QUARTERLY MARKET REPORT

FIRST QUARTER 2026

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First Quarter Highlights

Inflation concerns and Geopolitical Uncertainty Create a Bumpy Ride for investors

Financial Markets

- U.S. equities were down for the first quarter of 2026, with growth stocks underperforming value stocks across all market capitalizations. In the U.S., the financial and consumer cyclical sectors fell the most (-9%). Non-U.S. equities outperformed U.S. equities and value outperformed growth overseas as well.
- Bonds started the quarter strong, but rising yields and inflation concerns reversed gains, which, by quarter end, left fixed income investors with only modest returns and significant volatility. As the quarter progressed, inflation concerns and geopolitical shocks pushed yields higher across all maturities.

Overview of the Economy

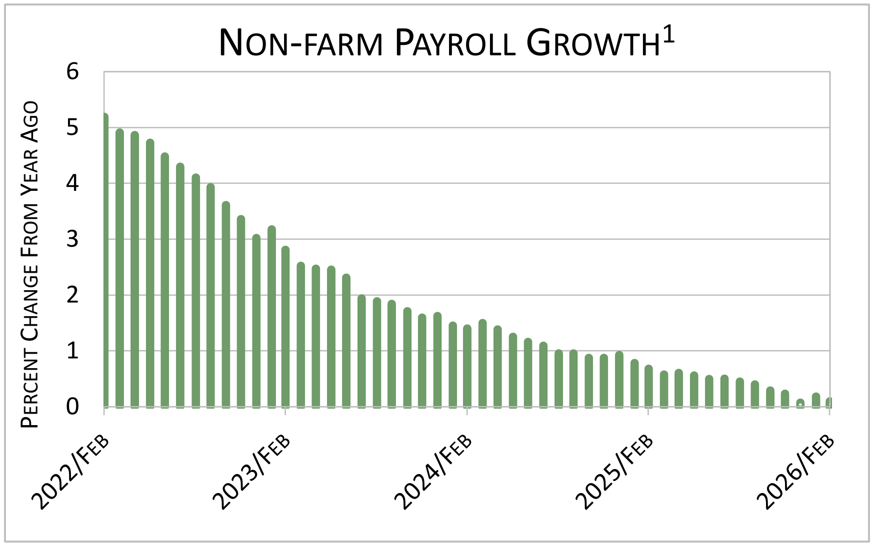
- U.S. gross domestic product (GDP) grew at approximately 1.9% annualized. Consumer spending grew, but at a rate lower than expected. This was partially offset by greater investment spending in equipment and technology. U.S. consumer sentiment fell and consumers increased their spending on services more than on goods.
- The official U.S. unemployment rate was 4.4% in February 2026, which is close to the Fed's target, but up slightly from earlier in the year. Job openings and hiring both declined in February to their lowest levels in several years. Some analysts describe the market as being in a "low-hire, low-fire" equilibrium with weaker momentum.
- U.S. inflation was moderate in the beginning of the quarter and then ticked upwards due to higher energy prices to 2.4%, which is above the Federal Reserve's 2% target. Core inflation (which excludes food and energy) rose by about 2.5%. Apparel prices jumped as firms raised prices to pass higher tariff costs on to the consumer.

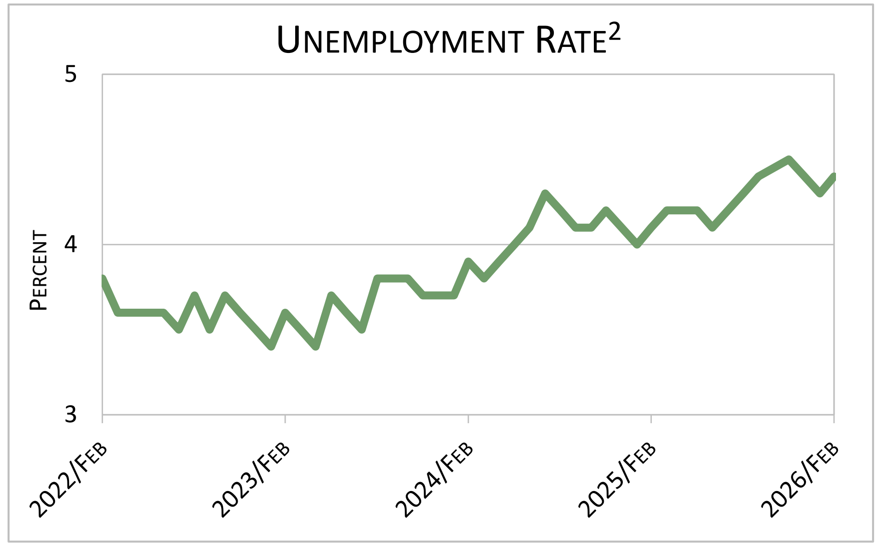
Notable Events

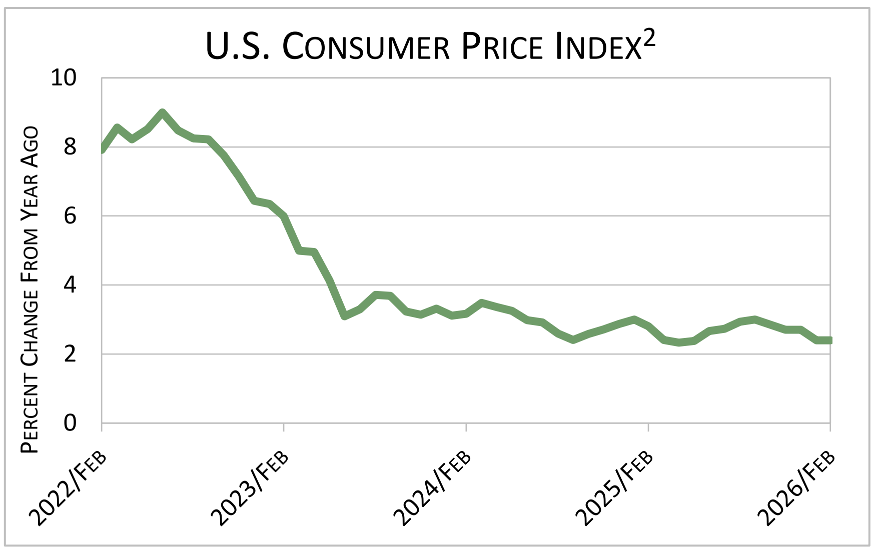
- Though providing a steady source of income, U.S. bonds were not a safe haven during the late-quarter selloff. Instead of rallying, bond prices fell, which is unusual in risk-off environments.
- Escalation of the Middle East conflict led to a spike in oil prices, which renewed inflation concerns.

