

# Market Commentary

Q1 2026



- Markets declined in March as escalating geopolitical tensions in the Middle East drove a sharp rise in energy prices, with [oil up over 50% during the month](#) and broader energy markets significantly higher.
- Expectations for interest rate cuts have moderated, with Treasury yields moving higher during the quarter as inflation risks re-emerged alongside resilient economic data.
- While near-term volatility has increased, historical data shows markets have often recovered following geopolitical events, with [equity returns typically positive one and three years](#) after major shocks.

## Market Total Returns as of 3/31/26

	Month %	YTD %	1 Year %	3 Year %	5 Year %	10 Year %
S&P 500 TR USD	-5.0	-4.3	17.8	18.3	12.1	14.2
DJ Industrial Average TR USD	-5.2	-3.2	12.2	13.8	9.1	12.5
NASDAQ Composite TR USD	-4.7	-7.0	25.6	21.8	11.1	17.1
Russell 2000 TR USD	-5.0	0.9	25.7	13.1	3.8	9.9
MSCI EAFE NR USD	-10.3	-1.2	21.3	13.6	7.9	8.4
MSCI EM NR USD	-13.1	-0.2	29.6	14.8	3.7	7.8
Bloomberg US Agg Bond TR USD	-1.8	-0.1	4.4	3.6	0.3	1.7

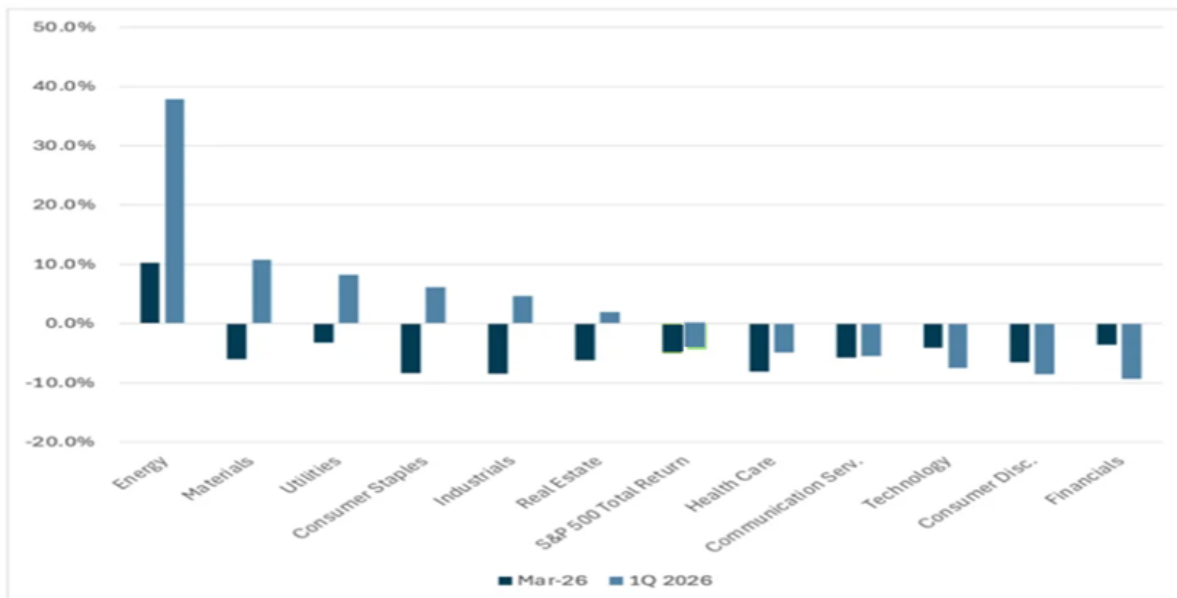
Source: Morningstar Direct

## U.S. Equities – Energy Takes Center Stage

U.S. equities declined in March as escalating geopolitical tensions in the Middle East, rising energy prices, and shifting interest rate expectations weighed on investor sentiment. The S&P 500 fell 5.0% during the month, while the Nasdaq Composite declined 4.7% and the Dow Jones Industrial Average lost 5.2%. For the first quarter, the S&P 500 declined 4.3%, the Nasdaq Composite fell 7.0%, and the Dow Jones Industrial Average lost 3.2%, reflecting a weaker finish to an otherwise more mixed start to the year. The quarter-end selloff came as markets increasingly focused on the potential for higher energy costs to feed into

inflation, tighten financial conditions, and delay the path toward interest rate cuts, even as [underlying economic data remained relatively resilient](#).

