

Quarterly Insights

EXECUTIVE SUMMARY

Stocks Down And Bonds Flat In Q1

In the First Quarter, the domestic S&P 500 Index was down 4.33%, in the range of all major regions. Europe was down 4.26% and China was down 8.94%. The US attacked Iran on February 28 as part of a joint strike campaign with Israel.

Inflation fears due to rising oil prices dominated market concerns in March. These fears were subsequently reflected in an investor “flight to quality”. Starting in March, there was considerable US out-performance in the stock market and a strengthened US Dollar. In its March 18 meeting, the Fed announced no rate cut and indicated a future possible one 0.25% rate cut. In Q1, the Bloomberg US Aggregate Bond Total Return USD Index (AGG) was flat, falling 0.05%.

Geopolitical Events: A Buying Opportunity?

The Iran conflict has caused market turmoil. While geopolitical shocks create short-term uncertainty, the longer-term behavior of the market has been very consistent. Markets react quickly to uncertainty (markets hate uncertainty) but they also tend to recover faster than expected. A consistent pattern emerges with geopolitical events:

1. Investors tend to react emotionally to headlines in the immediate to short term
2. Markets tend to react analytically to fundamentals beyond the short term

More often than not, geopolitical events present a buying opportunity. The single most important factor in market performance after a geopolitical shock is whether the economy is already in or near a recession. The current odds of a 2026 recession is 35%.

First Quarter 2026

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The Iran Conflict Has Caused Market Turmoil

The United States attacked Iran on February 28, 2026 as part of a large-scale joint strike campaign with Israel. Conflict in the Middle East continues and oil prices have spiked. This has potentially far-ranging effects for domestic and global economies, as well as anticipated Fed policy regarding its target rate. Both the domestic and global markets have recently fallen. How do markets react one month to 12 months out when geopolitical events occur? Is there a buying opportunity by remaining calm in the eye of the storm?

More Often Than Not, Geopolitical Events Present A Buying Opportunity

While geopolitical shocks create short-term uncertainty, the longer-term behavior of the market has been very consistent. Markets react quickly to uncertainty (markets hate uncertainty) but they also tend to recover faster than expected. Economic fundamentals drive the markets far more than geopolitical uncertainty.

A consistent pattern emerges with geopolitical events:

1. Investors tend to react emotionally to headlines in the immediate to short term
2. Markets tend to react analytically to fundamentals beyond the short term

Making long-term investment decisions based on geopolitical headlines has rarely been a successful strategy.

A research study conducted by LPL Financial examined 42 geopolitical events since World War II and the subsequent performance of the S&P 500 Index for intervals over the next 12 months. Markets tend to process geopolitical shocks quickly. The S&P 500 Index has experienced an average decline of roughly 5% following geopolitical shocks, with markets typically bottoming in three weeks and recovering in one to two months.

LPL Financial Study: 42 Post WWII Geopolitical Shocks And Subsequent S&P 500 Index Performance				
SUMMARY OF DATA	1 Month	3 Months	6 Months	12 Months
Average	(1.1%)	0.5%	3.1%	3.0%
Average If No Recession	0.2%	3.8%	8.0%	9.8%
Average If Recession	(3.6%)	(5.9%)	(6.3%)	(9.8%)

LPL Financial Study: 7 Sample Post WWII Shocks And Subsequent S&P 500 Index Performance					
Event	Event Date	1 Month	3 Months	6 Months	12 Months
North Korea Invades South Korea	06/25/1950	(10.0%)	1.6%	4.1%	11.7%
Cuban Missile Crisis	10/16/1962	5.1%	14.1%	20.7%	27.8%
Oil Embargo (Near A Recession)	10/16/1973	(7.0%)	(13.2%)	(14.4%)	(35.2%)
Iraq War	03/20/2003	1.9%	13.6%	18.7%	26.7%
Russia / Ukraine Conflict	02/17/2022	1.8%	(10.9%)	(2.2%)	(6.9%)
Iran Attack On Israel	04/14/2024	2.4%	9.9%	14.4%	5.5%
Iranian Supreme Leader Killed	02/28/2026	(7.78%)	?	?	?

