

Economic & Market Commentary

SPRING 2026



'Whether stocks rise or fall is determined by innumerable forces and elements, by economic conditions, the actions of governments, the state of international affairs, the emotions of people – even the vagaries of the weather.'

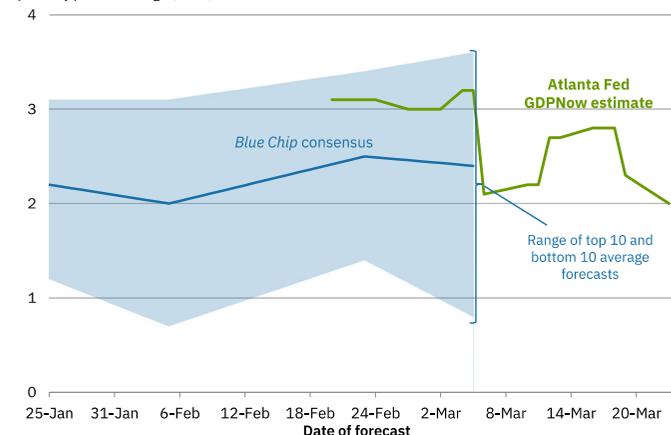
This quote from Bernard Baruch (1870-1965), while nearly a century old, is evergreen. An American businessman, Baruch was responsible for the War Mobilization Board in the first World War, and was a close confidant of Franklin Roosevelt during World War II. His talents were broad and deep, and his words are worth remembering today.

Recalibrating the Economic Outlook

We entered 2026 on a positive note, which quickly gave way on a number of fronts. The first is the sudden and overwhelming attack by American and Israeli forces on the leadership and defense infrastructure of Iran. Oil prices (temporarily?) rocketed above \$100 per barrel, and the critical Strait of Hormuz remains effectively closed as of this writing. Pump prices in the U.S. responded immediately, placing further pressure on consumers' discretionary spending options. The risk of a more uneven 'K-shaped' economy is higher than just a few weeks ago.

In the U.S., uncertainty was amplified by the well-below consensus employment data released in early March. There were three main contributors to this shortfall. First, continued reduction in Federal employment numbers. Second, the impact of immigration law enforcement. The third – a temporary but significant factor – relates to the impact of record-setting blizzards across much of the eastern section of the country.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2026: Q1
Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

These events are reflected in a decline in the outlook for the broad economy and further uncertainty. The Atlanta Federal Reserve Bank publishes a well-respected contemporaneous projection for economic activity. This summary, the GDPNow forecast (shown to the left), projects continued positive growth but below prior estimates. Mainstream forecasts will certainly follow.

The Fed's Job Just Got Harder

We're all aware of the Fed's dual (or dueling) mandates –encouraging low and stable inflation and full employment. The oil price shock will add to inflationary pressures as its impact works its way through the economy. At the same time, unexpectedly weak employment data and higher energy costs will tap the brakes on economic growth potential. At the Fed's Open Market Committee meeting in December, members projected one reduction in the Fed's overnight borrowing rate in 2026. This was confirmed at its March meeting; however, the timing of future rate cuts will likely be pushed further out. This Fed has long characterized its actions as being data dependent. The task at hand is to determine whether the inflation and employment shocks of early 2026 will be transitory or more permanently embedded in the data the Fed depends upon. We believe the impacts will be longer-lived, but ultimately transitory.

