

A resilient stock market weathers a new war in the Middle East.

The first quarter of 2026 was shaping up to be a continuation of the themes that carried investors through last year: a growing economy, broadening market participation, and declining inflation. For the first eight weeks, subject to the usual give-and-take volatility of the stock market, these broad tailwinds held firm. Then, in late February, the Iranian conflict switched things up and changed the market trajectory through March.

Index	Q1 2026
World ex-United States	2%
Russell 2000 Small Cap	0.6%
S&P 500 Equal Weight	0.2%
Aggregate Bond Index	-0.05%
60/40 Allocation Fund	-1.3%
Dow Industrials	-3.2%
S&P 500	-4.3%
Nasdaq Composite	-7%

Source: EdgeTech Analytics

The Iran conflict interrupted the normal functioning of the global economy and markets. Investors were forced to confront a novel disruption and navigate through the still-uncertain aftereffects. Markets can better weather such a storm if its economic foundations are strong. The dynamism and resilience of the American economy have proven up to the task, and so we are meeting this unpredicted shock head-on and from a position of strength. Markets will be bumpy as they always are, but we maintain a favorable view on stocks through the rest of the year.

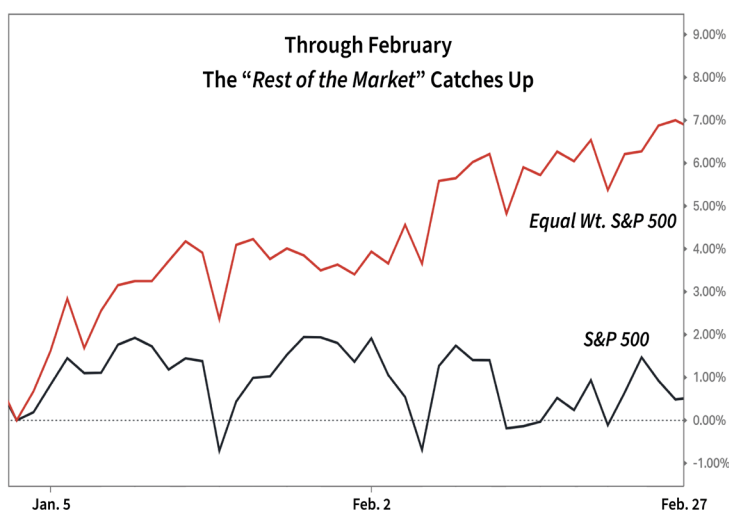
QUARTERLY ROUNDUP

The year opened with a broadening of the stock market rally. After three years of a bull market dominated by a handful of mega-cap technology

companies, 2026 started with smaller and mid-sized stocks finally grabbing the baton. Not only did the S&P 500 reach new all-time highs in January, so did the Russell 2000 small cap index. This was strength through breadth, through more stocks participating in the rally.

Importantly, this broadening was rooted in fundamentals. Earnings growth was on the upswing across the market, and not just with the Magnificent 7 stocks (Amazon, Apple, Google, Meta, Microsoft, Nvidia, Tesla). The rest of the S&P 500 was finally playing catch-up after years of lagging.

None of this is to say January was calm, but markets have become conditioned to the chaos of this mile-a-minute news cycle. From the quarter kicking off with the incredible abduction of Venezuelan dictator Nicolas Maduro, to discovering that Federal Reserve Chairman Jerome Powell was under Department of Justice investigation, and, finally, hinting at the forceful seizure of Greenland, markets wavered but never faltered.



Source: EdgeTech Analytics

The pattern repeated itself throughout the first two months of the year: ramp-up, sell-off, resolution, and recovery. Ultimately, volatility

always goes both ways and the big picture narrative matters more than the daily noise. By month's end, January delivered broadening stock participation and a mild gain, exactly what we'd expect from a battle-tested bull market with strong foundations.

February arrived and, true to its historical reputation as one of only two months averaging a negative return (September is the other), the S&P 500 pulled back. The dominant story was artificial intelligence as a disruptive force ripping through industry after industry. Software companies bore the brunt of the disruption in the first quarter as investors attempted to accurately price the transformative potential effects of artificial intelligence.

Meanwhile, the broadening story that began in January continued to gain strength. By mid-February, the S&P 500's breadth, measured by stocks outperforming the index, was off to its best start in at least forty years. The equal-weight S&P 500 (this gives more representation to mid and small cap companies) was delivering a robust 7% return (see the chart above). This was a market rotation instead of a market rollover.

