



Market Overview

First Quarter
2026



Market Overview

There's a moment when the change in seasons begins to reveal itself. It doesn't arrive all at once, instead, it shows up in small, almost unnoticeable ways – the air softens, the sun rises a bit earlier, the snow starts to melt, and there's the sense that the harsh conditions we experienced for months are gradually giving way, even if the weather hasn't fully turned.

These in-between moments often carry more meaning than the seasons themselves. They remind us that change is rarely abrupt; it builds quietly beneath the surface before becoming undeniable.

This past quarter carried a similar feel in the global markets. A steady stream of headlines and heightened volatility created an environment that, at times, felt unrelenting—each new development adding to a sense of uncertainty rather than clarity. The narrative was shaped by geopolitical developments, spikes in commodity prices, an evolving labor market, and a notable rotation in market leadership away from technology stocks.

While periods like these can be uncomfortable, they are often where the most important opportunities take shape. Markets rarely bottom on good news and tend to turn when sentiment is at its weakest. With markets reaching correction territory in the quarter (greater than -10% declines from recent highs), it is often in periods of heightened uncertainty that the long-term return potential is most compelling.

THE CALM BEFORE THE STORM

We entered the first quarter with a familiar set of concerns: elevated valuations following three consecutive years of double-digit equity returns, a gradually cooling labor market, stress in the private credit market, and pockets of consumer fatigue.

At the same time, 2026 was likely to be a volatile year. Election cycles have historically introduced greater drawdowns—averaging roughly -21.7%¹ versus -14.2%² in a typical year—and this period also coincides with a transition in the leadership at the Federal Reserve. Markets were also recalibrating expectations for interest rates after a series of cuts in late 2025, as the Fed signaled a more patient stance amid somewhat sticky inflation and mixed economic data.

THE WINTER BLIZZARD: GEOPOLITICAL UNCERTAINTY

During the quarter, the conflict in Iran took center stage, marking one of the most significant escalations in U.S. involvement in the Middle East in recent

years. Concerns over disruptions to global energy supply drove a sharp increase in commodity prices, with crude oil and gasoline rising as markets reacted to the risk of disruption to Middle Eastern energy flows—particularly through the Strait of Hormuz, a critical transit route for global oil supply.

With roughly 20% of global oil shipments passing through the region, vessel traffic—historically averaging more than 70 tanker vessels³ per day—had effectively come to a standstill by quarter-end.

The conflict has broadened to include additional regional energy producers, with strikes on neighboring countries damaging refineries, oil fields, and critical infrastructure across several Gulf states. Qatar has warned that as much as 17% of global LNG exports could face disruption over the next three to five years, further constraining supply. At the same time, interruptions to key shipping routes have slowed the movement of energy and goods, placing additional upward pressure on prices.

During the quarter, Brent crude rose to \$118 per barrel, an increase of approximately 95%, while jet fuel surged 165% and U.S. gasoline prices climbed 42%. Although markets tend to absorb geopolitical shocks quickly,

INDEX RETURNS (AS OF 3/31/2026)

INDEX	QTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
S&P 500 Index	(4.4)	17.8	18.3	12.0	14.1
Dow Index	(3.2)	12.2	13.8	9.1	12.5
NASDAQ Index (Price Change)	(7.0)	25.6	21.8	11.1	17.1
Russell 2000 Index	0.9	25.8	13.0	3.7	9.9
Russell 3000 Value Index	2.2	16.3	14.2	9.2	10.5
Russell 3000 Growth Index	(9.5)	18.7	20.6	12.0	16.4
MSCI EAFE Index	(1.2)	21.3	13.6	7.9	8.4
MSCI Emerging Markets Index	(0.2)	29.6	14.8	3.7	7.8
Barclays U.S. Aggregate Index	(0.0)	4.3	3.6	0.3	1.7
U.S. Corporate High Yield	(0.5)	7.0	8.6	4.2	6.1
BBG/Barclays Muni Index	(0.2)	4.3	2.9	0.8	2.2

Source: Bloomberg, data as of March 31, 2026. Annualized returns if longer than 1 year

¹ RBC Capital – Global Insight Equity Perspective (January 2026)

² J.P. Morgan – Guide to the Markets (April 2026)

³ Bloomberg – Strait of Hormuz Tanker Vessel Crossings

Market Overview

the broader economic ripple effects remain the more significant concern as the situation continues to unfold.

