

Q1 2026: "The Cost of Concentration"

Not all markets are created equal, and in the first quarter of 2026, that distinction mattered more than it has in years. The headlines tell one story: the S&P 500 fell 4.63% for the quarter, the Large Growth index dropped 9.8%, and volatility returned in a way that reminded investors that markets don't move in straight lines. A brewing geopolitical crisis in the Middle East, a cooling labor market, and lingering inflation kept pressure on risk assets throughout the quarter. For anyone watching the major indices, it was a difficult few months.

However, as you zoom out from the headlines, a different story emerges. Bonds held steady. Large-cap value stocks held their ground. International markets outperformed the U.S. for the second year running. High-dividend and low-volatility strategies posted some of their strongest relative performance in years. The Large Value index, more defensively positioned than its peers, was up 2.1%. The Bloomberg U.S. Aggregate Bond Index was essentially flat at -0.05%. One sector stood out above the rest, and that was commodities. Commodities were up an astounding 35.8% year-to-date, showing again how they play the role of protection during times of uncertainty. The data shows that the parts of the market built for resilience behaved as anticipated.

The dividing line came down to one thing: concentration. The same handful of mega-cap technology companies that drove outsized gains in 2023, 2024, and much of 2025 led the decline this quarter, falling 11% as a group. The other 493 companies in the S&P 500? They were down just 1%. Portfolios that were broadly diversified - with exposure to value, fixed income, and international markets - experienced a very different quarter than those riding the momentum of a narrow group of high-flying names.

This is precisely the kind of quarter that long-term financial planning is built for. For two years, managing concentration risk in U.S. equity markets has been a central part of how we approach your portfolio, and this quarter underscored why. In the pages ahead, we'll break down the economy, the stock and bond markets, and the global picture - and, as always, connect it back to what it means for you.

