

Capital Markets Review | 1st Quarter 2026

March 31, 2026



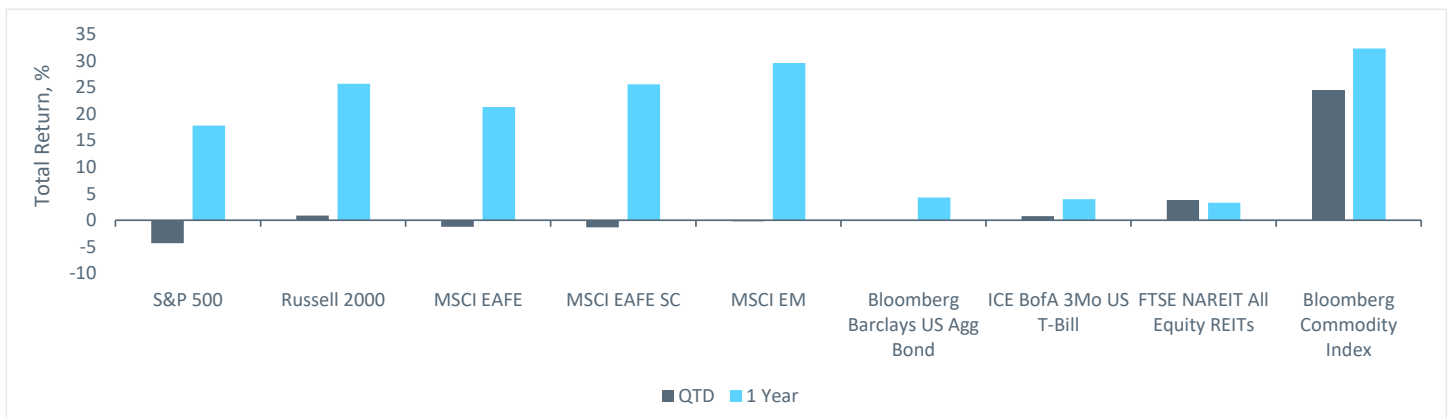
Overview

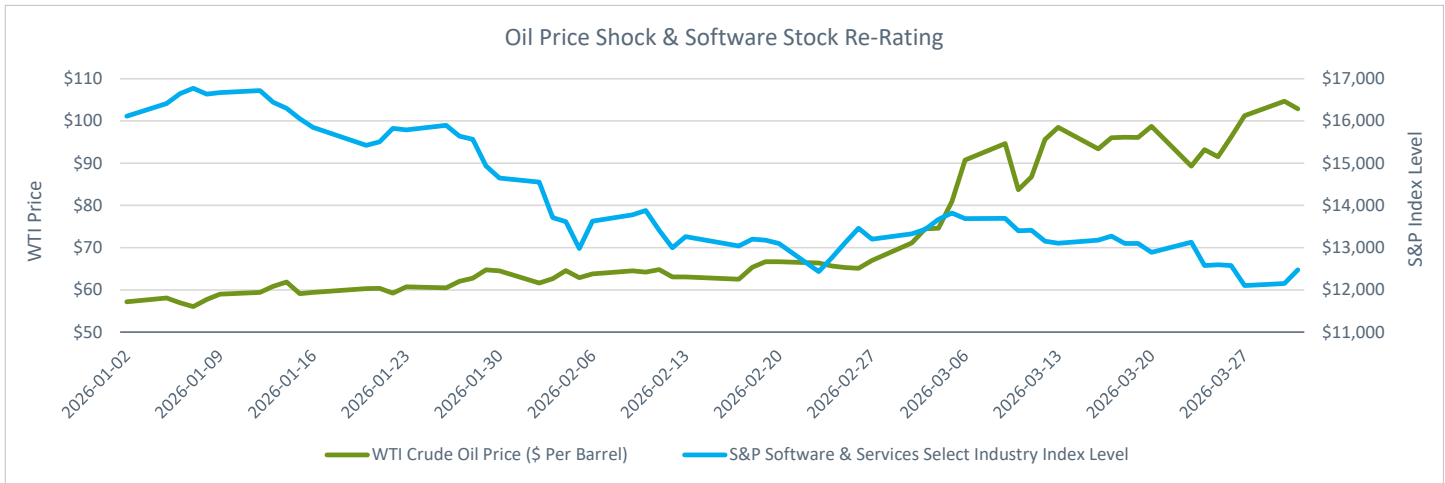
In Q1, price action was driven by the military conflict in the Middle East and an abrupt downward re-rating of valuations for companies viewed as threatened by artificial intelligence (AI). Global equities declined modestly, with significant variation across regions and sectors. US equities underperformed international markets. Market leadership rotated decisively toward energy, materials, utilities, and defense, as the closure of the Strait of Hormuz disrupted approximately 20% of global oil supply from transit, triggering a surge in energy prices. In contrast, information technology, software, and other capital-light growth industries experienced multiple compression as investors began to price AI not as a complementary productivity tool but as a potential disruptor of long-term terminal values. Fixed income markets also produced muted results. Yields rose sharply late in the quarter, reflecting higher inflation risk, with the 10-year Treasury yield climbing above 4.3%. Both investment-grade and high-yield credit posted negative total returns as spreads widened modestly and rate volatility increased.

