



QUARTERLY MARKET REVIEW • RETROSPECTIVE

First Quarter 2026

War in the Middle East sent oil prices soaring and ended a three-quarter winning streak for stocks, as energy companies surged and technology shares fell.

Data as of March 31, 2026 | Retrospective review prepared October 2026
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THE QUARTER AT A GLANCE

War and an oil shock interrupted the rally

-4.6%**S&P 500**

Price return for the quarter, ending a three-quarter winning streak

+38%**S&P 500 ENERGY SECTOR**

Total return for the quarter, the top-performing sector

3.50%–3.75%**FED FUNDS TARGET**

Unchanged; the Fed held steady all quarter

4.32%**10-YEAR TREASURY YIELD**

Mar. 31 close, up from about 4.16% at the end of 2025

01**A sudden war.**

The conflict involving the United States, Israel, and Iran that began in late February disrupted energy supplies from the Middle East.

02**Oil surged.**

Oil prices posted their biggest quarterly gain since 1988, lifting energy stocks and raising inflation worries.

03**Technology lagged.**

Software and other technology shares fell on worries about disruption from artificial intelligence, while energy and value stocks led.

U.S. STOCKS

Stocks pulled back as war sent oil prices soaring

The S&P; 500 fell 4.6% in the first quarter, ending a three-quarter winning streak. The Nasdaq fell 7.1% and the Dow Jones Industrial Average fell 3.6%.

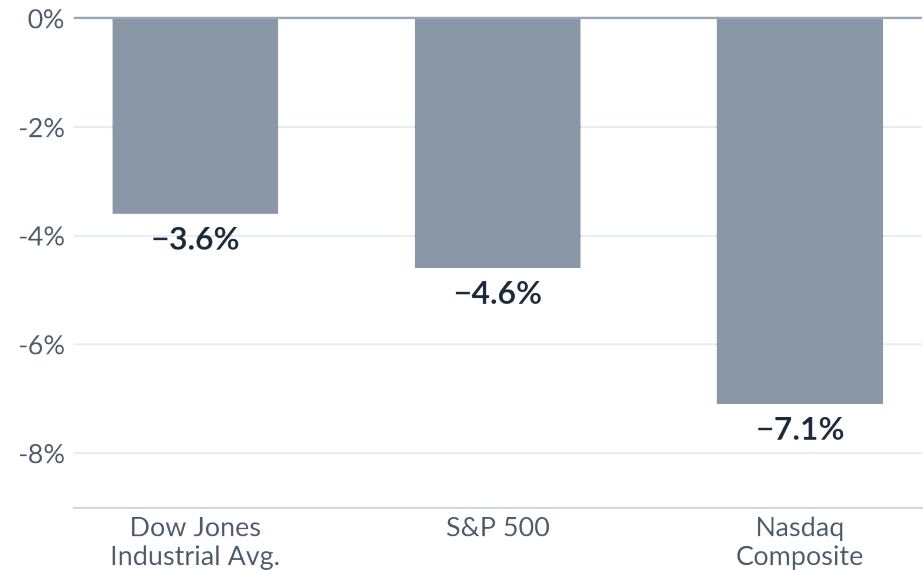
Stocks rose early in the year, then fell after war broke out in late February. The conflict disrupted oil shipments from the Middle East, and oil prices posted their largest quarterly gain since 1988.

Energy was by far the best-performing sector, with a total return of about 38%. Technology, and software companies in particular, lagged amid concerns about how artificial intelligence could disrupt their businesses.

WHY IT MATTERS

Energy stocks are a small part of the overall market, but in a quarter like this one they helped cushion diversified portfolios. The parts of a portfolio that lag in calm times can matter most in a crisis.

First-quarter price returns, major U.S. indexes



Source: S&P Dow Jones Indices; Nasdaq. Price returns, December 31, 2025 to March 31, 2026. Indexes are unmanaged and cannot be invested in directly. Past performance is not a guarantee of future results.

INTEREST RATES AND THE FED

The Fed held steady as an oil shock clouded the outlook

The Federal Reserve kept its benchmark rate at 3.50% to 3.75% throughout the quarter, after three cuts in late 2025. Higher energy prices made the outlook harder to read: they threatened to push inflation up while also weighing on economic growth.