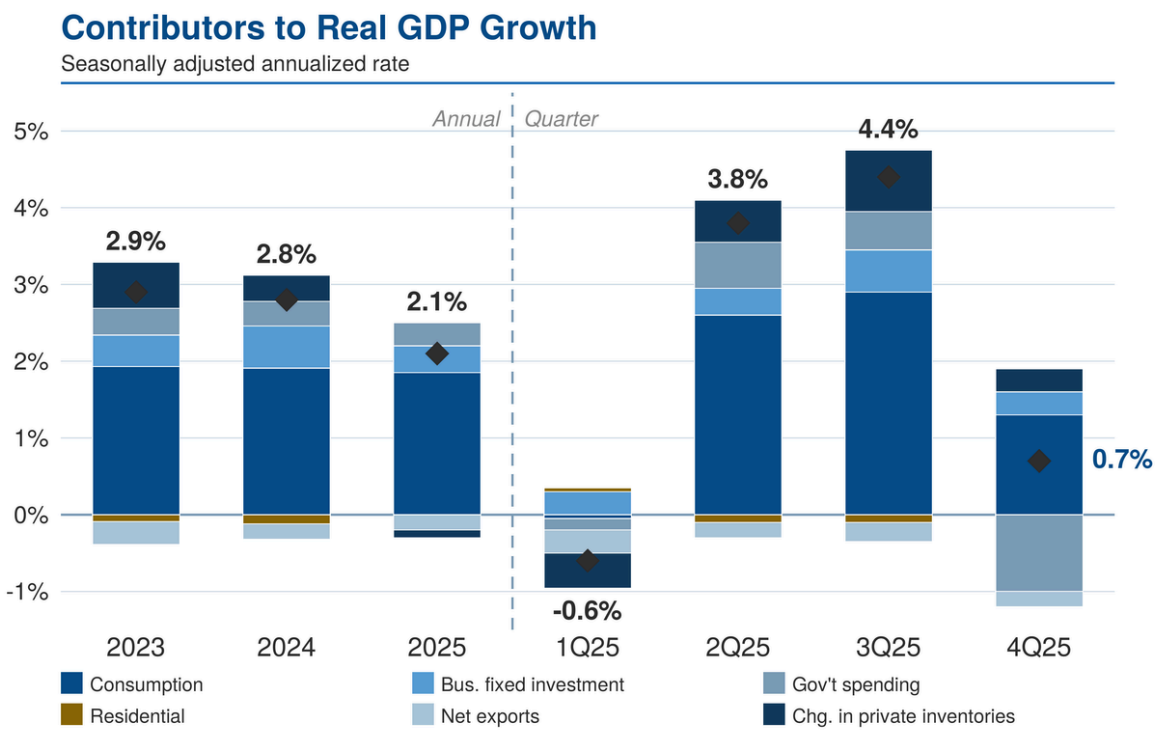
The Economy

The U.S. economy entered 2026 in a position of strength. But strength, as this quarter reminded us, can be complicated. Growth has been real, consumers have been resilient, and corporate earnings have held up. At the same time, the signals beneath the surface are becoming harder to ignore. The economy, much like the markets this quarter, is telling two stories at once.

GDP & Consumer Spending

Real GDP grew at an annual rate of 0.7% in the fourth quarter of 2025, following an impressive 4.4% gain in the third quarter (Fig.1). Back-to-back above-trend readings confirm that the expansion remains intact, but the composition of that growth matters as much as the headline number. As it has for years, the American consumer continues to anchor the economy, accounting for nearly 70% of GDP. As long as consumers keep spending, the economy keeps moving.

That said, there are early signs that spending momentum may be moderating. Confidence has softened amid geopolitical uncertainty, rising energy prices, and a labor market that is no longer as tight as it once was. Consumer spending doesn't turn on a dime, but it is worth watching closely in the quarters ahead. For now, the message is familiar: the U.S. economy isn't booming, but it isn't breaking either - and the American consumer remains its most reliable engine.



Source: BEA, FactSet, J.P. Morgan Asset Management. Guide to the Markets – U.S. Data are as of March 31, 2026.

Figure. 1 (Source: JP Morgan Guide to the Markets)



The Labor Market

If there is one area of the economy that deserves close attention heading into the rest of 2026, it is the labor market. After years of historically tight conditions, the data has shifted - and shifted meaningfully. The February jobs report was the starkest illustration of that shift. The U.S. economy shed 92,000 jobs during the month, well below expectations and the third payroll decline in the past five months.

