GRIFFIN ASSET MANAGEMENT

Q1 Market Review
The Fog of War

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U.S. equity markets underperformed in the first quarter of 2026 as geopolitical risks weighed heavily on investor sentiment. The S&P 500 decreased -4.3% as broader weakness extended across all major indices. After starting January with modest gains, the Nasdaq composite reversed course as macroeconomic concerns intensified, finishing the quarter, -7.1%. The Dow Jones Industrial Average only declined -3.6% - making it the best performing major U.S. index of the quarter – reflecting its heavier weighting towards more defensive sectors. Several negative forces were working against the equity markets which ultimately drove the quarterly losses. Persistent inflation concerns led investors to reassess expectations for interest rate cuts, which kept borrowing costs elevated and put pressure on equities, especially growth stocks. Geopolitical tensions in energy-sensitive regions contributed to rising oil prices and increased market uncertainty while elevated valuation concerns – after strong gains in 2025 – led to a period of modest contraction. Despite the negative headlines, consumer spending and the labor market remained stable, giving investors reasons to stay optimistic. Corporate fundamentals also remained strong, and we believe solid earnings growth likely helped to prevent a deeper market decline. Given the current political and macroeconomic landscape, we expect equity markets to remain volatile for the remainder of 2026. However, there are several factors we see that could create positive tailwinds for investors including steady job growth, resilient consumer spending, and a strong corporate earnings season.

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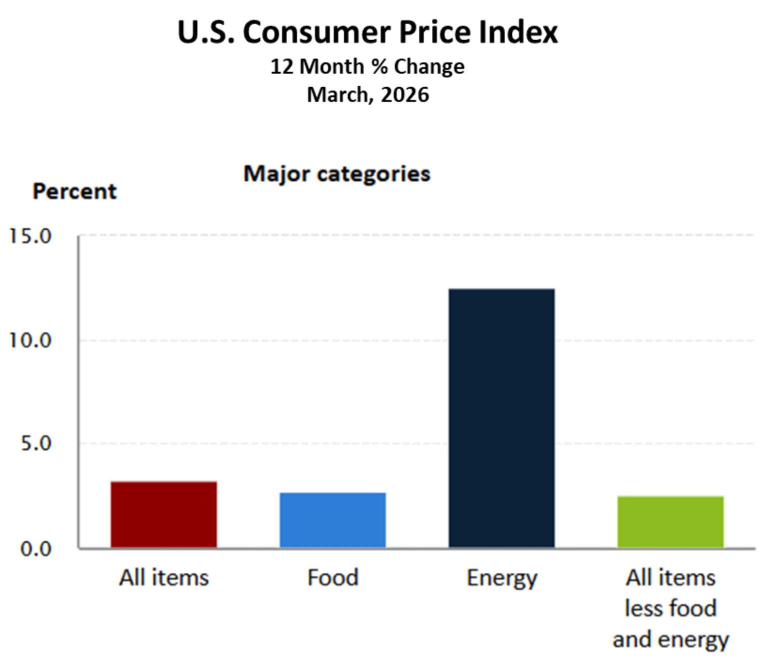
The Economy

According to the Federal Reserve Bank of Philadelphia, the U.S. economy grew at a 2.6% annualized rate for the first quarter, an increase from the 1.6% estimate provided in their previous survey. The labor market remained a key strength, with unemployment hovering around 4.3%, while healthy consumer spending and positive business investment contributed as well. Overall, the first quarter reflected an economy that was stable but navigating a narrow path between growth and rising macroeconomic pressures. For the second quarter, the Federal Reserve Bank of Philadelphia's economic forecast suggests moderate growth of around 2.1% with a steady unemployment rate of 4.4%. Risks continue to remain elevated, however, and we're mindful that continued inflation – especially if energy prices remain high – could delay interest rate cuts. Escalating geopolitical tensions could also weaken consumer confidence and limit growth in the coming months. As a result, the economy is expected to expand in the second quarter, but in our view its trajectory will depend heavily on variables surrounding inflation, energy, and U.S. monetary policy.

Inflation and Interest Rates

Per *Figure 1*, the March 2026 Consumer Price Index indicated that inflation showed a modest reacceleration, with headline CPI rising about 3.3% year-over-year. On a monthly basis, prices increased sharply – driven largely by gains in energy costs – particularly for gasoline which offset more stable or slowing increases in categories like food and core services. Core CPI (all items, less food and energy) remained relatively contained, which suggests that underlying

Figure 1



Source: U.S. Bureau of Labor Statistics
****Data not seasonally adjusted***

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inflation pressures continue to ease, even as short-term volatility persists. Overall, the report reflects an economy where inflation has cooled significantly from its 2022 highs but remains somewhat uneven. For investors, the report probably doesn't push the Fed to begin raising rates over the next several months. Instead, we think it is more likely that policymakers will hold rates steady to ensure inflation pressures don't reemerge. In practical terms, this means rate cuts that markets had expected during Q2 could be delayed until later in the year.

The U.S. Consumer

The preliminary April 2026 results from the University of Michigan consumer sentiment survey, *Figure 2*, showed a sharp deterioration in household confidence, with the headline index falling to 47.6 from 53.3 in March. The decline included all income groups and political affiliations, as current economic conditions and future expectations both dropped. Key drivers included rising inflation concerns – particularly higher gasoline prices—and heightened

Figure 2

University of Michigan Consumer Sentiment

Preliminary Results for April, 2026

	Apr 2026	Mar 2026	Apr 2025	M-M Change	Y-Y Change
Index of Consumer Sentiment	**47.6**	53.3	52.2	-10.7%	-8.8%
Current Economic Conditions	**50.1**	55.8	59.8	-10.2%	-16.2%
Index of Consumer Expectations	**46.1**	51.7	47.3	-10.8%	-2.5%

Source: University of Michigan

geopolitical uncertainty. It is important to note that consumer sentiment has diverged sharply from underlying economic fundamentals, which signals growing pessimism despite stable growth and labor market conditions. We think this level of weak sentiment could translate to a reduction in consumer spending – especially on discretionary and big-ticket items – which poses a near-term risk for continued U.S. economic growth.

