

Quarterly Market Update

Q1 | 2026

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- Geopolitical risk leads to rising commodity prices and market volatility
- International and small-cap stocks outperform in 1st quarter
- Markets following a similar pattern to past midterm election years
- Rising inflation may keep the Federal Reserve on hold
- Market concentration decreasing, but still historically elevated
- What wars and geopolitical conflicts have meant for stock returns

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Financial markets and the global economy came into the year with what we would describe as positive momentum. Growth was solid and inflation was generally decelerating towards central bank targets. The recent hostilities in Iran though have injected fresh uncertainty into what was an otherwise encouraging outlook.

Historically, investors have tended to be dispassionate about geopolitical conflicts, looking through what is often short-term noise for financial markets. But not all conflicts are created equal. The geography where the military action is taking place makes this one potentially more impactful. Roughly 30% of global, seaborne oil, as well various other important commodities, pass through the Strait of Hormuz, which is now effectively closed. Oil prices surged to over \$100 a barrel by quarter end due to the negative supply shock. Stock market volatility though, has not been unusual given the environment.

Geopolitical Risk Index surges to its highest level since Iraq War

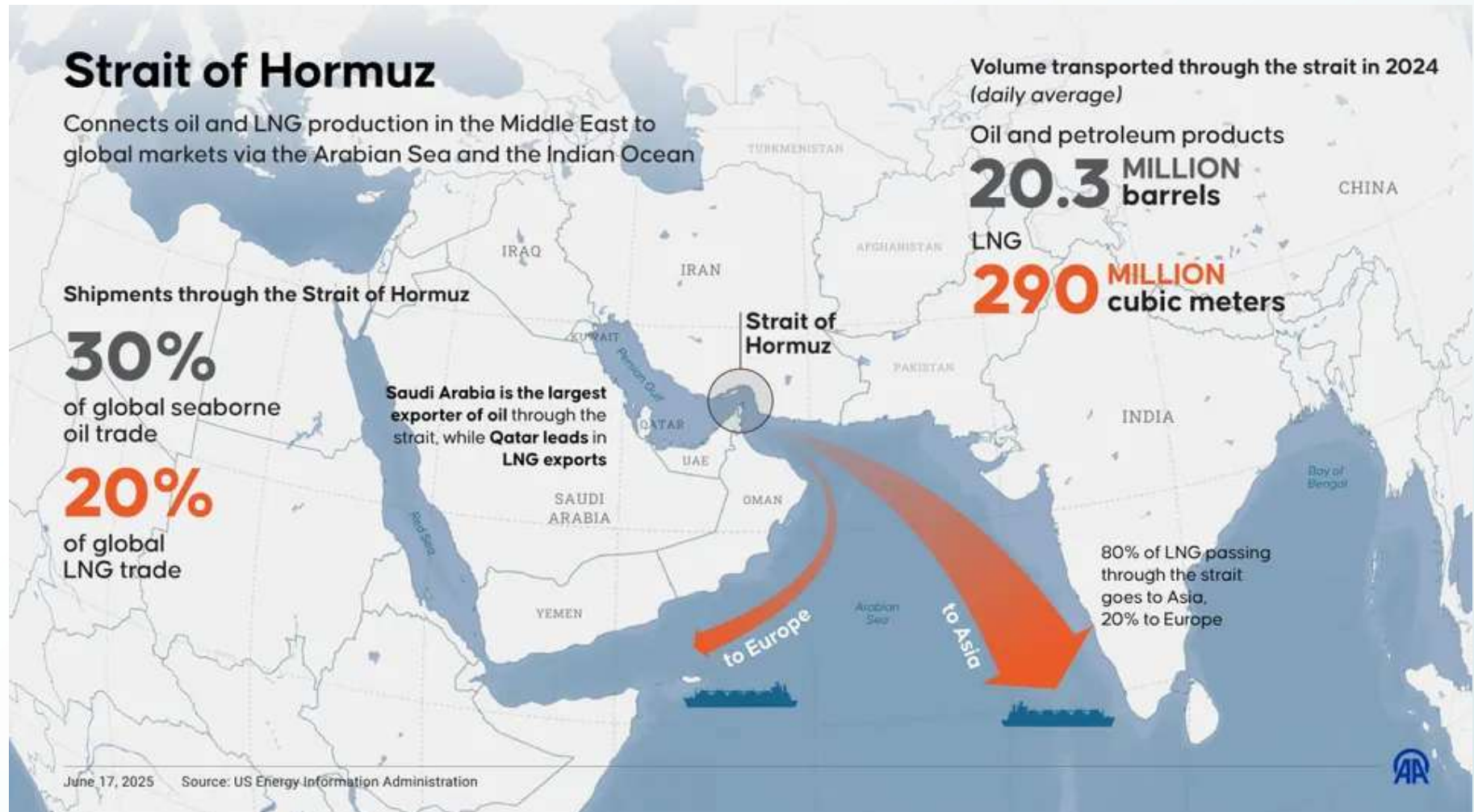
An index of geopolitical risk has reached its highest level since the Iraq war began in 2003. Environments with elevated geopolitical risk don't imply markets will perform poorly but are often accompanied by elevated volatility.



Source: Bloomberg. 01/01/1984 – 04/01/2026. The Geopolitical Risk (GPR) Index was developed by Federal Reserve economists Dario Caldara and Matteo Iacoviello. The data provides both monthly and daily indices measuring geopolitical tensions, threats, and acts from 1900 to the present.

The Strait of Hormuz is a key geopolitical chokepoint

Roughly 30% of the global seaborne oil trade flows through the Strait of Hormuz, along with other key commodities like natural gas, metals, and fertilizers. This type of negative supply shock presents greater headwinds to global economic growth the longer it persists.



Source: ANKARA, TURKIYE - JUNE 17: An infographic titled "Strait of Hormuz" created in Ankara, Turkiye on June 17, 2025. Connects oil and LNG production in the Middle East to global markets via the Arabian Sea and the Indian Ocean. (Photo by Murat Usubali/Anadolu via Getty Images)

Oil price surges on supply fears

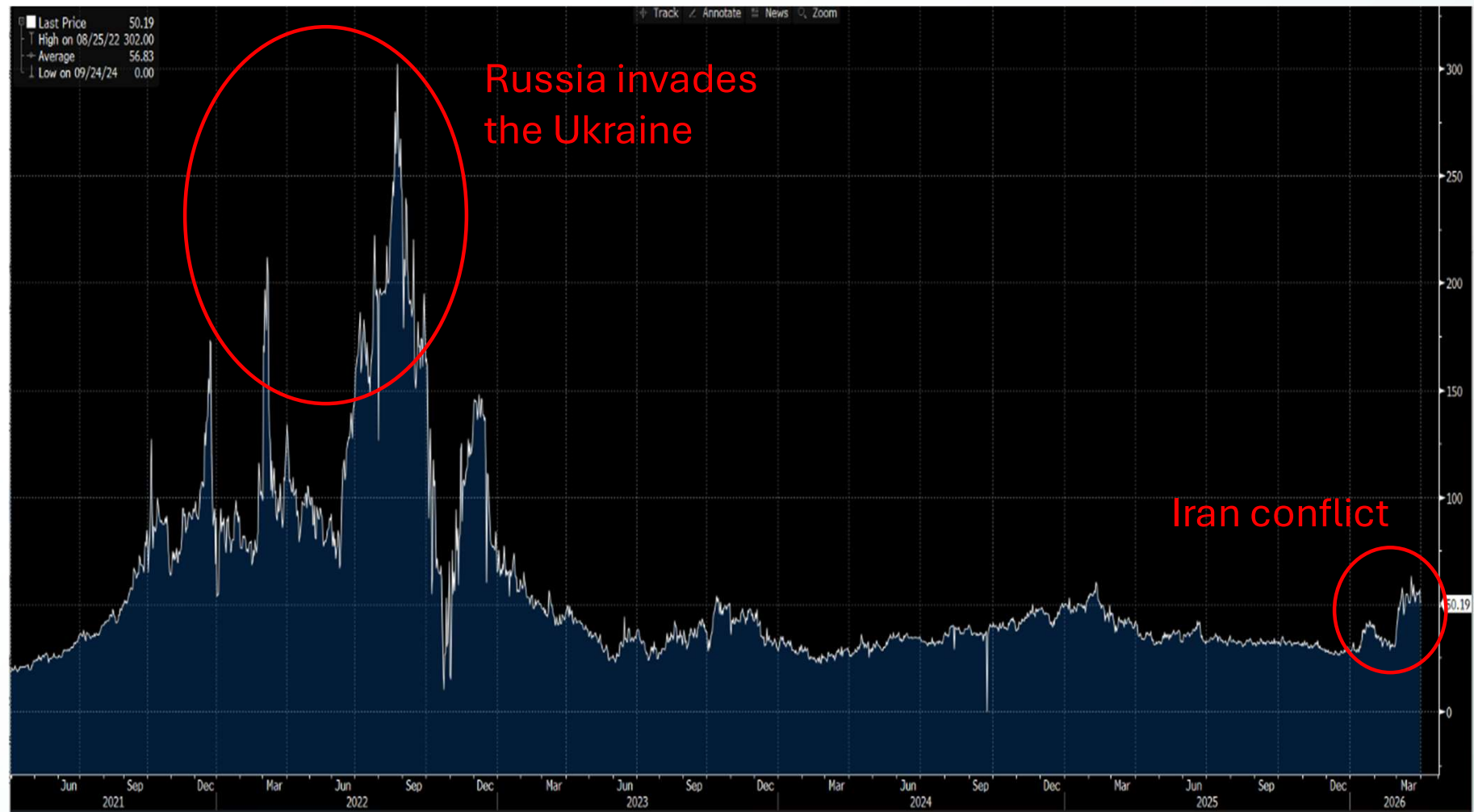
Brent crude oil – an international oil price benchmark – has rapidly increased to over \$100 a barrel, up from near \$60 at the start of the year. The global economy has tolerated prices at this level before, but higher commodity prices could negatively impact consumer spending and corporate profit margins if they persist.



Source: Bloomberg, 04/01/2005 – 04/01/2026. Brent Crude Oil Spot Price. Chart reflects spot or futures data from sources like ICE or EIA, which may include delays or approximations based on over-the-counter (OTC) and CFD instruments.

Euro natural gas price increase is modest vs. 2022

While oil prices grab most of the headlines, natural gas is another crucially important global energy source. Fortunately, the increase in European natural gas prices currently is only a fraction of what it was following Russia's invasion of the Ukraine.