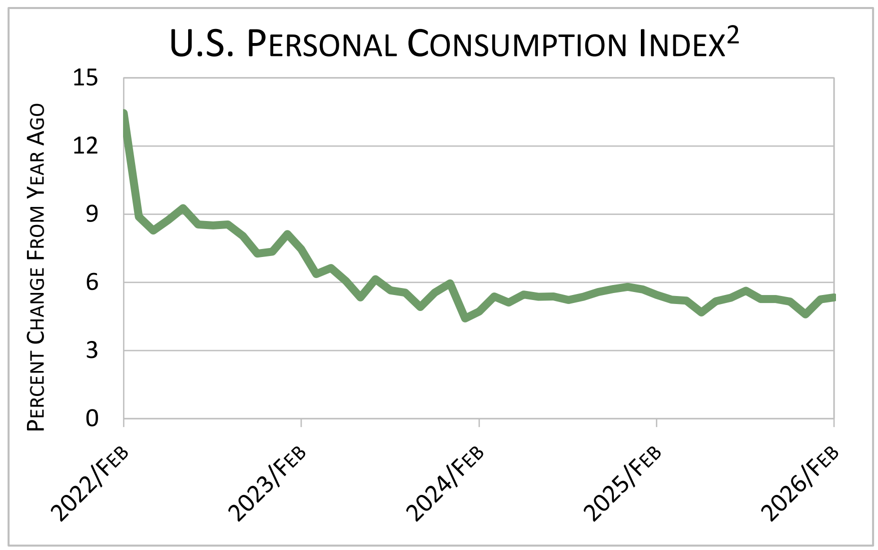
First Quarter Highlights

Softening labor market and inflation above Fed target lead to stagflation fears









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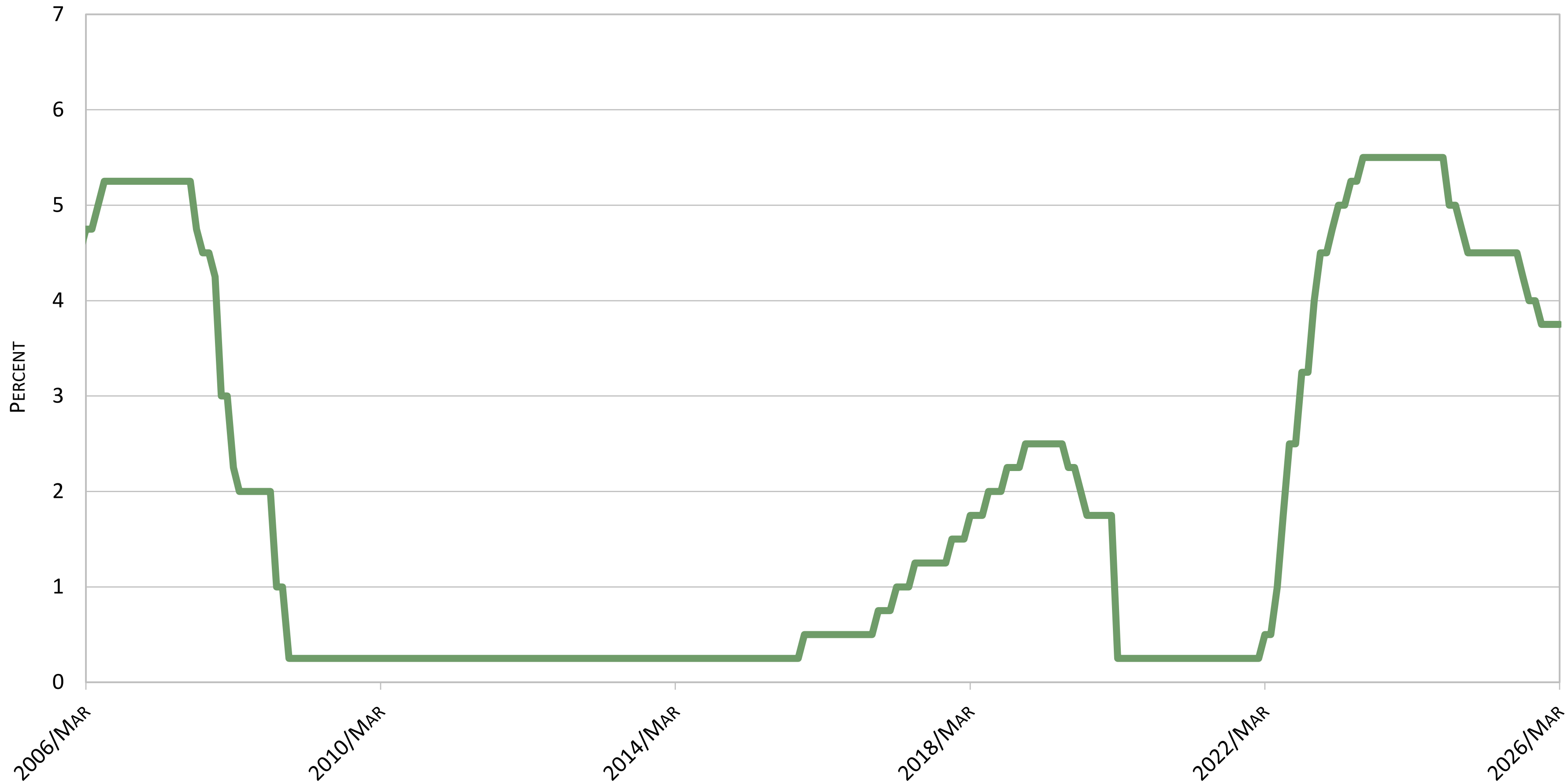
The Federal reserve in wait-and-see mode

At both the January and the March meeting, the Fed kept the federal funds target rate range at 3.50% - 3.75%. In the first quarter of 2026, the Fed assessed the impact of the 2025 rate cuts rather than making further changes. Members of the Board of Governors signaled rates may stay unchanged "for some time". There appears to be plans to eventually shrink the balance sheet further, but no details were given.

Federal Funds Target Rate[2]



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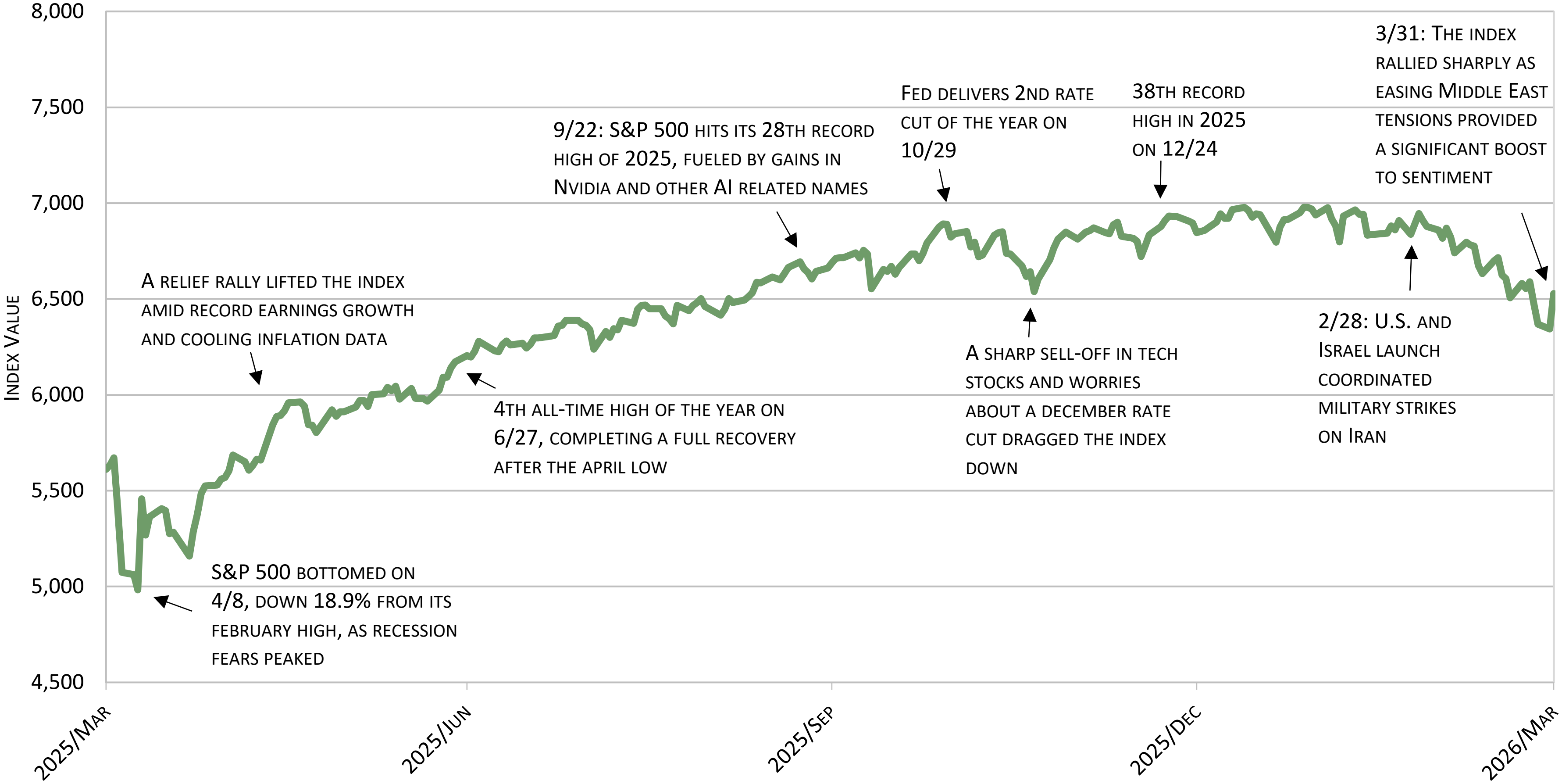
Conflict in Middle East pushes oil prices up and consumer sentiment down

There were three primary drivers of U.S. equity market returns in Q1 2026: AI, Inflation, and War. The "AI Scrutiny"phase began where investors re-evaluated AI stocks' rich valuations after the run-up in 2025. This sifting and selling notably included the Magnificant Seven stocks. Next, the Inflation and War themes are linked. The conflict in the Middle East drove up oil prices, which, in turn drove up inflation, driving down consumer sentiment.

S&P 500 Index[2]



