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MARKET COMMENTARY

Prepared by Theresa Gusman

“Right Back to Where We Started From”



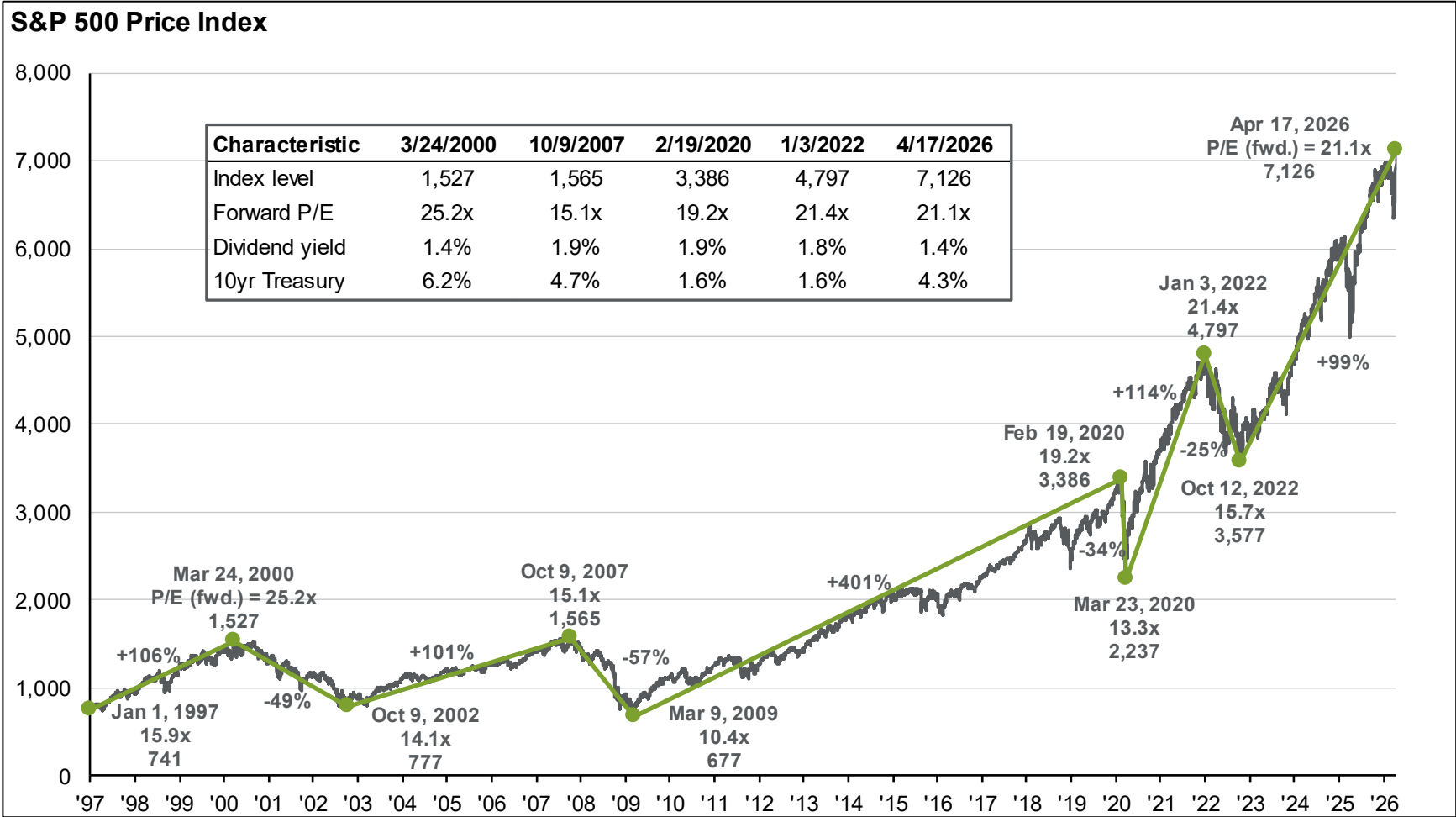
“Right Back to Where We Started From”¹

Global markets spent six weeks violently repricing war risk, inflation risk, and AI skepticism, only to snap back to record highs once the worst-case energy scenario began to look less likely. The S&P 500 started 2026 at 6,858.47, sat essentially flat at 6,878.88 on Friday, February 27th, the day before the Iran conflict began, and closed effectively unchanged at 6,886.24 on Monday, April 13th, the day the US initiated a naval blockade in the Strait of Hormuz to restrict Iran’s exports and access to funds (see Figure 1). At the same time, the US economy is resilient; consumer spending remains strong, and corporate earnings continue to surge higher.

The S&P 500 declined 4.3% in the first quarter after falling nearly 8% in late March, while the Nasdaq slipped into correction territory. By mid-April, both the S&P 500 and the Nasdaq were setting fresh highs, and crude oil had fallen sharply from its 2026 peak of \$112 to the mid-\$80s. As we saw in 2025, markets moved rapidly from resiliency → panic → recovery, reinforcing the importance of staying invested during volatile periods. In the wake of the Iran conflict and its aftermath – modestly higher oil prices and inflation, a defanged Iran, and a persistently strong earnings outlook – the market focus has shifted from pricing energy shock and war escalations, to refocusing on growth. In the week following the US blockade, according to Goldman Sachs, quantum computing, Bitcoin-sensitive, and agentic AI were among the themes that outperformed as the US market hit record high levels, and oil, natural gas, and commodity-sensitive stocks underperformed.

The first quarter reinforced our view that uncertainty is a feature, not a bug for the current Administration, and we must learn to live with volatility as President Trump initiates aggressive actions and issues sweeping edicts to bring adversaries to the table, only to retreat to pragmatism. Amidst the chaos, the US economy remains resilient; inflation is only modestly higher; unemployment is in check; and corporate earnings are strong.

Figure 1. S&P 500 at Inflection Points - Bull and Bear Markets, 1996 to Date



Source: J.P. Morgan Asset Management Guide to the Markets – U.S. Data are as of April 17, 2026

It can be difficult for investors to remain “in the market” during periods of extreme, reactionary downturns. However, attempting to time such volatility can be futile and the best option for investors is to stay the course. Figure 2 shows the impact of missing the best market days over the past 25 years. Based on an initial \$1,000 investment (using S&P 500 returns before transaction costs), a fully invested portfolio would have delivered returns of 7.8%, on average, over the past 25 years. If the investor would have missed the 10 best market moves – which often closely follow the worst market declines – their returns would have been 4.37% annually; if they had missed the miss 20 best days, their return would have been 2.13%, and if they had missed the 40 best days in the market, their return would have been negative.

Q1 2026: From “Everything, Everywhere, All at Once”² to Nowhere to Hide

The first quarter of 2026 will be remembered as the period during which several long-accumulating risks stopped being theoretical and started being priced into the market – at least temporarily. The S&P 500 finished the first quarter in negative territory as the AI trade reversed, the Supreme Court struck down the Trump administration’s primary tariff authority in a 6–3 ruling, the US intervened in Venezuela and Cuba, and the United States, in concert with Israel, initiated a conflict against Iran that destabilized energy markets, disrupted roughly one-fifth of global seaborne oil trade, damaged critical LNG infrastructure in Qatar, and introduced the most severe supply disruption since the 1970s energy crisis. Global markets were the mirror image of 2025 as oil prices surged, the dollar rose, stock markets plunged, and precious metals and non-energy commodities prices fell – briefly leaving nowhere for fossil fuel-averse investors to hide.

