Quarter ending March 31, 2026

Q1 2026 Summary

Growth Held Up, Markets Became More Selective

Presented by: The Legacy Group

Data from the first quarter of 2026 indicates that the economy could remain on stable footing even as investors grew more cautious and selective in the face of increasing levels of uncertainty. The Federal Reserve said in March that economic activity was still expanding at a solid pace, while also acknowledging job gains remained low, inflation stubbornly persisted above target, and uncertainty increased because of developments in the Middle East. For investors, the quarter was less about whether growth continued at all but whether growth was strong enough to offset higher energy prices, policy uncertainty, and tightening financial conditions.

U.S. equities lost momentum as the quarter progressed. By March 31, the S&P 500 was down about 4.3% for the year, while the Nasdaq posted a loss of nearly 7%. Both the Nasdaq and Dow Jones have fallen at least 10% from their all-time highs, entering correction territory. While, the S&P 500 remained outside this threshold. The pullback was driven by a combination of rising oil prices, concerns about inflation reaccelerating, higher Treasury yields, and a reassessment of richly valued technology shares.

Bond markets were steadier than stocks, but not immune to volatility. The Fed held the federal funds rate at 3.50%–3.75% in March, and the broad Bloomberg U.S. Aggregate Bond Index was roughly flat for the quarter as higher yields in March drove bond prices down and offset earlier gains. The 10-year Treasury yield ended March at 4.3%, climbing from a low of 3.97% at the end of February, reflecting investor concern that the energy shock and tariff pass-through could keep inflation sticky for longer.

US Markets Recap				
	Jan. 2026	**Feb. 2026**	**Mar. 2026**	**Q1 2026**
S&P 500	1.45%	-0.76%	-4.98%	-4.33%

Nasdaq	0.97%	-3.33%	-4.68%	-6.96%
Russell 2000	5.35%	0.80%	-5.00%	0.89%
S&P/TSX Composite	2.08%	6.95%	-6.49%	2.09%
10-Year Treasury Yield (Average/Period-End)	4.21%/4.26%	4.13%/3.97%	4.25%/4.30%	4.2%/4.3%
Fed Funds Rate Target Range	3.5%-3.75%	3.5%-3.75%	3.5%-3.75%	3.5%-3.75%

Source: Morningstar Direct, US Treasury, and Federal Reserve Bank of New York as of 3/31/2026

Quarter-in-Review: Uncertainty Rises in Many Places

January – AI Impact Uncertainty Climbs

The year opened with a still-constructive tone as investors carried forward optimism from late 2025. AI remained an important market theme, but questions emerged around how quickly massive spending on data centers and chips would translate into cash flow and profits, especially as the largest hyperscalers projected nearly $700 billion of combined capital expenditures for 2026.

February – Macro Uncertainty Appears

A more complicated macro backdrop materialized as inflation remained stubbornly above the Fed's target and the labor market continued to show signs of weakening. February CPI came in at 2.41% year over year and core CPI at 2.46%, while January core PCE (the Fed's preferred measure) was running at 3.06%. February nonfarm payrolls showed a loss of 92,000 jobs while unemployment edged up to 4.4%. Late in the month, the US Supreme Court ruled the Trump Administration tariffs announced in March 2025 unlawful. Not to be dissuaded, the Administration quickly took steps to reimpose tariffs under different sections of the law, which increased uncertainty around costs, supply chains, and inflation expectations.

March – Geopolitical Uncertainty Spikes

March was dominated by increased geopolitical uncertainty stemming from the Iran conflict and renewed expectations of increasing inflation. The conflict involving Iran disrupted energy markets, spiked oil prices, and effectively shut the Strait of Hormuz, a waterway that normally carries around one-fifth of global oil and LNG supply. Immediate impacts appear to be increased inflation expectations stemming from higher energy prices.

Sector Snapshot: Energy Led and a Rotation Emerged

Sector leadership rotated meaningfully in Q1. Energy was the clear winner gaining over 37% as oil prices surged and investors priced in the global supply risk tied to the Iranian conflict and closure of the Strait of Hormuz. Energy was so dominant it was the only S&P 500 sector to post a gain for March. Materials, Utilities, and Consumer Staples posted respectable quarterly gains ranging from 7% to just over 9% as investors searched for steadier earnings and resilient business models during a volatile quarter.

The biggest laggards were sectors that had carried the market previously. Technology struggled as rising Treasury yields pressured long-duration valuations, while investors also weighed whether the pace of AI investment was outrunning near-term monetization. Consumer discretionary and communication services also came under pressure as higher fuel costs, softer hiring data, and concerns about the consumer complicated the earnings outlook. In practical terms, Q1 looked like a rotation away from "priced-for-perfection" growth and toward sectors tied more directly to energy, infrastructure, and balance-sheet durability.

International Markets: Energy Prices Negatively Impacted International Equities

International markets fared slightly better than US equities. Developed international equities, as represented by the MSCI EAFE Index, fell nearly 1.24% over the quarter, while the MSCI Emerging Markets Index was only down 0.17%. Prior to March, both developed and emerging markets were healthily outstripping US equities; however, due to their relatively higher sensitivity to energy prices both experienced larger relative pullbacks in March compared with US equities. The S&P 500 experienced a 4.98% contraction compared to the 10.29% and 13.06% for the MSCI EAFE and MSCI EM indices, respectively.