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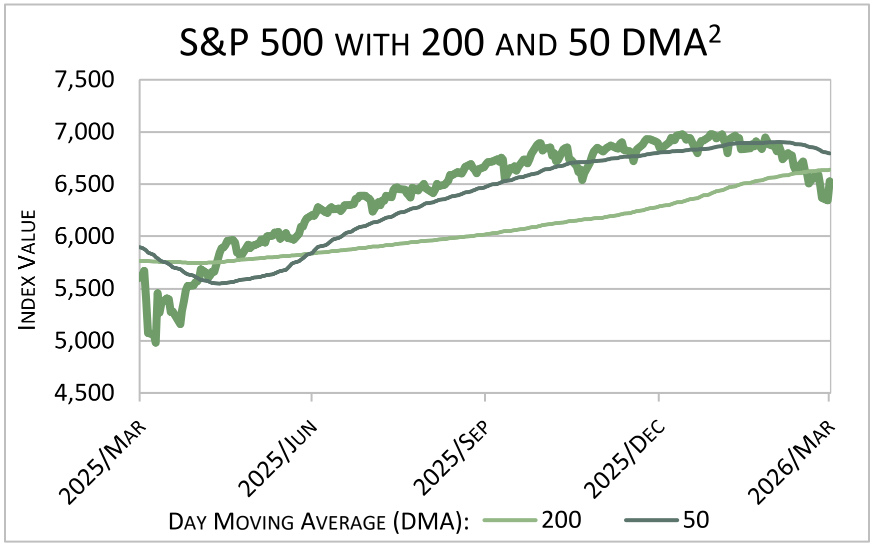
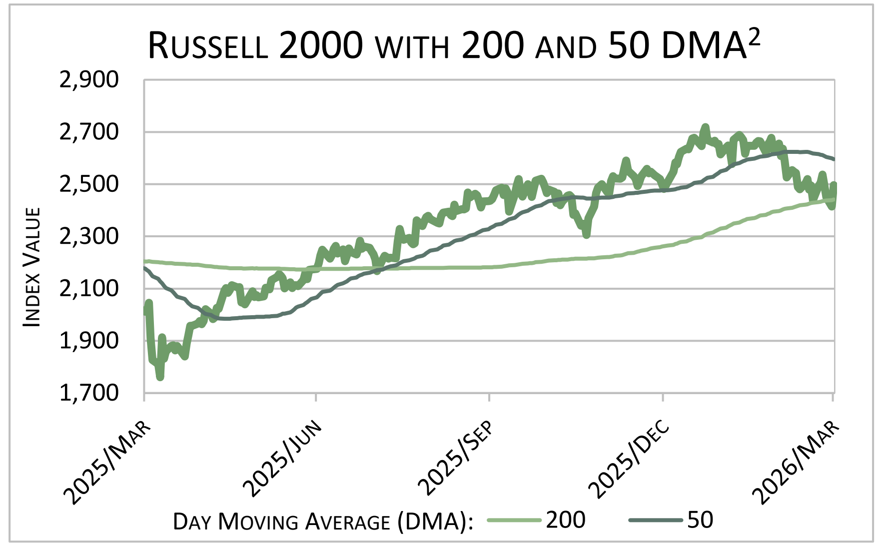
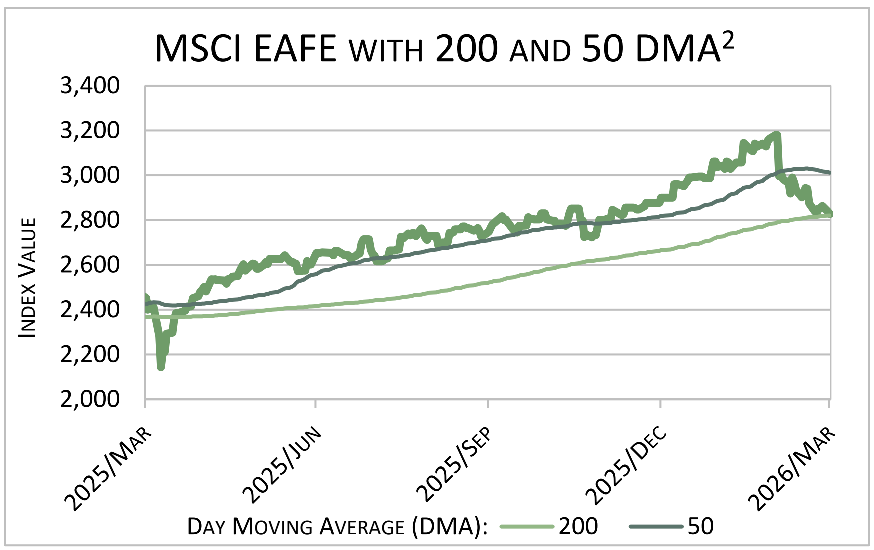
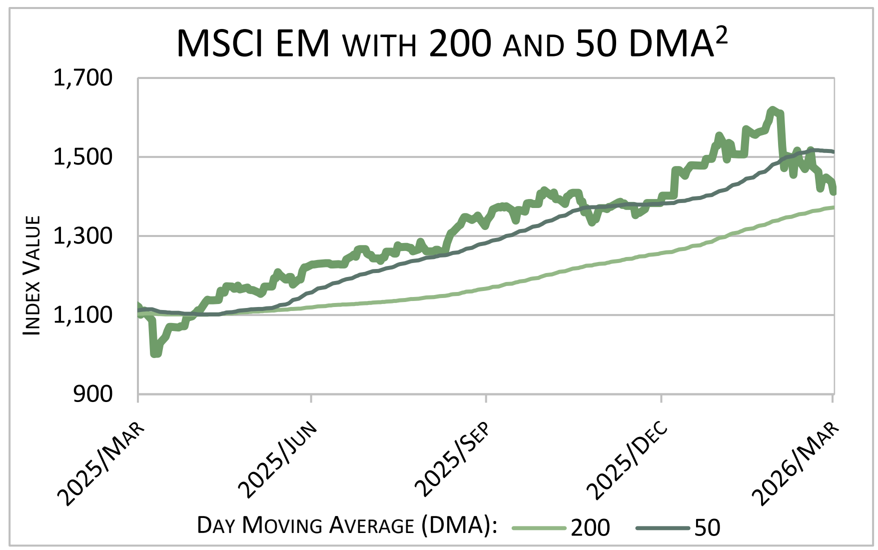
First quarter retreat leaves U.S. markets below their short- and long-term moving averages.









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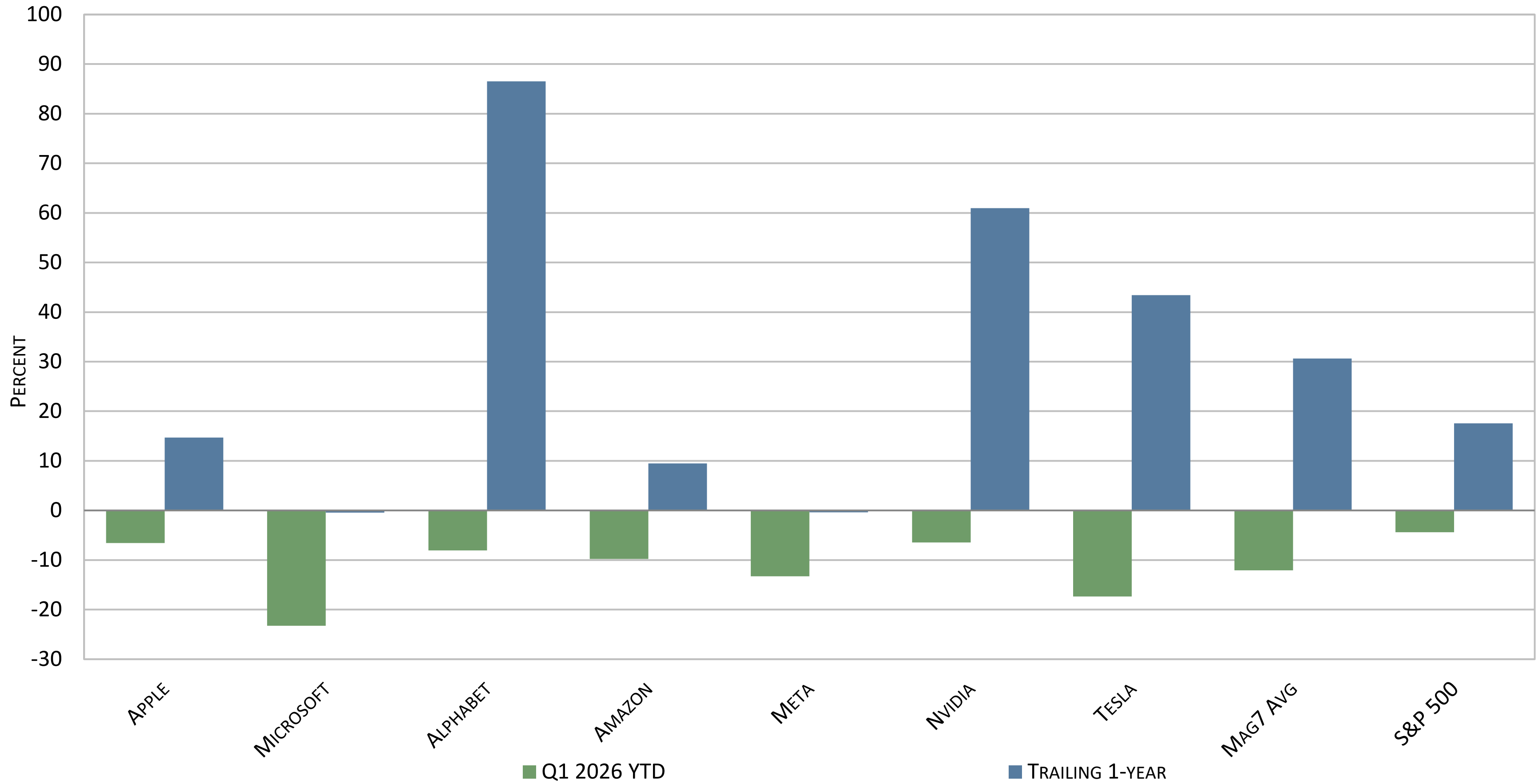
Investors re-evaluate hyperscalers due to their colossal AI infrastructure expenditures

The Magnificent 7 stocks that dominate the S&P 500 index (32% of the index) posted a 12% average decline. In 2026, the Magnificent Seven companies plan to double their massive 2025 AI capital expenditures. In the first quarter, investors tried to digest these astronomical figures while also questioning what return will be earned on these investments.

Magnificent Seven Performance vs S&P 500 Index[3]