Entering 2026, there were expectations that US monetary policy would become more accommodative, but this general sentiment shifted during the quarter. The US Federal Reserve (Fed) held the federal funds target range steady at 3.50–3.75% at its January and March meetings, adopting an increasingly cautious tone as inflationary pressures and geopolitical risks intensified. Overall, the Summary of Economic Projections shifted in a more hawkish direction, with most participants projecting zero or one rate cut in 2026. The impending expiration of Chairman Jerome Powell’s term in May adds further uncertainty for the Fed’s medium-term policy framework. Tariff policy continued to remain a source of uncertainty as well. Following a Supreme Court ruling that invalidated the administration’s use of emergency powers to impose broad tariffs, the White House adopted a temporary 10% baseline tariff with a 150-day expiration on most imports using alternative authorities, creating a new policy cliff in the summer.

During the quarter, data pointed to slowing momentum for economic growth. Labor market data was mixed, with the February report indicating a softer market than expected, while benchmark revisions revealed that job growth throughout 2025 was materially weaker than previously estimated. In contrast, the March labor report was more positive with a gain of 178,000 non-farm payroll jobs and a downtick in the *(continued on next page)*

Quarter-to-Date (QTD) and 1 Year Performance



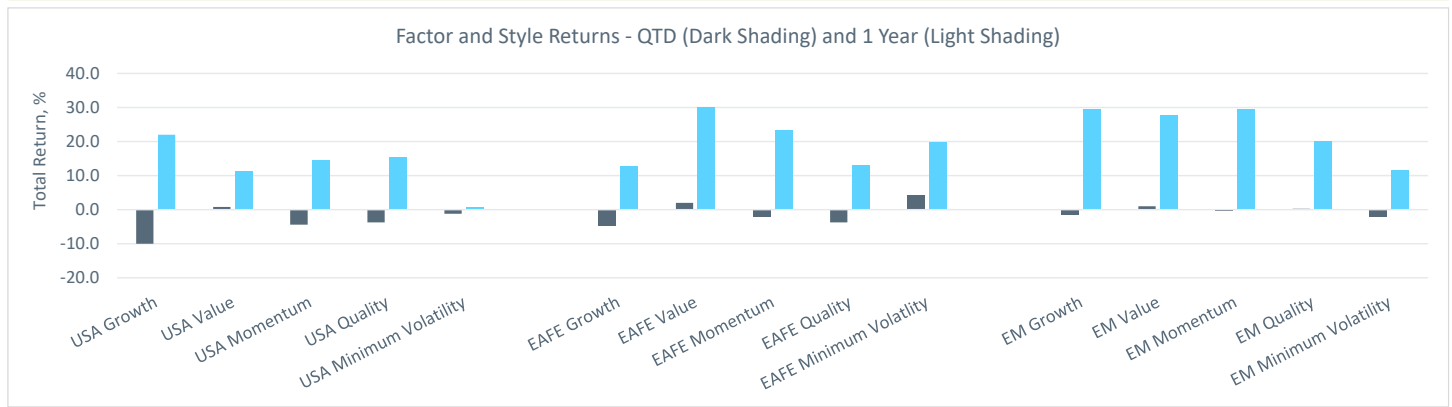


unemployment rate to 4.3%. Inflation data initially showed progress, with CPI running near 2.4% year-over-year early in the quarter, but the spike in oil prices late in February and March reversed the moderating trend. Consumer confidence deteriorated notably with sentiment indices falling to multi-year lows. Real GDP growth entering 2026 was already subdued, with Q4 2025 growth coming in at 0.5% annualized, lower than initially estimated. Collectively, the data reinforced market concerns around a mix of softer growth and more persistent inflation.

