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US stocks finished the first quarter in negative territory as the war in the Middle East triggered a historic run-up in energy prices, along with fears of a global recession. The S&P 500 declined 4.3% in the first quarter, the Dow dropped 3.2%, and the tech-heavy Nasdaq composite briefly entered correction in March and ended the quarter down 7.0%.

As recently as last December, the US economic growth was accelerating, the Federal Reserve was poised to make further interest rate cuts, and the markets had moved past the peak uncertainty created by US tariffs imposed on its trading partners. All these painted a backdrop of broadening market gains, as the leaders moved away from the Magnificent 7 to cyclicals and value stocks. For the first two months of 2026, there were rotations from tech stocks to overlooked sectors, encouraging signs of a broadening.

The adoption of AI remains a key and growing focus for businesses and enterprises recently. Structural AI trends should continue to be a major driver of higher productivity trends. However, fears that AI could disrupt industries such as software have significantly pressured this once hot industry. Increasingly, investors are securitizing the private credit market due to its hidden exposure the software start-ups and inherent structural flaws in retail oriented private credit products. But in aggregate, the US equity market kept moving higher.

However, the war in the Middle East marked a sharp reversal of trends. Since February 28, when the US and Israel launched a series of strikes on Iran, oil prices have surged 55%. During the first quarter, Brent crude futures increased 71%, the biggest quarterly percentage gain since the Gulf War of 1990.

On the final trading day in Q1, oil prices fell after President Trump announced that he is willing to end the war without fully reopening the Strait of Hormuz. Since February 28th, growing Middle East conflict and virtual halt in Strait of Hormuz traffic have exposed the global energy markets to the most severe crisis since 1970. Investors are betting that US energy stocks will have a repeat of 2022, when the energy sector was the bright spot in an otherwise down market. In March, 10 of the 11 S&P 500 sectors incurred losses. Energy was the only exception. In Q1 2026, energy stocks in the S&P 500 are collectively up 34%.

The closure of the Strait of Hormuz has also benefitted American fertilizer producers, as their rivals in the Middle East struggles to get their output to the global market.

Despite the surge in crude oil prices, America's natural gas bounty is cushioning the US energy market from global shocks. While prices for the heating and power-generation fuels have surged around the world, price increases in the US have been relatively tame. Meanwhile, US's position as a net oil exporter has helped strengthen the US dollar. The greenback extended its winning streak to three consecutive quarters through Q1 2026.

An increasing US appetite for foreign intervention from Venezuela to Iran, and President Trump's request for a \$1.5 trillion military budget, benefitted aerospace and defense

First Quarter Market Watch

	Date	1 Quarter Ago		1 Year Ago	
	3/31/2026	12/31/2025	% chg	12/31/2025	% chg
DJIA	46,341.51	48,063.29	-3.2%	42,001.76	12.2%
S&P 500	6,528.52	6,845.50	-4.3%	5,611.85	17.8%
NASDAQ Composite	21,590.63	23,241.99	-7.0%	17,299.29	25.6%
Russell 2000	6,204.12	6,168.16	0.9%	5,000.11	25.7%

	Date	1 Quarter Ago		1 Year Ago	
	3/31/2026	12/31/2025	% chg	3/31/2025	% chg
Japan Nikkei 225	51,063.72	322.00	-0.3%	35,617.56	26.5%
MSCI EM (Emerging Markets)	1,397.20	1,404.37	-0.1%	1,101.40	30.3%
MSCI EAFE	2,838.61	2,892.71	-1.1%	2,400.82	21.9%
MSCI AC World	978.94	1,014.62	-3.1%	827.15	20.5%
FTSE 100 (TR)	11,793.61	11,403.26	1.4%	9,616.97	37.0%
SSE Composite Index	3,891.86	3,968.84	-0.8%	3,335.75	22.7%

US Equity Sector

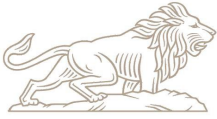
	Q1	1-yr ret.
Consumer Discretionary	-9.2%	-3.7%
Consumer Staples	7.7%	11.9%
Energy	38.2%	50.2%
Financials	-9.3%	4.3%
Health Care	-4.9%	9.0%
Industrials	4.6%	24.9%
Information Tech	-9.1%	12.7%
Materials	9.7%	21.3%
Telecom	-6.9%	24.3%
Utilities	8.3%	25.6%

US Equity Style

	Q4	1-yr ret.
Russell 1000 Value	3.8%	15.9%
Russell 1000 Growth	1.1%	18.6%
Russell 2000 Value	3.3%	12.6%
Russell 2000 Growth	1.2%	13.0%

Economic Sentiment

	12/31/2024	1 Yr. Ago
Unemployment Rate	4.60	4.10



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contractors. As a result, the S&P Aerospace and Defense sector has risen nearly 60% over the past 12 months.

