

 **Quarterly Market Review**

The first quarter of 2026 marked a continuation of the market's transition from a period of aggressive monetary tightening toward a more balanced, late-cycle environment. While uncertainty remains, financial markets demonstrated resilience, supported by moderating inflation and steady—albeit slowing—economic growth.

In the United States, economic activity remained constructive. Consumer spending softened modestly, and labor market conditions showed early signs of easing, but overall growth continued at a sustainable pace. Inflation trends improved during the quarter, though services inflation remained persistent. Against this backdrop, the Federal Reserve maintained a cautious stance, signaling that while policy easing may be appropriate later in the year, it remains dependent on continued progress toward price stability.

Equity markets were mixed during the quarter, while the equal weighted S&P 500 index and small cap equities managed to record only modest gains. After an extended period of narrow leadership, the U.S. equity market is showing early but important signs of broadening participation—a shift that carries meaningful implications for both market durability and forward returns. For much of 2023–2025, market performance was dominated by a small group of mega-cap technology companies. These firms drove a disproportionate share of index returns, supported by strong earnings growth, AI-driven optimism, and expanding valuation multiples.

The bond market experienced a volatile and challenging first quarter, as shifting expectations around inflation, monetary policy, and geopolitical risk drove a meaningful repricing across the yield curve. Credit markets remained firm, with relatively tight spreads reflecting continued investor demand for income and a broadly constructive economic outlook.

Commodity markets were a central driver of macro volatility in the first quarter of 2026, with sharp moves—particularly in energy—reverberating across equities, fixed income, and inflation expectations.

After beginning the year in a relatively stable range, commodities experienced a geopolitically driven surge, followed by increased volatility as markets assessed the durability of supply disruptions and global demand trends.

Backwardation in oil markets—where near-term prices trade above longer-dated futures—has re-emerged as a defining feature of the current commodity environment. This structure is not just a technical condition; it is a signal of tight physical supply, strong near-term demand, and elevated geopolitical risk premiums.

Gold delivered a resilient performance in Q1 2026, standing out within the commodity complex as both a defensive asset and a barometer of macro uncertainty. While price movements were not linear, the metal demonstrated underlying strength amid rising geopolitical risk, inflation volatility, and shifting interest rate expectations.

 **Investment Strategy & Outlook**

The outlook for markets in 2026 is best described as a transition year—not a clean expansion, but not a recessionary reset either. It sits in the middle of competing forces: moderating inflation, still-restrictive policy, and earnings that are holding up better than expected but facing margin pressure. This creates an environment where markets oscillate between soft-landing optimism and stagflation concerns.

The prospect of a “soft landing” for the economy remains intact, but risks persist. Inflation may prove more durable than expected, delaying policy easing. At the same time, equity valuations remain elevated by historical standards, increasing the potential for volatility should earnings expectations moderate or financial conditions tighten.

In addition, stagflation risk has moved from a tail concern to a credible base-case influence on markets. While we are not in a full stagflation cycle, the combination of moderating growth and persistently elevated inflation is reshaping the investment landscape.

Economic momentum in the U.S. is slowing toward trend, with softer consumer demand and early signs of labor

market cooling. At the same time, inflation remains sticky—particularly in services—while higher energy prices continue to reinforce cost pressures. This dynamic leaves the Federal Reserve in a constrained position, balancing the need to maintain restrictive policy against the risk of over-tightening into a slowdown.

Markets are adjusting to this tension. The S&P 500 has remained resilient, but leadership is narrow and valuations leave little margin for error. Fixed income yields remain elevated, reflecting “higher-for-longer” expectations, while commodities—particularly energy and gold—are reasserting their role as inflation hedges.

As we assess the current macroeconomic backdrop, the possibility of a stagflationary environment—defined by persistent inflation alongside slowing economic growth—has become increasingly relevant. This regime presents a uniquely challenging landscape for traditional asset allocation, pressuring both equity valuations and fixed income returns.

In this context, we believe a disciplined focus on dividend growth equities offers a compelling framework for navigating uncertainty.

Dividend growth strategies have historically demonstrated relative resilience during periods of stagflation. Companies with the ability to consistently grow their dividends tend to exhibit durable business models, strong balance sheets, and, critically, pricing power. These characteristics allow them to better withstand rising input costs while continuing to generate stable cash flows.

Importantly, the distinction between dividend yield and dividend growth becomes paramount. High-yielding equities without the ability to grow distributions are particularly vulnerable in inflationary environments, as their income streams lose purchasing power over time. In contrast, companies that can grow dividends at or above the rate of inflation provide a mechanism for preserving real income and compounding shareholder value.

That said, dividend growth strategies are not immune to broader market pressures. Elevated interest rates can compress equity valuations, and slower economic activity may weigh on earnings growth. As such, absolute returns may remain modest, with total return increasingly driven by income rather than multiple expansion. Historically, dividends have accounted for approximately 31% of the total return in the broader market since 1926. During the stagflation environment of the 1970’s dividends accounted

for 73% of the total return and during the lost decade of the 2000’s dividends accounted for 100% of the total return in the broader market.

Sector selection will be equally critical. We favor exposure to industries with inherent pricing power and relatively inelastic demand, including energy, consumer staples, healthcare, and select utilities. Conversely, more cyclical and rate-sensitive sectors may face continued headwinds as margins compress and demand softens with small cap companies and non-dividend payers being the most vulnerable.

Ultimately, the objective in a stagflationary regime is not simply to avoid volatility, but to maintain purchasing power and generate consistent, growing income. Dividend growth investing, when implemented with a focus on quality and durability, remains well aligned with these goals.

Finally, the path forward remains narrow. Markets will continue to respond sharply to incremental data on inflation, growth, policy direction and geopolitics. In this environment, disciplined portfolio construction and risk management remain paramount. Investors should resist the temptation to chase returns and “pile-in” to overly crowded investment themes.

We will continue to monitor macroeconomic developments closely and adjust positioning as warranted. As always, we remain committed to a disciplined, long-term approach grounded in fundamental analysis and risk management.

Capital Markets Scorecard

Benchmark Description	Q1	1 Year
U.S. Treasury 3 Month T-Bill	0.87%	4.05%
Barclays Aggregate Bond Index	-0.05%	4.35%
Bloomberg US High Yield Bond	-0.50%	7.01%
S&P 500 Index Total Return	-4.33%	17.80%
S&P 500 Equal Weight Index Total Return	0.67%	12.85%
NASDAQ Composite Total Return	-6.96%	25.60%
S&P U.S. Dividend Growers Total Return	-1.73%	12.77%
Russell 2000 Index Total Return	0.89%	25.72%
Alerian MLP Index Total Return	16.86%	13.92%
MSCI Emerging Markets Index	2.19%	31.36%
China SCI 300 Index Local Currency	-2.56%	20.77%
U.K. FTSE 100 Index Local Currency	3.42%	22.63%
Japan Nikkei 225 Index Local Currency	2.18%	45.92%

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