

Q1 Review & Outlook

April 2026

ELEMENT	TREND	COMMENTS
VALUATION	Positive	Stock prices have fallen, particularly among the largest companies.
INTEREST RATES	Neutral	Short-term rates have edged slightly higher YTD.
INFLATION	Negative	Inflation has been steady, but upside risk is growing.
VOLATILITY	Neutral	Price volatility has climbed recently from relatively low levels.
MONETARY POLICY	Neutral	The Fed will likely wait longer before cutting again.
DOMESTIC POLICY	Positive	Despite headline drama, deregulation and lower taxes should support growth.
GEOPOLITICAL	Negative	Tariffs, shuffling alliances and war are affecting global trade.

The Fog of War

Many people have heard the expression “the fog of war,” an idea first described by the Prussian military strategist Carl von Clausewitz in his classic work *On War* (*Vom Kriege*, 1832), written after the Napoleonic Wars. Clausewitz’s treatise was not so much about battlefield tactics as it was about military strategy, and more specifically, the underlying forces that shape wars. The fog of war describes the uncertainty, confusion and lack of reliable information that affects decision-making during conflict. The fog obscures the reality of what’s happening on the battlefield and keeps leaders from having a full picture.

War, or whichever euphemism is employed, has broken out between Iran and the United States and Israel, and despite never-ending press coverage, social media and the commentary of innumerable nattering nabobs, no one seems to have any real idea how things are going. Certainly, the military might and capability of the United States is almost beyond question, if not imagination. It's clear that the United States is succeeding militarily. However, the inconsistent manner in which the news about Iran has been communicated to the public, including the events leading up to the conflict and any ongoing negotiations, has contributed to a general sense of fogginess. Not that this phenomenon is unique to this particular conflict. There's an old adage that the first casualty of war is truth—it's just that no one seems to be going out of their way to clear the air right now.

Markets, of course, contend with imperfect information every day. So while prices may be impacted in the short-term by press conferences and official statements, just as they are by earnings forecasts, they eventually will follow the shape of reality.

“There’s the way it ought to be, and there’s the way it is.”

– Sgt. Barnes, Platoon, 1986

The way it is, so far, is that markets have repriced most assets lower, with the notable exception of energy assets. Global stocks fell sharply during March, with the MSCI All Country World Index down 8.9%. Domestic shares fared better than international shares; the S&P 500 fell 5.0% while the MSCI ACWI ex USA dropped almost 11%. While international shares are still outperforming U.S. on a YTD basis, the Iran conflict has erased what had been a strong start to the year for international equities, reflecting the fact that the closure of the Strait of Hormuz is a much bigger problem for many international economies than it is for the U.S. Roughly 20% of the world's oil consumption (between 17-20 million barrels per day) moves through the strait. It's the primary export route for producers in Saudi Arabia, Iraq, Kuwait, the U.A.E. and Qatar, and the end customers are in Europe and Asia, including many of our allies.

The U.S. will certainly feel the effects of higher energy prices, but the near-term impact will be a consumer problem more than a production problem because the U.S. is primarily a service-based economy rather than a manufacturing economy. In addition, because the U.S. is a net exporter of oil and gas, there is also a benefit to the U.S., even if somewhat perverse. Accordingly, shares of energy-related businesses have soared; the widely followed XLE index has returned 29% YTD through March 31.

