

MARKET OVERVIEW

2nd Quarter 2026

Central Bank Wealth Management Group

Market Review

- Equity markets experienced above-average volatility in the 1st quarter. After reaching new all-time highs by late January, the S&P 500 trended lower to end the quarter down 4.35%. Mid Cap S&P 400 and Small Cap Russell 2000 both outperformed their Large Cap peers, holding onto a portion of their gains to finish up 2.50% and 0.92%, respectively. International and emerging market equities continued to show relative strength to the S&P 500. MSCI EAFE dropped 1.24%, while emerging markets were essentially flat, losing 0.17%.
- In proportion to their lower risk, bonds markets were volatile as well. Following a historically tight trading range last quarter, the 10-Year US Treasury Yield traded as low as 3.95% and as high as 4.48% during the quarter. The Bloomberg US Aggregate Bond Index was flat, down a negligible -0.05%. High Yield bonds lost 0.5%. Emerging Market debt posted a 1.35% decline.

Economy

- The US economy remains resilient yet periodically showing signs of weakness and acceleration. Reports from the Bureau of Economic Analysis (BEA) since year-end showed slower during the fourth quarter of 2025 of 0.7%. Comparatively, 2025 GDP Growth was 3.8% in Q2, and 4.4% in Q3. Lower Q4 GDP was partially attributable to the government shutdown. Bureau of Labor Statistics (BLS) non-farm payroll reports have also showed high variances from month to month. Employment expanded strongly in January and March but was surprisingly weak in February.
- Leading economic indicators like mortgage applications and ISM surveys of purchasing managers turned sharply higher in Q1 2026. The ISM surveys printed the highest numbers in three years. This suggests business optimism and expansion plans have increased.
- With mixed economic data, the FOMC remains in a holding pattern on the Fed Funds rate. To start the year, Fed Funds futures market expectations showed a consensus view of at least two quarter-point rate cuts in 2026. After the Iran conflict began in earnest, sending oil prices soaring, that same Fed Funds futures market at one point during the quarter suggested rate *hikes* were the most likely course of action. Following indications of a ceasefire, Fed Funds futures again point toward rate cuts.
- A potential increase in already sticky inflation, due to the flow-through of higher oil prices into goods and services represents a new risk to the US economy, and the Fed's ability to loosen policy. Other risks continue to include delayed economic effects of increased tariffs and ongoing global conflicts (Russia/Ukraine/Iran). Employment and housing activity will also be primary variables. We continue to expect no recession in 2026.

Equities

- At its January high, the S&P 500 was up 2% YTD while the Russell 2000 was up over 10%. This divergence accurately describes the underlying broadening of the market. While most stocks across the board declined from the peak, the smaller indices held onto some of their gains.
- The "Magnificent 7" underperformed the S&P 500, which itself underperformed its Equal-Weighted version, further displaying the move toward stocks outside of the best performers of recent years. All Mag 7 stocks were down for the quarter, averaging a 12% decline.
- Following last year's euphoria around the AI theme, companies deemed at-risk for AI disruption have drawn significant scrutiny. The business models of software stocks specifically were called into question. These companies must make use of AI versus allowing others using it to displace them.
- After the attacks on Iran, the market focus shifted almost exclusively to oil. Stocks traded inversely to oil price moves on a near-daily basis.

Fixed Income

- The 10-Year Treasury yield drifted to a multiyear low below 4% before rising to close the quarter at 4.32%, up 15bps year-to-date. The more Fed-sensitive two-year Treasury yield closed the quarter up 32bps at 3.80%, as the market sharply revised its forecast for FOMC rate cuts. In a reversal of the 2025 trend of yield curve dynamics, the 2–8-year portion of the curve rose the most, while longer-dated 30-year Treasuries only rose 5 basis points for the quarter.
- Bonds remain an anchor of our diversified portfolios. We continue to seek yields above Treasuries with the majority of our Fixed Income allocation.



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