



Capital Markets Review & Outlook For the Quarter Ending March 31, 2026

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STRATEGIC ASSET ALLIANCE
THE INSURANCE INVESTMENT SPECIALIST



REVIEW



REVIEW - Summary Capital Market Commentary – March 2026

❖ **Growth Decelerated, Again**

Q4 GDP revised to 0.7%, February payrolls printed -92,000, and the Atlanta Fed's model GDPNow Q1 estimate deteriorated to 1.7% — three consecutive quarters of deceleration with every revision downward and consumer confidence stuck below the recession-warning threshold all quarter.

❖ **The Fed Is In a Tough Spot**

The Fed held at 3.50–3.75% with seven of 19 members now expecting no cuts in 2026, core PCE rising to 2.7% in the SEP, and the Warsh nomination adding leadership uncertainty — the market has effectively priced out easing for the year.

❖ **Three Deadlines and a War**

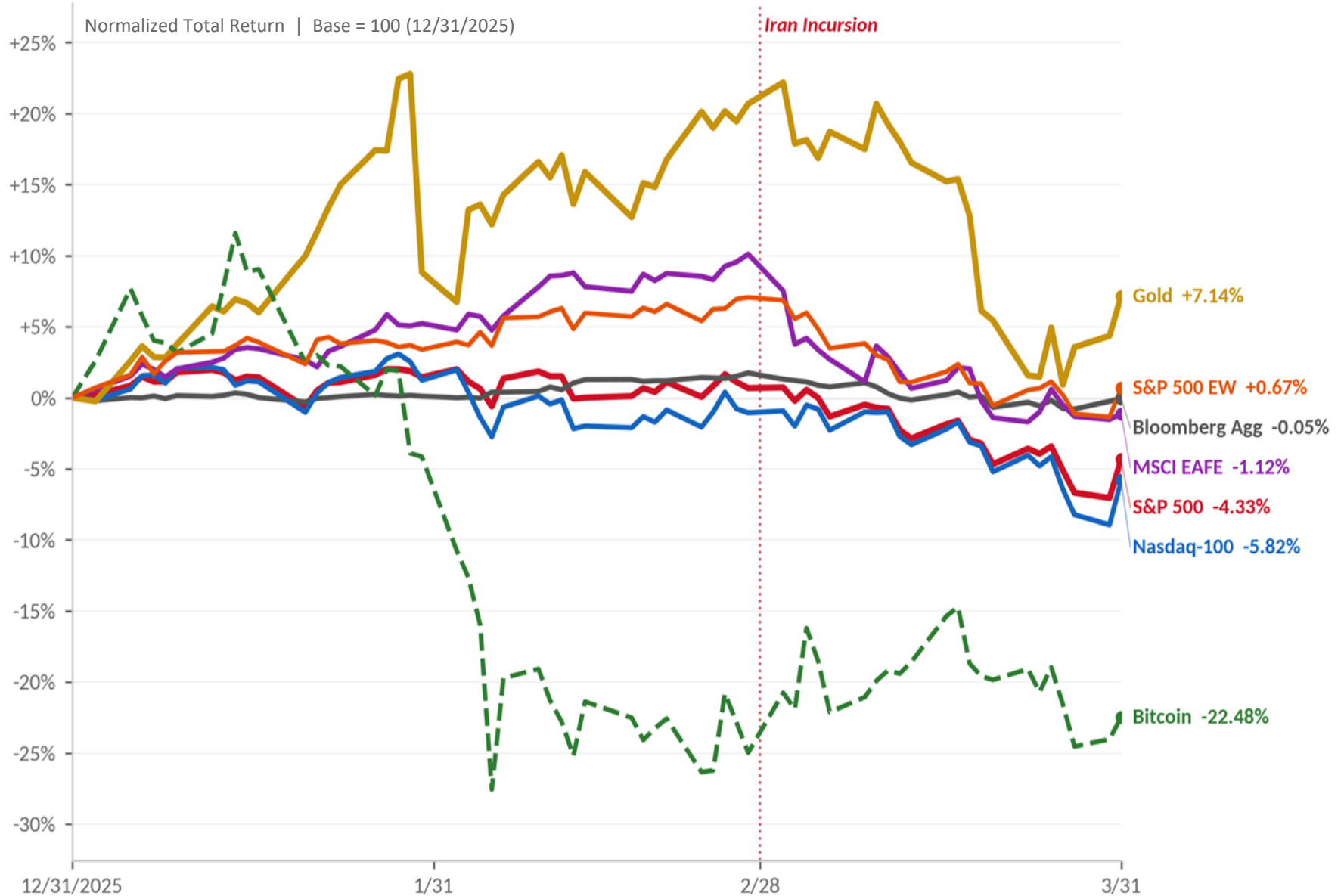
The U.S. Supreme Court invalidated International Emergency Economic Powers Act (IEEPA) tariffs, Section 122 at 15% expires July 24 without a legislative vehicle, and the U.S.-Israeli war with Iran closed Hormuz and damaged Gulf infrastructure — three trade deadlines and a war converge in a single summer quarter.