The Key Performance Differentiator: Recession Versus No Recession

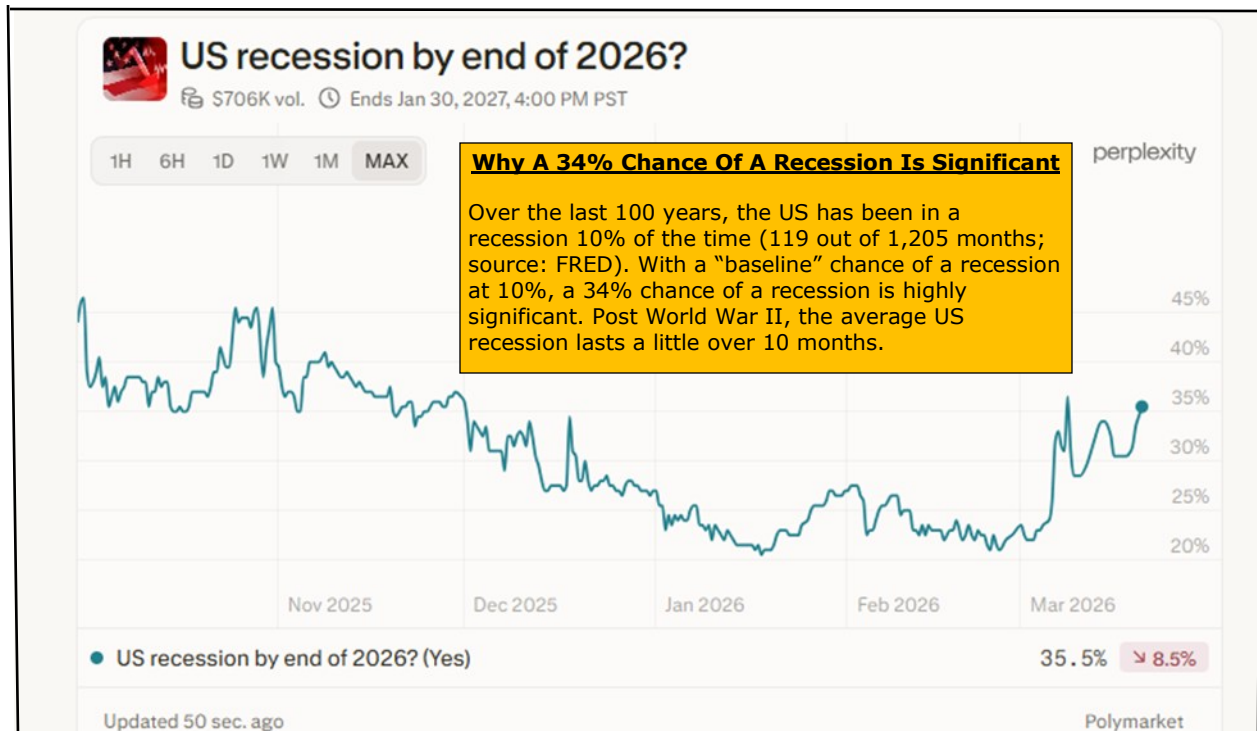
The single most important factor determining market performance after a geopolitical shock is whether the economy is already in or near a recession.

- If a shock occurs during an expansion, markets tend to rise over all time frames in the next 12 months.
 - If a shock occurs near / during a recession, markets tend to fall over all time frames in the next 12 months.
- This makes intuitive sense. Shocks can add volatility but they rarely derail a fundamentally sound economy. However, if conditions are already fragile, the geopolitical event can accelerate or amplify existing weakness.

Current Market Consensus: Roughly A One In Three Chance Of A Recession In 2026

Prediction markets are currently putting U.S. recession odds in roughly the low-to-mid 30% range for a recession by the end of 2026, up from the low-20s before the Iran conflict escalated. The odds are higher than they were in mid-February because of energy-price and confidence shocks.

Polymarket is a blockchain-based prediction market platform where users trade shares on the outcomes of real-world events like elections, sports, and economic indicators. The company’s current “U.S. Recession By The End Of 2026” contract implies a 34% chance of a recession by that horizon.



Other sources have a similar outlook. Kalshi, a web-based prediction market platform, assesses the odds of a recession this year at 32%. Goldman Sachs raised its 12-month recession probability to 25%. J.P. Morgan sees a 35% chance of a 2026 recession. BCA Research, a leading independent research firm, has the odds at 40%.

