

FROM THE OFFICE OF THE CIO

# Quarterly Market Commentary

Q1 2026 Review

## KEY TAKEAWAYS

- Geopolitical instability and developments in Iran dominated headlines, impacting investor confidence. Market volatility rose, accompanied by heightened inflation concerns and uncertainty surrounding U.S. monetary policy direction.
- Iran's closure of the Strait of Hormuz significantly impacted global energy supply, driving the price of oil to multi-year highs. Prices of refined products, including gasoline, diesel and jet fuel moved meaningfully higher, pressuring consumers and transportation-related industrials.
- The U.S. economy remained resilient as economic growth expanded, albeit at a slower pace. Consumer spending and business investment remained strong, while the labor market was stable.
- Global financial markets generated negative-to-mixed performance depending on the region, sector and asset class. Traditional safe-haven assets, including fixed income and precious metals, fell alongside equities reflecting inflation-driven repricing rather than risk aversion, while the U.S. dollar rallied.
- Global equity markets experienced heightened volatility with energy stocks meaningfully outperforming, while technology, consumer discretionary and financials lagged. International developed and emerging market equities saw drawdowns in March due to perceived risks from sustained higher energy prices.
- Fixed income markets were volatile as U.S. Treasury yields fluctuated sharply and credit-sensitive sectors underperformed. Yields rose across several international developed sovereign markets as inflation concerns increased and the dollar strengthened.

## Introduction

The military conflict in the Middle East drove volatility higher across markets in March, reversing gains in equities and fixed income recorded in January and February.

Geopolitical events unsettled financial markets, rekindled inflation concerns, and shifted expectations around U.S. monetary policy.

On February 28, the United States and Israel undertook a coordinated military strike against Iran, targeting senior leadership, nuclear facilities, missile capabilities and broader military infrastructure. Iran retaliated with strikes, and effectively closed the Strait of Hormuz — a critical global energy trade route — raising concerns about energy supply disruptions.

March saw a sharp increase in volatility, as investors adjusted to greater geopolitical risk. Global equities declined, government bond yields rose, the U.S. dollar strengthened, and crude oil prices spiked. Interestingly, not all traditional safe-haven assets responded as expected. For example, gold’s performance was negative for March, highlighting the complexity of the situation as well as the interplay of inflation, growth risks and policy uncertainty.

Some have compared the market environment to the tariff-driven episode in the spring of 2025, which eventually subsided after policy adjustments mitigated financial stress. While both periods have similarities in terms of market reaction, the potential outcome this time is far less predictable. Economic policy disputes can often be addressed through negotiation and gradual policy shifts. Military conflicts, however, are inherently more volatile and unpredictable in their path to resolution. As of April 7, a fragile two-week ceasefire had commenced and preliminary peace discussions had begun, although meaningful headway has yet to be made for a lasting peace agreement. While this episode is more severe than prior regional flare-ups, the long-term market impact will depend on the persistence of energy disruptions and whether the conflict leads to lasting shifts in inflation or energy production.

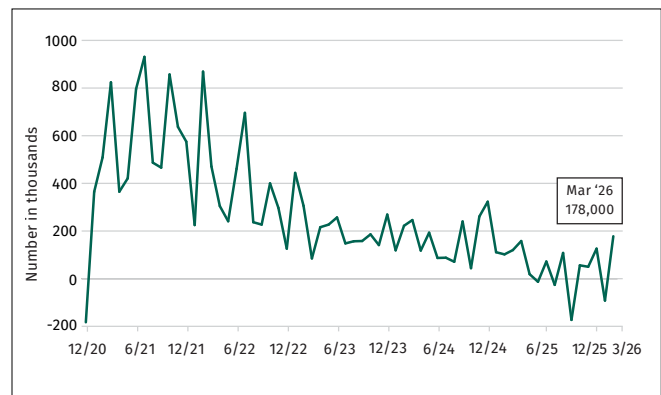
In times like these, it is critical to maintain investment discipline, avoid making abrupt changes to portfolios and prioritize diversification. Elevated volatility is likely to continue, especially as news alternates between optimism for a quick resolution and concern about prolonged hostilities. We emphasize that during periods of uncertainty, a steady, long-term investment approach is especially important.

## Economic Backdrop

Despite ongoing geopolitical uncertainty, the U.S. economy has continued to display resilience. Growth has moderated from earlier highs but remains in positive territory — an encouraging sign for investors navigating today’s complex environment. According to the U.S. Bureau of Economic Analysis, real GDP grew at an annualized rate of 0.5% in Q4 2025, slowing from a robust 4.4% in the previous quarter. Consumer spending and business investment were the primary sources of strength, while reduced government spending — impacted by a prolonged 43-day government shutdown and lower exports — weighed on overall growth. The slowdown reflects a more cautious consumer and global environment, but investment activity picked up, as reflected in the Institute of Supply Management manufacturing data in January and February.

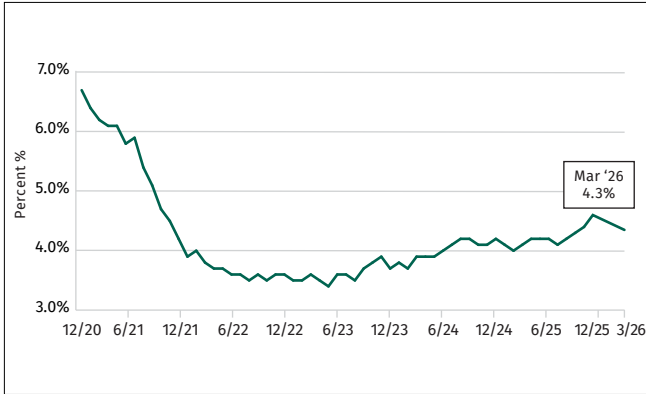
Labor market conditions softened over the trailing 12 months, but the adjustment remains orderly. Non-farm payrolls increased by 178,000 in March, outpacing expectations and rebounding from a decline in February (see Figure 1). Monthly gains have been trending lower and the unemployment rate stands at 4.3% (see Figure 2, on the following page), but by no means showing signs of a sharp deterioration. Overall, current labor market trends support a slower pace of economic growth, not an imminent recession.