### S&P 500 Sector Returns:



Source: Morningstar Direct

Source: Morningstar.<sup>1</sup>

Source: Morningstar Direct

Sector performance in the first quarter reflected a market increasingly driven by macro forces, with energy and other inflation-sensitive areas outperforming as commodity prices surged and investors rotated away from more [growth-oriented leadership](#). Energy was the clear standout, gaining 10.3% in March and 37.9% in the first quarter, while Materials also posted a strong quarterly gain of 10.7%. More defensive segments of the market also held up relatively well, with Utilities up 8.3% and Consumer Staples up 6.1% for the quarter, even as both sectors declined modestly in March. By contrast, several of the market’s largest growth-linked sectors lagged, with Technology down 4.1% in March and 7.5% in Q1, Communication Services down 5.8% in March and 5.5% in Q1, and Consumer Discretionary down 6.6% in March and 8.5% in Q1. Financials also weakened, falling 3.5% in March and 9.3% in the quarter, while Health Care declined 8.1% in March and 4.9% in Q1.

The divergence was reinforced by sharp gains in [energy-linked commodities](#), with Bloomberg Sub WTI Crude Oil up 52.0% in March and 79.8% in Q1, Bloomberg Sub Brent Crude up 43.8% in March and 75.8% in the quarter, and the broader Bloomberg Sub Energy Index up 40.7% in March and 60.0% in Q1. At the same time, the rally in precious metals lost momentum, with Bloomberg Sub Gold down 11.2% in March despite remaining up 7.1% for the quarter, and Bloomberg Sub Silver falling 19.4% in March while staying modestly positive for Q1 at 6.3%.

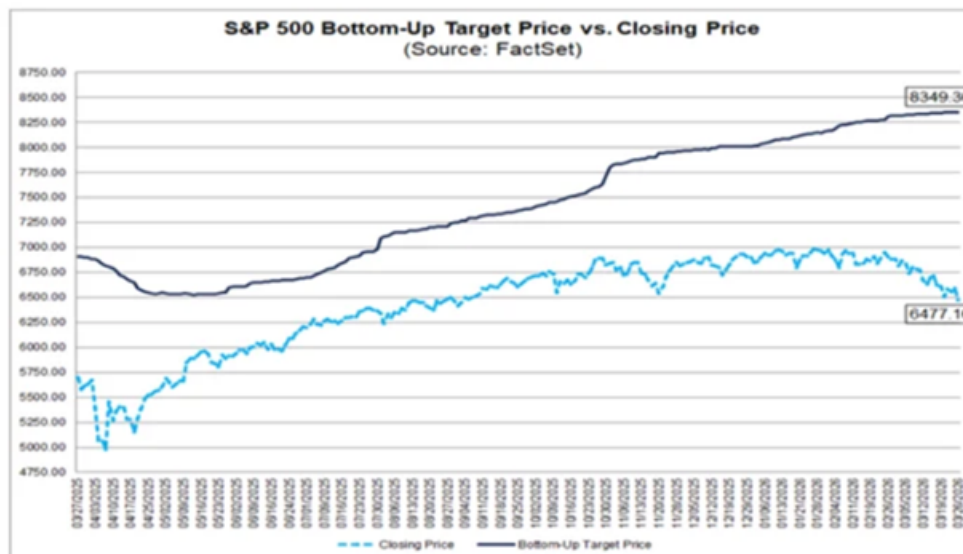
## Q1 2026 Select Commodity Returns

Select Commodity Returns	Mar-26	1Q 2026
Bloomberg Sub Heating Oil TR USD	63.0	106.4
Bloomberg Sub Petroleum TR USD	51.5	83.3
Bloomberg Sub WTI Crude Oil TR USD	52.0	79.8
Bloomberg Sub Brent Crude TR USD	43.8	75.8
Bloomberg Sub Energy TR USD	40.7	60.0
Bloomberg Sub Gold TR USD	-11.2	7.1
Bloomberg Sub Silver TR USD	-19.4	6.3
Bloomberg Sub Platinum TR USD	-17.7	-3.9
Bloomberg Sub Natural Gas TR USD	0.4	-4.2
Benchmark: Bloomberg Commodity TR USD	11.5	24.4

