

First Quarter 2026

Investment Market Review and Outlook

Q1 2026

April 15, 2026

Expires June 2026

Summary

In Q1 2026, global equity markets fell, with geopolitical events emerging as major market drivers. The quarter was marked by heightened geopolitical tensions, including the conflict in the Middle East which escalated after joint U.S.–Israel strikes on Iran, the U.S. capture of Venezuelan President Nicolas Maduro on narco-terrorism charges and disagreements among U.S. and its European allies over Greenland.

The S&P 500 index fell by 4.3% in Q1 2026, recording its worst quarterly performance since Q3 2022. Concerns over AI-related capital spending, disruptions in software stocks, and bank exposure to private credit led to underperformance in the index's heavyweight Information Technology and Financials sectors.

Market volatility remained elevated, with the CBOE Volatility Index (VIX) concluding the quarter at 25.3, which is above its 20-year average of 19.5.

Higher energy prices due to the Iran war led to a sharp uptick in the inflation data in March, with most Central Banks adopting a “wait and see” approach.

Macroeconomics and politics

In Q4 2025, the U.S. GDP grew at an annual rate of 0.5%, which was lower than both the preliminary report and the previous quarter's growth of 4.4%. Consumer spending along with investments, were the primary drivers of growth. In contrast, government spending and exports had a negative impact. The annual GDP growth for 2025 was 2.1%, down

from 2.8% in the previous year.

U.S. headline consumer price index (CPI) rose by 3.3% year-on-year in March, up from 2.7% in December but below economists' expectations. Core inflation, which excludes food and energy, was unchanged at 2.6% over the same period and also came in lower than expected.

In February, President Trump signed a \$1.2 trillion spending package that will fund most government departments until the end of September 2026. However, the Department of Homeland Security (DHS) remains shut down following the expiration of its funding on February 14th. The partial shutdown continued till the end of Q1, making it the longest funding lapse on record. The Democratic Party has demanded changes to Immigration and Customs Enforcement's (ICE) policies, while internal divisions within the Republican Party have further delayed agreement on a DHS funding bill, with Congress in recess until mid-April.

Middle East conflict, oil disruptions and wider impact

In late February, the joint U.S.–Israeli strikes on Iran and the confirmed killing of Iranian Supreme Leader Ali Khamenei at the end of February marked a critical escalation in the Middle East, with Iran retaliating against U.S. bases and regional energy infrastructure, spreading the conflict across the region.

With the conflict continuing through March, the Strait of Hormuz became effectively closed to most commercial shipping, causing disruptions across oil facilities in Saudi

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Arabia, Qatar, Bahrain, and the UAE. Brent crude oil prices surged by 94.5% in Q1 2026, rising from \$61/BBL to \$118/BBL. Liquefied Natural Gas production was also disrupted and gas prices across Europe jumped 80.2% over Q1 2026, ending the quarter at 50.8 EUR/mwh.

The U.S. continued to intensify its military buildup in the region, with additional troops being deployed, including specialized land invasion Marine units.

The region is vital for global energy supply, with approximately 20% of the world's crude oil typically transiting through the Strait of Hormuz. Disruptions in the Strait are expected to cause repercussions beyond the energy sector as key commodities like fertilizers, methanol, minerals, softs and grains represent a sizeable share of global seaborne flowing through the Strait.

U.S. Supreme Court quashes IEEPA tariffs

In a highly anticipated decision regarding President Trump's tariff policies, the U.S. Supreme Court ruled by a 6-3 majority that the President had exceeded his Constitutional authority under the International Emergency Economic Powers Act (IEEPA) in imposing tariffs to most U.S. trading partners. In response to the ruling, President Trump promptly announced ad valorem 10% tariffs on all imports for a period of 150 days under Section 122 of the Trade Act of 1974.

While the ruling did not address tariff refunds, the invalidation of IEEPA tariffs has led to hundreds of lawsuits, with companies seeking over \$160 billion in refunds from the U.S. administration. U.S. Customs is in the process of establishing a streamlined system for issuing these refunds.

Even before the U.S. Supreme Court's ruling on IEEPA, President Trump's trade tariffs faced opposition. In February, the House of Representatives passed a resolution against tariffs on Canada, which was supported by some Republican members.

Elsewhere, research published by the New York Federal Reserve indicated that U.S. consumers and businesses bore nearly 90% of tariff costs in 2025, although the share absorbed by foreign exporters increased as the year progressed. The findings drew a strong rebuke from White House economic adviser Kevin Hassett, who publicly suggested that the authors should be disciplined.

