

Spring 2026 Market Outlook





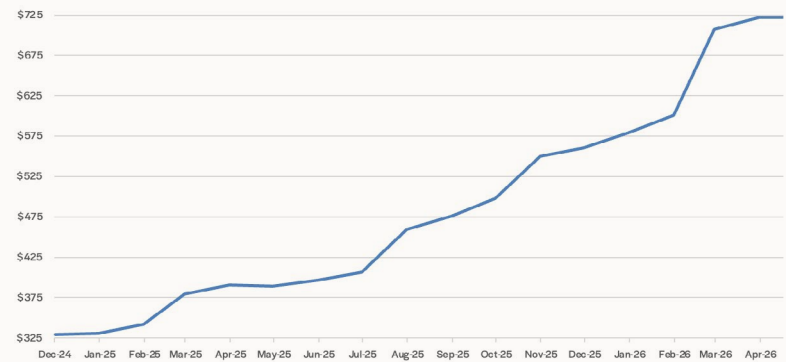
Spring 2026 Investment Outlook

We provide our latest thoughts on each of these topics below in this update, after a quarter characterized by a lot of market-moving news and a corresponding increase in stock market volatility.

- Artificial Intelligence
- Labor Market
- Inflation
- Fiscal and Monetary Policy

Early in 2026, the consensus forecasts obtained from Bloomberg showed that capital expenditures growth at big technology companies was expected to slow substantially in 2026, from 61% last year to 20% this year. We noted that forecasts for AI investment spending had been revised upward consistently over time, so actual growth for 2026 could ultimately exceed that early 2026 forecast. The consensus forecast was indeed increased in Q1, as the early 2026 forecast for \$575B in big tech capital spending has been revised up significantly to nearly \$725B as of early April.

CONSENSUS FORECAST REVISIONS FOR BIG TECH 2026 CAPITAL EXPENDITURES (BILLIONS)



Source: Bloomberg, consensus forecast for Microsoft, Meta, Alphabet, Amazon, Oracle, Apple, Tesla, Tencent, Alibaba

Another important development affecting investors' assumptions about AI infrastructure capital spending was OpenAI's fundraising efforts in Q1 2026. [The company successfully raised \\$122B, which was more than expected.](#) While positive, much of the investment came from Amazon and Nvidia, and those companies will benefit from spending commitments made by OpenAI for Amazon and Nvidia AI cloud services and semiconductor chips. [Such circular financing arrangements are often viewed skeptically by investors.](#)

Among the stronger-performing areas within the technology sector during the first quarter were companies involved in memory and storage, semiconductor equipment, and other components supporting AI data center infrastructure. According to data from Bloomberg, many of these businesses are often characterized as more cyclical and, in some cases, lower quality relative to other segments of the technology sector. In certain portfolios, exposure to these companies has remained limited, reflecting our assessment of business quality and valuation levels, which for some companies appear elevated relative to historical ranges.

In contrast, software companies were among the weaker-performing segments within the technology sector during the first quarter, as investor concerns around long-term competitive positioning in the context of AI developments, including companies such as Anthropic, increased. According to Bloomberg data, many of these businesses are characterized as higher quality based on factors such as profitability and balance sheet strength. Certain portfolios held positions in some of these companies, which detracted from performance during the quarter.

We do not broadly share the view that market-leading software companies will necessarily be significantly disrupted by AI-related competition. In our view, AI may expand opportunities within the software sector over time, though outcomes remain uncertain. In certain portfolios, periods of market weakness have led us to evaluate and, in some cases, selectively increase exposure to companies we believe have strong long-term characteristics.

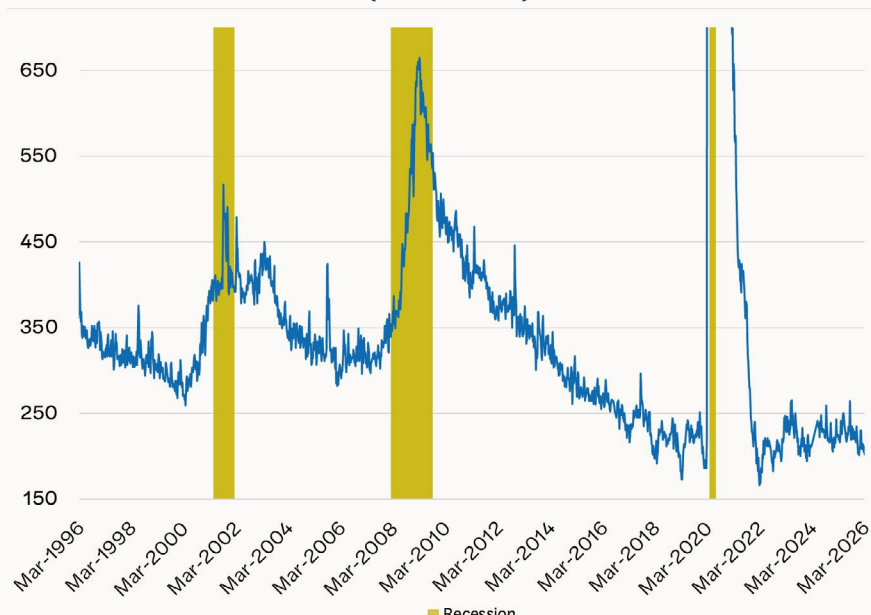
Job growth rebounded in Q1, but nonfarm payrolls growth remains below its range prior to the pandemic. However, initial jobless claims have remained very low compared to history, creating a low-hire, low-fire job market.

