

# Q1

Economic & Market Review

First Quarter 2026

# Economic Review

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## US Enters 2026 on Uncertain Footing

**The US economy expanded at an annualized rate of just 0.5% in the fourth quarter of 2025, down sharply from 4.4% in the third quarter.** A 43-day partial government shutdown that began in October subtracted roughly one percentage point from growth, while exports and business investment also weakened.

### **Consumer spending stalled in the early months of 2026.**

Inflation-adjusted spending was flat in January and rose just 0.1% in February, with motor vehicle purchases providing much of the lift. Rising energy costs tied to the Iran conflict pose additional headwinds ahead.

### **The job market was uneven through the quarter, but the broader trajectory points to gradual cooling.**

Nonfarm payrolls rebounded from a 133,000 decline in February to a 178,000 gain in March, though net job creation for the quarter was minimal. The unemployment rate edged down to 4.3%, but the improvement reflected a shrinking labor force rather than stronger hiring.

### **Manufacturing activity turned positive in January for the first time in nearly a year and expanded for a third consecutive month in March.**

The ISM Manufacturing PMI rose to 52.7 in March, its highest reading since August 2022. However, cost pressures intensified, with the ISM prices index jumping to 78.3, its highest level since June 2022, reflecting the impact of tariffs and elevated energy costs on input prices.

## The Fed's Holding Pattern

**The Federal Reserve held the federal funds rate steady at 3.50% to 3.75%** at both of its meetings during the quarter, citing elevated economic uncertainty and inflation that continues to run above its 2% target. The March decision was nearly unanimous, with only one dissenting vote in favor of a cut.

Fed Chair Jerome Powell **acknowledged the economy is performing reasonably well**, while noting that the **ongoing conflict in the Middle East has meaningfully clouded the outlook**. Powell described the current rate range as broadly neutral, neither stimulating nor restraining growth, and emphasized a data-dependent approach, offering no preset path for future adjustments.

### **The Fed's latest projections reflect a modest upgrade to the growth outlook alongside higher inflation expectations.**

Officials now project GDP growth of 2.4% in 2026, up from 2.3% in December, and see core inflation ending the year at 2.7%, up from the prior 2.5% forecast. The median projection still calls for one rate cut in 2026, though seven of nineteen voting and non-voting participants now pencil in no cuts at all this year.

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## Europe and Japan Hold Steady as Risks Mount

**Eurozone economy grew 0.2% in the fourth quarter of 2025**, a notch lower than the 0.3% in the third quarter. Household consumption was the primary growth driver, partially offset by net exports and inventories. Spain remained the standout, growing 0.8%, while Germany and Italy posted 0.3% expansions.

**The European Central Bank held its key policy rate unchanged at 2.15% at its March meeting** as the Middle East conflict introduced new uncertainty into the energy and inflation outlook. Updated ECB staff projections revised headline inflation higher to 2.6% for 2026, primarily reflecting elevated energy prices, while the growth forecast was trimmed to 0.9% for the year. ECB President Christine Lagarde reiterated the bank's commitment to price stability, pledging to do what is necessary to prevent another energy-driven inflation surge.

**Japan's economy rebounded modestly in the fourth quarter, with GDP growing 0.3%** from the prior quarter, reversing a 0.7% contraction in the third quarter. Growth was supported by a recovery in business investment and upward revisions to private consumption and government spending. The Bank of Japan held its policy rate at 0.75% at its March meeting, the highest level since 1995, signaling it would continue raising rates incrementally if the economy and prices evolve as projected.

## Emerging Markets Diverge as India Leads, China Slows

**China's GDP grew 4.5% year over year in the fourth quarter of 2025**, down from 4.8% in the third quarter, as domestic demand weakened and the effects of last year's stimulus faded. Exports remained a bright spot early in 2026, though tariff uncertainty and rising input costs weighed on manufacturing activity to start the year.

**India's economy expanded 7.8% year over year in the fourth quarter**, driven by double-digit manufacturing growth and strong consumer spending. India remains the fastest growing major economy in the world.