Outside the US, the Middle East conflict dominated macro discussions with markets attempting to determine when there might be a broader political settlement that would allow a durable reopening of the Strait of Hormuz. In Europe, the energy shock complicated an otherwise improving growth backdrop. The European Central Bank held its deposit rate at 2.00%, but revised inflation forecasts higher and cut near term growth expectations, explicitly leaving rate hikes on the table if energy-driven inflation persisted. Japan remained an outlier as rate increases continue to be expected from the Bank of Japan to combat inflation and strengthen its currency. China continued to face weak domestic consumer demand and a prolonged property downturn, prompting policymakers to lower the official growth target to 4.5-5.0%.

Expanded Review of Key Economic Indicators

	Q1 2026	Q4 2025	Q3 2025	10-Year Average
Federal Funds Rate	3.64%	3.63%	4.09%	2.26%
Treasury (2-Year)	3.79%	3.48%	3.61%	2.38%
Treasury (10-Year)	4.32%	4.17%	4.15%	2.75%
Treasury (30-Year)	4.91%	4.84%	4.73%	3.17%
Breakeven Inflation (5-Year)	2.54%	2.26%	2.42%	2.06%
Breakeven Inflation (10-Year)	2.30%	2.25%	2.36%	2.07%
Breakeven Inflation (30-Year)	2.19%	2.22%	2.24%	2.08%
BB US Corp: Hi Yld Index - OAS	3.17%	2.66%	2.67%	3.85%
Capacity Utilization	75.70%	75.80%	76.00%	76.60%
Unemployment Rate	4.30%	4.40%	4.40%	4.57%
ISM PMI - Manufacturing	52.70%	47.90%	49.10%	53.02%
ISM PMI - Service	54.00%	54.40%	50.00%	55.60%
Consumer Confidence (Conf. Board)	91.80	94.20	95.60	110.05
CPI YoY (Headline)	3.30%	2.70%	3.00%	3.16%
PPI YoY - Producer Prices	4.02%	3.00%	2.99%	3.21%
US Dollar Total Weighted Index	120.89	119.75	120.14	117.23
WTI Crude Oil per Barrel	\$101	\$57	\$62	\$65
Gold Spot per Ounce	\$4,511	\$4,325	\$3,887	\$1,921



US Equity

The first quarter of 2026 proved challenging to navigate for many equity investors, marked by rotational crosswinds and the outbreak of the Middle East conflict. The US started the year on solid footing, with inflation expectations falling and continued growth in AI-related capital expenditures. Based on 2026 guidance from hyperscalers, capital expenditures related to AI are expected to reach approximately \$700 billion in 2026 versus approximately \$400 billion in 2025. However, the development of AI continued to pressure stock valuations perceived as threatened by technology, particularly in the software industry. Late in February, the onset of the Iran conflict generated immediate supply shocks, leaving managers to navigate both immediate market dislocations and second-order effects.