NONFARM PAYROLL ADDITIONS
(3 MONTH AVERAGE, THOUSANDS)



Source: Bloomberg, Bureau of Labor Statistics

U.S. WEEKLY INITIAL UNEMPLOYMENT CLAIMS
(THOUSANDS)



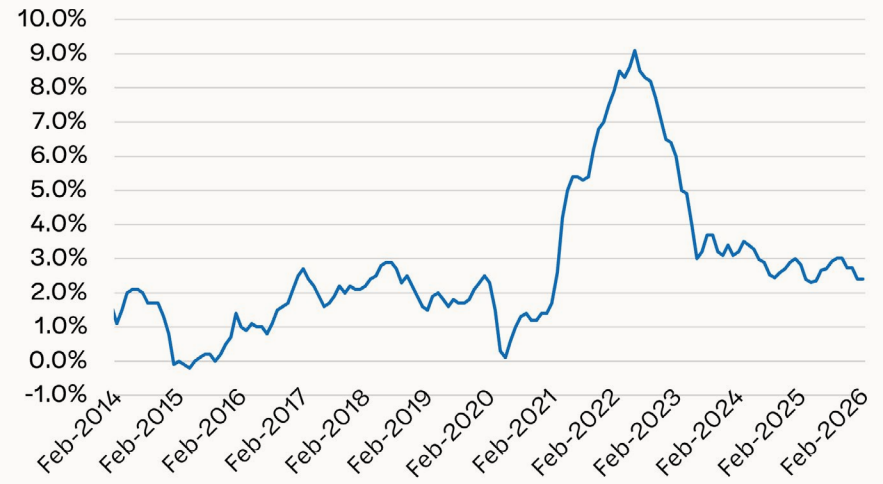
Source: Bloomberg, Bureau of Labor Statistics

We believe the health of the labor market is a key risk to both the economy and stock returns in 2026, and a sharp rise in energy prices due to the war in Iran could destabilize the current low-hire, low-fire environment, in our opinion.

Currently, we believe that job growth will remain positive, but if energy prices surge even higher, our concern about the labor market would increase and we would reevaluate our investment positions..

In our 2026 Outlook, we opined that CPI inflation would decelerate in 2026, though remain above the Fed's 2% target. CPI inflation did decelerate from 2.7% in December to 2.4% in January and February. However, our 2026 inflation projection did not assume there would be a large increase in energy prices due to a new war in Iran. Our current opinion is that the war in Iran may cause an increase in headline inflation through much of 2026, the extent to which depends on how long the Strait of Hormuz remains effectively closed, as around 20% of the world's supply of oil is shipped through the region.

CONSUMER PRICE INDEX YEAR OVER YEAR CHANGE



Source: Bloomberg, Bureau of Labor Statistics

[In February 2026, the Congressional Budget Office increased its 2026 projected U.S. federal budget deficit to 5.8% of GDP.](#)

Historically, deficits of this magnitude have often been associated with post-recession stimulus efforts, with the longest such episode occurring in the four years following the Global Financial Crisis. Notably, this is the first time the government has maintained a budget deficit of this magnitude more than four years removed from a recession.

MONETARY POLICY

[The Fed has held its policy rate steady in 2026 as it weighs the health of the labor market against inflation that has remained above its 2% target.](#) Jerome Powell's term as Federal Reserve Chairman is scheduled to end in May 2026, and earlier this year President Trump announced Kevin Warsh as his nominee for Powell's successor. While Warsh could favor lower rates, he will need to convince a FOMC committee that has voted to hold rates steady since December 2025. As a reminder, Fed monetary policy is set by a majority vote among its twelve FOMC members.