That said, the primary economic risk lies in the duration of elevated energy prices. Prolonged supply disruptions can seep into transportation, manufacturing, and global supply chains, increasing input costs and putting upward pressure on inflation. Historically, extended periods of elevated energy costs have been associated with a higher probability of a global slowdown, including recession.

History suggests that while markets often decline at the onset of geopolitical conflict, they tend to stabilize as the scope of the disruption becomes clearer, with longer-term outcomes driven more by underlying economic fundamentals.

NAVIGATING THROUGH THE CLOUDS: ECONOMIC CONDITIONS

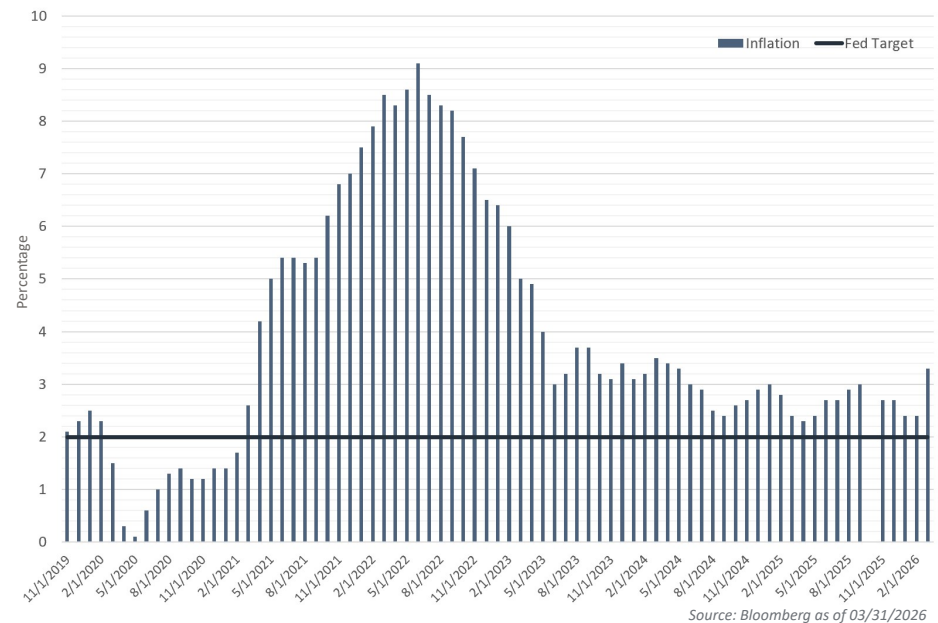
The economy continues to show resilience despite ongoing geopolitical headwinds. After a period of cooling, the labor market has shown signs of stabilization, with unemployment at 4.3%⁴—below the 30-year historical average of 5.5%⁵. Nonfarm payrolls are now averaging approximately 68,000 per month, with average hourly earnings increasing 3.5% year over year.

Consumer spending has remained resilient, though early signs of moderation are emerging. Retail sales continue to grow modestly, with monthly gains of 0.9%⁶ on a seasonally adjusted basis for March. However, underlying demand has become increasingly bifurcated, with higher-income households sustaining overall growth while lower-income consumers show greater sensitivity to elevated prices.

This divergence is particularly evident across discretionary categories. Gasoline prices above \$4 per gallon continue to pressure lower-income consumers, as recently highlighted by companies including McDonald's, PepsiCo, and Walmart. In contrast, demand at the higher end remains healthy, with continued strength in areas including travel and entertainment. Delta Air Lines recently reported robust demand for travel, with no signs of a slowdown despite rising fuel costs. Additionally, corporate travel continues to show strength.

The combination of resilient spending and emerging pockets of strain has contributed to a more mixed economic backdrop, complicating the path forward for monetary policy. With inflation proving somewhat sticky and

INFLATION REMAINS ABOVE THE FED'S TARGET



the economic outlook increasingly mixed, the Federal Reserve held the Fed Funds rate steady during the first quarter, maintaining a cautious, data-dependent stance as inflation remains above its 2% target.

In response, markets are increasingly reassessing both the timing and magnitude of potential rate cuts, reflecting a more cautious outlook for monetary easing. Policymakers continue to balance persistent inflationary pressures against signs of moderating growth, while the economy remains on relatively solid footing. The Atlanta Fed's GDPNow estimate of 1.3%⁷ for first-quarter growth underscores the challenge the Fed faces in navigating slower growth alongside inflation that may remain elevated, particularly given higher energy prices.

