

April 20, 2026

## Market Environment in 1Q26

The war in Iran is now coming up against the end of the administration's original four-to-six week timeline, and the situation remains unsettled. In a fast-shifting environment, the initial round of talks between the U.S. and Iran brokered by Pakistan has ended without any agreement; President Trump has announced plans to blockade the Strait of Hormuz and all Iranian ports, while Iran has threatened to attack the ports of the U.S.'s Gulf allies.

The Strait, across which one-fifth of the world's oil once moved, has gone from a trickle of oil-tanker traffic to no traffic at all. Brent and WTI crude oil were again above \$100 per barrel as the 4/13/26 trading week got underway. Amid prospects for resurgent inflation, U.S. consumer confidence as measured by the University of Michigan survey fell to a record low.

And yet the U.S. stock market is hanging in there, so to speak, as investors assess the ever-shifting landscape. Ahead of the 4/13/26 open, value stocks (the Wilshire Large-Cap Value Index), small caps (the Russell 2000), and bonds (the Bloomberg U.S. Aggregate Bond Index) were all positive for the year. Including hypothetical dividends, the S&P 500 and Dow Jones Industrial Average were fractionally negative and fractionally positive, respectively, for the year to date. Market performance can shift rapidly. But for now, investors appear to be holding their cards close to their chests.

### Review: the First Quarter of 2026

The stock market in the first quarter of 2026 had two phases: before the war with Iran and after the war started. The war and resultant oil shock sent the U.S. stock market, little changed for 2026 as of the end of February, down sharply in March. The S&P 500 rose 1.4% in January 2026 as businesses and investors began to get "used to" what appeared at the time to be fairly stable tariffs. The index fell 0.9% in

February on a combination of shocks, including high PPI inflation for January, weak 4Q25 GDP growth, and the Supreme Court striking down IEEPA-based tariffs. The S&P 500 fell 5.1% in March 2026 on the escalating war with Iran, the closure of the Strait of Hormuz, and one-month price spikes of 40%-50% in crude oil, gasoline, and diesel fuel prices in the U.S. Altogether, the S&P 500 declined 4.6% in the first quarter of 2026, exactly in line with the 4.6% decline in 1Q25 that resulted from anticipation of "Liberation Day" tariffs. The Nasdaq Composite fell 7.0% in 1Q26, while the blue-chip DJIA declined 3.2% in the first quarter.

Investors entering 2026 appeared increasingly confident that companies were successfully navigating trade policy. But producer prices in February 2026 signaled pressures in the goods pipeline. The February PPI increased 0.7% month over month and 3.4% year over year, even before petroleum prices spiked in March.

After multiple years of strength, the U.S. employment economy showed signs of slowing in the third and fourth quarters of 2025. Employment has been better than expected but erratic in 2026 to date, with nonfarm payrolls missing consensus expectations both to the upside and downside in alternating months. Following a down December 2025 for employment, the U.S. economy generated a revised 160,000 new nonfarm jobs in January 2026. However, February payrolls declined by a revised 133,000. March 2026 nonfarm payrolls surprised with a 178,000 gain, or 118,000 ahead of consensus. Altogether, nonfarm payrolls averaged a monthly gain of 68,000 for January-March, compared with an average gain of 6,000 for the December-February period. The unemployment rate eased to 4.3% in March from 4.4% in February. Average hourly earnings grew 3.5% annually for March,

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## ECONOMIC & MARKET COMMENTARY (CONT.)

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easing from January (3.7%) and February (3.8%) annual growth. While the employment economy has improved and earnings growth remains strong, another bulwark of the bull market – economic growth – has been weaker than expected.

The final report of fourth-quarter 2025 GDP showed growth of just 0.5%, after GDP rose 4.4% in 4Q25 and 3.8% in 2Q25. The steep decline in federal spending related to the October-November government shutdown subtracted 1.16 points from GDP in 4Q25. Fourth-quarter 2025 personal consumption expenditures (PCE) increased 1.9%, as total spending on goods increased just 0.3% in 4Q25. Nondurable goods spending increased 0.4%, with lower-income consumers pinched even in their spending on necessities. Services, which was the biggest spending category at 47% of total 4Q25 GDP, rose by 2.7% in 4Q after a 3.6% gain in 3Q25. Nonresidential fixed investment, the proxy for corporate capital spending, grew at a 2.4% annualized rate in 4Q25, down from 3.2% in 3Q25. The AI boom drove 4%-5% growth in both equipment and intellectual property products, while corporate spending on structures declined 6.5%. PCE and nonresidential fixed investment, which constitute 80%-85% of GDP, contributed a combined 1.64 percentage points to 4Q25 GDP growth. For the full 2025 year, gross domestic product expanded at a 2.1% rate, down from 2.8% growth in 2024 and 2.5% in 2023.