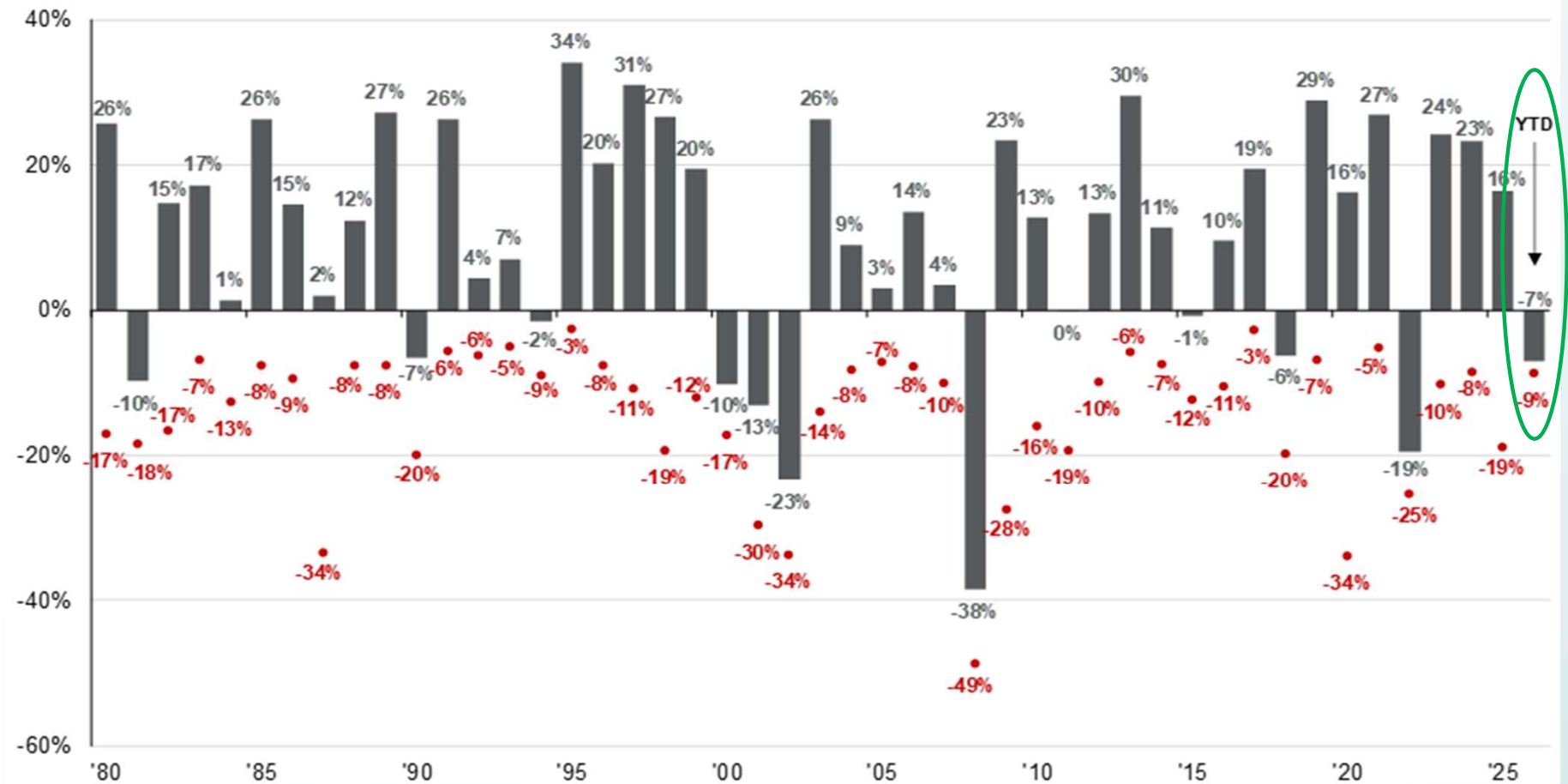
Source: Bloomberg, Dutch TTF Natural Gas Spot Price. 3/31/2021 – 3/31/2026.

Annual returns and intra-year declines

After three straight years of well above average returns, it's reasonable to have moderated expectations in 2026. Though the S&P 500 experienced a 9% peak-to-trough decline in the 1st quarter, this is still well within the normal range of annual volatility.

S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.2%, annual returns were positive in 35 of 46 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest peak-to-trough decline during the year. Returns shown are calendar year returns from 1980 to 2025, over which the average annual return was 10.7%. Past performance is no guarantee of future results.

Guide to the Markets – U.S. Data are as of March 31, 2026.

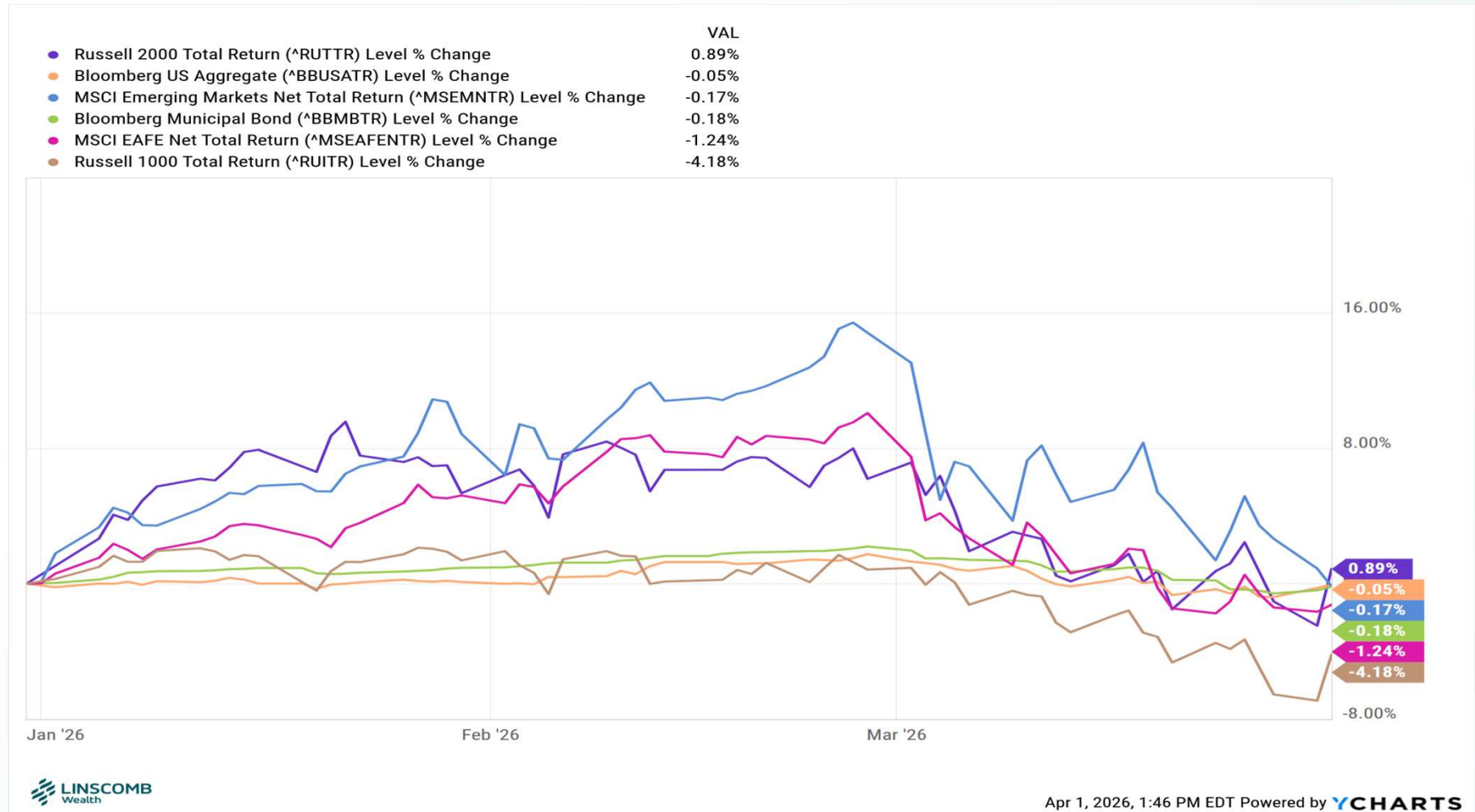


Though it was a challenging quarter for most asset classes, a diversified portfolio helped mitigate market volatility. Small-cap stocks still turned in positive performance, up 0.89%. Emerging market and international developed markets fell just 0.17% and 1.24%, respectively, outperforming U.S. large-cap shares which fell 4.18%. International markets, on average, have less expensive valuations compared to U.S. peers, which may have provided downside protection in recent months.

From a sector perspective, energy, unsurprisingly, topped the charts gaining over 33% through the year's first three months. Several other "old economy" industries including utilities, materials, and industrials also gained. Laggards for the quarter included two of the larger sectors in the market, technology and communication services. These two areas of the market are ground zero for the AI trade – and not just those companies that are building AI, but also those potentially most disrupted by it.

Foreign stocks and small caps lead the way early in 2026

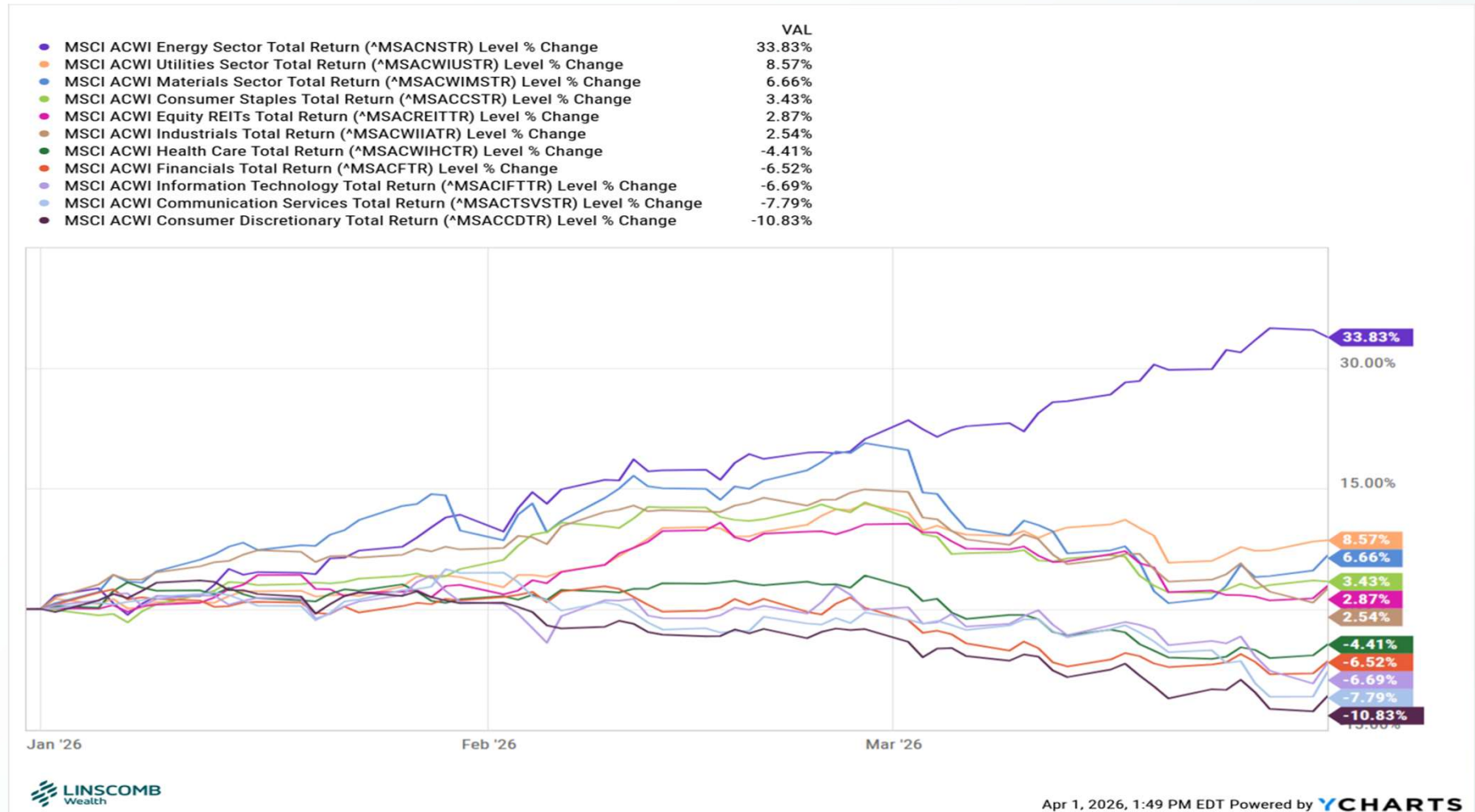
Lead is a relative term, but small-cap domestic and foreign stocks have performed the best to start 2026. Bonds have also helped mitigate equity volatility, while U.S. large cap stocks trailed other asset classes.