Major trade updates

In Q1 2026, the U.S. and India reached an interim trade agreement, ending a months-long stalemate. Prompted by U.S. pressure to stop Russian oil imports which previously led to a 50% U.S. tariff on Indian goods - the deal required India

to open its markets to U.S. industrial and agricultural goods and accept an 18% reciprocal tariff on its exports. Negotiations, however, stalled following the U.S. Supreme Court's judgment invalidating reciprocal tariffs and President Trump's subsequent imposition of a 10% global tariff, with the Indian side seeking clarity on the new tariff framework.

The U.S. and Taiwan signed a trade agreement, imposing 15% tariffs on Taiwanese goods. Under the agreement, Taiwan has agreed to remove or reduce tariffs on 99% of U.S. goods and provide preferential market access for U.S. industrial and agricultural exports, including automobiles, beef products, and minerals. The deal also includes Taiwan's commitment to purchase \$84 billion in U.S. oil, gas, aviation, and power equipment, and to invest \$250 billion in U.S. chip manufacturing. Premier Cho Jung-tai recently stated that Taiwan is awaiting an official U.S. notification on the current status of the trade deal.

Central Banks and Monetary Policy

In Q1 2026, the U.S. Federal Reserve left rates unchanged at 3.75%, continuing its "wait-and-see" approach. In January, President Trump formally nominated Kevin Warsh as Jerome Powell's successor for the position of Federal Reserve Chair.

The latest Fed dot plot indicates that a majority of FOMC participants still project at least one rate cut in 2026. The median projected policy rate remains unchanged at 3.4%, while the range of individual projections has narrowed to between 2.5–2.75% and 3.5–3.75%. PCE Inflation projection rose from 2.4% in December 2025 to 2.7% in March 2026, while the GDP growth was upgraded slightly to 2.4% for 2026.

Over Q1 2026, the Bank of England (BoE) held Bank Rate at 3.75% but delivered a more hawkish message, raising its inflation forecast to 3% for Q2 2026 and signalling limited scope to cut rates until the duration and scale of the energy price shock become clearer.

In Q1 2026, the European Central Bank (ECB) kept its Deposit Facility rate unchanged at 2.0%. Due to higher energy prices stemming from the Middle East conflict, the ECB revised its projections, now expecting headline inflation at 2.6% in 2026 and 2.0% in 2027. GDP growth was revised down to 0.9% for 2026 and 1.3% for 2027.

The Bank of Japan also kept its policy rate unchanged at 0.75% over Q1 2026.

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Index heavyweights underperform in Q1 2026

The first quarter of 2026 proved challenging for the S&P 500 index heavyweight sectors, which underperformed quarter-to-date. The top four sectors— Information Technology (-9.1%), Financials (-9.3%), Communication Services (-6.9%), and Consumer Discretionary (-9.2%)— have negatively impacted on the overall index performance, which fell by 4.3%. Combined, these sectors represent more than 65% of the index's total weight.

Investors are increasingly concerned about the large capital expenditure plans announced by hyperscalers— companies that build massive data centers. The combined capital expenditure plans for Alphabet, Amazon, Meta, and Microsoft have exceeded \$650 billion, surpassing analysts' estimates.

Share prices of all four companies corrected sharply in Q1 2026, as investors questioned the potential earnings of AI, the impact of these expenditure plans on company balance sheets and sought value in other sectors and markets.

Software companies were affected by concerns over AI disruptions, while U.S. banking companies were negatively impacted by their exposure to the downturn in the private credit space, driven by an increase in distressed loans.

CBO's report on fiscal deficit

According to a recent Congressional Budget Office's report titled "The Budget and Economic Outlook: 2026 to 2036", the U.S. federal budget deficit is projected to increase from \$1.9 trillion in 2026 to \$3.1 trillion in 2036, rising from 5.8% to 6.7% of GDP, higher than the 50-year historical average deficit of about 3.8% of GDP.

This deterioration is driven largely by rapidly growing net interest costs on the federal debt, alongside rising spending on major entitlement programs. Federal debt held by the public is projected to climb from 101% of GDP in 2026 to 120% by 2036, surpassing its previous peak of about 106% recorded in 1946.

While faster economic growth, stronger-than-projected federal revenues, or reduced federal spending could improve these outcomes, CBO's projections suggest that the current trajectory for budget deficits is not sustainable.

