

Quarterly Market Update: Geopolitics, Oil and Market Pullbacks



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The first quarter of 2026 illustrates the importance of preparation when it comes to financial planning and investing. After strong gains in 2025, markets have faced a combination of geopolitical shocks, higher oil prices, and renewed economic uncertainty. The conflict in Iran, which began at the end of February, became the dominant market story, pushing oil prices sharply higher and sparking the first market pullback of the year. However, by the end of March, headlines around a possible ceasefire emerged, and the situation continues to evolve.

Taking a broader perspective, markets have still performed exceptionally well over the past twelve months. Beneath the surface, many parts of the market have supported portfolios, including energy and defensive sectors. There will undoubtedly be new market questions in the coming months, including a change in leadership at the Federal Reserve and the midterm election later this year.

For long-term investors, the first quarter is a reminder that markets rarely move in a straight line, and that the principles of sound investing matter most when uncertainty is at its peak.

Key Market and Economic Drivers

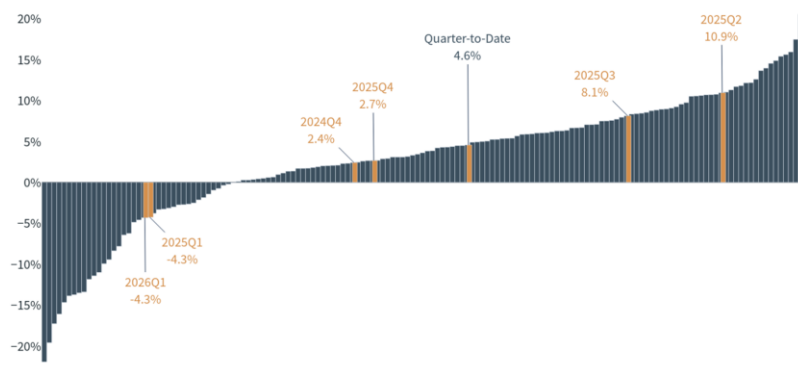
- The S&P 500 experienced a total return of -4.3% in Q1, the Nasdaq -7.0%, and the Dow Jones Industrial Average -3.2%.
- The Bloomberg U.S. Aggregate Bond Index was flat for the first quarter of 2026. The 10-year Treasury yield ended the quarter at 4.3% after falling as low as 3.9% at the end of February.
- Developed market international stocks (MSCI EAFE) were down -1.1% and emerging market stocks (MSCI EM) declined -0.1% over the quarter, both on a total return basis in U.S. dollar terms.
- Oil prices spiked with Brent crude reaching \$118 per barrel at the end of March after beginning the year under \$61. WTI ended the quarter at \$101 per barrel.
- Gold ended the quarter at \$4,668 per ounce after climbing as high as \$5,417 in January. The U.S. Dollar Index (DXY) strengthened slightly to 99.96 over the same period.
- February inflation showed headline CPI rising 2.4% year-over-year and core CPI climbing 2.5%. The core PCE price index, the Fed's preferred measure, rose 3.1% year-over-year in January.
- The Federal Reserve kept rates unchanged within a range of 3.50% to 3.75% at both meetings during the first quarter.

Markets experienced the first pullback of the year

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Stock Market Quarterly Performance