Portfolio Strategy Considerations

“Hindsight is always twenty-twenty” (Billy Wilder, award-winning Golden Age Hollywood producer).

Our most important consideration is not a geopolitical event (the Iran conflict) - it is the odds of a recession. In a perfect world, we would know with 100% certainty whether we are at or near a recession, and our portfolio approach would be entirely clear. We are not in a perfect world.

A Shock Along With:	Subsequent Average 12-Month Market	Optimal Portfolio Approach
Recession	DOWN	Defensive
No Recession	UP	Aggressive

The current market odds of a recession in 2026 is considerable (35%). As your portfolio manager, we strive to position the portfolio in a manner that we believe has the greatest chance of succeeding. The rising recession odds favor a cautious portfolio. While we view the market as having a better than 50-50 chance of moving upward over the next 12 months, it may not. We will position our stock and bond holdings accordingly.

Stocks Down In Q1

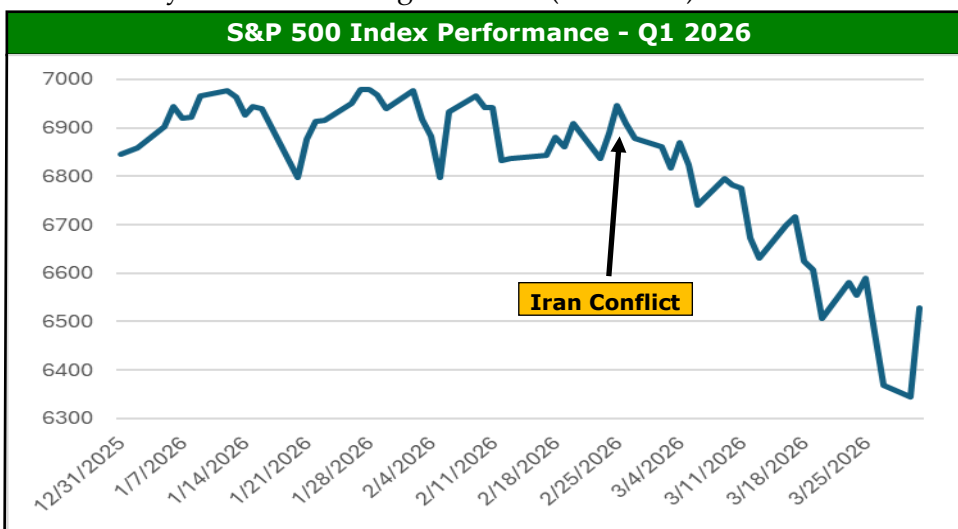
In the First Quarter, the domestic S&P 500 Index was down 4.33%, in the range of all major regions - but it led since the start of the Iran conflict. Europe was down 4.26% and China was down 8.94% in Q1. Inflation fears due to rising oil prices dominated market concerns. Prior to the conflict, we raised our foreign exposure because we believed it had become more attractive in the long-term.

Equity Index Performance		
Index	Q1 2026	2025
S&P 500 (Domestic)	(4.33%)	17.88%
MSCI EAFE (Foreign) *	(1.24%)	31.22%
MSCI Emerging Markets	(0.17%)	33.57%
MSCI EMU (European Monetary Union)	(4.26%)	40.30%
MSCI Japan	1.37%	24.60%

* Europe, Australia and the Far East

The Market Was A Wild Ride After The Start Of The Iran Conflict

Q1 started out stable. The S&P 500 Index was roughly flat through February 27. Then the Iran conflict and the accompanying oil price pressures started on February 28. From this date forward through March 31, the S&P fell 4.98% but fared relatively better than foreign markets (see below).



There Was A Flight To US Safety After The Start Of The Iran Conflict

While the S&P 500 Index (domestic market) fell 4.98% from February 28 to March 31, foreign markets fared relatively worse over this same time frame:

- MSCI EAFE fell 10.29%
- MSCI EMU fell 10.56%
- MSCI Japan fell 12.43%
- MSCI Emerging Markets fell 13.07%
- MSCI China fell 7.76%

The U.S. Dollar appreciated 2.8% versus the Euro and 2.5% versus the Yen (over this same short time frame).