CHANGING CROSSWINDS: THE MARKETS

Global equity markets experienced a volatile quarter, shaped by rising geopolitical tensions, higher commodity prices, and shifting investor sentiment. While risk assets came under pressure, performance diverged

⁴ U.S. Bureau of Labor Statistics – Employment Situation Summary (April 3, 2026)

⁵ J.P. Morgan – Guide to the Markets (April 2026)

⁶ Chicago Federal Reserve – Chicago Fed Advance Retail Trade Summary (as of April 3, 2026)

⁷ Federal Reserve Bank of Atlanta – GDPNow estimate as of 4/9/26

Market Overview

across regions and sectors. Against this backdrop, international markets proved relatively resilient, while U.S. equities faced more pronounced headwinds.

After a volatile quarter, international equities managed to end the period in positive territory, with the MSCI ACWI ex-U.S. up 1.1% in local currency and -0.6% in USD. Emerging markets led gains, with areas including South Korea and Taiwan delivering strong results in the quarter.

The U.S. dollar strengthened as the currency is generally tied to the price of oil and investors sought safe-haven assets. Treasuries and gold—traditionally viewed as defensive assets—rallied at the outset, though Treasuries later reversed as yields moved higher, while gold remains below its recent highs. In equity markets, investors shifted away from more cyclical, risk-sensitive areas and toward defensive sectors such as Consumer Staples and Utilities, while Energy outperformed significantly as oil prices surged.

In the U.S., stocks ended the quarter in negative territory, with the S&P 500 down -4.3%. Many of the sectors that led the market in prior periods—including Information Technology, Consumer Discretionary, and Financials—declined by more than 9% during the quarter. The rise in commodity prices boosted performance in the Energy and Materials sectors, which were up approximately 38% and 9.7%, respectively. More defensive areas of the market, including Utilities and Consumer Staples, posted high single-digit gains.

The S&P 500 Forward P/E ended the quarter at 19.7x, down from 23x, and higher than the 30-year average of 17.2x⁸. Technology stocks—traditionally the more expensive area of the market—experienced a notable contraction in valuations during the quarter. The S&P 500 Information Technology sector, which peaked at nearly 32x earnings last year, declined to approximately 21x by quarter-end.

The re-rating in valuations occurred despite rising earnings expectations for the group, indicating that the adjustment has been driven primarily by multiple contraction rather than a meaningful deterioration in underlying fundamentals.

Fixed income markets weakened in the final weeks of the quarter as inflation concerns re-emerged. Elevated energy prices, along with their

WAR IN MIDDLE EAST SPIKES OIL PRICES



Source: Bloomberg as of 03/31/2026

S&P 500 FORWARD P/E DROPS



Source: Bloomberg as of 03/31/2026

⁸ J.P. Morgan – Guide to the Markets (April 2026)



Market Overview

broader impact on input costs, placed upward pressure on yields, with the 10-year Treasury trading around 4.4%—up from 4.18% at the start of the year.

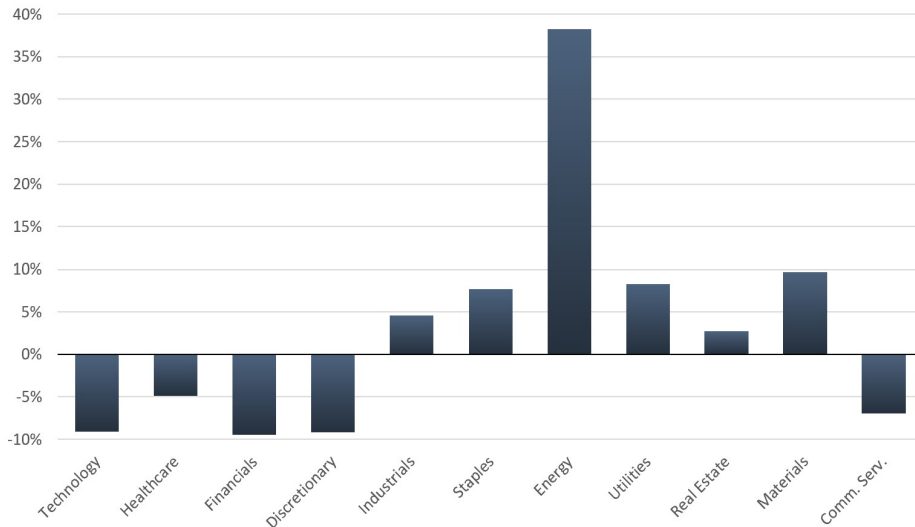
This marks a meaningful shift from earlier expectations for multiple rate cuts, as markets have repriced toward a more cautious policy path, including the potential for additional tightening. Despite this adjustment, credit spreads remain relatively tight—particularly in high yield—suggesting continued confidence in underlying fundamentals.

