

fairlight

**Q1**

**2026**

# Market & Economic Snapshot – 2026

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## MARKET & ECONOMIC SNAPSHOT

### WHAT HAPPENED

### WHY IT MATTERS

#### U.S. STOCK MARKET

The U.S. stock market declined 4.05%.

Q1 market losses, led by major tech and communication stocks, overshadowed gains in energy, industrials, and consumer staples – sectors less impacted by recessions.

#### INTERNATIONAL STOCK PERFORMANCE

Developed Stock Markets Ex-US rose 2.75% in Q1, while Emerging Markets ended up 0.54%.

Despite the conflict in the Middle East, Developed and Emerging Markets were attractive to investors looking to diversify away from the US.

However Europe and Japan have been more affected by oil shocks than the US and will likely experience energy-driven inflation in the coming months.

#### INTEREST RATES

The Federal Reserve held its benchmark interest rate in a range of 3.50% to 3.75%, after implementing three cuts last year.

The Fed explicitly stated that uncertainty over Middle East developments limited its ability to cut rates further.























The transition to a new Fed chair in 2026 is expected to add to market volatility.

#### BOND MARKET

The US bond market was down slightly in the quarter in volatile trading. Yields on the 10-year Treasury note ended the quarter at 4.33%, up from 4.17% at the end of December. Bond prices increase as bond yields decrease.

As inflation expectations rise, the Fed must weigh the risks of tightening too fast to slow inflation against easing to support economic growth.

# ASSET CLASS PERFORMANCE

|                                 | ASSET CLASS   |        | PERFORMANCE   |           |
|---------------------------------|---|--------|---|-----------|
|                                 |   |        | Q1 2026   | 12 MONTHS |
| <b>EQUITIES</b>                 |   |        |   |           |
| U.S. STOCK MARKET               |    | -4.05% |    | 17.96%    |
| DEVELOPED STOCK MARKETS EX-U.S. |    | 2.75%  |    | 30.06%    |
| EMERGING STOCK MARKETS          |    | 0.54%  |    | 22.75%    |
| <b>SECTORS</b>                  |   |        |   |           |
| OIL & GAS                       |    | 44.59% |    | 41.36%    |
| HEALTHCARE                      |    | -4.90% |    | 2.20%     |
| TECHNOLOGY                      |   | -7.57% |   | 29.46%    |
| REAL ESTATE                     |  | 1.87%  |  | 0.96%     |
| <b>FIXED INCOME</b>             |   |        |   |           |
| U.S. CORE BONDS                 |  | 0.02%  |  | 4.36%     |
| U.S. TREASURIES                 |  | 0.08%  |  | 3.24%     |
| U.S. HIGH YIELD                 |  | -0.35% |  | 6.89%     |
| GLOBAL BONDS                    |  | -0.13% |  | 2.81%     |

Investors shift away from US and look abroad.



Energy prices skyrocket due to oil shortages



Tech stocks, long the market leader, declined.



## STOCK MARKET SNAPSHOT

### UNITED STATES

While the overall market posted losses, driven primarily by large technology and communication stocks, it masked gains in energy, industrials and consumer staples, which are less sensitive to recessions.

Uncertainty around the Iran war and AI created opportunities for these previously neglected sectors.



### OUTSIDE THE US

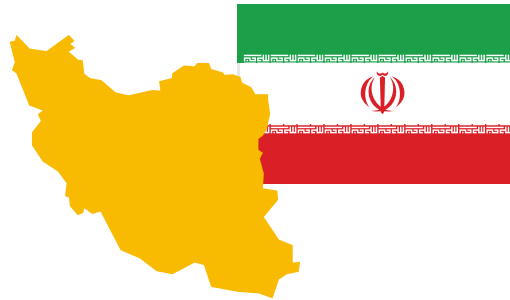
Despite the conflict in the Middle East, Developed and Emerging Market stocks were attractive to investors looking to diversify away from the mega-tech-heavy US market. Asian markets offered more cost-effective opportunities to gain access to the AI trade. Latin America is emerging as a beneficiary of commodities needed to build out AI data centers and power grids.

This is not to say the picture looks rosy abroad. Energy importers, such as Europe and Japan, have suffered more from the oil shocks than the US and will continue to face energy-driven inflation in the coming months.

