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2026 First Quarter Review
War, Energy, Rates, and Risk

Last Tuesday night, the world braced to see if an entire civilization would die "never to be brought back again." Fortunately, it didn't. Within 24 hours, our president floated the idea of partnering with that same civilization in charging tolls on ships passing through the Strait of Hormuz. "Big money will be made." The moral of the story is that nowadays, things can change *very* fast!

Over the course of the first quarter, global financial markets were more volatile than usual, driven primarily by developments in the Middle East, rising energy prices, and shifting expectations for monetary policy. U.S. equity markets finished the quarter lower after reaching record highs in January. Escalating geopolitical tensions and the associated surge in oil prices weighed on investor sentiment, particularly toward growth-oriented and technology shares. The S&P 500 Index declined approximately 4.6% in the first quarter, marking its weakest quarterly performance since 2022. The Nasdaq Composite fell by roughly 6%, entering "correction territory" as mega-cap technology stocks underperformed. The Magnificent 7 (shortened to "The Mag 7") came to be called "The Lag 7" during their decline from their peaks in the 4th quarter. Value-oriented segments of the market outperformed growth stocks, supported by strength in the energy sector due to rising oil prices. Despite the headline declines, market participation broadened meaningfully, with a majority of S&P 500 constituent stocks outperforming the index in an encouraging sign for conservatively diversified portfolios.

We had expected short-term interest rates to trend lower this year with inflation having come down and Jerome Powell soon to be replaced as Fed chairman by a new and more "dovish" Trump appointee. However, those rate cuts have been postponed due to resurgent inflation expectations tied to higher energy prices. The Bloomberg U.S. Aggregate Bond Index was effectively flat for the quarter, declining approximately 0.3% as rising Treasury yields offset coupon income. Short-term bonds experienced particular pressure as markets adjusted to the likelihood of rate cuts being pushed out of the 2026 outlook. While near-term price volatility persisted, yields across investment-grade fixed income remain attractive relative to recent history. The federal funds target range remained at 3.50%–3.75%, with the effective federal funds rate averaging approximately 3.64% in March. 3-month U.S. Treasury bills ended the quarter yielding approximately 3.7%, offering competitive income with minimal investment risk.

Precious metals prices (and the prices of mining stocks) bounced wildly amid heightened geopolitical uncertainty and volatile currency and rate dynamics. After peaking in late January at over $5,500 per ounce, gold prices retreated but still finished the quarter higher, supported by safe-haven demand during periods of market stress. Precious metals continued to demonstrate their role as portfolio diversifiers during periods of heightened uncertainty.

The price of oil has risen from about $60 per barrel to a recent peak of $112 due to the disruptions in supply. (Currently the price is back down to about $91 per barrel.) We in the U.S. are in an enviable position since so much of our oil is produced here. Even so, we are not completely insulated from the rise in the price of oil globally, as you can see from the prices at the pump. Other nations in Europe and Asia are experiencing quite a financial shock due to their heavy dependence on oil from the Middle East. Rising energy prices often bring the increased risk of recession, both here and abroad, in addition to the obvious inflation pressures. The effect of these price increases will show up in the financial data in the next few months.

During times of turbulent markets, we are often faced with the difficult task of both protecting assets from risk and taking advantage of opportunities. As difficult and nerve-wracking as this year has been, the American investment markets have held up unexpectedly well. History tells us that we should not be surprised to see a market rally in the face of recent uncertainty. There is an old investing adage, supposedly coined by a Rothschild during the Napoleonic Wars, to "Buy to the sound of cannons, sell to the sound of trumpets." In fact, historical data supports the idea that markets often fall going into times of armed conflict while they are often higher 6 months after that early bottom. During the conflict, the market often "climbs a wall of worry" as stocks advance before any positive resolution is achieved on the ground. The recent negative news has effectively washed out much of investors' positive sentiment. Consequently, amid all the fear and uncertainty, a "contrarian" rally should remain as a possibility in our array of investment scenarios.

The head-snapping speed of recent developments is undoubtedly uncomfortable. Risks lurking beyond war and inflation include high government and consumer debt, commercial real estate weakness, and mounting concerns about the potential for defaults in the private credit sector. However, investor overreaction can create opportunities for disciplined, long-term investors. Diversification across asset classes, attention to valuation, and a focus on risk management remain critical as we move into the second quarter of 2026.

We have had the privilege of working with multiple generations of a number of families and those relationships are very important to us. This past quarter we saw the passing of two clients of over 40 years. We mourn their loss and hope that everyone can enjoy the love of family that gives our efforts added purpose.

Enclosed you will find your quarterly report(s) to review at your convenience. Please give us a call with any questions or suggestions you may have.

We appreciate your continued confidence and remain focused on navigating both near-term volatility and long-term opportunity on your behalf.

Best regards,

Claude

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