Source: YCharts, MSCI, Russell, Bloomberg, 01/01/2026 – 03/31/2026. Past performance is not indicative of future returns. Chart is for illustrative purposes. Indices are unmanaged, do not include fees or expenses and are not available for direct investment. Returns of indices for periods of less than one year may not be annualized. Please see disclosures for index definitions.

“Old Economy” stocks on top in the 1st quarter

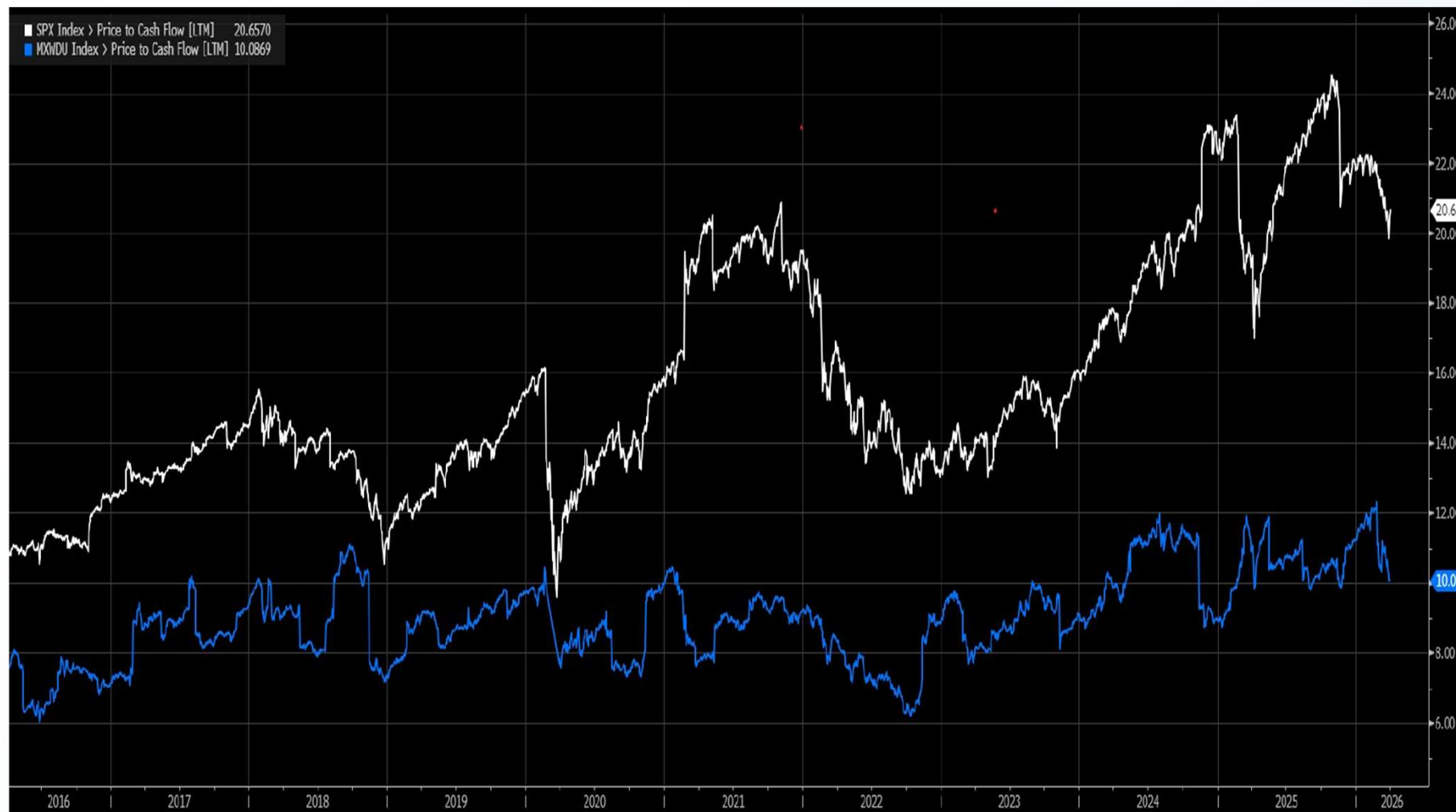
Despite the negative headline returns, several sectors turned in positive performance. Unsurprisingly, the energy sector performed the best in the 1st quarter, up over 30%. Technology, communication services, and consumer discretionary stocks were the bottom three sectors.



Source: YCharts, MSCI, 01/01/2026 – 03/31/2026. Past performance is not indicative of future returns. Chart is for illustrative purposes. Indices are unmanaged, do not include fees or expenses and are not available for direct investment. Returns of indices for periods of less than one year may not be annualized. Please see disclosures for index definitions.

US vs International: Valuation Gap – Price to Cash Flow

Though the U.S. market has a higher expected growth rate compared to foreign, the valuation gap is historically wide. At just over 20x trailing cash flow, the U.S. is trading twice as expensive as international markets, which are near 10x cash flow.

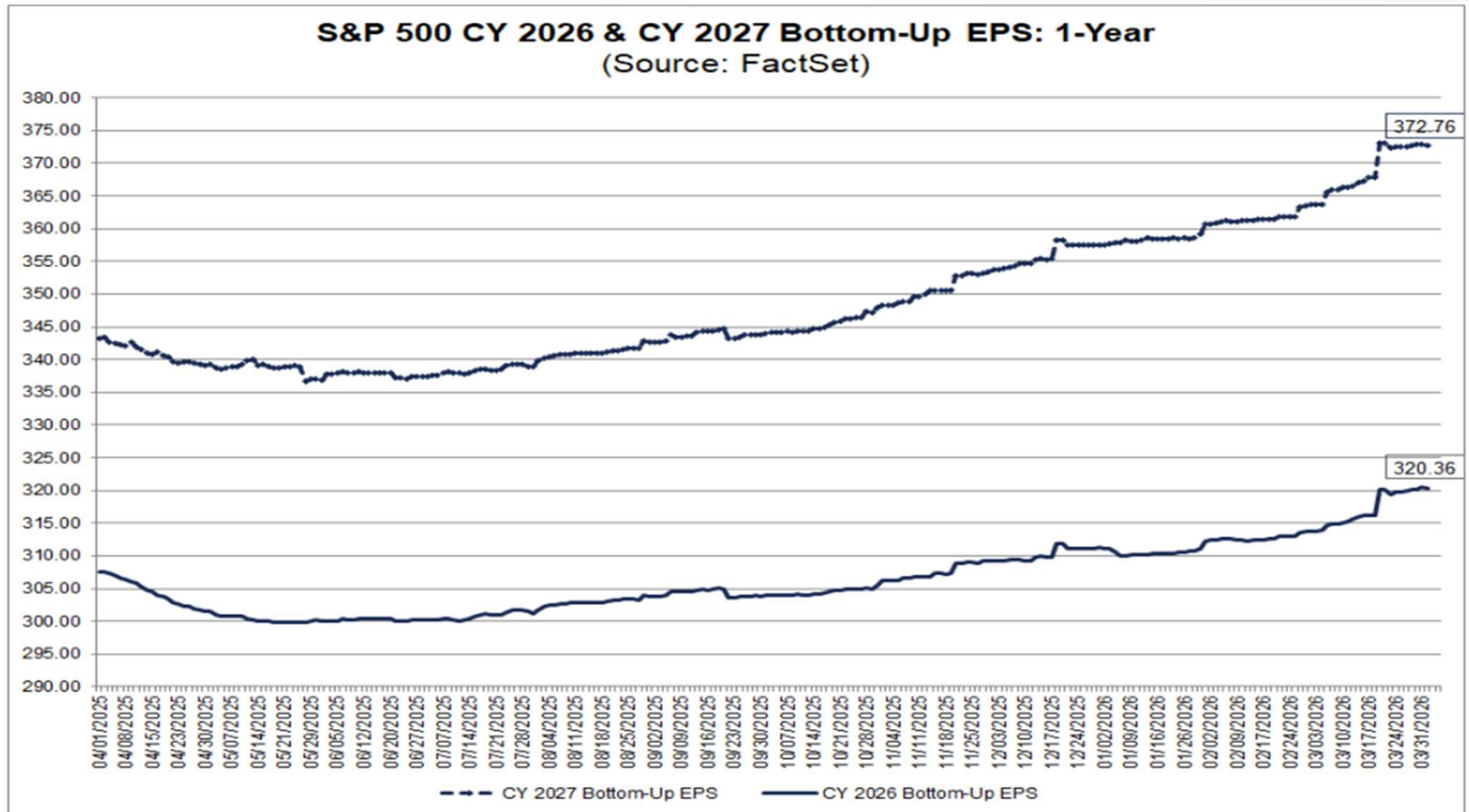


Source: Bloomberg. 4/1/2016 – 4/1/2026. S&P 500 (white line), MSCI ACWI ex US (blue line). The Price-to-Cash Flow (P/CF) ratio is a valuation metric that compares a company's stock price to its operating cash flow per share, indicating how much investors pay for \$1 of cash generated.