## BOND MARKET SNAPSHOT

The probability of a rate cut decreased significantly as the Iran war fueled inflation and investors anticipated a possible rate hike. This sent yields higher and bond prices higher with the US Treasury 10-year note at 4.3% up from 4.2% in January. While rates increased for all maturities, long-term bonds were the worst performers in Q1 amid uncertainty surrounding the Iran war and AI advancements.

Oil-driven inflation is more problematic outside the U.S., which may force central banks to keep rates higher for longer. This may pressure US companies with operations abroad as borrowing costs go up. However, demand for higher-yielding international bonds will push prices up, and yields will not rise so fast. When bond prices increase, bond yields decrease.



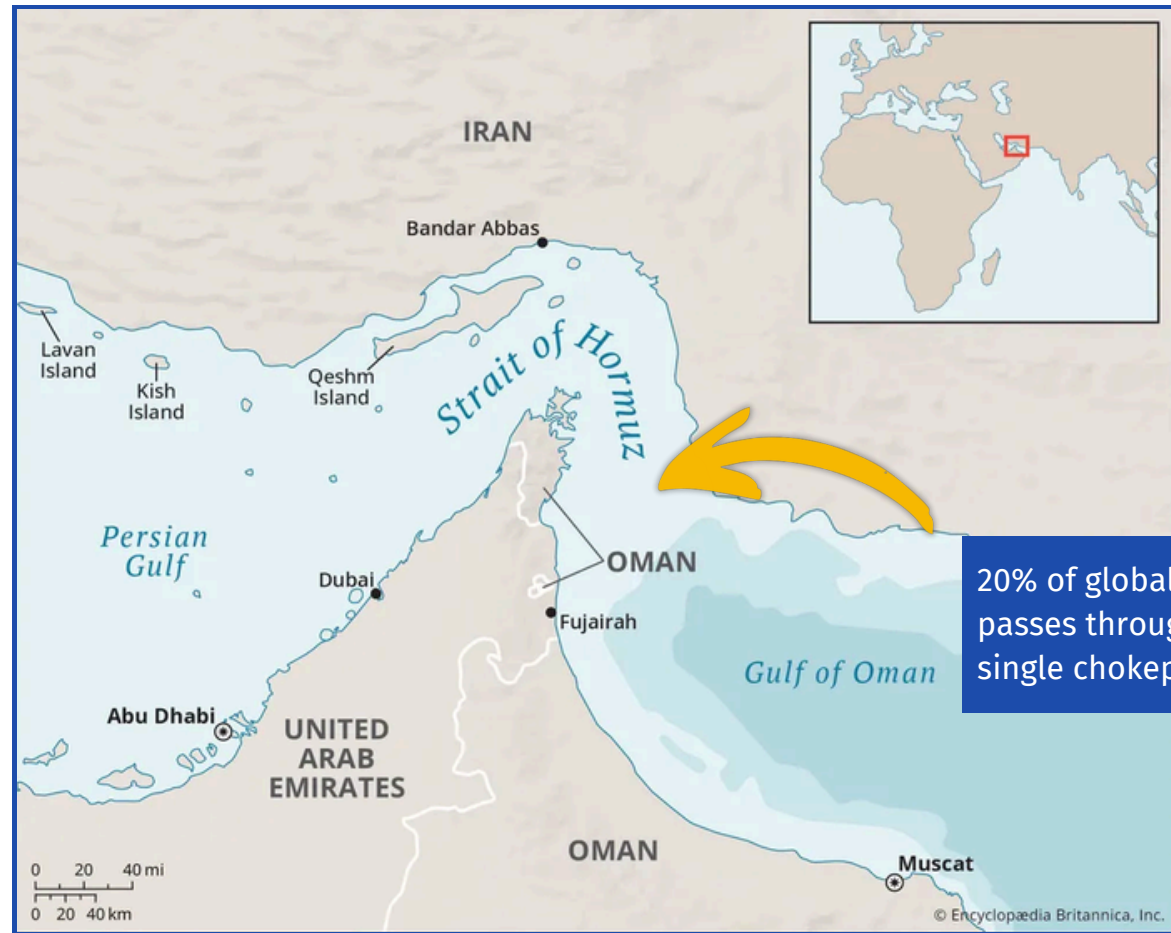
### How Oil and Gas Price Shocks Affect Everyday Investors

Global oil prices have jumped 71% this quarter as Iran has effectively closed the Strait of Hormuz, a narrow passage that handles about 20% of the world's oil and liquefied natural gas (LNG).