❖ **What Asset Classes Got Paid and What Didn't**

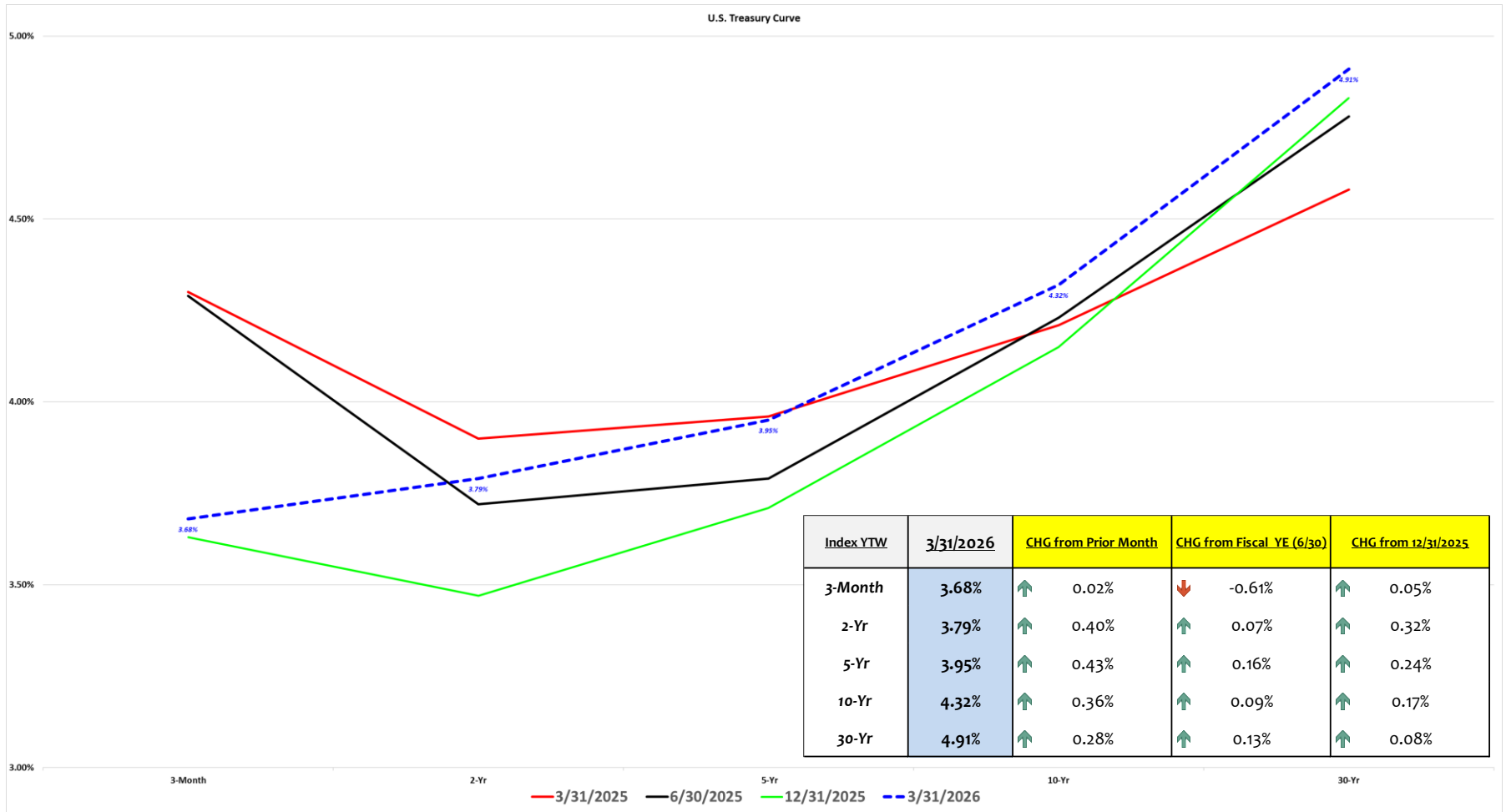
The S&P 500 fell -4.33% YTD, but the equal-weight index finished positive (+0.67%) — the decline was concentrated in mega-cap tech and financials, not broad-based. Small caps (+3.51%) led large caps by nearly 8 percentage points, the widest single-quarter gap in this cycle. Energy (+38.25%) and defensives outperformed by double digits. Internationally, January and February's outperformance was erased in March as the war hit regions closest to the conflict (developed -10.19%, EM -13.04%). Bonds were a round trip — February's safe-haven rally fully unwound by March's oil-driven selloff, leaving the Aggregate at -0.05%. Brent surged from mid-\$60s to a \$126 peak, the largest monthly gain on record. Gold finished Q1 up +7.14% YTD despite a -11.23% March reversal as margin calls forced \$11B in ETF liquidation.



