



2nd Quarter Commentary

2026

Four Noticeable Themes

The first quarter of 2026 introduced a mix of uncertainty and meaningful market volatility. Several key themes have emerged:

- **Economic growth is slowing**
- **Investor risk appetite is deteriorating**
- **Inflation is rising, led by energy prices**
- **The Federal Reserve has paused interest rate cuts**

Growth

Higher interest rates continue to place a strain on the economy. Housing, which accounts for approximately 19% of U.S. economic activity, remains particularly sensitive to elevated mortgage rates, which are pressuring both demand and affordability. At this stage, there is little indication that mortgage rates will decline meaningfully in the near term.

Corporate earnings are also beginning to show signs of pressure. Early cracks are visible even among the “Magnificent Seven” (Apple, Microsoft, Amazon, Alphabet, Tesla, Nvidia, and Meta), with year-to-date performance ranging from approximately -9% to -24.8%. Additionally, segments of the private credit market — particularly leveraged portfolios — are experiencing increased stress.

The current environment reflects characteristics of stagflation: slowing growth combined with persistent inflation. Globally, markets have struggled to regain the momentum seen in 2025, with returns broadly moderating.

Elevated energy prices remain a key headwind. If energy supply disruptions persist longer than expected, recession risks could increase. Conversely, a normalization in energy markets combined with lower interest rates could extend the economic expansion, supporting higher global GDP and improved market performance.

Risk Appetite Is Deteriorating

The overall risk environment has shifted decisively negative.



Source: Ascentis Asset Management

When investor risk appetite declines, growth typically slows and volatility increases. While multiple factors can contribute to this dynamic, current conditions are being heavily influenced by rising oil and gas prices.

Geopolitical instability — particularly around conflicts involving Iran and disruptions in the Strait of Hormuz — has strained global confidence and economic stability. The duration of this conflict will be a key determinant of market behavior:

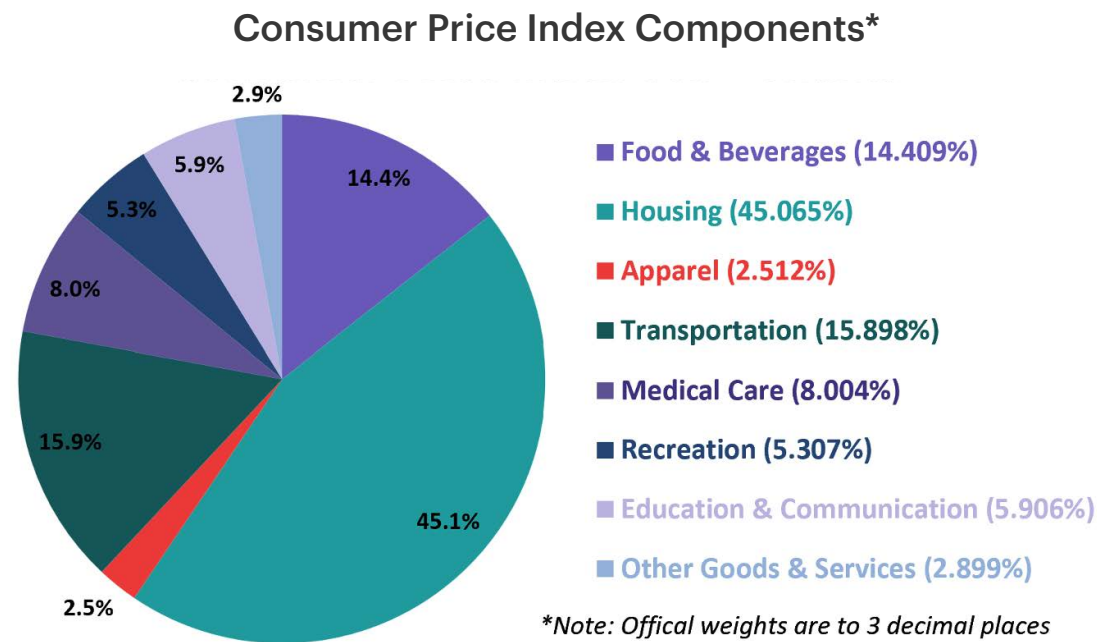
- A prolonged conflict increases the likelihood of sustained volatility and uncertainty
- A shorter conflict could allow for a return to disinflationary trends and lower interest rates

Our expectation is that a resolution would stabilize energy markets, reducing inflationary pressures and improving overall market sentiment.

Inflation

Higher energy prices have been a primary driver of inflation, impacting nearly every aspect of daily life, including food, housing, transportation, and services. These pressures are being felt across all income levels.

Consumer Price Index (CPI) data shows that food and beverages, housing, and transportation collectively account for more than 75% of the cost of living. As a result, sustained increases in these categories significantly affect household financial stability.



Source: BLS; The most recent annual reweighting was in December 2023

We believe inflation has the potential to moderate if geopolitical tensions ease and energy markets normalize. A move toward stability would help restore broader economic balance.

The Federal Reserve

The Federal Reserve's mandate is to maximize employment and maintain price stability through controlled inflation, as measured by CPI and Producer Price Index (PPI).

Currently, the Fed has paused rate cuts despite what appears to be capacity for approximately 150–200 basis points of easing without reigniting inflation.

Fed Chair Jerome Powell has cited concerns around unemployment and economic growth as reasons for maintaining current policy. While GDP growth slowed from 2.8% in 2024 to 2.1% in 2025, employment levels have remained relatively stable.

In our view, the combination of steady employment and moderating growth would typically support a more accommodative policy stance — particularly to support interest-rate-sensitive sectors such as housing and borrowing.

At present, the Fed appears to be taking a more reactive posture rather than a proactive one, which may delay potential economic acceleration.

Summary

In periods of heightened volatility, disciplined risk management and thoughtful investment selection become even more critical.

We believe portfolio positioning should emphasize:

- Broad diversification
- Value-oriented equities over growth-oriented ones
- Higher-quality assets in both equities and fixed income
- Strategic commodities exposure
- Select private investments alongside public markets
- Active management over passive strategies

Staying informed on market, economic, and geopolitical developments remains essential. As always, your advisor is here to help guide you through these environments and keep your financial plan on track.

Love life,

Todd M. Schwartz, CFP®

Founding Partner

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