The Legacy Group, Inc.

Dear Legacy Clients,

Thank you for your continued partnership and trust, and welcome to our quarterly economic and investment update. In this letter, we will be detailing our thoughts on the current investment landscape, reflecting on the first quarter of 2026, and providing our general economic/investment outlook going forward.

The first quarter of 2026 had seen broad stock market indexes rally during January and February, followed by a moderate sell-off in March due to the emergence of the U.S.-Iran war. The S&P 500 ultimately finished the quarter down about 5% from the beginning of the year. Many see the war as a continuation of the U.S. strikes against Iran's nuclear program that took place last summer, and its primary consequence has come in the form of drastically higher prices for crude oil and natural gas. This price spike is happening because Iran has decided to close off access to the Strait of Hormuz in an attempt to leverage its global economic impact. Very high energy prices weigh on stock prices because they are often associated with higher risks of both economic slowdown and inflationary pressures, since fuel feeds into all other aspects of the economy. As of April 7th, the U.S. and Iran have agreed to a 2-week ceasefire pending various conditions be met, as many remain hopeful for near-term resolution. As it pertains to tariffs, which have certainly taken a backseat in terms of the market's focus, it is still worth noting that in February, President Trump's 2025 IEEPA tariffs were ruled unconstitutional as we mentioned could happen last quarter. This means that the affected companies are now set to receive refunds, though details of how and when remain unclear. President Trump has since announced even newer high tariffs, but only on very specific products with many companies exempt, as well as tariffs on countries supplying weapons to Iran.

Continuing last quarter's discussion of a potentially slowing U.S. labor market, another headline taking a backseat to the Iran war, we maintain that our labor market is best characterized as "low-hire-low-fire." The latest employment reports for March and January showed much higher-than-expected jobs growth, while the report from February showed an unexpected net loss in jobs. The average of these reports shows a moderate but still-growing labor market, and the latest read on U.S. unemployment sits at 4.3%. It has been hovering in the mid-to-low 4% range for about a year now, and this remains low by historical standards. At the same time, job openings continue to be slightly outnumbered by job seekers, largely due to new entrants into the workforce who are not finding employment as quickly. This represents a continuation of the trend we highlighted last quarter, and it means that if layoffs start to pick up, they may have a more noticeable impact than previously thought. Thankfully, initial claims for unemployment insurance remain at historically low levels, which suggests that even though companies are slower to hire, they are also not engaging in widespread layoffs.

We mention the labor market because last year, it played a significant role in shaping the Federal Reserve's interest rate policy. The Federal Reserve (the "Fed") is tasked with a dual mandate from Congress: stable prices and maximum employment. They raise interest rates higher when they want to slow down the economy thereby reducing inflation (aka stabilize prices), and they cut rates lower when they want to support the economy and labor market. The idea is that lower rates reduce companies' cost of capital which should allow them to spend more on growth. This matters for the stock market as well since lower rates are generally supportive of stock prices. Thus far, the Fed had been gradually lowering interest rates in response to a slowing labor market while remaining cautious of inflation risks associated with tariffs. Now, tariff-related inflation concerns have effectively been replaced by concerns surrounding energy-driven inflation due to the ongoing conflict in the Middle East. As a result, the general policy dynamic remains largely unchanged. At the most recent Federal Open Market Committee press conference, Chair Powell placed greater emphasis on the potential inflationary effects of rising energy prices than he did on the labor market. In our view, this reinforces the idea that the Federal Reserve is likely to remain patient rather than move quickly to cut interest rates further.

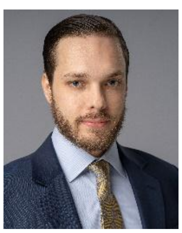
Regarding current inflation, the most recent year-over-year PCE inflation rate ("PCE" inflation is the Fed's preferred measurement of inflation) is 2.8% through February, still relatively far away from the Fed's 2% target. January's PCE report also showed 2.8%, and at that time economists had estimated that tariffs added about half a percent to that figure. We have mentioned in previous letters that we should expect tariffs to push year-over-year inflation up to the high 2's or low 3's in the short term, but we reiterate that this should fade from future annual inflation rate reports due to it likely being a one-time price increase. Energy inflation poses a new risk, but historical data suggests that short-lived spikes in oil prices aren't strongly correlated with higher near-term core inflation rates. We maintain our stance that inflation should continue to cool over time. A large portion of current inflation is being driven by higher shelter prices, and we have seen continued progress in this area. On top of this, we also see continued progress in the trend of declining wage inflation as measured by the Federal Reserve Bank of Atlanta.

