Q1 MARKET INSIGHTS

Spring 2026

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KEY TAKEAWAYS

The U.S. economy is better positioned to absorb energy shocks than in prior decades.

U.S. economic growth is likely to remain supported by fiscal and monetary measures, but the duration of the Iran conflict—and the administration's incentive to resolve it quickly ahead of the 2026 midterm elections—will be a key determinant of its broader impact on the economy.

Equities have historically demonstrated a strong ability to recover from short-lived geopolitical shocks, as market fundamentals tend to reassert themselves once the initial wave of uncertainty subsides.

The integration of Artificial Intelligence ("AI") into workflows is rapidly accelerating, however, it is still too early to separate the winners from losers.

Despite anxiety over job displacement from AI, historical patterns show that technological advances transform rather than eliminate work, creating new industries and expanding employment opportunities over time

Market volatility spiked in the first quarter of 2026, driven by a mix of geopolitical tensions and growing concerns about the potential for AI to disrupt certain industries. Investor unease intensified amid headlines highlighting possible job displacement and shifting competitive dynamics, particularly within the software sector. Simultaneously, escalating tensions among the U.S., Israel, and Iran drove a sharp increase in oil prices, further clouding the economic outlook and depressing global equity markets. As a result, the S&P 500® Index declined 4.35% for the quarter. Looking internationally, foreign markets began the quarter on relatively stronger footing, aided in part by lower concentration to AI-sensitive technology/software sectors. However, that early outperformance faded with the escalation of hostilities involving Iran, which weighed more broadly on global risk sentiment. Developed international equities were supported by strength in Japan, where equity markets reached new all-time highs in February, driven by a combination of government stimulus, improving corporate governance practices, and continued shareholder-friendly reforms. Foreign-developed markets, represented by the MSCI EAFE Index, registered a 1.09% loss for the quarter. Emerging markets followed a similar trajectory. Early in the quarter, performance was supported by a weaker U.S. dollar and firmer commodity prices, especially in metals, which tend to benefit many emerging economies.

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However, the MSCI Emerging Markets Index ultimately declined 0.13% for the quarter, reflecting both the initial tailwinds and the later shift toward a more risk-off environment. Switching to fixed income markets, the leading benchmark for bonds, the Bloomberg Barclays US Aggregate Bond Index, finished the quarter with a modest 0.05% loss. Bond prices were higher mid-quarter but declined in March as surging oil prices reignited inflation concerns and led investors to scale back expectations for Federal Reserve (the "Fed") rate cuts.

RESILIENT FUNDAMENTALS AMID GEOPOLITICAL UNCERTAINTY

We entered 2026 with a constructive outlook: steady economic and earnings growth supported by fiscal stimulus, moderating inflation, and the prospect of gradually easier monetary policy. While we believe that broader framework largely remains in place, the outbreak of war with Iran, and the resulting volatility in global energy markets, has introduced a layer of uncertainty to this outlook.

The conflict, which began in late February, has escalated into a regional war, with widespread military strikes across Iran and parts of the Persian Gulf. One of the most consequential economic developments has been Iran's effective closure of the Strait of Hormuz, a vital maritime chokepoint through which roughly 20% of global oil supply typically flows. This disruption has materially constrained energy shipments, forcing Gulf producers to curtail output amid limited storage capacity and logistical bottlenecks. The resulting supply shock has driven a sharp and volatile increase in oil prices. From the onset of hostilities through quarter-end, prices for WTI crude (the U.S. benchmark for oil prices) rose approximately 51%, while Brent crude (the benchmark for 80% of global oil trade) surged 63%, despite coordinated releases from strategic petroleum reserves and efforts to reroute supply through alternative channels. These dynamics have reignited concerns about inflation, as higher energy costs raise the risk of a broader economic slowdown.