**Figure 1: U.S. Non-Farm Payrolls**  
December 2020 - March 2026



Source: U.S. Bureau of Labor Statistics.

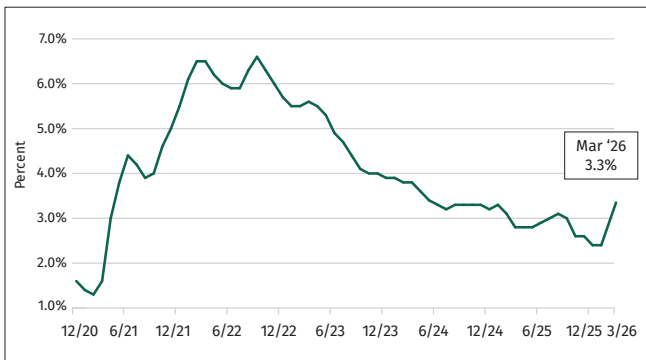
**Figure 2: U.S. Unemployment Rate**  
December 2020 - March 2026



Source: U.S. Bureau of Labor Statistics.

As expected, March inflation data was elevated. The March 2026 headline Consumer Price Index (CPI) was 0.9% higher, bringing the year-over-year (YoY) reading to 3.3% versus 2.4% in February. Core CPI, which excludes the cost of food and energy, was also elevated, up 2.6% YoY during the same period versus 2.5% in the prior month. (See Figure 3). Personal Consumption Expenditure, the Federal Reserve's preferred inflation gauge, will reflect March economic data at its next release in late April and is expected to reflect an uptick as well. Uncertainty about the trajectory of inflation, particularly amid geopolitical events and the rise in energy will continue to cloud the economic outlook, keeping pressure on monetary policymakers.

**Figure 3: Consumer Price Index**  
December 2020 - March 2026



Source: U.S. Bureau of Labor Statistics.

Recent consumer survey data has reflected a more pessimistic tone, even before accounting for the effects of the U.S. military conflict in Iran. According to the Conference Board Consumer Confidence Survey, both average and median 12-month inflation expectations surged to levels last seen in August 2025, when tariff-related inflation fears were at their peak. Similarly, the University of Michigan survey reported a jump in year-ahead inflation expectations, rising from 3.4% in February to 3.8% in March, marking the largest monthly increase since April 2025. As gasoline prices climb and inflation concerns intensify, there is a heightened risk that near-term consumer spending may be constrained, particularly among lower- and middle-income households already coping with the broader challenges of affordability.

Most Q1 economic reports have yet to fully capture the effects of the conflict in Iran, as supply chain disruptions and energy price increases typically emerge with a lag. However, the Organization for Economic Co-operation and Development (OECD) has cautioned that the conflict has already derailed strengthening global growth. Global GDP is now forecast to slow from 3.3% in 2025 to 2.9% in 2026, with the OECD warning of significant downside risks. For the United States, GDP growth is expected to moderate to 2.0% in 2026 and 1.7% in 2027. The OECD also projects U.S. headline inflation to rise to 4.2% in 2026, an increase of 1.2 percentage points from prior estimates. However, this spike is anticipated to be temporary, with inflation expected to decline to 1.6% in 2027, 0.7 percentage points below previous projections.

### Central Bank Policy

As widely expected, the U.S. Federal Reserve maintained the target range for federal funds at 3.50%-3.75% at both the January and March Federal Open Market Committee (FOMC) meetings.

The Federal Reserve's post-meeting statements were relatively unchanged in tone, reiterating that economic activity was expanding at a solid pace, and that inflation remained elevated. The March statement explicitly referenced the conflict in Iran, acknowledging that the

implications of developments in the Middle East for the U.S. economy are uncertain. In his press conference following the March meeting, Chair Jerome Powell noted that it is too early for the Fed to determine whether it will be appropriate to “look through” any inflationary impact stemming from higher oil prices.

The Federal Reserve’s quarterly Summary of Economic Projections (SEP), commonly referred to as the “dot plot,” indicated that policymakers continue to estimate one 0.25% rate cut in 2026, unchanged from the December projections. However, there remains a wide dispersion of views among the committee underscoring the unusually elevated level of uncertainty surrounding the outlook.

Beyond interest rate projections, the SEP also provides insight into policymakers’ economic assumptions. In the March update, policymakers raised longer-run GDP growth projections, as shown in Figure 4. The upward revision is surprising, given the ongoing global conflict expected to weigh on growth and suggest that policymakers are not yet overly concerned about the negative growth implications of sustained higher energy prices.

At the same time, policymakers raised inflation projections for 2026 and 2027. Core PCE inflation, the Fed’s preferred measure, was revised higher from 2.5% to 2.7% for 2026 and from 2.1% to 2.2% for 2027. The upward revisions were anticipated and suggest that policymakers view the inflationary impact of higher oil prices as temporary, rather than indicative of a renewed, persistent inflation problem.