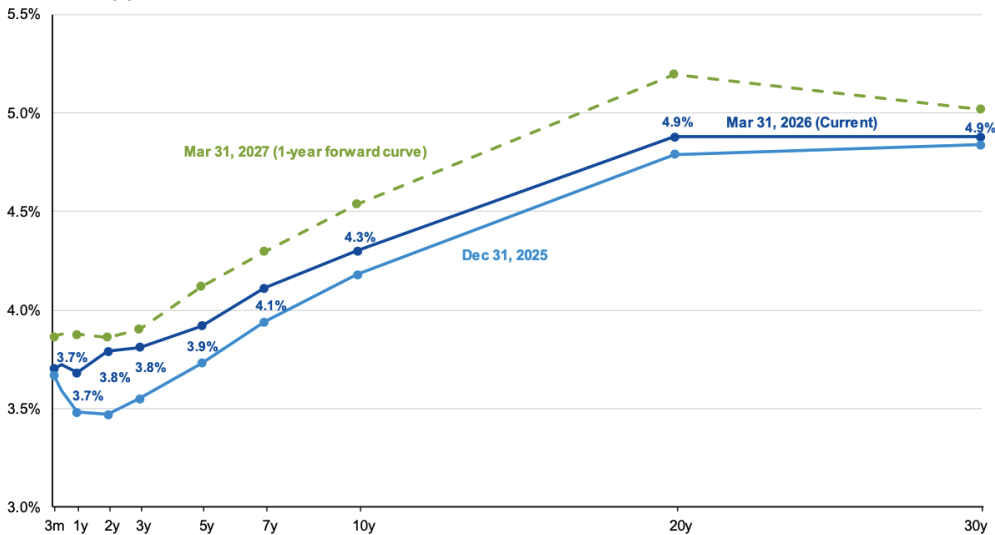
Major Equity Index Returns

	2024	2025	Jan	Feb	Mar	1Q26	YTD
MSCI All Country World	17.5	22.3	3.0	1.3	-8.9	-5.0	-5.0
S&P 500	25.0	17.9	1.4	-0.8	-5.0	-4.4	-4.4
DJIA	15.0	14.9	1.8	0.3	-5.2	-3.2	-3.2
NASDAQ	29.6	21.2	1.0	-3.3	-4.7	-7.0	-7.0
Russell 2000	11.5	12.8	5.4	0.8	-5.0	0.9	0.9
Russell 2000 Value	7.6	12.4	7.0	1.9	-3.8	4.9	4.9
Russell 2000 Growth	15.0	12.9	4.1	-0.3	-6.4	-2.8	-2.8
Russell 3000	23.8	17.1	1.5	-0.5	-5.0	-4.0	-4.0
Russell 3000 Value	14.0	15.7	4.6	2.6	-4.8	2.2	2.2
Russell 3000 Growth	32.4	18.1	-1.3	-3.3	-5.2	-9.5	-9.5
International	5.5	32.4	6.0	5.0	-10.9	-0.8	-0.8

Even so, while there is a benefit to the U.S. energy sector, a protracted period of dramatically higher energy prices is going to be a headwind for the U.S. economy and more than that for the rest of the world. WTI crude prices have almost doubled since the beginning of the conflict, going from about \$65 per barrel in late February to almost \$115 at the time of this writing, and gasoline prices have already climbed significantly.

There are concerns that higher fuel prices will stoke inflation, which has already been hovering slightly above the Fed's target levels, so one knock-on effect of the Iran conflict will be a diminished likelihood of additional rate cuts this year. Prior to the conflict, the Fed had been expected to cut short-term rates by another 50 basis points. Those expectations have been vaporized during the last

U.S. Treasury yield curve



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management. *Guide to the Markets* – U.S. Data are as of March 31, 2026.

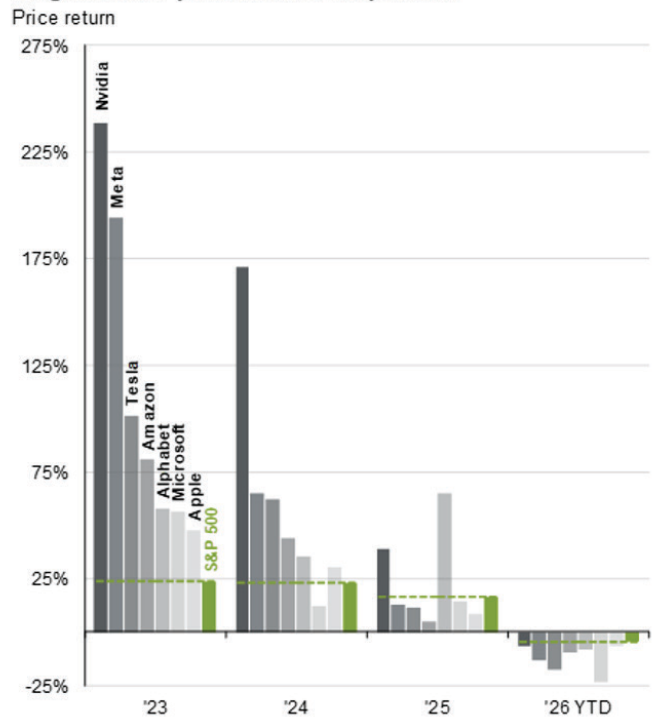
five weeks. The expectation of higher interest rates is one reason why the US dollar has strengthened recently. The US dollar, despite rising anti-U.S. sentiment, is still far and away the most obvious safe-haven currency and would be expected to gain further if other central banks were forced to cut rates to support their own economies should the oil shock persist.