We previously raised our foreign stock exposure, but in light of the conflict, have not further raised foreign.

Bonds Flat In Q1

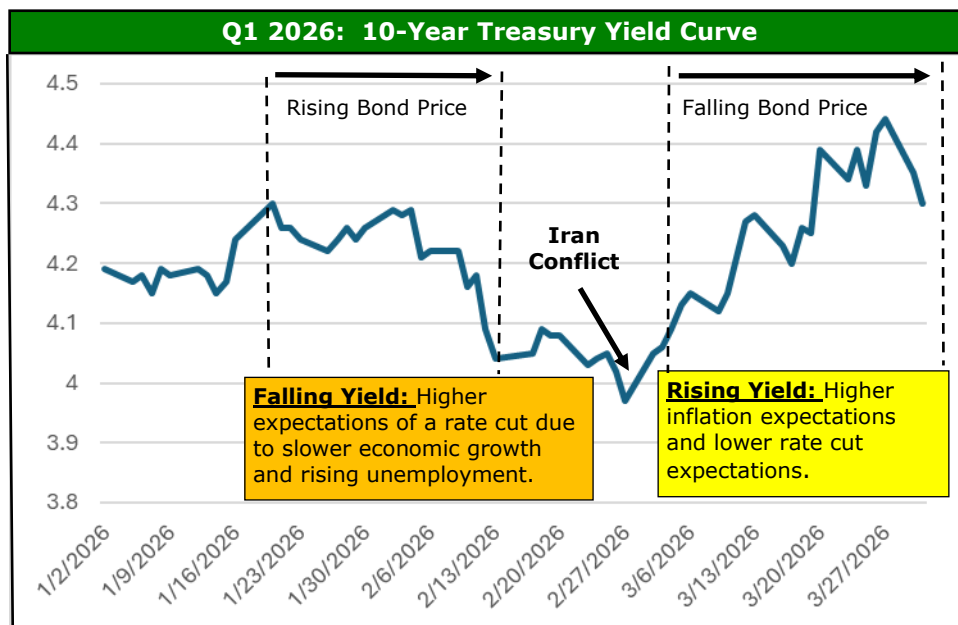
The Bloomberg US Aggregate Bond Total Return USD Index (AGG), a broad-based representation of bond performance, fell 0.05% in the First Quarter. In 2025, the index was up 7.30%. The Fed’s preferred inflation gauge, the core Personal Consumption Expenditures Index, rose 2.8% in February. In its March 18 meeting, the Fed announced no rate cut and indicated a future possible one 0.25% rate cut.

Key US Interest Rates	March 31, 2026	Dec. 31, 2025	Change
Federal Reserve Board Funds Target Rate	3.50% - 3.75%	3.50% - 3.75%	No Change
2-Year Treasury (Constant Maturity)	3.79%	3.47%	+ 32 basis points
5-Year Treasury (Constant Maturity)	3.92%	3.73%	+ 19 basis points
10-Year Treasury (Constant Maturity)	4.30%	4.18%	+ 12 basis points

Why Bonds Ended Up Flat: Focus On The 10-Year Treasury And Inflation Expectations

Remember the inverse relationship between bond prices and bond yields. As prices rise, yields fall (and vice versa). In Q1, bond prices were flat as Treasury yields slightly rose (more so for shorter maturities). The Fed controls short-term interest rates but longer term yields such as the 10-Year Treasury are controlled by inflation expectations and are more sensitive to price movements when yields change.

A main reason why Treasury bond prices ended up flat in Q1 was the inflation fears spurred by the Iran conflict from rising oil prices. Through February 27, yields fell below 4% (bond price rose) on the 10-year Treasury due to higher expectations of the Fed easing on its target rate due to slower economic growth and rising unemployment. On February 28, the United States attacked Iran and yields subsequently rose on the 10-Year Treasury (bond price fell) due to higher inflation and lower Fed rate cut expectations.



Bonds Remain Important

Bonds are an important component of portfolio risk control. Yields remain attractive. Our bonds are positioned to avoid substantial bond price declines.

The “Break-Even Tax Rate” (BETR) For Roth Conversions

We have frequently discussed the potential advantages of Roth Conversions. Investors typically decide whether it is worthwhile converting funds to a Roth IRA from a traditional IRA by comparing their current and future marginal tax rates. Higher future tax rates encourage conversion. Lower future tax rates discourage conversion. The uncertainty in this assessment is that no one knows future tax rates.