### Federal Reserve Leadership Update

On January 30, President Trump nominated Kevin Warsh to succeed Powell as Chair of the Federal Reserve. Warsh, who previously served on the Federal Reserve Board of Governors from 2006 to 2011, is regarded by market participants as an experienced and credible policymaker. While some characterize Warsh as “hawkish,” due to his call during the global financial crisis for higher interest rates to curb inflation, we believe this characterization may oversimplify his broader policy approach.

**Figure 4: FOMC Summary of Economic Projections – March 2026**

Variable	Median			
	2025	2026	2027	Longer Run
Change in real GDP	2.4	2.3	2.1	2.0
December projection	2.3	2.0	1.9	1.8
Unemployment rate	4.4	4.3	4.2	4.2
December projection	4.4	4.2	4.2	4.2
PCE inflation	2.7	2.2	2.0	2.0
December projection	2.5	2.1	2.0	2.0
Core PCE inflation	2.7	2.2	2.0	
December projection	2.5	2.1	2.0	
Federal funds rate	3.4	3.1	3.1	3.1
December projection	3.4	3.1	3.1	3.0

Source: Federal Reserve.

Warsh consistently voiced concerns about the Federal Reserve’s expanded balance sheet, arguing that excessive monetary expansion — along with elevated government spending — contributed more directly to inflation than consumer demand or wage growth. This perspective aligns closely with the Trump administration’s views, including those of Treasury Secretary Scott Bessent, who has stated that the Fed’s role has expanded beyond its traditional mandate. Recently, Warsh emphasized the potential of AI to boost productivity and accelerate innovation. This outlook suggests that the U.S. economy could achieve faster growth than other advanced economies, without necessarily fueling inflation.

Warsh’s bipartisan support and institutional reputation should help strengthen the Federal Reserve’s independence. He is expected to be confirmed by the Senate, with the nomination process tentatively scheduled to begin in late April. Powell assured market participants during his March press conference that he would remain as chairman *pro tempore* if a successor is not confirmed by May 15, the end of his term.

### Economic Outlook

We expect that elevated oil prices — primarily a result of ongoing tensions in the Middle East — will cause a tem-

porary decrease in demand. This is especially true among middle- and lower-income consumers who are already contending with high living expenses. We anticipate that the impact of higher energy costs will be short-lived, easing as we move into the second half of the year. Even if oil prices remain elevated for an extended period, we believe that major global economies can avoid recession, should central banks manage policy carefully and avoid missteps.

The most important variable in the outlook remains the duration and scope of the Middle East conflict. Compared to previous commodity-driven shocks, such as in 2022, the Federal Reserve currently faces a less challenging trade-off between inflation and growth. The labor market is softer, inflation is closer to target, and monetary policy remains restrictive. Unlike 2022, when monetary and fiscal policy were loose and central banks were still implementing quantitative easing, today's cycle began with tighter financial conditions and reduced balance sheet support. As a result, the Fed is better positioned to look beyond a short-term inflation uptick and continue normalizing policy in the second half of the year, provided the conflict does not intensify.

At the consumer level, several mitigating factors, including higher federal tax refunds, lower effective tariff rates and moderating shelter inflation should help offset some of the pressure of higher costs. However, gasoline prices rising above \$4 per gallon will strain real disposable incomes. In contrast, spending among wealthier households is expected to remain resilient, supporting broader economic activity. Business investment is also forecast to benefit from structural growth drivers, particularly the ongoing capital expenditure cycle in AI and productivity gains from new technologies, which we believe are likely to offset temporary headwinds from higher inflation and energy costs.

Outside the U.S., the outlook is more complex. Unlike the Federal Reserve's dual mandate, central banks such as the European Central Bank (ECB) and Bank of England (BoE) are solely focused on price stability, making it harder for them to look past inflation shocks resulting from higher

energy prices, creating a particularly challenging environment for policymakers. The ECB and BoE left policy rates unchanged at their March meetings, but signaled caution and a readiness to adjust policy if inflation overshoots targets. We view the risk of policy missteps as significantly higher at the ECB and BoE compared to the Federal Reserve. An aggressive response to energy-driven inflation could further compress growth and potentially require a policy reversal in 2027 as central banks work to mitigate economic damage.

## Global Equities

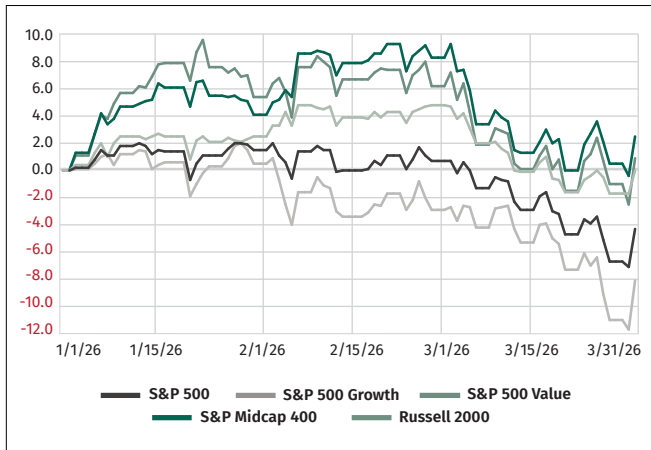
### *U.S. equity markets*

U.S. equities posted a volatile and mixed Q1 as markets contended with ongoing AI-related disruption fears, elevated policy uncertainty and a sharp late-quarter, risk-off move driven by conflict in the Middle East. Early in the quarter, sentiment remained constructive as investors focused on strong corporate earnings, moderating inflation, and the possibility that the Federal Reserve could begin easing later in the year. At the same time, rapid progress in agentic AI and "digital coworker" tools drove continued rotation between winners and losers. The backdrop deteriorated meaningfully as the quarter progressed. As the rise in oil prices tied to the Middle East conflict revived inflation concerns, valuations were pressured and investor confidence waned as did the market pricing of future Fed rate cuts. The result was a broad reset in risk appetite, particularly across more expensive growth areas of the market, even as underlying corporate fundamentals remained resilient.