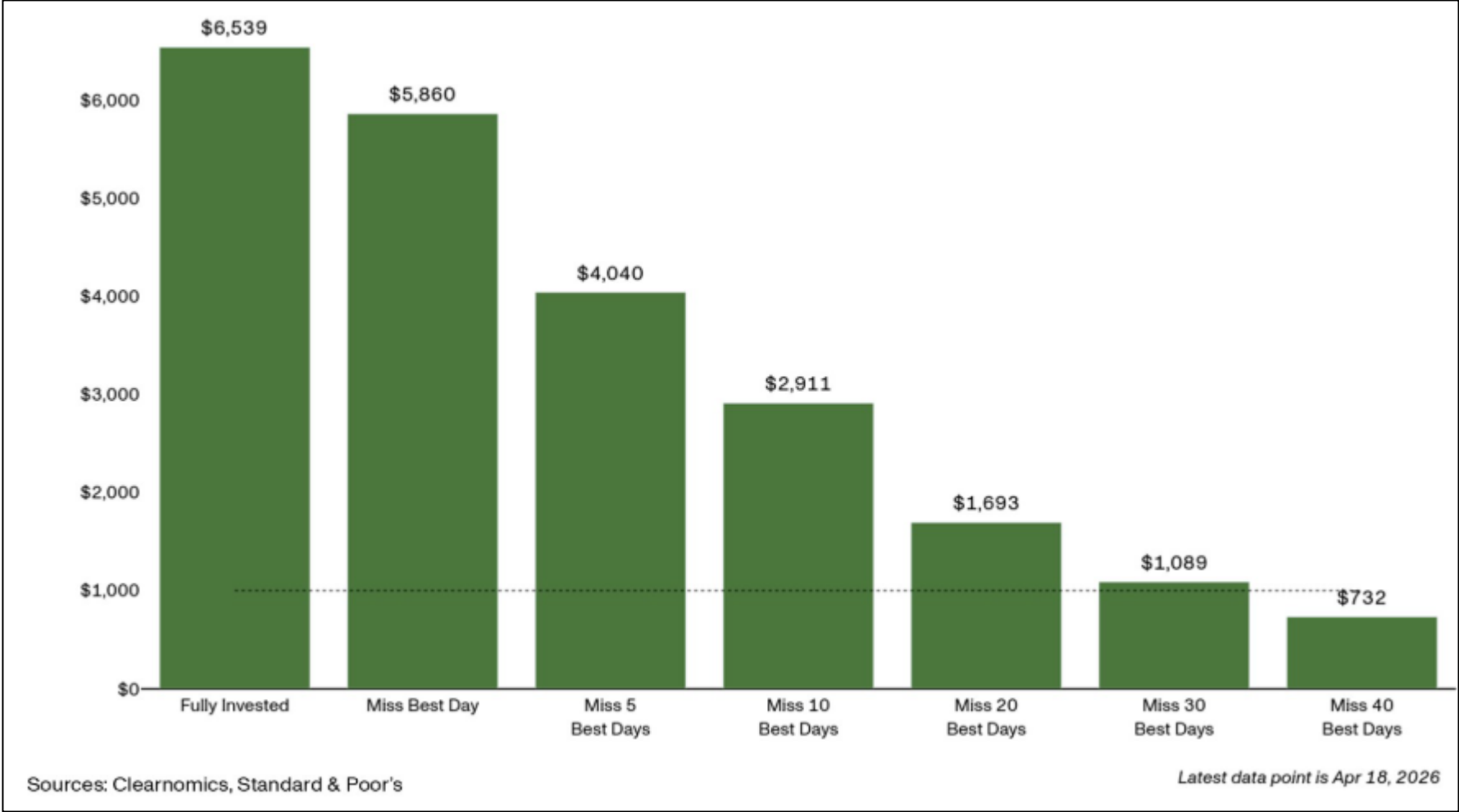
Since the spring of 2023, the AI-driven technology and communication services sectors led the market higher. In a dramatic rotation, these sectors, plus financial services and consumer cyclicals – which were driven in part by AI disruption fears – led the market lower in the first quarter (see Figure 3). Energy stocks were the best performers with a 38.1% gain on the back of the oil price surge, followed by other previously-lagging-sectors including basic

¹ Song written by Pierre Tubbs and J. Vincent Edwards, recorded by Maxine Nightingale in 1975.

² See our Q4 2025 Market Commentary.

materials, which was driven by stock-specific gains, utilities, and industrials. As shown in Figure 4, the first quarter change in market leadership manifested itself in a reversal in the performance of Large Growth versus Large Value (despite the downdraft in financials).

Figure 2. The Impact of Missing the Best Days in the Market, 2001 to Date



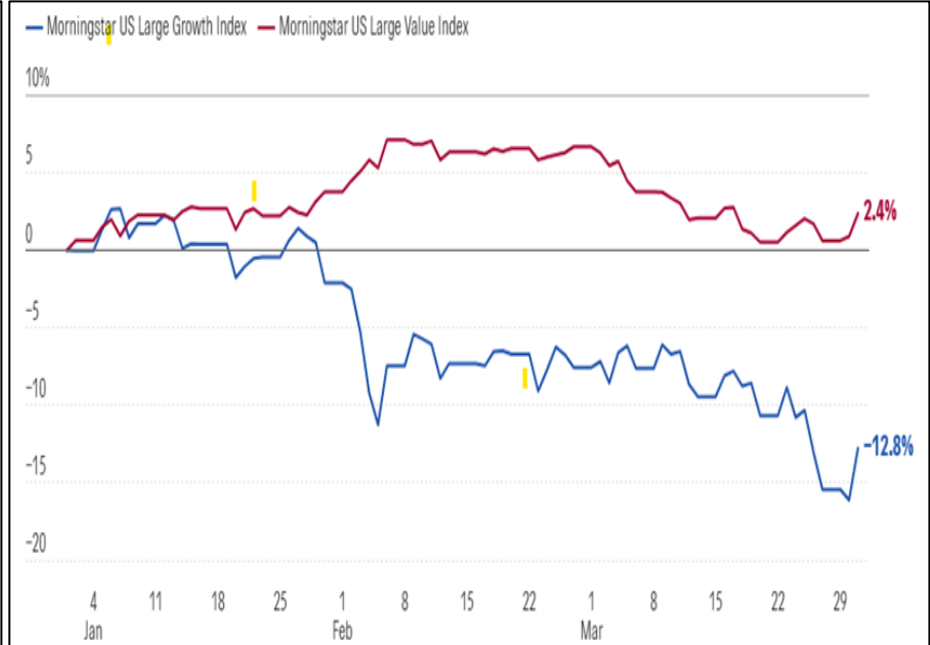
Source: TCW; The impact of missing the best market days over the past 25 years is based on an initial investment of \$1,000 using S&P 500 returns before transaction costs.

Figure 3. US Stock Sector Performance

Name	Q1 2026	Q4 2025	1 Year
Basic Materials	10.52	2.55	24.51
Communication Services	-8.14	6.60	31.15
Consumer Cyclical	-9.10	0.39	10.22
Consumer Defensive	7.53	-0.91	4.85
Energy	38.08	1.02	36.28
Financial Services	-9.27	2.50	3.45
Healthcare	-4.88	11.27	3.91
Industrials	6.80	2.09	31.01
Real Estate	1.68	-1.95	2.44
Technology	-9.02	0.73	25.62
Utilities	7.74	-1.35	23.34

Source: Morningstar; Data as of March 31, 2026.

Figure 4. Large Growth vs. Large Value



Source: Morningstar; Data as of March 31, 2026.