## HOW OIL AND GAS PRICE SHOCKS AFFECT EVERYDAY INVESTORS

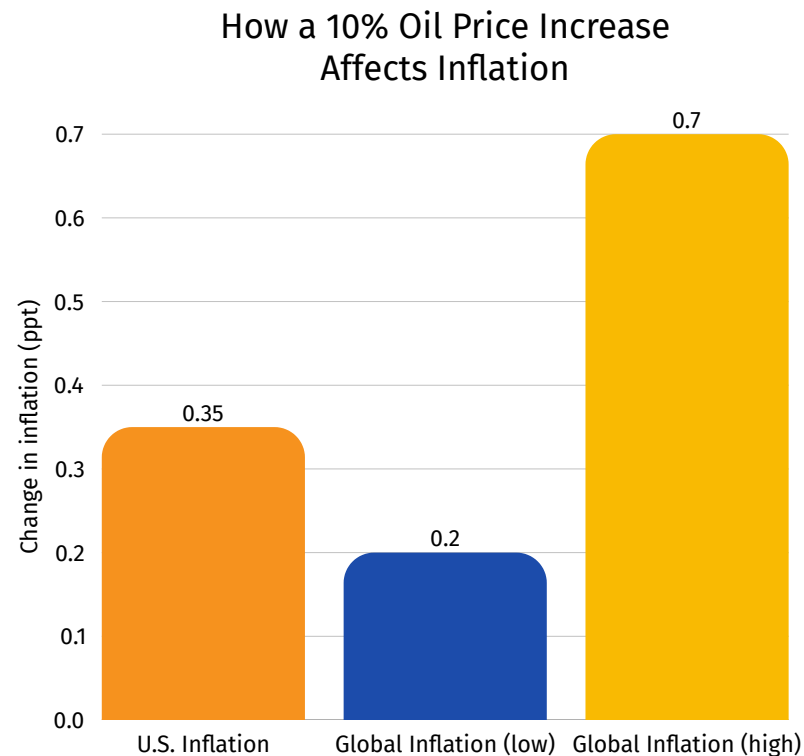
For everyday investors, this matters because energy is intertwined with nearly every part of the economy — from transportation to manufacturing to household budgets.

It's helpful to understand how rising energy prices ripple through the economy — and what that means for long-term investors and nonprofit leaders managing portfolios.



## INFLATION AND HOUSEHOLD COSTS

Besides higher gas prices at the pump, higher oil prices tend to increase the cost of goods that rely on transportation. Some research has shown that a 10% jump in oil prices may lift US inflation by around 0.35% within three months. Global inflation could rise between 0.2 and 0.7 percentage points, depending on the severity of the disruption, according to Wall Street analysts.



For investors and nonprofit finance committees, this means budgets may feel tighter: fuel, shipping, and energy-intensive services can all become more expensive.

## BUSINESS COSTS AND PROFIT MARGINS

Industries that use a lot of energy — such as airlines, shipping, and manufacturing — are especially affected. Airlines, for example, spend 20–30% of operating costs on jet fuel, which is why airline stocks fell quickly as oil surged. When businesses face higher costs, it can reduce profitability and, in turn, affect investment returns.

