Portfolio Advisor Q1, 2026 Review and Outlook April 7, 2026

Portfolio Advisor is a quarterly commentary for fiduciaries and individuals by John and Katherine Reitnouer, financial advisors with D.A. Davidson & Co. Wealth Management. We favor a proactive investment process that aligns a portfolio with long-term goals in light of economic and market conditions that may affect investment performance in the shorter-term. Volatile markets and conflicting information sources can cloud decision-making, causing many investors to get away from their original plans. We seek to simplify the complex through communication and sound investment management over time.

What's Past is Prologue William Shakespeare, *The Tempest*

Investors entered the new year with wind in their sails only to be confronted by a tempest in March. A new reaction to an old set of geopolitical forces reared up to reshape expectations and serve as a reminder that change can come swiftly and unexpectedly, pushing markets to shift direction just when things feel more stable. While stability has never been a part of the Trump playbook, breaking things to rebuild is. One needs only to recall the market's Tariff Tantrum, a 19% drop in stocks last spring in response to the Administration's efforts to encourage domestic production, job creation, and raise revenue. The policy is a work in process, but markets recovered to set all-time highs by the third quarter of last year.

The events of Q1 2026— nuclear nonproliferation enforcement, inflation pressures, shifting market leadership, political division and accelerating societal change—are not isolated episodes. They are the prologue to the next act in the global economic story. But through it all, so far, investors have remained remarkably resilient. Perhaps, having seen similar acts before, they are holding fast to the belief that the factors that drive growth remain intact.

In Review

The defining event of the first quarter was undoubtedly the escalation of conflict in Iran, which triggered the closure of the Straight of Hormuz and drove Brent Crude oil prices to $118/barrel; a 93% increase in Q1. West Texas Intermediate crossed $100/barrel, up from the mid-50s in December. Inflation fears immediately re-emerged. In February, core CPI rose 2.5% year-over-year, and Core PCE remained near 3.1%. These levels are already above the Federal Reserve's targets, and the pressure of higher energy inputs can impact consumption, squeeze margins and complicate the Federal Reserve's monetary policy posturing.

Consensus expectations coming into 2026 called for additional Fed Funds cuts later this year. Combined with tax refunds and incentives to invest in capital improvements, a boost to the economy was factored into the market calculus. But the Fed held rates steady in March at 3.5% - 3.75% and the market began to discount cuts entirely in 2026. Bond yields rose at the long end of the curve, but the Aggregate Bond Index remained essentially flat. Defaults and redemptions stressed private credit funds. The high yield credit spread widened in Q1.

Tariff policy shifted in response to judicial challenges, further complicating global trade projections. The U.S. imposed a flat 10% tariff policy on all imports, contributing a measure of uncertainty as another earnings season looms on Wall Street. Corporate earnings have been strong, rising 14% in Q4 2025, and contributed to a strong market in January and February. But the conflict in Iran triggered volatility and a reversal in market averages in March. The total return of S&P 500 Index in the first quarter was -4.3%. The previously market-leading NASDAQ Composite Index was -7.1% as tech giants continued a slide from historically high valuations. The initial build-out of AI faced scrutiny as investors began to appreciate the magnitude of investment and question the timing of returns. Value outperformed growth as a manufacturing recovery broadened, but the Dow Jones Industrial Average was still -3.2% YTD.

The U.S. dollar strengthened on fear. The rally in foreign stocks faded; the MSCI Emerging Markets Index was -0.1% in Q1. Developed foreign markets measured by the MSCI EAFE Index were -1.2% in the quarter. Energy stocks surged. Gold declined 11% in March but still posted a gain of 7.4% YTD. The broad Bloomburg Commodity Index was +24.4% in Q1, reasserting the role of hard assets as inflation hedges and geopolitical shock absorbers.

Outlook

The forces shaping markets are dynamic. Geopolitical uncertainty remains elevated. Oil is the lynchpin to this conflict. Energy markets are highly sensitive to any developments. There is concern that Iran is a protracted tar baby, but a look into the oil futures market projects resolution ahead. As of this writing, the March 2027 WTI contract is trading just over $72/barrel, which implies an easing of inflationary pressure ahead. A powerful relief rally on March 31 reflected such hope on promising war-ending news, portending the recovery potential that resolution may bring. Expect a softer dollar when risk is once again "on." We'll see.

Monetary policy is at an inflection point, and the Fed may remain cautious this year even though the structural federal deficit is also inflationary. Market rotation will likely be driven by inflation trends and global supply chain challenges. Societal shifts also shape the future. Aging population in developed markets and rising middle classes in emerging economies reshape demand patterns. A shift toward digital services, health and wellness influence sector leadership. AI-driven productivity gains may benefit companies that adapt quickly but job uncertainty rises as well. What will people do? Advances in AI threaten the standard fee-per-seat pricing models employed by leading software companies. Change is afoot. The resilience of economic growth is at issue.

Portfolio Implications

Traders are having a field day, but periods of rapid change can be unsettling to investors. Such times reinforce the value of a disciplined, diversified investment approach. Q1 demonstrated how quickly leadership can change. Out of favor, quality value stocks across sectors and geographies may lag in the go-go years but were better positioned to absorb volatility. Volatility can provide the opportunity to tax-efficiently rebalance a portfolio. Advancement requires change. Change means new winners and losers. Over time, stocks tend to appreciate in relation to the growth rate of companies' earnings. Identifying companies well-positioned for changing conditions is a focus of stock selection.

Quality fixed income still matters and may act as ballast during periods of equity volatility. Cash equivalents and short-to-intermediate bond maturities remain preferable as long rates rise. Commodities, infrastructure and real asset- linked equities may continue to play a stabilizing role if inflation remains elevated.

Above all else, remember that volatility is normal. The S&P 500 since 1980 has averaged an intra-year decline of 14%. Yet the rolling 10-year average return of the S&P 500 through 2025 was +16%. Investing over the long term smooths the tempests of change in the short run. Matching the structure of your portfolio to your needs now and into the future remains the central mission of our business. We remain committed to helping you navigate evolving conditions with clarity, discipline and a long-term perspective. Thank you for your trust.

As what's past is prologue, we look forward to the *brave* (*excellent* by the bard's definition) *new world* ahead, and to speaking with you soon.

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