POINTE CAPITAL
MANAGEMENT LLC

# The Pointe Perspective

**April 2026**

## First Quarter Market Review and Investment Outlook

### *Ceasefire Drives Rally, but Inflation, Policy Risks and Conclusion of Iran War Remain Uncertain*

The first quarter of 2026 began with a constructive setup—resilient growth, easing inflation and a market positioned for lower interest rates—but quickly gave way to the Iran war, placing geopolitics as the front and center market driver. Both stock and bond markets corrected, caused by higher energy prices and rising interest rate expectations as the war began. The S&P 500 Index® fell 4.3% for the quarter while the Bloomberg Aggregate Bond Index posted -0.1% return as bond yields moved higher during the quarter. Such synchronized declines in both stock and bond markets are relatively rare. The most recent parallel was in 2022 (post Covid-induced interest rate hikes), when inflation and aggressive Federal Reserve (Fed) tightening drove losses across both asset classes. This quarter's unusual combination of events led to the weakest quarterly performance in both stocks and bonds since 2022.

A two-week ceasefire agreement was enacted on April 7, 2026, and sparked a significant rally in both asset classes. This event highlights how quickly sentiment and expectations can shift.

### Equity Markets – US Large Cap Value Stocks Achieved Positive Returns Despite New Economic Risk

As indicated in Table 1 below, the S&P 500 Index® dropped 4.3% during the quarter, primarily due to a nearly double-digit decline in growth in stocks, with the Russell 1000® Growth Index down 9.8%. In a serious change of leadership, US large cap value and small cap stocks outperformed all other groups; the Russell 1000® Value Index rose 2.1%, the Russell 2000® Index rose 0.9% while the MSCI EAFE Index fell 1.1%. Concerns over increasing AI-related capital expenditures continued to hurt large cap technology-

**Table 1: Returns Mixed in the First Quarter 2026 After a Strong 2025**

| | 1st Quarter 2026 | Full Year 2025 |
|---|---|---|
| **Benchmarks:** | | |
| S&P 500 Index® | -4.3% | 17.9% |
| S&P 500 Index Equal Wtd | 0.2% | 11.4% |
| Russell 1000® Value Index | 2.1% | 15.9% |
| Russell 1000® Growth Index | -9.8% | 18.6% |
| Russell 2000® Index | 0.9% | 12.8% |
| MSCI EAFE (Foreign Stocks) | -1.1% | 31.9% |
| MSCI EM (Emerging Markets) | -0.1% | 34.4% |

*Source: FactSet. Past performance does not guarantee future results. Data as of March 31, 2025.*

related stocks, shifting the focus toward underappreciated sectors including commodities, non-AI stocks and even small cap stocks. Crude oil, gold and the US Dollar were winners in the quarter, with crude oil up over 70%, gold up 8% and the US Dollar higher by 2%. International stocks are more sensitive to higher energy prices than the US - it is not surprising that these stocks were pressured as energy prices rose sharply. Note that the declines were small - we stress that international stocks remain quite attractive from a valuation standpoint.

## US Equity Sectors – Energy, Utilities and Materials Win; Technology, Consumer and Financials Lose

Technology, financial and consumer discretionary stocks bore the brunt of the pain in the first quarter, as these sectors are most exposed to rising interest rates, were expensive valuation-wise and had been the most favored stocks when the war began. Energy stocks rose sharply (+38%), for three reasons: (1) valuations were attractive; (2) the sharp increase in crude oil prices; and (3) the poor performance of the group in the past two years gave way to attractive valuation metrics. Utilities, materials and staples also outperformed due to stable earnings models and reduced exposure to higher oil prices.

Table 2 below outlines these returns for the quarter vs last year.

**Table 2: S&P 500 Sector Returns – Energy and Materials Best Performers in the First Quarter**

| Sectors | 1st Qtr 2026 | 2025 |
|---|---|---|
| S&P 500 Energy | 38.3% | 8.7% |
| S&P 500 Materials | 9.7% | 10.5% |
| S&P 500 Utilities | 8.3% | 16.0% |
| S&P 500 Consumer Staples | 7.7% | 3.9% |
| S&P 500 Industrials | 4.6% | 19.4% |
| S&P 500 Real Estate | 2.8% | 3.2% |
| S&P 500 Healthcare | -4.9% | 14.6% |
| S&P 500 Communication Services | -6.9% | 33.6% |
| S&P 500 Technology | -9.1% | 24.0% |
| S&P 500 Consumer Discretionary | -9.2% | 6.0% |
| S&P 500 Financials | -9.4% | 15.0% |
| S&P 500 Index® | -4.3% | 17.9% |

Index Results, S&P Dow Jones Indices, March 31, 2026

## US Fixed Income – The Inflation Genie is Not Fully Back in the Bottle, but Lower Oil Prices Could Help

During the quarter, the Fed voted to hold interest rates steady twice, during both January and March 2026 meetings. Prior to the start of the war with Iran, expectations were for at least one interest rate cut by June. The change occurred as inflation worries rose with higher oil prices.