Earnings expectations still rising

Despite the market volatility, earnings expectations are still rising for both this year and next. Geopolitical conflicts have typically not had a lasting negative impact on earnings, but the progression of estimates as the year continues bears close monitoring.



Source: FactSet. As of 4/2/2026. Earnings per share (EPS) is a company's net income subtracted by preferred dividends and then divided by the number of common shares it has outstanding.

Credit spreads suggest healthy corporate fundamentals

Credit spreads – a good indicator of investor sentiment regarding corporate fundamentals – remain at relatively low levels. If the current geopolitical conflict is going to have a more disruptive, lasting impact on the economy, we would expect spreads to widen.



Source: Ice Data Indices, LLC via FRED®

Shaded areas indicate U.S. recessions.

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Source: Federal Reserve, Ice Data Indices. 3/31/2021 - 3/31/2026. The option-adjusted spread (OAS) is a measure used to compare the yield of bonds with embedded options against the risk-free rate of return.



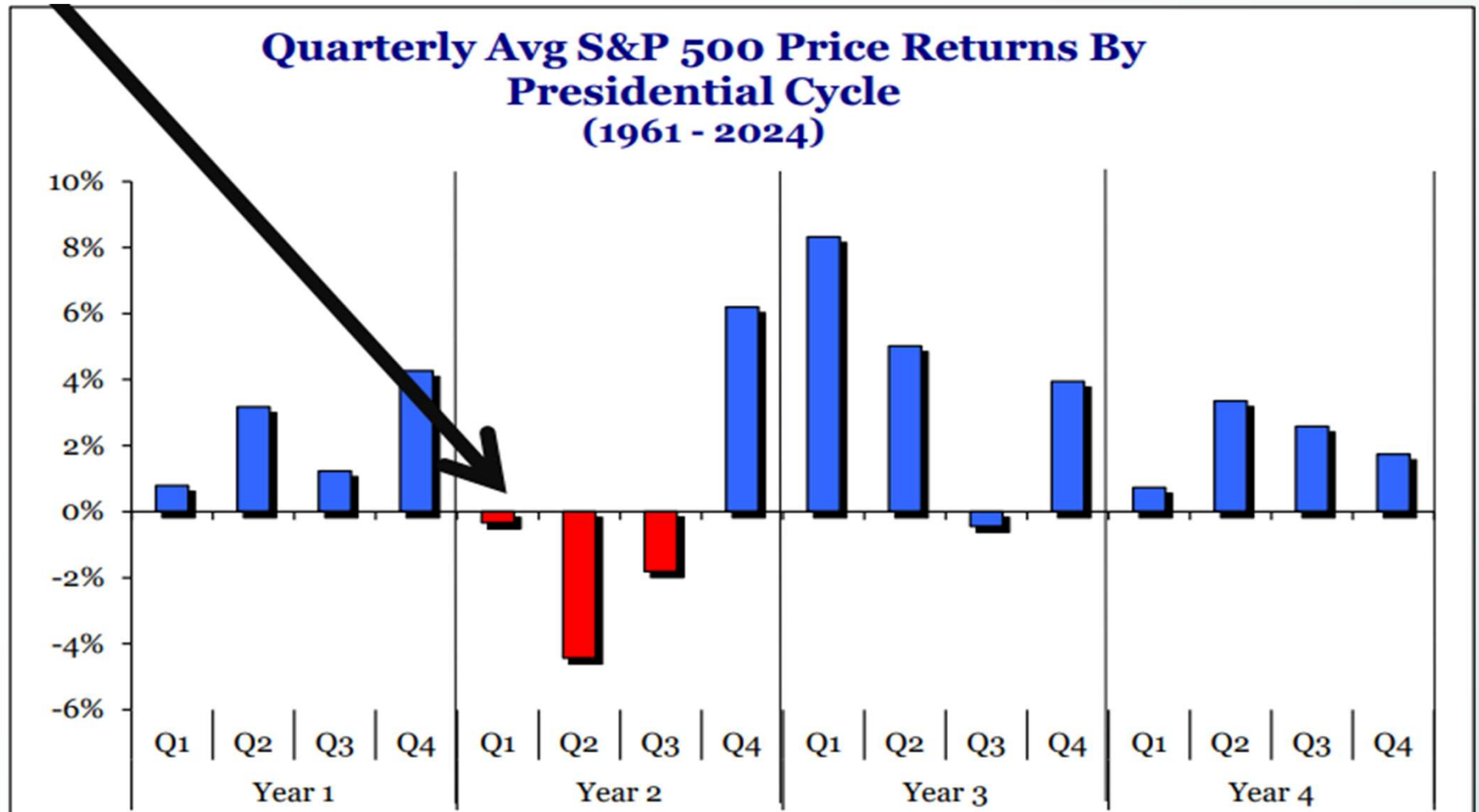
Following three straight years of well above-average performance, one way or another, stocks were likely to take a breather in 2026. And it just so happens that midterm election years are often the ones with the most volatility. Inflation is likely to be elevated in the months to come, but long-term expectations are well anchored. The Federal Reserve is probably on pause regarding interest rate cuts, but we don't believe there's any indication of rate increases – the Fed doesn't control oil prices. The labor market and consumer spending remain in good shape, which should support economic growth. Corporate layoffs, a key leading economic indicator, are still historically very low.

With U.S. market concentration still elevated and global trade flows in flux, proper diversification takes on even more importance in our opinion. The ongoing geopolitical conflict is unsettling and bears close monitoring, but historically these events haven't had a lasting impact on markets. And remember, investing is a long game. Portfolio adjustments will be made as needed, but staying the course is crucial.

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Midterm election years have had higher volatility

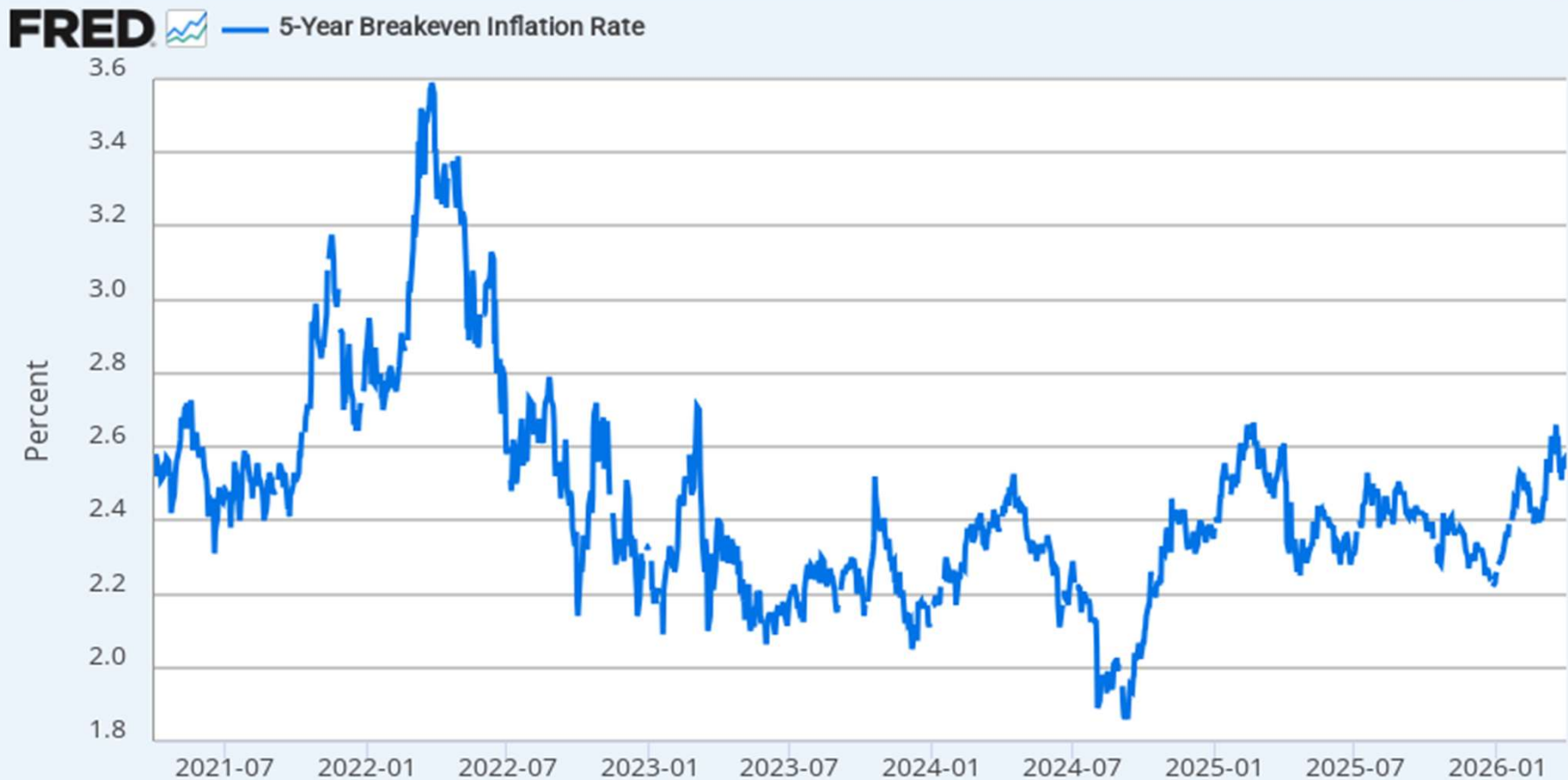
Though still positive on average, midterm election years have historically had lower average returns and more volatility compared to other years. The pattern in the past has been three quarters of sideways movement followed by a strong 4th quarter.



Source: Strategas. The chart shows the average trajectory of equity returns throughout midterm election years compared to non-midterm election years. Past performance is not indicative of future returns. Chart is for illustrative purposes. Indices are unmanaged, do not include fees or expenses and are not available for direct investment. Returns of indices for periods of less than one year may not be annualized. Please see index disclosures for index definitions.

Longer-term inflation expectations rise only modestly

While inflation is sure to rise in the near-term due to higher commodity prices, longer-term expectations haven't changed significantly. Investors are currently pricing in 5-year average inflation of 2.55%, compared to 2.25% at the start of the year. This expectation is vastly different than the 2022 environment.



Source: Federal Reserve Bank of St. Louis via FRED®

Shaded areas indicate U.S. recessions.