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While elevated energy prices are likely to weigh on consumer spending at the margin, we believe the risk of the U.S. entering a recession remains low. The U.S. economy is structurally better positioned to absorb energy shocks than in prior decades. As the world's largest crude oil producer, the U.S. is now a net exporter of energy, a sharp contrast to the 1970s, when it was heavily dependent on foreign oil and far more vulnerable to supply disruptions. Importantly, the sensitivity of the U.S. consumer to energy prices has declined meaningfully over time. Improvements in energy efficiency, technological advancements, and a shift toward a more service-oriented economy have reduced the share of household consumption devoted to energy. As of last year, expenditures on gasoline, electricity, and heating accounted for just 3.7% of total household spending—down from 8% in 1990 and 11% in 1980. While consumers will still feel the impact of higher gasoline prices, which have spiked to a nationwide average of $3.98 per gallon, the overall burden is significantly lower than in past cycles. More importantly, several offsetting forces are helping to cushion the blow. Chief among them is the increase in tax refunds stemming from the One Big Beautiful Bill Act (OBBBA), which should act as a built-in economic stabilizer for households facing higher fuel costs. According to estimates from the non-partisan Tax Foundation, the average individual tax refund is expected to be approximately $748 higher this year due to the OBBBA tax cuts. This additional liquidity arrives at a particularly opportune time. Economists at the Stanford Institute for Economic Policy Research estimate that the average U.S. household will spend roughly $740 more on gasoline in 2026 due to the surge in global oil prices following the onset of the Iran conflict. In effect, the incremental tax

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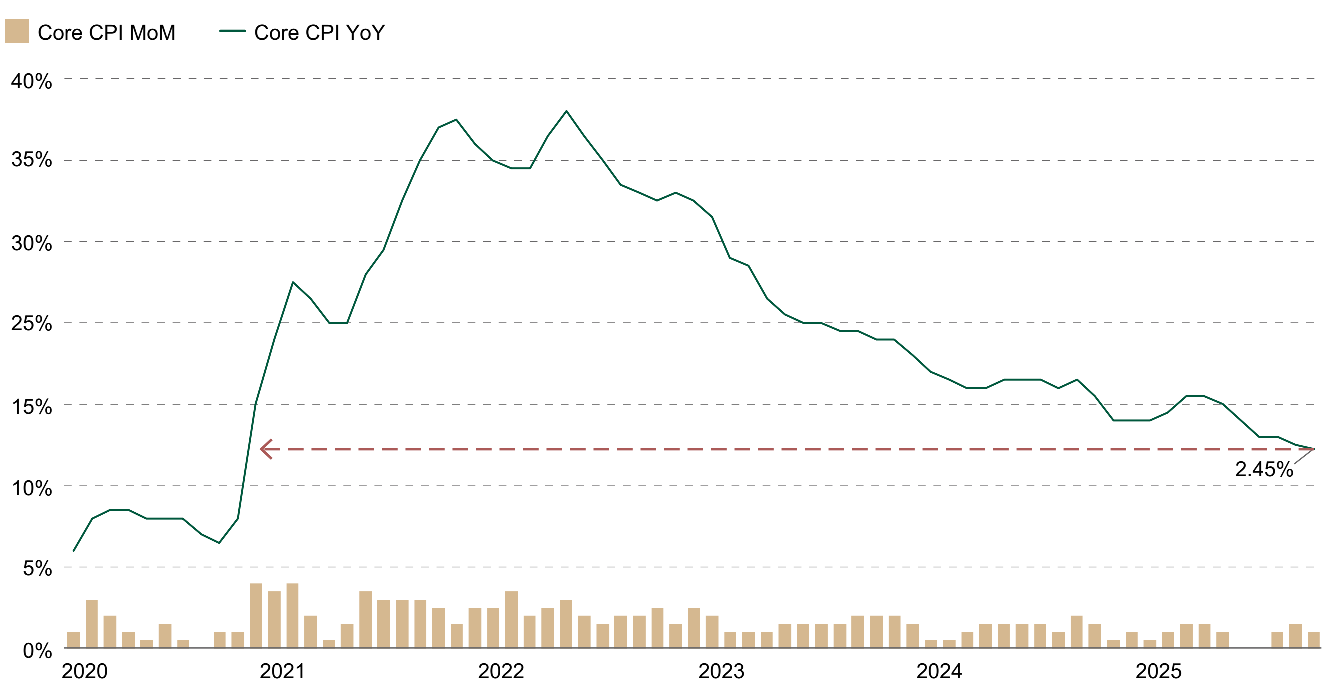
relief nearly offsets the increase in fuel expenditures for the typical household, helping to preserve consumer spending power. Taken together, this structural resilience—combined with a still-solid labor market and healthy household balance sheets—should help buffer the economy against a more severe downturn, even as energy-driven inflation introduces near-term volatility.

