

COMMENTARY

Q1 2026

Q1 2026 proved to be one of the more turbulent quarters in recent memory, as a confluence of geopolitical shocks, shifting monetary policy expectations, and slowing economic data weighed on investor sentiment and pushed U.S. equity markets to their worst start to a year since 2022.

The quarter opened with a dramatic geopolitical development when the U.S. launched a military strike in Venezuela resulting in the capture of President Nicolás Maduro and his wife. Despite the historic nature of the event, markets were largely unfazed. Far more consequential to markets was the onset of the U.S.-Israeli war on Iran and the near-total blockade of the Strait of Hormuz. The conflict weighed heavily on sentiment throughout March, driving oil prices sharply higher and triggering a domino effect on global inflation.

Against this backdrop, GDP growth slowed to 1.4% annualized in Q4 2025, February 2026 data disappointed, and unemployment ticked up to 4.6%. The Fed signaled only one rate cut in 2026, limiting the policy cushion available to absorb further economic or geopolitical shocks should inflation and oil prices remain elevated.

U.S. equity markets bore the brunt of these pressures. The S&P 500 fell 4.6% and the Nasdaq declined 7.1% for the quarter. Earnings fundamentals held up relatively well, as the estimated Q1 2026 S&P 500 earnings growth rate came in at 13.0%, with net profit margins above year-ago levels. AI capital expenditure guidance was a notable bright spot, with the four largest hyperscalers projecting over \$600 billion in combined 2026 spending. International markets, meanwhile, continued their run of outperformance. The MSCI EAFE ended the quarter at approximately -1.46%, while MSCI EM returned approximately +3.78%. In fixed income, the 10-year Treasury yield remained rangebound around 4.2%. Gold was the quarter's standout performer, breaking above \$5,000 per ounce for the first time and reaching a record high of \$5,589 on January 28, before pulling back sharply.

Looking beyond the volatility, deal activity remained robust. Global M&A exceeded \$1.2 trillion, according to LSEG data, and the IPO pipeline for the remainder of 2026 is attracting significant attention. The anticipated SpaceX IPO, at an estimated valuation of \$1.75 trillion and potentially the largest in history, headlines a queue that reportedly also includes OpenAI and Anthropic.

While Q1 2026 presented meaningful headwinds, earnings resilience, international diversification, and continued innovation spending offer reasons for cautious optimism heading into the second quarter. The path forward will likely depend on how quickly geopolitical tensions ease, whether inflation moderates, and how the Fed navigates an increasingly complex policy environment.