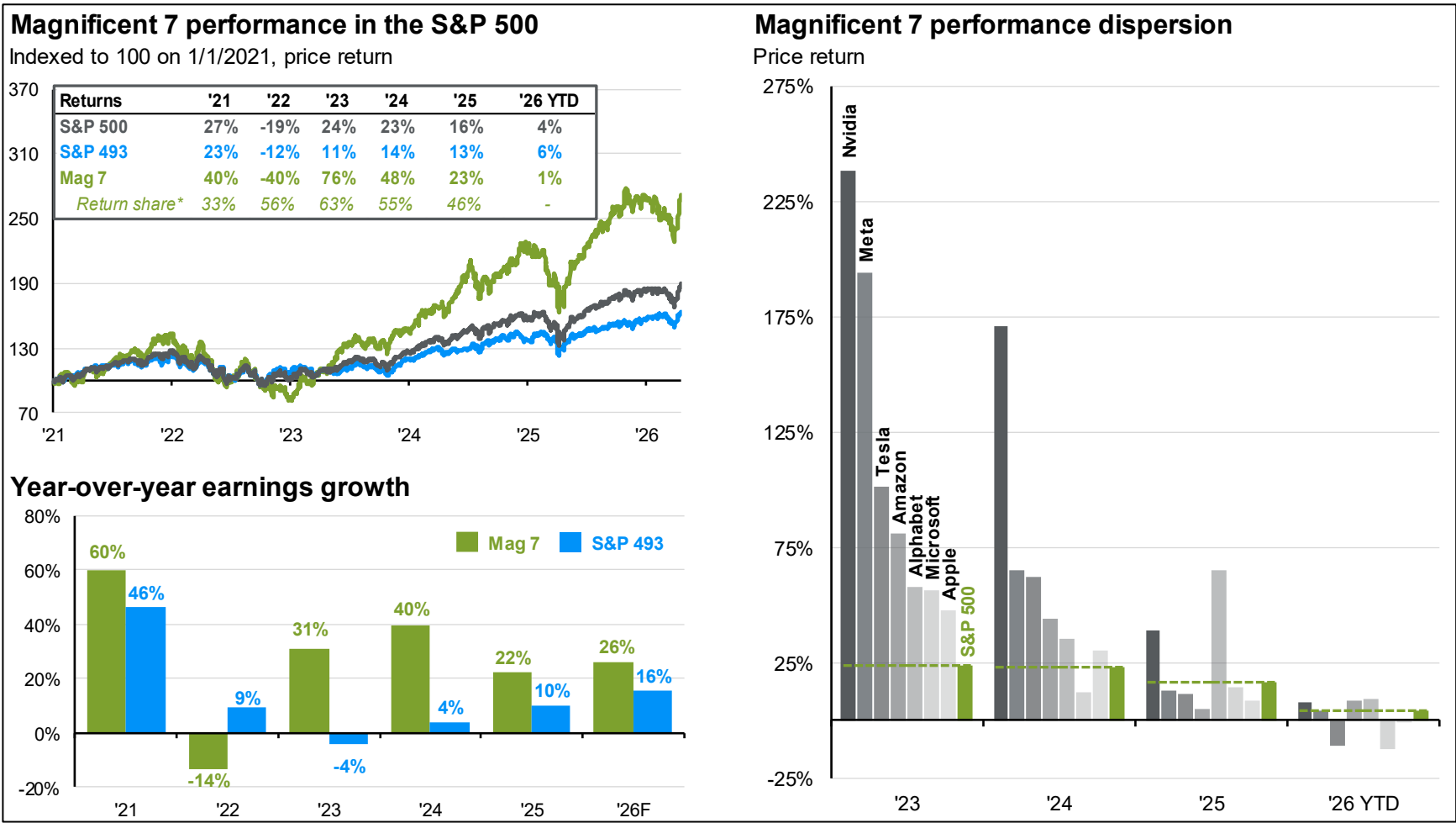
With the fall in technology stocks, the NASDAQ was by far the worst performing market in the first quarter, falling 7.0%. Although International markets fell more sharply than the S&P 500 in the wake of the Iran conflict, the MSCI World (ex-US) index (-0.78%) outperformed the S&P 500 (-4.35%) during the period.

The (Not So) “Magnificent 7” and the AI Boom

The AI boom continues with adoption rates continuing to accelerate. However, the AI “play” continues to broaden, the earnings growth of six of the formerly “Magnificent 7” has slowed, three of the seven “Magnificent 7” companies underperformed the S&P 500 year to date (along with the technology sector, per above), and – despite the recent rebound, the “Magnificent 7” contributed only 1% of returns to the S&P 500 year to date through April 17th (see Figure 5).

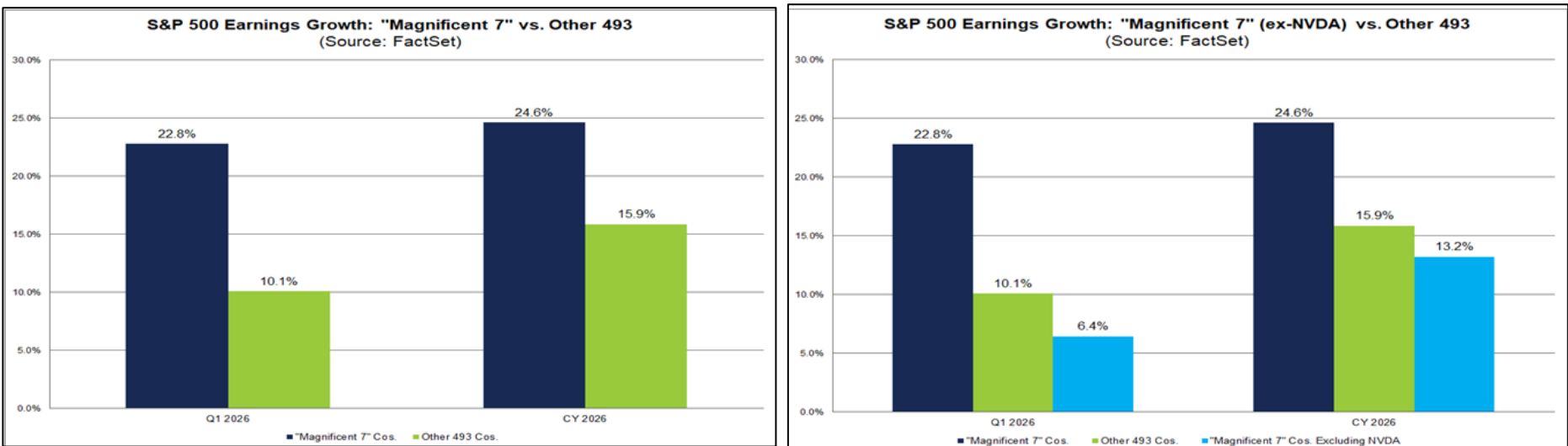
In aggregate, the “Magnificent 7” companies have reported higher (year-over-year) earnings growth than the other 493 companies in the S&P 500 over the past several quarters. According to FactSet, this trend will continue in the first quarter. As shown in Figure 6, the estimated year-to-year earnings growth rate for the “Magnificent 7” companies is 22.8%, well above the estimated 10.1% blended earnings growth rate for the remaining 493 companies in the S&P 500. NVIDIA is expected to be the top contributor to year-to-year earnings growth for the “Magnificent 7” companies (and the entire S&P 500) in the first quarter. In fact, if NVIDIA were excluded, the estimated earnings growth for the “Magnificent 7” companies in Q1 2026 would fall to a pedestrian 6.4% from 22.8%, and the other 493 companies would be reporting higher earnings growth than the remaining “Magnificent 7” companies (10.1% vs. 6.4%). According to FactSet, Micron Technology, Eli Lilly and Company, Broadcom, and Sandisk will be the next top four contributors to earnings growth for the S&P 500 in the first quarter after NVIDIA.

Figure 5. Magnificent 7: Performance, Earnings, and Dispersion



Source: J.P. Morgan Asset Management Guide to the Markets – U.S. Data are as of April 17, 2026

Figure 6. S&P 500 Earnings Growth – “Magnificent 7” v Other 493, With and Without NVIDIA



Source: FactSet, April 20, 2026

The \$100 Oil Shock: Painful, Not Permanent

On February 27, 2026, a US-Israeli military offensive against Iran and Iran’s Middle East targeted response escalated into a broader regional war that rapidly repriced “geopolitical risk” into energy markets – and oil surged above \$110/bbl. Following stalled diplomatic negotiations between the United States and Iran to end the conflict, President Trump announced on April 12, 2026, a naval “blockade” targeting maritime traffic to and from Iranian ports. With Iran’s military incapacitated and economic pressure mounting, geopolitical risk is retreating, oil prices have traded in a narrow range, and global markets have rebounded.

The Strait of Hormuz is a high-volume energy chokepoint with limited near-term substitutes. The US Energy Information Administration (EIA) estimates that in the first half of 2025, oil flows through the Strait of Hormuz averaged approximately 20.9 million barrels/day, roughly 20% of global petroleum liquids consumption (and about one-quarter of total maritime-traded oil). Against that backdrop, “oil around \$100” is best understood as (1) a risk premium (fear of further disruption) layered on top of (2) real logistics constraints (shipping, insurance, rerouting, and bottlenecks), even if some barrels still exist “on paper.” That combination has led to wild price swings around \$100 as ceasefire, blockade, and “normalization” talks have ebbed and flowed. In the end, we believe the Strait will re-open under US (and possibly international) supervision, and oil prices will settle in the \$70s in the coming months.

How Higher Oil Transmits into Inflation and Markets

The first-round inflation channel is mechanical: crude → refined products → retail fuel and energy bills. In the March 2026 CPI (Consumer Price Index) report, the US Bureau of Labor Statistics reported that the headline CPI rose 0.9% month-over-month and 3.3% year-over-year; energy jumped 10.9% in March, driven by a 21.2% increase in gasoline (which the BLS said accounted for nearly three-quarters of the monthly CPI increase).