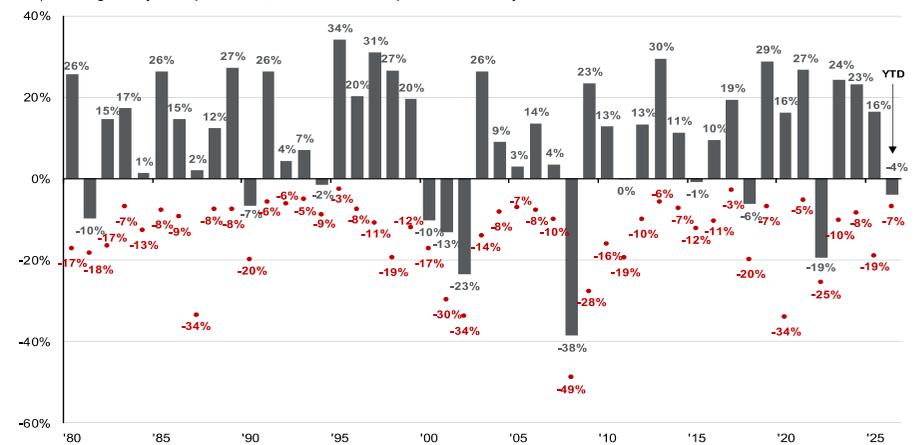
A Healthy Correction and Rotation

The events of early 2026 were immediately reflected in global equity markets. U.S. markets, already top-heavy and dominated by AI- and other technology-related themes, tumbled. International equities, the shining stars over the last year, declined more sharply given their higher sensitivity to global trade and energy costs.

Contrary to common belief, corrections are common. As shown below, the S&P 500 showed intra-year drawdowns (averaging 14.2% top-to-bottom) in every year dating back to 1980. And, despite this downside risk, the market finished in positive territory in just over three-quarters of those years. Patience and a consistent, risk-averse approach to portfolio management help ensure portfolios remain on track to achieve their goals.

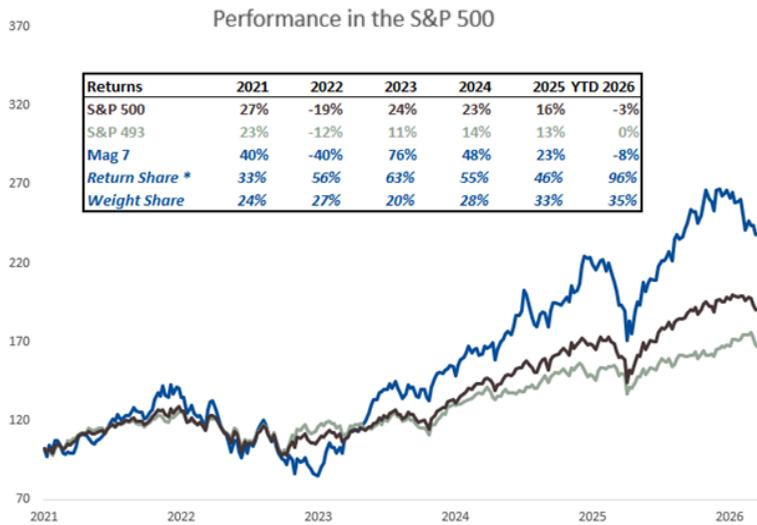
S&P 500 intra-year declines vs. calendar year returns

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 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 as of March 23, 2026.

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Source: Morningstar Direct and SNB Investments

themes comprise a large part of the broad market capitalization in the U.S. Their influence should grow over the intermediate term as global and economic uncertainties command greater attention to capital preservation.

This process occurs over both the short and long terms. Short term, there are often triggering events – like our current environment. Long term, changes in broad economic conditions, technology advancements, and global consumer and business spending patterns are reflected in changing market leadership.

As shown in the upper right, the largest companies in the S&P 500 are not often present a decade later. Exxon and GE are two notable exceptions, present among market leaders for three decades. In looking at today's distribution, the concentration of technology themes is overwhelming. Will this be the same in a decade? Perhaps, but history suggests otherwise. It is said that diversification is the true 'free lunch' in investing; casting a wide net among sectors and markets ensures participation in transitions that take place over time.

