

Economic & Market Summary

March 2026

The U.S. economy entered 2026 on uncertain footing. Current consensus estimates project real GDP growth of roughly 2.2% for 2026, in line with the post-pandemic trend of 2 to 2.5%. However, the combination of an energy-driven cost shock, a softening labor market, and a delay of interest rate cuts creates a credible case that the economy could fall short of that figure. Consumer spending, which accounts for two-thirds of economic output, remained stable through February, as higher growth in services was weighed down by a deceleration in goods. Business investment continues to grow, with equipment and intellectual property outlays driven largely by artificial intelligence infrastructure. The five largest U.S. technology companies have collectively guided toward roughly \$650 billion in capital expenditures for 2026, nearly doubling 2025 levels. This spending provides meaningful support to industrial and semiconductor supply chains. AI monetization is still in its early stages, and the assumption that today's capital outlays will translate into proportionate earnings growth deserves scrutiny. The lag between investment and realized productivity gains adds uncertainty to GDP growth.

The labor market has softened. The unemployment rate stood at 4.3% in March, up from the mid-3% range seen in early 2023. While nonfarm payrolls rose by 178,000, the headline number overstates momentum. Much of the increase reflected Kaiser Permanente nurses and health professionals returning to work after a month-long strike, offsetting declines last month. The prime-age labor force participation rate, at 83.9%, remains historically elevated, but hiring rates have fallen sharply, and job openings now trail the number of unemployed workers.

Inflation remains somewhat elevated. Core CPI registered 2.5% year-over-year in February, while the Federal Reserve's preferred measure, core PCE, was 3.0%. The household debt service ratio, at 11.3% of disposable income, remains below its pre-COVID 2019 peak near 11.7% and its pre-2008 recession peak of 15.8%, suggesting the consumer balance sheet is not yet a source of systemic fragility. The Federal Reserve held the fed funds rate steady at 3.50% to 3.75% at its March meeting, the second consecutive pause following three rate cuts late last year. The central bank finds itself in a difficult position, balancing a softening labor market, a recent shock of sharply higher energy prices, and stubbornly high structural inflation, which could result in fewer rate cuts than anticipated, resulting in an incrementally more difficult backdrop for equity performance. The most significant outside pressure on the outlook is the disruption in global energy markets. Following U.S. and Israeli strikes, Iran's effective closure of the Strait of Hormuz has disrupted roughly 20% of global seaborne oil supply. Brent crude surged past \$100 per barrel, and the price of gas has increased by 30% over the last month. Higher energy costs act as a tax on consumers and compress corporate profit margins across many sectors, with commodity markets more broadly, including natural gas, fertilizer, and aluminum, experiencing significant dislocation.

The S&P 500 declined approximately 5% in the first quarter, resetting the forward price-to-earnings ratio to 19.8x, still above the thirty-year average of roughly 17.1x but below the 22.0x level at year end. Beneath the index level, dispersion has widened dramatically. The performance spread between the 50 best and 50 worst performing stocks in the S&P 500 year-to-date has reached its widest point in over 20 years, reflecting an unusually sharp divergence across individual securities. Market concentration remains a structural factor, with the largest technology companies still representing roughly a third of the S&P 500 index by market cap, but their return contribution has shifted from tailwind to headwind in 2026. Consensus still calls for double-digit earnings growth this year. However, a potential shortfall in GDP, combined with rising input costs and energy-driven margin pressure, makes that outcome difficult to reconcile.

Looking ahead, the interplay between geopolitical risk, inflation persistence, and monetary policy will likely define market direction for the coming quarters. Periods of elevated uncertainty have historically rewarded patient, long-term investors who remained focused on fundamentals, disciplined on valuation, and opportunistic in identifying pockets of value in high-quality securities.

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If your financial situation has materially changed or you would like to discuss your accounts in detail, please contact your investment manager. To request our SEC Form ADV Part 2, please contact Mark J. Sprtel, Chief Compliance Officer, at the address above.