Source: Morningstar.<sup>1</sup>

Despite the rough start to the year, forward expectations for U.S. equities remained relatively constructive. [FactSet reported that](#) the bottom-up target price for the S&P 500 stood at 8,349.36 on March 26, which was 28.9% above the index's closing level of 6,477.16. Notably, since February 25, the S&P 500 had declined 6.8% even as the bottom-up target price increased 0.9%, indicating that analyst expectations generally held up better than market prices during the quarter's late selloff.

## S&P 500 Bottom-Up Target Price vs. Closing Price:



Source: FactSet

Beneath the headline decline in U.S. equities, the first quarter showed a clear rotation in leadership across size and style. Growth indices remained under the most pressure, with the Russell 1000 Growth falling 5.2% in March and 9.8% for the quarter, while the broader Russell 1000 declined 5.0% in March and 4.2% in Q1. By contrast, value-oriented segments held up much better, with the Russell 1000 Value down 4.8% in March but still up 2.1% for the quarter, while Mid Cap Value gained 3.7% and Russell 2000 Value rose 5.0% in Q1. Small caps were also more resilient than many investors may have expected, with the Russell 2000 down 5.0% in March but up 0.9% for the quarter. This shift is consistent with the broader [rotation many managers](#) have been highlighting in early 2026, as investors moved away from the most crowded growth trades and began to reassess opportunities across value, dividend-oriented, and more cyclical parts of the market. [Recent asset manager commentary has also](#) pointed to early signs of improving breadth, with earnings growth beginning to extend beyond the narrow group of mega-cap leaders that drove returns from 2023 through 2025, even as the earnings bar for large-cap growth remains elevated.

### Size and Style Boxes:

Index returns are reflective of the Russell 1000, Russell 2000, and Russell Mid Cap

	Mar-26			1Q 2026		
Large Cap	-4.8%	-5.0%	-5.2%	2.1%	-4.2%	-9.8%
Mid Cap	-5.1%	-5.3%	-6.3%	3.7%	1.3%	-6.3%
Small Cap	-3.6%	-5.0%	-6.3%	5.0%	0.9%	-2.8%
	Value	Core	Growth	Value	Core	Growth

\*Index returns are reflective of the Russell 1000, Russell 2000, and Russell Mid Cap