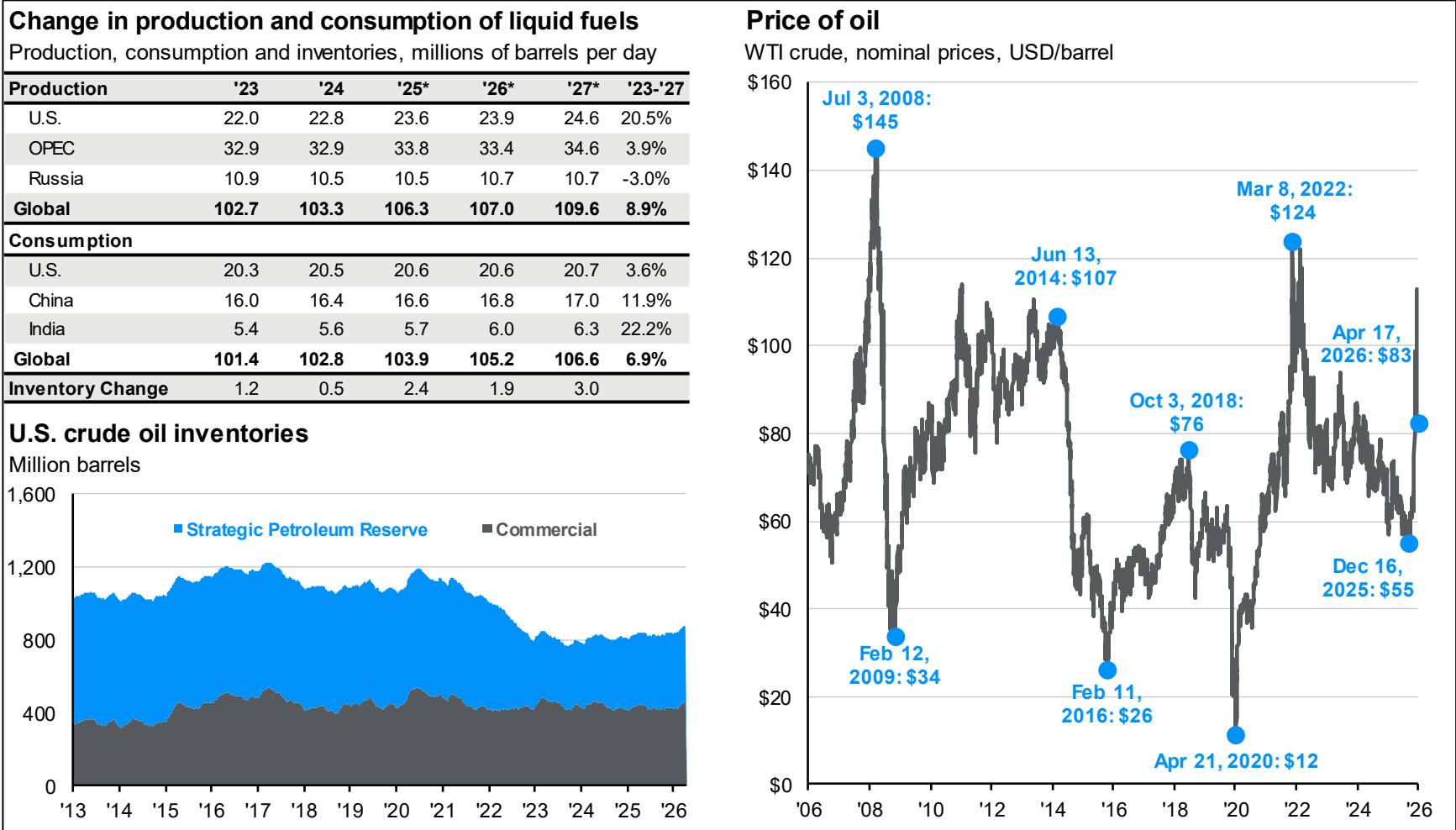
The second-round channel is where oil shocks become macroeconomically dangerous:

- Cost pass-through: Fuel is an input into freight, aviation, and many goods and services; March 2026 already showed increases in categories like airline fares – and the prices of these goods may increase rapidly as the stand-off in the Strait continues.
- Expectations and wage-setting: Longer term, when households and firms start believing “inflation will stay high,” short-lived energy spikes can become persistent inflation via second-round wage/price behavior. A recent Bank for International Settlements (BIS) speech emphasized that repeated supply shocks can create inflation persistence through second-round effects, even if each individual shock is temporary. We have now seen inflation shocks related to COVID, Ukraine, tariffs, and Iran.
- Monetary policy reaction: If central banks respond to higher headline inflation (or inflation expectations) with tighter policy, output can weaken more than the direct fuel cost channel would imply.

- Transmission: Financial markets then transmit the shock through inflation expectations → interest rates → discount rates → equity/credit valuations, while oil-importing countries also face current-account deterioration and sometimes a weaker currency that further raises local fuel costs.

The long-term economic damage hinges on one thing above all – how long the Strait stays closed. From there, the calculus shifts to the speed of supply restoration, the flexibility of global supply chains, and the depth of demand destruction. Although the inflationary impact of higher oil prices is felt worldwide, supply shocks are concentrated in the locations receiving the most oil, natural gas, and related products via the Strait.

Figure 7. Global Oil Markets, Data as of April 17, 2026



Source: J.P. Morgan Asset Management Guide to the Markets – U.S. Data are as of April 17, 2026

Why the US Hit is Smaller Than the Global Hit

The United States faces a meaningfully smaller economic shock from a Hormuz closure than most of the world, for three structural reasons:

- Physical exposure is limited. EIA data show roughly 89% of crude moving through Hormuz flows to Asian markets, with China, India, Japan, and South Korea alone accounting for about 74% of those flows. US imports through the strait totaled just 0.4 million b/d in early 2025 — roughly 7% of US crude imports and only 2% of total petroleum consumption. The war-driven "chokepoint premium" is disproportionately an Asia problem in physical barrels.
- Domestic production buffers macro damage. The US is the world's largest crude producer, with output hitting a record 23.6 million b/d in 2025 (see Figure 7). That doesn't insulate consumers from global pricing — oil is a global commodity — but it means a portion of the price shock becomes an internal income transfer from consumers to domestic producers, rather than a pure wealth transfer abroad.
- Inflation composition limits second-order damage. Gasoline carries less than a 3% weight in the US CPI, meaning even a sharp price spike need not trigger a sustained core-inflation spiral, particularly if the shock proves temporary and expectations stay anchored. The caveat: Higher oil prices are akin to a regressive tax, which means paycheck-to-paycheck households; the cash-flow hit is immediate and real, even when the macro aggregates look manageable.

The US contrast with the rest of the world is sharp. Europe enters any oil shock with structurally higher retail fuel prices — and since the conflict began in late February, EU pump prices have risen sharply, with averages now running approximately €1.87/L for petrol (roughly \$8.30/gallon) and €2.08/L for diesel (roughly \$9.20/gallon), with diesel up about 30% since late February. Even against a US national average that has itself surged to around \$4.00/gallon amid the Hormuz closure, European drivers are still paying roughly twice as much at the pump.

A diesel-heavy transport mix means those price increases feeds quickly into freight, food logistics, and manufactured goods. Governments have responded fiscally: Germany announced temporary fuel tax cuts of €0.17/L — a roughly €1.6 billion two-month commitment — illustrating how fast a fuel shock becomes a budget problem. Emerging market importers face the same dilemma in starker form: India, for example, cut excise duties to contain inflation at an estimated cost of roughly 70 billion Indian Rupees (\$825 million) every two weeks. The fiscal pressure is even more acute for countries running explicit fuel subsidies — including China, India, Pakistan, Bangladesh, and most Gulf states — where an oil price spike shifts the burden almost immediately from households onto sovereign balance sheets; the IMF puts the global tab for such subsidies at \$725 billion in 2024.