Fixed income returns for the quarter ranged between a positive 0.9% for short term Treasury Bills to as much as -0.5% for the High Yield Bond Index as the prospect of possibly no rate reductions in 2026 solidified.

Table 3 on page 3 shows the significant change in returns after 2025's stronger showing.

Table 3: Fixed Income Returns Sharply Lower in the First Quarter 2026 vs Full Year 2025

| Fixed Income | 1st Qtr 2026 | 2025 |
|---|---|---|
| 90-Day Treasury Bill | 0.9% | 3.4% |
| ML US 30 Year Treasury® | 0.3% | 3.3% |
| Bloomberg 1-3Yr Gov't Corp Bond Index® | 0.3% | 5.1% |
| Bloomberg Aggregate Bond Index® | -0.1% | 7.3% |
| ML US 10 Year Treasury® | -0.1% | 7.8% |
| Bloomberg Municipal Bond Index® | -0.2% | 4.3% |
| Bloomberg High Yield Bond Index® | -0.5% | 8.6% |

Index Results, FactSet, March 31, 2026

## Market Outlook – Despite Ceasefire, Near Term Uncertainty Remains

The current market environment has been shaped by the unexpected duration of the war with Iran. A two-week ceasefire agreement has just occurred as we write, but risk remains as a long-term settlement of the issues that caused it remain elusive and largely unresolved.

History suggests that wars similar to the current war with Iran last longer and evolve in less predictable ways. Initial guidance from the Trump administration suggested this war would be relatively quick. However, Iran proved to be capable of extending the war through numerous regional alliances, which resulted in unexpected attacks on US friendly Middle Eastern countries - notably, Israel, the Emirates, Quatar - and closing the Straits of Hormuz, which sent oil prices sharply higher. Further, the coalition of US allies did not fully cooperate, evidenced by limited military base access, restricted airspace and political hesitation.

We stress that the war will eventually end, likely resulting in an improved market. Hopefully, the ceasefire agreement will turn into a permanent solution, though the details of that possibility remain unclear. Should it fail, or at least partially fail, the war could drag on, as Iran proved resilient due to assistance from a growing variety of sources. It is apparent that Iran's strategy was not to "win" conventionally - rather it needs to "not lose," impose economic costs to the US and world and outlast US political patience. Iran succeeded in threatening oil flows, seriously increasing oil prices which caused U.S. public support to weaken. From a recent Reuters survey of US voters (Reuters.com, dated 3/31/26), 66% wanted the war to end ASAP—even if goals are not achieved and most say ending the conflict quickly is important. This backdrop potentially explains, at least in part, why the Trump administration pushed for the ceasefire agreement.

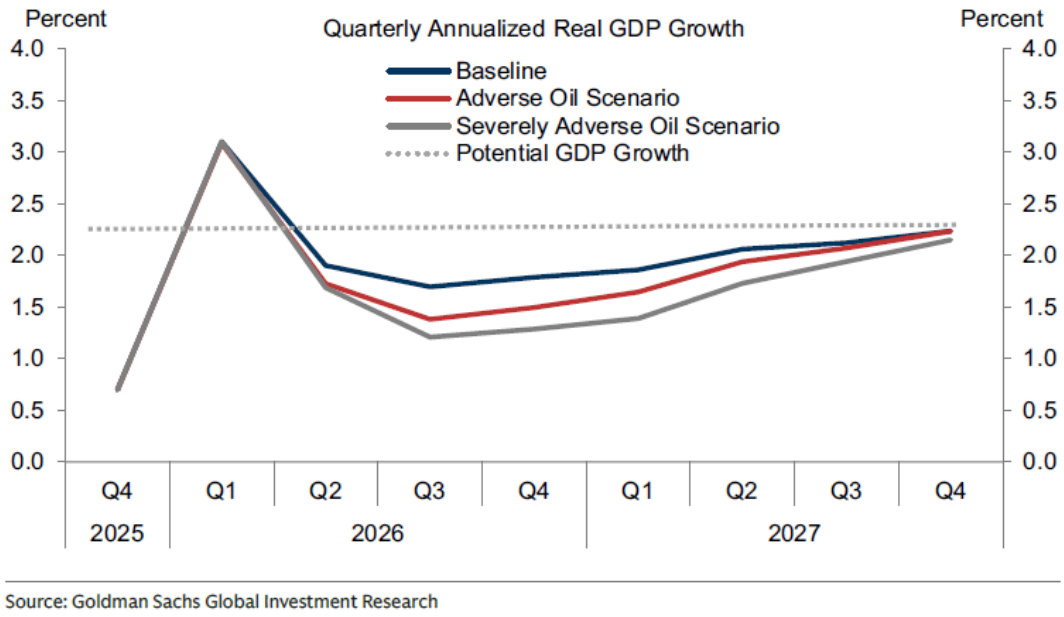
### Economic Backdrop Remains Intact - Though Slowing

