

Thomas J D'Auria, CFA
Managing Partner, CIO

Caleb Lennon, CRC
Director

Barbara Tweedy
Wealth Manager

US financial markets in the first quarter of 2026 were characterized by a complex mix of resilience, volatility, and evolving macroeconomic and geopolitical forces. Entering the year, many investors expected a continuation of the strong equity performance seen in prior years. This thesis was supported by moderating inflation, anticipated interest-rate cuts from the Federal Reserve, and continued technological innovation. However, major geopolitical issues, trade policies, and changing expectations on monetary policy resulted in negative equity returns as cautious optimism was tempered by increasing volatility across most asset classes. Since early March, all financial markets have been primarily driven by the Iranian conflict and its effects on global commodities and trade.

Performance across the major US stock indices was modestly negative in the first quarter. The S&P 500 and Dow Jones Industrial Average declined by 4.3% and 3.6%, respectively. Mid- and small-cap stocks posted modest gains as investors looked beyond companies that had posted the largest gains over the past two years. Investors rotated into smaller companies amid expectations that interest-rate cuts and stable domestic growth could benefit firms more dependent on the US economy.

Sector performance in 2026 has been uneven. Technology stocks remain influential but have faced headwinds after years of outsized gains driven by artificial intelligence investment. Investors believe that segments of the technology sector became overvalued during the AI boom, contributing to market pullbacks when sales and earnings results failed to surpass expectations. At the same time, other sectors have delivered strong gains. Energy companies have benefited from sharply higher oil prices and issues that threaten global supply. Industrial and infrastructure-related firms have also performed well due to continued capital spending and government investment initiatives. Overall, market leadership has broadened compared with earlier years when a handful of mega-cap technology companies dominated index returns.

While it would be irrational to try to determine how and when the Iranian conflict will end, we can look to history for a guide on its market effects. In looking back on more than thirty geopolitical shocks beginning in 1939, we see equities tend to bottom about three weeks after the conflict begins with a mean decline of 4% from pre-conflict levels. We are about five weeks into this current conflict, and the S&P 500 index has declined by approximately 7% from its peak. We have little confidence the market bottoms have been reached during this cycle. The key factor is the sharp decline in energy production. The world runs on fossil fuels and until supply increases back towards historical levels, we believe equities will remain quite volatile.



3 Third Street, Suite 215
Bordentown, NJ 08505
Tel 609-452-2100

220 S Pleasant Street
Prescott, AZ 86303
Tel 928-521-5628

Economic and Market Outlook

A central theme in financial markets in 2026 has been the trajectory of US monetary policy. Entering the year, markets expected one or two rate cuts during 2026, depending on the path of inflation and labor-market conditions. Forward market pricing and surveys of economists indicate that investors anticipated gradual policy easing rather than aggressive rate reductions. The inflationary pressures resulting from sharply higher energy prices has caused a rethinking of both the anticipated inflation rate as well as the Fed's interest rate path. With inflation remaining meaningfully above the Fed's long-term target of 2%, there are now a growing number of economists and strategists who believe the next move will be a rate hike, rather than a cut. We do not think the Fed will hike rates solely due to the bump in inflation from energy prices. Rather, they will focus on the labor market. As long as job growth remains modest and the unemployment rate does not rise meaningfully, we believe the Fed will keep interest rates at their current level.

The broader US economy continues to show signs of resilience in 2026. Economic growth remains positive, consumer spending has stayed strong, and the labor market remains fairly healthy. These factors have helped support corporate earnings and maintain investor confidence in the long-term outlook for US assets. Consumer demand remains a particularly important driver of economic activity. With unemployment relatively low and wage growth steady, households have continued to spend on goods and services despite higher interest rates compared with the previous decade.

The US Treasury market also experienced significant fluctuations during the first quarter of 2026. Treasury yields initially declined as investors anticipated further rate cuts and slowing inflation. However, geopolitical developments and rising energy prices have recently pushed yields higher again as inflationary concerns creep back in. This reversal in bond prices underscores the sensitivity of fixed-income markets to inflation expectations. While bonds traditionally benefit during periods of uncertainty, rising energy costs and geopolitical risks can offset that effect by raising fears of renewed price pressures.