Recent critical mineral arrangements

In Q1 2026, the U.S. continued to broaden its critical minerals strategy through a series of bilateral and plurilateral initiatives aimed at reducing reliance on China. With Brazil,

Washington has begun talks on a potential critical mineral's partnership focused on rare earths, leveraging Brazil's substantial resource base. Brazil holds about 23% of the world's rare earth reserves but has limited processing capacity. Recently, Serra Verde, Brazil's leading rare earth producer, has secured approximately U.S.\$565 million in financing from the U.S. International Development Finance Corporation to expand operations, while the U.S. has also moved to ease tariffs on selected Brazilian imports, signaling a tentative trade thaw.

Additionally, the U.S. has proposed a preferential critical minerals trade zone with key allies, centred on enforceable price floors for critical materials. At the 2026 Critical Minerals Ministerial in Washington, Vice President JD Vance outlined a framework under which participating countries would adopt reference prices for critical minerals and use adjustable tariffs to help maintain those floors and support new production and investment.

The U.S., European Union and Japan have jointly expressed their intention to deepen coordination on critical minerals trade and supply chains, while a separate U.S.–Mexico Critical Minerals Action Plan targets preferential trade arrangements and dedicated financing for mining and processing projects.

Complementing these external initiatives, Washington has proposed a U.S.\$12 billion strategic stockpile program (Project Vault) for use in emergencies, and the Pentagon has committed to purchase 400 tons of indium over three years, valued at about U.S.\$125 million, for the national defense stockpile.

Bonds and Yields

U.S. Treasury yields mostly rose across all maturities, with the effect more pronounced across the 2- and 3-year terms which rose by 32bps and 27bps, respectively. The 10-year Treasury yield rose by 15bps to 4.32%, and the 30-year Treasury yield rose by 6bps to 4.91% over the quarter.

The 20-year TIPS yield rose by 7bps to 2.46% and the 20-year breakeven inflation rose by 2bps to 2.42% over the quarter.

Credit markets delivered negative returns over the quarter. The Bloomberg Global Credit Index returned -1.3% in Q1 2026 and 6.4% over the trailing one-year. The Bloomberg Global High Yield Index also returned -1.3% for the quarter and has gained 8.6% over the trailing one-year period.

Spreads widened over the quarter, with the spreads on the ICE U.S. Corporate Index rising by 11 bps to 90 bps and the

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spreads on the Bloomberg Long Credit Index rising by 11 bps to 106 bps over the quarter.

The U.S. High Yield bond spread over U.S. treasury yields rose by 47 bps to 328 bps and the spread of USD denominated EM debt over U.S. treasury yields rose by 35 bps to 295 bps over the quarter.

Global bond yield movements

In Q1 2026, Global bond yields generally moved higher across major global markets, except for China where yields fell. Fears of an inflationary surge due to higher energy prices pushed global bond yields higher over the quarter.

The U.S. 10-year benchmark bond yield expanded by 15 bps, ending the quarter at 4.32%. Meanwhile, the interest rate sensitive 2-year treasury yield touched 4.0% before ending the quarter at 3.79%, 32 bps higher.

German bund yields, which serve as a benchmark for Europe, ended the quarter 17 bps higher at 3.02% and briefly touched 3.10% in Q1 2026, the first time they have reached this level in almost 15 years, last seen at the peak of the Eurozone debt crisis.

Meanwhile, Japanese 10-year government bond yields continued to rise over the quarter, with the BoJ continuing with its monetary policy normalization agenda. The 10-year benchmark yield ended the period 27 bps higher at 2.33% and briefly reached 2.4% for the first time since 1999.

U.K. gilt yields moved sharply higher over the quarter on concerns that a prolonged energy shock from the Iran conflict could lead to higher inflation and a more persistent high-rate environment. The interest rate-sensitive 2-year gilt yield reached 4.60% in mid-March before ending the quarter at 4.39%, up 69 bps. The U.K. 10-year benchmark yield touched 4.95% (briefly trading above 5% intraday), its highest level since the 2008 financial crisis, and closed the quarter at 4.84%, 37 bps higher.

Equities

Most international equity indices fell over the quarter. The MSCI All Country World Index fell 3.1% in USD terms over the quarter and MSCI All Country World ex-U.S. Index fell 0.6%. Both the indices have risen by 20.5% and 25.6%, respectively, over the past one-year period.

MSCI Europe ex. U.K. Index fell by 4.0% over the quarter while the MSCI Emerging Markets could limit the fall to 0.1%.

Value delivered positive returns over the quarter, while growth fell as the MSCI All Country World Value Index

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outperformed the MSCI All Country World Growth Index on a relative basis (1.3% vs -7.6%). Over the trailing one-year period, growth has outperformed value, 21.6% vs 18.6%.

