

First Quarter 2026



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The first quarter of 2026 marked a meaningful shift in market leadership and macro drivers. While high frequency data continue to point to a resilient U.S. economy, financial markets adjusted to a more complex backdrop shaped by geopolitical tensions, a supply-driven energy shock, and a Federal Reserve increasingly comfortable remaining on hold. The result was a notable divergence beneath the surface: headline equity indices declined, while broader and more value-oriented segments delivered positive returns.

For the first time in several years, market performance was driven less by a narrow group of mega-cap leaders and more by macro forces and sector dispersion. This transition reflects a market becoming more selective as valuations, interest rates, and input costs play a larger role in determining outcomes.

Economic and Policy Backdrop

High frequency data pointed to firm economic activity throughout the quarter, supported by resilient consumer spending, stable labor market conditions, and ongoing policy tailwinds. Despite softer sentiment indicators, underlying demand continues to hold up, consistent with strong household balance sheets and expectations for incremental fiscal support in 2026 from the One Big Beautiful Bill (OB BB) - including larger tax refunds for households and enhanced incentives for business capital investment.

At the same time, the macro environment became more volatile. A supply-driven energy shock, triggered by escalating geopolitical tensions in the Middle East, including military actions and the effective closure of the Strait of Hormuz, emerged as the dominant macro force during the quarter, driving crude oil prices up more than 80%. The impact extended beyond crude oil into natural gas and fertilizers, raising the risk of broader cost pressures and reinforcing inflation uncertainty in the near term.

Monetary policy has adjusted accordingly. The Federal Reserve held rates steady and signaled a more durable “on hold” stance. While markets continue to anticipate eventual rate cuts, the timing has shifted further out as policymakers balance stable growth against lingering inflation pressures. At the same time, productivity gains are allowing the economy to expand without generating the same degree of labor market tightness seen in prior cycles, even as slower labor force growth would otherwise lead to tighter labor market conditions.

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Equities

Equity markets declined modestly at the index level during the quarter, with the S&P 500 falling 4.3%. However, this headline masks a meaningful shift in leadership. The Bloomberg Magnificent 7 Index declined 12.0%, while broader market segments posted positive returns, including the S&P 500 Equal Weight Index (+0.7%), Dividend Aristocrats (+2.4%), Mid Cap Growth (+3.9%), and Small Cap Value (+4.4%).

This reversal marks one of the clearest rotations away from mega-cap concentration in recent years. Rising energy costs, higher real rates, and elevated starting valuations created a more challenging backdrop for the largest growth-oriented companies, while more cyclically sensitive and value-oriented segments benefited from stronger nominal growth and improving breadth.

While it's too early to declare a durable regime shift, the quarter reinforces the importance of diversification. Market concentration remains elevated by historical standards, and periods of leadership rotation can occur quickly when macro conditions change.

Fixed Income and Credit

Fixed income markets were flat to somewhat negative during the quarter, with the Bloomberg U.S. Aggregate Bond Index finishing -.05%. Treasury securities outperformed spread sectors, reflecting a modest flight to quality amid rising geopolitical uncertainty, and the long end of the yield curve underperformed as interest rates rose.

Credit markets showed early signs of pressure. Investment grade spreads widened moderately, while high yield spreads widened more meaningfully during the quarter, resulting in both segments underperforming U.S. Treasuries on a total return basis. Despite this repricing, spreads remain near historically tight levels, suggesting that markets are absorbing the initial impact of the energy shock without fully pricing potential second-order effects on growth and corporate fundamentals.

Developments in private credit warrant monitoring. Recent restrictions on investor withdrawals, combined with increased scrutiny around valuation practices, have highlighted the structural illiquidity embedded in the asset class. While historical volatility appeared low, this stability was in part a function of infrequent pricing rather than an absence of risk, an issue now coming into clearer focus. While we remain attentive to these developments, they don't currently appear to pose systemic risk to broader financial markets. We'll continue to monitor conditions closely.

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Strategic Outlook

Our outlook remains constructive but increasingly nuanced. The U.S. economy continues to benefit from policy tailwinds, generally solid household and corporate balance sheets, and ongoing productivity gains, and we expect growth to remain above trend in 2026. However, this outlook is increasingly sensitive to the duration and magnitude of the current energy shock. While higher energy prices can be inflationary in the near term, sustained elevated energy costs typically act as a tax on consumption and weigh on broader economic activity over time.

Thus, the range of potential outcomes has widened. The path of energy prices, the evolution of geopolitical tensions, and the timing of monetary policy adjustments will play a critical role in shaping market performance in the quarters ahead.

The first quarter reinforced a key transition: markets are entering a phase where macro sensitivity is higher, leadership is broader, and returns are likely to be more dependent on sector allocation and valuation discipline than broad index exposure. In this environment, we see increasing merit in diversified equity exposure and alternative weighting approaches to mitigate concentration risk. In fixed income, we continue to favor high-quality and intermediate-duration strategies, where the balance between yield and risk remains more attractive.

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Source: Index and sector performance FactSet and Bloomberg

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