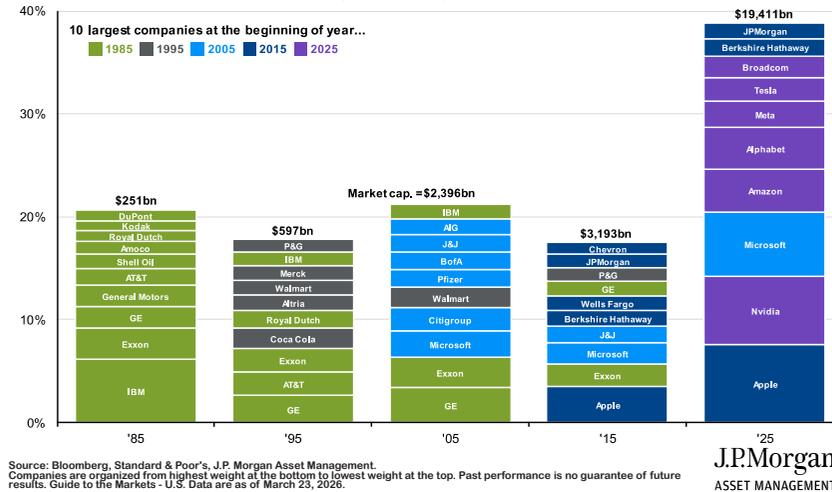
Bonds Remain Attractive Diversifiers

Despite the likelihood of an energy-related uptick in inflation, we expect its impact to fade over time. That said, high quality, intermediate term fixed income should provide positive real (inflation-adjusted) returns in the years ahead. This is a welcome change from much of this decade.

As of this writing, the yield on ten-year U.S. Treasury Notes is comfortably over 4.0%, and the after-inflation return is nearing its highest level in over a decade. Commitments made in today's environments will have dual benefits – positive real performance and a dampening of the periodic volatility of the equity markets. Don't overlook the contribution of today's bond market to a well-diversified portfolio.

One of the characteristics of market corrections is that they often witness sector rotations. We are seeing this today. While most stocks are down, some of the sharpest declines are found in the recent favorites – the Magnificent Seven technology and AI themes which dominated performance in recent years. While these sectors will remain powerful drivers over the long term, greater attention is being paid to so-called 'HALO' stocks – Heavy Assets, Low Obsolescence. These more defensive, value-oriented

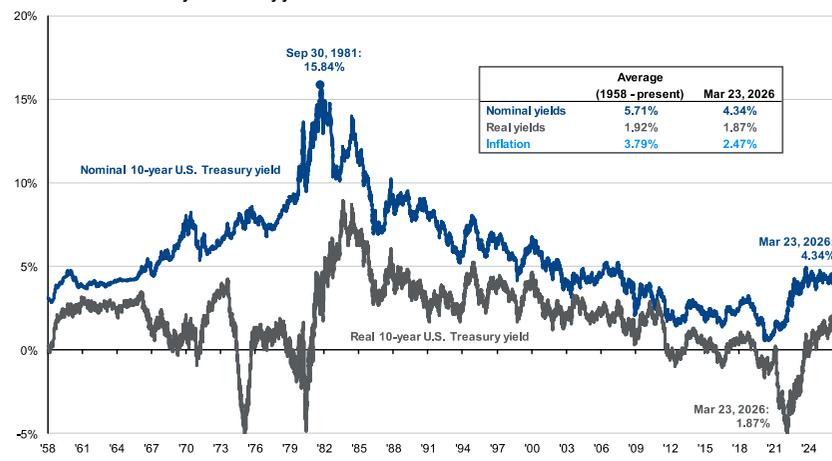
Top 10 S&P 500 companies by market capitalization
Percent of S&P 500 market capitalization as of the first day of the indicated year



Source: Bloomberg, Standard & Poor's, 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 23, 2026.

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Nominal and real U.S. 10-year Treasury yields



Source: BLS, FactSet, Federal Reserve, J.P. Morgan Asset Management. Real 10-year Treasury yields are calculated as the daily treasury yield less y/y core CPI inflation for that month. For the current month, we use the prior month's core CPI figures until the latest data are available. Guide to the Markets. U.S. Data are as of March 23, 2026.

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In the Midst of Every Crisis, Lies Great Opportunity'

This closing quote, from Albert Einstein, remains relevant. The global environment is as unsettled as any since the Covid crisis, and markets reflect this uncertainty. While our base case is that uncertainties will fade over time, the path forward is more unsettled than at the beginning of the year. As investors, our task is to use the current time to build portfolios to take advantage of today's opportunities and build a solid foundation for the future. Your success matters to us.

Economic & Market Commentary is written by the Investment Services Department at Security National Wealth Management.