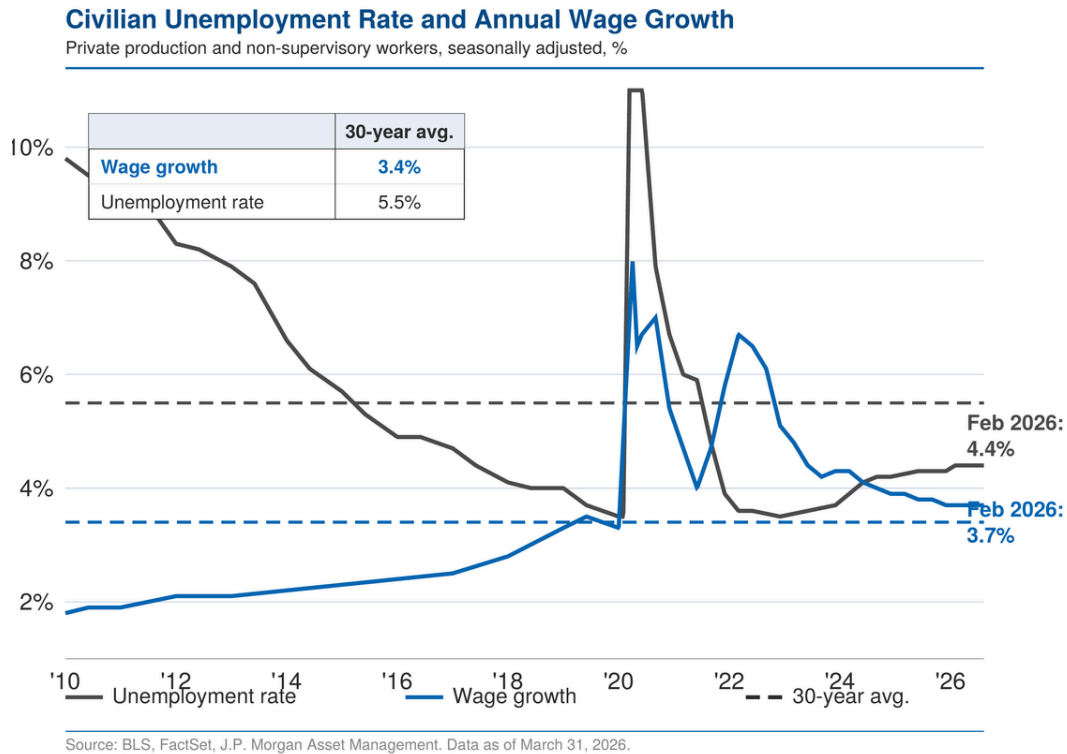


Figure. 2 (Source: JP Morgan Guide to the Markets)

Inflation & The Federal Reserve

Inflation has been the defining economic story of the past four years, and in the first quarter of 2026, the job isn't quite finished. Headline CPI came in at 2.4% year-over-year in February - down dramatically from its peak of 9.1% in June 2022, and technically within striking distance of the Federal Reserve's 2% target (Fig. 3). Progress has been real. But the path from here is anything but straightforward.

The unemployment rate rose to 4.4%, up from a low of 3.4% in 2023 (Fig 2), and the economy has averaged fewer than 5,000 new jobs per month since the start of 2025 - a pace that, historically, has been difficult to sustain without broader economic consequences.

For markets and the broader economy, the labor market matters for one simple reason: jobs drive spending, and spending drives growth. A labor market that continues to soften puts pressure on the consumer confidence that has kept GDP growth above trend. That said, the trend is one we are watching carefully, and it will likely play a central role in the Federal Reserve's decision-making for the remainder of the year.



The complicating factor this quarter is energy. The closure of the Strait of Hormuz in early March sent oil prices surging, reintroducing concerns about slowing growth alongside rising prices - a combination that historically has been challenging for both the economy and markets. This puts the Federal Reserve in an uncomfortable position. The same tool that fights inflation and higher interest rates, is also the one that slows an already cooling economy. It is a difficult balance, and one the Fed looks to navigate carefully.

For now, the Fed has chosen to hold rates steady in the 3.50%–3.75% range. That decision reflects both the progress made on inflation and the uncertainty that lies ahead. Adding to that uncertainty is a leadership transition at the top: Chair Jerome Powell's term ends in May 2026, and markets are already pricing in the possibility of a policy shift under new leadership.