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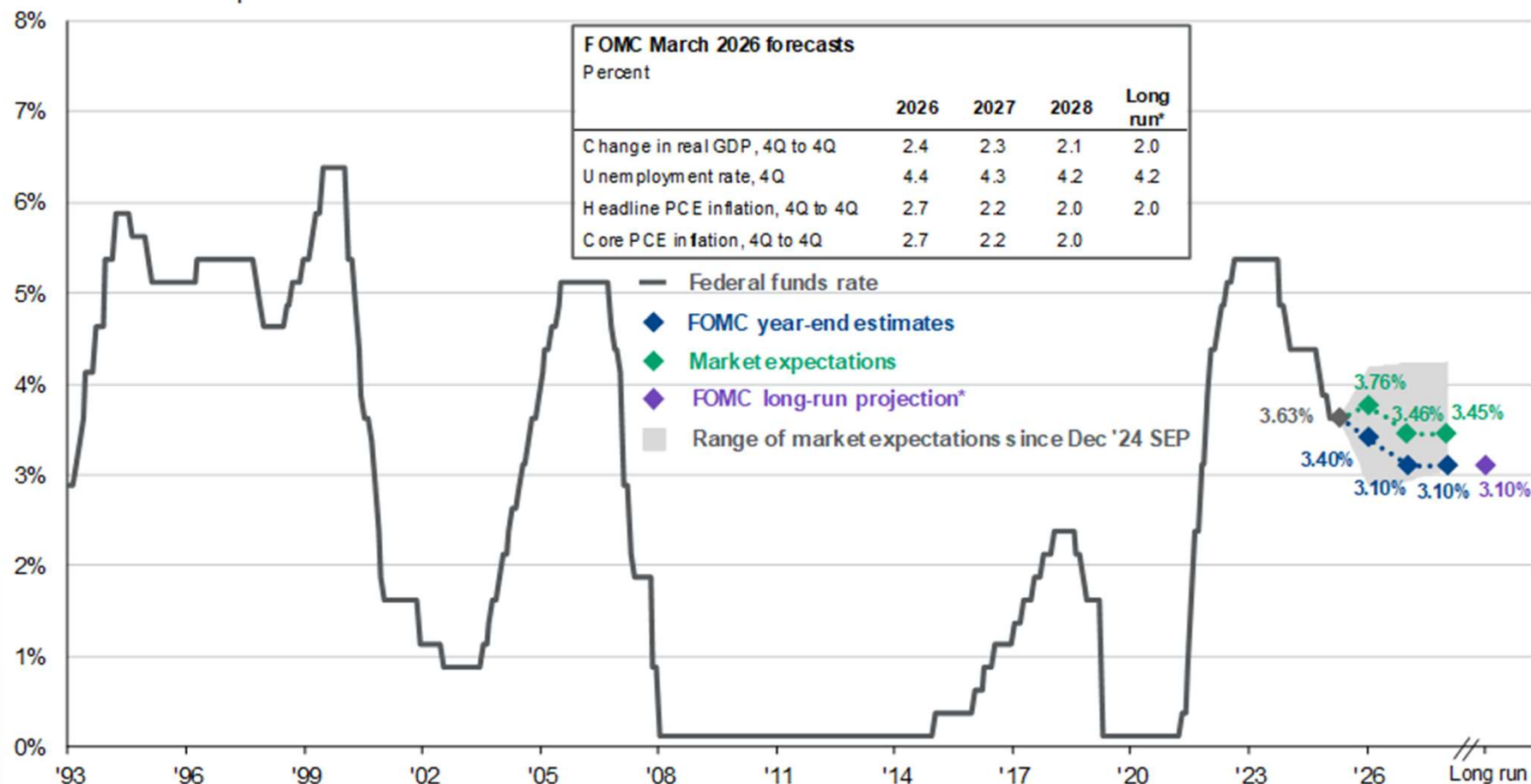
Source: Federal Reserve. 3/31/2021 – 3/31/2026. Breakeven inflation is a market-based measure of expected inflation, calculated as the yield difference between nominal Treasury bonds and Treasury Inflation-Protected Securities (TIPS) of the same maturity. It represents the rate of inflation at which both investments provide the same return, acting as a gauge for investor inflation expectations.

Fewer rate cuts than expected?

The Federal Reserve is projecting two further 0.25% interest rate cuts this year. However, the recent rise in commodity prices puts upward pressure on inflation, leading investors to believe there may be fewer of those cuts than expected this year.

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.

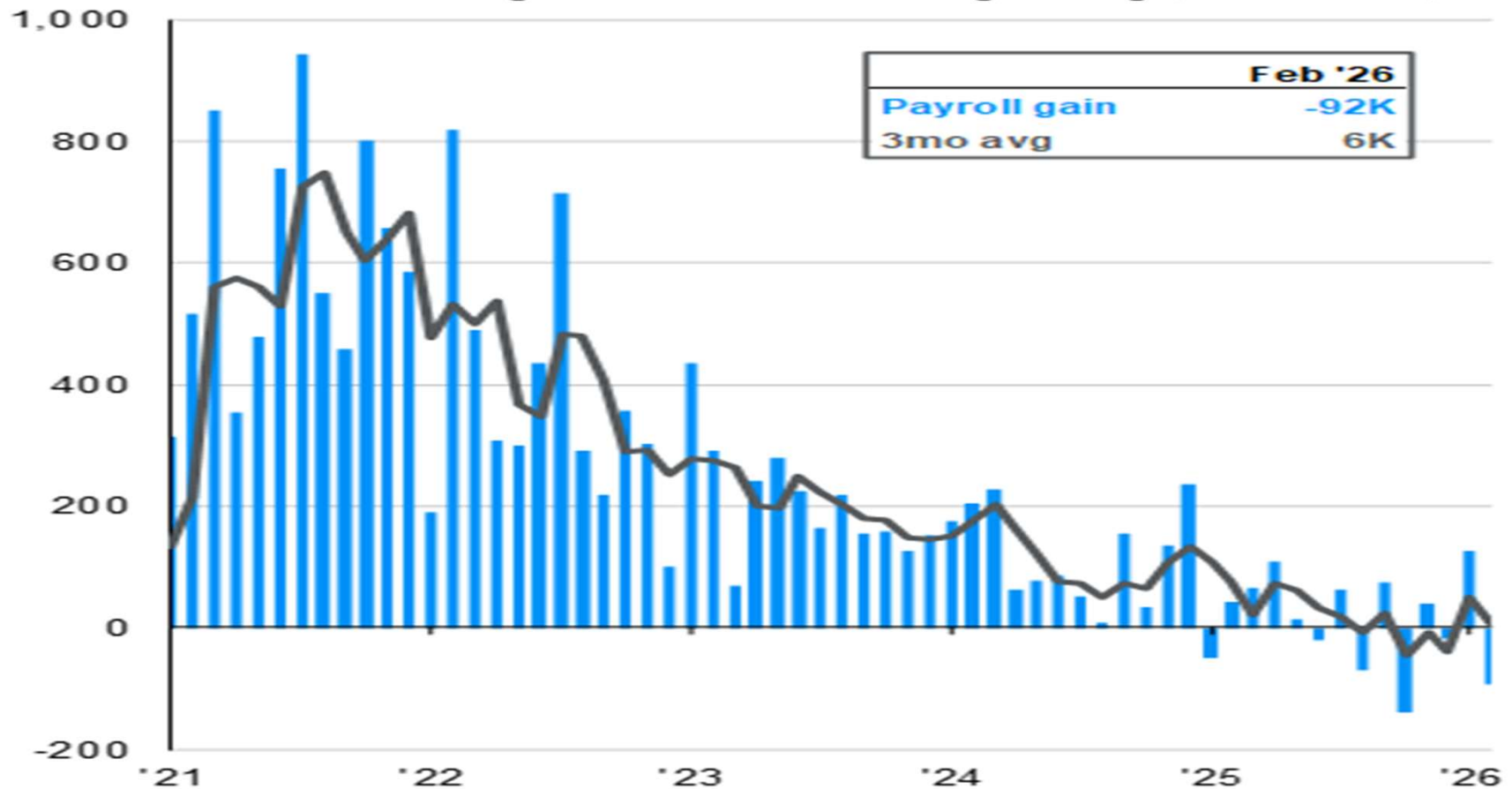
Market expectations are based off of USD Overnight Index Swaps. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated. Guide to the Markets – U.S. Data are as of March 30, 2026

Job growth slowing

Economic growth remains positive in the U.S., but job growth is slowing with the economy near full employment. Over the past three months, an average of only 6,000 new jobs have been created.

Nonfarm payroll gains

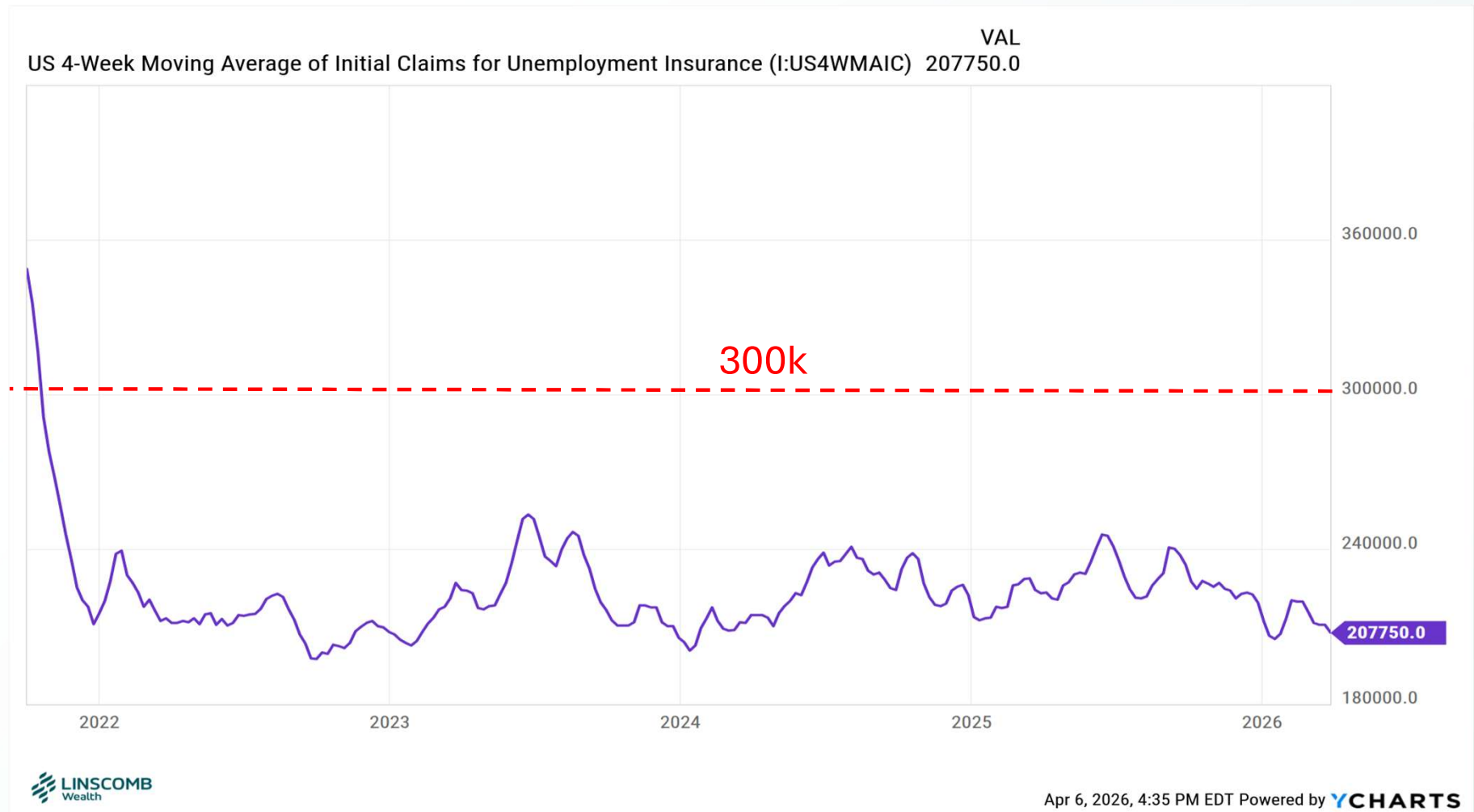
Month-over-month change and 3-month moving average, thousands, SA



Source: BLS, FactSet, J.P. Morgan Asset Management. 12/31/2020 - 2/28/2026.

