

April 2026

"Human spirit is the ability to face the uncertainty of the future with curiosity and optimism"
-Bernard Beckett

First Quarter Market Recap – A Tale of Two Halves

The last three years (2023 – 2025) have rewarded U.S. equity investors with double-digit annual returns as measured by the S&P 500 Index. This trend continued in January with the market gaining over 2% at its high point in late January – a decent month. From there most indices retreated, partially reflecting weakness in the technology sector, but primarily due to world events, notably the launch of massive airstrikes against Iran on February 28.

The one-year returns for most asset classes remain strong with the S&P 500 index up almost 18% and Global Stocks up 20%. Fixed income also performed well with Taxable and Municipal bond indices returning in excess 4% over the last 12 months.

Asset Class Returns – As of 3/31/2026

Asset Class	Benchmark	Q1/2026	Last 12 Months
U.S. Large Cap Stocks	Benchmark 1: S&P 500 TR USD	-4.3	17.8
U.S. Small & Micro Cap	Benchmark 2: Russell 2000 TR USD	0.9	25.7
International Developed Stocks	MSCI EAFE NR USD	-1.2	21.3
Emerging Market Stocks	MSCI EM NR USD	-0.2	29.6
Global Stocks	MSCI ACWI NR USD	-3.2	20.0
U.S. Municipal Bonds	Bloomberg Municipal TR USD	-0.2	4.3
U.S. Taxable Bonds	Bloomberg US Agg Bond TR USD	0.0	4.4
U.S. High Yield Bonds	Bloomberg US Corporate High Yield TR USD	-0.5	7.0
International Developed Bonds	S&P International Sov Ex-US Bond TR USD	-2.7	2.7
U.S. REITs	MSCI US REIT NR USD	4.5	5.5
Broad Commodity Futures	Bloomberg Commodity TR USD	24.4	32.3
Energy Partnerships	Alerian MLP TR USD	16.9	13.9
Gold	DJ Cmmnty Gold TR USD	7.1	47.3

Source: Morningstar Direct

Looking ahead, the rise in both oil prices and uncertainty will likely shave the economy's expected growth rate this year to 2% compared to our prior expectation of 2.5% to 3%, with the potential for growth this year to be less than 2% the longer oil prices remain elevated. As for inflation, we expect pricing pressures to remain sticky near 3% for the better part of the year, before easing a bit over the back half of the year but likely to remain above the Federal Reserve's 2% target.

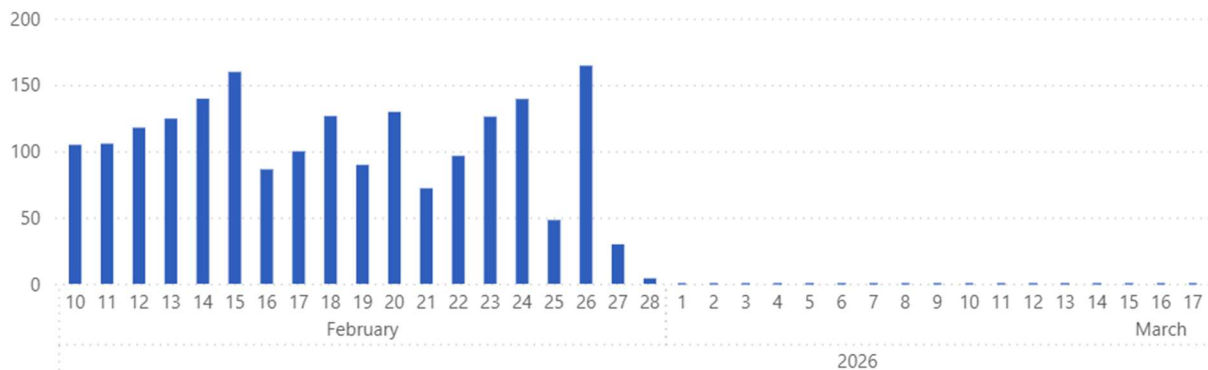
The consensus outlook for earnings on the S&P 500 to grow this year has actually risen slightly to about 17% from a little under 14% before the start of the Iran war, largely due to the positive impact on the energy sector from higher energy prices. Some of the growth in the economy that was expected in 2026 is likely being pushed into 2027 due to the higher level of oil prices currently. Stock gains could also be pushed into 2027. However, the forward-looking nature of markets could realize some of those delayed gains into the back half of 2026, depending upon how long the Strait of Hormuz is closed and oil prices remain elevated.

The Middle East – A Volatile Situation

March experienced the most severe shock to energy markets since the 1970’s, and stock prices dropped for four straight weeks in volatile trading following the U.S. and Israel launching massive air strikes against Iran on February 28. West Texas Intermediate (WTI) oil prices traded near \$100 per barrel for most of the month as transit through the Strait of Hormuz, a critical chokepoint through which roughly a fifth of the oil consumed around the world flows each day, came to an abrupt halt. Fears that Iran could attack oil tankers in the Strait trapped hundreds of ships in the Persian Gulf while forcing Gulf oil producers to slash output as storage capacity filled up.

