

A View From the Bevy – 1Q26

Market Review

After a strong start to the year, stocks succumbed to growing global uncertainty, most notably the ongoing U.S.- and Israeli-led war with Iran. The war comes on top of a few other events that had already rattled markets, including the President’s announcement of his choice to head the U.S. Federal Reserve (Fed) and continuing volatility in Artificial Intelligence (AI) stocks, as investors continue to assess the long-term economic impact of this growing and influential field.

March, which is typically a seasonally strong month for stocks, disappointed in the face of mounting questions about the war’s strategy and objectives coupled with surging oil prices, due in large part to the closure of the Strait of Hormuz by Iran.

As shown below, markets around the world ended the quarter in the red, led by the United States. International stocks, while marginally down, slightly outperformed the U.S. as they did in 2025. Major U.S. stock indices briefly entered correction mode (down 10%) near quarter end, and most major indices ended both the month and quarter lower.

Stock Market Indices	1 st Quarter 2026
S&P 500	-4.33%
S&P 500 (Equal-Weight)	0.67%
Dow Jones Industrial Average (DJIA)	-3.19%
NASDAQ Composite	-7.11%
Bloomberg US Agg Bond	-0.05%
Russell 2000	0.89%
MSCI World	-3.57%
MSCI World ex U.S.	-0.94%
MSCI Emerging Markets	-0.17%

Source: AJO. Data supplied by FactSet Research Systems.

Few asset classes were spared during the quarter, as even “safe-haven” asset classes like gold and other precious metals were hit. The strength of the U.S. dollar was a rare positive. Cryptos, led by Bitcoin, continued their decline as well. Energy and materials stocks were the best performing stock sectors, while financials and information technology were the worst.

Bond markets have also been troubled by several issues and trends, including reignited fears of rising inflation and fading hope that the Fed will reduce short term interest rates the previously expected several times during the year. By quarter-end, mortgage rates had briefly risen to their highest rates in more than six months.

Market Outlook

While company fundamentals underlying the market remain positive, the geo-political environment is a major concern, as fears of inflation and a global recession, once thought remote, have been growing and becoming more realistic. The market is down, but as the article below illustrates, it is certainly not out, and a resolution in the Middle East could lead to a quick recovery.

You need look no further than last year, when a sharp market correction after the announcement of President Trump's tariffs on Liberation Day (April 2, 2025) gave way to a stock rally. Markets maintained the positive momentum through the rest of a strong 2025.

As we have often said, corrections are a normal part of bull markets. The S&P 500, for example, has experienced a correction roughly every 9 to 12 months, with many being short-lived. So, on one hand, leaning optimistic, if we get a quick resolution in the Middle East, and the Strait opens again, the focus of investors could switch back to fundamentals. However, if the U.S. exits the war and the Strait remains closed, the global economy could continue to be plagued by high oil prices.

On the other hand, if the war continues with no end in sight, or even accelerates with U.S. boots on the ground, comparisons will continue to be made to past "unending" wars in the Middle East, and if the price of oil remains high, global worries over recession may remain a drag on market sentiment and therefore stock performance for the foreseeable future.

In addition, continuing high oil prices and lingering uncertainty over tariffs could erode the outlook for corporate profits as the year progresses, erasing a large positive catalyst.

Also unsettling the markets are worries over the private credit, as unease among investors has led to them to pull money out of private credit funds, causing some sponsors to limit withdrawals. This growing market is also seen as vulnerable to economic downturns and shocks.

The bottom line is that the short-term outlook looks bumpy and volatility is apt to continue during the second quarter, and perhaps even longer as we near the seasonally slow summer months. While the quarter ended on a strong note on the last day of the month, all is certainly not clear. While we understand this volatility is hard to stomach, history again teaches us that it is best to ignore the short-term noise and remain focused on your long-term goals and objectives.

Our hope is that the next few months brings clarity to the situation in the Middle East, which in and of itself would help lift the biggest cloud over the current outlook. We remain focused and diligent and continually look for opportunities to add fundamentally strong companies to client portfolios. As always, please don't hesitate to contact us with any questions.

Of Interest: Do Downturns Equal Down Years?

We are constantly reminding clients that corrections or downturns in the stock market are a normal part of investing, as are the ones that just took place. It is common for the markets to take a breather and reset themselves. For example, investors might get spooked by a short-term event that ultimately turns out to just be noise, or a short-term phenomenon, not an indicator that major longer-term shifts in the market direction are about to take place or are warranted.

The chart below illustrates this concept quite clearly. Despite some very large intrayear drops – many in double digits – the market, as measured by the Russell 3000 Index, ended in positive territory in 17 out of the 20 years in the sample shown. And last year – while not shown on the chart – this Index ended up 17% despite a 19% decline in the Spring due to the uncertainty caused by the implementation of global tariffs after the President’s “Liberation Day” on April 2, 2025.

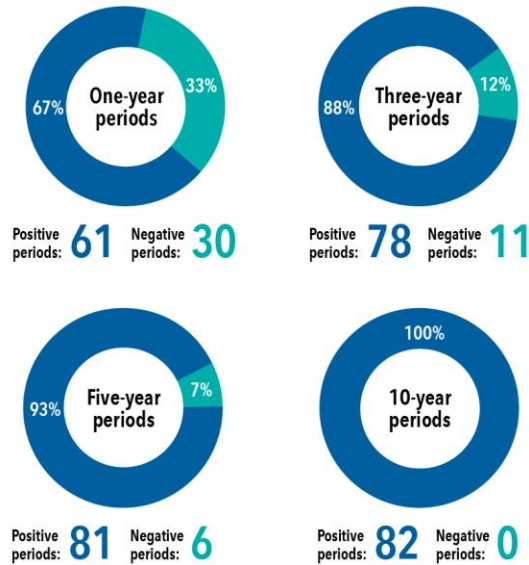
Year-by-year Returns, with Steepest Decline Within Each Year
 Russell 3000 Index, 2005-2025



Source: Dimensional Fund Advisors (Dimensional)

While we understand that downturns can be scary, especially large ones, volatility in and of itself is not reason to alter an investment portfolio or plan. Stocks can be down for a few days or even months without derailing the overall direction of the markets.

The longer your time frame the greater the chances of a positive outcome. Indeed, over the past 82 years, through December 31, 2024, 100% of rolling 10-year periods have been positive ones. Investors who have stayed in the market have been rewarded for their long-term outlook.



Source: The Capital Group

Rather than trying to predict highs and lows, it's important to stay invested through a full market cycle. Focus on the time you stay invested, not the timing of your investments.

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