Hiring has slowed, but layoffs still negligible

Despite the slowdown in hiring, there's not yet evidence of a meaningful uptick in layoffs. Layoffs are typically a key leading indicator for the labor market. Initial claims breaking meaningfully above 300k would be more worrying.

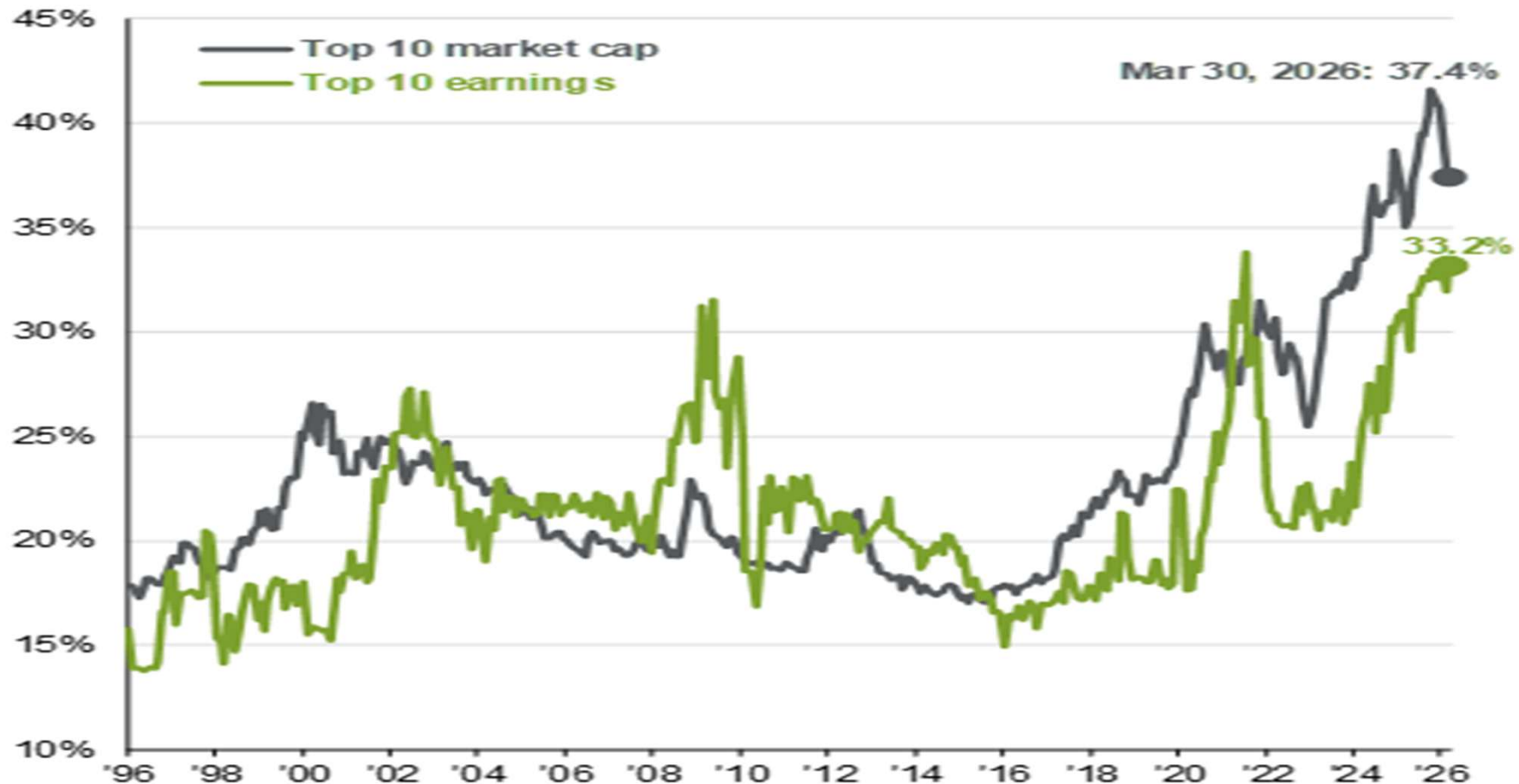


Source: BLS, FactSet, J.P. Morgan Asset Management. 12/31/2020 – 3/31/2026.

Market concentration still near all-time highs

The S&P 500 concentration is driven by a handful of companies perceived to be long-term beneficiaries of AI, but the valuation premium and dependence on few stocks represent a risk going forward. Though it has contracted this year, the top 10 companies still represent over 37% of the total index.

Weight of the top 10 companies in the S&P 500
% of market capitalization, % of last 12 months' earnings



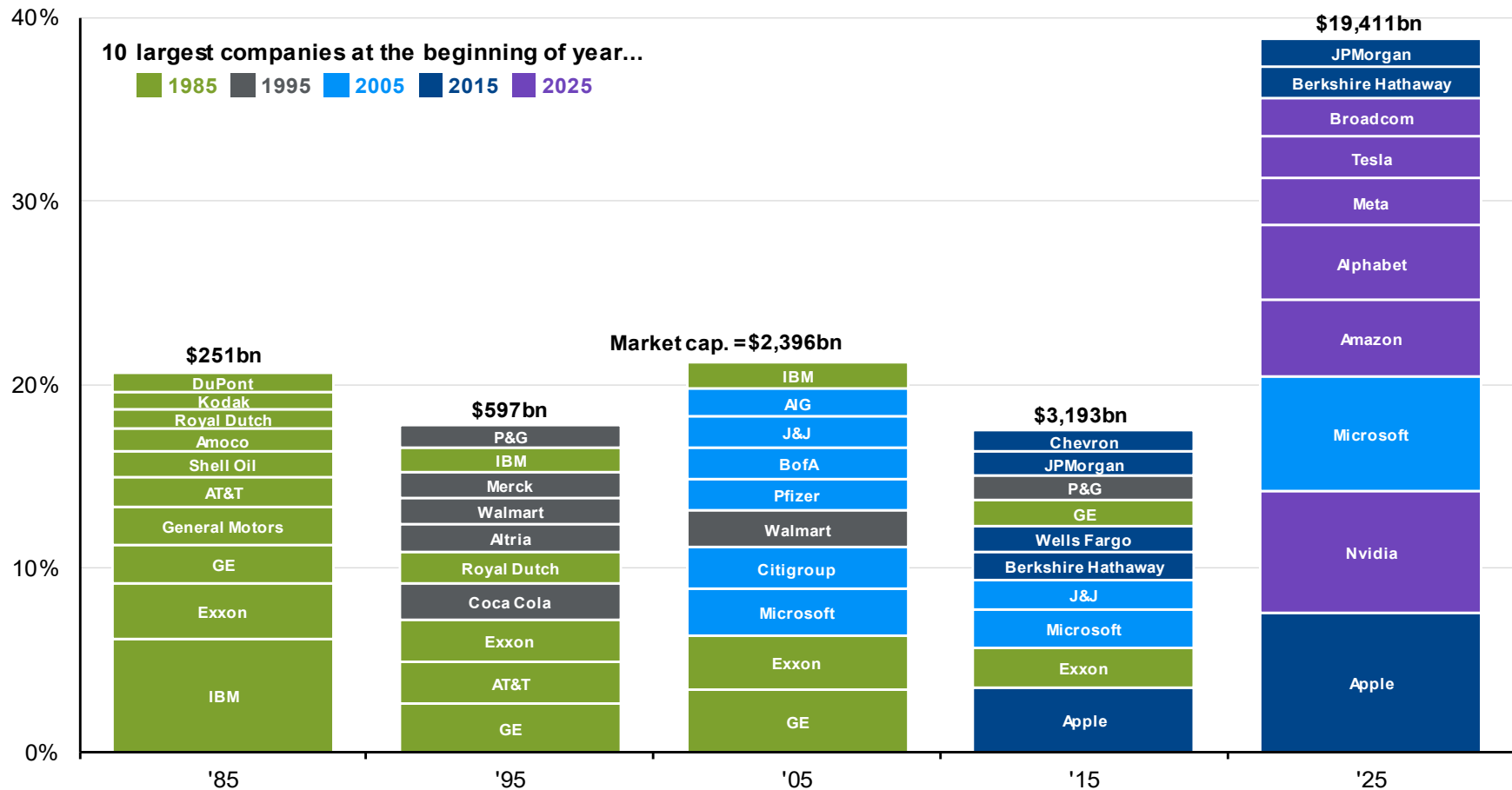
Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Guide to the Markets – U.S. Data are as of March 31, 2026.

Staying on top is the hard part

It is rare for the largest companies to maintain their leading positions over multiple decades. High profits attract competition, and the economy often changes in ways that are difficult to forecast in advance.