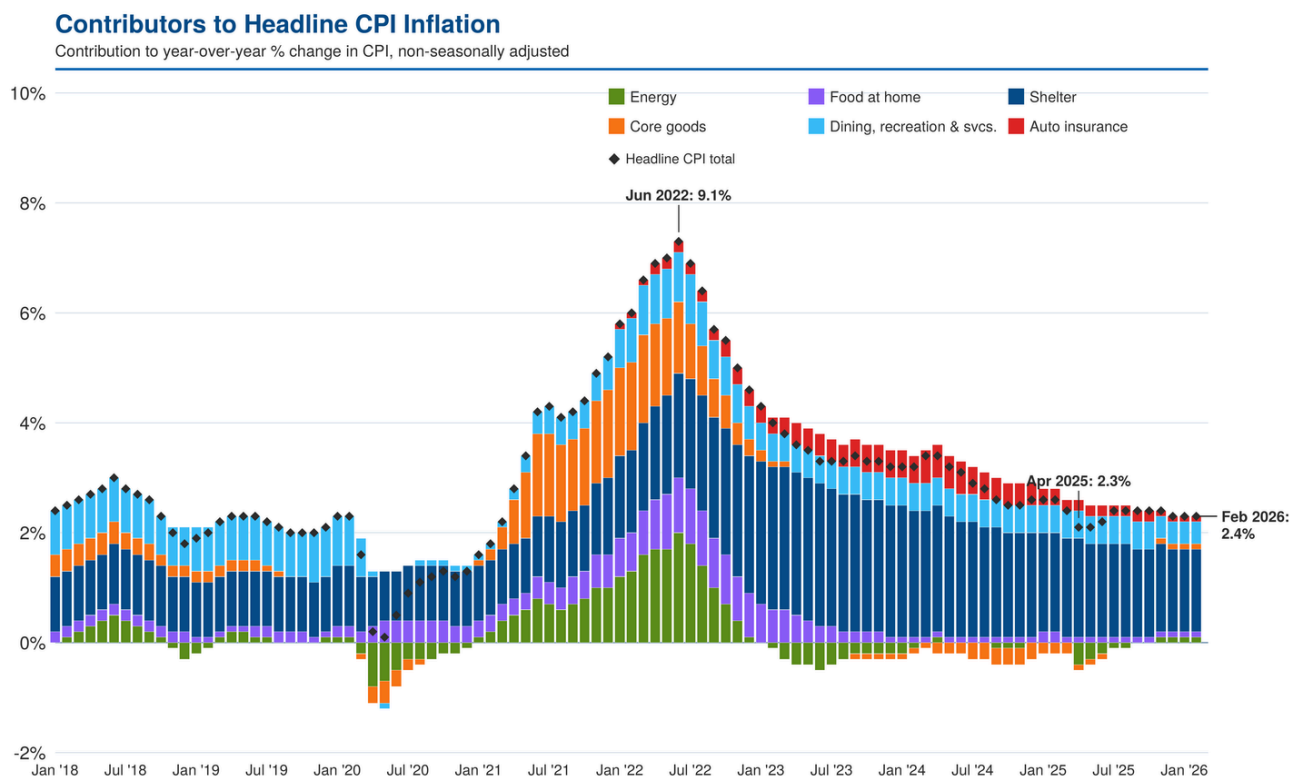


Figure. 3 (Source: JP Morgan Guide to the Markets)

We will be watching closely to see how that transition unfolds and what it means for interest rates in the second half of the year. The most important takeaway for clients is this: inflation is no longer the acute crisis it was two years ago, but the work continues. Patience remains the appropriate posture - both for the Fed, and for long-term investors.



The Stock Market

A Market Divided

Not every stock had a bad quarter. In fact, depending on where your portfolio was positioned, your experience of the first quarter of 2026 may have looked very different from the headlines suggesting the market was in freefall.

The style box below tells the story. Growth stocks, particularly at the large-cap end, bore the brunt of the quarter's decline. Large Growth fell 9.8%, dragged down by the same concentrated group of mega-cap technology names that had driven so much of the market's gains in recent years (Fig. 4).

	Value	Blend	Growth
Large	+2.1%	-4.3%	-9.8%
Mid	+3.7%	+1.3%	-6.3%
Small	+5.0%	+0.9%	-2.8%

Figure. 4 (Source: JP Morgan Guide to the Markets)

The further you moved away from that corner of the box - toward value, toward smaller companies with more modest valuations - the better the picture looked. Large Value was up 2.1%, Mid Value 3.7%, and the dispersion between the best and worst performing segments of the market was among the widest we have seen in years.

This is not a minor distinction. It is the difference between a difficult quarter and a manageable one. For investors broadly diversified across styles and asset classes, the first quarter was uncomfortable, but it was not the crisis that the headline numbers implied. For those heavily concentrated in large-cap growth, it was a different story entirely.



The Magnificent 7: From Tailwind to Headwind

For the better part of three years, a small group of mega-cap technology companies known as the "Magnificent 7" were the engine of the U.S. stock market. In 2023, they accounted for 63% of the S&P 500's returns. In 2024, 55%. Even in 2025, as the market broadened somewhat, they were still responsible for roughly 46% of the index's gains. For investors who owned the S&P 500, owning it effectively meant owning these seven companies, whether they knew it or not.

In the first quarter of 2026, that engine stalled. The Magnificent 7 fell 11% as a group during the quarter, making them the single largest contributor to the S&P 500's decline, responsible for an astounding 83% of the S&P 500's returns. The other 493 companies - down just 1% (Fig. 5). The same concentration that amplified gains on the way up amplified losses on the way down.

