

FIRST QUARTER 2026 REVIEW & OUTLOOK

Navigating Geopolitical Shocks and Policy Shifts

Approaching the end of the first quarter of 2026 as we write, the optimism that carried us through much of 2025 has been tempered by a resurgence of geopolitical risk and a recalibration of interest rate expectations. The major indices have reflected this "push and pull" environment. The S&P 500 and tech-heavy NASDAQ, which entered the year near record highs, faced significant turbulence in March as investors grappled with an energy supply shock and a more hawkish Federal Reserve.¹ While large caps showed early-quarter resilience, small caps—as measured by the Russell 2000—remained sensitive to the "higher-for-longer" interest rate narrative. Meanwhile, the MSCI EAFE Index, which led the pack in 2025 with returns approaching 30%, has seen its lead narrow as economies in Europe and Asia face the disproportionate impact of Middle Eastern oil and gas supply disruptions.²



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The Great Rotation and the Style Evolution

The market leadership story in Q1 has been a continuation of the "Great Rotation" that began late last year. The "Magnificent 7" mega-cap tech stocks, once the dominant drivers of market returns, have ceded ground to the broader stock market. Concerns over the return on investment for massive AI infrastructure spending have prompted a shift toward Value and Cyclical sectors like Financials and Industrials. This broadening of the market has also favored domestic small caps and international value stocks, though the latter have faced headwinds from a stabilizing U.S. dollar. While Growth stocks dominated the first half of this decade, the current landscape suggests a more balanced performance between growth and value, as investors seek out companies with proven cash flows and lower valuations in a more expensive capital environment.³

Geopolitics and Energy Disruption

The most significant headwind this quarter arrived on February 28, 2026, when joint military strikes by the U.S. and Israel on Iran caused Iran to effectively close the Strait of Hormuz. As this passage handles roughly 20% of the world's daily oil supply, the impact was instantaneous. Considered the largest supply disruption in the history of the global oil market, the closure has caused the benchmark Brent Crude Oil price per barrel to spike at times to well over \$100 from a pre-attack level of \$70.⁴ While the International Energy Agency (IEA) coordinated the largest emergency reserve release in history—400 million barrels—the disruption remains a "structural shock." For investors, this supply-side pressure threatens to reset inflation higher, potentially slowing the global economic recovery and dampening consumer sentiment well into the second half of the year.⁵

The Federal Reserve: A Hawkish Pause

Against this volatile backdrop, the Federal Open Market Committee (FOMC) met in mid-March and opted to keep the federal funds rate

MARKET MEASURES	1st QTR	YTD
S & P 500 (price)	-4.6%	-4.6%
Dow Jones Industrial Average	-3.6%	-3.6%
NASDAQ Composite	-7.1%	-7.1%
Russell 2000	0.6%	0.6%
MSCI EAFE	-2.5%	-2.5%
Bloomberg Inter. Gov't/ Credit Bond Index	-0.3%	-0.3%
	3/31/26	3/31/25
10-Year U.S. Treasury Bond Yield	4.30%	4.21%
Three-month U.S. Treasury Bill Yield	3.69%	4.30%

Source: Telemet Orion

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steady at 3.50% to 3.75%.⁶ Despite the geopolitical uncertainty, Chair Jerome Powell maintained a "wait-and-see" stance, signaling that the Fed is not yet ready to resume rate cuts. The committee notably upgraded its 2026 inflation forecast (Core PCE) to 2.7%, citing the impact of higher energy prices and existing tariffs. The Fed's "dot plot" now signals only one quarter-point rate cut for the remainder of 2026, a significant shift from the multiple cuts markets anticipated at the start of the year. This hawkish tilt reflects the Fed's primary concern: preventing a wage-price spiral triggered by the current energy shock.⁷

Discipline Over Distraction

With images of missile strikes and surging gasoline prices splashing across the news, it is natural to want to "do something" with your portfolio. However, history reminds us that reacting to shorter-term geopolitical shocks is often a recipe for underperformance. Establishing and maintaining a strategic asset allocation—diversified across equities, fixed income, cash, and alternatives—remains one of the most effective ways to preserve and grow wealth. While oil prices and Fed "dots" dominate the headlines today, your long-term financial goals are best served by the discipline of a balanced portfolio. This structure allows you to participate in the long-term growth of the global economy while providing the shock absorbers necessary to weather the inevitable volatility of a complex world. ■

ROTH 401(K) RULES – 2026 UPDATE

For high earners who are phased out of Roth IRA contributions, the Roth 401(k) remains one of the most effective ways to build tax-free retirement income. Unlike Roth IRAs, Roth 401(k)s have no income limits—if your employer offers the option, you can contribute regardless of salary. Contributions are made with after-tax dollars, but qualified withdrawals of both contributions and earnings are tax-free in retirement.⁸

2026 Contribution Limits

For 2026, employees may contribute up to \$24,500 total across traditional and Roth 401(k) deferrals. Those age 50 or older can contribute an additional \$8,000, and individuals aged 60–63 may be eligible for a higher \$11,250 "super" catch-up, if their plan allows.⁹

Recent law changes have made Roth 401(k)s even more attractive: required minimum distributions (RMDs) are no longer required for Roth 401(k) accounts, aligning them with Roth IRAs and allowing assets to continue growing tax-free longer.