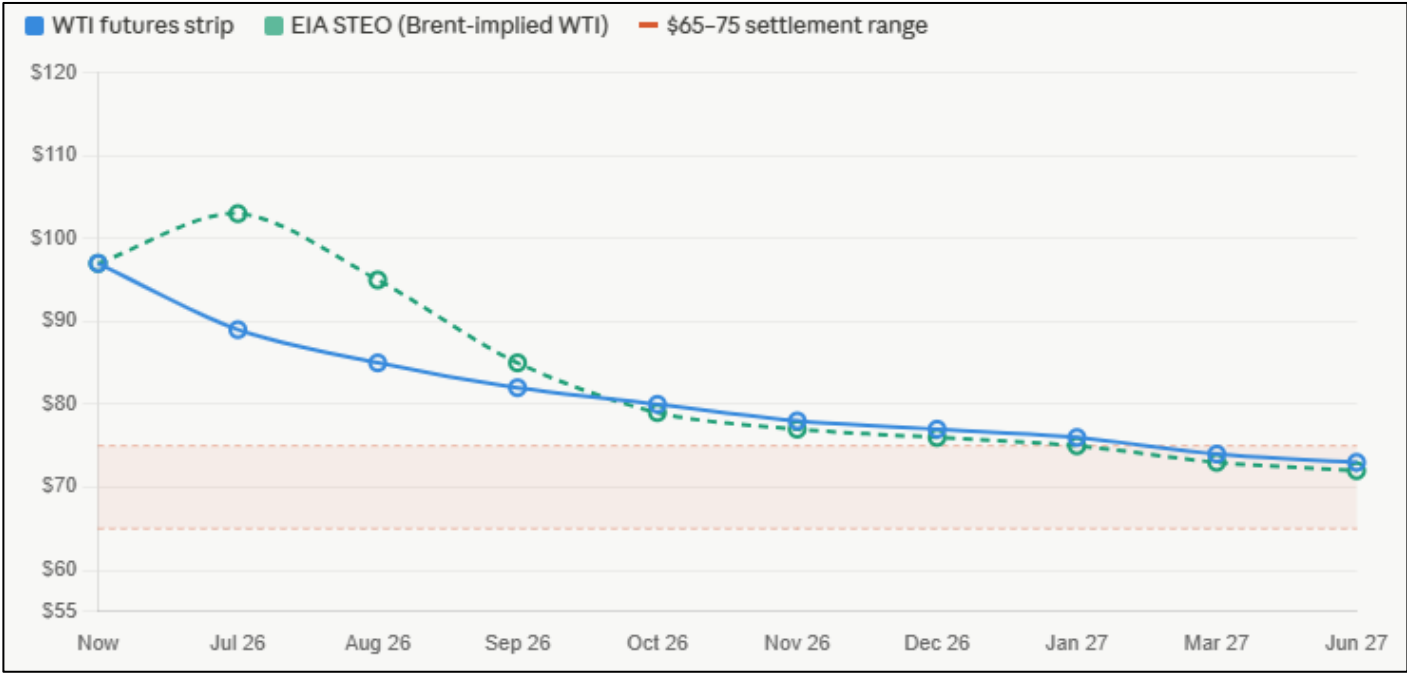
The bottom line: The same dollar move in oil prices carries far more macroeconomic weight outside the US than within it, owing to import dependence, fuel pricing structures, and tighter fiscal and monetary constraints.

Where Oil Prices Go from Here

If the war premium fades and Hormuz flows normalize, oil prices could settle in the \$70-\$80 range over the next several months. The WTI futures strip makes the case plainly. The market prices WTI at roughly \$94/b today, falling to \$89 in July, \$82 in September, \$77 by December 2026, and into the mid-\$70s through 2027 (see Figure 8). The EIA's April Short-Term Energy Outlook tells essentially the same story on a Brent basis, with WTI trading roughly \$10-\$12 below Brent at peak disruption and that spread narrowing as flows normalize.

The path to \$70-\$80 has three key signposts: Physical passage through Hormuz (even partial disruption sustains a large risk premium); supply response outside the conflict zone and OPEC+ discipline as the shock fades; and inflation expectations — if central banks can "look through" a temporary energy spike, the macro damage stays contained, but if expectations become unanchored, policy tightening amplifies the shock well beyond the oil cost itself.

Figure 8. WTI Crude Oil Futures Strip: Market-Implied Price Path (April 2026)



Sources: NYMEX WTI futures strip via Oilprice.com (Apr 24, 2026); EIA Short-Term Energy Outlook (Apr 2026, Brent basis less ~\$10–12 spread).
Futures prices are market-implied, not forecasts.

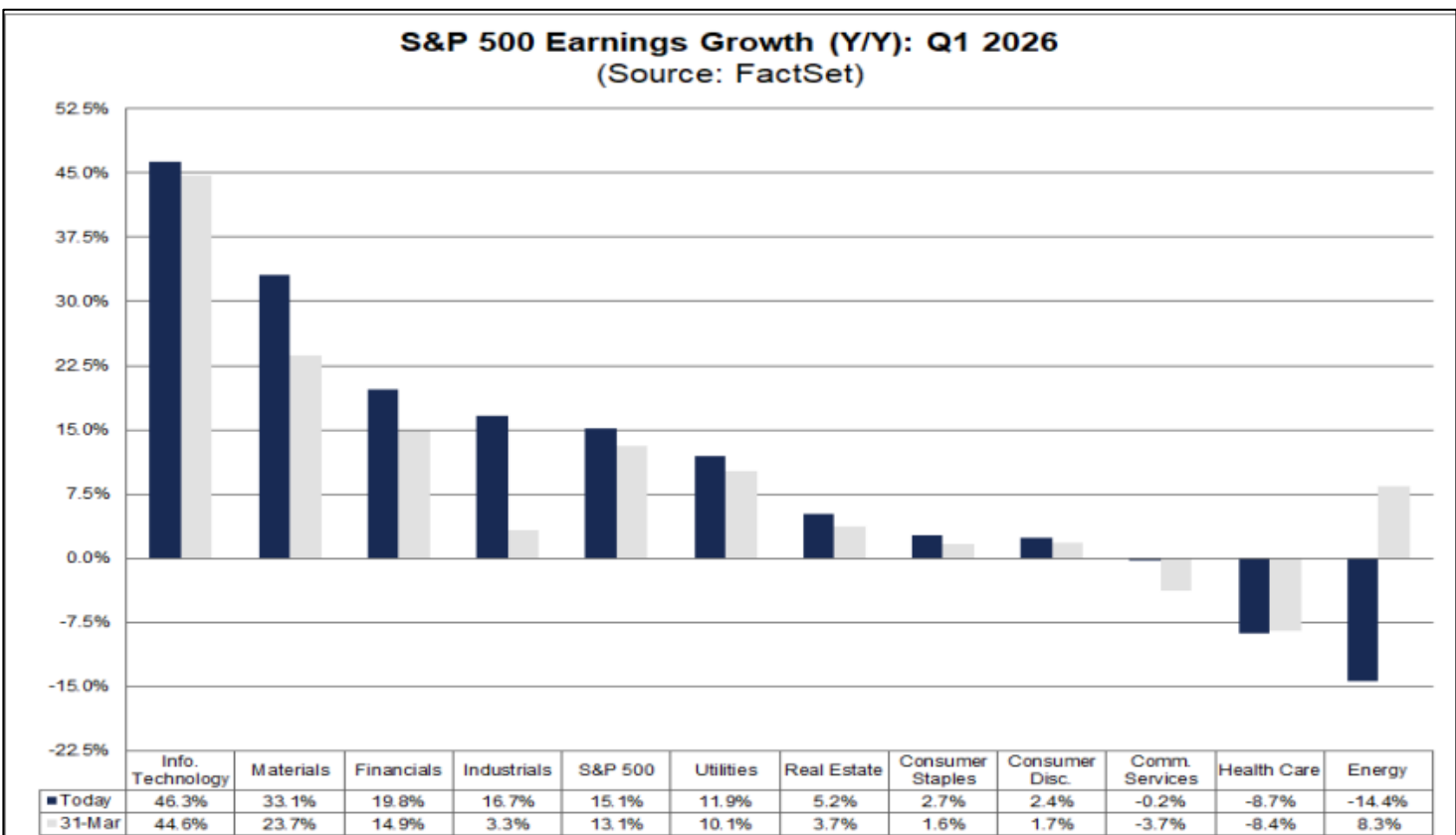
Market Outlook: Strong Earnings Growth Prevails

We entered the second quarter with global equity markets flat to lower, attractive valuations, and companies - particularly US companies - poised to report strong earnings growth. Markets have since rallied on the heels of fading geopolitical tensions and exceptional earnings reports. According to FactSet, the first quarter earnings season for the S&P 500 is off to a strong start relative to expectations. Both the percentage of S&P 500 companies reporting positive earnings surprises and the magnitude of earnings surprises are above recent averages. In fact, with 28% of S&P 500 companies reporting actual results, 84% of S&P 500 companies reported a positive EPS surprise, and 81% of S&P 500 companies reported a positive revenue surprise.