Crude Oil Outbound Shipments through the Strait of Hormuz to Destinations outside the Persian Gulf (AIS-Traceable Vessels Only)

Index, by volume, Q1 2025 average = 100



Source: World Trade Organization

While the U.S. and Israel quickly achieved military dominance, and Iran’s missile and nuclear programs were significantly degraded, Tehran’s hardline regime remained entrenched and was still able to hit sensitive targets across the Gulf after four weeks of military strikes. The battered but resilient regime has pursued a strategy of sowing economic chaos in the global markets by threatening to attack foreign vessels attempting to pass through the Strait of Hormuz, with traffic in the strategically vital passageway grinding to a standstill.

The events of last week make three things perfectly clear. The first is that while the U.S. decided when the war with Iran would begin, it does not yet control when the

war will end. While most of Iran's military capabilities have been destroyed, its arsenal of drones, naval mines, fast attack craft and midget submarines, and an extensive arsenal of coastal launched anti-ship missiles currently gives Tehran the ability to maintain the narrow Strait of Hormuz as a high-risk transit zone for commercial shipping.

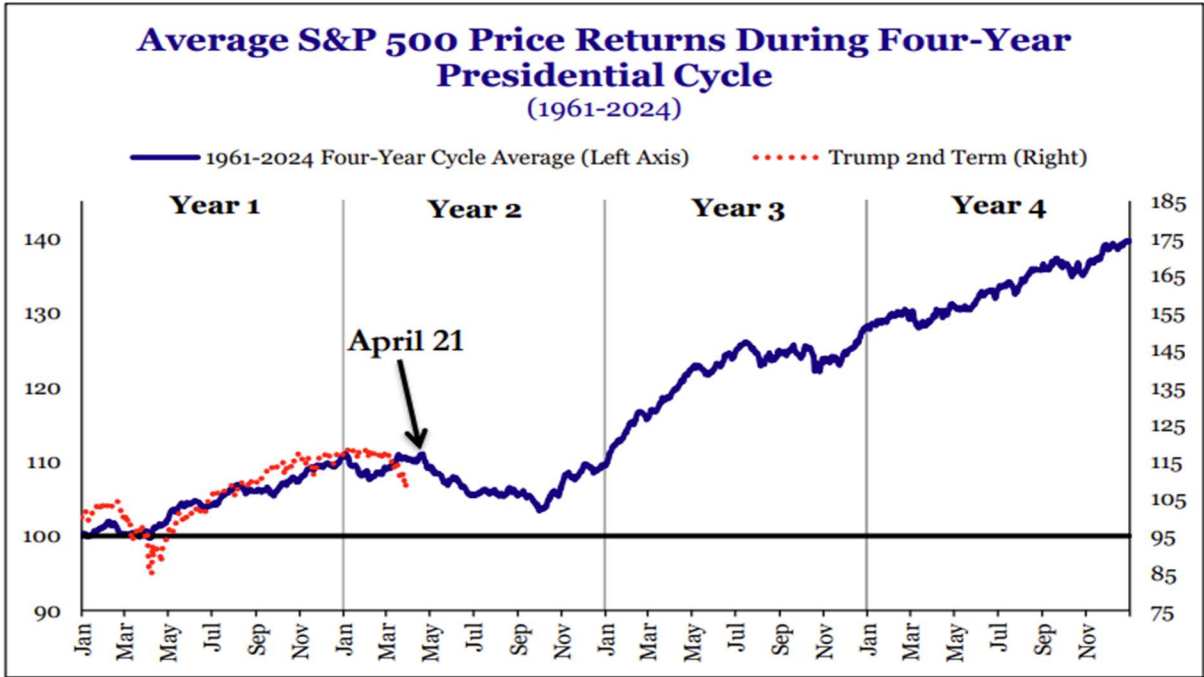
Second is that what is left of the Iranian regime understands that maintaining control of the Strait is their only bargaining chip currently. The Trump administration has not yet unveiled how the U.S. will translate its military achievements into a lasting cessation of the conflict, with a guarantee that the Strait of Hormuz will offer safe passageway for ships from across the globe. Uncertainty and prices for energy, certain chemicals, and fertilizer will remain high until the key to unlocking the Straits is unveiled.

The third is just how rapidly things can change once the drivers of a downturn in stock prices reverse as long as the fundamentals supporting higher stock prices remain in place. In the short term we expect continued volatility related to the news cycle. In the longer term, market fundamentals such as earnings, margins and revenue growth will determine where the market goes. Some recent rebounds are a reminder of how the markets are likely to respond once the war with Iran ends and the Strait of Hormuz is reopened.

The Mid-Terms Are Coming Up In November

Market technicians have long followed the impact of politics on the markets and specifically "the four-year presidential cycle." While we do not consider this an investable theme, it is interesting – and perhaps reassuring – to note that despite all the headline risk, this year looks to be about average.