**Brazil's economic growth held steady at 1.8% year-over-year in the fourth quarter of 2025**, as high interest rates continued to weigh on spending and investment. The central bank's benchmark interest rate reached 15% by mid-2025, and while policymakers began easing in early 2026, their March rate cut was smaller than expected, reflecting persistent inflation concerns.

# Market Review: Stocks

First Quarter 2026

## Stocks Slip in Q1 as Uncertainty Builds

**Global stock markets pulled back in the first quarter of 2026. War in the Middle East sparked sharply higher energy prices, weighing on investor sentiment.** The disruption to global energy markets added to worries about slower growth and higher input costs, causing a steep decline through most of March before a month-end rebound on hopes of de-escalation.

**US large-cap stocks (S&P 500 Index), fell 4.3% in Q1, marking a weak start to the year.** The quarter was shaped by a rotation away from many of the mega-cap growth stocks that have led markets in recent years, as rising oil prices and inflation concerns complicated the outlook for interest rates and economic growth. The pullback was not uniform, with more defensive sectors holding up relatively well.

**Sector performance in Q1 highlighted a clear shift in market leadership. Materials led all sectors, rising 10.7% on AI-driven demand for copper and aluminum. Utilities also shined, gaining 8.3%, reflecting expected benefits from AI datacenter buildouts, as well as investor preference for more defensive holdings.** At the other end of the spectrum, Financials fell 9.4% as investors grew more cautious on the economic outlook and credit conditions. Technology declined 7.5%.

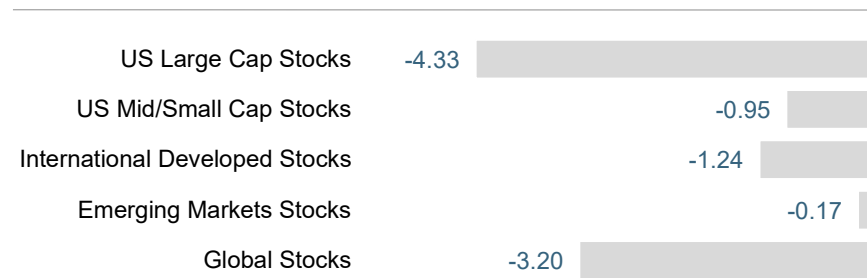
**US mid and small cap stocks (Wilshire 4500 Index) declined 1.0% in Q1.** While outpacing large caps, small company stocks still struggled as investors became more cautious on the economy and favored more defensive sectors.

Past performance is not a guarantee of future results. Returns for periods longer than one year are annualized. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Large Cap (S&P 500 Index), US Mid/Small Cap (Wilshire 4500 Completion Index), International Developed (MSCI Europe Australasia Far East Index), Emerging Markets (MSCI Emerging Markets Index), and Global Stocks (MSCI All Country World Index). Growth of \$1,000 chart market segmentations as follows: US Stocks (Wilshire 5000 Full Cap Index) and Foreign Stocks (All Country World Index ex US).

**International stocks also slipped in the first quarter, though less than US stocks.** Developed market equities fell 1.2%, while emerging markets stocks declined just 0.1%. Both asset classes substantially outperformed the US market despite a stronger US dollar, which acts as a headwind for international returns.

**Market volatility rose steadily over the quarter.** The VIX, sometimes called the fear index, began Q1 at 15, more than doubled as war in the Middle East dragged through March, and finally settled at 25 to end the quarter. The war jacked up uncertainty across the whole spectrum of economic and market factors that stock investors consider.

## Returns for the Quarter (%)



## Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Large Cap Stocks	-4.33	17.80	18.32	12.06
US Mid/Small Cap Stocks	-0.95	20.75	15.22	5.63
International Developed Stocks	-1.24	21.27	13.62	7.91
Emerging Markets Stocks	-0.17	29.55	14.84	3.69
Global Stocks	-3.20	20.01	16.58	9.49

\* Annualized

# Market Review: Bonds

First Quarter 2026

## Rising Treasury Yields Weigh on Bonds in Q1

**US fixed income markets were little changed in the first quarter of 2026** as the war in Iran pushed oil prices higher and prompted investors to reassess their inflation and interest rate outlook. Interest rates rose sharply in March, driven by expectations of higher inflation that could prevent the Federal Reserve from further lowering rates in 2026. **US bonds returned -0.1% in Q1**, as measured by the Bloomberg US Aggregate Bond Index.