It is worth stepping back to understand why. These companies are not bad businesses. Many of them continue to generate extraordinary earnings and lead the world in artificial intelligence investment and development. But even great businesses can become poor short-term investments when their valuations attempt to price in the potential massive impact of AI.

Magnificent 7 Performance in the S&P 500

Annual returns & Mag 7 return share of S&P 500 | 2021 – Q1 2026

Returns	'21	'22	'23	'24	'25	'26 YTD
S&P 500	27%	-19%	24%	23%	16%	-5%
S&P 493	23%	-12%	11%	14%	13%	-1%
Mag 7	40%	-40%	76%	48%	23%	-11%
<i>Return share*</i>	33%	56%	63%	55%	46%	83%

Figure. 5 (Source: JP Morgan Guide to the Markets)

Coming into 2026, the Magnificent 7 were trading at valuations that left little room for error - and when geopolitical uncertainty, rising energy prices, and a cooling economy entered the picture, the margin for error disappeared quickly.

The broader takeaway is not that these companies should be avoided entirely. It is that owning them in proportion, as part of a truly diversified portfolio, rather than as the portfolio itself, is what separates a manageable quarter from a painful one.



The Case for Diversification

If the Magnificent 7 was the story of what went wrong this quarter, diversification was the story of what went right. Large-cap value stocks - companies with solid earnings, reasonable valuations, and strong dividends - finished the quarter in considerably better shape than their growth counterparts. High-dividend strategies and low-volatility portfolios posted some of their strongest relative performance in years, delivering exactly the kind of downside protection they are designed to provide. For the first time in several years, the building blocks of a traditionally diversified portfolio were rewarded, not penalized.

Sector Returns — Year to Date

S&P 500 sector ETF price returns as of March 31, 2026

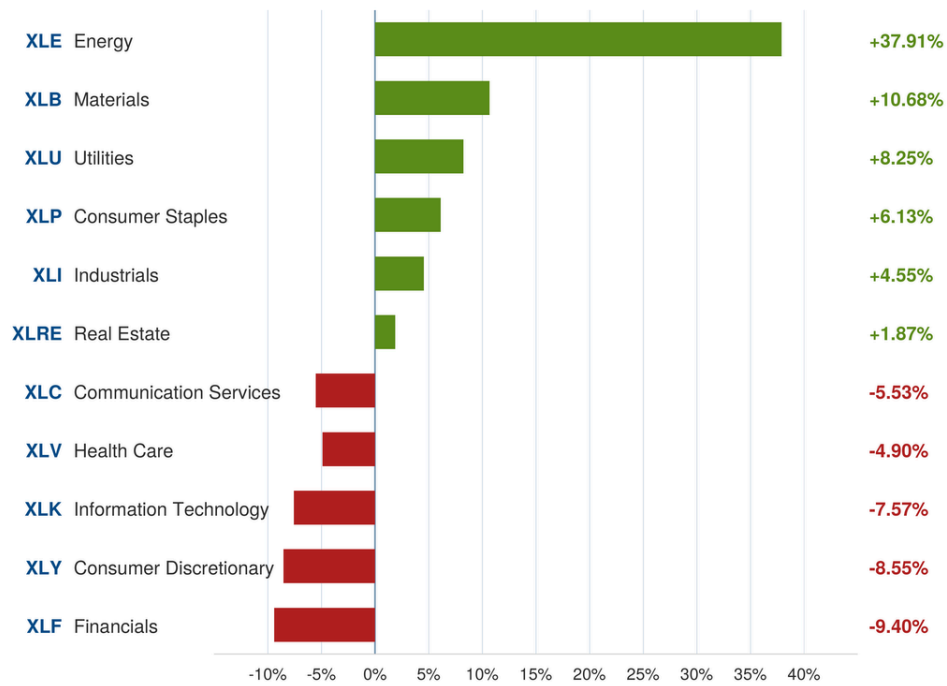


Figure. 6 (Source: JP Morgan Guide to the Markets)

This matters beyond the numbers. One of the most difficult aspects of maintaining a diversified portfolio during a prolonged growth rally is the temptation to chase what is working. But diversification was never designed to maximize returns in a bull market. It was designed to protect when the bull market pauses, and in the first quarter, it did exactly that.

