



## 1<sup>st</sup> Quarter 2026 Newsletter

- With AI threatening the durability of many software-driven business models (primarily growth stocks), value stocks have held up better to begin the year, causing investors to rotate towards companies whose core business is largely immune to AI disruption.<sup>1</sup> Russell 1000 Growth -9.6% vs. Value +0.7% YTD.
- With weakness in the “Magnificent 7”, down roughly -11% to start the year and representing over 30% of the S&P 500, YTD market returns have broadened with the equal-weight S&P 500 holding up better than the cap-weighted index (-0.5% vs. -4.3% YTD).
- The S&P 500 forward P/E (a common measure of how highly the market is valued) is 21.5, above its 30-year average of roughly 17. However, with the top 10 stocks excluded, the forward P/E decreases to 19.4, closer to historical norms. Record profit margins and strong earnings growth (12.7% versus a 25-year average of 7.3%) may help support these higher valuations.<sup>2</sup>

1:<https://www.investopedia.com/investors-are-piling-into-the-halo-trade-what-that-means-and-what-they-are-buying-11915882#:~:text=AI%20fears%20have%20investors%20rotating,re%20%22u%20distrutable%22%20by%20AI.>

2:<https://am.ipmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets/>

3:<https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20260318.pdf>

4:<https://res.cloudinary.com/americancentury/image/upload/docs/avantis-monthly-newsletter-intm.pdf>

5:<https://privatebank.ipmorgan.com/eur/en/insights/markets-and-investing/tmt/when-oil-jumps-household-wealth-guides-demand>

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## News and Observations

- Citing inflationary pressures from the conflict in Iran, the Federal Reserve held interest rates steady in March, keeping the target range at 3.5% - 3.75%. Many experts are no longer expecting further rate cuts in 2026.<sup>3</sup>
- The February jobs report showed further signs of labor market softening, with the economy shedding 92,000 jobs and unemployment rising from 4.3% to 4.4%. Nine of eleven sectors posted job losses, as the figure fell well short of expectations for a gain of 55,000 jobs.
- Cryptocurrency markets have pulled back recently amid a cooling in speculative assets. Bitcoin is currently about 45% below its October 2025 all-time high.
- A similarly speculative asset, gold is now 13% below its January 2026 all-time high amid reignited inflation fears and a strengthening dollar.
- With new technology, we can now manage active employer retirement plans (401(k), 403(b), TSP, etc.). If you are interested, reach out to your advisor to learn more.

### Market Index Returns

	Q1	2025
S&P 500 (Large Cap)	-4.33%	17.88%
Russell 2000 (Small Cap)	0.89%	12.81%
MSCI International Index	-0.81%	32.55%
MSCI Emerging Markets	-0.10%	34.36%
S&P Global REIT Index	1.04%	8.88%
BofA 1-3 yr Corporate & Govt. Bond Index	0.30%	5.32%

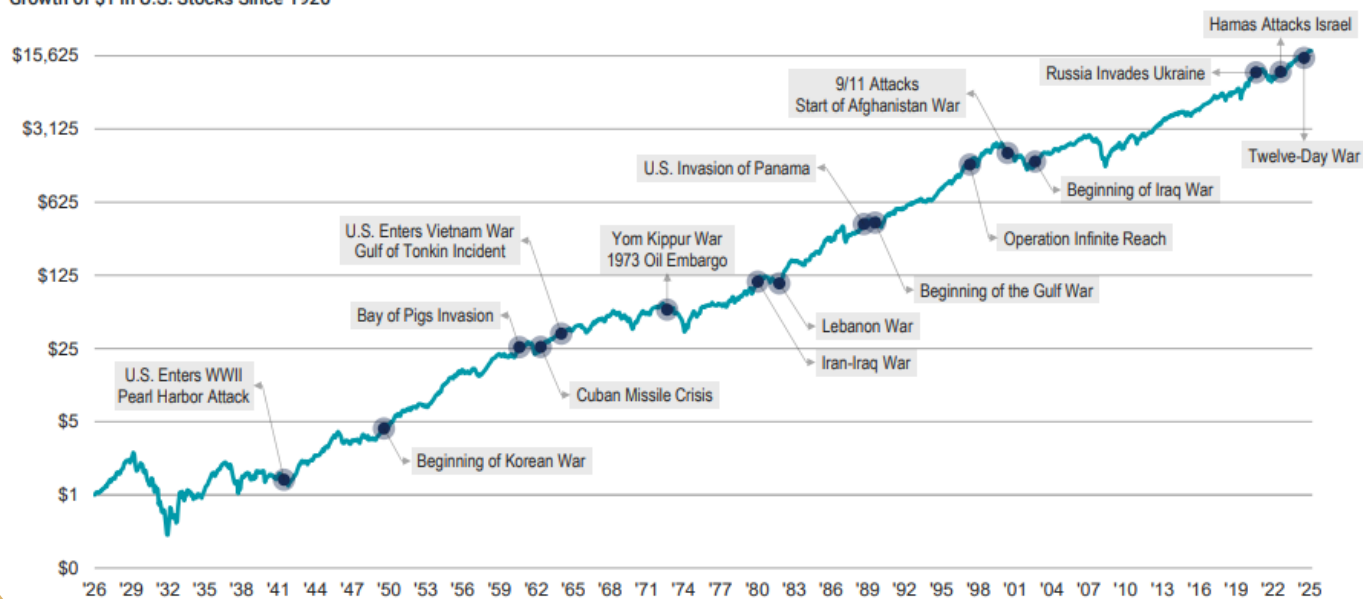
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## Military Conflicts and Market Returns<sup>4</sup>

- Geopolitical tensions have escalated following coordinated military actions by the U.S. and Israel against Iran, with Iran responding through attacks across parts of the region.
- Concerns remain elevated about the conflict's potential impact on oil supplies, energy prices, and broader production and supply chains. Brent crude oil (the international benchmark) has risen above \$100 per barrel, up from roughly \$60 at the beginning of the year.
- The Federal Reserve's inflation model approximates a \$10 increase in oil prices pushes inflation up by 0.35%. Meaning a conflict ranging from 3 to 6 months that pushes oil to \$100 per barrel would further inflate the economy by 1.4%.<sup>5</sup>
- While uncertainty remains high and the ultimate effects are still unknown, it's important to remember that markets are no stranger to conflict. It's also important to recognize that price movements surrounding new conflicts often reflect broader economic conditions and other factors already being priced in by the market.
- Historically, markets tend to experience higher short-term volatility following major geopolitical events, as uncertainty increases and new information is rapidly incorporated into prices.
- However, as the time horizon extends beyond major conflicts, the likelihood of positive market returns has historically increased. Notably, U.S. markets experienced no negative returns in any of the three-year periods following the 16 conflicts depicted below, with average annualized returns of approximately 13%.
- A similar pattern of short-term volatility followed by stabilizing, positive long-term returns have also been observed in international markets.
- While historical data cannot predict the outcome of the Iran conflict, it provides strong evidence that maintaining discipline and sticking to a long-term plan is often the prudent course of action.

Growth of \$1 in U.S. Stocks Since 1926



Data from July 1926 – December 2025. Source: Ken French Data Library. Past performance is no guarantee of future results.