Fortunately, the US economic backdrop remains reasonably intact, with activity slowing but still positive. Corporate earnings are moderating but not collapsing. And financial conditions are not restrictive enough to force a broad correction. As shown in Chart 1 on page 4, Goldman Sachs forecasts 1-2% economic growth through 2027, only moderately lower than earlier forecasts.

### Inflation – Under Control, but Only if Ceasefire Agreement Holds

Inflation trends remain a central focus for investors. Prior to the recent conflict, expectations were for moderating but still above-target inflation in the 2.8–3.0% range. However, geopolitical tensions, particularly those impacting energy markets, introduce new uncertainty. The recent ceasefire should reduce expectations for higher oil prices - but could easily reverse if the ceasefire fails. As a result, inflation remains manageable but increasingly sensitive to external shocks.

Chart 1 - Goldman Sachs Reduces Economic Growth Rates for 2026 (as of 3/23/26)




Source: Goldman Sachs Global Investment Research

**Policy Risk: President Trump's Rhetoric Gives Way to De-escalation Effort for the Second Time**

The war caused greater uncertainty, driven by the unexpected length of the war, a steep rise in global oil prices and the ability of Iran to continue the war, despite a massive US bombing campaign.

President Trump's agreement to the ceasefire is reminiscent of the tariff wars in 2025. Recall that firmly communicated Trump tariff war policy proved highly sensitive to movements in long-term interest rates when market stress began to build. As the 30 Year US Treasury bond yield surpassed 6% at the peak of the tariff wars, Trump quickly reversed course, sharply reversing tariffs.

In the current context, the catalyst for a "rethink" of US strategy occurred when the price of Brent crude oil (primary global benchmark for oil prices) reached nearly $112 per barrel on March 20th - a price high enough to cause a global economic contraction. Further, Iran's staying power was also a likely catalyst for talks. Following these developments, hardline rhetoric gave way to de-escalation efforts - within a few weeks, the Trump administration and Iran agreed to a ceasefire. This follows the dynamic where downside scenarios may be self-limiting, as market stress itself becomes the catalyst for policy adjustment.

**Longer-Term (Into Year-End and Beyond): A Possible Improving Setup**

Markets historically adjust to geopolitical conflicts and begin to look through them well before a formal resolution. Any eventual de-escalation or stabilization in the Iran conflict would reduce risk, particularly in energy prices and global trade. Greater stability in inflation and interest rates would allow investors to refocus on earnings growth and fundamentals, potentially improving equity performance. It remains to be seen if the current ceasefire holds, though it is clearly a step in that direction.

**Bottom Line & Return Expectations**

Our base case is for modestly positive equity market returns over the next 9–12 months, but very dependent on resolving the war with Iran. We remain constructive on longer-term return prospects, though the path forward has become more volatile and less predictable in the near term.

Our approach continues to emphasize quality, balance, diversification and discipline. Periods of market weakness—such as those experienced in the first quarter create opportunities to add to equities.

At the same time, the sharp repricing in interest rates has improved the attractiveness of fixed income. We continue to recommend gradually redeploying excess cash into intermediate term, high-quality bonds as opportunities arise.

Maintaining balance, focusing on quality, and deploying capital thoughtfully during periods of market stress remain central to our approach. In short, we are prepared.

To close, we are reminded of the importance of preparation over prediction. As Howard Marks, co-founder and co-chairman of Oaktree Capital Management, aptly notes:

*"You can't predict, but you can prepare." – Howard Marks*

We thank you for your continued confidence in Pointe Capital Management.

Should you have any questions, please feel free to contact us.

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