The S&P 500 finished the quarter down 4.33%, representing a pause following the strong gains delivered in 2025. U.S. mid-cap equities were the top performing segment, rising 2.5%, while small-cap equities were modestly positive gaining 0.89% (see Figure 5 on the next page). Sector performance was notably uneven throughout the quarter, with Energy the clear leader, rising 38.25% in Q1 as the heavy-assets, low-obsolescence (HALO) trade supported January and February returns, and higher oil prices tied to the Middle East conflict provided an additional tailwind in March. In contrast, Information Technology, Consumer Discretionary, and Financials

were the worst performing sectors, each down roughly 9% to start the year, as shown in Figure 6. Software and the Magnificent 7 broadly lagged, as investors rerated potentially disrupted long-duration growth businesses and rotated toward broader market leadership beyond the mega-cap cohort. Style performance also reflected rotation, with large-cap value outperforming large-cap growth by roughly 8% during the quarter.

**Figure 5: U.S. Equity Performance by Style and Market Capitalization**



Source: Factset.

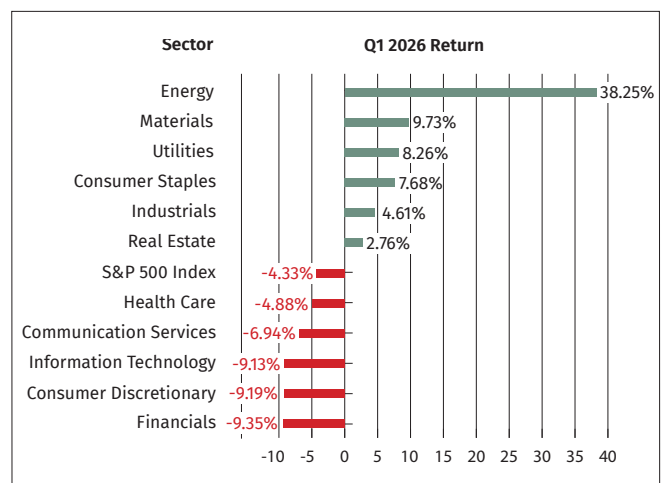
Forward valuations moderated for large cap stocks as prices declined, though the S&P 500 continues to trade above long-term historical averages on a forward earnings basis of 19.1x, versus its 20-year average of 16.3x. Mid-cap valuations remained more reasonable with the S&P 400 trading at 16.3x forward earnings, versus its 20-year average of 16.5x. At the same time, small-cap valuations were roughly in line with long-term norms, with the Russell 2000 at 22.6x forward earnings. Overall, valuations appear less stretched than at the start of the year, though they remain an important constraint on broad-based market upside.

Corporate earnings remained a key support for U.S. equities during Q1, as Q4 reporting season came in better than expected and reinforced the resilience of underlying

corporate fundamentals. Q4 S&P 500 earnings growth finished at 13.9%, led by the Information Technology and Industrial sectors, which delivered 33.6% and 24.1% earnings growth, respectively. While strong backward-looking results were encouraging, investor focus shifted toward the outlook for 2026. Consensus earnings expectations for 2026 remain solid, with S&P 500 earnings currently expected to grow 16.9% for the full year. Information Technology remains the key driver, with full-year earnings projected to increase 37.1%. Beyond large caps, S&P 400 mid-cap earnings are expected to grow 13.5% in 2026, while S&P 600 small-cap earnings are projected to increase 10.4%.

Looking forward, the still-uncertain macro backdrop leaves markets increasingly sensitive to earnings delivery. Geopolitical conflict, higher oil prices, and the risk of renewed inflation could further pressure sentiment and reduce the market’s margin for error. While AI remains a powerful long-term growth driver, investors are becoming more selective around earnings durability, free cash flow generation and paths to monetization. In this environment, we believe employing a disciplined but opportunistic approach with a focus on quality, diversification and margin of safety, should support attractive long-term investment outcomes.

**Figure 6: S&P 500 Performance by Sector**



Source: Factset.

### Performance of U.S. versus International Equities

Index	Q1 2026	Total Return Trailing 1 Year
S&P 500	-4.33%	17.80%
MSCI EAFE NR	-1.24%	21.27%
MSCI Emerging Markets NR	-0.17%	29.55%

### Performance of International Developed and Emerging Markets

Index	Q1 2026	Total Return Trailing 1 Year
MSCI EAFE	-1.24%	21.27%
MSCI Europe	-2.82%	19.11%
MSCI Japan	1.37%	25.88%
MSCI United Kingdom	2.02%	25.65%
MSCI Emerging Markets	-0.17%	29.55%
MSCI China	-8.94%	3.85%

\*All indices are quoted as USD NR.  
 Source: FactSet.

#### *International developed markets*

International developed equities started the quarter with strong momentum through February as investors rotated toward cheaper markets with a better near-term backdrop. The MSCI EAFE was up roughly 10% through the first two months of the quarter, outpacing the S&P 500 by a wide margin. In March, however, price action reversed sharply as the conflict in the Middle East brought a rise in energy prices, renewed inflation concerns, and a broad risk-off move. The MSCI EAFE fell 10.3% in the month and finished the quarter down -1.2%. In the end, the quarter was shaped more by the March selloff than by the strong start.