We mentioned that stocks were rallying during January and February, as markets were experiencing a broadening of performance beyond the largest "Mag 7" technology companies, which actually declined during this time due to concerns around significant spending on A.I. infrastructure. This trend saw a moderate reversal in March during the war, as these same tech stocks held up slightly better than the rest of the market, but still declined further. The quarter ended with small caps, value stocks, and international stocks all outperforming the Mag 7. Moments like these serve as a good reminder of why it is important to own a diversified equity portfolio. Regarding earnings, broad S&P 500 earnings growth estimates continue to be revised higher, with JPMorgan's research projecting 17% earnings growth in 2026 and a continued "broadening out" beyond the Mag 7 stocks. That said, valuations for the Mag 7 companies have still become more reasonable relative to historical averages. In our view, the combination of lower multiples and higher earnings forecasts provides an extremely supportive backdrop for broad U.S. equities going forward. International stocks experienced greater drawdown during the war despite outperforming on the quarter. Unlike the U.S. Federal Reserve, foreign central banks do not have any mandate to address labor concerns, and can therefore hike rates higher to stop inflation. Additionally, many E.U. countries are more dependent on energy imports than the U.S. We expect the end of this war to coincide with a return to international outperformance. Bond prices declined modestly on the quarter as interest rates rose, and gold sold off in March as the U.S. dollar strengthened, but still finished the quarter positive.

For our quarterly monitoring of the U.S. economy and recession risk, it is worth noting that recent GDP data has come in below long-term trend levels. Fourth quarter GDP was revised lower, and current estimates for first quarter growth are also below the historical average of approximately 2%. However, it is important to consider these figures in the context of well-above-average growth that took place in prior quarters (Q2 and Q3 2025). When viewed over a longer time horizon, economic growth appears to be tracking closer to its long-term trend. Consumer activity remains a key pillar of economic strength. As we have mentioned in prior letters, consumer spending accounts for about 68% of U.S. GDP, with a significant portion driven by higher-income households. The primary risk to the consumer in the near term is higher energy prices, which can reduce discretionary spending. However, Nick Colas of DataTrek Research accurately points out potential offsets to this headwind. First, average tax rebates this year have come in noticeably higher, putting more money in the consumer's pocket in the short term. Additionally, even in scenarios where oil prices rise significantly, the proportion of U.S. household budgets allocated to energy remains below peak levels observed during many prior economic cycles. Furthermore, historical data suggests that oil-driven economic contractions are typically accompanied by rising unemployment, which we are not currently observing. While there has been increased discussion around the risk that A.I. raises unemployment, Franklin Templeton's "Anatomy of a Recession" research indicates that over the past three years, industries with the highest A.I. adoption rates have actually seen lower unemployment levels than industries with the lowest A.I. adoption rates.

Looking ahead, we believe that political pressures, especially during a midterm election year, will incentivize President Trump to de-escalate just as he did last year with tariffs. However, even in the absence of a near-term resolution, it is important to remember that periods of heightened geopolitical uncertainty have historically created opportunities for long-term investors. This is particularly relevant in the current environment, where earnings expectations continue to improve despite recent market volatility. We hope that you find these updates helpful, and please do not hesitate to reach out if you have any questions.

Sincerely,



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Resources used:

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DataTrek Research: DataTrek Morning Briefing

- February 18, 2026: “Global Rally Returns, Oil & Recession, China Tech-QQQ Correlations”
- March 18, 2026: “Powell Press Conference, New SEP, AI-Driven Investing”
- March 25, 2026: “Global Rate Hikes, Sector Correlations, Big Tech Earnings Revisions”
- April 6, 2026: “Energy Inflation/Recession, Q1 Earnings Growth, VC Funding Trends”