Vanguard’s July 2025 research paper “A BETR Approach to Roth Conversions” describes a break-even tax rate (BETR) that provides a more accurate view of what future tax rate would make an investor favor a conversion. If an investor’s future tax rate is above the BETR, consider a conversion.

Illustration

An investor is considering a \$100,000 Roth Conversion with the following assumptions:

- Investor age: 60
- Years before Required Minimum Distributions (RMDs) from Regular IRA: 15
- Current tax bracket: 24% federal and 9% state
- Annualized return for 15 years: 7.5%

If the investor left the \$100,000 in a Regular IRA account, it would be worth \$296,000 in 15 years.

If the investor converts \$100,000 today, the investor pays \$33,000 in taxes. If invested, the taxes paid (\$33,000) would be worth \$74,000 in 15 years based on an annual after-tax return of 5.54%. Lets call this \$74,000 future value “the foregone value of funds if converted”.

The BETR is calculated in three steps:

1. (Value of Funds if Left Alone) – (Foregone Value of Funds if Converted) = \$222,000
2. (Calculation In Step 1) / (Value of Funds Left Alone) = \$222,000 / \$296,000 = 75%
3. BETR = 100% - (Calculation in Step 2) = 100% - 75% = 25%

If the investor believes his/her future tax rate will be greater than 25%, consider a conversion.

Contact Us

We simply want to introduce the concept of a BETR. Calculating a BETR and assessing a potential Roth Conversion is not as easy as the illustration above. It can be a complex exercise. Factors to consider include age, marital status, income level, current and estimated future federal and state tax brackets, investment time frame for the conversion, annual return assumptions based on asset allocation, source(s) of paying the taxes for conversion, basis of funds in the Regular IRA(s), amount of funds in the Regular IRA(s), Medicare surcharges, capital gains taxes in taxable accounts, and “back door” Roth Conversions.

We are here to help and welcome discussion. Please know that we actively assess opportune Roth Conversions for all our clients.

In our previous “Outside The Box” page (January, 2026), we stated that “tariffs added a high level of uncertainty to businesses and consumers in 2025, and there does not appear to be relief in sight”. Our view has not changed despite the U.S. Supreme Court decision on February 20 regarding the legality of President Trump’s tariffs imposed under the International Emergency Economic Powers Act (IEEPA).

In a 6-3 decision, the Court held that the IEEPA does not authorize the president to impose tariffs at all. Rather, Article 1 of the Constitution gives Congress, not the president, the power to impose taxes and tariffs. Tariffs that relied on IEEPA as their legal basis were invalidated, and US Customs and Border Protection was ordered to stop collecting them. Immediately after the ruling, President Trump announced a new flat global tariff of 10% on almost all imports under Section 122 of the Trade Act of 1974. Section 122 lets a president raise tariffs for balance-of-payments reasons, but only for up to 150 days unless Congress extends them.

Unwinding IEEPA-based tariffs will reduce costs going forward for import-reliant firms, which especially helps the small and mid-sized firms that struggled to absorb the earlier surcharges. In the near-term, litigation will likely focus on the scope and efficient processing of tariff refunds. It is estimated that roughly \$175 billion must be refunded to those who previously paid the IEEPA tariffs.

Will tariff refunds result in inflation risk? To some degree, but perhaps not significantly. Refunds will act as a moderate, one-time stimulus for some sectors but bear in mind the rejected IEEPA tariffs may be still be replaced to some degree by other tariffs. Regardless, the IEEPA refunds will not go directly to individuals.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress.

Respectfully submitted,

TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

Disclaimer

The information presented herein is intended for informational purposes only. All views are subject to change based on updated indicators. The recommendations made in this publication are made without regard to individual suitability. Investors should consider their own needs and objectives before making any investment decision.

Commentary in this review reflects our portfolio strategy. Many of our clients have different objectives and circumstances which are reflected in unique portfolio considerations. Please note that accounts may not contain all elements of the strategy discussed here. Additionally, individual client customizations and start dates may preclude certain elements of this strategy from being implemented.

Past performance is no guarantee of future results. A risk of loss is involved with investments in stock markets.