International Markets Recap				
	Jan. 2026	**Feb. 2026**	**Mar. 2026**	**Q1 2026**
Hang Seng (China)	3.75%	-0.69%	-4.84%	-6.19%
KOSPI (Korea)	22.89%	29.98%	-14.85%	14.22%
Nikkei (Japan)	4.13%	11.42%	-12.46%	-2.54%
Sensex (India)	-5.74%	1.49%	-13.00%	-19.86%

ASX 200 (Australia)	5.98%	7.63%	-9.85%	1.14%
DAX (Germany)	1.20%	2.03%	-9.25%	-9.15%
CAC 40 (France)	0.36%	5.04%	-8.13%	-6.08%
IBEX 35 (Spain)	3.76%	1.52%	-5.95%	-3.78%
FTSE 100 (United Kingdom)	4.66%	4.27%	-6.46%	1.32%
IT40 (Italy)	2.00%	2.73%	-5.37%	-3.26%

Source: Bloomberg as of 3/31/2026

Economic Overview: U.S. Economy Stayed Positive, but the Cushion Narrowed

The U.S. economy entered 2026 showing signs of continued expansion, but the data increasingly pointed to moderation rather than acceleration. January personal income rose 0.4%, disposable income rose 0.9%, and consumer spending rose 0.4%, but real consumer spending increased only 0.1%. This suggests households were still spending but getting less real growth for each dollar because of elevated prices. Consumer confidence rose in March to 91.8, while inflation expectations also jumped to 5.2%. This highlighted a public still willing to spend but increasingly concerned about the potential for higher energy and goods prices to increase inflationary pressures in the near-term. Current inflation data was not out of control but sticky enough to matter, and it does not yet reflect the impacts of higher energy prices. February CPI was 2.41% year over year, while January PCE inflation was 2.83% and core PCE was 3.06%.

Labor data showed a similar pattern of resilience mixed with slowdown. February payrolls fell by 92,000 and unemployment rose to 4.4%, while job openings slipped to 6.88 million. Manufacturing added another layer to the story. ISM manufacturing improved to 52.7 in March, signaling expansion. However, the prices index jumped to 78.3, its highest level since June 2022, suggesting supply and cost pressures were re-entering the conversation just as the labor market was softening. This left the Fed in a difficult but familiar position: growth had not broken down, yet inflation had not fully normalized either.

Looking Ahead: Themes Worth Monitoring in Q2

As investors move into the second quarter, several issues deserve close attention:

- Energy markets remain central because any sustained elevation in oil prices and/or disruption in Gulf shipping can influence inflation, consumer sentiment, and corporate margins.
- Trade policy bears watching, as temporary tariffs and the new Section 301 investigations could affect input costs, supply chains, and sector leadership even before final policy outcomes are known.
- The labor market now looks more important than it did at the start of the year. A low-hiring, low-firing backdrop can keep the economy growing, but it leaves less room to absorb outside shocks.
- AI is still a powerful structural theme, but markets appear to be shifting from rewarding spending alone to demanding evidence of productivity, pricing power, and returns on capital.
- The Fed's balancing act remains critical, the bar for easier or stricter policy depends on whether inflation and labor conditions move in a more convincing direction.

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Index Definitions

S&P 500® Index – A market-capitalization-weighted index of approximately 500 large-capitalization U.S. companies, representing a broad measure of the U.S. equity market.

NASDAQ Composite Index – An index that tracks the performance of more than 3,000 stocks listed on the NASDAQ exchange, heavily weighted toward technology and growth-oriented companies.

Russell 2000® Index – An index measuring the performance of approximately 2,000 small-capitalization U.S. companies and commonly used as a benchmark for small-cap stocks.

S&P/TSX Composite Index – A market-capitalization-weighted index representing the largest publicly traded companies listed on the Toronto Stock Exchange.

Hang Seng Index – A benchmark index tracking large-capitalization companies listed on the Hong Kong Stock Exchange, including both Hong Kong-based and mainland China companies.

KOSPI Index – The primary stock market index of South Korea, tracking large-capitalization companies listed on the Korea Exchange.

Nikkei 225 Index – A price-weighted index of 225 large, publicly traded companies listed on the Tokyo Stock Exchange.

S&P BSE Sensex Index – A benchmark index of 30 large-capitalization companies listed on the Bombay Stock Exchange, representing a segment of the Indian equity market.

S&P/ASX 200 Index – An index measuring the performance of approximately 200 large-capitalization companies listed on the Australian Securities Exchange.

DAX Index – A market-capitalization-weighted index tracking 40 large companies listed on the Frankfurt Stock Exchange in Germany.

CAC 40 Index – A benchmark index of 40 large-capitalization companies listed on Euronext Paris, representing the French equity market.

IBEX 35 Index – A benchmark index tracking 35 of the most liquid companies listed on the Spanish stock exchanges.

FTSE 100 Index – An index measuring the performance of 100 large-capitalization companies listed on the London Stock Exchange.

MSCI EAFE Index – An equity index which captures large and mid-cap representation across 21 Developed Markets countries* around the world, excluding the US and Canada

MSCI Emerging Markets Index – An index representing large- and mid-capitalization companies across emerging market countries.

S&P GSCI™ Gold Index – A sub-index of the S&P GSCI designed to measure the performance of gold commodities through futures contracts.

Bloomberg Global Aggregate Bond Index – A broad-based benchmark measuring the performance of global investment-grade fixed-income markets, including government, corporate, and securitized bonds.

Bloomberg U.S. Aggregate Bond Index – A benchmark index representing the U.S. investment-grade fixed-income market, including government, corporate, mortgage-backed, and asset-backed securities.

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