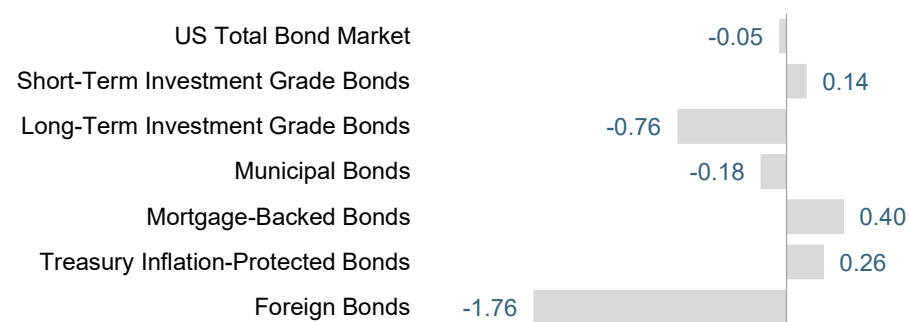
**Treasury yields moved higher across the curve, with the largest increases at the short end** as investors pushed out expectations for Fed rate cuts to 2027. The 2-year Treasury yield, which closely tracks Fed policy expectations, rose from 3.47% to 3.79% in Q1, while the 10-year Treasury yield climbed from 4.18% to 4.30%, resulting in a modestly flatter yield curve.

**Performance across fixed income sectors was mixed in Q1.** Mortgage-backed securities outperformed, returning 0.4%. US Treasury Inflation-Protected Securities (TIPS) also posted a solid quarter, gaining 0.3%. Corporate bonds underperformed as credit spreads widened slightly, reflecting concerns that higher energy prices could slow the economy.

**Tax-exempt municipal bonds also declined modestly in Q1**, returning -0.2%, with March being one of the worst months for munis in several years. Municipal issuance is running ahead of 2025 levels, but demand hasn't been strong enough to fully offset the increase in new supply.

**The bond market is likely to continue juggling conflicting forces in the coming months.** High oil prices and geopolitical uncertainty may place upward pressure on inflation, limiting the Fed's flexibility to cut rates in the near term. However, these same factors could slow global economic growth, possibly shifting the focus back toward easier monetary policy. The approaching Fed leadership transition—Jerome Powell's term ends in May—raises questions about the continuity of policy direction, adding to the likelihood of persistent volatility in fixed income markets.

### Returns for the Quarter (%)



### Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Total Bond Market	-0.05	4.35	3.63	0.31
Short-Term Investment Grade Bonds	0.14	4.15	4.33	1.71
Long-Term Investment Grade Bonds	-0.76	2.17	0.90	-2.93
Municipal Bonds	-0.18	4.29	2.87	0.84
Mortgage-Backed Bonds	0.40	5.79	4.17	0.45
Treasury Inflation-Protected Bonds	0.26	3.00	3.18	1.48
Foreign Bonds	-1.76	4.14	0.97	-4.29

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# Market Review: Alternatives

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## Energy Rally Powers Alternative Asset Gains

**Alternative investments delivered strong results in Q1, led by a surge in energy and broad-based gains across commodities.** Geopolitical tensions and disruption of the global oil supply drove a significant increase in energy prices, while gold also posted solid gains despite late-quarter volatility. Real estate investment trusts (REITs) advanced despite a roller coaster quarter.

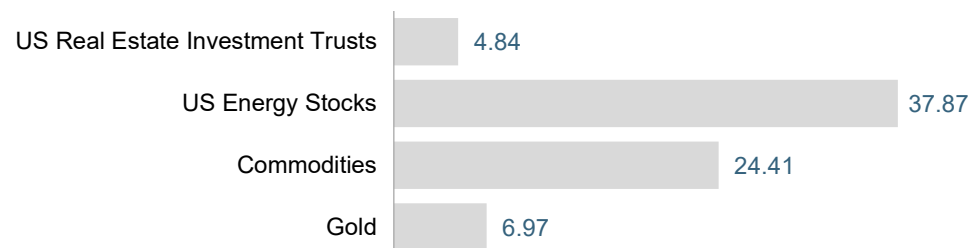
**Gold rose 7.0% in Q1, though prices pulled back considerably from their mid-quarter highs.** The metal benefited from a weaker US dollar earlier in the period and continued foreign central bank demand.