S&P 500 Total Return Index, ranked quarterly returns since 1988



Latest data point is Apr 9, 2026

Sources: Clearnomics,
Standard & Poor's
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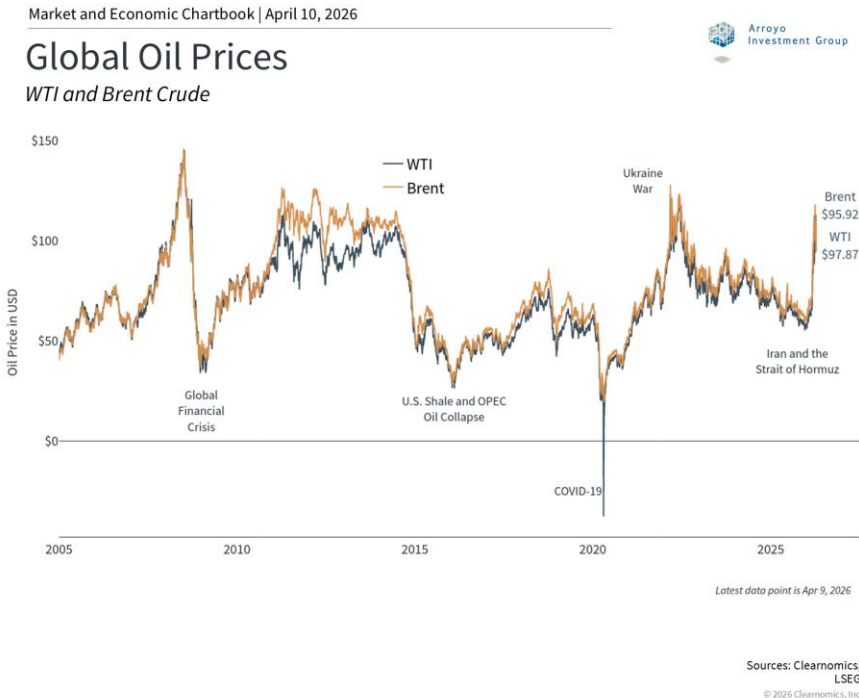
It's natural to draw parallels between the start of this year and the beginning of 2025, since both were driven by global concerns. Coincidentally, both first quarter periods experienced pullbacks for the S&P 500 of 4.3%. While last year's volatility was the result of tariffs and this year's is due to the conflict in the Middle East, the effect on investor sentiment has been similar. When uncertainty rises, it's natural for markets to experience short-term swings in response to headlines.

The past is no guarantee of the future, but zooming out can help us understand how markets have behaved historically. Despite the challenges in the first quarter of 2025, the stock market experienced strong gains through the remainder of the year, including dozens of record highs across major indices. The point is not that markets always recover quickly, but that market conversations tend to focus only on negative news. So, when rebounds do occur, they often do so when investors least expect them.

Perhaps the most helpful perspective is to remember that pullbacks are a normal and unavoidable part of investing. Since 1980, the S&P 500 has experienced an average intra-year drawdown of around 15%, even though markets tend to experience positive returns in more than two-thirds of years. It's natural for the average year to experience four or five pullbacks of five percent or worse. Last year saw six such pullbacks, even though the S&P 500 finished the year with an 18% total return.

For investors, the key takeaway is that short-term market swings, especially those driven by headline risk, are simply part of the market cycle. Portfolios aligned with long-term financial goals are designed exactly to navigate these periods. This could be especially important as we approach the midterm election and fiscal concerns reemerge later in the year.

Geopolitics and oil prices are the primary source of uncertainty



The most significant market development of the first quarter was the escalating conflict in the Middle East, which drove oil prices higher. Disruptions to the Strait of Hormuz, which carries roughly 20% of global oil from the Persian Gulf to the rest of the world, led to production cuts across major oil-producing nations in the region. Brent crude ended the quarter at \$118 per barrel, up over 94% year-to-date, while WTI crude surpassed \$100, the highest levels since the war in Ukraine began in 2022. Oil will continue to react to geopolitical headlines, including around a possible ceasefire.

Higher fuel costs directly affect consumers through the price of gasoline at the pump and indirectly raise the prices of goods and services across the economy. The average price of gasoline across the country reached \$4 at the end of March, and diesel prices have jumped significantly as well.

While these types of events do affect consumer pocketbooks, economists tend to view these types of “supply-side shocks” as temporary when considering the health of the overall economy. This is because oil prices tend to improve once the geopolitical event has stabilized. This was the case in 2022 when gas prices reached \$5 before declining within months. While not pleasant, significant financial hardship is not expected to be an issue for the average American household at current gasoline levels.

History also shows that geopolitical events, while creating short-term instability, have not typically derailed markets in the long run. This includes the U.S. operation in Venezuela in January, which surprised markets but had little lasting impact on investments. While the current situation is still evolving and the humanitarian consequences are significant, investors who made dramatic portfolio adjustments in response to past events often did so at the wrong moment.

