

Market Recap

A Volatile Start to 2026 Sets the Stage for a Pivotal Year

The first quarter of 2026 arrived with a new set of headlines, setting the tone for what could be a consequential year ahead. Coming off three years of strong equity performance, geopolitical tensions in Iran emerged as the primary driver of market unrest, pushing energy prices higher and casting a wider shadow of uncertainty over the economy. Additionally, the future path of interest rates was suddenly far less certain, leaving investors with more questions than answers heading into the rest of the year.

U.S. equities finished the quarter in the red, although slightly up from their intra-quarter lows. The S&P 500 declined 4.63%, the Dow Jones Industrial Average fell 3.58%, and the NASDAQ Composite dropped 7.11%. With the rise in oil prices, the energy sector was the big outlier, up approximately 37% for the quarter.

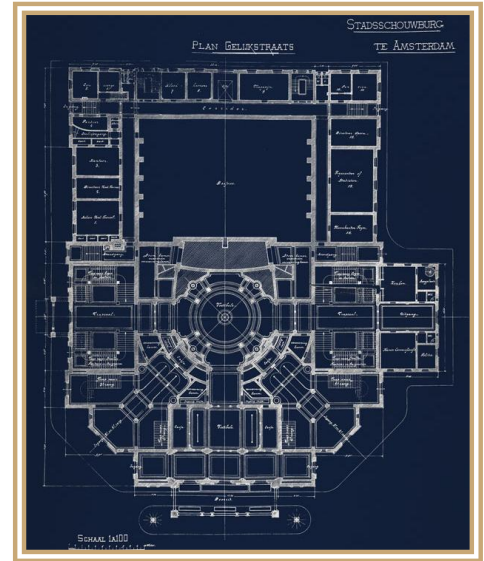
Looking beyond the headline numbers, how the Iran conflict progresses and its impact on oil prices will be a key near-term determinant for markets. The big question is how this will impact inflation readings and, ultimately, impact the new Fed Chair's interest rate decisions. On the earnings front, we're now entering earnings season for Q1, and we believe it will be a big one, especially for the tech sector. S&P 500 earnings are expected to grow approximately 13% year-over-year, marking the sixth consecutive quarter of double-digit growth. Additionally, revenue growth is projected near 9 to 10%, reflecting continued demand resilience. Growth has remained concentrated in technology and AI-driven sectors, though broader participation is gradually improving. With valuations already under pressure, the earnings will be critical in making the case for future price appreciation amid a more uncertain macro backdrop.

Economic Backdrop: Slowing but Resilient

The U.S. economy remained in expansion territory during the quarter, though signs of moderation became more evident. The economy continues to expand at a moderate pace, following approximately 2.2% GDP growth in 2025, with similar expectations for 2026.

Unemployment remains relatively low near 4.5%, though hiring trends are slowing, and the February jobs report did surprise positively, which helped market sentiment. Recent data points to a deceleration in activity, though not contraction.

Beyond the headline growth figures, however, risks increased. Inflation pressures re-accelerated, driven largely by higher energy prices, and consumer sentiment softened, reflecting both market volatility and cost pressures. Stagflation concerns also re-emerged as growth slowed while prices increased.

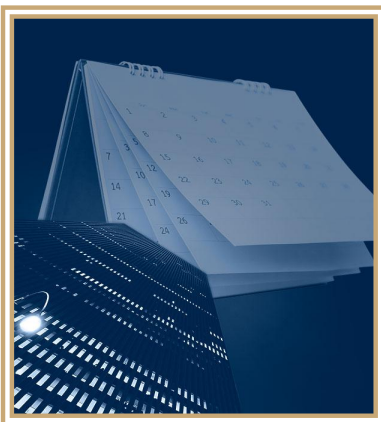


Source: Unsplash.com

Interest Rates & Policy: "Higher-for-Longer" Repriced

Adding to the economic uncertainty, markets entered 2026 anticipating a shift toward monetary easing. However, Q1 developments altered that outlook. For instance, persistent inflation reduced confidence in near-term rate cuts, Treasury yields remained elevated with the 10-year yield in the mid-4% range, and the Federal Reserve maintained a cautious stance, reinforcing a "higher-for-longer" policy environment. This repricing of interest rate expectations was a key headwind for equities, particularly long-duration growth assets.

Key Themes from the Quarter



Taken together, several themes defined the quarter. After a strong multi-year rally, we believe markets are now more focused on valuation and future earnings. Technology and mega-cap stocks lagged while energy and select value-oriented sectors outperformed, as leadership rotation continued. Corporate earnings remain strong, but valuation multiples adjusted downward as interest rates stayed elevated. And after the low-volatility regime of 2024 and 2025, volatility has returned, giving way to a more normalized, two-sided market environment.

Outlook: A Wider Range of Outcomes

With those themes in mind, the road ahead presents a wider range of outcomes than investors have faced in some time, and the outlook remains fluid and highly dependent on how several key factors evolve. On the positive side, earnings growth is expected to continue, the labor market remains resilient, and the economy continues to potentially expand. On the risk side, persistent inflation is limiting Fed flexibility, geopolitical instability is impacting energy and global growth, and consumer demand is showing signs of slowing.

Importantly, while Q1 performance was negative, pullbacks of this magnitude are historically common within longer-term bull markets and often reset valuations more attractively for forward returns. In this environment, we believe investors should remain disciplined and focused on long-term objectives. That means maintaining diversification across sectors and asset classes while emphasizing quality through strong balance sheets and durable cash flows. It also means leaning into volatility opportunistically rather than reacting emotionally, and balancing growth and value exposure as leadership broadens.

If the first quarter of 2026 taught us anything, it's that markets are dynamic, and that the factors shaping them extend well beyond corporate fundamentals. Volatility is uncomfortable by nature, but it is also a normal and healthy part of long-term investing. For disciplined investors, periods of dislocation have historically been less a reason to retreat and more an opportunity to lean in and position portfolios for the growth that lies ahead.

Disclosures:

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value.

The Nasdaq 100 Index is an unmanaged group of the 100 biggest companies listed on the NASDAQ composite index. The list is updated quarterly and companies on this index are typically representative of technology-related industries, such as computer hardware and software products, telecommunications, biotechnology and retail/wholesale trade.

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