**Energy stocks surged 37.9% in Q1, driven by a spike in oil and gas prices.** Crude oil climbed from about \$60 to over \$100 per barrel as the war effectively shut down shipping through the Strait of Hormuz, disrupting the global oil and gas supply.

**Commodities rose 24.4%, with energy and raw materials leading the advance.** The quarter highlighted the sensitivity of energy markets to geopolitical shocks and their ripple effects across the broader commodities landscape.

**REITs ended Q1 up 4.8% after a volatile ride.** The sector benefited from relatively stable property fundamentals and continued investor demand for income-oriented assets, even as interest rate uncertainty persisted.

## Returns for the Quarter (%)









## Period Returns (%)

Asset Class	YTD	* Annualized		
		1 Year	3 Years*	5 Years*
US Real Estate Investment Trusts	4.84	6.79	9.13	5.80
US Energy Stocks	37.87	35.42	17.82	24.75
Commodities	24.41	32.29	13.88	14.04
Gold	6.97	47.94	32.53	22.20

# Market Summary

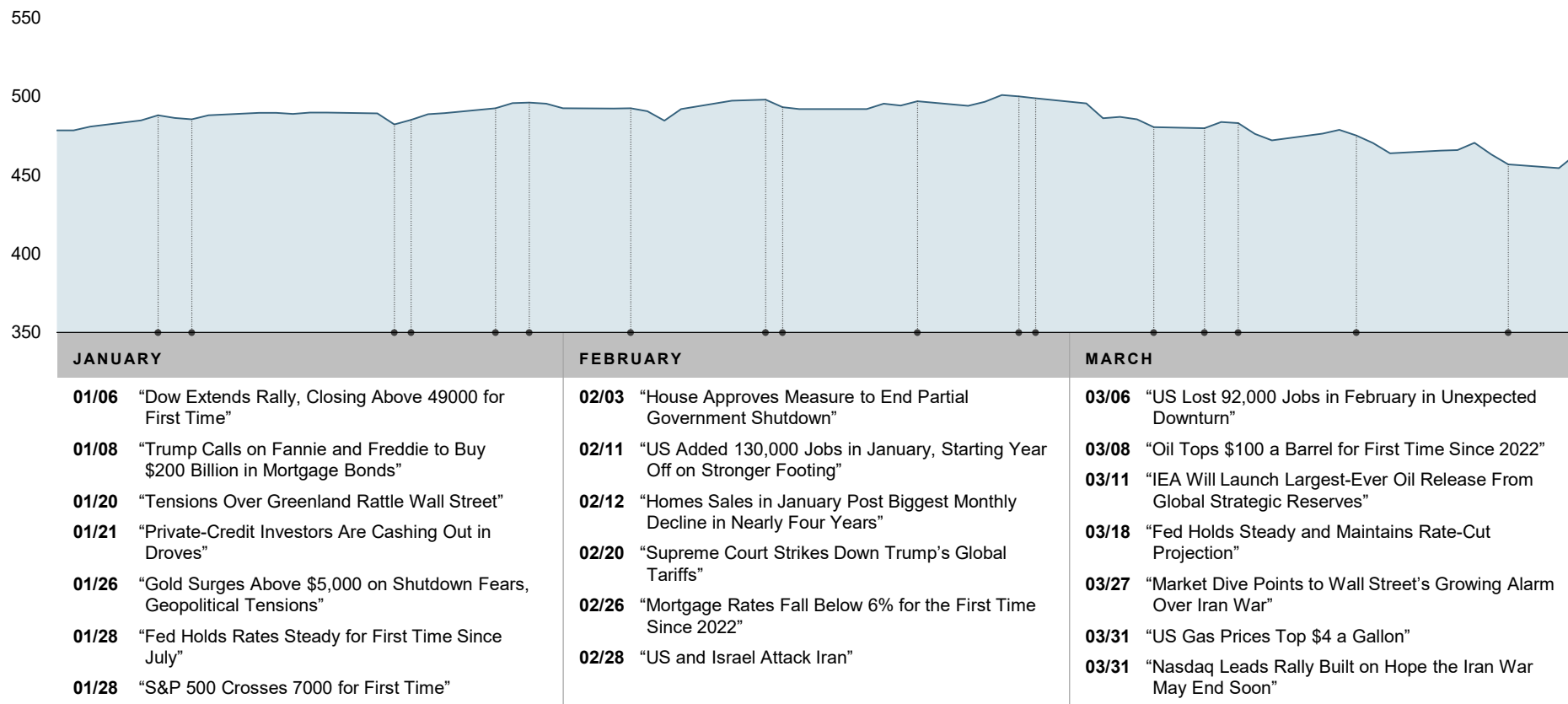
## Index Returns

	US Large Cap	US Mid/Small Cap	International Developed	Emerging Markets		US Bond Market	US Dollar
<b>Q1 2026</b>	<b>STOCKS</b>					<b>BONDS/DOLLAR</b>	
	<b>-4.33%</b>	<b>-0.95%</b>	<b>-1.24%</b>	<b>-0.17%</b>		<b>-0.05%</b>	<b>1.08%</b>
							
<b>Since Jan. 2001</b>							
Avg. Quarterly Return	2.4%	2.8%	1.8%	2.6%		1.0%	0.3%
Best Quarter	20.5% <b>Q2 2020</b>	30.3% <b>Q2 2020</b>	25.8% <b>Q2 2009</b>	34.8% <b>Q2 2009</b>		6.8% <b>Q4 2023</b>	7.1% <b>Q1 2020</b>
Worst Quarter	-21.9% <b>Q4 2008</b>	-27.9% <b>Q1 2020</b>	-22.7% <b>Q1 2020</b>	-27.6% <b>Q4 2008</b>		-5.9% <b>Q1 2022</b>	-5.8% <b>Q2 2009</b>

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# World Stock Market Performance

MSCI All Country World Index with selected headlines from Q1 2026



*These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.*

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2026, all rights reserved. Index level based at 100 starting January 2000.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

# Global Oil Markets

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## Price of oil

WTI crude, nominal prices, USD/barrel



The price of oil can be highly volatile for at least two reasons. First, the supply of oil usually is relatively fixed in the short run. Second, demand for oil is what economists call “inelastic,” meaning that it takes a large change in price to meaningfully change the amount consumers use. If you mostly buy gasoline to get to work, a big jump in gas prices is not likely to reduce your consumption much.

When the pandemic dramatically slowed the world economy in 2020, oil’s price fell by more than 80%. In the first quarter of this year, Iran’s blocking of the Strait of Hormuz reduced the global oil supply by about 10% overnight. That was enough to push oil prices up more than 50%.

Fossil fuels account for about 86% of total global energy production, a number very little changed over the last 50 years. Ever rising energy demand has swallowed up both the rapid growth of renewable energy and continued increases in fossil fuel production.

Oil and gas make up about two-thirds of fossil fuel consumption, highlighting the global economy’s continued vulnerability to supply shocks like the one we are now experiencing.