In Europe, investors moved from expecting easier monetary policy to taking a more cautious view. Higher energy prices raised concern that inflation could stay elevated, which increased the risk that the ECB and BoE would need to keep a more hawkish stance. That made further valuation gains harder to sustain as higher energy prices began to weigh on growth expectations. In Japan, clearer domestic politics helped reduce uncertainty, but room

for fiscal support appeared limited once bond markets reacted to aggressive spending rhetoric. The Bank of Japan also remained in a difficult position, balancing firmer inflation signals, a weaker yen and the risk of adding to market volatility by tightening policy too soon.

In Europe, results came ahead of lowered expectations, but the strength remained narrow. Banks, energy and a small group of industrial and defense-related companies drove most of the upside. Outside those sectors, revenue and earnings trends were still soft, and positive surprises often were not rewarded. At the same time, 2026 earnings expectations have edged modestly higher and now imply roughly 10% EPS growth for the MSCI EAFE, which would be higher than the prior year. Improving shareholder return policies and fiscal support in parts of the region still provide a constructive underpinning for earnings, even as higher energy costs create a near-term headwind for margins and growth.

The case for international developed equities remains constructive, though the path has become less straightforward. More reasonable valuations and improving shareholder returns, alongside fiscal measures gradually feeding through to earnings, remain supportive over the longer term. Higher energy costs remain a near-term challenge, particularly for more energy import-heavy parts of the region, and they continue to raise pressure on margins, growth, and policy expectations. A resolution or clear de-escalation in the Middle East would help stabilize the backdrop, but for now the environment supports a more selective approach rather than broad exposure.

#### *Emerging markets*

Emerging market equities followed a similar early-year pattern, but performance beneath the surface was far more uneven. The quarter began on a strong note, with the asset class resuming market leadership as capital flows improved, valuations remained attractive, and the global backdrop turned more supportive. That changed quickly in March as rising geopolitical tension in the Middle East pushed oil prices higher and, together with a firmer U.S. dollar, created a more difficult macro and

currency backdrop. The MSCI Emerging Markets Index fell 13% in March, the largest drawdown of any equity segment, underscoring its sensitivity in risk-off environments. That decline erased earlier gains, leaving the index modestly lower for the quarter.

Emerging markets are often more directly affected by their role in global commodity flows. Countries that export energy or other commodities were better placed to absorb higher prices through stronger trade balances and improved fiscal support. This dynamic contributed to wider performance dispersion across the asset class. In contrast, energy-importing markets faced rising costs, weaker currencies and a more difficult growth outlook. That pressure was most visible in parts of Asia, where dependence on imported energy quickly fed into inflation risk and current account strain.

As the quarter progressed, those differences became more pronounced as investors favored markets with stronger earnings support and less exposure to rising energy costs. Countries tied to AI hardware, export demand and firmer earnings held up better, with South Korea and Taiwan among the more resilient areas. In contrast, India and China lagged, reflecting greater exposure to foreign outflows, imported energy and softer domestic demand. Sector performance followed a similar pattern, with energy and parts of technology holding up better while more growth sensitive and domestically oriented areas came under pressure.

Earnings growth across emerging markets still offered a solid foundation, even as valuation pressures increased. Many companies entered the year with healthier balance sheets and exposure to longer-term themes such as technology investment, domestic consumption and infrastructure development. At the same time, calendar year 2026 earnings growth expectations have moved meaningfully higher from the start of the year, helped in large part by a small group of AI hardware companies. The more important question is whether that strength can broaden beyond a narrow set of names and hold up if macro volatility persists.

Emerging markets continue to offer opportunities, though recent events have highlighted the asset class's inherent volatility. Earnings growth has improved and still provides some fundamental support, but a firmer U.S. dollar and higher energy prices have created a more challenging macro and currency backdrop. Countries with stronger economic fundamentals, credible policy frameworks and manageable external positions appear better positioned to navigate the current conditions. While a softer dollar or easing energy pressures would improve the outlook, a neutral and selective stance remains appropriate for now.

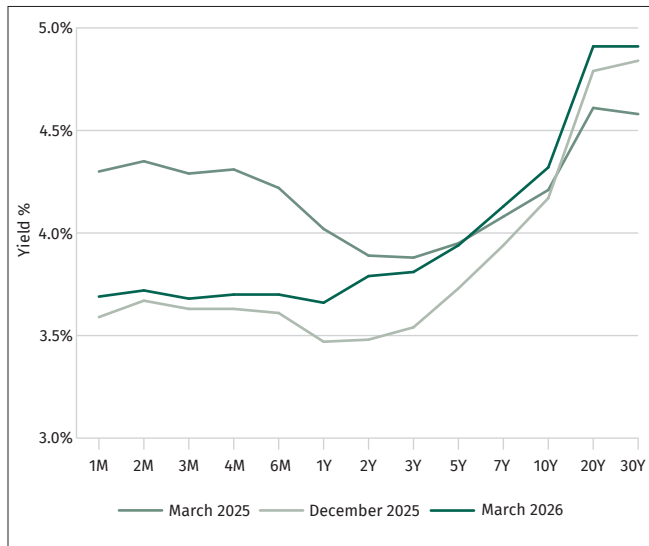
### **Fixed Income**

The first quarter of 2026 unfolded as a tale of two vastly different environments, especially for fixed income markets. Entering the year, investor sentiment was anchored by expectations of continued monetary policy easing. By the end of 2025, the Federal Reserve had delivered a cumulative 75 basis points of rate cuts across its final three meetings. Markets had anticipated two additional cuts in 2026, as inflation showed signs of moderating and the labor market exhibited early signs of weakness. That constructive backdrop persisted through much of Q1. However, sentiment shifted abruptly following the Iran conflict, which disrupted global financial markets and forced economists and strategists to reassess their outlooks for inflation, economic growth and central bank policy.