Against this backdrop, the key question becomes: how will the Fed respond? As a reminder, the Fed is guided by its dual mandate to promote maximum employment and maintain price stability. The labor market continues to show stability, with the unemployment rate holding at 4.4% in the most recent reading. Hiring activity has cooled, but layoffs remain limited, reflecting what can best be described as a “no hire, no fire” environment. Employers are cautious about expanding headcount but are equally reluctant to shed workers, a dynamic that continues to support income stability. At the same time, underlying inflation trends remain encouraging. Core inflation readings, which exclude the impact of food and energy, continue to decline. As the chart below shows, the Core Consumer Price Index (Core CPI) registered a 2.45% year-over-year change in February, marking its lowest level since March 2021 (red arrow) as it continues trending downward. A key driver of this disinflation has been shelter costs, the largest component of CPI. Shelter inflation tends to lag real-time rent measures and is now beginning to reflect the meaningful cooling in market rents observed over the past year. To be clear, this does not imply that headline inflation (which includes changes in food and energy prices) will follow the same near-term path. Higher oil prices will almost certainly push headline CPI higher, as energy costs feed through to the broader economy. However, we do not expect a return to the extreme inflation levels experienced during the post-COVID period, when headline CPI peaked at 9.1%. Fed Chair Jerome Powell has emphasized a "wait and see" posture regarding the surge in energy prices. Speaking at Harvard University on March 30, 2026, Powell stated that while escalating tensions will "certainly affect gas prices," it is too early to judge the full economic impact. He acknowledged that higher energy prices will push overall

U.S. Core CPI (Less Food & Energy) Through February 2026



Source: Bloomberg; U.S. Bureau of Labor Statistics inflation upward in the short-term, but noted that the Fed typically “looks through” such supply shocks. He also maintained that the Fed’s tools are limited in addressing immediate energy spikes, as these shocks often “come and go pretty quickly” while monetary policy works over the long term. As a result, the current environment places the Fed in a position where patience is warranted. The combination of a static labor market and moderating core inflation supports the case for eventual policy easing, but the near-term uncertainty around energy-driven inflation complicates the timing. In other words, while the path to monetary easing may be delayed, it is not derailed. We continue to expect the Fed will have room to cut rates later this year, albeit on a more measured timeline than previously anticipated.

While we expect fiscal and monetary support to sustain steady growth in the U.S. despite higher energy prices, timing is an important and consequential variable. Ultimately, the extent of economic impact will depend on how long the conflict with Iran persists, as prolonged geopolitical instability and elevated energy prices could weigh on consumer spending, business investment, and overall economic momentum. However, we anticipate a relatively short-lived conflict, as President Trump, despite his rhetoric, appears to be seeking an "off-ramp." Historically, the President has used the health of the U.S. economy as his primary political calling card, frequently boasting about record-breaking stock market highs and American financial dominance. A protracted war directly threatens this narrative. With the 2026 midterm elections approaching, the administration is likely wary that sustained energy inflation could erode the affordability of everyday goods for American families. As a result, we believe Trump has a significant incentive to resolve hostilities given that the high cost of living will likely be a defining issue at the ballot box in November.

A key positive takeaway is that equities have historically demonstrated a strong ability to recover from short-lived geopolitical shocks, as market fundamentals tend to reassert themselves once the initial wave of uncertainty subsides.

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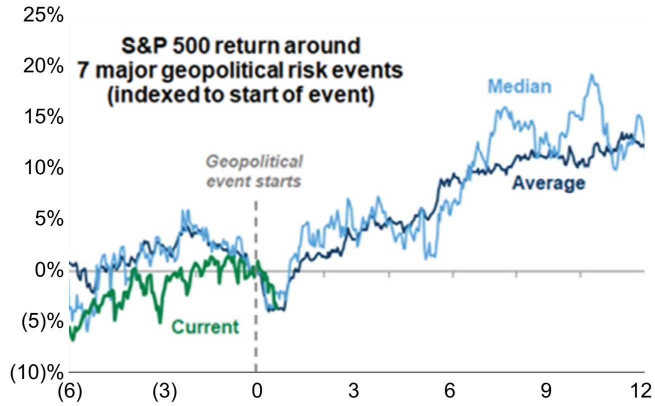
Historically Geopolitical Shocks Have Had a Limited Impact on the S&P 500



Source: Goldman Sach Global Investment Research, See disclosures for additional details

