



Investment Review & Outlook 2026 First Quarter Investment Report

Is the Bull Market Over?

If you look at the quarterly results as a whole, the returns so far have been roughly flat, with small losses or gains depending on the asset class. But March was a brutal month for the equities markets, which suggests that the markets are experiencing downward momentum that is largely hidden by the quarterly returns.

A breakdown shows that just about every U.S. investment category took just one month to give back the gains of 2026's first two months.

Looking at large cap stocks, the widely quoted S&P 500 Index of large company stocks lost 4.63% in the first quarter, due to a 5.09% drop in March. As measured by the Russell 2000 Small-Cap Index, investors in smaller companies are holding onto a 0.89% gain, but this comes with a 5.00% loss in March. The technology-heavy Nasdaq Composite Index lost 7.10% in the first quarter, including a 4.8% drop in March.

Foreign markets followed in near lockstep with the U.S. return experience. The broad-based EAFE Index of companies in developed foreign economies lost just 1.87%, in dollar terms, in the first quarter of 2026. But look closer, and you see that the monthly return in March was brutal: down 10.73%. European stocks, in aggregate, are now down 3.36% for the year, while the Far Eastern Index is up just 0.79%, despite a 12.20% loss in March. Emerging market stocks of less developed countries, as represented by the EAFE EM Index, have lost 0.51% of their value in dollar terms in the recent quarter, and once again, the returns in March were solidly negative: down 13.26%.

In the bond markets, yields are largely flat from the previous year, and it's still (this is unusual, but persistent) possible to get higher yields on some shorter-term bonds than longer-term issues. Treasuries of 3-month (3.68%) and 6-month (3.69%) duration are yielding more than government securities with 1-year (3.65%) maturities. 5-year Treasuries are yielding 3.95%, 10-year government bonds are yielding 4.32% and 30-year maturities are generating 4.91% annual coupon rates. Five-year municipal bonds are yielding 2.59% in aggregate, while 30-year munis are yielding 4.50%.

What's going on? Do you have to ask? The ongoing war in the Middle East has delivered a significant oil shock to the economy (and most notably at the gas pump) and created great uncertainty around the future. The month of March saw markets swing one way when the President spoke belligerently about throwing bombs into Iranian infrastructure (a war crime, as international law defines it) and rose dramatically whenever there seemed to be an off-ramp to the conflict. It's notable that when negotiations were announced on the last day of March, the markets rose dramatically.

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It's rare that the markets are focused on one single factor among all the myriad economic data that traders are usually digesting and trying to extrapolate. But this suggests that at the end of the conflict, economists, pundits, soothsayers and various crystal ball readers will once again turn to the statistics, mostly trying to figure out if the economy is going to tumble into the long-predicted (five years now?) recession.

The inputs into most crystal balls are the rates and trends of inflation, employment and gross domestic product (GDP). The February inflation rate – which captured the inflation picture before war broke out – held steady at 2.4%, largely due to energy prices rising just 0.5%. But of course, we can expect that the March inflation number will be higher due to sharply higher costs at the pump. A shocking inflation spike might trigger another bumpy patch in the investment markets, assuming all eyes are not still riveted on Iran. An end to the war should result in lower oil prices and a return to moderate inflation.

The jobs report is a bit more worrisome. The U.S. economy lost an estimated 92,000 jobs overall in February, when most forecasts envisioned a slight rise. But part of those statistics can be found in walkout strikes by the United Nurses Association of California (31,000 striking workers) and (more troubling) a decline in warehousing and manufacturing jobs (a combined 23,000 workers). Average hourly earnings rose slightly, at a 3.7% rate, which is a bit above inflation.

Finally, the U.S. economy experienced an annualized 0.7% growth rate in the final quarter of 2025 – which would be described as 'anemic' by most economists. The consensus expectation is for the U.S. to experience a 2.1% expansion in the coming quarter, but that depends on how long the war and the consequent oil shock last. The only reliable calculus at this point is to recognize that the longer the conflict in the Middle East lasts, the greater will be the economic damage.

Yes, that makes for a muddy crystal ball, which is probably fine anyway. Quick-twitch traders who are making bets on where the market will go in the next hour, day or week, are operating in a darker dark than usual. Any move to bail out of the markets based on the panic selling we experienced in March is a bet that the companies you're invested in are simply not capable of navigating higher energy prices in their daily operations. Those companies might invest and hire a bit more slowly, waiting to see the outcome of the oil spike and the war. They might have locked in lower energy prices on the futures markets when the war began. But you must ask: how will any of that diminish their underlying value in any meaningful way?

As always, please reach out with any questions. If your circumstances have changed, please let us know and we can schedule a meeting to discuss.

The FAM Team