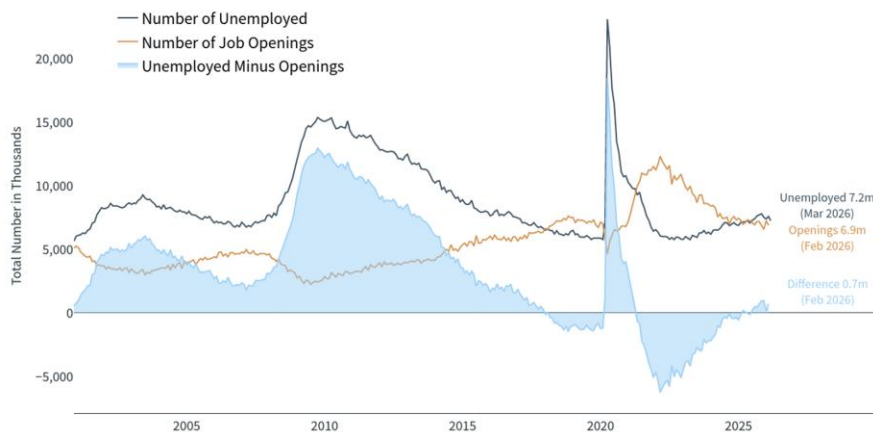
Economic growth is slowing but remains positive

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Unemployment and Job Openings

U-3 unemployment compared to JOLTS job openings



Latest data point is Mar 2026

Sources: Clearnomics, Bureau of Labor Statistics
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Volatile energy prices are just one piece of the broader economic puzzle. Other signs point to an economy that has cooled over the past year, but that is still fundamentally healthy. This is after many years during which investors and economists predicted recessions that did not materialize.

Perhaps the most closely watched area is the labor market, and the latest payrolls data show that February job gains fell by 92,000 and the unemployment rate edged up to 4.4%. Importantly, job seekers now outnumber job openings for the first time in years. As recently as 2022, there were two job openings for every unemployed individual, reflecting an exceptionally tight labor market. That relationship has now reversed.

However, the context around this matters. Fewer people are entering the workforce due to lower immigration and an aging population. In other words, both the supply and demand sides of the labor market are cooling, which has helped keep the unemployment rate near historically strong levels. Investors tend to watch jobs data closely because employment directly affects household income, consumer confidence, and spending. Consumer spending makes up more than two-thirds of GDP, and has been stronger than many expected over the past several quarters.

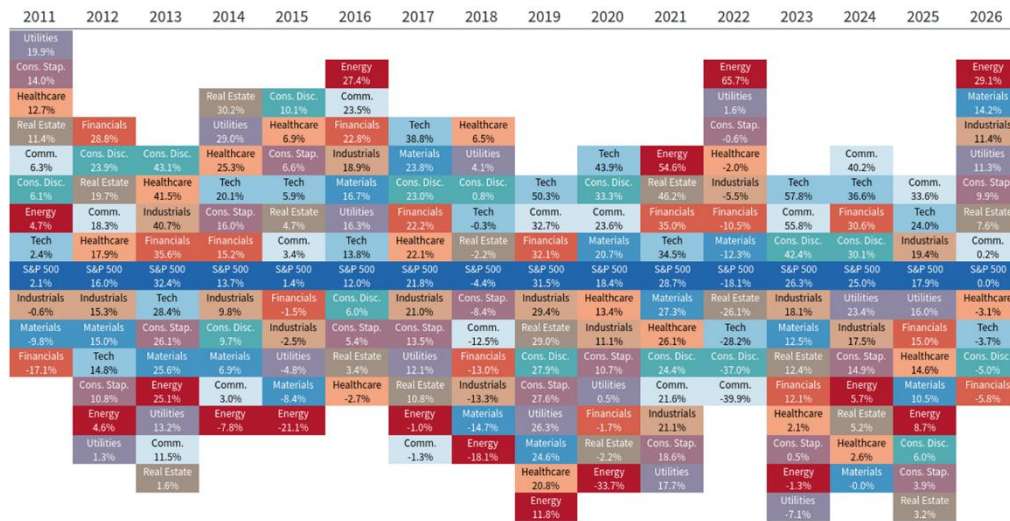
Sector performance has diverged

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Sectors Relative to the S&P 500

S&P 500 Index and GICS Sector Total Returns



Latest data point is Apr 9, 2026

Sources: Cleamomics, LSEG, Standard & Poor's © 2026 Cleamomics, Inc.