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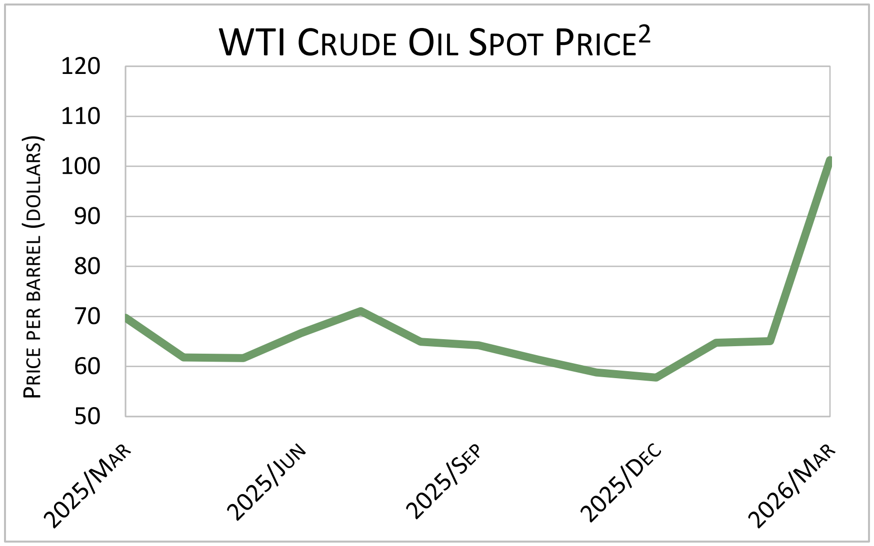
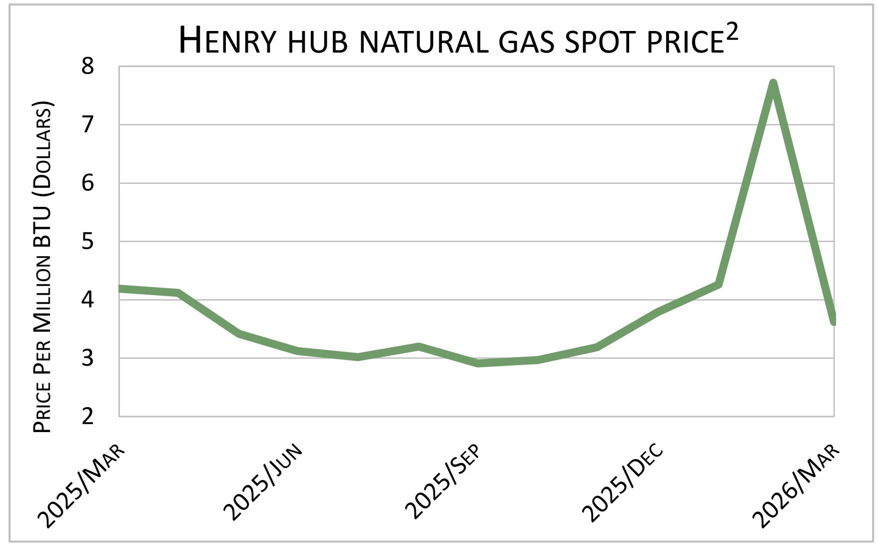
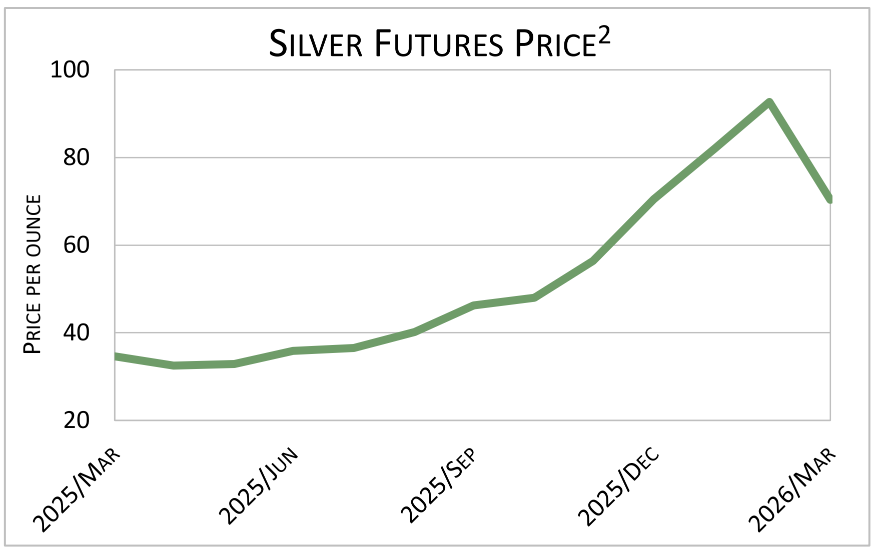
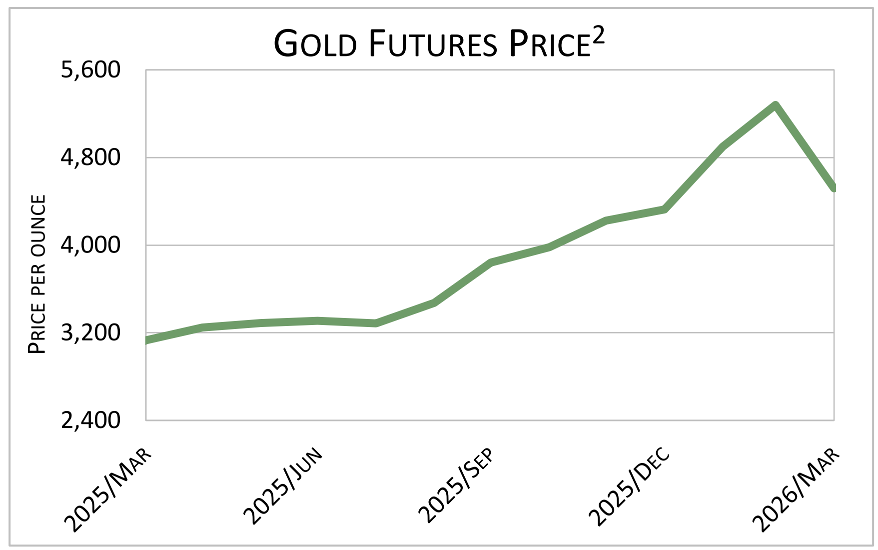
FIRST QUARTER HIGHLIGHTS

GEOPOLITICAL RISK SENDS OIL SOARING; VOLATILITY IN METALS AS DOLLAR CONCERNS BEGIN TO ABATE









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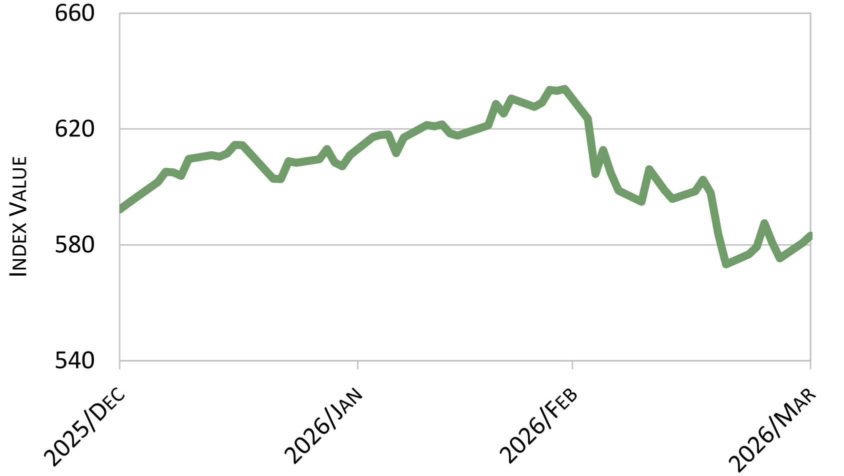
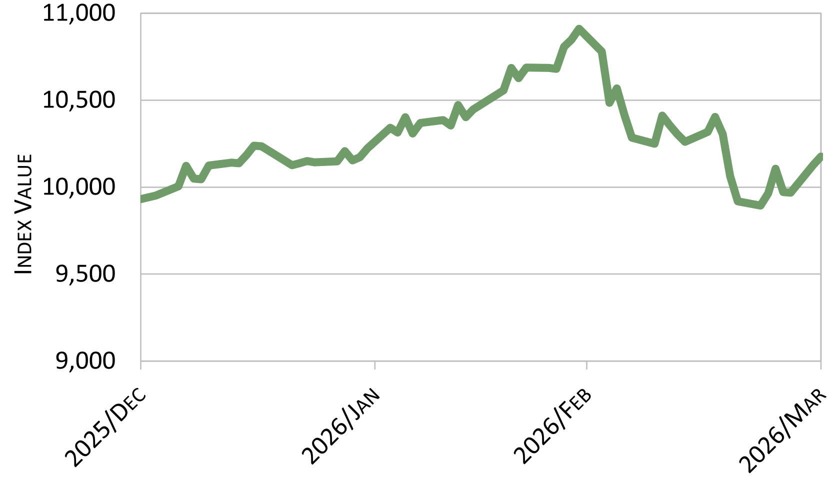
First Quarter Highlights

Non-US markets follow pattern of giving up gains in March from January and February

STOXX 600 Index[2]

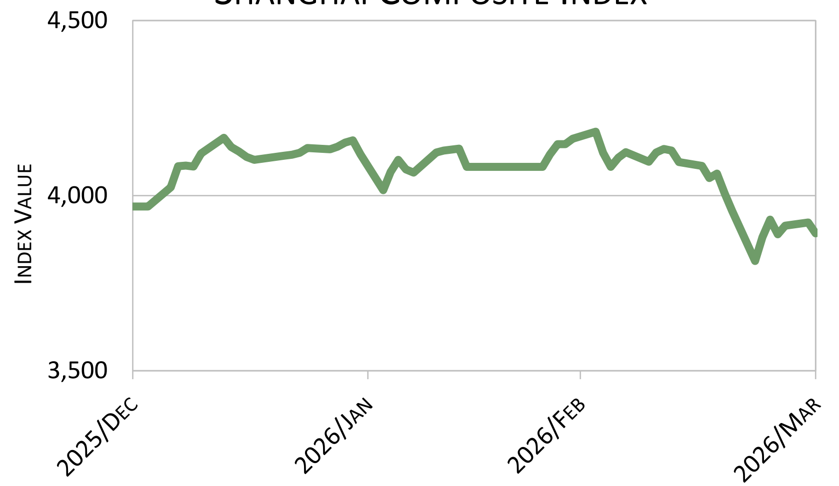


FTSE 100 Index[2]



Nikkei 225 Index[2]

Shanghai Composite Index[2]