The S&P 500 is also reporting double-digit year-over-year earnings growth for the sixth straight quarter. The rise is broad-based, with most sectors posting earnings above their recent estimates (see Figure 9), and it is being driven by higher margins, with the S&P 500 reporting the highest net profit margins in more than 15 years.

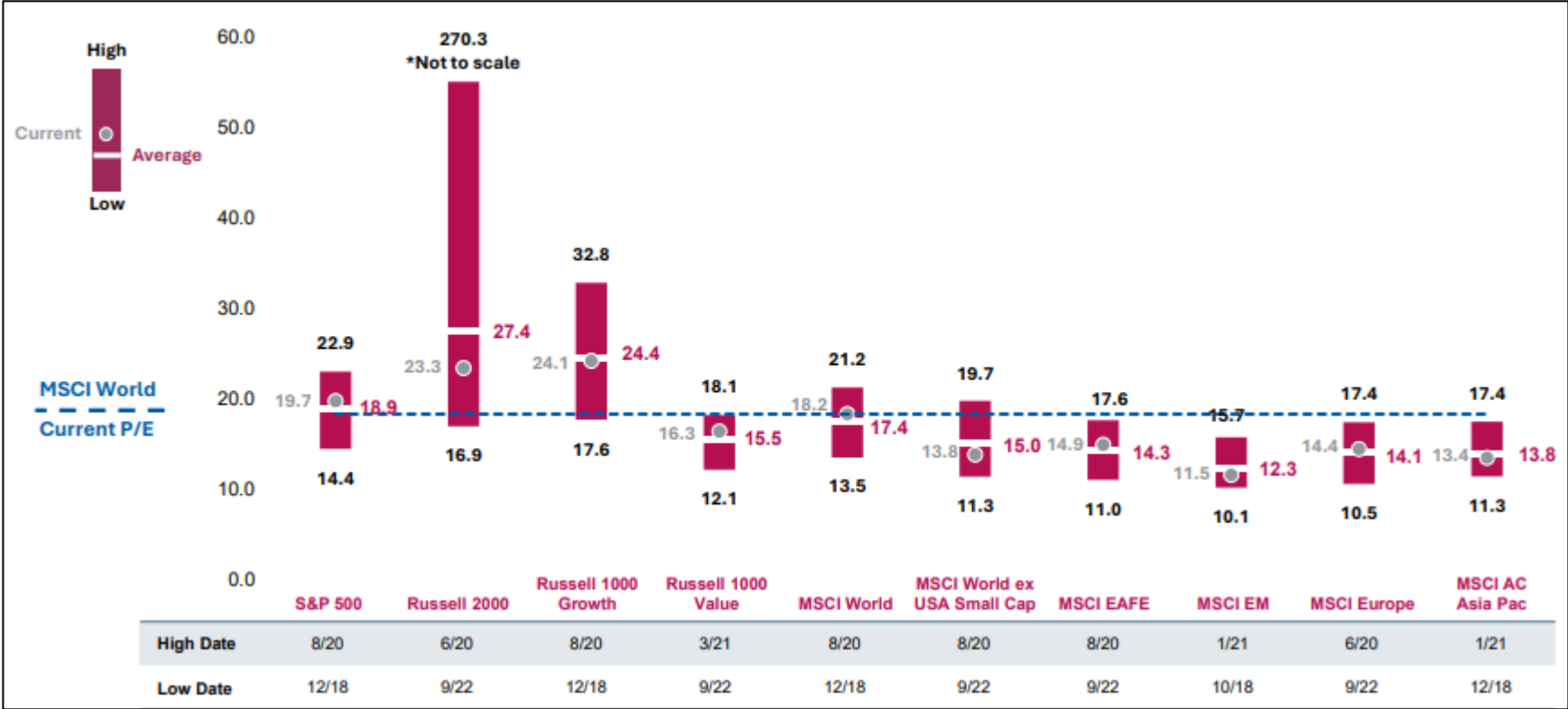
With the US likely to continue posting stronger earnings growth - particularly given the US energy advantage in the wake of higher oil prices - the valuations of non-US markets will be scrutinized as investment decisions are made in 2026. Whereas international valuations were attractive going into 2025, valuations outside the US "caught up" last year and in the first quarter and are now at or above their long-term averages (see Figure 10). Valuations in the US across all sectors - including the Information Technology and Communication Services sectors (see Figure 11) - were approximately in line with their 10-year averages at first quarter end, suggesting that performance differentiation worldwide will come at the stock level.

Figure 9. S&P 500 Earnings Growth (Y/Y), Q1 2026



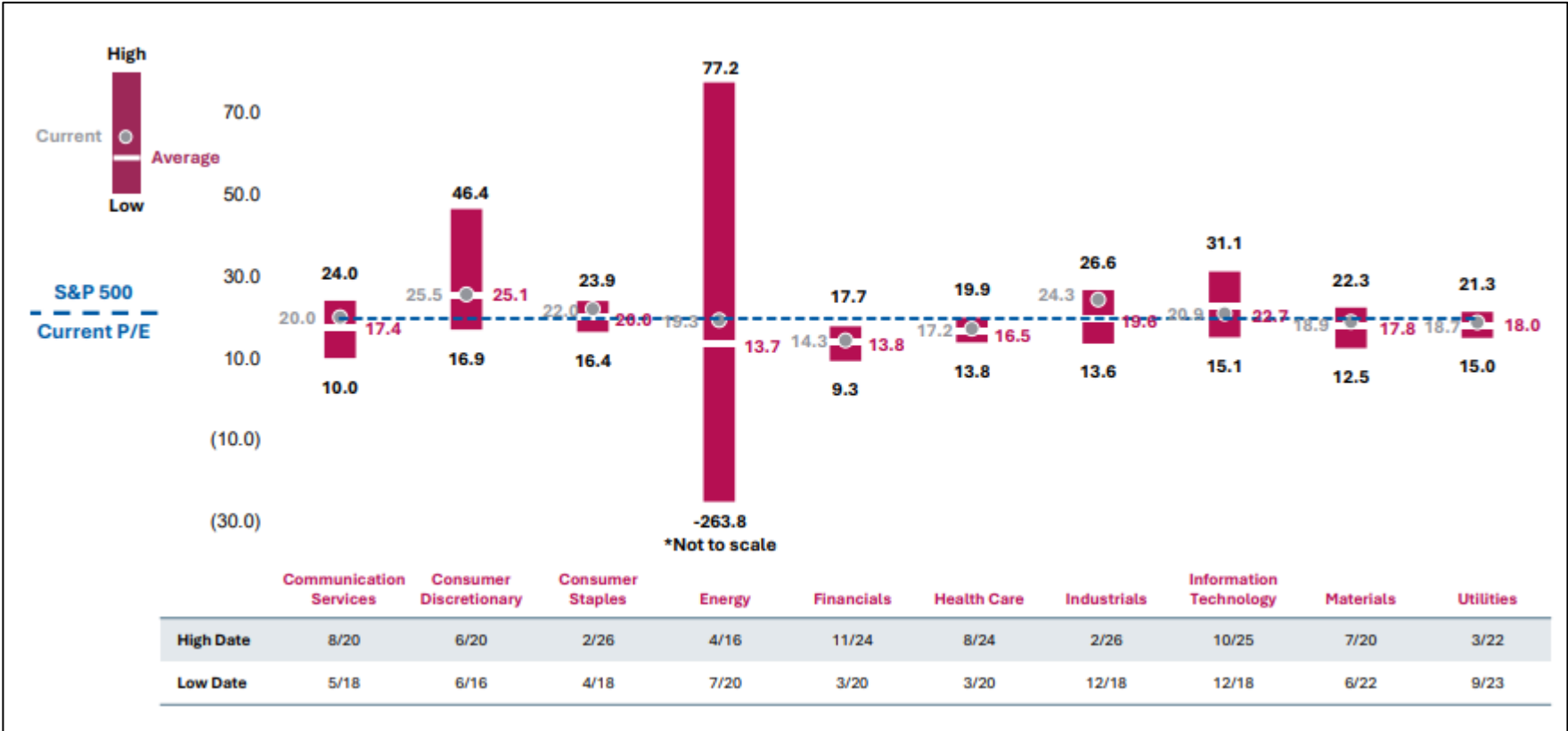
Source: FactSet, April 24, 2026

Figure 10. Valuation Analysis - Regions/Styles: Current NTM P/E v 10-year High, Low, Average, March 31, 2026



Source: Eaton Vance, The Beat March 2026

Figure 11. Valuation Analysis - S&P 500 Sectors: Current NTM P/E v 10-year High, Low, Average, March 31, 2026



Source: Eaton Vance, The Beat March 2026

Values-Aligned Investing: What impact does your portfolio have on the world?

