

First Quarter 2026 – Wealth Management Insights



Economic Overview

Steve Scranton, CFA, SVP, Economist

The economy continued to show resilience in the 1st quarter. Although we will not receive the first official estimate of US Gross Domestic Product (GDP) growth until the end of the month, current forecasts are varied. Economists surveyed by Bloomberg are the most optimistic as the median forecast is for 3.1% growth. The New York Federal Reserve's model forecasts 2.6% and the Atlanta Federal Reserve's model forecasts 1.6%.

Jobs Creation

The labor market continues to be characterized as a "low hire, low fire" environment. On the "low hire" side, total jobs created from 3/31/25 to 3/31/26 was only 260,000. The potentially encouraging news is that the 1st quarter accounted for 79% of the 12 month growth. We will have to wait to see what the next two months of revisions bring to see if the final result is close to the preliminary result. On the job loss side, even though headlines highlight layoffs that are being announced, the initial jobless claims data from the Department of Labor does not show a growing trend of people filing for unemployment insurance.

Consumer Spending

The data is still delayed for consumer spending. The most recent personal spending data from the Census Bureau is as of January. Personal spending rose 4.4% year-over-year as of January. If we look at the discretionary spending picture via the retail sales data as of February we learn that discretionary consumer spending increased 3.7% year-over-year. This was a faster pace than the 3.2% pace in January and the 3.1% pace in December.

Business Spending

Businesses remained focused on productivity whether through upgraded software or hardware. Business spending on AI-related infrastructure continues to be the driver of growth for business spending. This has offset the slowdown in spending in manufacturing and residential construction.

Inflation

The official inflation rate that the Federal Reserve monitors continue to remain stubbornly closer to 3% than 2%. For most consumers, their core expenses remain above 3%. The result is the Federal Reserve remains on hold with regards to its interest rate policy. That means consumers are finding no relief via lower interest rates on their debt.

Closing Thoughts

Despite volatility on the political and headline news front, the economy continued to grow in the first quarter. Given the advent of the war with Iran late in the quarter, future growth has become more uncertain.

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Strategy Review

Derrick Wilson, CIMA®, VP, Portfolio Manager

Although the quarter spanned three months, March ultimately defined the period due to a sharp and abrupt shift in market direction. Over a matter of weeks, the onset of the Iran war triggered a surge in oil prices, with WTI crude oil rising 79.80% and Brent crude oil gaining 75.84%. This spike reignited inflation concerns and raised the prospect of slowing economic growth. As a result, volatility increased across both equity and fixed income markets.

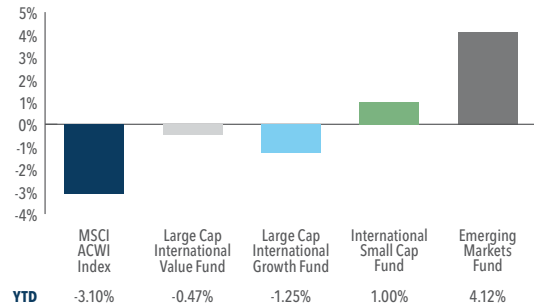
Global equities finished the quarter lower overall. The period began on a strong note, with international equities continuing to outperform US equities and emerging markets maintaining leadership. A weaker US dollar also supported international returns through February. However, the escalating conflict in the Middle East reversed this positive momentum, dramatically shifting market leadership in March. European and Japanese equities, given their greater reliance on Middle Eastern oil and geographic proximity, experienced more pronounced declines than US equities in the month, effectively erasing earlier gains as oil shipments were disrupted. By quarter-end, US equities declined a little over 4.3%, compared to international equities down 0.7%. Within international, developed markets dropped 1.2%, whereas emerging markets proved relatively resilient, finishing only slightly negative, down 0.17%.

Fixed income markets also experienced heightened volatility. Rising oil prices contributed to increased inflation expectations, pushing yields higher. Despite this, bonds continued to serve their traditional role as a stabilizer within diversified portfolios. Short-term bonds gained 0.28% and intermediate bonds were nearly flat at -0.02%. Credit-sensitive high yield underperformed with a decline of 0.55%. Treasury Inflation-Protected Securities (TIPS) performed best, returning 0.83% and serving its role as an inflation hedge.

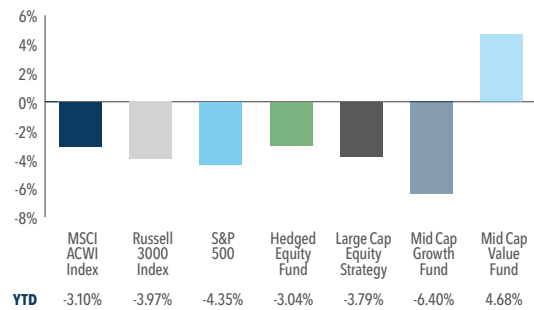
Diversified portfolios, particularly those incorporating alternative asset classes, proved most resilient during the quarter. Broad commodities led performance, gaining 24.4%, driven primarily by the sharp rise in oil prices. Gold finished higher by 7.1% for the quarter after falling 11% in March. Real assets delivered positive returns, with real estate up 3.8% and global infrastructure advancing 8.3%. Additionally, trend-following managed futures strategies generated a strong return of 9.7%, providing meaningful diversification benefits during a period of market stress.