The chart above, courtesy of Goldman Sachs, examines how the S&P 500 performed across seven major geopolitical events dating back to 1950. While these episodes often trigger an initial “panic” phase characterized by heightened volatility and drawdowns, history shows that such declines have typically been short-lived. Both the median (blue line) and average (black line) trajectories indicate that the S&P 500 has generally recaptured its losses within roughly one month. Notably, the current experience, represented by the green line tracking the index from the onset of the conflict through March 13th, appears broadly consistent with these historical patterns thus far. Importantly, equity markets are being buoyed by a still-constructive fundamental backdrop, particularly with respect to corporate earnings. Despite the ongoing conflict, Wall Street analysts have modestly increased their expectations for first-quarter S&P 500 earnings growth. Prior to the outbreak of hostilities, consensus estimates called for EPS growth of 12.8%; that figure has since been revised higher to 13.2%. If realized, this would mark the sixth consecutive quarter of double-digit earnings growth for the index. This earnings momentum continues to be driven in large part by improved profitability, supported by solid productivity gains and operational efficiencies. Looking further ahead, the outlook remains compelling. Consensus expectations currently call for full-year 2026 earnings growth of approximately 17.4% for the S&P 500, suggesting that the underlying earnings engine remains intact. If these projections are achieved, and if historical precedent holds—where fundamentals ultimately outweigh geopolitical headlines—the near-term outlook for equities remains favorable.

AI ANXIETY: A REPRICING DRIVEN MORE BY UNCERTAINTY THAN REALITY

AI-driven anxiety weighed heavily on first-quarter sentiment as investors grappled with how AI might disrupt existing business models. After an extended period in which AI-related stocks helped drive market gains, many investors began asking a more practical question: Who will ultimately generate meaningful profits from all this AI spending and who could be disrupted by it? A good example of this shift occurred during the quarter when Anthropic, a leading AI developer, announced the release of an upgraded AI model capable of performing complex tasks such as legal analysis and financial research. In simple terms, this technology can complete work that previously required highly trained (and often expensive) professionals—doing so faster and at a lower cost. This development raised broader concerns across the market. The primary fear is that AI “agents” could increasingly replace human users in a wide range of professional services. Many software companies, particularly those operating under the Software-as-a-Service model, generate revenue by providing tools that assist lawyers, financial analysts, consultants, and other knowledge workers. If AI platforms can perform portions of that work directly, it raises questions about the long-term demand for some of these traditional software solutions. As this news was digested by the market, shares of several software and research-focused companies declined meaningfully with investors reassessing which businesses are best positioned to benefit from AI adoption and which may face competitive pressure from it.

In reality, we believe it is too early to determine the ultimate winners and losers. Though AI will likely disrupt certain business models, it has potential to reinforce—and create—others. Even within sectors currently viewed as “at risk,” the fundamentals still appear intact, and companies are actively integrating AI into their own offerings rather than being displaced by it. The current environment looks less like a clear structural collapse and more like a repricing driven by uncertainty and shifting expectations. Markets are forward-looking, but they are also prone to overshooting, especially when narratives are powerful and outcomes are unclear. AI is a transformative technology, and rapid sentiment shifts are creating volatility that says as much about investor psychology as it does about underlying fundamentals.

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> **“Despite enormous gains in automation, the share of prime-age (25–54) Americans who are employed has actually risen, from roughly 63% in the 1940s to around 80% today. That’s a strong empirical reminder that technological progress tends to expand the scope of work rather than shrink it. "**

The current wave of anxiety over AI disruption mirrors that of past eras, where almost every major innovation, from the steam engine to the internet, was greeted with predictions of total economic collapse. While the speed of AI integration is unprecedented, we feel the narrative that it will lead to a jobless future ignores the historical reality of labor transformation. More importantly, history shows that new technologies don’t just eliminate work—they create entirely new industries and categories of employment. In fact, an estimated 60% of today’s jobs did not exist in the 1940s. Entire fields like software development, digital marketing, and data science would have been unimaginable at the time. Despite enormous gains in automation, the share of prime-age (25–54) Americans who are employed has actually risen, from roughly 63% in the 1940s to around 80% today. That’s a strong empirical reminder that technological progress tends to expand the scope of work rather than shrink it.

