



1st Quarter 2026 Client Letter

The Seatbelt Sign Has Been Turned On

April 2026

Dear Client,

Six months ago, the market was hitting new highs led by the Magnificent 7 stocks (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia & Tesla), which were driven by the enthusiasm around artificial intelligence as a viable (and possibly required) technology for American business. However, during the 4th quarter, the bloom began to come off the AI rose. Mag 7 and enterprise software stocks began to undergo a correction underpinned by concerns over rising debt levels and displacement fears surrounding the technology. The money coming out of the AI trade was reinvested back into other sectors of the market, resulting in a broadening out of the overall rally. At the same time, bond markets rose in anticipation of the announcement of a new Federal Reserve chairman more in line with the Trump administration's desire for further interest rate cuts.¹

Thus, the consensus among many Wall Street analysts coming into January was that 2026 could be another constructive year for stocks, but with narrower margins for error than in past rallies. Investors were looking for earnings growth, lower rates, and continued broadening beyond the mega-cap AI leaders that dominated most of 2025.

Yet, as we come into the second quarter of this year, many investors may feel as though they've spent the past six months running on a treadmill. Indeed, through March 31st, all the major U.S. indices (Dow Jones Industrial Average, S&P 500 or NASDAQ) are approximately at the same levels they were at last Halloween.² It has been an extremely volatile ride the last several months, with destination of nowhere.

Markets rose modestly in January (1.4% on the S&P 500), drifted lower in February (-0.9%), then sold off sharply in March (-5.1%). The eruption of the

Iran conflict in late February was largely responsible for this, as surging oil prices served as the catalyst for the most significant decline since the post-tariff sell off in April 2025. The major indices mostly would turn in a negative Q1 2026 (S&P 500 -4.6%; NASDAQ Comp. -7.1%; Dow Jones -3.6%; Bloomberg US Aggregate Bond Index +0.04%).³

Below the surface is where the real story occurred. The VIX (an index representing the market's expectation of volatility, also known as "the fear gauge") nearly doubled from 14.95 at year's end to 25.25 by March 31st. It hit a high of 35.30 on March 9th. The daily metrics tell the story. Fifteen days of the total 61 trading days in Q1 saw moves exceeding 1% -- the equivalent of almost 500 Dow points. At either end of the spectrum, the largest single day gain in the VIX was +2.9% (January 20th) and largest single day loss was -2.9% (March 31st).⁴

Given the ability of computer programs to trade millions of shares in seconds, these types of intraday swings are now "business-as-usual." Perhaps the most striking feature was the enormous dispersion between individual stocks and the averages themselves. According to the institutional manager TIAA, the average stock within the S&P 500 was nearly three times as volatile as the index itself. During the first two months of the quarter, the equal-weighted S&P 500 outperformed the capitalization weighted (biggest companies) by 6%. This is the largest performance gap of this century.⁵ But then the war started and things changed.

When the US and Israel began the bombing of Iran it quickly moved from a single country battle to a regional conflict. Iran retaliated not only against US military installations and Israel directly; it began attacking the energy infrastructure of other Middle East oil producers and effectively blocked passage through the Strait of Hormuz. It is estimated that 20-25% of the world's oil supply moves through this body of water, and oil, for better or worse, is still the life blood of the world economy.⁶ Choking off this large of the supply has global consequences, no matter what level of energy independence a country may have.

Previously, we have written about the false sense of security that diversification can give investors, due to recent trends for most assets to move together under stress. As the price of crude shot from about \$65/barrel at the start of the war to around \$113 at the most recent peak, this tendency again bore out.⁷ Government bonds sold off as rising energy prices raised inflation fears, pushing yields higher and unwinding expectations of additional rate cuts. This likely played in to the sell-off of most equities, as the specter of higher interest rates would have made stocks less attractive to own. Even gold, normally seen as a hedge in volatile markets, sold off in Q1, possibly to book profits after the huge run up in the metal's price last year.⁸

Under normal circumstances, the stock market may have found a bottom on March 30th. That day Harvard University hosted Federal Reserve Chairman Jerome Powell at an economic forum. During questions Powell responded that "he sees inflation as being grounded, even as energy prices rise." He then went on to say, "In the near term, the right move is to look beyond the short-term gyrations of the energy markets and concentrate on the Fed's goals of stable prices and low unemployment." Finally, he addressed the current turmoil in the private credit markets by remarking "that it doesn't seem to have the makings of a broader systemic event."⁹

Such a statement of confidence by the Chair of the Fed at any other time may have caused the markets to rally. In the immediate aftermath, the indices showed some recovery over the subsequent week. A more promising development, the announcement of a two-week ceasefire between the U.S. and Iran on April 8th as this letter was being written, resulted in a one-day gain of over 2% in the markets. The situation remains very fragile, however, and there already have been accusations of violations of the truce. Obviously, nothing is guaranteed to stick at this point.

We feel the fact market isn't down more is a continuing testament to the strength of the American economy and the demand for the best technology stocks in the world. During the

1970s, the price of oil controlled the stock market resulting some of the worst declines in U.S. history. For the moment that doesn't appear to be the case,

which we think is largely due to increases in domestic oil production making America a net exporter of energy. That does not insulate Americans from the inflationary effects of more expensive oil, however. The price of gasoline has climbed from just under \$3 per gallon to now over \$4 per gallon for the first time since 2022.¹⁰ Inflated prices at the pump may extend well beyond the end of the conflict, due to the amount of supply chain damage being wrought.

It may be very difficult, if not impossible, for the market to sustainably go up as long as we have this uncertainty hanging over us. As a result, we don't have forecast for the coming quarter at this time. We are holding onto our core positions, adding cash as opportunities present themselves and keeping our new fixed income purchases short for the time being. We will close by quoting Warren Buffet from his 2021 shareholder letter. "Despite some severe interruptions, our country's economic progress has been breathtaking. Our unwavering conclusion: Never bet against America."

1. Moss Adams, "2025 Market Recap and 2026 Outlook," Michelle Walker, Dec. 31, 2026
2. Yahoo!Finance Market Chart Data, Apr. 8, 2026
3. WhitakerWealth, "Q1 2026 Market Update," Sumit Puri, Apr. 2, 2026
4. Federal Reserve Bank of St. Louis, CBOE Volatility Index as of Apr. 8, 2026
5. TIA Wealth Management, Q1 2026 What's Driving Volatility March 16, 2026
6. BBC, "Why the Strait of Hormuz matters so much in the Iran war," Gavin Butler, Toby Mann, Patrick Jackson & BBC Persian, Apr. 8, 2026
7. TradingEconomics, Crude Oil Prices Chart Data, Apr. 8, 2026
8. Janus Henderson, "Market moves & themes that mattered: March 2026," Apr. 2, 2026
9. CNBC, "Powell Sees Inflation Outlook in Check No Need to Hike Rates Because of Oil Shock," Jeff Cox, Mar. 30, 2026
10. The Guardian, The War in Iran is Boosting Profits for Oil," Laura Aratani, Apr. 6, 2026

This communication is neither an offer to sell nor a solicitation to buy any security mentioned herein. The opinions expressed here are solely those of Millennium Financial Group and do not necessarily reflect the views of Benjamin F. Edwards & Co. or Pershing, LLC. The information contained herein has been obtained from sources we believe to be reliable, but we do not guarantee their accuracy or completeness. The information provided is for educational purposes and general in nature. It is subject to change at any time and without notice. Past performance is no guarantee of future performance.