As February drew to a close major indexes were sideways and mildly negative, but the flat performance concealed a broad-based rotation. Instead of weakness, the choppy first two months signaled a healthy consolidation justified by an economic backdrop supportive of future growth. And then the Iran conflict broke out.

IRAN CONFLICT

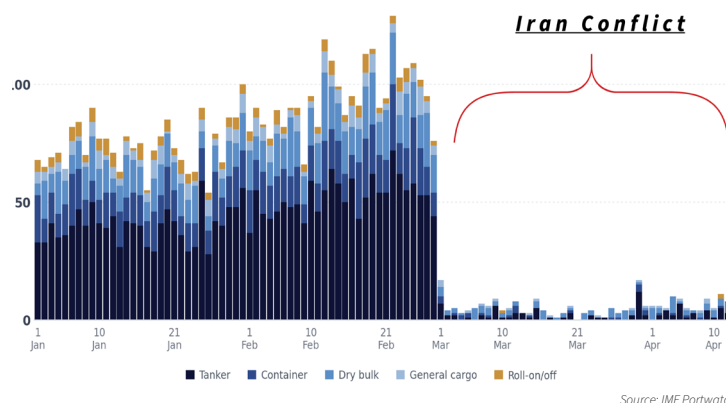
On the last Friday of February, the United States and Israel launched Operation Epic Fury to bring down the 47 year old Islamic Republic of Iran. Within a week, persistent bombing had eliminated Ayatollah Khamenei, destroyed Iran's navy and air force, and established uncontested dominance of Iranian airspace. For the world and

for markets, this was one of those weeks where decades happen.

For investors, the conflict immediately became an oil story. Iran accounts for 5% of global oil production, but the deeper concern was the Strait of Hormuz, a narrow waterway off the southeast coast of Iran through which 20% of global oil and 20% of global liquified natural gas (LNG) must pass. The desperate remnants of the Iranian regime turned to their one remaining piece of leverage: keeping that chokepoint closed. Iran's strategy is to maximize uncertainty and prolong the economic pain their geography allowed them to inflict.

The stakes extend beyond oil. Middle Eastern gulf states produce 9% of the world's aluminum. A third of global fertilizer transits the Strait. A quarter of the world's helium, critical for industrial cooling and semiconductor manufacturing, does the same. Daily ship transits through the Strait collapsed from an average of 129 in late February to just four or five in the first weeks of March. The world's most important chokepoint was effectively shut.

Strait of Hormuz Transits
Daily arrivals by vessel type, Jan 1 - Apr 12, 2026



Oil prices responded accordingly. WTI crude surged from around \$60 to \$91 a barrel within the first week of the conflict and continued climbing, flirting with the psychologically important \$100

level by mid-March. The global benchmark, Brent crude, broke above \$100 and stayed there. Gasoline, diesel, jet fuel, and heating oil all saw considerable price increases.

For context, this oil shock, while significant, remains more restrained than the surge we saw during Russia's invasion of Ukraine in 2022, when prices rocketed past \$120 a barrel and stayed above \$100 for more than eighty consecutive days. America's position is far stronger today than it was during prior energy crises. Thanks to the shale revolution, we are net exporters of crude oil and our economy produces more goods and services with less energy per unit of output than it did forty years ago. In other words, we are less reliant on oil to power our economy. Also, only about 2% of our imported crude passes through the Strait of Hormuz.

Stock Market Effects

The conflict triggered a "reset rotation," where the very stocks and markets that had thrived during the broadening at the start of the year were hit the hardest.

International stocks sold off sharply as higher energy prices threatened to stall growth abroad. Asian markets—think China, Japan, South Korea, and Taiwan—are particularly vulnerable as 80 to 90% of crude and liquified natural gas going through the Strait are destined for those countries.