IN CLOSING

While the first quarter was marked by heightened volatility and a shift in investor sentiment, we believe the underlying economic and earnings backdrop in the U.S. remains broadly constructive. The Iran conflict presents a major but still manageable risk to the economy, assuming its scope and duration remain limited. That said, periods like this can be uncomfortable for investors, as geopolitical developments are inherently difficult to predict or position for in advance. This is especially true in the current policy environment, where the Trump administration has shown a willingness to shift tone and direction quickly. In fact, there is a term on Wall Street called "TACO," which is an acronym for "Trump Always Chickens Out." This acronym reflects the observation that the President often adopts an aggressive stance on policy matters (ranging from trade disputes to military escalations) only to ultimately de-escalate or reverse course. That kind of variability can amplify short-term market swings and create a sense of instability, but it is not something that can be effectively addressed through tactical asset allocation decisions. History suggests that markets tend to recover relatively quickly from geopolitical shocks, but in the near term, we would expect volatility to remain elevated until there is greater clarity around a resolution in the Middle East. In the meantime, investors are likely to continue reacting to headlines, policy developments, and shifts in sentiment, as markets attempt to price in a wide range of potential outcomes. Once a resolution with Iran is reached and uncertainty fades, we would expect fundamentals to reassert themselves as the primary driver of market direction. In an environment defined by both uncertainty and rapid change, we believe maintaining a disciplined, long-term perspective is especially important. Ensuring that your portfolio is aligned with your individual risk tolerance and time horizon remains the most effective way to navigate periods of volatility and stay on track toward achieving your financial goals.

We sincerely thank you for your ongoing confidence and trust in us. If you have any questions or would like to discuss your portfolio allocation, please don't hesitate to reach out to your relationship manager. We're here to support you in making informed decisions that best serve your interests.

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The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East), excluding the US & Canada. The MSCI EAFE Index is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the US and Canada. With 913 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Indices are not managed and do not incur fees or expenses. Performance numbers for the index are total return with dividends reinvested in the index.

The MSCI Emerging Markets Index captures large and mid-cap representation across 24 Emerging Markets (EM) countries*. With 838 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Performance numbers for the index are total return with dividends reinvested in the index.

The Bloomberg Barclays US Aggregate Bond Index provides a measure of the total return performance of the U.S. dollar denominated investment grade bond market, which includes investment grade government bonds, investment grade corporate bonds, mortgage pass through securities, commercial mortgage backed securities and asset backed securities that are publicly for sale in the United States.

The Consumer Price Index (CPI) is issued by the U.S. Bureau of Labor Statistics and is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Indexes are available for the U.S. and various geographic areas.

The Core Consumer Price Index (Core CPI) is issued by the U.S. Bureau of Labor Statistics and is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services excluding the volatile food and energy sectors. By stripping out these unpredictable costs, it provides a clearer picture of long-term, underlying inflation trends. It is used primarily by central banks, such as the Fed, to inform monetary policy and set interest rates. Indexes are available for the U.S. and various geographic areas.

The Tax Foundation is an international research think tank based in Washington D.C. that collects data and publishes research studies on U.S. tax policies at both the federal and state levels. Its stated mission is to "improve lives through tax policy research and education that leads to greater economic growth and opportunity". The Tax Foundation describes itself as an "independent tax policy research organization". It is cited in the media as a non-partisan or bipartisan organization. The Tax Foundation has three primary areas of research: the Center for Federal Tax Policy, the Center for State Tax Policy, and the Center for Global Tax Policy. The group is known for its annual reports such as the State Tax Competitiveness Index, International Tax Competitiveness Index, and Facts & Figures: How Does Your State Compare, which was first produced in 1941.

The Stanford Institute for Economic Policy Research is a nonpartisan economic research institution housed at Stanford University. It was founded in 1982 as a way to bring together economic scholars from different parts of the University. It's mission is to support research that informs economic policymaking while engaging future leaders and scholars. The institute shares knowledge and builds relationships among academics, government officials, the business community and the public.

Artificial intelligence (AI) is a wide-ranging branch of computer science concerned with building smart machines capable of performing tasks that typically require human intelligence. While AI is an interdisciplinary science with multiple approaches, advancements in machine learning and deep learning, in particular, are creating a paradigm shift in virtually every sector of the tech industry. Artificial intelligence allows machines to model, or even improve upon, the capabilities of the human mind. And from the development of self-driving cars to the proliferation of generative AI tools like ChatGPT and Google's Bard, AI is increasingly becoming part of everyday life — and an area companies across every industry are investing in.

Please contact us for more information on how we can assist you with your financial needs.

Disclosures:

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The chart titled "Historically Geopolitical Shocks Have Had a Limited Impact on the S&P 500" is from a Goldman Sachs Global Investment Research note authored by Ben Snider and the U.S. Equity Strategy team. It compares the current market volatility, driven by the 2026 military conflict in Iran, to a historical average and median of seven similar geopolitical shocks. According to Goldman Sachs, the seven major geopolitical risk events dating back to 1950 used in this analysis are: The Korean War (1950), Cuban Missile Crisis (1962), JFK Assassination (1963), Six-Day War (1967), Yom Kippur War (1973), Iraq's Invasion of Kuwait (1990), September 11 Terrorist Attacks (2001).