This quarter serves as a clear reminder of how rapidly market conditions can shift and unforeseen risks can emerge. While diversification may temper upside potential in strong markets, its true value lies in mitigating downside risk and enhancing portfolio resilience during periods of uncertainty.

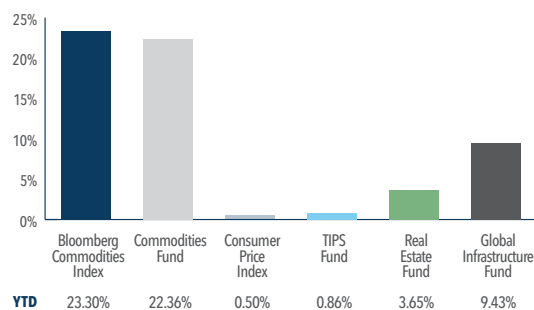
INTERNATIONAL DIVERSIFICATION YEAR-TO-DATE PERFORMANCE



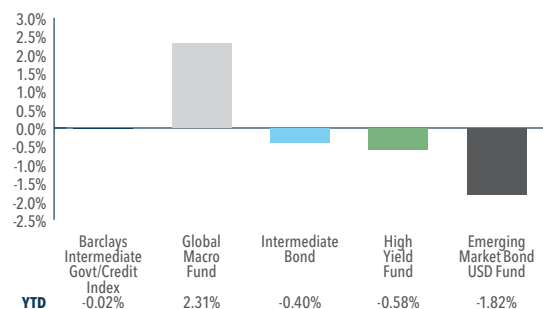
DOMESTIC DIVERSIFICATION YEAR-TO-DATE PERFORMANCE



REAL RETURN (INFLATION PROTECTION) DIVERSIFICATION YEAR-TO-DATE PERFORMANCE



INCOME DIVERSIFICATION YEAR-TO-DATE PERFORMANCE



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Domestic Equities

Allan Prins, CFA, Portfolio Manager

Following three consecutive years of strong gains, US equities traded mostly lower in the first quarter (Q1) with some early gains mostly erased by a volatile March. Performance in January and February was supported by strength in value and small-cap stocks. However, escalating tensions in the Middle East led to a sharp rise in market volatility and weighed on sentiment late in Q1.

US market performance broadened early in Q1 as investors rotated towards cyclical and value-oriented segments of the market. Expectations for additional Federal Reserve (Fed) easing, potential fiscal tailwinds, and a resilient US macro backdrop helped to underpin this rotation. Market conditions were relatively benign for much of Q1, but volatility surged in March as geopolitical risks rose sharply as the war with Iran progressed. Oil prices moved sharply higher, with West Texas Intermediate crude rising roughly 50% to close Q1 above \$100/barrel. The spike in oil prices exacerbated both inflation and growth concerns, pressured equity valuations and ultimately saw US equities finish lower in the month.

While US economic data remained largely solid in Q1, inflation remained sticky. The surge in oil prices ignited concerns that inflation could remain elevated, prompting markets to scale back expectations for Fed rate cuts in 2026. Longer-dated Treasury yields moved notably higher over in March, acting as a headwind to equity valuations, particularly growth stocks.

Q1 equity returns reflected these dynamics as the S&P 500 Index declined 4.3%, the Nasdaq Composite fell 7%, the Dow Jones Industrial Average was lower by 3.2%, while the small-cap Russell 2000 Index managed to post a modest gain of 0.89%. Value meaningfully outperformed growth, supported by leadership from the S&P 500 Energy and Materials sectors as hard asset exposures were in favor; Energy rose 38.3% in Q1. The S&P 500 Financials and Information Technology sectors lagged, with the latter being plagued by AI software disruption fears and high valuation growth stocks coming under pressure. All members of the “Magnificent Seven” finished Q1 lower, which unsurprisingly led the equal-weight S&P 500 to outperform the cap-weighted index.

Valuations compressed in Q1, the S&P 500 ended the quarter with a forward P/E multiple of 19.8x, below its 5-year average, but still above longer-term averages. While geopolitical risks and inflation and growth worries remain near-term challenges, resilient earnings expectations continue to provide some support for US equities.



Fixed Income

Callen Young, VP, Portfolio Manager

It is hard to remember a quarter where headlines moved the bond market this quickly and this directly.

At the start of the year, the setup looked straightforward. Markets expected two rate cuts by year end, with a reasonable chance of a third. Inflation was moving lower, growth was holding up, and the Fed appeared to be on a gradual path toward easing.