Top 10 S&P 500 companies by market capitalization

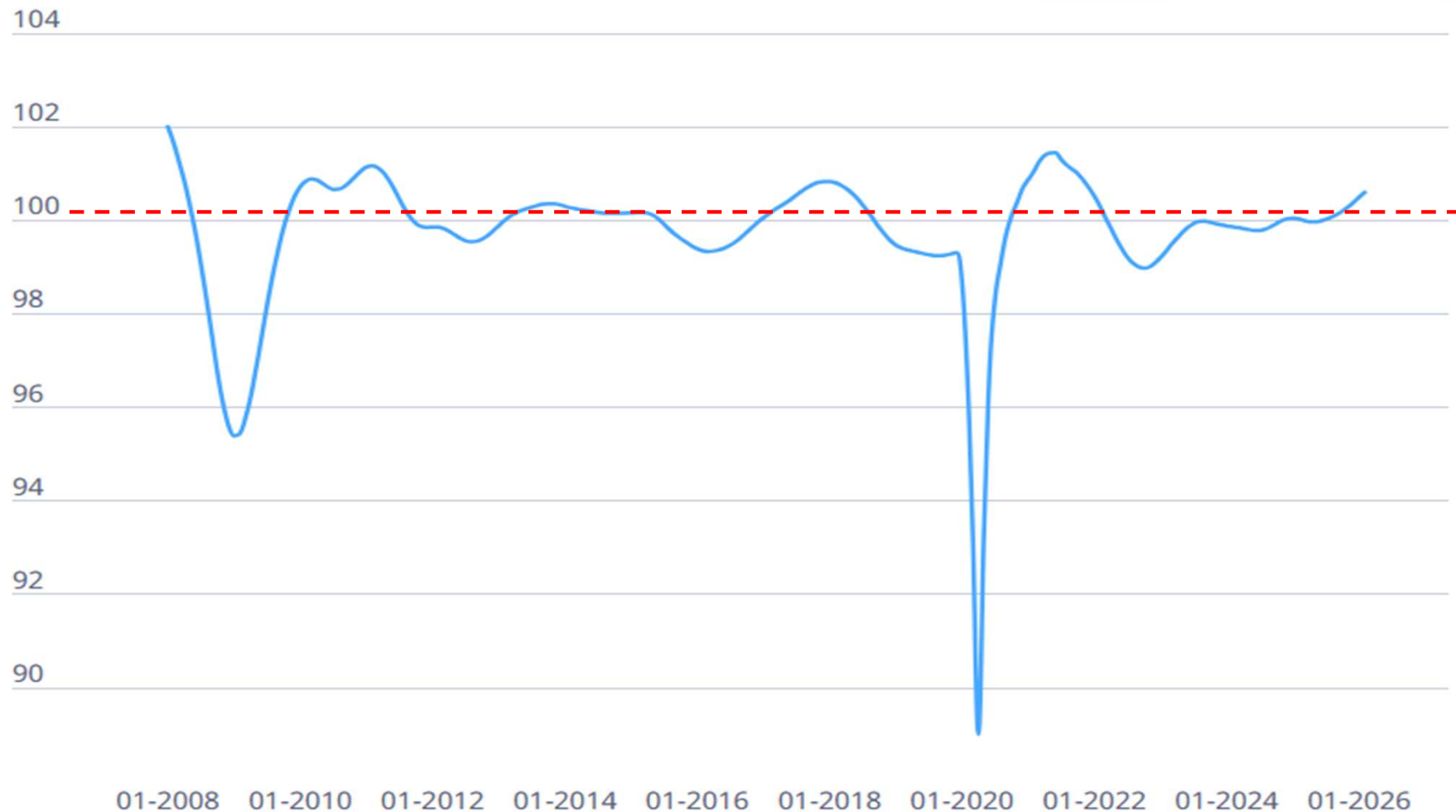
Percent of S&P 500 market capitalization as of the first day of the indicated year



Source: Bloomberg, S&P Global, J.P. Morgan Asset Management. Companies are organized from highest weight at the bottom to lowest weight at the top. Past performance is no guarantee of future results. Guide to the Markets – U.S. Data are as of March 31, 2026.

Global leading indicators turn up

A composite of global leading economic indicators has been improving over the past 12 months. The current geopolitical conflict is disruptive, but the global economy had positive momentum heading into 2026.



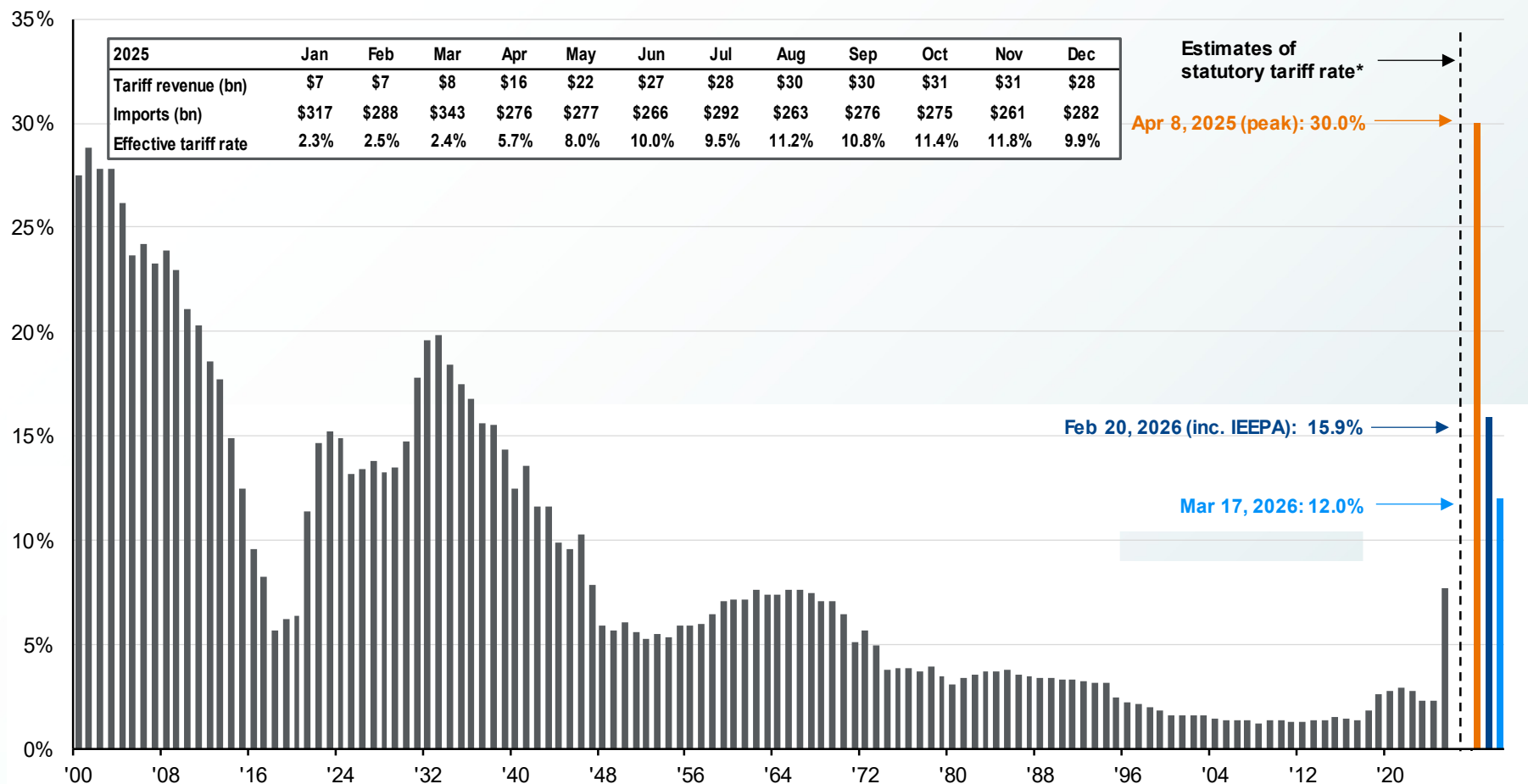
Source: OECD Composite leading indicators. The OECD Composite Leading Indicators (CLIs) are key economic tools designed to signal turning points in business cycles ahead of actual activity shifts. 12/31/2009 – 2/28/2026.

Tariffs on U.S. imports

Though the Supreme Court ruled against the Trump administration's initial justification for tariffs, a new round of tariffs was implemented by other means. Bottom line – tariffs are likely here to stay for the foreseeable future. The current estimated average rate is about 12%.

Average tariff rate on U.S. goods imports for consumption

Duties collected / value of total goods imports for consumption, 1900 - 2025



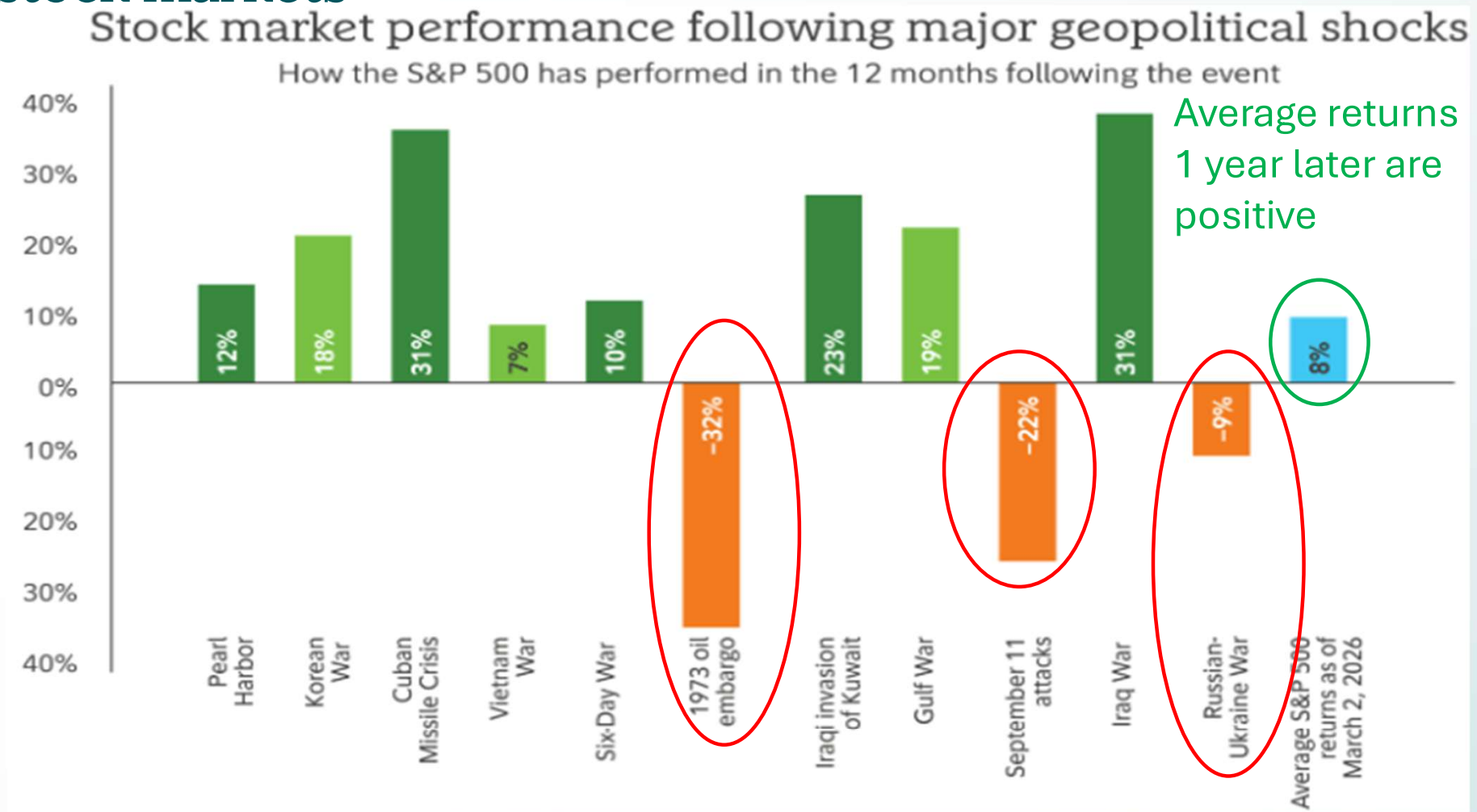
Source: U.S. Census Bureau, U.S. Department of Treasury, U.S. International Trade Commission, J.P. Morgan Asset Management.