The S&P 500 Index declined 4.3% in Q1 2026. Energy was the best performing sector in Q1 by a wide margin as oil prices rose significantly due to the war in Iran. In contrast, cyclical sectors such as financials and consumer discretionary were the worst performers. Value stocks, which are generally stocks with relatively low price-to-earnings valuation multiples, outperformed growth stocks significantly in Q1. [Higher valuation stocks tend to be more sensitive to rising inflation and interest rates.](#)

SECTOR	Q1 2026 RETURN
Energy.....	38.3%
Materials.....	9.7%
Utilities.....	8.3%
Consumer Staples.....	7.7%
Industrials.....	4.6%
RealEstate.....	2.8%
HealthCare.....	-4.9%
Communication Services.....	-6.9%
Information Technology.....	-9.1%
Consumer Discretionary.....	-9.2%
Financials.....	-9.4%

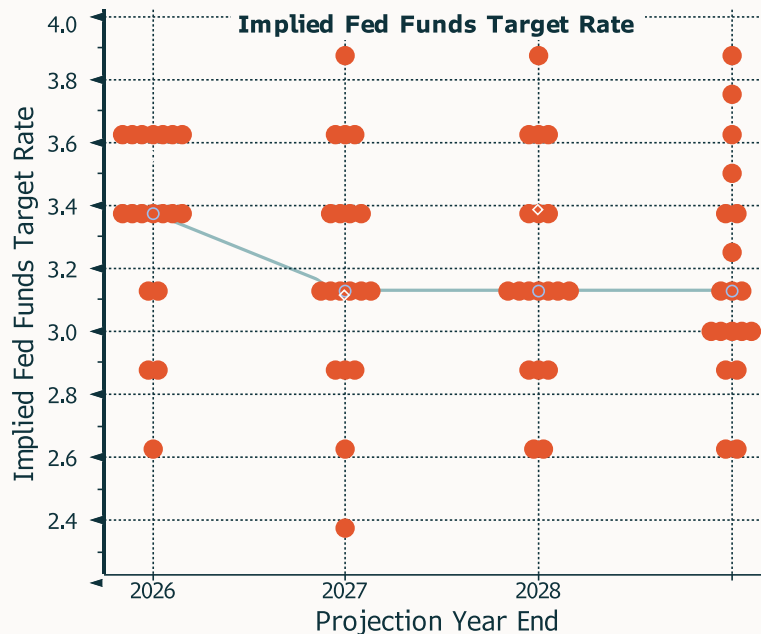
Source: Bloomberg

Q1 2026 STOCK RETURNS	
Russel 1000 Value Index.....	2.1%
Russel 1000 Growth Index.....	-9.8%

Source: Russell, Bloomberg

Fixed income markets during the first quarter of 2026 reflected higher energy prices, shifting inflation expectations, and increased geopolitical uncertainty. Treasury yields moved higher across the curve, while credit and municipal markets experienced modest negative returns, primarily driven by rate movements. Despite elevated volatility, market functioning and investor demand remained generally orderly.

FED DOT PLOTS



Note: Each dot represents one FOMC member's forecast. Source: Bloomberg

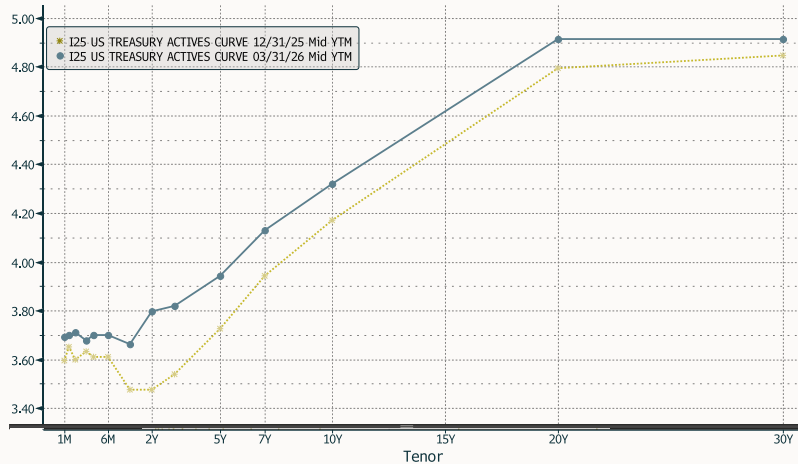
Federal Reserve Policy and Outlook

The Federal Reserve maintained its policy rate at the March meeting, as policymakers assessed the implications of elevated inflation and higher energy prices. The Summary of Economic Projections indicated a median expectation of one rate cut in 2026, although the distribution of individual projections remained wide, reflecting differing views on inflation and growth.