The defining feature of financial markets in 2026 has been heightened geopolitical uncertainty. Events in the Middle East and trade disputes between major economies have periodically disrupted market momentum. In early March, escalating conflict with Iran triggered declines in US equity indexes and pushed investors to reassess inflation risks tied to higher oil prices. Trade tensions have also influenced market sentiment. Tariffs introduced or threatened against several trading partners have raised concerns about supply chains, manufacturing costs, and potential retaliatory measures. These geopolitical developments contribute to periodic market volatility even when underlying economic conditions remain relatively stable. We believe investors have underestimated the potential impacts from supply chain disruptions due to the Iran conflict. Everybody talks about oil, but the region also provides significant amounts of fertilizer materials which are needed at a specific time for crops. If transit of fertilizer products is materially delayed, it could have an impact on food production and thus food inflation later this year.



3 Third Street, Suite 215
Bordentown, NJ 08505
Tel 609-452-2100

220 S Pleasant Street
Prescott, AZ 86303
Tel 928-521-5628

First Quarter 2026

S&P 500 earnings in 2025 will finalize around \$274, with early estimates for 2026 in the \$315-\$320 area. This forecasted growth of more than 15% has risen during the past several weeks despite higher energy prices which will flow through to many other products. These estimates rely somewhat on interest rates remaining steady, and profit margins continuing to increase from the current record levels. This results in a market currently valued at 20.6x 2026 earnings estimates. If earnings fail to meet expectations due to geopolitical risks, trade turmoil, or a weakening consumer, it puts stocks at risk of a further pullback.

Portfolio Positioning

Stocks remain modestly expensive based on historical multiples. Earnings growth has remained robust, which has thus far supported stock prices. In fact, we cannot find another period when oil prices rose by more than 60% and stocks did not decline by 10% or more. We continue to believe international stocks should outperform US stocks in 2026 and have continued methodically increasing our positions in international stocks. Many international economies are far more reliant on imported oil and gas than the US, so continued high energy prices could temporarily disrupt their economic and stock price momentum. During periods of volatility, we remind investors that markets average three temporary declines of 5% or more during the average year. During equity market declines, companies with relatively stable earnings and dividends should help cushion the decline. If stocks were to pull back an additional 5-10%, it would allow investors to reposition their holdings by purchasing those stocks that were unduly punished.

Conclusion

Investor sentiment in 2026 can best be described as cautiously optimistic. Optimists expect the bull market that began in late 2022 to continue throughout the year. This optimism is based on continued strong earnings growth among US corporations, gradually easing monetary policy, ongoing investment in artificial intelligence and technological infrastructure, and resilient consumer spending. Conversely, pessimists point to geopolitical conflicts, renewed inflationary pressures, and corrections in highly valued sectors such as technology. We believe the evolution of trade policy and global geopolitical developments will remain key drivers of market volatility throughout the year. Obviously, the cessation of hostilities in the Gulf region would result in sharp declines in energy prices and increasing investor confidence.

While the underlying economy remains reasonably solid, investors navigated a range of macroeconomic and geopolitical risks during the past three months that could continue to shape the trajectory of financial markets for most of 2026. We are witnessing the interplay between strong economic fundamentals and persistent uncertainty. We are most surprised that US equities have remained near record levels despite a spiking in volatility. In fact, since September 2025, the S&P 500 has traded in a narrow range of about 8%, bouncing between 6400 and 7000.



3 Third Street, Suite 215
Bordentown, NJ 08505
Tel 609-452-2100

220 S Pleasant Street
Prescott, AZ 86303
Tel 928-521-5628

First Quarter 2026

This has been supported by corporate earnings and expectations of eventual monetary easing. Meanwhile, the bond market continues to react sensitively to inflation expectations and geopolitical developments. Federal Reserve policy remains central to market dynamics, as investors closely monitor signals regarding future interest-rate cuts. At the same time, geopolitical tensions, trade policies, and sector-specific trends—particularly in technology and energy—have added more complexity to the investment landscape.

March 31, 2026

Tandem Investment Partners, LLC (“Tandem”) is a registered investment advisor. Tandem only transacts business in states where it is properly registered or is excluded or exempted from registration requirements.

All expressions of opinion reflect the judgment of the author as of the date of publication and are subject to change.

Information contained herein does not involve the rendering of personalized investment advice but is limited to the dissemination of general information. A professional adviser should be consulted before implementing any of the strategies or options presented.

Past performance may not be indicative of future results. Therefore, clients should not assume that the future performance of any specific investment, investment strategy (including the investments and/or investment strategies recommended by the adviser) will be profitable or equal to past performance levels. All investment strategies have the potential for profit or loss. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will either be suitable or profitable for a client's investment portfolio.



3 Third Street, Suite 215
Bordentown, NJ 08505
Tel 609-452-2100

220 S Pleasant Street
Prescott, AZ 86303
Tel 928-521-5628