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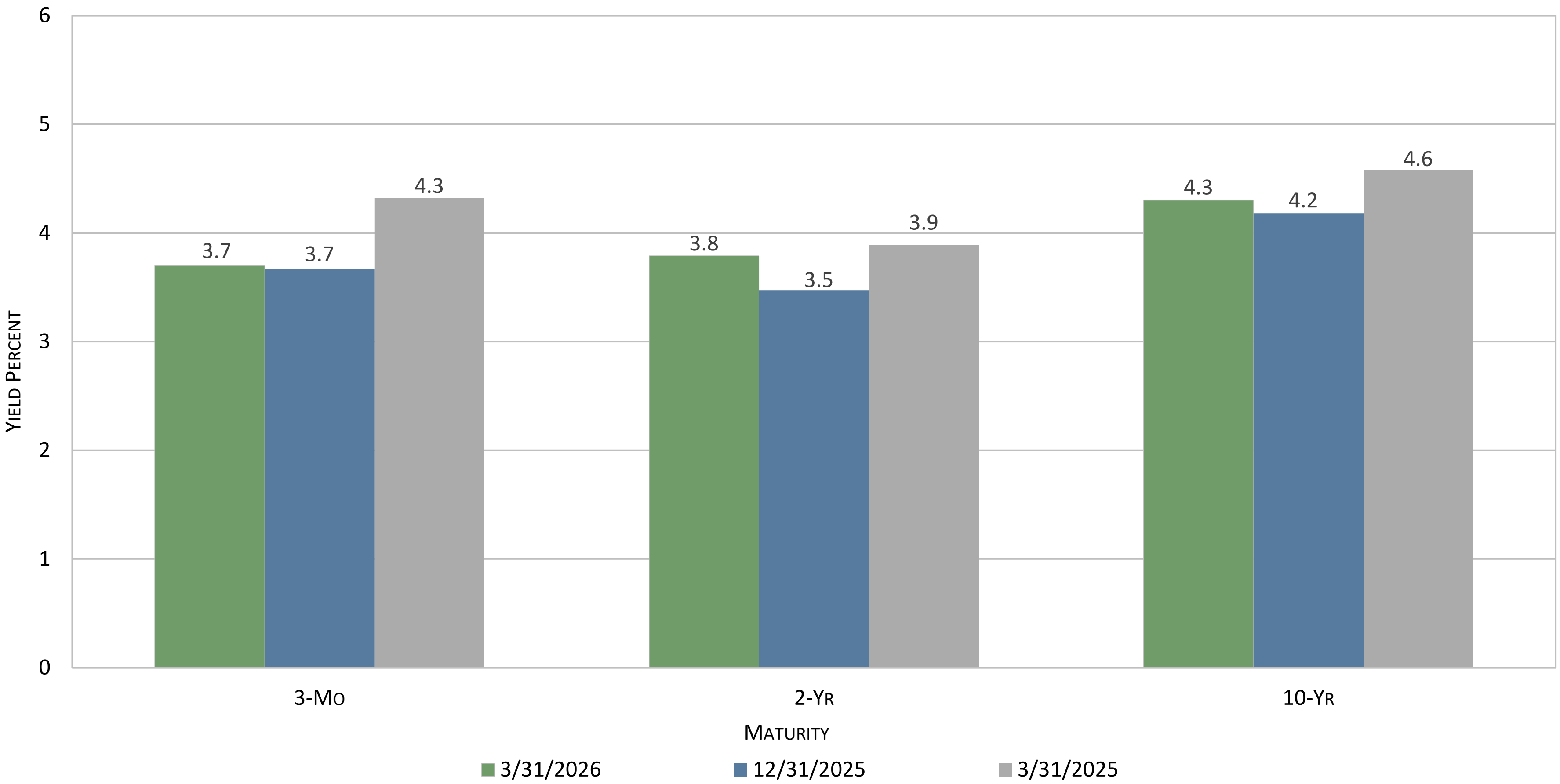
First Quarter Highlights

Bond investors have much to digest as macroeconomic forces create yield volatility

In the one year ended March 31, 2026, the inverted nature of the yield curve unwound such that the U.S. Treasury yield curve reverted to its equilbrium in which yields rise as term to maturity gets longer. The volatility in U.S. Treasury yields reflected investors resetting their return expectations factoring in the likelihood of Fed rate cuts, higher inflation rates due to the oil price shock, large fiscal deficits, and less confidence in U.S. economic growth.

U.S. Treasury Yields[4]



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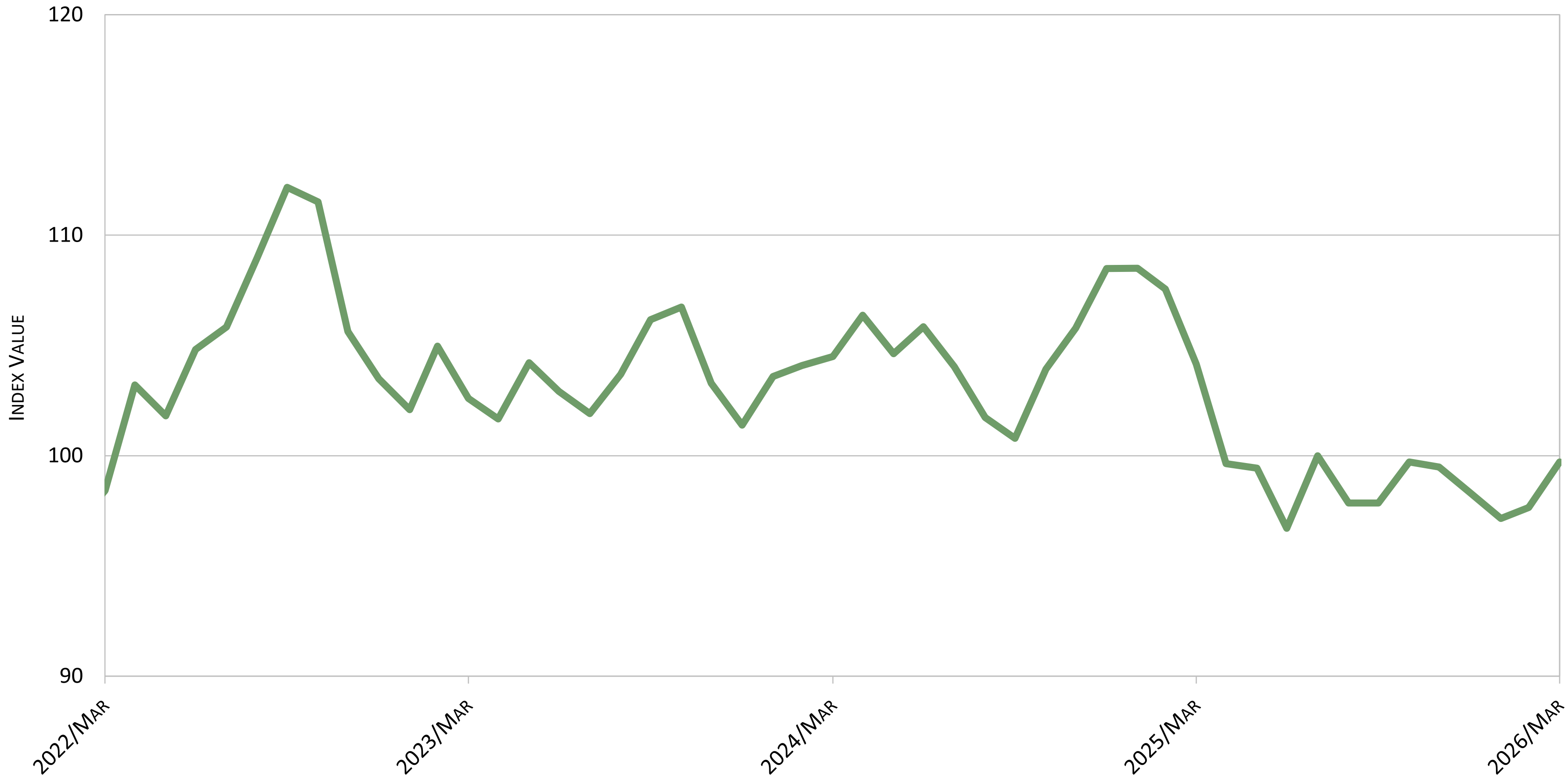
First Quarter Highlights

After "mountain-shaped" volatility, U.S. Dollar has eased into a soft landing

From 2022 through mid-2025, the U.S. dollar was relatively strong compared to a basket of the six most prominent global currencies. The most direct cause of the dollar's decline in the second half of 2025 was the Fed cutting the fed funds target rate by 0.25% three times. This made the dollar less attractive to foreign investors. Concerns both in the U.S. and abroad about the U.S. deficits and debt also weighed on the value of the U.S. dollar.

