Market Talking Points

April 1, 2026

Near-term Outlook (3 months) *

Markets are navigating a challenging environment. The market has completely priced out the potential for rate cuts this year. Credit markets are under pressure, with high-yield spreads widening to levels last seen in spring 2025. The S&P 500 has posted five consecutive weekly declines, the Dow, Russell 2000, and Nasdaq all entered correction territory in March, and the spiked above 30. The volatility disrupted what had been broadening market leadership and improving manufacturing data, with ISM Mfg. PMI rising back above 50 into expansion. The U.S.-Iran conflict and Strait of Hormuz closure are the dominant market driver and will remain so in the coming weeks, and potentially months. The near-term path forward is complicated with a wide range of potential outcomes. If negotiations lead to a ceasefire and the conflict ends, oil prices could fall and ease inflation risk. However, if the negations fail or the conflict escalates, oil prices could stay elevated or move higher. The one certainty: the stock and bond markets are likely to remain volatile in Q2.

Long-term Outlook (12 months) *

It's difficult to look out much further the next quarter. The market went from all-time highs in late January with expectations for multiple rate cuts in 2026 and a soft landing to oil prices at the highest level since mid-2022 and no rate cuts priced in for 2026. Risk appetite deteriorated rapidly, with the VIX spiking above 30, credit spread widening, and the U.S. dollar strengthening. The sell-off has shown signs of capitulation, and investors have demonstrated a willingness to buy on positive headlines around a potential ceasefire and ships moving through the Strait of Hormuz. The longer-term outlook depends on what happens over the next few months. If the impact on economic activity and corporate earnings is limited, the current sell-off could prove to a buying opportunity. However, the effects of the conflict (i.e., oil near $100 per barrel) could have a lasting impact even after the conflict ends. In this environment, we remain invested but diversified, while closely monitoring our U.S. Risk Demand Indicator for signs of further weakening in risk appetite.

Current Market Themes

Federal Reserve Policy *	Fed paused rate-cutting cycle again, signaling no rush to ease further; Market currently expects no cuts in 2026
Corporate Earnings	Strong Q4 earnings season so far, with S&P 500 on track for fifth straight quarter of double-digit growth
Artificial Intelligence	AI capex is driving current economic growth; Questions are emerging around AI’s future return on investment

Economic Factors

U.S. GDP Growth	Q4 2025 GDP growth slowed vs. Q3, driven by six-week gov't shutdown; Core economic growth remains solid
Inflation	Expect inflation to ease, but there is a risk that inflation remains stuck above the Fed's 2% target
Employment	Demand softening as job growth slows & job openings fall; Labor market still relatively tight & "low-hire, low-hire"
U.S. Consumer	Supported by rising home & stock prices, locked-in interest & mortgage rates, solid wage growth, & easing inflation
Interest Rates *	Rate volatility spiked in March due to conflict, oil prices, & reduced probability of cuts; Expected more volatility
Long Duration Bonds *	Modestly OW; Inflation risk + economic uncertainty = primary drivers; Favor Treasury duration over corporate

Asset Class Outlooks

Large Cap Growth	Historically outperforms during Fed rate cutting cycles; Mega Caps dependent on tech spending & AI capex
Large Cap Value	Trades at a discount to Growth, but expensive vs its own history
Small Caps	Believe Small- and Mid-Caps can outperform Large-Caps in coming years, but macro near-term headwind
Developed Markets	Trades at valuation discount to U.S. but expensive vs. its own history; Best used as a shock absorber
Emerging Markets	Historically outperforms early in rate-cutting cycles as USD weakens, but gains diverge after initial rate cuts
U.S. Corporate Bonds	Remain overweight as credit risk increases; Favor mid duration due to credit spread risk
U.S. High Yield Bonds *	Tight spreads leave little room for further tightening; Tight lending standards = refinancing risk

* Denotes updated views in this version of the Market Talking Points

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