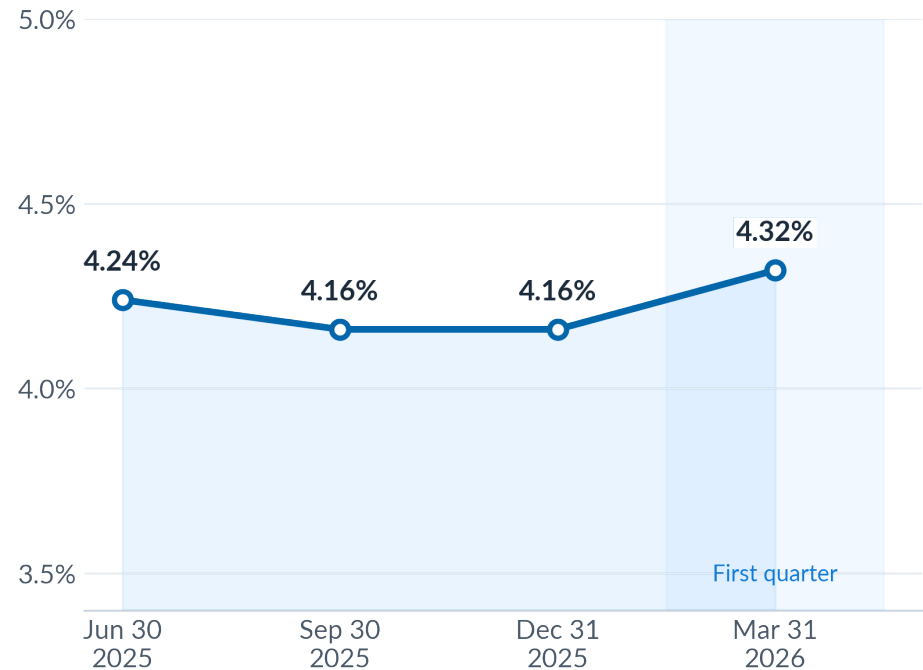
The 10-year Treasury yield fell to about 3.96% in late February, its lowest close of the year, then rose after the war began as investors worried about inflation. It ended March at 4.32%.

Bonds were roughly flat for the quarter.

WHY IT MATTERS

Oil shocks put central banks in a difficult spot, because the same event can raise prices and slow growth. Holding a mix of investments helps a portfolio handle either outcome.

10-year U.S. Treasury yield, quarter-end closes



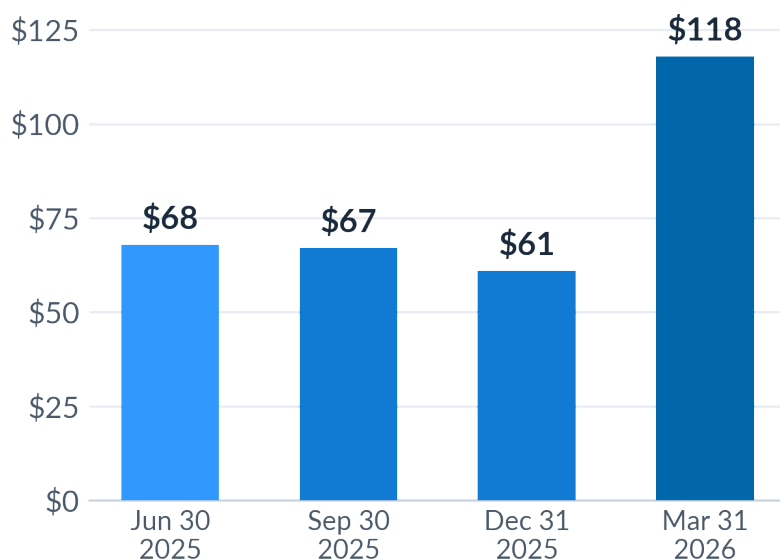
Source: Board of Governors of the Federal Reserve System, H.15 Selected Interest Rates; U.S. Department of the Treasury. Constant-maturity yields at each quarter-end.