U.S. Dollar Index[2]

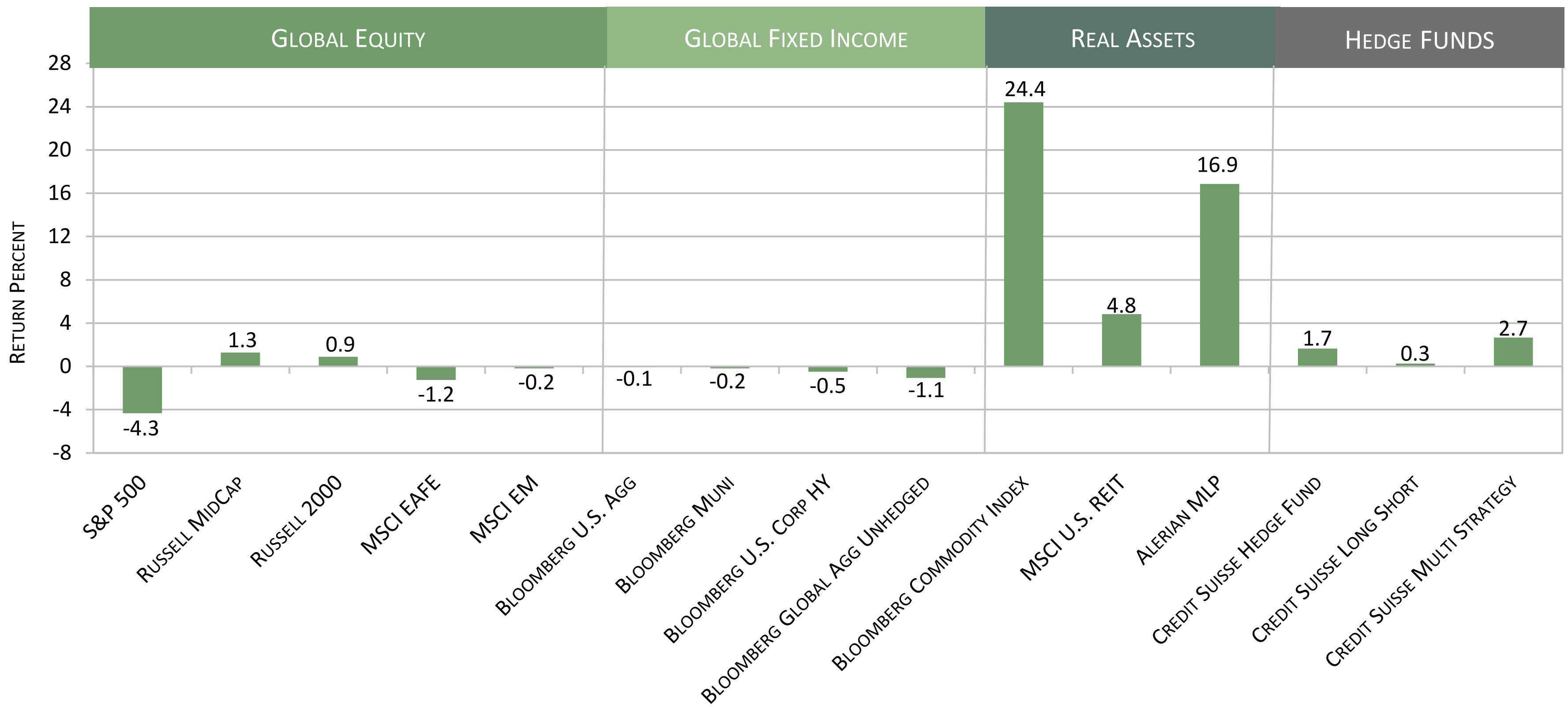


First Quarter Highlights

U.S. equity repositioning and dollar concerns left all assets- except real assets- flat to down

Concerns about U.S. inflation and the U.S. dollar were reflected in bond yield volatility and flat to negative bond market returns. Correspondingly, real assets jumped, especially the commodity index, of which 18% is crude oil. The U.S. equity market made two repositioning shifts, first from large-caps to small-caps, and second from growth to value. Equity investors were concerned about the high valuations of large- and -mega cap growth stocks.

Market Returns: First Quarter 2026[3]



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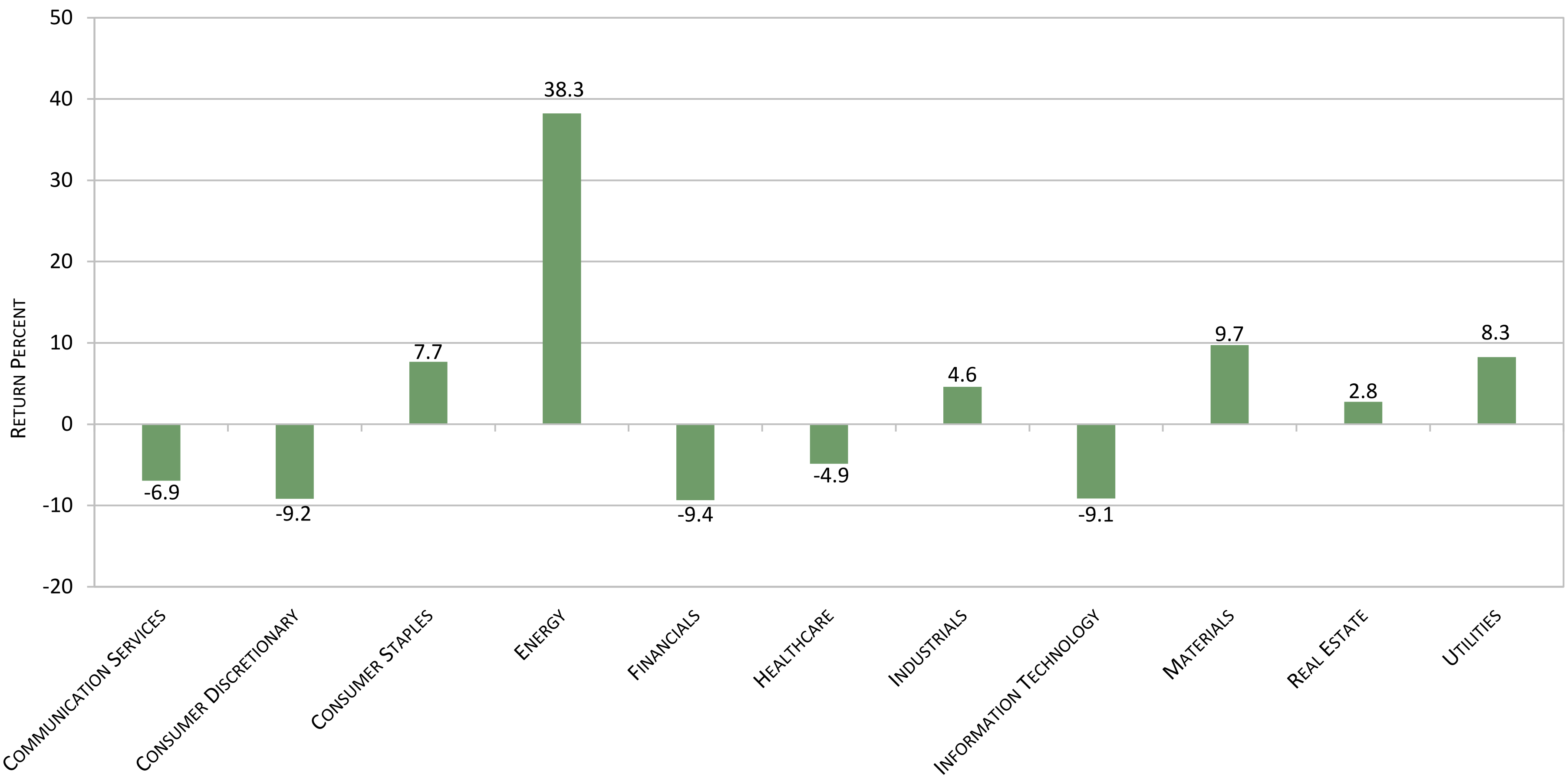
First Quarter Highlights

Crude oil prices drive energy stocks to highs while defensive sectors outpace cyclical sectors

The energy sector was up over 38% as the conflict in the Middle East drove up oil prices sharply, which had spillover effects on other energy commodities like natural gas. Due to the economic uncertainty, more defensive-oriented sectors, like consumer staples, materials, real estate, and utilities performed well. In contrast, the financial sector was weighed down by banks stocks which faced fears of an economic slowdown or recession.

S&P 500 Sector Returns: First Quarter 2026[3]