For illustrative purposes only. The estimated weighted average statutory U.S. tariff rate includes all tariffs that are currently in effect, not announced. Imports for consumption: goods brought into a country for direct use or sale in the domestic market. *Figures are based on 2024 import levels and assume no change in demand due to tariff increases. Tariff revenue shown are figures from the Monthly Treasury Statement. Import figures included in the table are from the U.S. Census Bureau. Estimates, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated. Guide to the Markets – U.S. Data from 01/01/2000 – 03/30/2026



Wars create short-term uncertainty but have rarely had a lasting impact on stock markets

On average, stock markets have been positive one year after a number of major geopolitical shocks (green circle). Context matters and historically it's been prudent not to make major portfolio adjustments in response to such events.



Sources: Haver Analytics, Fidelity Investments. S&P 500 returns following geopolitical shocks. Past performance is no guarantee of future results. All indexes are unmanaged, and performance of the indexes includes reinvestment of dividends and interest income, unless otherwise noted. Indexes are not illustrative of any particular investment, and it is not possible to invest directly in an index. Data as of March 31, 2026.

A history of wars and conflicts

There is no shortage of wars and conflicts over the past century of market history. However, markets have been resilient and rewarded investors with a long-term focus.

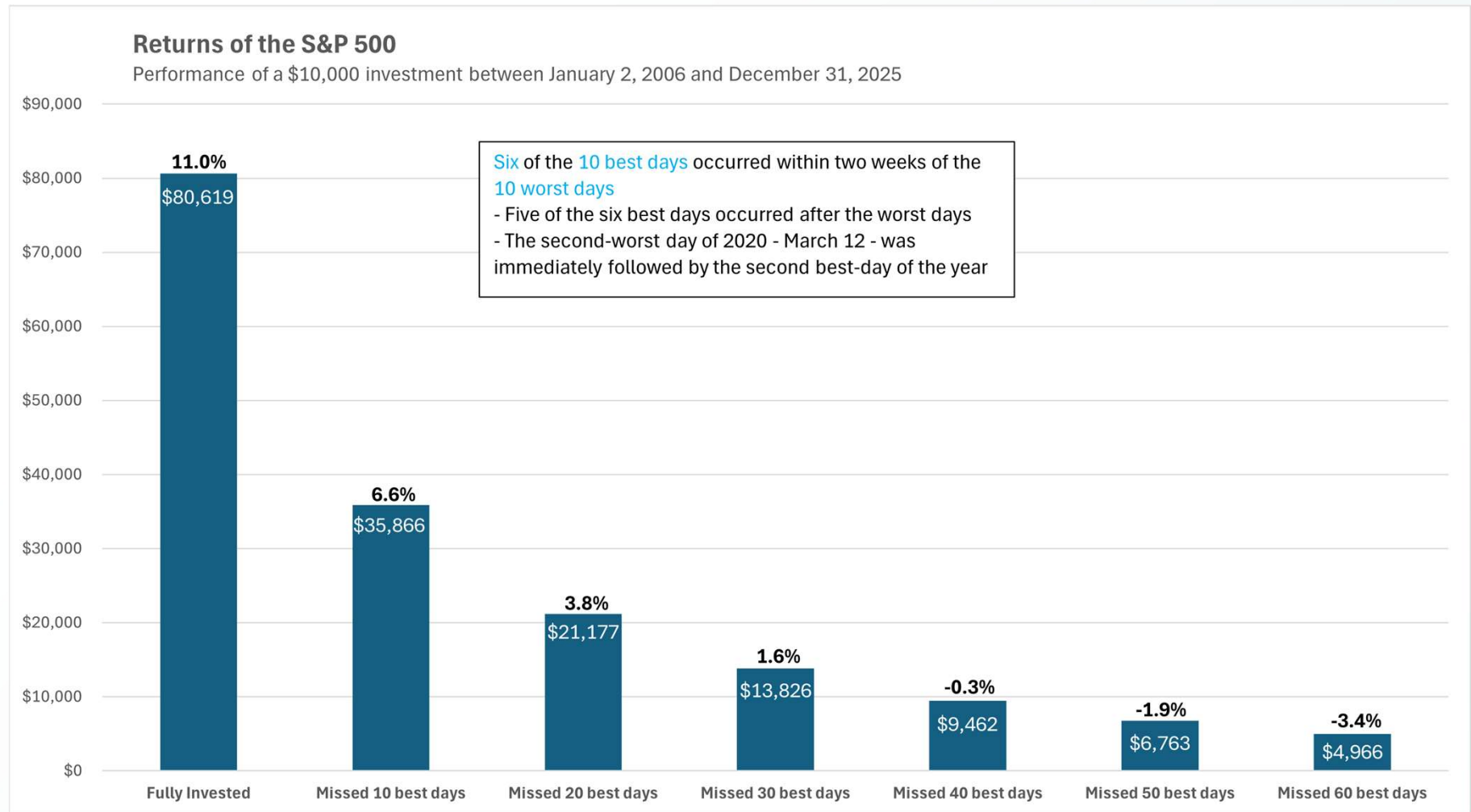
Wars and conflicts have been a constant throughout history, however recent events might cause us to look at how the stock market has performed during past times of war. The chart below shows the S&P 500 Index level since 1928 and several of the major wars and conflicts since then. Though uncertainty may temporarily shape the market, we believe seeing the market's overall resiliency can help maintain a long-term perspective.



Source: First Trust, S&P CAPIQ, Bloomberg. Monthly index levels from 1928 – 2025. Past performance is no guarantee of future results. This chart is for illustrative purposes only and not indicative of any actual investment. Returns are based on the S&P 500 Total Return Index, an unmanaged, capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries. Indices do not include fees or operating expenses and are not available for actual investment. Investors cannot invest directly in an index.

Selling stocks following volatility rarely pays off

Over the past 20 years, the S&P 500 has returned 11% annually. However, if an investor missed just the 10 best days, which often follow downside volatility, that return would be just 6.6% per year.



Source: JPMorgan. This presentation is for informational purposes only. It is educational in nature and should not be relied as investment advice. Unless otherwise noted, returns are based on US dollar. Returns are based on the S&P 500 Total Return Index, an unmanaged, capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries. Indices do not include fees or operating expenses and are not available for actual investment. Unlike an actual client performance record, they do not reflect actual trading, liquidity constraints, fees and other cost. The return data includes dividend reinvestments. Also, since the trades have not actually been executed, the results may have under- or overcompensated for the impact of certain market factors such as lack of liquidity. Returns will fluctuate and an investment upon redemption may be worth more or less than its original value. An individual cannot invest directly in an index. Past performance is not indicative of future returns. Data as of December 31, 2025.

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Benchmark Descriptions

The **S&P 500 Index** is considered generally representative of the US large cap equity market which includes 500 leading companies covering approximately 80% of available market capitalizations and is market cap weighted. The **S&P 400 Index** measures the performance of mid-sized US companies, reflecting the distinctive risk and return characteristics of this market segment. It comprises stocks in the middle capitalization range, covering approximately 7% of the of US equity market. The **S&P 600 Index** measures the performance of small cap segment of US equity market. It consists of 600 domestic stocks chosen for market size, liquidity, and industry group representation and covers approximately 3% of the domestic equities market. The **Bloomberg US Aggregate Bond Index** is a broad-based benchmarks of the U.S. investment grade and global investment grade bond market, respectively. They include Treasury, government related, corporate and securitized fixed-rate bonds. The **Bloomberg Municipal Bond Index** is a benchmark of US long-term tax-exempt bond covering four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds. The **MSCI Emerging Markets Index** is a measure of the performance of emerging market equities. The **MSCI EAFE Index** is a measure of large and mid-cap equity performance across 21 developed countries, ex US and Canada. The **Russell 1000 Value Index** measures the performance of the large cap value segment of the US equity universe. It includes those Russell 1000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium term (2 year) growth and lower sales per share historical growth (5 years). The Russell 1000® Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The index is completely reconstituted annually. The **Russell 2000 Index** is a measure of US small cap performance. The **Russell Midcap Index** is a measure of US mid-cap performance. The **DJ Industrial Average** is a price-weighted measure of 30 US blue-chip companies covering all industries except transportation and utilities. The **NASDAQ Composite** is a broad based, market cap weighted index of more than 3,700 stocks listed on the Nasdaq stock exchange. **JP Morgan Global EMBI** measures the performance of fix-rate for external-currency denominated debt instruments including brady bonds, loans, Eurobonds in emerging markets. Countries covered are Argentina, Brazil, Bulgaria, Mexico, Morocco, Nigeria, the Philippines, Poland, Russia, and South Africa. It covers more of the eligible instruments than the EMBI+ by relaxing somewhat the strict EMBI+ limits on secondary market trading liquidity. **Bank of America Merrill Lynch HY Master II** measures the performance of short-term US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have at least 18 months to final maturity at the time of issuance, at least one-year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and a minimum amount outstanding of \$100 million. It is capitalization-weighted. **Dow Jones US Real Estate Index:** The index measures the performance of all US stocks in the Dow Jones US Index classified into real estate sector with financials industry. The sector classifications is defined by the proprietary classification system which used by S&P Dow Jones. It is a free-float weighted index. **S&P GSCI:** The index measures the performance of general price movements and inflation in the world economy. It is designed to be investable by including the most liquid commodity futures and provides diversification with low correlations to other asset classes. **Ibbotson US Large Stock TR Index:** The index tracks the monthly return of S&P 500. The history data from 1926 to 1969 is calculated by Ibbotson. **Ibbotson US Intermediate Government TR Index:** The index measures the performance of a single issue of outstanding US Treasury note with a maturity term of around 5.5 years. It is calculated by Morningstar. Returns for 1934 to 1986 are obtained from the CRSP Government Bond File and returns for 1987 to 2014 are calculated from The Wall Street Journal prices.

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return could, at certain times, unintentionally reduce returns. This presentation may contain forward looking statements that may or may not occur.

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