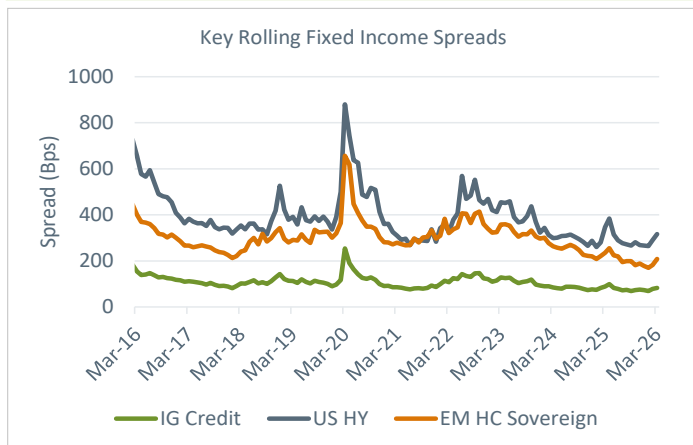
During the quarter, US equities declined, with the Russell 3000 Index returning -4.0%. Value stocks meaningfully outperformed growth stocks, with the Russell 3000 Value Index returning 2.2% versus -9.5% for the Russell 3000 Growth Index, while small-cap stocks outpaced large-cap stocks. Magnificent 7 stocks led the decline, falling roughly -12%, on average, in Q1. Sector dispersion was notable, with the best performing sector, energy, outperforming the worst performing sector, financials, by 48%. Managers with meaningful exposure to energy, materials, utilities, and consumer staples were better positioned to manage the volatility, while the broader market digested the quarter's rapid sequence of macro reversals.

Non-US Equity

Developed international equities significantly outperformed US equities in Q1, with the MSCI World ex USA Index returning -0.8%. Value stocks continued to outperform growth stocks while small-cap stocks outperformed large-cap stocks. Strong gains in the first two months of the quarter helped mitigate the decline experienced in March.

Market dispersion widened during the quarter, both by sector and region. Across developed and emerging markets, energy was the top-performing sector with a 28.7% return, while consumer discretionary was notably negative at -13.2%. Pacific ex-Japan was the top-performing region with 3.0%, while Europe lagged the index with a -2.7% return. Active international developed equity managers outperformed during the quarter, on average, except for large-cap value managers.

Emerging market stocks outperformed developed international stocks in Q1, with the MSCI Emerging Markets Index delivering a -0.1% return. Emerging market value stocks continued to outperform growth stocks, while large-cap stocks outperformed small-cap stocks. Dispersion within the emerging markets region was also wide during the quarter, with Latin America up 14.7%, led by Brazil, while India lagged the index, falling -18.1%. Technology was the top-performing sector, returning 11.4%, while communication services fell -15.3%. The majority of active emerging market managers outperformed in the quarter.



Fixed Income

In Q1, the US Federal Reserve held policy rates steady at 3.50–3.75% amid heightened geopolitical tensions. Treasury yields moved higher, with the 10-year ending at 4.32% (up 15 basis points year-to-date) and the 2-year rising to 3.79% (up 31 basis points), flattening the curve. The US–Israel strikes on Iran intensified inflation concerns with Brent crude rising from \$72 to nearly \$120 per barrel at peak, which pressured near-term market sentiment around risk. Central banks responded cautiously as higher oil prices lifted short-term yields and expectations for cuts to the Federal Funds rate in 2026 declined from two to zero.

Fixed income markets were modestly negative, with the Bloomberg US Aggregate Bond Index returning -0.1%, as March losses offset earlier gains. Both investment-grade and high-yield credit faced pressures from rising rates and wider spreads, with software bonds particularly volatile amid AI-related concerns. Credit spreads widened modestly, with the Bloomberg US Credit Index and the Bloomberg US Corporate High Yield Index each returning -0.5%.