The U.S. Stock Market

The U.S. stock market declined in the first quarter. Major indexes fell largely due to weaknesses in heavily weighted Technology and Communication Services stocks that had previously led the market during the artificial intelligence boom. Companies such as Microsoft (-23.5%) and NVIDIA (-6.5%) posted notable losses, contributing to a -4.3%

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decline in the broader market as measured by Telemet in *Figure 3.* This pullback in large-cap growth stocks played an outsized role in dragging down the market's overall performance. Despite this weakness, the quarter saw investors rotate into previously underperforming areas of the market. Value stocks, small-cap companies, and dividend-paying sectors saw renewed interest, driving gains in industries such as Energy (+37.0%), Industrials (+4.3%), Basic Materials (+10.2%), and Consumer Staples (+5.5%). Energy stocks rallied sharply amid rising oil prices, standing out as the strongest performing segment. This shift in leadership highlights a broader rebalancing in investor positioning, as market participants moved away from crowded growth trades toward more cyclical and value-oriented opportunities.

Figure 3

Sector	Q1 '26 Performance	Q1 '26 Sector Weight
Basic Materials	+10.2%	2.1%
Communication Services	-5.8%	10.3%
Consumer Discretionary	-8.7%	9.9%
Consumer Staples	+5.5%	5.3%
Energy	+37.0%	4.0%
Financial Services	-9.9%	12.6%
Healthcare	-5.3%	9.5%
Industrials	+4.3%	9.0%
Real Estate	+1.2%	2.0%
Technology	-7.7%	32.9%
Utilities	+7.5%	2.5%

Source: Telemet, data as of 3.31.26

Earnings Projections

S&P 500 earnings expectations, *Figure 4*, for Q1 2026 showed a familiar pattern of modest downward revisions. At the start of the quarter, analysts projected earnings growth of roughly 12–13% year-over-year, but estimates drifted slightly lower to around 11–12% as the quarter progressed. Despite these revisions, the earnings growth outlook remained in double-digit territory. Given the historical tendency for companies to outperform lowered expectations, we believe actual earnings growth for Q1 is likely to come in higher – potentially in the 13-15% range – highlighting

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continued resilience in corporate profitability. Looking ahead, projections for Q2 2026 point to a reacceleration in earnings growth, with current estimates near 14.5-14.9% year-over-year. To us, this suggests that analysts expect stronger performance in the coming quarter, supported by ongoing economic stability and continued investment in key areas such as Technology and Artificial Intelligence. Together, we believe the data reflects a constructive earnings environment in which temporary estimate cuts do not signal weakening fundamentals but rather set the stage for sustained profit growth across the broader market.

Figure 4

	Estimate at Start of Quarter	Latest / Blended Estimate	Implied / Expected Actual
Q1 2026	12.7% YoY growth	11.5%–12.5% YoY growth	Likely 13%–15% YoY
Q2 2026 (Forward)	—	14.5%–14.9% YoY growth	

Source: S&P 500

Q2 Outlook

Prussian military theorist, Carl von Clausewitz, coined the term "Fog of War" to describe the concept that uncertainty, incomplete information, and confusion are an inherent part of warfare. The investment outlook for Q2

Figure 5

S&P 500 Midterm Election Year

Declines and Recoveries

1950-2022

YEAR	MAX DRAWDOWN	1 YR. FORWARD RETURN
1950	−12.0%	+41.7%
1954	−4.4%	+51.1%
1958	−4.4%	+41.0%
1962	−26.4%	+37.5%
1966	−20.2%	+37.3%
1970	−25.0%	+48.9%
1974	−35.9%	+44.4%
1978	−12.8%	+18.1%
1982	−13.5%	+66.1%
1986	−9.4%	+44.3%
1990	−19.2%	+33.5%
1994	−8.5%	+18.5%
1998	−19.2%	+39.8%
2002	−33.0%	+36.1%
2006	−7.5%	+26.2%
2010	−15.6%	+33.6%
2014	−7.3%	+10.9%
2018	−19.4%	+39.9%
2022	−24.5%	+23.6%
Average	−16.1%	+36.4%
Median	−15.6%	+39.8%

Source: S&P 500

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2026 and beyond can only be described in a similar fashion. While earnings growth remains strong and is expected to reaccelerate in Q2, there are uncertainties – such as the conflict with Iran, inflation volatility, and policy initiatives – that continue to cloud near-term visibility. Additionally, midterm election years in the U.S. have a well-documented pattern of elevated stock market volatility. Investors' uncertainty around potential policy changes – particularly taxes, regulation, and government spending – can lead to sharper market swings. Despite the potential volatility, historically, midterm election years can often present a silver lining. According to the data presented by the S&P 500 in *Figure 5*, long-term patterns suggest that markets have experienced an average intra-year drawdown of roughly -16% during midterm election years, yet the 12 months following the election have delivered positive returns in every observed cycle, averaging approximately +36%. This reinforces the fact that volatility, while uncomfortable, is a normal part of the cycle rather than a sign of prolonged weakness. Against this backdrop, our outlook for 2026 remains constructive, with history suggesting that periods of greater uncertainty often set the stage for stronger returns into the year-end and beyond.

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*GIPS Composite Data and Verification Information Available Upon Request