As shown in Figure 7 (see following page), U.S. Treasury markets experienced significant volatility throughout the quarter. Prior to the outbreak of hostilities, the Treasury yield curve flattened. This occurred as yields fell across most maturities amid expectations for further Federal Reserve easing and the flight to quality flows driven by equity volatility related to AI disruption concerns.

Following the escalation in the Middle East, Treasury yields rose sharply as markets began discounting the possibility of a stagflationary environment characterized by weaker growth and elevated inflation. Over the course of the quarter, the 2-year Treasury yield declined from

Figure 7: Change in U.S. Treasury Yield Curve



Source: Factset.

3.84% at year-end to a low of 3.39% on February 27, before ending the quarter at 3.79%. The 10-year Treasury yield fell from 4.17% to 3.96% at its February low, then rose to close the quarter at 4.32%. The 30-year Treasury yield moved from 4.84% at year-end, bottomed at 4.63% in February, and finished the quarter at 4.91%.

Against this backdrop of heightened rate volatility, the Bloomberg U.S. Aggregate Bond Index posted a slightly negative total return of -0.05% for the quarter.

U.S. government bonds served as an effective diversifier during January and February, helping to offset equity market volatility. However, in March, Treasuries sold off alongside equities as inflation concerns resurfaced. As shown in Figure 8, the Bloomberg U.S. Treasury Index returned -0.04% for the quarter, while the Bloomberg U.S. TIPS Index gained 0.26%, benefiting from rising inflation expectations following the geopolitical shock.

Performance across spread sectors was mixed, but lagged U.S. Treasuries. Both investment grade and high yield corporate credit generated negative total returns and underperformed the broader bond market. The Bloomberg U.S. Corporate Bond Index declined -0.54%, while

the Bloomberg U.S. High Yield Bond Index fell -0.50%. Leveraged loans, as measured by the Morningstar LSTA U.S. Leveraged Loan Index, posted a -0.55% total return.

Credit spreads entered the quarter at historically tight levels and widened as investor caution increased. Investment grade spreads widened from 0.77% to 0.89%, while high yield spreads moved from 2.68% to 3.20%. Concerns over AI disruption on incumbent business models played an increasing role in credit risk assessment, particularly as hyperscalers outlined aggressive capital spending plans that raised expectations for increased new bond issuance. While technology and software represent a relatively small share of the investment grade and high yield bond markets, they account for the largest sector exposure within the \$1.53 trillion U.S. leveraged loan market, amplifying investor sensitivity in that segment.

Mortgage-backed securities (MBS) delivered another relatively strong quarter. Gains posted in January and February were partially reversed in March, but the Bloomberg U.S. MBS Index still advanced 0.40% for the quarter, outperforming treasuries and corporate credit.

Municipal bonds generated modestly negative returns during Q1, trailing taxable fixed income markets. The Bloomberg 1-10-Year Municipal Index returned -0.23%, as gains in January and February were fully erased by a sharp sell-off in March. Municipals started the quarter

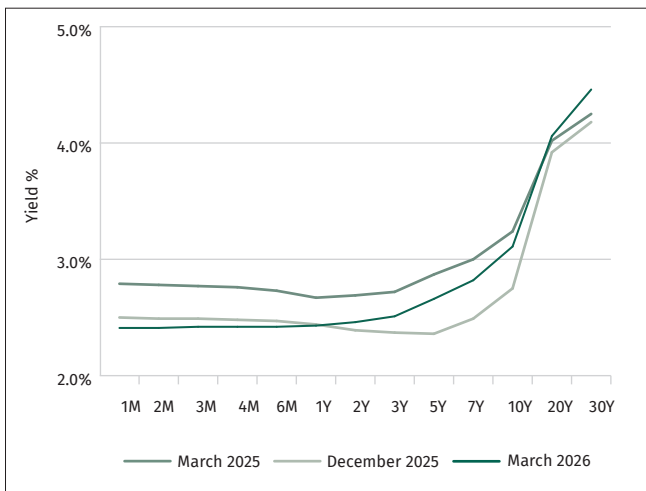
Figure 8: Fixed Income Market Performance

Index	Q1 2026	Total Return Trailing 1 Year
Bloomberg US Agg Bond	-0.05%	4.35%
Bloomberg Municipal 1-10Y Blend 1-12Y	-0.23%	3.25%
Bloomberg US Treasury	-0.04%	3.25%
Bloomberg US Treasury US TIPS	0.26%	3.00%
Bloomberg US Corp Bond	-0.54%	4.78%
Bloomberg High Yield Corporate	-0.50%	7.01%
FTSE WGBI NonUSD	-1.76%	4.14%

Source: Factset.

off on a strong footing, significantly outperforming U.S. Treasuries through February amid manageable supply and strong demand. However, March proved challenging as this month is typically weak for municipals. This year that dynamic was amplified by the sharp rise in treasury yields. Municipal yields rose unevenly during March and across the quarter, with the largest increases occurring in intermediate maturities. In March alone, 5- and 10-year municipal yields increased 0.57% and 0.61%, respectively, while 2- and 30-year yields rose 0.44% and 0.32%. For the full quarter, 2- and 5-year yields rose 0.07% and 0.30%, while 10- and 30-year yields increased 0.36% and 0.28%, respectively, as shown in Figure 9.

Figure 9: Change in U.S. S&P AAA Municipal Yield Curve



Source: Factset.