Market-implied expectations for monetary policy shifted during the quarter. Federal funds futures moved from pricing multiple rate cuts at the beginning of the year to limited easing by quarter-end. As of the end of March, futures markets reflected approximately 7 basis points (0.07%) of easing by year-end 2026, compared to approximately 61 basis points (0.61%) at the end of February, based on Bloomberg Fed Funds futures data.

Policymakers have indicated an inclination to look through near-term inflation pressures associated with energy price increases, consistent with the historical approach to supply-driven inflation shocks. At the same time, inflation measures remained elevated, with core PCE near 3% in January, based on data from the U.S. Bureau of Economic Analysis, while labor market conditions continued to align with estimates of full employment according to U.S. Bureau of Labor Statistics data. This combination is consistent with a policy stance characterized by caution and continued data dependence.

US TREASURY YIELD CURVE



Note: Yellow line – Treasury yield curve 12/31/25 & Blue line – Treasury yield curve 03/31/26. Source: Bloomberg

Treasuries

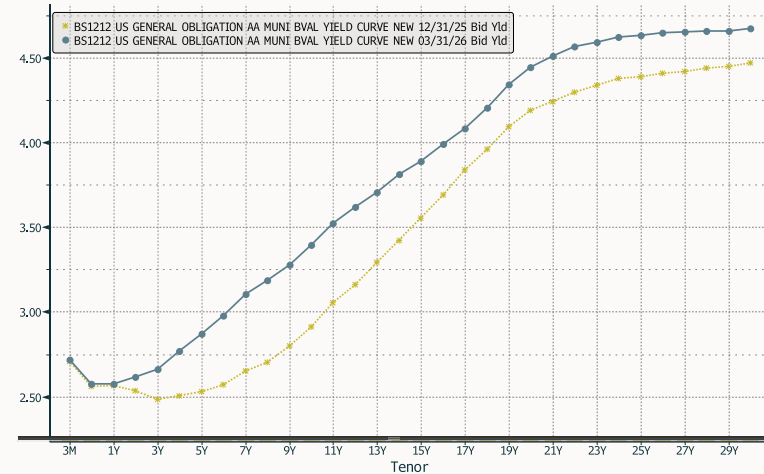
U.S. Treasury yields moved higher across maturities during the first quarter, reflecting an increase in near-term inflation expectations associated with rising energy prices. The two-year Treasury yield increased by approximately 32 basis points, while yields across the intermediate and longer maturities rose by approximately 22 to 7 basis points. As of quarter-end, the ten-year Treasury yield was 4.32%.

The yield curve flattened during the quarter, as intermediate maturities repriced more significantly than the long end. The spread between two- and ten-year Treasuries narrowed to approximately 43 basis points in March, representing the tightest level since April 2025, based on Bloomberg yield curve data. This movement is consistent with higher near-term inflation expectations alongside more tempered longer-term growth assumptions.

Treasury market returns were modestly negative during the period, based on Bloomberg U.S. Treasury Index data. Despite this, trading conditions remained orderly, with volatility largely occurring within intraday ranges.

Longer-dated yields approached recent highs during the quarter, with the thirty-year Treasury yield nearing 5%. Movements at the long end continued to reflect a combination of factors beyond monetary policy, including fiscal conditions, Treasury issuance expectations, and global capital flows. At the front end, yields remained elevated relative to the current federal funds target range, indicating a modest term premium associated with inflation uncertainty.

MUNI YIELD CURVE



Note: Yellow line represents the municipal yield curve as of 12/31/25 & blue line represents the municipal yield curve as of 03/31/26. Source: Bloomberg

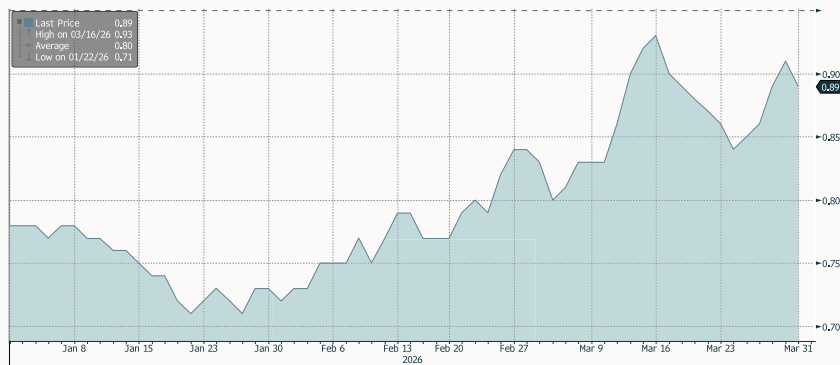
Municipal Bonds

Municipal bond yields increased across much of the curve during the first quarter of 2026, with more pronounced changes in intermediate maturities. Early in the quarter, reinvestment demand from maturities and calls exceeded new issuance, contributing to relatively stable conditions. Market dynamics shifted during March as inflation expectations increased and rates moved higher.