Growth Concerns

The larger concern stemming from higher energy prices and higher-than-expected interest rates is the potential impact these could have on longer-term economic growth. The U.S. economy was churning along as the calendar flipped into 2026, and markets were reflective of this. The long-awaited stock rally beyond large-cap tech was in full swing, and the leadership in the market was already moving away from the small group of tech giants that had been powering indices higher for years. The Magnificent Seven, as a group, was down more than 11% through the first quarter, trailing the S&P 500, and so was each component of the group.

Our observation is that the forces that were impacting large-cap growth performance,

Magnificent 7 performance dispersion



Source: J.P. Morgan *Guide to the Markets*, as of March 31, 2026

namely high valuations, high capex requirements and falling momentum, are still present. Valuations have come down somewhat, which is great for fundamental investors, but the momentum that was behind tech stock supremacy is gone. Before the market turned its focus on Iran and the ramifications of an oil shock and changing geopolitics, it was an expensive, aging bull market counting on falling interest rates and AI optimism to boost multiples. From here, if falling interest rates are in our near future, we will be in an environment that will be inhospitable for growth and one fueled by AI pessimism.

There are three strains of growing pessimism about AI. Of course, AI is already transforming the way we work and has enormous potential benefits to productivity. However, the first strain of pessimism has to do with the market having to adapt to a world in which some of the most valuable companies in the world may have lost their reasons to exist. AI agents are hammering away at software demand. This has enormous ramifications not just in the software sector but also in those sectors that have exposure to software, such as banking and private credit. Lenders and equity holders within the tech space are already feeling the effect of AI, exacerbating conditions in pockets of the private markets that were already under pressure. Shares of major players in private investing declined significantly during the first quarter, with Apollo down 23%, Blue Owl down 38% and KKR down 27%. The second strain is the changing volume of inputs, such as storage and chips, to create and support AI. Questions have emerged regarding the ultimate level of storage required to run intense AI activities; storage may be a smaller market than envisioned, which puts pressure on prices. The third strain is longer-term and structural, as productivity will bump up against entrenched interests and affect employment levels, which will eventually attract regulators. Each strain poses obstacles for market sentiment.

So while the market's growth engine has been sputtering, investors had been seeing relief before the war started from other sources, such as international shares and international revenue exposure. Unfortunately, with international economies more exposed than the U.S. to the energy shock, and with more than 40% of S&P 500 revenue coming from overseas, international is no longer a buffer, at least for now. Lastly, tech is not particularly defensive either because more than half of the tech sector's revenue base is overseas.

