



Investment Perspective

1st Quarter 2026

Globally, equity markets experienced a volatile first quarter, with the S&P 500 Index and MSCI EAFE Index declining 4.33% and 1.24%, respectively, and the Russell 2000 Value Index appreciating 4.96%. The equity market volatility during the first quarter was driven by three factors: the Iran conflict, deteriorating credit conditions, and peaking global liquidity conditions.

The spike in oil prices and closing of the Strait of Hormuz represents a material headwind for the global economy. Inflation should accelerate above 4% in the near term, and any further delay in the opening of the Strait of Hormuz will materially interrupt global supply chains suppressing economic activity starting in the current quarter. Should the Strait remain closed for several months, or if further damage occurs to key energy infrastructure, then the effects could last well beyond 2026.

Further exacerbating the pressure on equity markets is the downturn in credit performance in private credit markets. For the last two years, private credit markets have relied on retail investors to fund debt modifications and provide credit to new borrowers. As concerns regarding private credit performance have materialized, retail investors have increased their redemption requests, forcing alternative managers to cap redemptions. We expect a further acceleration in redemption requests and declining liquidity to accelerate the loss recognition in private credit with the add on effect of pressuring valuations in private equity. After approximately 15 years of an up cycle, the credit cycle has decisively turned down, and we believe we are in the early innings of discovering the breadth, depth, and severity of the credit losses. Unlike the prior cycle, we expect the bulk of the losses to be experienced in private markets versus public markets. Certainly, publicly traded alternative asset managers, banks, and insurance companies have exposure to private credit losses. However, at this juncture, we do not believe they represent systemic risks.

Coinciding with the Iran conflict and the downturn in private credit, underlying global liquidity conditions were peaking. Declining liquidity conditions suggest there is insufficient funding to support economic growth, replenish the U.S. Treasury General Account, and sustain stable performance in risk assets. The rising oil prices, rising U.S. dollar, falling gold prices, and increasing volatility in U.S. Treasury securities further tightens liquidity conditions. If we can stabilize energy prices and supply chains, liquidity conditions should improve in the third and fourth quarters as the U.S. Treasury begins draining its General Account, injecting liquidity into the real economy.

We remain vigilant to the developing risks in equity markets and are actively seeking to preserve capital by aligning valuations with the underlying fundamentals at the security level. We will continue to take advantage of the market volatility to tactically improve the risk/return profile of the portfolios.



The Bloomberg Aggregate Index finished down 0.05% for the quarter while the ICE BofA 1-10 AAA-A Municipal Index lost 0.24% during the quarter.

During the quarter, the Federal Reserve paused cutting rates leaving the target rate at 3.75%. Prior to the Iran conflict, the market anticipated two to three 25 basis point rate cuts in 2026 to offset a cooling labor market and slower economic growth. Now, the futures are pricing in zero to one rate cut due to rising commodity prices (oil) and other supply chain disruptions stemming from the Strait of Hormuz closure.

During the quarter, Treasury yields increased across the curve as the market priced in rising commodity costs and accelerating fiscal pressures. Investment grade credit spreads widened 10 basis points ending the quarter at +83 basis points over Treasury yields. The increased volatility in the market and wider spreads should provide good opportunities to add high quality corporate and agency bonds to our strategies.

There were no material changes to duration positioning during the quarter. We continue to add longer duration bonds to our respective strategies to take advantage of the recent backup in yields.