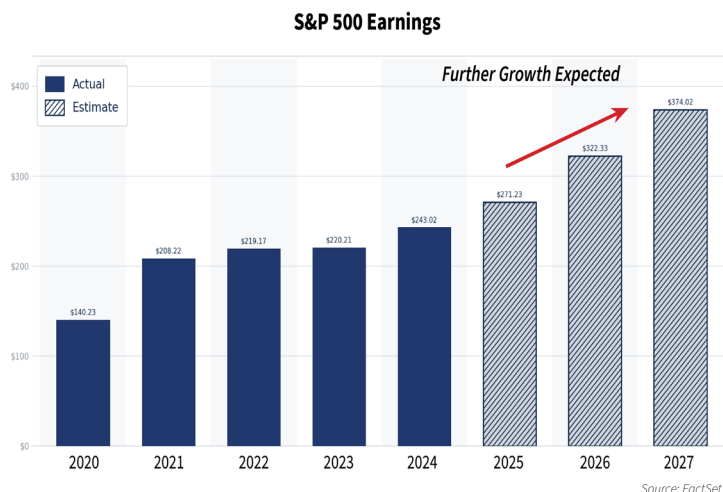
The S&P 500 declined more than 9% from its peak, finishing the quarter just shy of an official correction (a loss of 10% or more). . The Nasdaq Composite and Russell 2000 both fell into official corrections, each down more than 10% from their peaks.

For all the volatility and selling, several characteristics of the stock reset give us reason to view the situation as manageable rather than

catastrophic. First, the selling was controlled instead of extreme. Throughout the conflict, the S&P 500 did not post a single daily loss of 2% or more. This speaks to a market processing information and not allowing emotional panic to dictate trading.

Second, earnings expectations held firm. We are a broken record about this, but it always bears repeating: earnings are the ultimate driver of stock prices. A full month into the conflict, analysts had not lowered their earnings estimates. Full-year 2026 earnings growth was expected to come in at 17% year-over-year, with every quarter projected to deliver double-digit growth over the prior year. The fundamental case for equities has not changed. The companies subject to the selling are still reporting strong results with healthy demand.

We can see this clearly on the chart below: estimates for future earnings growth are consistently being revised up instead of down. Strength instead of deterioration is a testament to the resilience of our economic foundations.



Both the Trump administration and markets are finding that the best way out is through. Iran is a substantive external shock with a defined pathway to resolution. We aren't dealing with an abstract, intangible economic crisis. The

conflict is real, the disruption to oil markets had a direct cause, and markets can see how it could end. Investors are trying to price two things: when the conflict concludes, and the extent of the negative ripple effects once it does. There was a tentative quality to the selling that implies investors are primed to move once the shock has been absorbed. We are seeing this already in the first weeks of April; an appreciation of the risks outstanding but also a renewed confidence in the strength and durability of our economic foundations.

LOOKING FORWARD

We close the first quarter of 2026 with a stock market that is bruised but not broken and a conflict that is unresolved but with a clear off-ramp. Let us be clear about what has changed and what has not. What has changed is the short-term environment. Oil prices are elevated and are likely to remain so until the Strait of Hormuz is fully reopened and stable. Energy costs reverberate through the economy and the longer they remain elevated the more they threaten to reignite the inflation that had been steadily declining. A slowing economy combined with rising prices (“stagflation”) would present the Federal Reserve with its most difficult policy challenge in years and thereby limit its ability to cut rates at a time when the economy could use the support.

The near-term path for markets will be dictated largely by events in the Middle East. As always with the stock market, volatility should be expected. In times like these the stock market can function as a barometer of emotion as it swings from anxiety to relief on an hourly basis as developments unfold.

What has not changed are the solid foundations of our economy. The artificial intelligence revolution continues full force with the semiconductor market on a trajectory toward \$1 trillion in annual revenue by the end of the decade. The growth pillars of our resilient economy—consumer

spending, private investment, full jobs market—entered this shock fundamentally sound.

For investors, the playbook in environments like this one is to remain nimble and disciplined. Our tactical ETF portfolios have been able to do this, outpacing or running with erratic benchmarks through unique allocations to diverse equities and commodities as circumstances change. Additionally, our volatility target models performed as intended with solid returns with less movement. Finally, we are pleased with our individual stock models that have been able to deliver meaningful returns amidst a difficult trading environment. All of these strategies are tailored for specific goals and risk profiles. Please speak with a member of our team to learn more about them.

The market sold off on short-term uncertainty. Pullbacks of 5% or more happen an average of three to four times per year. The S&P 500 averages an intra-year decline of 14%. What we are experiencing, while driven by an exceptional external event, is within the range of normal market behavior. As we write, the market has recovered notwithstanding ongoing hostilities. This is a testament to the long-term strength and durability of American economic growth.

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