Total returns for intermediate municipal indices were modestly negative, at approximately -0.3% during the quarter, primarily reflecting the impact of higher yields, based on the Bloomberg Municipal Bond: Quality Intermediate Index. Shorter maturities experienced higher volatility but showed limited net change, as pricing adjusted to evolving expectations regarding Federal Reserve policy.

Issuance remained elevated, with approximately \$129 billion of new municipal supply during the first quarter, based on Bloomberg data, and full-year issuance projections near \$600 billion, according to Bank of America estimates. Despite the supply backdrop, market technicals remained stable, particularly earlier in the quarter when reinvestment demand was strong.

INVESTMENT-GRADE BONDS



Note: Bloomberg U.S. Aggregate Corporate OAS, 12/31/25 – 03/31/26. Source: Bloomberg

Investment-grade corporate bond performance was modestly negative during the quarter, driven primarily by higher underlying Treasury yields. The Bloomberg U.S. Corporate Index returned approximately -0.54% year-to-date through March, with March representing only the second negative month in the past ten, based on Bloomberg U.S. Corporate Index data.

Credit spreads widened modestly during the quarter, with average spreads increasing from approximately 86 basis points to 90 basis points versus Treasuries, based on Bloomberg U.S. Corporate Index data. Despite this movement, spreads remained within the range observed over the prior twelve months. Excess returns were slightly negative, with spread widening remaining limited relative to the impact of higher rates.

Primary market activity remained elevated, with issuance volumes reaching historically high levels. January issuance totaled approximately \$209 billion, followed by \$191 billion in February and \$235 billion in March, placing all three months among the highest issuance periods on record, based on Bloomberg data. Demand for new issues remained consistent, with transactions generally well received, while elevated supply contributed to slightly higher yield premiums on certain new offerings.

Fundamental conditions remained stable. Corporate earnings and revenue trends continued to show growth. Investor demand remained steady, with investment-grade fund flows remaining positive during the quarter, based on industry data. Market behavior included periods of intraday volatility, though spread movements remained contained overall.

Our Outlook

While the forecast we offered in January for moderate real economic growth in 2026 remains, we believe the conflict in Iran and the disruption to oil tanker traffic in the Strait of Hormuz increases risks to inflation and economic growth. If ship traffic through the Strait of Hormuz can return to closer to normal in Q2 and energy prices don't increase further, we believe the economy may continue to grow. Predicting how the conflict will evolve in the near-term is impossible, but we believe it is important to keep a longer-term perspective, and to focus on the underlying competitive positions and growth prospects of our stock investments. Volatility created by news on the war, AI, or other factors may present potential opportunities to add to companies that we believe have strong long-term competitive and growth prospects.

Fixed income portfolio positioning generally remains focused on higher-quality exposures, diversification across sectors, and disciplined risk management. Emphasis continues to be placed on securities with strong balance sheet characteristics and consistent cash flow profiles, particularly in an environment characterized by elevated uncertainty around inflation and growth.

Duration exposure is managed selectively across the yield curve, with consideration given to prevailing yield levels, curve structure, and sector-specific dynamics, as appropriate within each strategy's investment mandate. The intermediate segment of the yield curve is used to balance income and interest rate sensitivity, while longer-duration exposures are evaluated more carefully in the context of broader fiscal and economic conditions.

Overall, current market conditions reflect a range of potential macroeconomic outcomes. In this context, portfolio management remains focused on consistency, quality, and careful security selection.



From left to right: Sarah Swan, CFP®, Vice President, Wealth Manager; John Vanden Brul, Fixed Income Portfolio Manager; Todd Artwell, Director of Fixed Income; Ryan Tomko, CFP®, Vice President, Wealth Manager; Brian Lester, CFA, Chief Investment Officer; Mark Thompson, CFA, Senior Equity Analyst; Brett Boyer, CFA, Vice President, Senior Equity Analyst; Eric Udvari, CFP®, CPWA®, AAMS®, Wealth Manager; Dylan Potter, CFA, CFP®, Vice President, Senior Wealth Manager; John Trentacoste, Senior Fixed Income Analyst

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