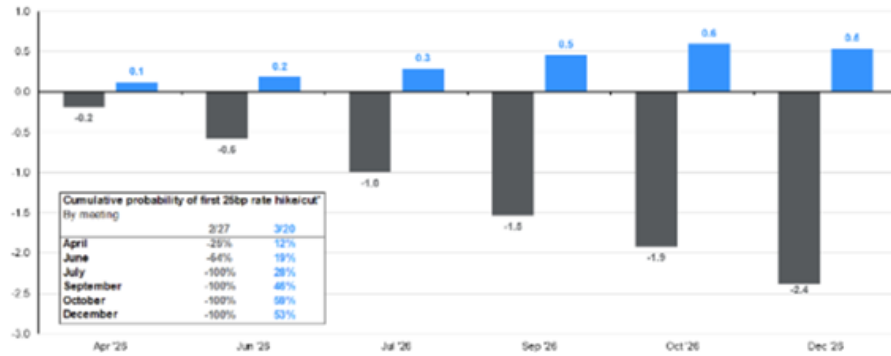
Source: Morningstar.<sup>1</sup>

## Fixed Income – Expectations Have Been Repriced

The Federal Reserve remained at the center of fixed income markets during the quarter, as expectations for policy easing shifted meaningfully. At the start of the year, [markets were pricing in multiple rate cuts for 2026](#), supported by moderating inflation and a gradual cooling in growth. However, those expectations have been quickly repriced, with stronger-than-expected economic data and persistent inflation pressures leading investors to push out the timing and magnitude of easing. Developments in the Middle East have added to this shift, as markets reassessed the impact of geopolitical risk on inflation and growth, with expectations for rate cuts moving from several [this year to little or no easing](#). This repricing has been reinforced by a broader backdrop of [policy uncertainty, fiscal expansion, tariff-related price pressures](#), and rising energy costs, with higher oil prices introducing an additional layer of inflation risk and further complicating the disinflation path. As a result, rate volatility has remained elevated, particularly at the intermediate and long end of the curve, as markets adjust to a higher-for-longer policy stance relative to earlier expectations.

## Since the conflict, markets have shifted from 2-3 cuts to no cuts this year:

Cumulative number of rate hikes/cuts priced in by Fed Funds futures markets by meeting\*



Source: Bloomberg, CME Group, J.P. Morgan Asset Management.

\*Positive value represents the probability of a hike while a negative value represents the probability of a cut.

Data as of March 20, 2023.

Source: Bloomberg

## Fixed Income Returns:

Select Fixed Income Returns	Mar-26	1Q 2026
Bloomberg US Convertible Comp TR USD	-3.0	3.0
Bloomberg US Trsy Floating Rate TR USD	0.3	1.0
Bloomberg US Treasury Bills TR USD	0.3	0.9
Bloomberg US MBS TR USD	-1.6	0.4
Bloomberg ABS TR USD	-0.8	0.3
Bloomberg US Agency TR USD	-1.0	0.2
Bloomberg Municipal TR USD	-2.3	-0.2
Bloomberg Treasury 7-20 Yr TR USD	-3.0	-0.4
Bloomberg US Corporate High Yield TR USD	-1.2	-0.5
Benchmark: Bloomberg US Agg Bond TR USD	-1.8	0.0

Source: Morningstar.<sup>1</sup>

Fixed income markets were mixed in the first quarter as investors weighed a more uncertain inflation backdrop against still-resilient economic data and heightened geopolitical risk. The Bloomberg U.S. Aggregate Bond Index declined 1.8% in March and finished the quarter roughly flat, while performance beneath the surface remained uneven. Shorter-duration areas of the market held up best, with Bloomberg U.S. Treasury Bills and Bloomberg U.S. Treasury Floating Rate both returning 0.3% in March and ending the quarter up 0.9% and 1.0%, respectively. By contrast, longer-duration and rate-sensitive sectors came under greater pressure as yields moved higher during the quarter, with Bloomberg Treasury 7–20 Year down 3.0% in March and 0.4% for the quarter, while municipal bonds fell 2.3% in March and 0.2% for the quarter. Credit markets also reflected a more cautious tone, with modest spread widening in both investment-grade corporate bonds and high-yield, particularly late in the quarter, though fundamentals remained broadly supportive. Higher-quality securitized sectors were somewhat more resilient, with mortgage-backed securities, ABS, and agency debt all finishing the quarter modestly positive despite March weakness.

## International Markets – Equities Maintain Leadership

International equities also came under pressure in March as the conflict in the Middle East, higher energy prices, and renewed inflation concerns weighed more heavily on several non-U.S. markets. The MSCI ACWI ex USA Index declined 10.8% in March but finished the quarter down just 0.7%, while the MSCI EAFE Index fell 10.3% in March and 1.2% in the first quarter. Emerging markets were hit harder in March, with the MSCI EM Index down 13.1%, though it ended Q1 down only 0.2%. The sharp monthly reversal masked meaningful divergence beneath the surface, as energy exporters and commodity-linked markets generally held up better than energy importers and regions more exposed to supply chain disruptions.