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

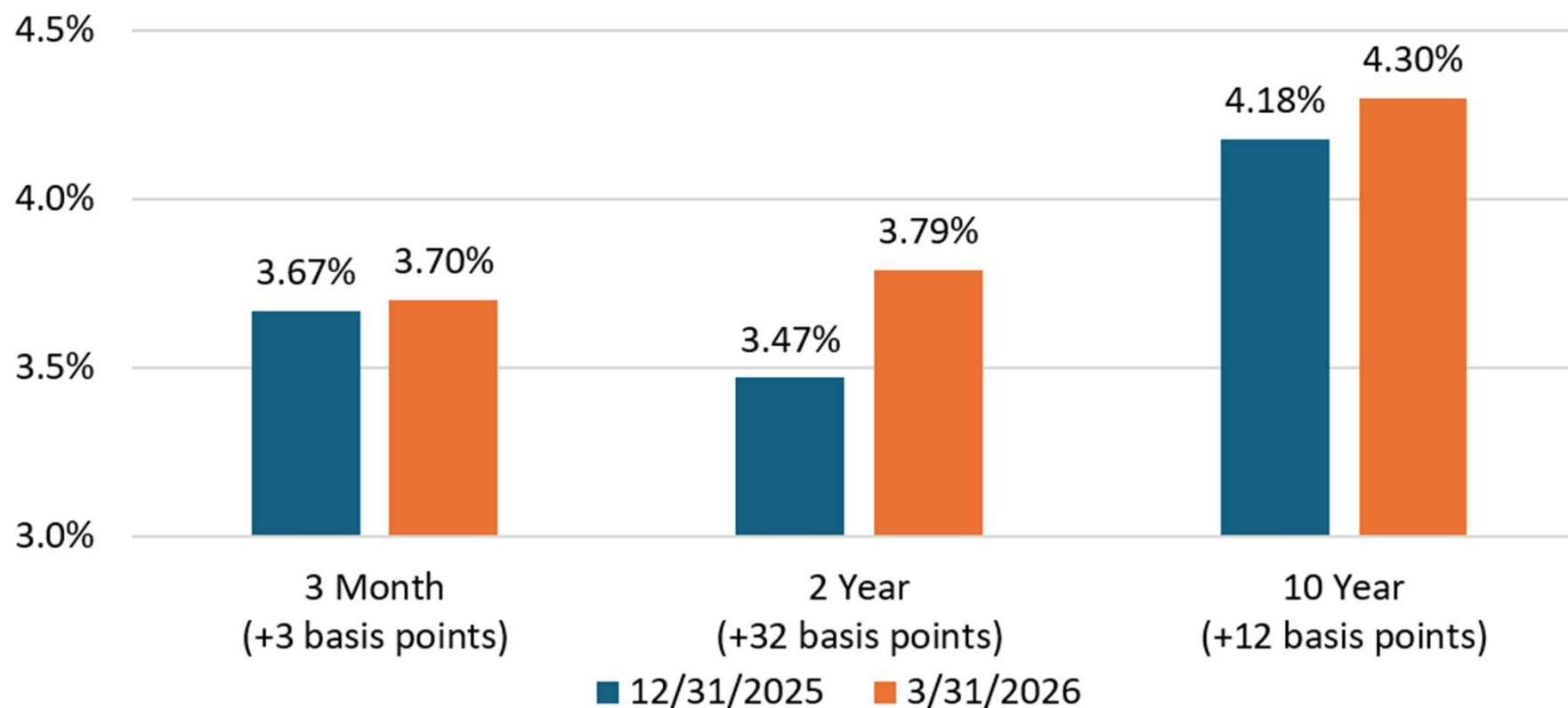
# Yield Curve

First Quarter 2026

US Treasury yields jumped in the first quarter, with the 2-year note rising the most. The Fed held short-term rates steady, but with energy prices spiking due to war in the Middle East, investors grew cautious on the timing and extent of further Fed cuts. Yield changes reflect the market's evolving outlook for economic growth, inflation, budget deficits (which drive bond supply), demand, and central bank policy. All these factors were in play in March as the sudden war-driven drop in oil and gas supply drove energy prices sharply higher, causing markets to anticipate weaker growth, higher inflation, larger budget deficits (from war spending), and reduced demand from both fossil fuel exporters (due to crimped revenues) and importers, who needed to sell US Treasuries to meet higher energy costs. The net effect was higher yields, as seen below.