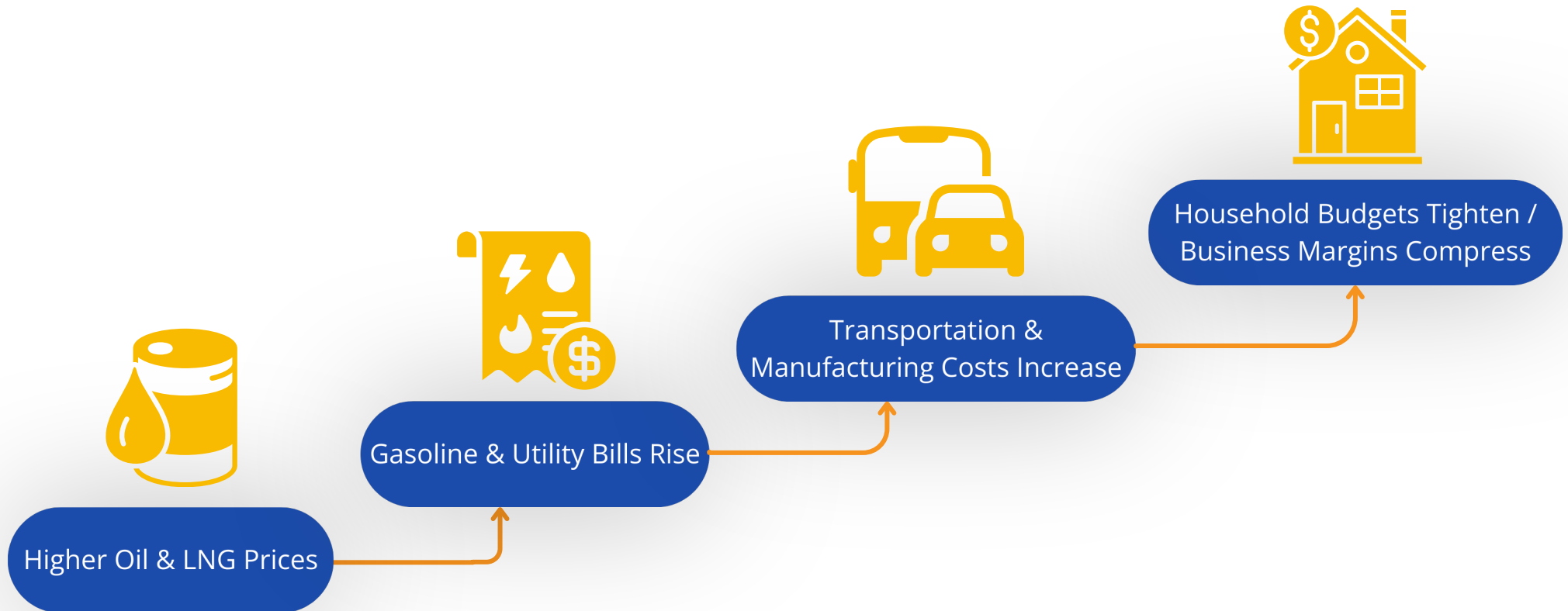
### **LNG as an Amplifying Factor**

The conflict has also disrupted LNG markets, which play a critical role in the energy supply of Europe and Asia. This matters because higher LNG costs can raise utility bills and industrial production expenses globally.

### **Stock Market Effects**

When energy prices rise, consumer spending often slows, and business profits get squeezed. MSCI's Research shows that when oil becomes the driver of inflation, both stocks and bonds can experience stress. But it's important to remember that these effects are often temporary, and markets have historically stabilized once supply concerns ease.

## STOCK MARKET EFFECTS



Energy companies tend to benefit from higher fuel prices, while transportation, manufacturing and consumer goods may face challenges.

### WINNERS AND LOSERS FROM HIGHER ENERGY PRICES



Since US stock markets are currently quite tech-heavy, we'll note that tech companies are usually less directly affected by rising oil prices, but they are not immune. However, as higher oil prices push inflation higher over time, central banks may keep interest rates elevated for longer. Higher rates compress valuations, especially for growth-oriented tech stocks whose earnings are expected far in the future.

# How Rising Oil Prices Affect Technology Companies



These crosscurrents often cancel each other out to some degree, which is exactly the point of maintaining diversified portfolios.

## What About Bond Markets?

Higher inflation expectations push bond yields up, lowering bond prices. For long-term investors, this doesn't mean bonds should be avoided. Instead, it reinforces the importance of matching bond choices to time horizons and spending needs.

## WHAT ABOUT BOND MARKETS?

### Stocks and Bond Prices During Major Oil Supply Shocks



### Why This Matters to Everyday Investors and Nonprofit Leaders

Periods of geopolitical conflict can feel unsettling, but they're not new — and historically, markets have absorbed them, depending on how long the energy shock lasts. For long-term investors, staying disciplined through short-term volatility is often more valuable than reacting to it. Maintaining a balanced, diversified strategy can help portfolios weather energy-driven shocks without being derailed by temporary headlines.

# GLOSSARY

## **Asset Classes**

A grouping of investments that exhibit similar characteristics, are subject to the same laws and regulations and often behave similarly to one another in the marketplace.

## **Bond Issuers**

Governments, banks, corporations, municipalities, or special-purpose vehicles that borrow money from bond investors with the promise of paying periodic interest and repayment of the principal amount upon maturity of the bonds.