Values-aligned investing continues to face significant headwinds, In the US, we see persistent backlash against environmental, social, and government (ESG) principles and investing. Despite these headwinds our resolve remains strong. Investors must be allowed to invest *their* money *their* way, incorporating their personal values preferences into their portfolios and advocacy efforts.

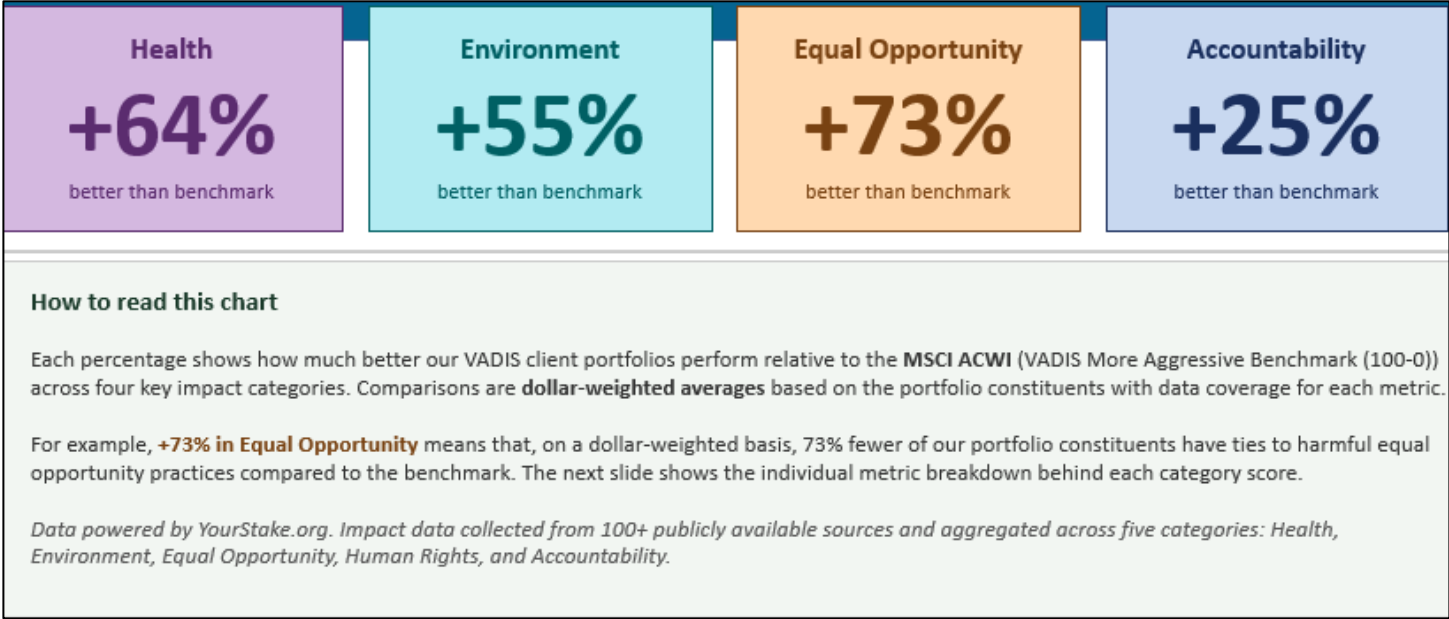
At First Affirmative, we remain convinced that investors must take responsibility for the impact their money has on the world. On the 56th Earth Day, April 22, 2026, we looked at the impact our clients’ total Values Aligned Direct Index Solution (VADIS) assets have on the world. We currently have more than \$300 million in VADIS assets under management, and \$222 million of that total is invested in equities. That is the amount we used in our analysis powered by YourStake, along with the First Affirmative Values Set and the MSCI ACWI benchmark.

As shown in Figure 12, in aggregate, your clients’ VADIS portfolios perform 73% better than the benchmark in Equal Opportunity, 64% better in Health, 55% better in Environment, and 25% better in Accountability.

We also took a more detailed look at the equity portion of our VADIS portfolios relative to their MSCI ACWI benchmark. As shown in Figure 12, In the Health Category, our portfolios have significantly less GMO, Tobacco, and Weapons exposure. In Environment, the VADIS portfolios have 83% less Fossil Fuel Industry Exposure and 27% more Clean Energy Companies exposure than the benchmark. And from the perspectives of Equal Opportunity and Accountability, our portfolios have 58% less exposure to companies with No Women Directors, and significantly less Prison Industry and Predatory Lending Exposure.

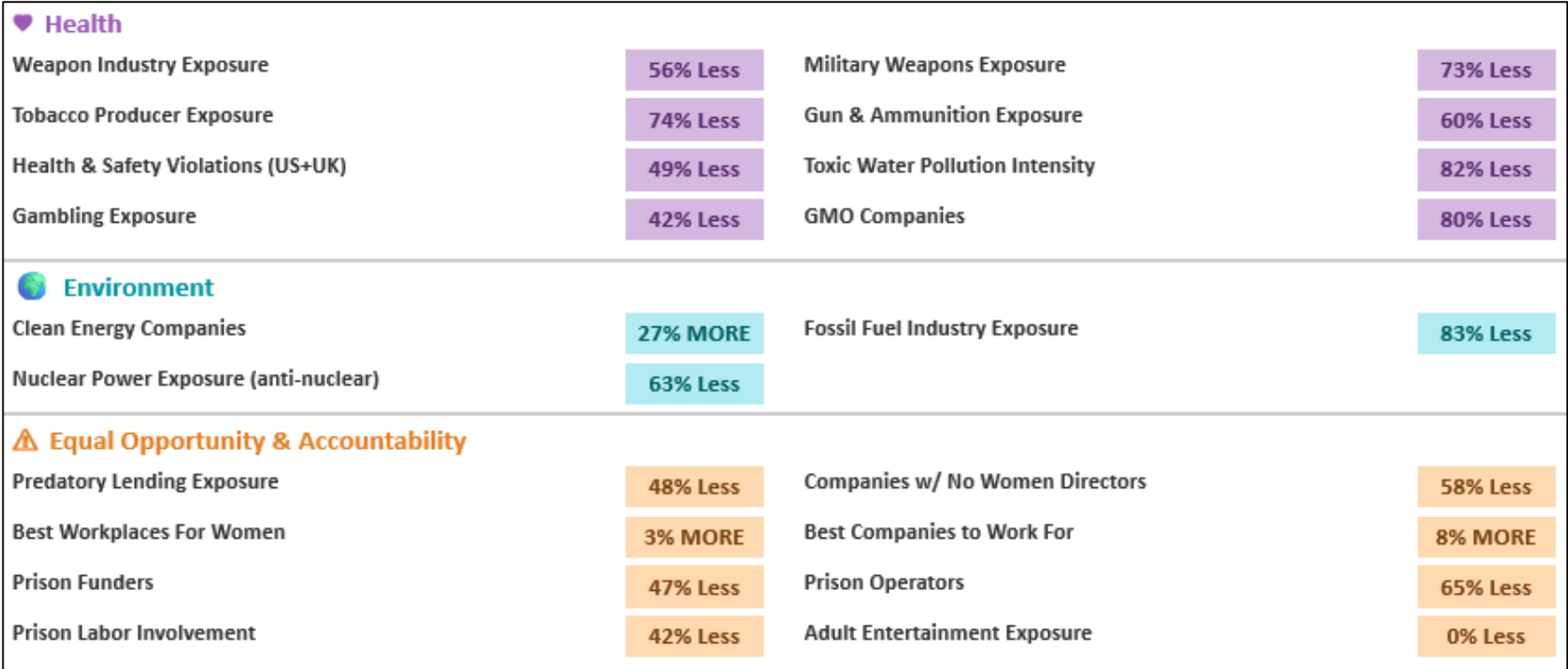
As we know, the market reflects the world as it is today. Values-aligned investors invest in the world as they want it to be and look to achieve long-term financial and impact goals aligned with their values. Although our VADIS portfolios performed well in the first quarter, many other Values Aligned strategies – including the MSCI KLD 400, the sustainable mutual funds and ETFs we monitor (see Figures 14 and 15, and our Managed Mutual Fund Models – did not.

