

Economic Summary

The market landscape has shifted meaningfully in just a few months. Oil prices have risen sharply amid the conflict in the Middle East, investors are growing more skeptical of the costs and ultimate payoff associated with the Artificial Intelligence (AI) buildout, and concerns around private credit are beginning to spill over into public markets. With equity valuations entering the year priced for near perfection, it is hardly surprising that the stock market has stumbled out of the gate.

Inflation remains persistent, with readings continuing to run above the Federal Reserve's (the Fed) 2% target. Historically, inflation has tended to come in two waves, and higher energy prices could contribute to a renewed bout of pressure (Chart 1). If energy prices remain elevated, companies will likely seek to offset higher transportation and input costs through fuel surcharges and other pricing actions, as they have done in the past. This dynamic could keep inflationary pressures elevated and complicate the Fed's path forward, particularly if labor market conditions begin to soften. In this scenario, the Fed may be less willing or able to cut rates, even as economic growth slows.

Earnings expectations also improved over the course of the quarter, with estimates becoming more constructive. FactSet currently expects S&P 500® earnings to grow 17.1% for the full year. Corporate guidance has been supportive, pointing to broad-based growth across the index. Nine of the eleven sectors are projected to deliver year-over-year earnings gains, led by Information Technology, Materials, and Financials, while revenue expectations have also strengthened. Still, earnings will need to

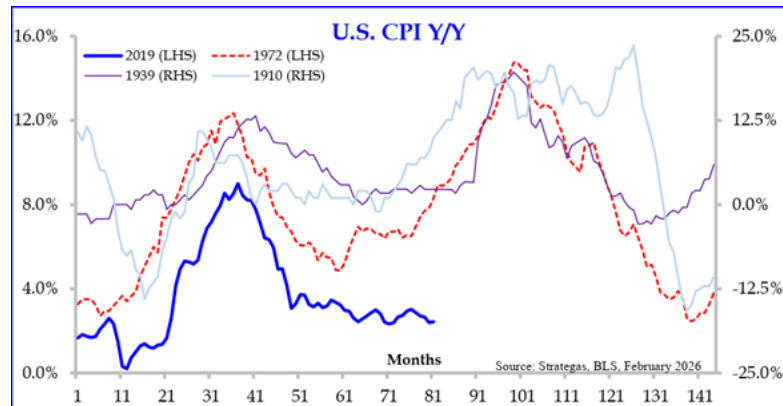


Chart 1

Source: Strategas Research Partners, "Quarterly Review in Charts", 4/1/26
Left Hand Side axis (LHS)
Right Hand Side axis (RHS)

Economic Summary (continued)

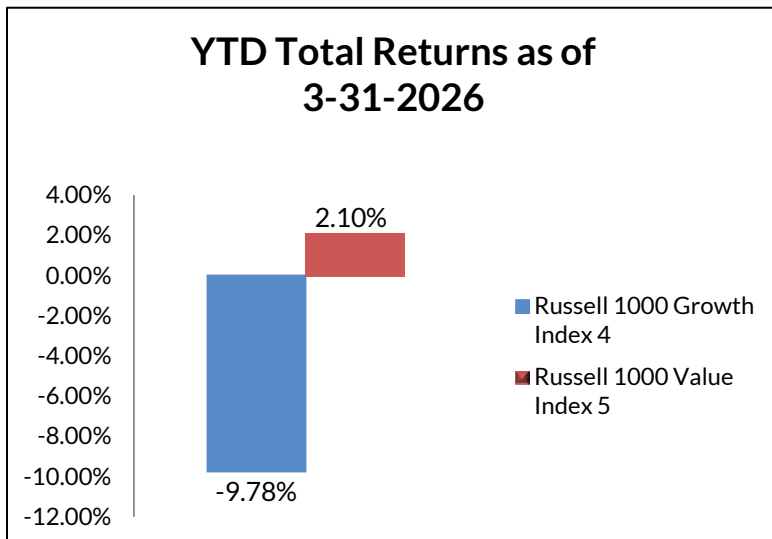
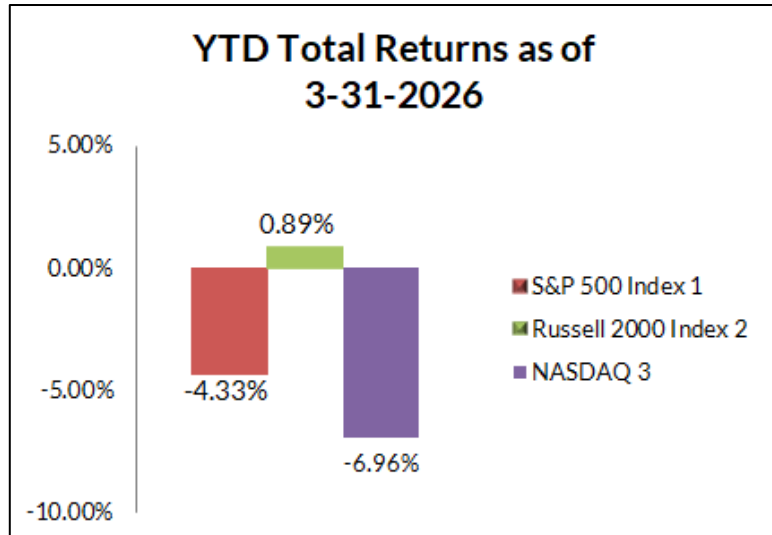
remain robust, as current equity valuations appear to already reflect much of this optimism.