The most important thing to understand about the first quarter is this: the market did not broadly fail. A specific, concentrated part of the market failed, and portfolios built with balance and intention weathered the quarter very differently than those that were not.



The Bond Market

Fixed Income in Q1 2026: Steady in the Storm

While equity markets bore the brunt of the quarter's volatility, the bond market told a quieter story - and a reassuring one. Investment-grade corporate bonds returned -0.54% for the quarter, and municipal bonds -0.18%. The Bloomberg U.S. Aggregate Bond Index, the broadest measure of the U.S. bond market, finished essentially flat at -0.05%.

In the context of a quarter where the S&P 500 fell 4.63%, those numbers represent exactly the kind of stability that fixed income is designed to provide. The modest price declines were driven by a slight rise in interest rates during the quarter, the 10-year U.S. Treasury yield moved from 4.18% at the start of the year to 4.30% by March 31st. When rates rise, bond prices dip, but the key word is dip. The moves were small, and the income generated by bonds during the quarter continued to accrue regardless of where prices moved on any given day. For investors holding high-quality bonds, Q1 2026 was a reminder that the role of fixed income in a portfolio isn't to generate excitement - it's to provide ballast when markets get choppy. This quarter, it did exactly that.

Fixed Income: Yields & Returns

Selected U.S. fixed income benchmarks

	Yield		Return
	3/31/2026	12/31/2025	2026 YTD
U.S. Treasuries			
2-Year	3.79%	3.47%	+0.23%
5-Year	3.92%	3.73%	-0.14%
10-Year	4.30%	4.18%	-0.31%
30-Year	4.88%	4.84%	-0.14%
Sector			
U.S. Aggregate	4.57%	4.32%	-0.05%
IG Corps	5.14%	4.81%	-0.54%
U.S. HY	7.40%	6.53%	-0.50%
Municipals	3.77%	3.60%	-0.18%

Figure. 7 (Source: JP Morgan Guide to the Markets)

The World

The Geopolitical Wildcard

No discussion of Q1 2026 would be complete without addressing the two forces that cast the longest shadow over global markets this quarter: tariffs and the conflict with Iran.



On the trade front, the story is one of historic proportions. The effective U.S. tariff rate on imported goods reached 30% at its peak in April 2025 - the highest level in nearly a century (Fig. 8). While that rate has since moderated to approximately 12% as of March 31, 2026, it remains well above anything markets had grown accustomed to in the modern era of global trade. The uncertainty surrounding tariff policy - who gets hit, by how much, and for how long - has been a persistent source of anxiety for businesses, consumers, and investors alike. Supply chains are being rerouted, corporate earnings forecasts are being revised, and the broader question of what U.S. trade relationships look like going forward remains genuinely unsettled.