OIL AND INFLATION

Oil prices surged, but inflation had not yet caught up

Before the war, oil was inexpensive: Brent crude ended 2025 near \$61 a barrel. After fighting began in late February and shipments from the Middle East were disrupted, prices soared, and Brent ended March near \$118. U.S. gasoline prices rose to their highest level since 2023.

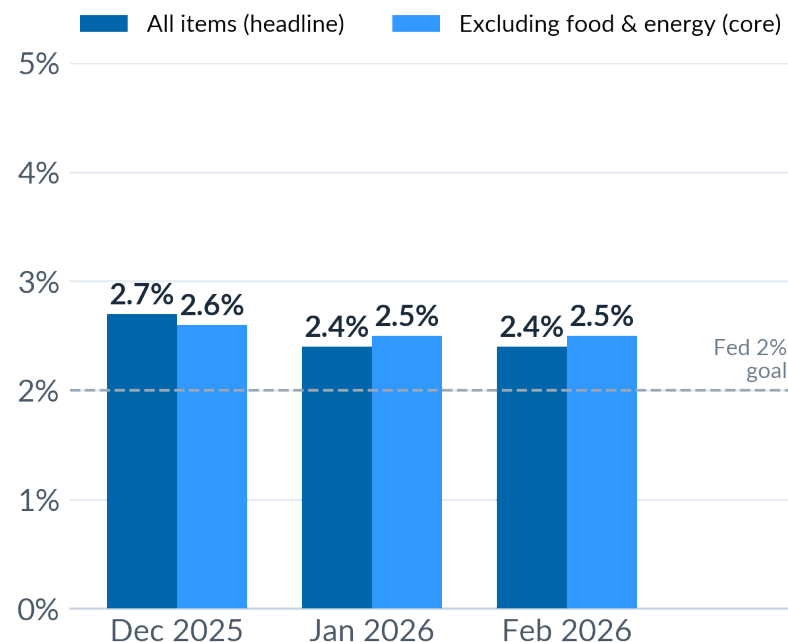
Brent crude oil futures, dollars per barrel



Source: ICE Futures Europe, Brent front-month settlement prices at each quarter-end. March 31, 2026 figure is approximate.

Inflation reports released during the quarter mostly reflected the period before the war. Overall inflation was 2.4% in both January and February, and core inflation, which leaves out food and energy, was 2.5%. Economists expected higher energy prices to push inflation up in the months ahead.

Consumer price inflation, year over year



Source: U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers.

LOOKING BACK

What came next

Inflation jumped

Overall inflation rose to 4.2% in May 2026, its highest level since 2023, before easing to 3.4% by July.

A new Fed chair

Kevin Warsh became Fed chair in late May 2026, and the Fed held rates steady through the summer.

A preliminary agreement and a rebound

A U.S.-Iran agreement in June eased supply fears. Oil fell sharply, and stocks posted their best quarter since 2020.

The Fed raised rates

With oil back above \$100, the Fed raised rates in September 2026, its first increase since 2023.

KEEPING PERSPECTIVE

The first quarter of 2026 showed how quickly a geopolitical event can move markets. The decline was real, but so was the recovery that followed within weeks. Past performance is not a guarantee of future results.

IMPORTANT INFORMATION

Definitions, sources, and disclosures

Definitions. The S&P 500 tracks 500 large U.S. companies. The Nasdaq Composite includes more than 3,000 stocks listed on the Nasdaq exchange and is weighted toward technology. The Dow Jones Industrial Average tracks 30 large U.S. companies. The 10-year Treasury yield is the annual return on a 10-year U.S. government bond held to maturity. The Consumer Price Index (CPI) measures changes in prices paid by urban consumers; core CPI excludes food and energy. Brent crude is the main global benchmark for oil prices. The federal funds rate is the Federal Reserve's benchmark short-term interest rate.

Sources. S&P Dow Jones Indices; Nasdaq; Board of Governors of the Federal Reserve System (FOMC statements, H.15 Selected Interest Rates); U.S. Department of the Treasury; ICE Futures Europe; U.S. Energy Information Administration; U.S. Bureau of Labor Statistics; Freddie Mac. Data as of March 31, 2026, unless otherwise noted. The "Looking back" page reflects data through September 2026.

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