## Outlook

We believe that fixed income markets may have overreacted to the near-term risks associated with the conflict in Iran, creating pockets where markets dislocated from fundamentals. The sharp repricing in yields and policy expectations has created selective opportunities, particularly in high-quality segments of the market. Our current positioning continues to emphasize high-quality fixed income, with a preference for securitized credit, where spreads appear more attractive on an absolute and relative basis, over corporate credit. We remain cautious on high yield corporate credit, as we believe spread compensation remains insufficient despite recent widening.

As volatility persists, we expect disciplined security selection and an emphasis on quality, liquidity and diversification to remain critical drivers of performance. To this end, we favor strategies that can be selective and tactical in deploying capital where short-term dislocations present opportunities for meaningful, long-run gains without adding outsized risk.

## Alternatives

### Real estate

As shown in Figure 10, U.S. real estate investment trusts (REITs), as measured by the FTSE Nareit All Equity REITs Index, generated a total return of 3.76%, outperforming the broader U.S. equity market.

REITs significantly outperformed in January and February, benefiting from declining U.S. Treasury yields amid growing expectations for Federal Reserve rate cuts. Performance was further supported by a broadening of equity market leadership as investors rotated away from mega cap technology stocks that have driven returns in recent years. The rotation was fueled by increasing scrutiny of AI's impact on certain industries, alongside rising concerns over elevated AI-related capital expenditures. In March, REIT performance converged with the broader U.S. equity market as U.S. Treasury yields moved sharply higher. Sector level performance was mixed but largely positive during the quarter, with nine of 12 REIT sectors posting gains. The strongest performing segment was data centers, which returned 23.85% while office REITs were the weakest performer, declining -16.54%.

### Commodities

Diversified commodities, as measured by the Bloomberg Commodity Index, delivered an exceptionally strong

Figure 10: Public Real Estate and Commodity Performance

Index	Q1 2026	Total Return Trailing 1 Year
FTSE Nareit All Equity REITs	3.76%	3.28%
Bloomberg Commodity	24.41%	32.29%

\*All indices are NR USD  
Source: Factset.

24.41% return in Q1 2026, significantly outperforming both global equity and fixed income markets. Performance was driven primarily by escalating geopolitical tensions, as conflict in the Middle East disrupted the global supply of commodities. Commodity sector performance was broadly positive, with five of six sectors posting gains with Energy decisively leading.

After struggling in the second half of 2025 amid concerns about a looming supply glut, energy commodity prices skyrocketed in Q1 2026. The turning point came when Iran effectively closed the Strait of Hormuz, triggering what many have described as the largest disruption to global energy markets in history. Since the onset of the conflict, West Texas Intermediate Crude Oil has risen 51.27%, surpassing \$100 per barrel and Brent Crude Oil has climbed 42.68%, topping \$110 per barrel. Oil prices had not increased this much since July 2022, the year the Russia-Ukraine war began. For the full quarter, WTI and Brent Crude Oil gained 76.56% and 70.86%. (See Figure 11.)

**Figure 11: WTI and Brent Crude Oil Prices**

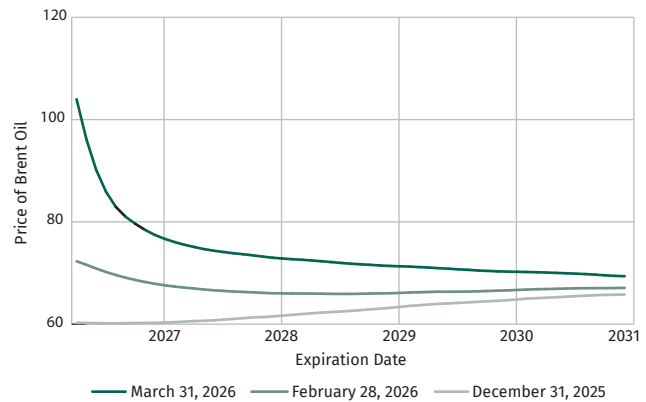


Source: Factset.

Potentially more telling for oil markets than the spot price is the shape of the futures curve, as shown in Figure 12. Near-term contracts have risen sharply, while price increases further out of the curve have been comparatively muted. As of quarter-end, Brent Crude for delivery on April 30, 2026, was priced at \$103.97 per barrel. Futures markets, however, imply prices falling below \$80 per barrel by September 2026 and below \$75 per barrel by May

2027. Although these levels remain well above pre-conflict prices, the downward sloping curve is consistent with historical patterns of reversion following an initial price shock. That said, a scenario of prolonged supply disruption could push elevated energy costs further into the future, making the evolution of the futures curve a critical indicator to monitor.

**Figure 12: Change in Brent Crude Futures**



Source: Factset.

While energy dominated headlines, the Middle East conflict has had wide-ranging consequences across agricultural and metals markets. Urea, the most common nitrogen fertilizer; helium, needed to make microchips; and aluminum; a metal used in manufacturing have all become scarcer and more expensive as supply from the Middle East has been curtailed.

Not all commodities benefited from the conflict, though. Precious metals retreated sharply after peaking early in the quarter, defying their typical role as safe-haven assets. Gold, which peaked on January 29 at \$5,354.80 per ounce, retreated throughout the remainder of the quarter to end at \$4,678.60 per ounce, down 12.63% from its peak. Silver, which peaked on January 26 at \$115.50 per ounce, retreated throughout the remainder of the quarter to end at \$74.92 per ounce, down 34.53% from its peak. The pullback in precious metals was driven by higher real yields, and reduced expectations for Federal Reserve rate cuts that offset geopolitical demand for safety. Despite the volatility, both metals

finished the quarter higher, with gold up 7.77% and silver up 6.12%.