## U.S. TREASURY YIELD CURVE

12/31/2025 vs. 3/31/2026



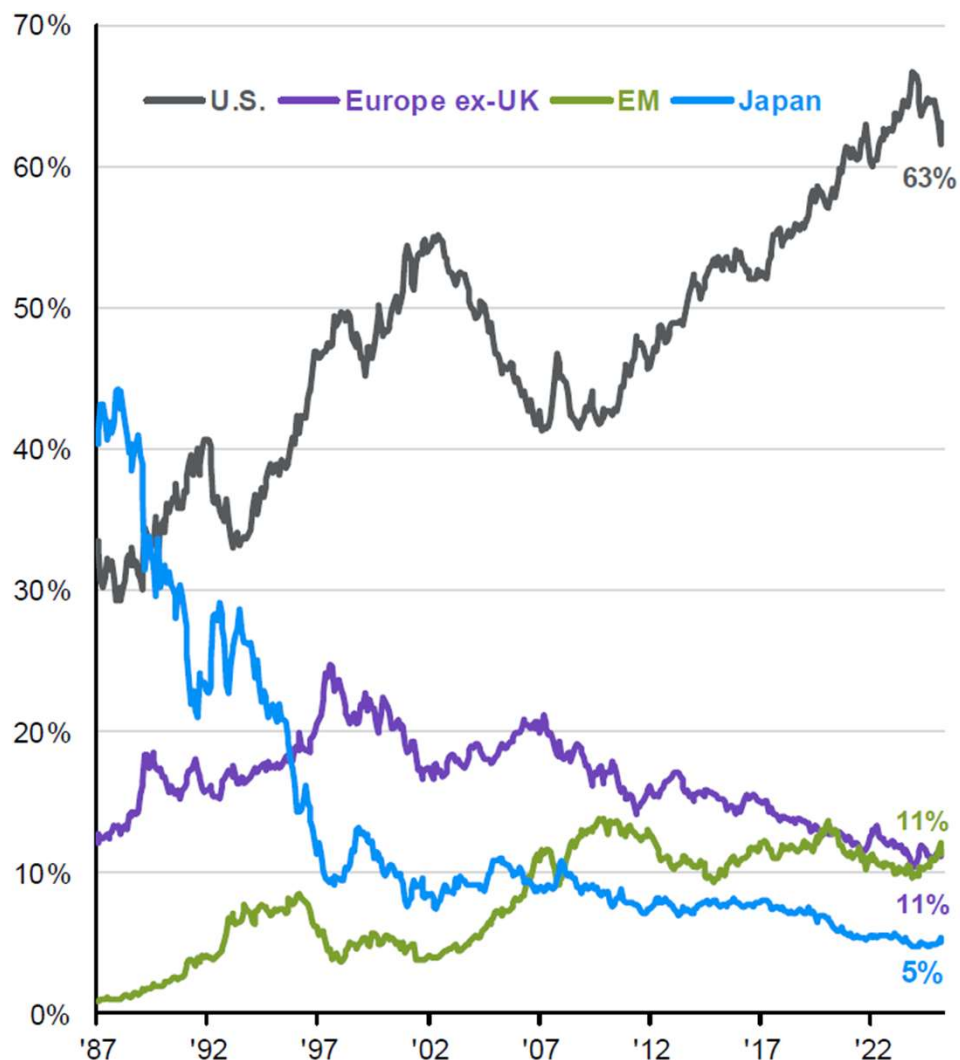
Source: U.S. Department of Treasury

# Global Equity Markets

First Quarter 2026

## Share of global market capitalization

% weight in MSCI All Country World Index, USD, monthly



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. *Guide to the Markets* – US Data are as of March 31, 2026.

The US share of world stock market value has roughly doubled since 1987. Europe's share climbed in the 1990s but has since fallen back to its 1987 level. Remarkably, Japan fell from first to last over the period, a nearly 90% decline. Notably, emerging markets' total value has grown to match Europe's, albeit with some big swings along the way.

The chosen starting date affects the analysis. For example, most market observers agree that Japan's stock market experienced an historically large bubble in the late 1980s, exaggerating both its share then and its subsequent decline. But there's no denying the long-term US uptrend.

While all regions grew in absolute terms, the US grew fastest, with its market cap vaulting from a little over \$2 trillion in 1987 to \$69 trillion at the end of 2025.

That superior growth rate is the direct result of US tech industry leadership. Of today's ten most valuable public companies, eight are US-based technology businesses (Saudi Aramco oil and Taiwan's TSMC being the exceptions). Those eight companies today account for roughly 15% of the world's total market capitalization.

US share declined a bit since year-end 2024 and has experienced sustained declines in the past, a reminder that a truly diversified portfolio will include an international component.