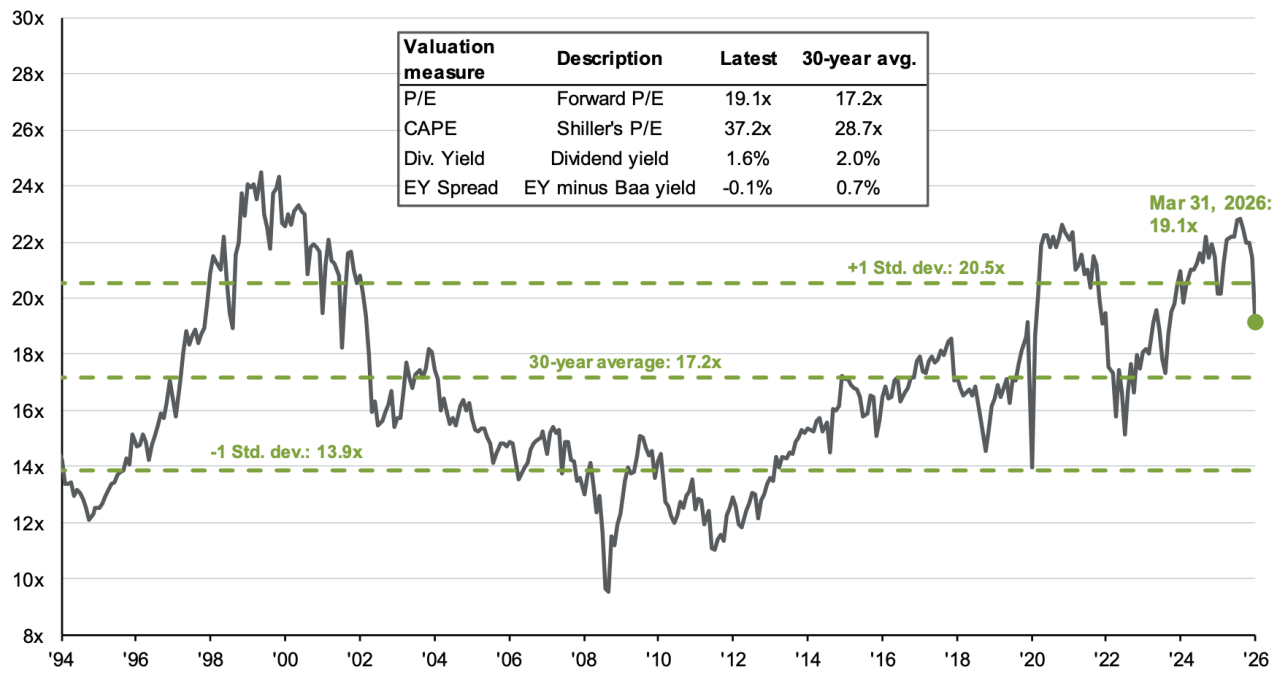
The Silver Lining?

While few investors enjoy market declines, the good news is that stock valuations have already fallen meaningfully, which suggests higher future returns. One of the few complaints investors could have had in the last few years was over sky-high valuations. Well, the market aphorism about taking the escalator up but the elevator down has proven apt again, with index prices falling back into ranges that one could almost describe as cheap. Only a few months ago, the S&P 500 was trading above 23x forward earnings—COVID bubble and dotcom bubble territory. By the end of the quarter, the P/E was 19.1x. So, the outlook for long-term forward returns already looks better than it

did at year's end, all else equal. The problem, of course, is that if earnings forecasts get chewed up by slower growth, then all else is not equal. That's what we're hoping to avoid. But the truth is, for long-term investors, the market has become more attractive. Market valuations are more attractive than they were at the start of the year; we just got there a different way.

Also worth bearing in mind is that there are parts of the market that have held up better than large-cap indices, such as the S&P 500. Because of the S&P 500's historically unprecedented concentration among the largest companies, that index has been weighed down by the underperformance of the Magnificent Seven. Beyond mega-cap tech, the stocks of many smaller companies have held up better so far this year. The Russell 2000, which tracks small-cap companies, was still positive as of March 31, and the Russell 2000 Value was still up about 5%.

S&P 500 index: Forward P/E ratio



Source: Bloomberg, FactSet, Moody's, Refinitiv Datastream, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management.

Fog Lights

First of all, writing an investment letter during an active armed conflict is a delicate undertaking. If we seem insufficiently concerned by the potential for loss of life, we're not—it's only because, professionally, we must remain focused on managing assets. Of course, we desire a peaceful resolution, and perhaps one is upon us. In the meantime, we must remain vigilant in our care of the assets that have been entrusted to us.

We are confident that our long-term view and our commitment to maintaining tilts toward value, quality and diversification will serve our clients well during this volatile period. This conflict is nothing we predicted, but it is something we have prepared for as we generate our allocations. There are elements of our strategy that should do relatively well in this environment, such as our positioning as it relates to value vs. growth, and our exposure to the energy sector through our value tilt. Through other factors, such as our small-cap and international tilts, we should expect to face relative headwinds should hostilities long persist. On balance, we believe we are positioned well for whatever news lies ahead, and our use of these tilts reduces our reliance on decisions made amid uncertainty, confusion and unreliable information—amid the fog. We thank you for your continued confidence.

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