Typically, the second year of a president's term is the weakest, showing a downtrend into the election and then a recovery that continues through the third and fourth years. Additionally, it is normal for most years to experience a drawdown of 10% or more in the equity markets from a peak to a trough. According to market research firm Strategas, over the last 64 years, the second year of a presidential term has experienced corrections averaging -19.4%. The good news is that the average 12-month return afterwards is +31%. Markets tend to dislike uncertainty and that is often the case leading up to an election. We are not making a prediction, just an observation.



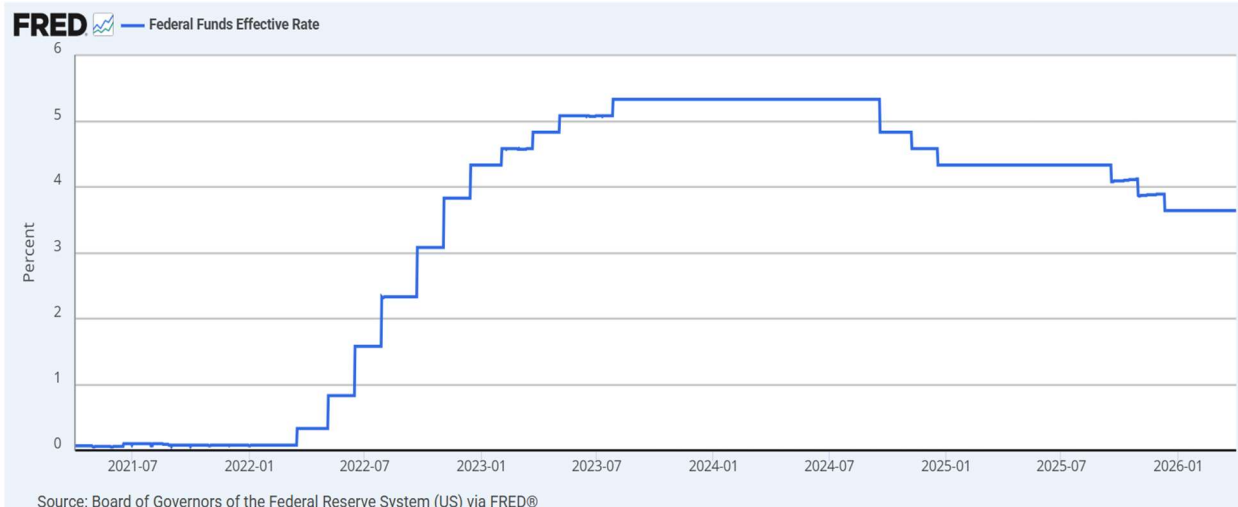
Source: Strategas

The Federal Reserve – On Hold For Now

The Federal Reserve voted 11 to 1 to hold the target range for the federal funds rate steady at 3.5% to 3.75% at the March 17-18 FOMC meeting. The policy statement was largely unchanged, the new economic projections penciled in one rate cut this year, the same as in December, and Mr. Powell used some variation of “uncertain” more than a half dozen times in the question-and-answer session.

Chair Powell said that forecasting the future and modeling policy at a time when the U.S. is at war with Iran is nearly impossible. The resulting oil shock added to worries about the labor market - payrolls fell by 92,000 jobs in February - by threatening to further squeeze household purchasing power by boosting inflation in the near term. The mission of the Federal Reserve to address both sides of its dual mandate - maximum employment and price stability - is made more difficult by the impact of tariffs on goods prices, the current jump in oil prices, and the immigration and deportation crackdowns which are shrinking labor supply, keeping the unemployment rate steady despite anemic jobs growth over the past 14 months.

While we were not looking for a rate cut to the end of Jerome Powell’s term as chair through May, following the spike in both uncertainty and oil prices following the start of the war with Iran at the end of February, the futures market for the federal funds rate has completely flipped. Traders now see a small chance of a rate increase at the June FOMC meeting compared to a 46% chance of a rate cut at the end of February.



In fact, the probability that the Federal Reserve could raise rates is greater than zero for every FOMC meeting through the end of 2027. The market does not expect a rate cut this year and has pushed out the possibility of a rate cut to the summer of 2027 at the earliest.

In Conclusion

While it was unsettling to watch the rise in oil prices and uncertainty last month and the resulting drop in stock prices, the underlying fundamentals for the U.S. economy - strong corporate earnings growth, the continued AI buildout, the business capital spending incentives contained in the tax and spending bill signed into law last summer, larger than normal tax refunds from the tax cuts that were retroactive to the beginning of 2025, and a more balanced regulatory regime - are still positive. The current pullback in common stocks is providing long term investors with an opportunity to put uninvested cash to work at much more attractive prices.

Finally, we would like to acknowledge and salute our wonderful Client Service Associates. With a combined total of 68 years of experience, each brings a high level of professionalism and expertise to assist our clients. Please reach out to us anytime!



(L to R) Heather Johnson, Rosie Pedraza, Ricardo Hernandez, Jenna Ricci, Jessica Hannon

Sincerely,
The Private Capital Management Team

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