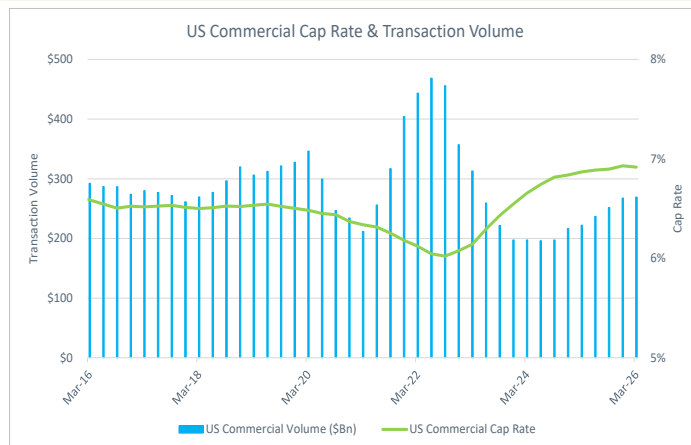
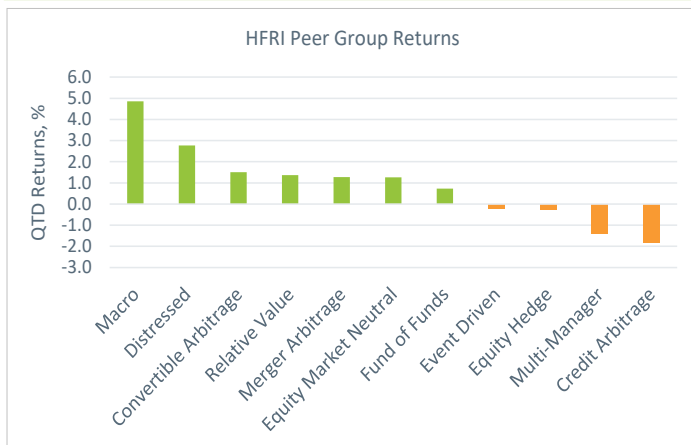
Emerging market debt also declined, driven by inflation uncertainty tied to Middle East tensions. Hard currency bonds fared better than local currency issues, with the JPMorgan EMBI Global Diversified Index falling 1.3%, versus a 2.2% loss for the JPMorgan GBI-EM Global Diversified Index.

Multi-Asset

Global Tactical Asset Allocation (GTAA) strategies that RVK follows closely delivered varied results in Q1. Most outperformed a US centric blend of 60% equity and 40% fixed income (60/40 blend), which finished Q1 with an approximate return of 2.6%. The top performing long-biased GTAA strategies benefitted from higher exposure to international value equities, especially across Asian markets such as Japan and Hong Kong. Allocations to commodities, particularly energy, contributed as well. Managers who lagged peers tended to hold higher exposures to US growth equities and global bonds.

Multi-asset managers who target reduced correlations, low volatility, and limited market sensitivity also posted mixed results while Alternative Risk Premia strategies generally posted positive returns. The best performing managers in this peer group benefited from trend following allocations to long energy positions, as oil and natural gas prices soared in March while exposure to metals contributed positively in January.

Diversified Inflation Strategies (DIS) closely monitored by RVK reported positive performance, with all outperforming a 60/40 blend. Top performing managers benefited from larger allocations to select commodities, particularly energy and natural resource equities. Managers that trailed peers held higher allocations to real asset companies via high yield and investment grade fixed income, which lagged as Treasury rates rose and credit spreads widened.



Diversified Hedge Funds

While broadly positive, returns across underlying hedge fund strategies began 2026 with mixed results with pockets of strategies experiencing more difficulty. Preliminary performance suggests that the HFRI Asset Weighted Composite Index returned 1.1% in Q1. This represented relative protection, on average, from the downturn experienced in the equity markets.