Roth Conversions: A Planning Tool

In addition to Roth contributions, many high earners use Roth conversions as part of a long-term tax strategy. A Roth conversion moves assets from a pre-tax account (such as a traditional IRA or eligible 401(k)) into a Roth IRA. The converted amount is taxable in the year of conversion, but future growth and qualified withdrawals are tax-free. Importantly, there are no income limits and no annual dollar caps on Roth conversions, making them accessible even for top earners who cannot contribute directly to a Roth IRA. High-income households often spread conversions over multiple years to help

manage tax brackets, reduce future RMDs, and increase tax diversification in retirement.¹⁰ Although outside of the scope of this article, Roth conversions can be a useful planning tool for a variety of individual circumstances, even for households that would not be considered high-income.

As with all advanced planning strategies, Roth contributions and conversions should be evaluated in the context of personal tax brackets, cash-flow needs, Medicare considerations, and long-term estate goals. Any planning strategies should be discussed with one's trusted advisors to ensure personal fit and alignment with your comprehensive financial plan. ■



UNDERSTANDING YOUR INVESTMENT FEES:

THE VALUE OF TRANSPARENCY

In our 40-plus years of managing wealth, we have found that the strongest partnerships are built on a foundation of trust and clarity. As a Registered Investment Advisor (RIA), we operate under a fiduciary standard—a legal and ethical commitment to always act in your best interests and never place our personal interests above yours.

A significant part of that commitment involves being transparent about how you are charged for our services.

The "Hidden Layer" Problem

When reviewing portfolios transferred from other firms, we often find "layered" fee structures that are difficult for the average investor to see. Many advisors divide assets among various "sub-managers" or specialized funds. These sub-managers charge their own fees, which are embedded directly into the fund's performance rather than appearing as a line item on your billing statement.

In contrast, our primary approach is to conduct our own research to build a diversified portfolio of individual, high-quality stocks and investment-grade bonds. This direct approach aims to offer several advantages:

- **Cost Efficiency:** You may avoid the extra layer of management fees commonly associated with outside fund managers.
- **Risk Clarity:** We know exactly what you own, allowing us to manage your specific risk exposure more effectively.
- **Tax Control:** We can manage taxable gains based on your specific needs, whereas large funds often buy and sell underlying stocks regardless of the tax impact on individual shareholders.

A Note on Mutual Funds and Annuities

There are certainly scenarios where a fund-based strategy or annuity may be appropriate for a client's specific goals. However, because we are compensated by a simple asset-based fee rather than product commissions, our incentives remain aligned with yours.

If we utilize these tools, we strictly seek out low-cost funds and low- or no-commission annuities. This is a critical distinction from traditional commission-based products, such as certain annuities that carry high fee structures and heavy penalties—sometimes lasting seven years—for unwinding the contract. We believe we can often create the same steady stream of income more efficiently using individual fixed-income and dividend-paying securities, without the restrictive "opaque" fees and penalties.

Our Commitment to You

Investment management should not be a "black box." We believe you appreciate knowing exactly what you are paying for and why. By focusing on individual securities and maintaining a transparent fee structure, we ensure that every decision we make is aimed at one goal: your long-term financial success.

We are fortunate to enjoy long-lasting relationships with many satisfied clients and deeply value the referrals we receive from you. If you have friends or family members who are concerned about 'opaque' fees or high-commission products like annuities, please feel free to share this article with them or introduce us—we would be honored to provide them with the same fiduciary standard of care you have come to expect. ■



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Sources

¹ TIAA Wealth Management, *CIO Perspectives, The rotation underway*, March 2026

² Reuters, March 7, 2026

³ JP Morgan Asset Management, *Guide to the Markets, 1Q 2026*, February 27, 2026

⁴ International Energy Agency, *IEA Member countries to carry out largest ever oil stock release amid market disruptions from Middle East conflict*, March 11, 2026

⁵ Council on Foreign Relations, *How the Iran War Ignited a Geoeconomic Firestorm*, March 17, 2026

⁶ Board of Governors of the Federal Reserve, *FOMC statement*, March 18, 2026

⁷ Nuveen, *Fed on Pause, World on Edge*, March 18, 2026

⁸ *Withdrawals from a Roth 401(k) before retirement are usually partially taxable. Unlike Roth IRAs, Roth 401(k) distributions are taken pro-rata from contributions and earnings, meaning early withdrawals typically include taxable (and potentially penalized) earnings—even if the account was funded with after-tax dollars.*

⁹ *IRS contribution limits for 2026; catch-up availability depends on plan design. Note: Under SECURE 2.0, high earners (those exceeding the specific income threshold indexed for 2026) are required to make catch-up contributions as Roth (after-tax) deferrals rather than pre-tax. Some employer retirement plans also allow for "Mega Backdoor Roth" strategies. These involve making after-tax (non-Roth) 401(k) contributions beyond standard deferral limits and then converting those amounts to a Roth account, either within the plan or via a Roth IRA rollover—availability and tax consequences vary by plan and individual circumstances.*

¹⁰ *Roth conversions have no income or dollar limits but create taxable income in the year completed.*

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Fixed income investments have several other asset-class specific risks. Inflation risk reduces the real value of such investments, as purchasing power declines on nominal dollars that are received as principal and interest. Interest rate risk comes from a rise in interest rates that causes a fixed income security to decline in price in order to make the market price-based yield competitive with the prevailing interest rate climate. Fixed income securities are also at risk of issuer default or the markets' perception that default risk has increased.

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The MSCI EAFE Index is a stock market index that measures the performance of large- and mid-cap companies across 21 developed markets countries around the world. Canada and the USA are not included. EAFE is an acronym that stands for Europe, Australasia, and the Far East.

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