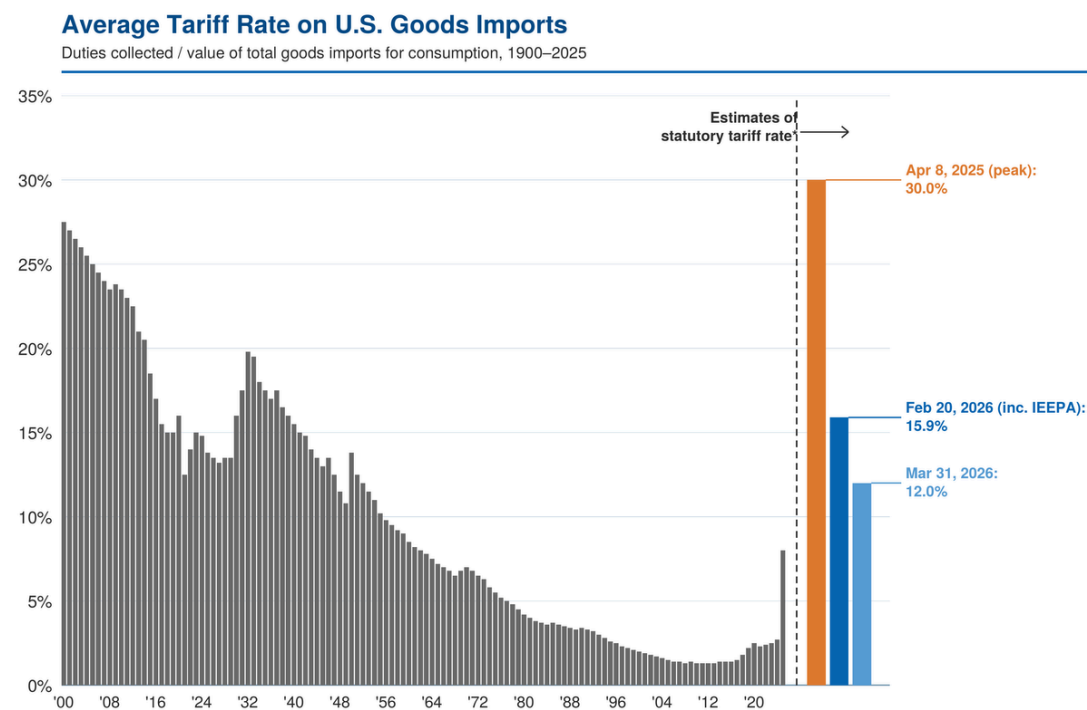


Figure. 8 (Source: JP Morgan Guide to the Markets)

Then came Iran. In late February, a coordinated U.S. military operation targeted Iranian infrastructure, and Tehran responded by effectively closing the Strait of Hormuz in early March, a critical chokepoint through which roughly 20% of the world's oil supply flows. Energy prices surged immediately, reintroducing inflationary pressures at precisely the moment the Federal Reserve had been making progress toward its 2% target. Markets reacted sharply, with the S&P 500 shedding over \$1.7 trillion in market capitalization in just five trading sessions.

It is worth keeping both of these developments in their proper context. Geopolitical events, even significant ones, have historically had a shorter shelf life in markets than they feel like in the moment. The more durable question is whether these disruptions alter the underlying fundamentals of the economy in a lasting way. That is something we are monitoring closely, and it will factor heavily into how we think about portfolio positioning in the quarters ahead.



WIIFM (What's In It For Me?)

A quarter like this one does more than test portfolios, it tests perspective. For investors who were well-diversified, the story of Q1 2026 was a reassuring one: the risks we had been managing for proved very real, and the strategy held up. That's not a reason for complacency, it's a reason to make sure your portfolio is positioned for what comes next.

With that in mind, here are three conversations we feel are most important for the road ahead:

1. **Revisit your risk tolerance:** If the volatility this quarter surprised you or made you anxious, that's valuable information. Risk tolerance isn't just a number on a form; it's how you actually feel when markets move. Now is a good time to confirm your allocation still reflects where you are today.
2. **Take advantage of elevated interest rates in fixed income:** High-quality bonds are still offering yields that haven't been available in well over a decade despite downward rate movement. For clients underweight fixed income or sitting in cash, this window is a real opportunity to lock in meaningful income before rates begin to fall.
3. **Monitor tax loss harvesting opportunities in large growth:** The pullback in large-cap growth stocks may have created losses that can be put to work. Tax loss harvesting allows us to capture those declines as a tax benefit and reposition strategically, without sacrificing long-term participation.

The road ahead carries real uncertainties. Trade policy remains unsettled, energy markets are navigating a level of geopolitical disruption not seen in decades, and the Federal Reserve faces a genuinely complicated balancing act. None of that is to be minimized. But none of it changes the fundamental truth that has held across every market cycle in modern history: that a disciplined, diversified, long-term approach to investing has rewarded the investors who committed to it, and that the moments that test that commitment most are rarely the ones that, in hindsight, warranted abandoning it.



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