Q1 2026 — A Rocky Quarter

We are living in a time where information moves at unprecedented speed, and markets digest comments, news, geopolitical developments, and even social-media posts from global leaders in real time. The first quarter of 2026 offered no shortage of market-moving headlines. Dominant themes included the emerging **"AI Loser Trade,"** which pressured software and other high-growth technology names; a pronounced **rotation toward value** as investors sought stability; and the **escalation of the Iran conflict**, which added a new layer of geopolitical uncertainty. These forces contributed to meaningful volatility across asset classes, leaving many investors with a challenging quarter as both stocks and bonds ended largely in the red. Even so, several previously overlooked corners of the equity market, most notably the energy sector and demand defensive sectors, managed to generate modest, and in some cases meaningful, gains.

Below is a summary of total returns for major capital-market benchmarks and the 11 S&P 500 sectors for the first quarter of 2026:

Major Benchmarks Q1 2026

	VAL
S&P MLP Index Total Return	17.32%
S&P GSCI Gold Total Return	10.23%
S&P GSCI Silver Total Return	7.91%
S&P 600 Total Return	4.07%
MSCI Emerging Markets Total Return	4.22%
S&P 400 Total Return	3.38%
MSCI ACWI Ex USA Total Return	3.10%
S&P 500 Value Total Return	0.13%
Bloomberg US Aggregate	-0.03%
Dow Jones Industrial Average Total Return	-2.72%
S&P 500 Total Return	-3.64%
S&P 500 Growth Total Return	-6.91%

Date Range: 12/31/2025 - 04/01/2026

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S&P 500 Sector Performance Q1 2026

	VAL
S&P 500 Energy (Sector) (^SPXNRGS) Total Return	32.88%
S&P MLP Index (^SPMLP) Total Return	17.32%
S&P 500 Materials (Industry Group) (^SPXMG) Total Return	11.04%
S&P 500 Utilities (Sector) Total Return (^SPXUSTR)	8.75%
S&P 500 Consumer Staples (Sector) (^SPXCNSS) Total Return	7.06%
S&P 500 Industrials (Sector) (^SPXINS) Total Return	6.34%
S&P 500 Real Estate (Sector) (^SPXRES) Total Return	3.15%
S&P 500 Health Care (Sector) (^HCX) Total Return	-4.12%
S&P 500 Communication Services (Sector) (^SPXCMSVS) Total Return	-5.38%
S&P 500 Information Technology (Sector) (^SPXIFTS) Total Return	-8.10%
S&P 500 Consumer Discretionary (Sector) (^SPXCNDS) Total Return	-8.35%
S&P 500 Financials (Sector) (^SSPS) Total Return	-9.34%

Date Range: 12/31/2025 - 04/01/2026

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More on the Key Themes Shaping the Quarter:

The "AI Loser Trade" and a Reset in Software Valuations

After two years of enthusiasm around artificial intelligence, markets began to reassess which companies would truly benefit from AI adoption. Software stocks experienced downward pressure as investors questioned whether growth expectations had become too optimistic. This led to a broad pullback in high-multiple (expensive) technology names and contributed to profit taking and a rotation away from (expensive) growth stocks.

A Rotation Toward Value
As growth sectors struggled, value-oriented areas—energy, industrials, materials, utilities, and consumer staples - attracted renewed interest. Investors favored companies with stable cash flows, lower valuations, and clearer near-term earnings visibility. This rotation helped cushion the broader market decline but also highlighted how sensitive sentiment has become to shifts in macro and geopolitical conditions.

Geopolitical Tensions and the Iran Conflict
The escalation of the Iran war added a new layer of uncertainty. Markets reacted to concerns about energy supply disruptions, shipping routes, and broader regional instability. While geopolitical shocks often fade quickly from asset prices, this conflict had a more sustained impact, particularly in commodity markets and defense-related industries. Inflationary impacts of the multi-week energy supply disruption may have yet to rear their ugly head and be later felt by the broad consumer over the quarter ahead.

Volatility
Both stocks and bonds experienced bouts of volatility as investors digested shifting expectations for economic growth, inflation, and central bank policy. Traditional diversified/balanced portfolios faced headwinds while tactically tilted defensive portfolios showed strength.
The Federal Reserve remains in a "wait and see" cycle, as the Federal Reserve Chairman, Jerome Powell, waits for more clarity on the impacts of tariffs, and the recent geopolitical induced market disruptions.

Sector and Asset Class Performance
- **Energy** was the standout performer, supported by higher commodity prices and renewed focus on supply security.
- **Industrials and staples** benefited from the value rotation and more attractive relative valuations.
- **Technology**, especially software, lagged meaningfully as investors reassessed earnings durability.
- **Fixed income** delivered mixed results, with longer-duration bonds pressured by rate volatility and shorter-duration instruments offering more stability.

Looking Ahead to Q2—What This Means for Investors

Periods like Q1 highlight the importance of maintaining a long-term approach to investing. Rapid information flow can amplify short-term market swings but staying grounded in fundamentals (earnings, cash flow, valuations) remain the ultimate drivers of risk adjusted return over the long run. The rotation into value and the resilience of certain cyclical sectors suggests that leadership in the market may continue to broaden beyond the mega-cap technology names that dominated in recent years.

Investors may also benefit from revisiting portfolio exposures to areas that historically perform well during periods of geopolitical uncertainty or elevated inflation risk, such as energy, infrastructure, utilities, consumer staples and select commodities.

The next quarter will likely be shaped by three forces:
- How quickly markets recalibrate expectations for AI-driven growth
- The trajectory of the Iran conflict and its impact on global supply chains
- Central bank communication around inflation and interest rates

A more balanced market environment, where leadership rotates across sectors rather than concentrating in a handful of names, could create opportunities for active management and disciplined rebalancing.

Our team remains committed to helping you grow and protect your wealth through thoughtful, forward-looking strategies. If you would like to discuss how these developments may influence your investment plan or portfolio positioning, we are here to support you.

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