## **Equity Sectors**

Grouping companies based on their primary business activities or industry. According to the Global Industry Classification Standard, there are 11 stock market sectors: Financials, Utilities, Consumer Discretionary, Consumer Staples, Energy, Healthcare, and Industrials.

## **Federal Funds Rate**

The target interest rate range, set by the Federal Open Market Committee (FOMC), at which commercial banks borrow and lend their excess reserves to each other overnight. The FOMC, which is the policymaking body of the Federal Reserve System, meets eight times a year to set the target federal funds rate, which is part of its monetary policy.



## **Gross Domestic Product (GDP)**

A monetary measure of the market value of all the final goods and services produced in a specific time horizon by a country or countries. GDP is a key indicator of the size and health of a country's economy.

## **Market Crash**

A price drop of 20% or more from the last peak.

## **Market Rally**

A broad increase in market prices after a market crash or persistently down market.

## **Recession**

A significant, widespread, and prolonged downturn in economic activity commonly classified as two consecutive quarters of negative gross domestic product (GDP).

## **Inflation**

- *Headline Inflation*

The general increase in prices that includes all goods and services in an economy. It considers the price changes across various U.S. sectors, including food, energy, housing, transportation, and other consumer goods. Headline inflation is reported through the Consumer Price Index or CPI.

- *Core Inflation*

The general rise in prices excluding certain volatile components, such as food and energy prices. The purpose is to focus on the underlying inflation trend by removing the short-term fluctuations.

Core inflation provides a more stable and long-term measure of inflation, reflecting the general price changes in non-volatile sectors of the economy.

- *Disinflation*

A decrease in the rate of inflation, meaning the prices of goods and services rise more slowly.

- *Deflation*

A general decrease in prices.

- *Stagflation*

An economic condition where slow growth, high unemployment, and persistent inflation occur at the same time. This rare combination poses major challenges, as typical policies to address inflation or unemployment can worsen the other problem.

## **Volatility**

The rapid and significant fluctuations in the prices of assets, such as stocks, bonds, or commodities, within a short period. These price changes can be caused by various factors, including economic events, geopolitical developments, investor sentiment, and market conditions.

## **Yield Curve**

Graphical representation that plots bond time-to-maturity against yield.

- *Normal Curve*: An upward-sloping curve in which bond yields of the same credit quality increase as time-to-maturity increases. A normal yield curve is most commonly associated with positive economic growth.

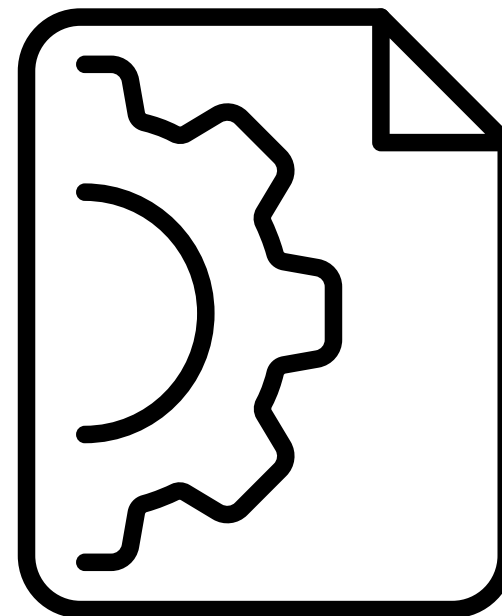
- Flat Curve: A horizontal line in which there is little difference between short-term and long-term rates for bonds of the same credit quality. A flat yield curve is typically an indication that investors and traders are worried about the macroeconomic outlook.
- Inverted Curve: A downward-sloping curve in which bond yields of the same credit quality decrease as time-to-maturity increases. An inverted yield curve reflects bond investors' expectations for a decline in longer-term interest rates, typically associated with recessions.

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## **BENCHMARK REFERENCES**

Koyfin data sources: XOP: SPDR S&P Oil & Gas ETF, XLRE: Real Estate SPDR ETF, VEA: Vanguard FTSE Developed Markets ETF, AGG: iShares Core U.S. Bond ETF, GOVT: iShares U.S. Treasury ETF, HYG: iShares High Yield Bond ETF, VWO: Vanguard FTSE Emerging Markets ETF, BNDX: Vanguard Total International Bond ETF, SCHB: Schwab U.S. Broad ETF, XLV: Health Care SPDR ETF, XLK: Tech Sector SPDR ETF, VOX: Vanguard Communications Services ETF.



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