REVIEW – Performance of Key Asset Classes – March 2026



REVIEW - UST Yield Curve & Expectations



Key Takeaways:

- ❖ March reversed February's rally as oil-driven inflation fear overpowered weak growth data — the 10-year rose 36bps to 4.32% despite Q4 GDP revising to 0.7% and February payrolls printing -92,000.
- ❖ The 2-year at 3.79% now sits above the fed funds midpoint, meaning the market has effectively priced out rate cuts for 2026.
- ❖ The belly (2–7 year) absorbed the worst of the selloff but now yields 3.79%–4.15%, creating better entry points for portfolios willing to accept that duration risk is real while Hormuz remains closed.



OUTLOOK



OUTLOOK – The Stagflation Signal...Confirmed?

Five numbers that were warnings last quarter are now operating conditions.

0.7%

Q4 GDP (2nd Est.) — Q1 tracking at 1.7%

Third estimate due April 9. Could revise lower.

BEA cut Q4 in half on March 13. Shutdown subtracted ~1 pp; underlying growth ~1.7%. GDPNow Q1 has deteriorated from 3.1% in late February to 1.7% as of April 2 — a third consecutive quarter of deceleration (4.4% → 0.7% → sub-2%). Consumer spending contribution cut nearly in half during Q1; inventories now the largest GDP contributor.

+0.7%

Headline PPI (Feb) — Core +0.5% vs. 0.3% exp.

Third consecutive month of acceleration.

Dec +0.4%, Jan +0.5%, Feb +0.7%. PPI YoY at 3.4% — the highest since February 2025. Final demand goods +1.1%; energy goods +2.3%. All of this predates the oil shock. March PPI (due April 14) will be the first read that captures \$100+ Brent. The pipeline pressure is building before the biggest input cost shock has even entered the data.

2.4%

CPI (Feb) / Core PCE 3.1%

CPI looks moderate. PCE doesn't.

Core CPI held at 2.5%. But core PCE — the gauge the Fed targets — jumped to 3.1%. Shelter is slowing; food (+3.1% YoY) and medical care are not. March CPI releases April 10 — the first print to capture the oil shock's impact on gasoline, transport, and goods. February data looked manageable; March will not.

\$103–\$118

Brent Crude (range, late March / early April)

Largest monthly gain on record. War entering fifth week.

Peaked at \$126/bbl mid-March; traded \$100–\$118 through month-end. Surpassed the 1990 Gulf War as the largest single-month oil price surge on record. Hormuz remains effectively closed (~95% traffic reduction). Trump threatened strikes on Iran's power plants with an April 6 deadline. No ceasefire agreement in place. Iran demanding sovereignty over the strait and imposing tolls on the limited traffic transiting. U.S. gas crossed \$4.02/gallon nationally; California above \$5.

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Days Until Tariff Cliff

SCOTUS killed IEEPA. Section 122 at 15% expires July 24.

USMCA renewal deadline July 2026. ~\$175B+ in IEEPA refunds unresolved. No legislative vehicle in Congress to extend or replace. The effective tariff rate of 10.5% — highest since 1943 — either gets Congressional authorization or it disappears. China truce runs through November. EU framework deal paused. Three major trade deadlines converge in a single summer quarter while Congress is focused on the war and the "One Big Beautiful Bill."