The Stock Market

The small-cap-oriented Russell 2000[®] outperformed its larger capitalization peers, the S&P 500[®] and the NASDAQ Composite, as investor preference shifted toward smaller companies (Chart 2). This relative strength suggests a broadening in market leadership, with capital beginning to flow beyond the large-cap names that have driven returns in recent periods.

Value significantly outperformed growth during the quarter, with the Russell 1000[®] Value Index up 2.1% and the Russell 1000[®] Growth Index down 9.8% (Chart 3). The sharp difference in returns reflects a rotation away from higher valuation growth stocks and toward companies with more reasonable valuations, steadier earnings, and stronger cash flow support.

At the sector level for the S&P 500[®], Energy, Materials, and Utilities were top performers for the quarter, delivering returns of 38%, 10%, and 8%, respectively. On the contrary, Financials, Discretionary, and Technology lagged, posting returns of -9% across the board.



Charts 2 & 3
Source: Morningstar Direct

¹The S&P 500[®] Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general. ²The Russell 2000[®] Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000[®] Index. ³The NASDAQ Composite is a stock market index that includes almost all stocks listed on the Nasdaq stock exchange (more than 2500 stocks). You cannot invest directly in an index. ⁴The Russell 1000[®] Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000[®] companies with higher price-to-book ratios and higher forecasted growth values. ⁵The Russell 1000[®] Value Index Measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000[®] companies with lower price-to-book ratios and lower expected growth values.

Past performance does not guarantee future results.

The Bond Market

The 10-year U.S. Treasury note began the quarter yielding 4.2% and despite moving within a 4.0% to 4.5% range, ended the period at roughly 4.3%. During the quarter, investors contended with sticky inflation, firm economic data, and a late-quarter rise in oil prices. The Fed left the short-term rate unchanged at 3.50% to 3.75% and maintained a cautious tone. Markets began 2026 expecting one to two cuts, but that view has become more restrained as inflation pressures have proven more persistent and higher energy prices have added to the uncertainty.

Corporate credit spreads began widening in February and continued to do so through quarter end. While wider spreads have modestly improved opportunities in fixed income, current levels remain below historical averages (Chart 4). As a result, investors should remain selective when adding incremental credit exposure, particularly in lower quality segments of the market where spreads still offer limited compensation for the additional risks of default and downgrade.

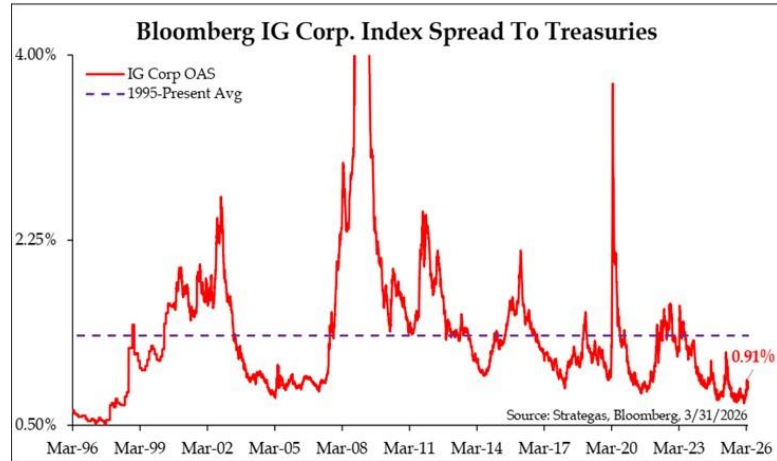


Chart 4

Source: Strategas Research Partners, "Quarterly Review in Charts", 4/1/26

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Prospective investors should consider the account's investment objectives and risks carefully before investing.