Commodities and Currency

Commodity prices rose over the quarter. The S&P GSCI

Commodity Index rose by 40.0%, with the energy sector rising by 82.8% over the quarter. The price of WTI crude oil rose by 76.6% to U.S.\$101/BBL.

Industrial metal prices rose by 6.0%, although copper prices fell by 2.8% over the quarter to USD 12,160/MT.

Gold (+7.4%) and silver (+6.5%) posted gains in Q1 2026 but faced two sharp corrections. The first came in late January after Kevin Warsh was nominated as Fed Chair, spurring profit-taking in precious metals. The second pullback in March was driven by renewed concerns over prolonged inflation and interest rates, despite initial safe-haven demand from geopolitical tensions and rising crude prices.

Over the quarter, gold and silver moved within a broad and volatile range, with gold trading between \$4,314/oz and \$5,318/oz and silver between \$68/oz and \$115/oz, before closing Q1 2026 at \$4,648/oz and \$75/oz, respectively.

The U.S. Dollar mostly appreciated against the major currencies over the quarter. On a trade-weighted basis, the U.S. dollar appreciated by 1.1%.

Other Geopolitical updates

In January, U.S. forces captured Venezuelan President Nicolas Maduro, who faces narco-terrorism charges in the U.S. Venezuela's Vice-President Delcy Rodriguez now leads an interim government, with the U.S. overseeing a peaceful transition. President Trump urged western oil companies to make investments in the country's oil industry. Later, the U.S. Treasury authorized general licensed operations for U.S. oil companies in Venezuela after the Venezuelan parliament reformed hydrocarbon laws to open the sector to private and foreign firms, reduce taxes, and allow international arbitration.

Geopolitical tensions between the U.S. and its European partners rose after President Trump expressed interest in acquiring Greenland from Denmark and threatened 10% tariffs on seven European countries and the U.K., escalating to 25% by June in case no resolution was reached. The E.U. considered €93 billion in retaliatory tariffs. Tensions eased after President Trump and NATO Secretary General Mark Rutte discussed an Arctic security framework, with Trump withdrawing his tariff threats.



Prime Minister Sanae Takaichi's Liberal Democratic Party (LDP), together with its coalition partner, the Japanese Innovation Party, secured a super-majority in the lower house of parliament following snap elections. This victory grants them the ability to override decisions made by the less powerful upper house.

Elsewhere, ending a months-long deadlock, France finally adopted the 2026 budget in early February. Prime Minister Sébastien Lecornu invoked Article 49.3 of the Constitution to pass the finance bill without a full parliamentary vote and then survived two no-confidence motions filed by opposition parties, allowing his minority government to remain in office. The approved budget targets a reduction of the deficit to 5% of GDP in 2026, introduces an

additional levy on large corporate profits, and increases defense spending by about €6.5.

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Asset Class Return Matrix – 1Q 2026

	2018	2019	2020	2021	2022	2023	2024	2025	YTD
Global Agg - Gov	(-0.7%)	DM Equities (28.2%)	EM Equities (18.8%)	Commodities (40.4%)	Commodities (26.0%)	DM Equities (23.5%)	DM Equities (18.0%)	EM Equities (32.1%)	Commodities (40.0%)
Global Agg - Credit	(-3.3%)	EM Equities (18.1%)	DM Equities (16.5%)	DM Equities (21.6%)	Global HY (-12.7%)	Global HY (14.0%)	Commodities (9.2%)	DM Equities (21.5%)	EM Equities (-0.2%)
Global HY	(-4.1%)	Commodities (17.6%)	Global Agg - Gov (9.7%)	Global HY (1.0%)	Global Agg - Credit (-16.3%)	EM Equities (12.1%)	Global HY (9.2%)	Global HY (12.1%)	Global Agg - Gov (-1.2%)
DM Equities	(-8.9%)	Global HY (12.6%)	Global Agg - Credit (9.6%)	EM Equities (0.1%)	Global Agg - Gov (-16.8%)	Global Agg - Credit (9.9%)	EM Equities (7.6%)	Global Agg - Credit (10.7%)	Global Agg - Credit (-1.3%)
Commodities	(-13.8%)	Global Agg - Credit (11.0%)	Global HY (7.0%)	Global Agg - Credit (-2.6%)	DM Equities (-17.8%)	Global Agg - Gov (4.3%)	Global Agg - Credit (1.8%)	Commodities (7.1%)	Global HY (-1.3%)
EM Equities	(-14.7%)	Global Agg - Gov (5.6%)	Commodities (-23.7%)	Global Agg - Gov (-5.8%)	EM Equities (-19.5%)	Commodities (-4.3%)	Global Agg - Gov (-3.1%)	Global Agg - Gov (7.0%)	DM Equities (-3.0%)

Source: FactSet, MSCI, S&P, Bloomberg. Data as of 4/15/2026.