## Outlook

The events of this quarter once again underscore the importance of maintaining a strategic, diversified allocation to commodities, rather than attempting to time entry points. That said, given the wide dispersion of outcomes in Iran, the current shape of futures curves, and the potential risk of price retracement in the event of de-escalation, we maintain a neutral viewpoint on the asset class as a whole.

### Private equity

Private equity showed positive signs in Q1 2026, building on prior momentum. In the second half of 2025, we saw a meaningful rebound in activity, with buyout deal value rising 40% YoY to \$904b and exit value increasing by 47% to \$717b, as shown in Figure 13.<sup>1</sup> The 2025 resurgence was driven primarily by a small number of large transactions – an increase in deal size rather than broad-based deal flow – including the largest LBO in history (Electronic Arts was taken private in a \$55b deal) and the largest PE-backed IPO in history (Medline went public at \$54b). Early signals from 2026 suggest the potential for similar mammoth-sized IPOs as SpaceX recently filed to raise \$75b in what would be the largest public offering ever.

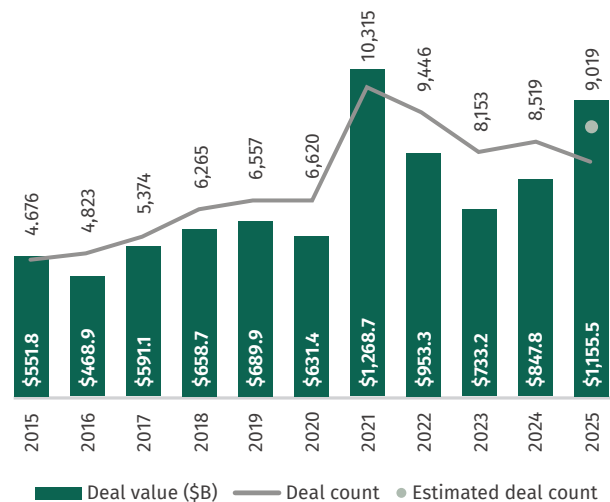
We anticipate that the success of large high-profile deals and exits will provide confidence to market participants and lead to a broadening of activity. However, with elevated geopolitical risk and its associated macroeconomic impacts playing out in Q1, the timeline for this remains unclear. We see record deal activity continuing in the secondary market and believe secondaries will continue to benefit as liquidity providers.

### Private credit

Private credit drew heightened scrutiny during the quarter as market participants reassessed the asset class's liquidity and pricing characteristics. With an estimated 20% of exposure to software, some private credit funds experienced valuation markdowns amid growing con-

cerns over AI-driven disruption. These stresses prompted redemption requests and renewed focus on underwriting standards, liquidity terms and portfolio construction.

Figure 13: Private Equity Exit Activity



Source: Pitchbook.

Direct lending managers reported stable or strengthening fundamentals in their portfolios across a variety of metrics, suggesting that their strategies would continue to deliver the high, stable yields that they had generated historically. Most recent preliminary index-level data (through the end of 2025) show that direct loans generated 10.4% interest income (9.7% excluding payment-in-kind), with non-accruals and realized losses remaining well below historical averages.

However, late 2025 had seen increasing negative headlines on diverse fronts, including credit underwriting (following bank loan defaults), as well as idiosyncratic issues (a failed fund merger). Investor discomfort provoked redemptions from certain non-traded Business Development Companies. Redemptions escalated throughout Q1 2026 amidst concerns over direct lenders' high software exposure and valuations. We see dispersion across managers in the level of redemptions, and we are carefully watching how they are managed. Limits of 5% quarterly are typical, aligning fund liquidity with underlying loan cash flows.

<sup>1</sup>Private Equity Outlook 2026, gaining traction, Bain and Company, February 2026.

## Outlook

While we have adjusted our outlook on private credit from positive to neutral, we do not view recent developments as indicative of broad-based deterioration in credit fundamentals. Rather, they highlight the importance of understanding liquidity mechanisms, maintaining disciplined sector and issuer selection, and partnering with managers who have strong underwriting capabilities and experience across market cycles. We will continue to monitor flows and credit fundamentals closely, watching for signs that idiosyncratic risks impacting a few firms do not become an industry-wide trend.

### *Private real assets*

We entered 2026 seeing marginal improvement in the prospects of private real assets. Real estate valuations in aggregate have ticked higher off 2024 trough levels, and commercial real estate loan originations increased markedly in 2025. Potential for lower interest rates boosted sentiment, though we see some retrenchment in March due to macro implications of the Iran conflict. Manager commentary throughout the quarter emphasizes the need for selectivity across markets and assets, as only top performing assets see attractive rent growth, while increased costs of maintenance continue to weigh broadly. The greatest supply/demand imbalance continues to be seen in data centers, where fierce demand

fuels both equity and debt investment and draws capital from real estate and infrastructure allocations. We also see increasing interest in real estate and infrastructure debt strategies, which offer attractive yields with lower downside risk than equity investment.

### *Hedge funds*

Hedge funds got off to a strong start in 2026, led by macro strategies that profited from pronounced commodities trends, notably in precious metals. Most managers appear to have given up some of these gains due to market reversals in March, so overall hedge fund performance numbers for the quarter (as they gradually filter out) may be flat, with dispersion across the large, “marquee-name” funds. Typically, we expect long/short equity and relative value managers to profit from elevated volatility and dispersion, but we are not seeing this in the current turbulence. We remain interested in the potential of hedge funds as long-term diversifiers that can generate attractive absolute returns in times of uncertainty. We will continue to look for select uncorrelated strategies including macro, volatility trading, and multi-strategy. These perform well when other asset classes are challenged.

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