Macro managers were the top performers during the quarter, as crude oil and downstream commodity prices surged with the Iran conflict escalating into a blockade of the Strait of Hormuz. Gold prices moved significantly higher in reaction to geopolitical tensions, acting as a safe haven asset. The HFRI Macro Total Index returned 4.9% in Q1.

Equity-related managers saw mixed results as markets experienced a sector rotation. The information technology sector experienced a selloff over concerns regarding the threat that AI technologies pose to legacy companies. In contrast, the energy sector experienced a surge due to the macro supply shock. The HFRI Equity Hedge Index returned -0.2% in Q1, while the HFRI Equity Market Neutral Index returned 1.3%.

Relative value strategies also saw mixed results, with the HFRI Convertible Arbitrage posting gains of 1.5%, while the HFRI Relative Value Total Index returned 1.4%. Conversely, the HFRI Credit Arbitrage Index was down -1.8%, as managers contended with heavy volatility, which characterized the first quarter.

Real Estate

Core private real estate generated a positive 1.2% total return in Q1 (preliminary and gross of fees), as reported by the NFI-ODCE Index. Performance was driven by a 1.0% income return and positive price appreciation of 0.2%. Income returns continue to drive NFI-ODCE’s recent positive results, as appreciation has fluctuated between slightly positive and slightly negative over the past seven quarters. The one-year income return of 4.1% remains above the three- and five-year trailing income returns. The incremental recovery in private real estate continues following a significant correction that began in Q4 2022. Q1 2026 net returns were 1.04%, marking the first net return above 1.0% since Q2 2022, and gross returns were positive for the seventh consecutive quarter. Publicly traded real estate delivered a total return of 3.8%, as measured by the FTSE NAREIT All Equity REITS Index.

The private real estate market continues on a cautious path as investors balance mostly positive fundamentals with uncertainty around the economy and global geopolitics. Public REITs began the year with optimism around these fundamentals but slid following the military action in Iran along with the general equity market. While some sector- or region-specific headwinds may persist, most of the market has repriced, and transactions continue to increase. For core real estate, income is still expected to be the primary driver of returns for the near future.

Disclaimer

This document was prepared by RVK, Inc. (RVK) and may include information and data from some or all of the following sources: client staff; custodian banks; investment managers; specialty investment consultants; actuaries; plan administrators/record-keepers; index providers, as well as other third-party sources as directed by the client or as we believe necessary or appropriate. In preparation of this document, the author(s) may have used Microsoft CoPilot to conduct any of the following: proofreading and editing, visual layout and design, assistance with data organization, support with modeling, coding and programming, drafting content with appropriate human oversight, and initial review and summarization of drafted materials. RVK has taken reasonable care to ensure the accuracy of the information or data, but makes no warranties and disclaims responsibility for the accuracy or completeness of information or data provided or methodologies employed by any external source. This document is provided for the client's internal use only. It should not be construed as legal or tax advice. It does not constitute a recommendation by RVK or an offer of, or a solicitation for, any particular security and it is not intended to convey any guarantees as to the future performance of the investment products, asset classes, or capital markets. This document should not be construed as investment advice: it does not reflect all potential risks with regard to the client's investments and should not be used to make investment decisions without additional considerations or discussions about the risks and limitations involved. Any decision, investment or otherwise, made on the basis of this document is the sole responsibility of the client or intended recipient.



RVK was founded in 1985 to focus exclusively on investment consulting and today employs over 100 professionals. The firm is headquartered in Portland, Oregon, with regional offices in Boise, Chicago, and New York City. RVK is one of the five largest consulting firms in the world, as reported by Pensions & Investments' 2025 Special Report—Consultants. RVK's diversified client base covers more than 30 states and includes endowments, foundations, corporate and public defined benefit/defined contribution plans, Taft-Hartley plans, and high-net-worth individuals/families. The firm is independent, employee-owned, and derives 100% of its revenues from investment consulting services.