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OUTLOOK

THE MIDDLE EAST CONFLICT UNCERTAINTIES COUNTERBALANCED BY FISCAL STIMULUS AND AI SPENDING

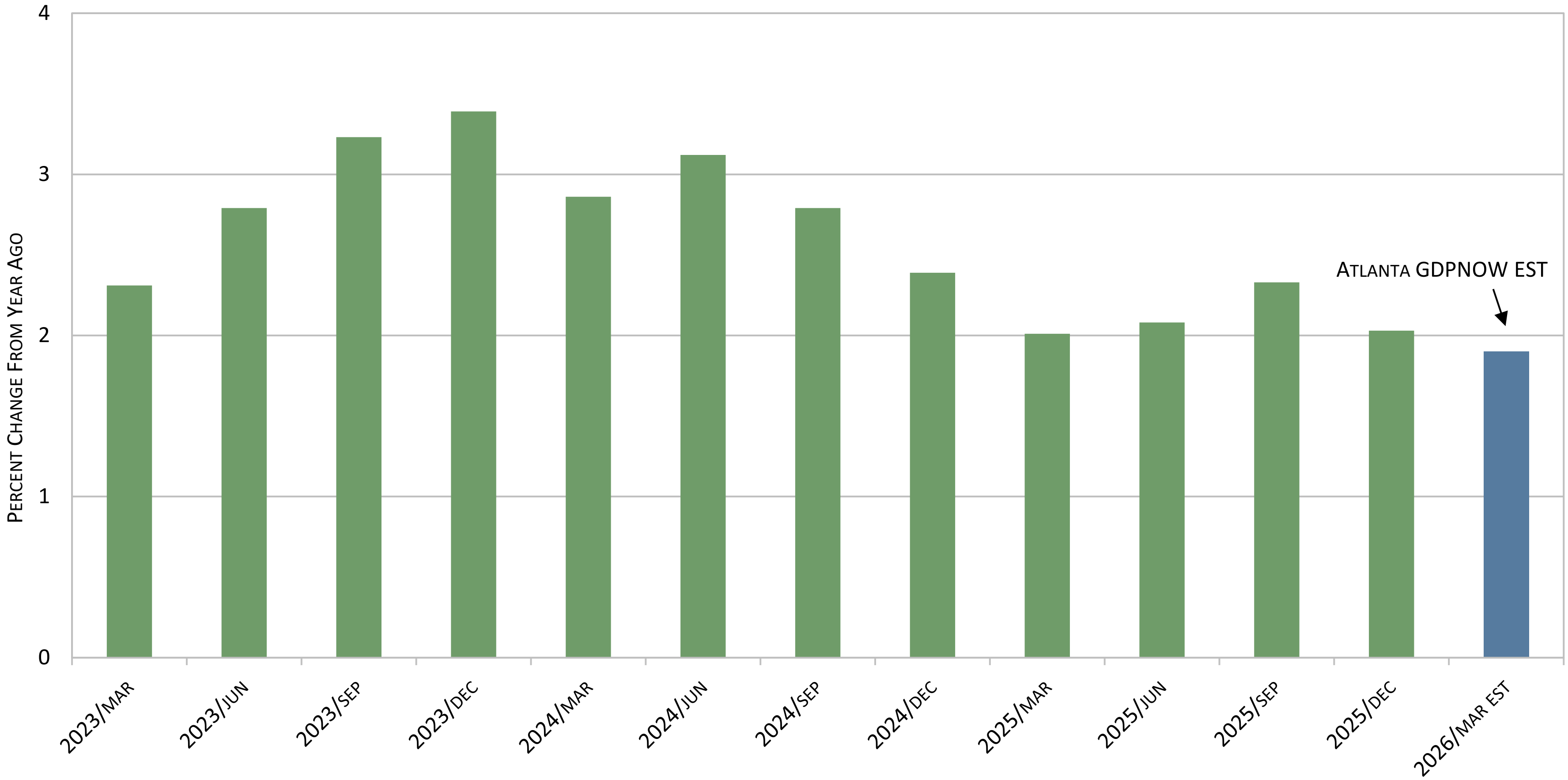
- Global economies appear set to continue growing in 2026, albeit in a world with a continuing sense of uncertainty caused by the Middle East conflict and its effect on energy prices, inflation, and the supply chain. With most of the global monetary easing over, central banks are now moving closer to neutral positions.
- The U.S. economy will benefit from the fiscal stimulus delivered by the One Big Beautiful Bill Act as well as tax incentives and refunds arriving in the first quarter of 2026. The current Administration is also prioritizing deregulation, focusing on the financial and energy industries. If successful, the deregulation should lower borrowing costs and energy prices. The ever-changing tariff landscape may disrupt both importers and exporters.
- Introl reports that the "Big Five" (Amazon, Microsoft, Google, Meta, and Oracle) are projected to spend a staggering $600 billion[5] on data centers and AI chips in 2026. The market does not have clear visibility regarding the return on these investments. On a related note, the aging network of U.S. electricity grids will be tested. As the U.S. pushes the grids' limits, the U.S. may see interruptions and blackouts in certain areas.
- Europe seems to have been left out of the AI race. However, European efforts to modernize defense capabilities and digital infrastructure are expected to begin lifting macroeconomic indicators in early 2026.
- In Asia, China is pivoting toward policies that stimulate domestic consumption and infrastructure investment, with a strong emphasis on AI. Japan is pursuing defense modernization, multilingual AI, and hardware-software co-evolution. With triple-digit growth in memory chips exports, South Korea has returned as an export powerhouse.
- There are many unknowns regarding the Middle East conflict, U.S. monetary and fiscal policy, the global AI race, U.S. electric grids stability, and market-distorting non-U.S. government investments and policies. We therefore recommend portfolios that are diversified geographically (in both developed and emerging markets) as well as by market-capitalization and sectors to benefit from growth opportunities but also to reduce the overall effect of drawdowns that may occur in certain segments of the market.

Outlook

GDP growth cools as AI spending abates and the Middle East conflict stokes inflation

U.S. first quarter GDP growth was subject to competing forces. The effects of the One Big Beautiful Bill Act were felt as rebates and manufacturing incentives boosted spending. Next, the economy benefited from a “catch-up effect” of receiving government benefits that were previously withheld during the shutdown. AI investment spending continued, but at a reduced rate. Finally, energy price spikes reduced consumption and activity.

Real GDP Growth Rate[2, 6]



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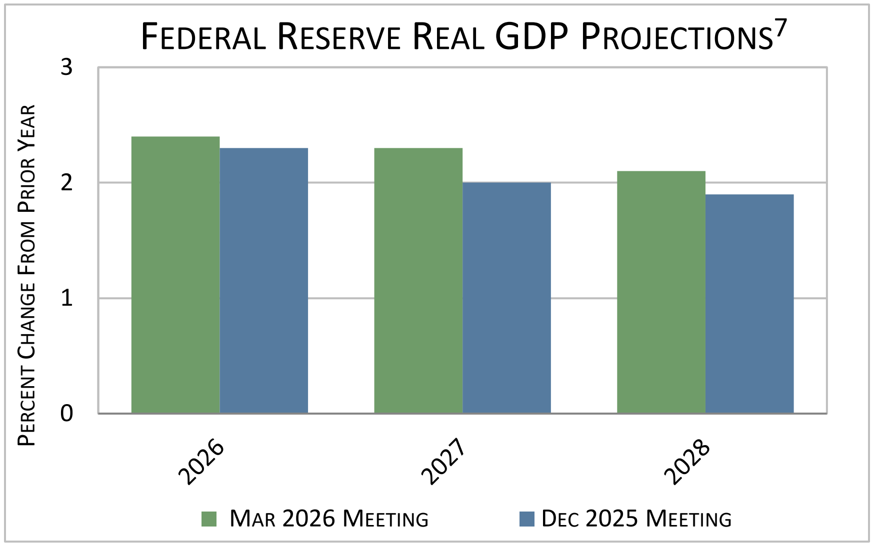
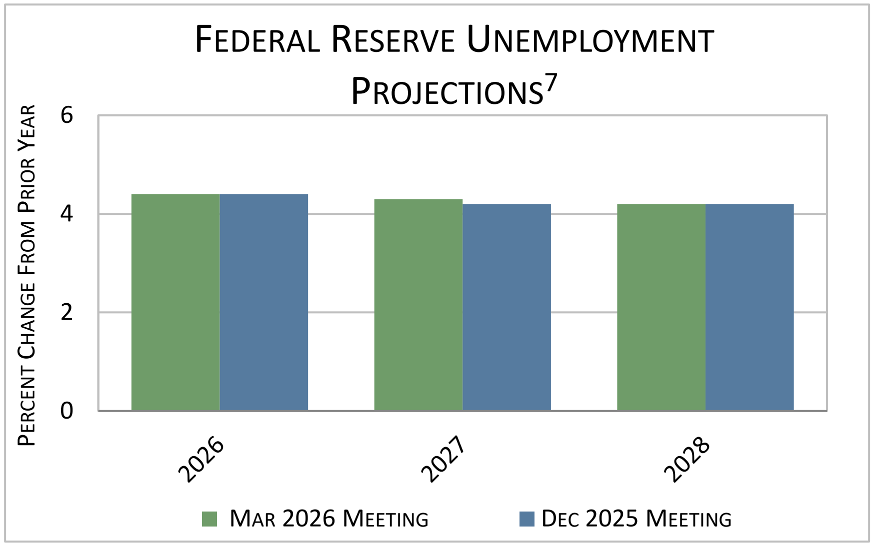
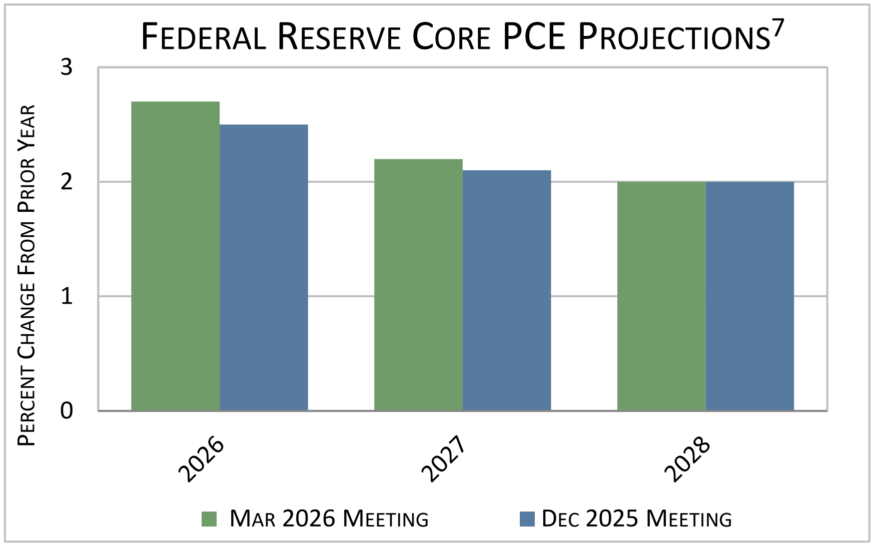
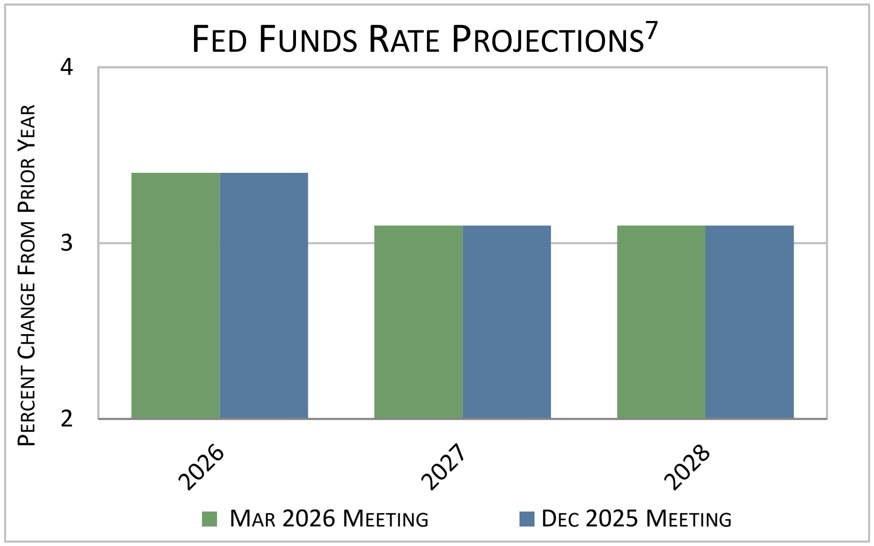
OUTLOOK