As declines in equities accelerated in the second half of March, those who sought downside protection from the bond markets found little relief. The 10-year US treasury yield increased 36 bps in one month, ended March at 4.32%. Bond prices fall when yields increase.

Despite the heightened geopolitical uncertainty, one positive aspect is that tariff-exposed companies got some relief, such as construction firms and appliance makers. Stocks of companies exposed to President Trump's tariffs climbed after the Supreme Court struck down many of the duties its February ruling.

On the US policy front, the deregulation of US banks is unlocking trillions in additional lending capacity. However, banks are also being scrutinized for their exposure to nonbank financial firms, and in particular to the private funds that have seen a surge of redemptions. Loans to software companies have been perceived as vulnerable to disruption from artificial intelligence. Bank lending to nonbank financial institutions has grown to \$1.9 trillion from \$1.1 trillion three years ago. This now accounts for 14% of all bank loans, according to the Federal Reserve. Investors and Wall Street analysts are paying particular attention to banks' real risk exposure to private credit funds.

The US equity markets saw some respite early April. In the coming weeks, investors will get a fresh look at the health of the economy from new manufacturing data and inflation.

Companies in the S&P 500 will also begin reporting earnings for the first quarter of 2026. Meanwhile, measured by earnings growth, US stocks remain on solid footing, as Wall Street analysts are still forecasting a sixth straight quarter of double-digit earnings growth for S&P 500 companies in Q1 2026. Information Technology and Communication Services are expected to grow profits this year by 37% and 13%, respectively. Energy and Materials earnings are projected to grow by mid-to-high 20 percentage points in 2026. Given the healthy underlying profitability trends in the broad US stock market, individual investors have remained net purchasers of stocks, though the pace of their purchases has slowed from prewar averages.

Despite uncertainties in economic growth and interest rate trajectory due to implications from surging energy prices, major deals are still

Bond Markets

	12/31/2025	1 Qtr Ago	1 Yr. Ago
Treasury Bill, 90 Day	3.68	3.63	4.29
Treasury Note, 2 Year	3.79	3.48	3.89
Treasury Note, 5 Year	3.94	3.73	3.95
Treasury Bond, 10 Year	4.32	4.17	4.21
Treasury Bond, 30 Year	4.91	4.84	4.58

Exchange Rates (Rate per US dollar)

	3/31/26	1 Qtr Ago	1 Year Ago
Euro	1.396	1.371	1.439
British Pound	18.042	17.980	20.458
Swiss Franc	0.868	0.851	0.926
Chinese Yuan	0.758	0.743	0.775
Indian Rupee	6.908	6.988	7.252
Japanese Yen	94.849	89.879	85.473

Commodities

	12/31/25	1 Qtr Ago	1 Yr. Ago
Gold	4,678.60	3,873.20	3,150.30
Crude Oil	101.38	62.37	71.48
UD Dollar Index	99.76	97.45	103.88
Bloomberg Commodity Index	135.25	104.63	106.40

Interest Rates

	3/31/2026	1 Qtr Ago	1 Yr. Ago
PRIME RATE	6.75	6.75	7.50
FEDERAL FUNDS RATE	4.33	4.33	4.33
LIBOR RATE 30 DAY	3.79	3.48	3.89
LIBOR RATE 3 MONTHS	4.32	4.17	4.21
	6.38	6.15	6.64
30YR FIXED MORTGAGE	6.75	6.75	7.50

getting done. 2026 is off to the strongest start for big corporate deals ever. Year to date, 22 transactions valued at \$10 billion or more have been announced globally, a record quarterly number. The total value of all deals announced globally increased 29% from a year ago.

Looking ahead, a resilient US economy and a lower interest rate backdrop can continue to support the equity market. 2026 YTD, both US cyclicals and technology companies saw positive earnings revisions. Select defensive sectors also saw green shoot in an earnings recovery. All point to a broadening of earnings growth.

Outside the US, there are changes under the hood for European equities, with a shift in sector leadership from consumer-oriented sectors to financials and industrials, driven by fiscal stimulus and pursuit of energy independence in Europe. In emerging markets, fundamentals remain solid among a narrow group of winners: key semiconductor suppliers in Taiwan and South Korea, and AI-linked consumer internet companies in Mainland China. Although it is debatable whether non-US stocks will continue to deliver double-digit returns, there is still a solid case for diversifying beyond the US market. Our portfolios have also benefitted from exposure to diversifying hedge funds that have delivered positive returns so far in 2026 despite the equity and bond market sell off.

In private markets, we see improving distributions, helped by rising M&A volume and significant market share gains from the AI leaders. We have avoided the fad of retail products in private credit due to their underlying liquidity issues. Given the crosscurrents underneath the broad economy and markets, it pays to be highly selective. Our investment professionals at the 1911 Trust stick to our discipline in asset allocation, security and manager selection, and risk management during this volatile period.

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