Key Takeaway:

- ❖ GDP has decelerated for three consecutive quarters (4.4% → 0.7% → 1.7%) with consumer spending contribution cut nearly in half and inventories now doing the heavy lifting — growth is less durable than the headline suggests.
- ❖ None of the inflation data released so far captures the oil shock that began in late February — March CPI (April 10) and March PPI (April 14) will be the first prints to reflect \$100+ Brent, and the pipeline is already accelerating (+0.4%, +0.5%, +0.7%).

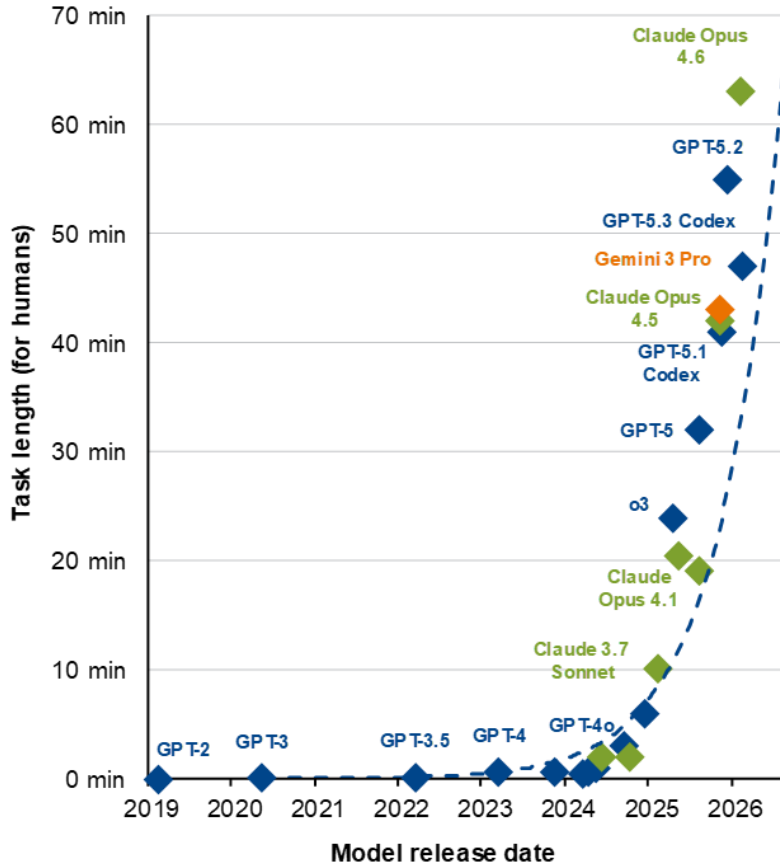
Upcoming data: April 3 — March payrolls (markets closed). April 9 — Q4 GDP third estimate. April 10 — March CPI. April 14 — March PPI. Late April — FOMC meeting. May — Warsh transition.



OUTLOOK – Artificial Intelligence: Capabilities and Adoption

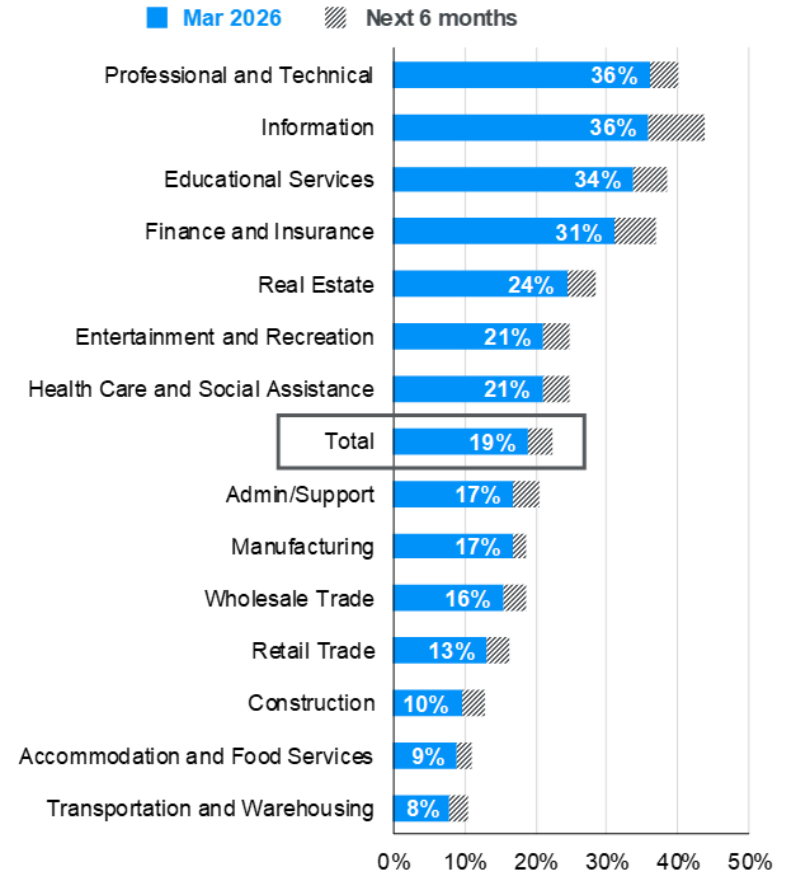
Length of tasks AI agents can autonomously complete

