

## Market Update & Outlook 1Q 2026

Economic growth slowed in the fourth quarter of 2025, primarily due to the government shutdown that lasted nearly half the period. The conflict in Iran that began in late February negatively impacted oil prices, inflation expectations, and the stock market. Both stocks and bonds finished the quarter with losses.

### Economic Growth Stalls

GDP growth came in lower than expected in the fourth quarter, at just 0.7%. This was largely due to decreased government spending during the 43-day government shutdown. Even without that pause, growth would likely have been weaker than projected; some models had forecasted growth of around 5.0% prior to the release.

In February, the Supreme Court struck down most of the Trump administration's existing tariffs. Shortly after the ruling, the administration imposed a new blanket 15% tariff using a different legal basis. These new tariffs can remain in place for only 150 days before requiring congressional approval. With some variation by country, overall tariff rates are largely unchanged from before the court's decision. The U.S. now faces the prospect of refunding a significant portion of tariffs collected under the prior approach, which could push the government's fiscal deficit higher.

The conflict in Iran had implications late in the quarter, most notably through a sharp rise in oil prices. The Strait of Hormuz—through which about 20% of global oil supply passes each day—has been closed for several weeks. With supply constrained, oil prices have risen more than 50% since the start of the war, while U.S. gasoline prices are up more than 30%. Higher oil and gas prices have broad-based effects on both

consumers and businesses and represent a key near-term risk to the economy.

Inflation expectations and interest rates are rising alongside energy prices, prompting the Federal Reserve to put further rate cuts on hold. While labor markets appear to be stabilizing, consumer confidence remains near multi-year lows as much of the population contends with higher living costs with only modest income gains.

### Stocks Drop Due to Global Conflict

While down from February highs, the stock market showed resilience in the face of mounting geopolitical and economic challenges. At the worst point during the quarter, U.S. stocks fell 9% peak to trough and finished the period down 4%. International stocks followed a similar path, though from a higher starting point, and ended quarter with a loss of 1%.

MARKET SCOREBOARD	1Q 2026	2025
<b>S&amp;P 500</b> (Large U.S. stocks)	(4.33%)	17.88%
<b>MSCI EAFE</b> (Developed international stocks)	(1.24%)	31.22%
<b>Bloomberg Aggregate Bond</b> (U.S. taxable bonds)	(.05%)	7.30%
<b>Bloomberg Municipal Bond</b> (U.S. tax-free bonds)	(.18%)	4.24%
<b>Wilshire Liquid Alternative</b> (Alternative investments)	.03%	6.04%

Data Source: Tamarac

Source: Morningstar Inc, March 31, 2026.

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Underlying market dynamics changed significantly in 2026. For the past several years, the “Magnificent 7” large technology stocks posted the strongest gains and led the market higher. In the first quarter, however, certain “old economy” stocks delivered the strongest performance. The Energy sector led the way with a 38% gain, while Utilities rose 6%. Time will tell whether this shift in momentum is sustainable or merely a short-term aberration within a longer term trend.

While profit expectations have remained strong, that assumption relies on the conflict in the middle east ending soon. The longer the conflict lasts, the more damage it will do to the economy and corporate earnings. Higher fuel costs, supply chain disruptions, and the negative impact on consumer demand will eventually erode profitability.

### The War in Iran Impacts Fed Policy

Entering 2026, the consensus view was that the Fed would deliver two .25% rate cuts this year. However, the conflict in Iran has made the Fed’s policy path less clear. At its March 18 meeting, Fed officials cited higher oil prices as a potential inflation problem, prompting a “wait and see” approach in the near term. Chair Jerome Powell also noted that a mildly restrictive stance makes sense for now.

Futures markets initially reacted by reducing rate cut expectations to zero for this year and even assigned a 25% probability of a rate *hike* in 2026. Later, Powell struck a more conciliatory tone, suggesting the Fed often looks through short-term oil price spikes. This guidance allowed futures markets to pull back from the rate hike scenario. In our view, raising rates would require both a more significant and sustained rise in inflation and an above average stretch of economic growth. For now, the Fed appears firmly in wait-and-see mode, with the next rate move still more likely to be a cut than a hike.