### International Returns:

Select Developed and EM Country Returns	Mar-26	1Q 2026
S&P Norway BMI NR USD	6.4	27.2
S&P Brazil BMI NR USD	-2.8	17.1
S&P Korea BMI NR USD	-24.2	15.3
S&P Colombia BMI NR USD	4.2	15.3
S&P Portugal BMI NR USD	-2.4	10.4
S&P Taiwan BMI NR USD	-12.2	8.8
S&P Mexico BMI NR USD	-7.2	8.4
S&P Argentina ADR NR USD	14.1	2.2
S&P Japan BMI NR USD	-12.3	2.0
S&P United Kingdom BMI NR USD	-8.2	0.9
S&P Spain BMI NR USD	-8.7	-2.7
MSCI Europe NR USD	-9.9	-2.8
S&P Italy BMI NR USD	-8.9	-3.8
S&P France BMI NR USD	-11.0	-6.0
S&P Germany BMI NR USD	-12.4	-8.5
MSCI China NR USD	-7.7	-8.9
S&P India BMI NR USD	-14.8	-18.5
Benchmark 1: MSCI ACWI Ex USA NR USD	-10.8	-0.7
Benchmark 2: MSCI EM NR USD	-13.1	-0.2

Source: Morningstar.<sup>1</sup>

In Europe, higher energy costs and a more uncertain inflation backdrop complicated what had previously been a more constructive outlook for the region. MSCI Europe declined 9.9% in March and 2.8% in the first quarter, while Germany fell 12.4% in March and 8.5% in Q1, France declined 11.0% in March and 6.0% in the quarter, and Italy lost 8.9% in March and 3.8% in Q1. Spain and the U.K. held up somewhat better, though both were still negative in March, with the S&P United Kingdom BMI down 8.2% for the month but still up 0.9% in Q1. The region's vulnerability reflected its dependence on imported energy, leaving the European Central Bank facing a more difficult trade-off between weaker growth and rising inflation. [Franklin Templeton](#) noted that many European economies remain highly exposed to energy imports and that the ECB may be forced to react more quickly if higher energy prices begin feeding through to core inflation. At the same time, [Standard Chartered](#) similarly argued that a prolonged period of elevated oil prices could push inflation higher even as growth weakens. That tension was also evident in fixed-income markets.

The tension was also evident in fixed-income markets, where investors were forced to weigh rising inflation risks against a weaker growth outlook. In more adverse scenarios, inflation could move back above 4% in the second half of 2026 even as real GDP growth slows materially, leaving the European Central Bank with a much [narrower policy path](#). At the same time, sovereign debt in Europe faces a less supportive backdrop, as higher issuance, fiscal spending, and policy uncertainty have left government bonds more exposed to rate volatility, particularly at longer maturities. As euro area markets continue to mature, high-quality corporate bonds are increasingly being viewed as a complement to sovereign duration, especially in an environment where pure government bond exposure carries [greater supply and policy risk](#).

In emerging markets, performance also diverged meaningfully beneath the surface, with China and Latin America following very different paths during the quarter. China remained under pressure, with the MSCI China Index declining 7.7% in March and 8.9% in the first quarter, reflecting continued concerns around growth, property-related weakness, and a still uneven macro backdrop. At the same time, several Latin American markets held up much better. Brazil returned 17.1% in the first quarter, while Colombia gained 15.3% and Mexico rose 8.4%, supported in part by stronger commodity exposure and a more favorable backdrop for energy and materials exporters. More broadly, the quarter reinforced how differentiated emerging markets have become, with energy importers generally facing greater pressure from higher oil prices. At the same time, [commodity-producing countries were better positioned](#) to benefit from the shift in the macro environment.

## Navigating During Heightened Uncertainty

Event*	Date	3 months before	3 months after	1 year after	3 years after (avg annual)
Cuban missile crisis	10/16/1962	-0.4%	14.4%	32.1%	20.7%
Kennedy assassination	11/22/1963	-2.0%	12.5%	27.8%	8.0%
Gulf of Tonkin incident	8/2/1964	4.1%	3.3%	6.1%	8.3%
Yom Kippur war	10/9/1973	8.7%	-14.4%	-35.8%	1.8%
Soviets invade Afghanistan	12/24/1979	-0.4%	-6.6%	33.1%	15.1%
Reagan shooting	3/30/1981	0.4%	-0.7%	-11.8%	11.5%
U.S. Marines bombed in Lebanon	10/24/1983	-1.0%	1.1%	5.5%	17.6%
Iraq invades Kuwait	8/2/1990	6.0%	-10.4%	14.1%	12.1%
September 11 <sup>th</sup> attack	9/11/2001	-12.6%	4.4%	-15.5%	2.7%
Iraq war	3/20/2003	-1.8%	14.2%	29.0%	16.3%
Russia annexes Crimea	2/20/2014	3.8%	2.3%	17.1%	10.8%
Russia invades Ukraine	2/24/2022	-8.5%	-7.7%	-5.9%	13.5%
Hamas attacks Israel	10/7/2023	-1.7%	8.8%	33.3%	17.9%
U.S. and Israel attack Iran	2/27/26	0.7%	?	?	?