The ISM's manufacturing purchasing managers' index (PMI) rose to 52.7% in March from 52.4% in February, marking three consecutive months in expansion territory (above 50.0%). ISM's services PMI slipped to 54.0% for March from 56.1% for February, which was the second-highest reading since October 2024.

The Conference Board's Consumer Confidence Index moved up to 91.8% in March 2026 from 91.2% in February. The University of Michigan consumer sentiment survey reading was 53.3% in March, down from 55.5% in February and 57.0% in March 2025.

Another bulwark of the bull market has been corporate earnings growth. Annual growth in calendar 4Q25 earnings was in the mid-teens range, better than expectations for low-double-digit growth. Fourth-quarter 2025 results included revenue growth in high-single-digit percentages, as companies successfully navigated around tariffs by sourcing locally. Companies have also been able to expand margins as they begin to incorporate AI-based efficiencies. Fourth-quarter operating margin from continuing operations reached mid-teens percentage levels for 4Q25 calendar earnings, well above the long-term average of 12%.

The Fed's preferred inflation gauge, the core PCE price index, rose 0.4% month over month and 3.0% on an annual basis for February 2026. This report did not capture war-related energy inflation. The March all-items CPI, the

first pricing report to reflect war-related energy inflation, rose by 0.9% on a month-over-month basis and 3.3% on an annual basis; this was about in line with expectations. Core CPI for March, excluding food and energy, rose 0.2% monthly and 2.6% annually.

Given inflation anticipation on the surge in energy inputs, interest rates jumped in March. The 10-year Treasury yield was 4.30% as of the end of March 2026, compared with 3.97% as of the end of February 2026 and 4.14% at year-end 2025. The two-year Treasury yield was 3.79% as of the end of March 2026, vs. 3.39% as of the end of January and 3.45% as of year-end 2025.

The 11 S&P sectors began to shift away from growth and toward inflation-hedge, defensive, rate-sensitive, and cyclical in the second half of 2025. The 2026 trading year is a little more than three months old, and that shift has intensified. Traditional growth sectors, which led the market from late 2022 through mid- to late-2025, continued to retrace in 1Q26. But the rotation beneficiaries in defensive, cyclical, and rate-sensitive sectors have also been hit hard since the war began. For 1Q26, the best sector performer by far was Energy (IYE), which rose 38% in the quarter and was leading the market even before the war began. Despite across-the-board March 2026 profit-taking, six of the 11 sectors remained positive as of the end of the first quarter. The five negative sectors year-to-date include the three traditional Growth leaders along with Financial and Healthcare.

### Conclusion

After a positive January 2026, the S&P 500 declined in February and then fell harder in March. April, typically a top-four market month among all the months of the year, was living up to its reputation heading into tax day, with a roughly 4% recovery since the end of March.

International Energy Agency (IEA) commissioner Fatih Birol has called the current crisis bigger than the combined impacts of the 1970s oil shocks and Russia's invasion of Ukraine. Oil and energy overall are less vital components of domestic and global GDP than they were during past energy crises. At the same time, all-items inflation in the U.S. is rising, the mid-term elections are approaching, and uncertainty about White House policy is increasing.

Investors regard the now-unfolding earnings season as a welcome respite from the daily headlines and shifting war policy. We are modeling mid-teens EPS growth for 1Q26. The first-quarter earnings season will capture a period mainly unaffected the war in the Middle East. More important that 1Q results will be the tone and tenor of 2Q26 guidance.