Past Performance is no guarantee of future results.

Quarterly Total Return for 1Q 2026 by Currency						
	USD	GBP	EUR	CAD	JPY	AUD
MSCI USA	-3.9%	-2.0%	-2.0%	-2.1%	-2.5%	-6.4%
MSCI EAFE	-1.1%	0.9%	0.8%	0.7%	0.4%	-3.7%
MSCI UK	0.9%	2.9%	2.8%	2.7%	2.4%	-1.8%
MSCI Europe ex-UK	-4.0%	-2.1%	-2.1%	-2.2%	-2.6%	-6.5%
MSCI Canada	2.1%	4.2%	4.1%	4.0%	3.7%	-0.6%
MSCI Japan	2.0%	4.0%	3.9%	3.8%	3.5%	-0.7%
MSCI Australia	1.2%	3.2%	3.1%	3.0%	2.7%	-1.5%
MSCI Emerging Markets	-0.2%	1.8%	1.8%	1.6%	1.3%	-2.8%
MSCI AC World	-2.7%	-0.7%	-0.8%	-0.9%	-1.2%	-5.2%

Source: FactSet and Publicly Available through MSCI.

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Disclaimer - Index Definitions

S&P 500 Index – The market-cap-weighted index includes 500 leading companies and captures approximately 80% of available market capitalization.

Russell 2000 Index - The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

MSCI All Country World Investable Market Index - A capitalization-weighted index of stocks representing approximately 49 developed and emerging countries, including the U.S. and Canadian markets and covering all investable large-, mid- and small-cap securities.

MSCI Emerging Markets Investable Market Index - A capitalization-weighted index of stocks representing approximately 26 emerging countries, and covering all investable large-, mid- and small-cap securities.

Dow Jones U.S. Total Stock Market Index - A capitalization-weighted index of stocks representing all U.S. equity eligible securities.

MSCI World Index - A free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets, representing 24 developed market country indices.

MSCI USA Value/Growth - The MSCI USA Value/Growth Index captures U.S. large and mid-cap securities exhibiting overall value/growth style characteristics. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend.

Bank of America Merrill Lynch U.S. Corporate Index - An unmanaged index considered representative of fixed-income obligations issued by U.S. corporates.

Bank of America Merrill Lynch U.S. High Yield Index - An unmanaged index considered representative of sub-investment grade fixed-income obligations issued by U.S. corporates.

Bloomberg U.S. Government Index - An unmanaged index considered representative of fixed-income obligations issued by the U.S. government.

Bloomberg Long Credit Index - An unmanaged index considered representative of long duration fixed-income obligations issued by U.S. corporates.

S&P GSCI - A world-production weighted index that is based on the average quantity of production of each commodity in the index.

JPMorgan EMBI Global Diversified - An unmanaged index considered representative of USD denominated fixed-income obligations issued by the emerging market governments.

MSCI USA - The MSCI USA Index is designed to measure the performance of the large and mid-cap segments of the US market. With 609 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the US.

MSCI EAFE - The MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries* around the world, excluding the US and Canada. With 783 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI UK - The MSCI United Kingdom Index is designed to measure the performance of the large and mid-cap segments of the UK market. With 82 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the UK.

MSCI Europe ex-UK - The MSCI Europe ex UK Index captures large and mid-cap representation across 14 Developed Markets (DM) countries in Europe. With 343 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK.

MSCI Canada - The MSCI Canada Index is designed to measure the performance of the large and mid-cap segments of the Canada market. With 88 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Canada.

MSCI Japan - The MSCI Japan Index is designed to measure the performance of the large and mid-cap segments of the Japanese market. With 225 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

MSCI Australia - The MSCI Australia Index is designed to measure the performance of the large and mid-cap segments of the Australia market. With 58 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Australia.

MSCI Emerging Markets - The MSCI Emerging Markets Index captures large and mid-cap representation across 24 Emerging Markets (EM) countries. With 1,441 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI AC World - The MSCI ACWI captures large and mid-cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. With 2,921 constituents, the index covers approximately 85% of the global investable equity opportunity set.



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