A RAY OF SUNSHINE: CORPORATE EARNINGS

One of the pillars supporting our constructive outlook on the markets is the continued strength in corporate earnings. Profitability for businesses remains robust, underpinned by revenue growth and margin expansion as companies benefit from ongoing gains in productivity and efficiency.

Looking ahead, first-quarter 2026 earnings for S&P 500 companies are projected to increase approximately 13.2%, marking a sixth consecutive quarter of double-digit growth. For the full year, earnings are expected to

ENERGY DOMINATES S&P SECTORS IN FIRST QUARTER 2026



Source: Bloomberg as of 03/31/2026

⁹ CNN.com – CNN Fear & Greed Index

¹⁰ University of Michigan – Index of Consumer Sentiment (April 10, 2026)

¹¹ J.P. Morgan – Guide to the Markets (April 2026)

¹² RBC Capital – Global Insight Equity Perspective (January 2026)

rise 17.4%, more than twice the long-term historical average. Importantly, this growth is expected to be broad-based: the “Magnificent 7” are projected to grow earnings by 26%, while the remaining 493 companies are expected to deliver 14% growth in 2026. Sectors including Technology, Materials, Energy, Communication Services, and Utilities are all projected to achieve double-digit year-over-year earnings growth.

Despite the drawdown in technology stocks, fundamentals remain intact. Capital expenditures from hyperscalers continue at a robust pace, with little evidence of a meaningful slowdown. Companies including Nvidia have recently noted ongoing supply constraints, particularly in memory, where demand continues to outpace supply.

As artificial intelligence adoption evolves from basic tools to more advanced, agent-driven applications capable of executing multi-step tasks, demand for compute power should continue to rise. We believe this supports an extended growth runway across the broader technology ecosystem.

The underlying catalysts that have supported the economy since the start of the year remain in place, with several additional factors providing potential tailwinds through a contrarian lens:

- **Investor sentiment remains weak**, with the CNN Fear & Greed Index at 16⁹ (as of 4/1/26), firmly in “extreme fear” territory. Historically, such readings have served as contrarian indicators. As Warren Buffett aptly noted, “be fearful when others are greedy, and be greedy when others are fearful.”
- **Consumer sentiment has declined meaningfully**, as the University of Michigan Consumer Sentiment Index fell to 47.6¹⁰—near historic lows. Periods of depressed sentiment have historically preceded strong equity market performance, with average returns of 24.1%¹¹ over the subsequent twelve months.
- **Seasonal and political cycles may similarly provide a contrarian setup**. Midterm election years have historically been associated with heightened volatility and periodic drawdowns. These periods often create attractive entry points with markets delivering an average 48.5%¹² return in the subsequent 12 months following market lows.

Market Overview

ALL-WEATHER POSITIONING: PORTFOLIO STRATEGY

During periods of price dislocation in the markets, we focus on rebalancing portfolios toward strategic targets, using volatility as an opportunity to reinforce long-term positioning. Within our asset allocation framework, portfolios remain globally diversified, with an overweight to the U.S. and a bias toward large- and mega-cap companies.

Given the strong relative performance in value stocks, we are moderating our value tilt, moving toward a more neutral exposure between growth and value as growth stocks have repriced more rapidly in the current environment. We continue to see compelling opportunities in businesses benefiting from ongoing digital transformation and the adoption of AI. Many of these companies are delivering accelerating earnings, strong free cash flow, and solid balance sheets.

Much like meteorologists cannot reliably predict short-term changes in weather, we do not attempt to forecast near-term economic or market outcomes. Rather than reacting to these smaller shifts, we rely on a strategic asset allocation framework to guide your portfolio positioning—maintaining diversification and allowing the power of compounding to work over time.

We value the trust you place in our team and remain committed to helping you navigate an ever-changing market environment. As always, we are more than happy to discuss any thoughts you may have and help answer any questions. ■

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