### Gas Prices Rise Despite Increased U.S. Production

Source: Morningstar Inc, March 31, 2026.

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Since the shale boom began around 2008, the U.S. has been pumping a lot more oil. Today the U.S. ranks as the world’s largest oil producer and became a net exporter of petroleum products in 2019. So it is fair to ask: why do gas and other energy prices still spike here when geopolitical tensions develop overseas? The short answer is that oil is priced in a global market, not just an American one.

Even though U.S. crude (WTI) often trades at a discount to global benchmarks like Brent, prices still rise when global supply-demand conditions tighten. Oil is not a single, uniform product. U.S. refineries were built decades ago to process heavy crude oil into gasoline; as a result the U.S. still imports a meaningful amount of heavy crude (roughly 6.5–8.5 million barrels per day) to keep those refineries running. Meanwhile, much of the oil produced in the U.S. is light crude, approximately 30% of which is exported to Europe and Asia. This mismatch, combined with globally linked prices, means that being a large producer doesn’t fully shield U.S. consumers from swings in world energy supply and demand.

### 2026 Market Outlook

Much like 2025, markets entered 2026 with solid momentum. U.S. stocks weathered the tariff-related downturn of last spring and went on to produce strong results for the year. Markets continued to move higher in the first two months of this year, fueled by optimism that 2026 would be a good year for economic and profit growth.

That momentum reversed in March as the conflict that began in Iran broadened across the Middle East. From the February peak, U.S. stocks declined 9% through March 30. International stocks gave back nearly all their gains from the early part of the year. Inflation expectations rose due to the spike in energy prices, causing bond yields to increase as well.

Because bond prices move in the opposite direction of yields, bonds ended the quarter with slightly negative returns.

During volatile and uncertain times like this, investors often ask the question, “What should I be doing in my portfolio?” While this is a reasonable question, it is important to recognize that our investment and financial planning approaches are designed to anticipate periods like this. In fact, market drawdowns between 5% and 10% occur at some point in almost every calendar year, for one reason or another, and are taken into account when developing investment strategy.

After three consecutive years of above-average returns from U.S. stocks, we entered 2026 with a slightly conservative portfolio tilt. This bias resulted from allocation decisions made by our investment committee along with changes within certain actively managed funds used in portfolio design. This positioning helped limit the downside experienced by balanced investors relative to the market’s 4% decline during the quarter.

Thoughtful planning and resilient portfolio design have helped clients endure multiple rounds of volatility in recent years. Historically, bear market declines of 20% or more occur only about once every seven years. However, since 2018, investors have had to cope with four major drawdowns:

- **4Q 2018** – 19% drop on fears of a global economic slowdown
- **1Q 2020** – 35% plunge due to the Covid pandemic
- **3Q 2022** – 25% decline in response to a spike in interest rates
- **2Q 2025** – 19% drop triggered by tariff turmoil

The point here is not to relive unpleasant market memories, but to acknowledge that remaining invested has required an unusual amount of perseverance! Staying disciplined and invested throughout these

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tumultuous times has been rewarded on every occasion with a rebound to higher levels.

While most investors pine for a forecast of smoother sailing and easier times ahead, that seems unlikely in the world we live in today. In the near term, market volatility and direction will largely be dictated by developments in the Middle East. The longer the conflict lasts, the greater the potential damage to the markets and economy.

However, if the fighting ends soon, markets have an opportunity to return to the positive trends that characterized the first several weeks of the year. Absent a prolonged conflict, a reasonable backdrop for growth remains in place. Accommodative tax policy, strong profit trends, a fading tariff drag, and continued strength in capital spending are all fundamentally positive factors for the economy and financial markets.

Thank you for your trust and confidence as we continue to navigate this evolving market environment!

### Jeff Layman & Andrew Douglas

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