FED INCREASES GDP AND INFLATION PROJECTIONS, BUT LEAVES FED FUNDS RATE PROJECTIONS UNCHANGED









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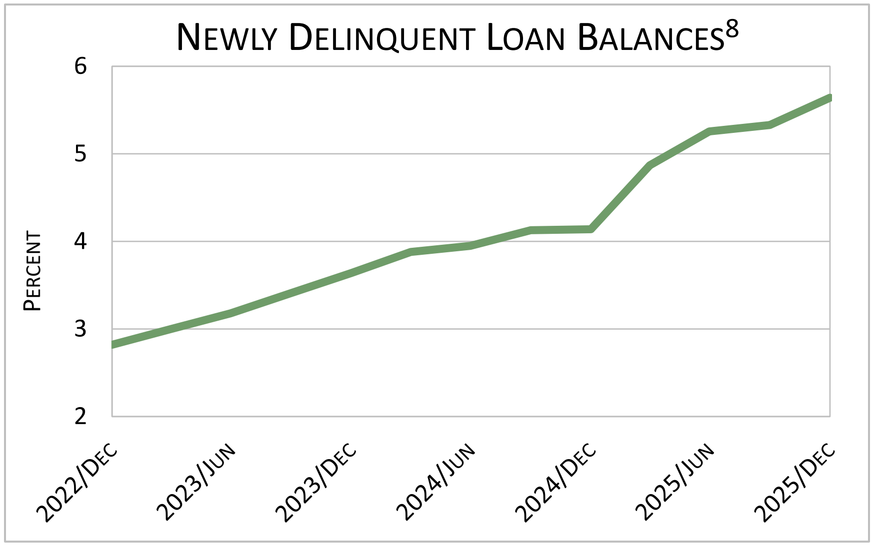
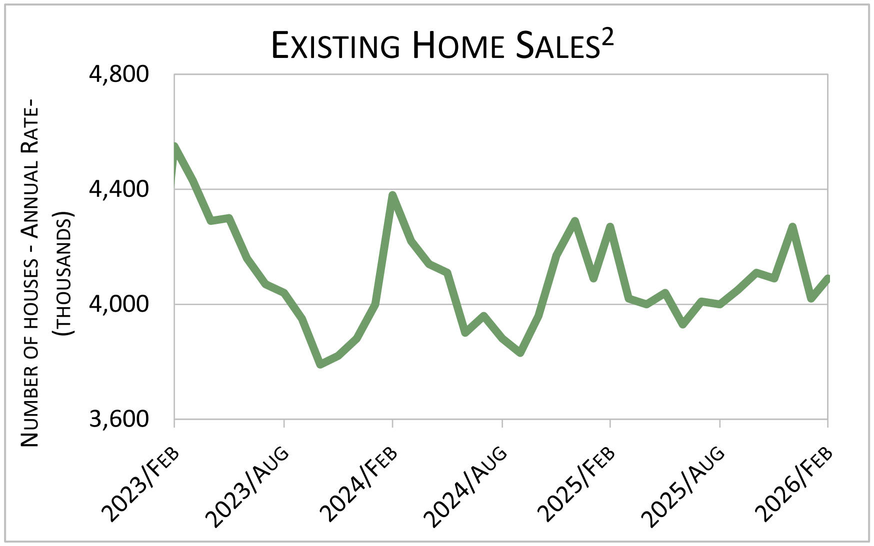
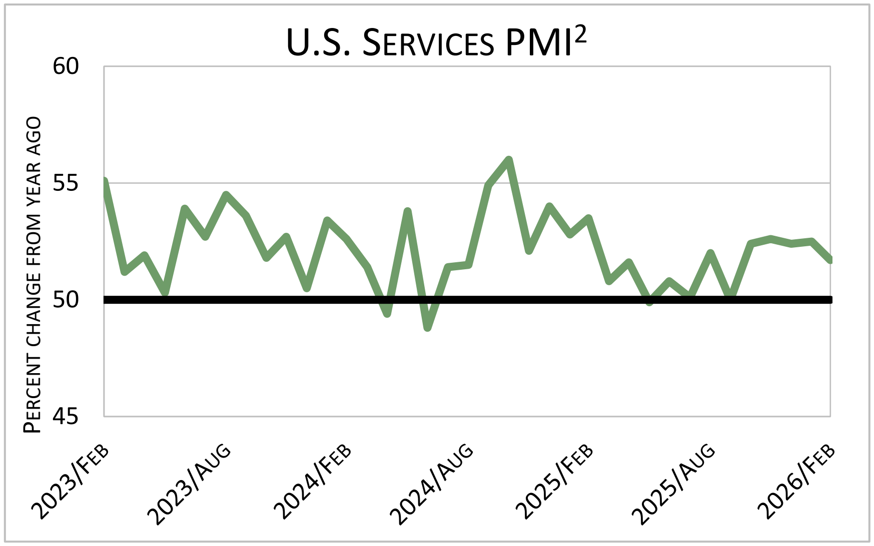
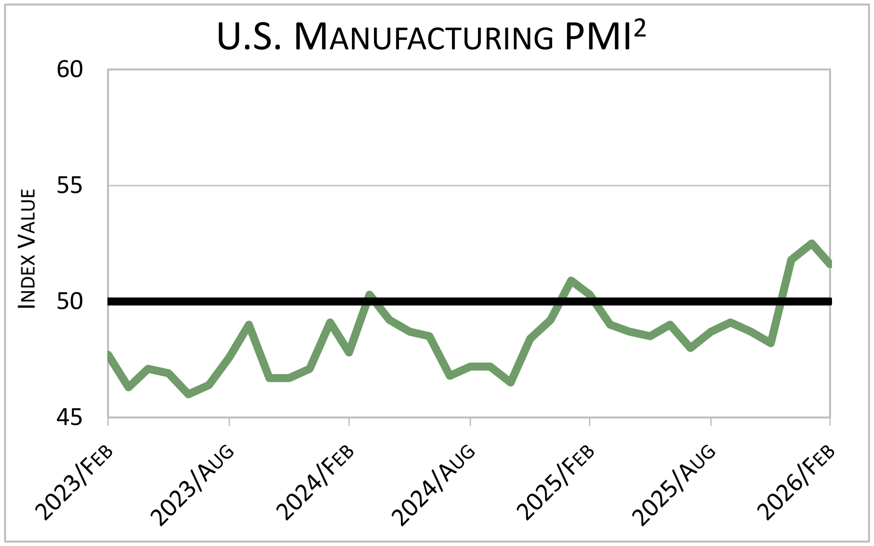
Outlook

Loan delinquencies up: required monthly loan payments resume after pandemic pause ends









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Vogel Tactical Recommendations

Overweight to emerging markets; Retain overweight to cash due to geopolitical risks.

Asset Class	Action	Commentary
Domestic Large-Cap Equity	Equal weight	Despite a difficult start to 2026, optimism remains that the Mag 7 companies will see continued earnings growth and drive total market return through their massive capital expenditures. The Fed is expected to remain inactive in 2026, cutting only once.
Domestic Mid-Cap Equity	Equal weight	At the outset of 2026, U.S. mid cap equities were trading at a 30% discount to their large-cap peers, the widest valuation gap in over two decades. Mid-sized companies are attractive acquisition targets for cash-rich and growth-hungry large caps.
Domestic Small-Cap Equity	Equal weight	Despite their superior earnings projections, small caps are still trading at extreme valuation discounts. Small cap companies' greater focus on domestic markets insulates them from the tariff-related headwinds that hit large multinational companies harder.
International Developed Equity	Equal weight	After a strong 2025, developed international equity markets still look attractive. U.S. equities are trading at a 30% P/E premium to international developed ex-US markets.
International Emerging Market Equity	Overweight	The new overweight to emerging markets is based on (1) expectations of strong economic and financial markets growth in China, (2) concerns over a weakening dollar, and (3) favorable emerging markets equities' fundamentals and valuations.
Fixed Income	Equal weight	Inflation fears due to oil price shocks sent bond prices falling in Q1, meaning they did not provide their usual diversification protection against negative equity returns. We expect higher bond market volatility, but not enough to underweight the asset class.
Hedge Strategies	Underweight	Hedge funds perform poorly in whipsaw markets. The world may experience just such a market in 2026, depending on the role geopolitical disruptions play.
Real Assets	Equal Weight	Energy prices jumped in Q1 2026 due to the Middle East conflict. However, prices look to settle down as the conflict abates and more U.S. suppliers, including Alaska-based producers, come online. Commercial real estate looks to outpace residential in 2026.
Cash	Overweight	Cash provides a cushion to protect the portfolio in the event that global conflicts continue to disrupt trade or drive up energy prices.

DISCLOSURES

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Sources: *Number below corresponds to the superscript notation in chart titles and text blocks*

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5. Crosley, Blake. 2026. “Hyperscaler CapEx Hits $600B in 2026: The AI Infrastructure Debt Wave.” Introl, January 2026.https://introl.com/blog/hyperscaler-capex-600b-2026-ai-infrastructure-debt-january-2026
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