Source: Bloomberg, Bloomberg as of 2/28/2025. Events in this table represent a non-comprehensive group of universally recognized major geopolitical events of the past or current decades. \*Returns shown for events prior to 1989 are represented by the S&P 500 PR Index, which shows principal returns only (excluding dividends) from 1/16/1962 to 12/29/1988. Returns for these periods would likely be higher if dividends were included. Returns for events in 1989 or later are represented by the S&P 500 DR Index, which shows total return (including dividends) from 5/2/1990 to 2/26/2025. This index is mentioned as a benchmark index as it is generally considered representative of the U.S. stock market during each given time period. Index performance for future purposes only. It is not possible to invest directly in an index. Past performance does not guarantee or indicate future results.

Source: Morningstar.<sup>1</sup>

The first quarter of 2026 highlighted how quickly market narratives can shift in an environment shaped by geopolitical uncertainty, evolving inflation dynamics, and changing policy expectations. The escalation of conflict in the Middle East, alongside a sharp rise in energy prices, contributed to increased volatility across both equity and fixed income markets. At the same time, expectations for interest rate cuts were meaningfully repriced. Despite these near-term headwinds, underlying economic data have remained relatively resilient, and forward-looking expectations for earnings and growth continue to provide a constructive backdrop.

Historically, periods of heightened uncertainty have often led to short-term market dislocations. However, equity market returns following past geopolitical events have tended to be mixed in the immediate aftermath but often recover over longer time horizons. While drawdowns can occur in the months surrounding these events, returns have historically improved over the subsequent year and have been consistently positive on a multi-year basis. This pattern reinforces the importance of maintaining a disciplined, long-term perspective, particularly as leadership broadens across sectors, regions, and asset classes.

Against this backdrop, diversification continues to play a critical role. The quarter demonstrated meaningful dispersion across asset classes and within markets, from the divergence between growth and value equities to the varying performance across regions and fixed income sectors. While volatility may persist in the near term, a diversified approach can help navigate shifting market conditions and help position portfolios to participate in potential recovery as uncertainty evolves.



## FOOTNOTES:

### **Past performance is no guarantee of future returns.**

The graphs and charts in this commentary are for illustrative purposes only and not indicative of any actual investment. Index returns do not reflect any fees, expenses, or sales charges. Stocks are not guaranteed and have been more volatile than other asset classes. Historical returns were the result of certain market factors and events which may not be repeated in the future. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgement in determining whether investments are appropriate for clients.

The information here is not intended to constitute an investment recommendation or advice.

Sources:

1. Data from Morningstar. Returns over one year are annualized.

Returns are based on the S&P 500 Total Return Index, an unmanaged, capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries. Indices do not include fees or operating expenses and are not available for actual investment. The hypothetical performance calculations are shown for illustrative purposes only and are not meant to be representative of actual results while investing over the time periods shown. The hypothetical performance calculations for the respective strategies are shown gross of fees. If fees were included returns would be lower. Hypothetical performance returns reflect the reinvestment of all dividends. The hypothetical performance results have certain inherent limitations. Unlike an actual performance record, they do not reflect actual trading, liquidity constraints, fees and other costs. Also, since the trades have not actually been executed, the results may have under- or overcompensated for the impact of certain market factors such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. Returns will fluctuate and an investment upon redemption may be worth more or less than its original value. Past performance is not indicative of future returns. An individual cannot invest directly in an index.

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