That changed as the quarter progressed. The shift did not come from economic data. It came from a series of shocks that pushed inflation expectations higher. The most notable was the escalation of conflict with Iran and the effective closure of the Strait of Hormuz. That route carries roughly 20 percent of global oil supply, so even a partial disruption had an immediate impact.

Oil prices moved toward 100 dollars per barrel. The effects spread to natural gas, fertilizer, and other key inputs. What began as a geopolitical event quickly became an inflation story.

The bond market responded but Treasuries did not act as a traditional safe haven. They sold off. Yields moved higher, led by the front end of the curve, as investors removed expected rate cuts and began to price in more persistent inflation. This ran counter to the typical risk off pattern and showed how dominant the inflation impulse became.

The result was a bear flattening of the yield curve. Short term yields rose sharply as policy expectations reset. Longer term yields also moved higher, but at a slower pace. This suggests the market still assigns some credibility to the Fed's ability to contain inflation over time, while also reflecting concern about longer term growth.

By quarter end, the 2-year Treasury yield had risen meaningfully. The move was driven largely by higher near-term inflation expectations. One-year expectations increased from roughly 2.25 percent at the start of the year to above 5 percent. Further out, expectations remained more stable, with longer-term forwards near the mid 2 percent range.

March captured the move in its most acute form. The Bloomberg Treasury Index posted its worst monthly return since late 2024, declining 1.74 percent as the market repriced both the inflation outlook and the expected path of monetary policy.

As we enter the second quarter, the market is balancing two opposing forces. Higher energy prices continue to push inflation expectations higher. At the same time, those same price increases act as a drag on growth and consumption.

For now, inflation pressure remains the dominant force.

Markets have largely removed expectations for rate cuts in 2026, even as the Fed continues to signal the possibility of easing. Our base case is that cuts are more likely pushed into 2027, unless there is a meaningful resolution to the conflict or a sharper slowdown in growth.

In the meantime, the bond market remains highly sensitive to headlines, with energy prices and inflation expectations driving near term direction.

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International

Matthew Clarke, CIMA*, VP, Senior Client Portfolio Manager

The combination of a weaker dollar, favorable growth expectations and cautious optimism helped to carry international stocks into 2026 on solid footing.

That momentum, however, began to rapidly fade as the geopolitical backdrop became more volatile and uncertain. Geopolitical tensions escalated through the year starting with a US military operation in Venezuela, rhetoric around a potential US acquisition of Greenland, and finally the largest military engagement in the Middle East since 2003. The war in Iran pushed energy prices higher, changing the calculus for the global markets and economy. **According to the International Energy Agency (IEA), the war in Iran has led to the most significant disruption to the global supply of oil and natural gas in history, weighing on both stocks and bonds.**

From the start of the year through February 27th (the day before the start of the war in Iran), emerging markets, as measured by the MSCI Emerging Markets index, had returned 14.77%. In March, they declined by 13% to finish the quarter lower by 0.19%. Over those same two time periods, developed international stocks, as measured by the MSCI Europe, Australasia, and the Far East (EAFE) index, gained by just over 10% and then declined by slightly more to finish the quarter lower by slightly over 1%.

European stocks struggled amidst the pressure of higher energy prices and rising inflation expectations. The Euro Stoxx 50 index declined 5%, weighed down by weakness in Germany. The German DAX slipped by 7.4% as tech and retail stocks sold off. **The United Kingdom (UK) managed to buck the trend with the FTSE 100 returning 3.4%**, helped by a weaker sterling pound and a rotation into commodities and defense stocks.

The markets in Asia were mixed, with South Korea standing out. Significant demand for semiconductors helped the Korean KOSPI index return 20% over the quarter after having surged as much as 50% earlier on. Japan closed out the quarter slightly higher with the Nikkei returning 2.1% on expectations of accommodative policy and strong demand for all things artificial intelligence (AI). China struggled with weak domestic consumption and slower economic growth. The Chinese Shanghai Shenzhen CSI 300 composite slipped by 3.7%.

Global (ex US) bonds as measured by the Bloomberg Global Aggregate ex-US were not immune from the volatility and ultimately endured a challenging quarter, falling by 1.9%. Shifting expectations about central bank policy and concerns that interest rates may remain higher for longer pushed bond prices lower and yields higher across most of Europe, the UK, and Japan.

As we look ahead, the most important consideration is the length of the war in Iran and whether the energy shock fades or manifests as a broader inflationary problem. **Our expectation is that the international markets will remain sensitive to inflation, energy prices, and of course central bank decisions.** Because of this, we continue to remain well diversified across regions, disciplined in our approach, and focused on the long-term as opposed to reacting to short-term volatility.

Additional and expanded information to this newsletter discussion may be obtained by contacting your relationship manager. We will be happy to expand our discussion with you to meet your individual requirements as a client of Wealth Management & Advisory Services.

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