Figure 12. VADIS Earth Day 2026 – Aggregate Impact vs Benchmark



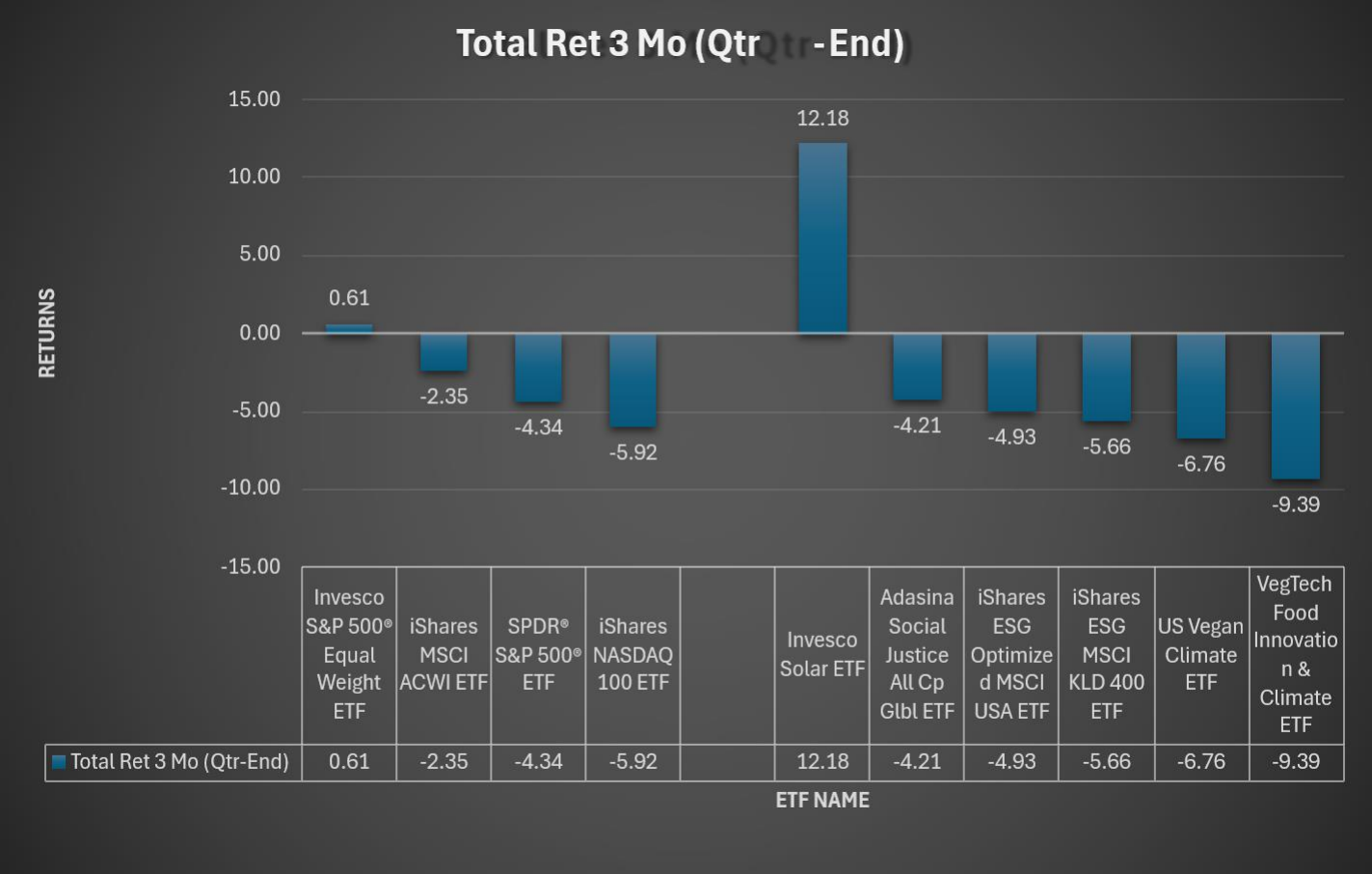
Source: First Affirmative Financial Network, powered by YourStake; April 22, 2026

Figure 13. VADIS Earth Day 2026 – Metric Detail vs Benchmark



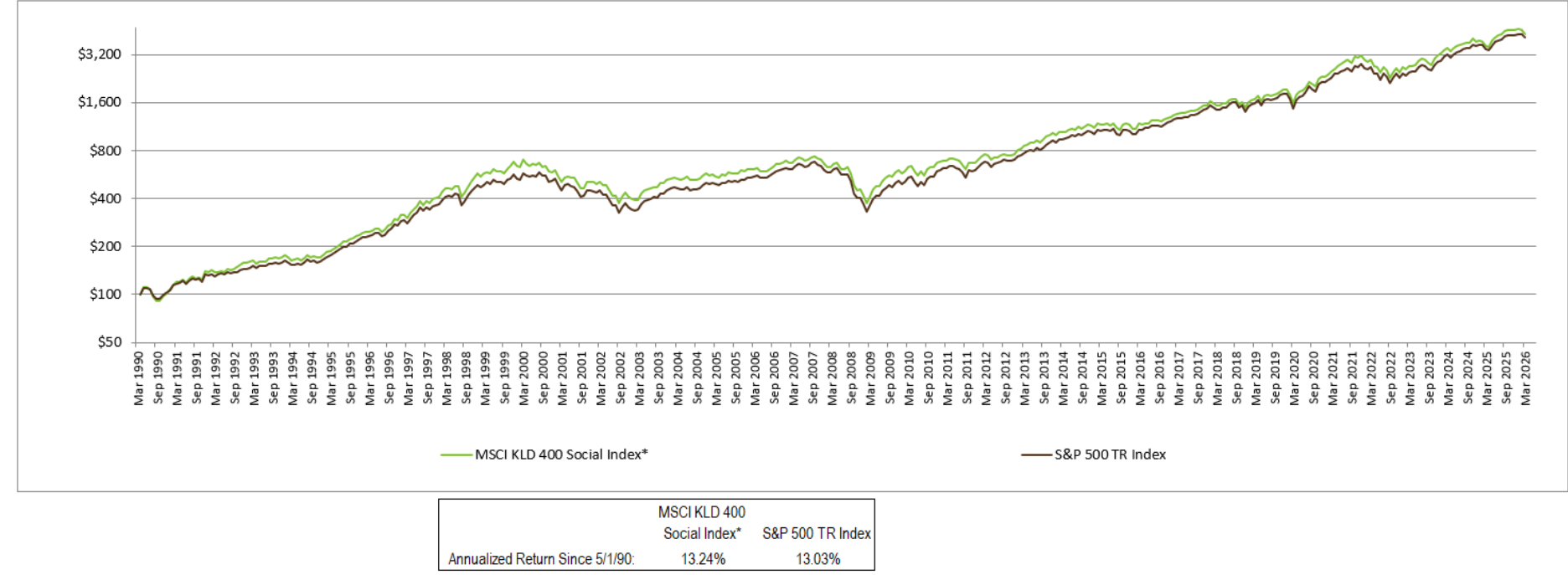
Source: First Affirmative Financial Network, powered by YourStake; April 22, 2026

Figure 14. Performance of Selected Values-Aligned Funds, March 31, 2026



Source: First Affirmative Financial Network

Figure 15. MSCI KLD 400 vs S&P 500 Indices, March 31, 2026



Source: Morningstar. *Data prior to 9/1/2010 is that of the MSCI KLD 400 Social Index GR, while data since 9/1/2010 is that of the MSCI KLD 400 Social Index NR. Indices are unmanaged groups of securities. Index performance does not include the impact of cash, fees, or transaction costs. Investors cannot invest directly in indices but may purchase mutual funds or other investment products designed to track the performance of various indices.



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