Time to complete tasks at 80% success, by model*



Businesses using AI in any business function

% of all firms reporting use of AI applications



Key Takeaways:

- ❖ AI task capability has doubled every 7 months for six years, but only 19% of firms use it in any business function — the gap between what the technology can do and what the economy has deployed is both the largest productivity opportunity and the largest displacement risk on the table.
- ❖ The sectors with the highest AI adoption (professional services 36%, finance 31%) are the same ones where the software bear market (-23.41% YTD) and job losses are already showing up — the market is pricing displacement before the productivity gains arrive.

Source: J.P. Morgan Asset Management; (Left) METR, "Measuring AI Ability to complete long tasks"; (Right) Census Business Trends and Outlook Survey. The length of tasks (measured by how long they take skilled human professionals) that generalist frontier model agents can complete autonomously with 80% reliability has been doubling approximately every 7 months for the last 6 years. *METR looks exclusively at multi-step software engineer, cybersecurity, general reasoning and machine learning tasks that require low or no prior context and are self-contained units of work. Guide to the Markets – U.S. Data are as of March 31, 2026.

OUTLOOK – Iran/Strait of Hormuz

Implications for Q2, Q3 & Q4 2026

What Markets Price

HY OAS: 328

Pricing Scenario A — contained, transitory. 73bps below 10-year average of 401.

S&P 500: -4.33%

Correction, not bear market. Equal-weight positive (+0.67%). Market sees a dip to buy.

10-Yr: 4.32%

Orderly adjustment. Back end repriced inflation; front end still anchored by Fed hold.

Fed: One cut max

Soft-ish landing. Inflation fades, one cut by December, Warsh transition is orderly.

Oil: Retreats

Hormuz reopens under Scenario A. Brent normalizes to \$80–\$90. Supply shock proves transitory.

What the Data Shows

GDP: 4.4% → 0.7% → 1.7%

Three consecutive quarters of deceleration. Every revision has been downward. Inventories now the largest contributor.

Payrolls: -92,000 (Feb)

First negative print in months. BLS wiped 898K jobs from 2025. Jan +126K was a head-fake, not recovery.

PPI: +0.4%, +0.5%, +0.7%

Three months of acceleration — all before the oil shock entered the data. Pipeline pressure building.

Core PCE: 3.1%

The gauge the Fed actually targets. Headline CPI at 2.4% masks the real story. March data will be worse.

Conf. Board Expectations: <80

Below the recession-warning threshold for the entire quarter. Consumer spending contribution cut in half.

The Calendar That Closes the Gap — Key Inflection Points

Q2 2026

The Confirmation Quarter

Apr 3: March payrolls | Apr 9: Q4 GDP (3rd est.) | Apr 10: March CPI | Apr 14: March PPI | Late Apr: FOMC | May: Warsh transition

Every major print is a binary event. March CPI (Apr 10) is the first oil-shock data point. This quarter either confirms stagflation or the shock proves transitory.

Q3 2026

The Policy Cliff Quarter

Jul 24: Section 122 tariff expires | Jul: USMCA deadline | Late Jul: Q2 GDP advance | Jun 1: Hurricane season opens

If Congress doesn't act, the 10.5% effective tariff rate either drops to near-zero or gets replaced. The range of policy outcomes is wider than at any point since 2025.

Q4 2026

The Verdict Quarter

Nov: China truce expires | Q3 GDP | Warsh's first full quarter as Fed Chair | Nov: Midterm positioning begins

By Q4, we'll know if the economy absorbed the oil shock or it became structural. If Hormuz is still disrupted and oil above \$90 — the 'transitory' thesis is dead.

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