While the overall S&P 500 is experiencing a pullback, performance at the sector level has shown a wide degree of variation. In fact, six of the eleven S&P 500 sectors are positive for the year, and the

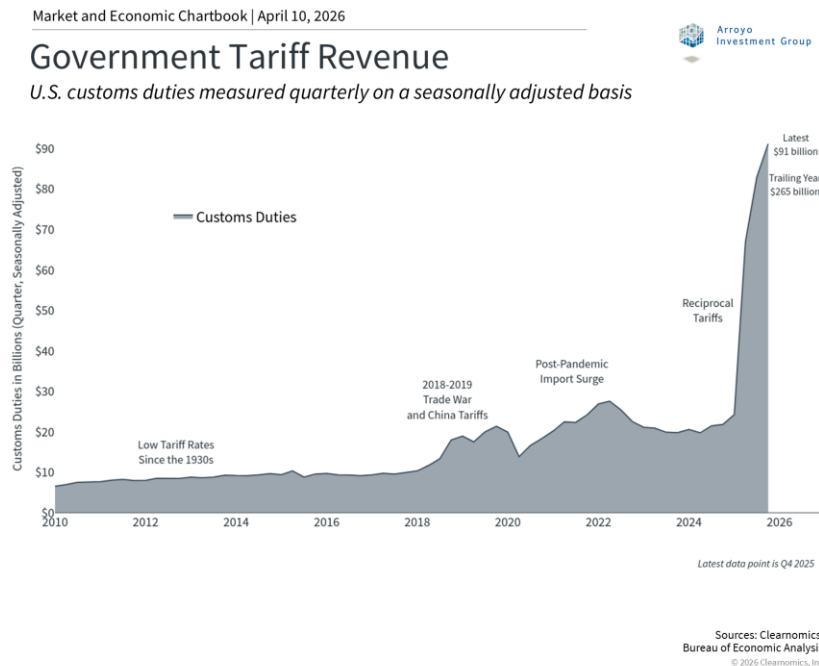
difference between the best and worst performing sectors widened to nearly 50 percentage points in the first quarter.

The Energy sector has been the clear leader, gaining nearly 40% through the end of March, with higher oil prices expected to boost revenues and encourage further investment. Other sectors showing strength include Consumer Staples, Utilities, Materials, and Industrials, all of which have benefited from a more cautious market environment. Many of these sectors are often considered “defensive,” since they represent more stable businesses with steadier cash flows that are less dependent on the economic cycle.

In contrast, the Information Technology sector has declined approximately 9%, and many mega-cap stocks in the Magnificent 7 have underperformed. This is a shift from recent years when a small number of large technology companies drove the majority of market gains.

As always, it’s important to keep these moves in perspective. As the chart on page 6 shows, sector leadership can change based on market and economic conditions. Energy was the best performing sector in 2021 and 2022 when technology-related stocks struggled. This then reversed over the next three years. Just as with asset classes, it is extremely difficult to predict which sector will lead or lag in any given year, which is why a well-balanced portfolio is better positioned to weather different market environments.

The tariff story is evolving



Trade policy also took a turn at the end of January after the Supreme Court ruled 6-3 that the broad tariffs imposed under the International Emergency Economic Powers Act (IEEPA) were unlawful. The administration responded by imposing a temporary global import duty under a different law, Section 122 of the Trade Act of 1974. The administration also opened new Section 301 trade

investigations in March, while about a dozen Section 232 investigations remain ongoing.

For investors, the main takeaway is that while the legal basis for tariffs has changed, the broader policy direction will continue. Tariffs will likely continue to impact the economy across consumer prices, business costs, and investor confidence. That said, last year showed that markets adapt to these types of policy changes over time. So, regardless of how the tariff story plays out later this year, the key is to stay invested and not overreact to policy moves.

The bottom line? The first quarter of 2026 challenges investors with geopolitical shocks, higher oil prices, and economic uncertainty. Yet markets have been resilient, with well-balanced portfolios and financial plans doing what they were designed to do. Investors should continue to focus on long run goals in the coming months.

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