Jim Kelleher, CFA,  
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# KEY ECONOMIC FORECASTS

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- The \$31 trillion U.S. economy remains on course for productive long term growth, powered by corporate investments in AI and outsized spending by wealthy households. Nvidia CEO Jensen Huang estimated, in November, that \$3 - \$4 trillion will be spent on AI infrastructure in the next 5 years.
- Real Potential GDP – the sustainable speed limit of the US economy is poised to increase to 2.1%, on average, through 2030 according to the Congressional Budget Office. AI is likely to raise productivity, offsetting slower growth in the labor force from an aging population and reduced immigration.
- The war in Iran is affecting millions of lives. Oil supply disruptions are a risk to affordability. We recently raised our 2026 oil price forecast to \$75 per barrel from \$60.
- The U.S. economy has become more resilient, more diversified and less oil dependent, but it is managing additional supply headwinds from tariffs and reduced immigration. This triumvirate could raise inflation, slow growth, and complicate Fed policy. Tax benefits and AI should help the economy.
- A simple rule of thumb: National gasoline prices above \$4.00 begin to hurt consumer spending.
- We are monitoring financial conditions and high-frequency indicators including Nowcasts and weekly jobless claims. We recently reduced our 2026 forecast for GDP growth to 2.3% from 2.5%.
- Argus expects S&P 500 EPS to rise almost 16% to \$315 in 2026 and increase about 15% to \$363 in 2027. EPS is helped by an increase in operating margins to about 18.0% this year, well above 13.9% in pre-pandemic 2019. Growing tech giants such as MSFT and NVDA have operating margins of 47% and 60% respectively while Dow stalwarts Walmart and Caterpillar earn 4% and 17%, respectively.
- Argus Fixed Income Strategist Kevin Heal expects the Fed to reduce the funds rate by 25 basis points in 2026 and by another 25 basis points in 2027 taking the target range to 3%-3.25%. We expect the dollar to be slightly stronger in 2026 driven by foreign demand for shares of innovative U.S. companies and economic resilience.
- Gold is likely to remain at elevated levels. The ancient safe-haven asset recently reached an all-time record above \$5,000 an ounce. We expect gold to trade in a range of \$4,000 - \$6,000 in 2026.
- Despite economic-and-policy “uncertainty,” the Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate, is well below the average of 9.2% since 1949. Unemployment is low but an energy-driven jump in the March CPI to 3.3% raised the Index to 7.6%.
- What could go right? Big tax refunds, spending by wealthy consumers, strong S&P earnings, capital investment, productivity gains, inflation expectations remaining anchored, and ongoing innovation.
- Risks: Elevated Inflation, high fuel prices, weak housing market, low income consumers are struggling, spending by affluent may depend on stock market gains, AI may reduce entry-level hiring.

# CURRENT ECONOMIC RELEASES

## Current Economic Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
9-Apr	GDP Annualized QoQ	4Q "Final"	0.7%	0.7%	0.7%	<b>0.5%</b>
	GDP Price Index	4Q "Final"	3.8%	3.8%	NA	<b>3.7%</b>
	PCE Deflator	February	2.8%	2.7%	2.8%	<b>2.8%</b>
	PCE Core Deflator	February	3.1%	2.8%	3.0%	<b>3.0%</b>
	Personal Income	February	<b>4.3%</b>	4.5%	NA	<b>3.7%</b>
	Personal Spending	February	<b>5.1%</b>	5.4%	NA	<b>5.3%</b>
	Wholesale Inventories	February	<b>1.3%</b>	1.2%	NA	<b>1.8%</b>
10-Apr	Consumer Price Index	March	2.4%	3.3%	3.4%	<b>3.3%</b>
	CPI ex-Food & Energy	March	2.5%	2.7%	2.7%	<b>2.6%</b>
	Factory Orders	February	<b>4.2%</b>	2.2%	NA	<b>3.7%</b>
	U. Michigan Sentiment	April	53.3	53.0	51.8	<b>47.6</b>
13-Apr	Existing Home Sales	March	<b>4.13 Mln.</b>	4.05 Mln.	NA	<b>3.98 Mln.</b>
14-Apr	PPI Final Demand	March	3.4%	3.7%	NA	<b>4.0%</b>
	PPI ex-Food & Energy	March	<b>3.8%</b>	3.9%	NA	<b>3.8%</b>
15-Apr	Import Price Index	March	<b>1.0%</b>	2.8%	NA	<b>2.1%</b>
16-Apr	Industrial Production	March	1.4%	1.8%	NA	NA
	Capacity Utilization	March	76.3%	76.4%	76.3%	NA
21-Apr	Retail Sales	March	3.7%	4.0%	NA	NA
	Retail Sales ex-autos	March	3.6%	3.1%	NA	NA
	Business Inventories	February	1.0%	NA	NA	NA

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