

Bulls & Bears



Second Quarter 2026

By: Sean McCreery, AFIM
VP, Wealth Investment Officer

Midterm Start

U.S. equities retreated in the first quarter after a strong January, with the S&P 500 declining approximately 4.6%. Historically, down first quarters, particularly in midterm election years, have been associated with below-average full-year returns, reflecting the second and weakest year of the presidential election cycle.

As in 2022, inflation has again been a central headwind for markets. While today's price pressures are being intensified by geopolitical conflict and higher energy prices, inflation was already elevated prior to the recent escalation, as shown in earlier producer and core consumer price data. Persistently high oil prices pose a risk of broader cost pass-through across energy, food production, transportation, and manufacturing.

Equity markets are therefore likely to remain sensitive to developments in inflation, energy prices, and geopolitics, as well as to uncertainty surrounding the upcoming midterm elections. Despite these challenges, we continue to base our outlook on a positive full-year return for equities in 2026, supported by underlying economic resilience, while closely monitoring an increasingly complex and fluid risk environment.

Leadership Change

Markets have historically "tested" new Federal Reserve chairs with brief bouts of volatility as investors assess communication style and policy direction. These early reactions tend to be modest pullbacks of around 5% and are less about the individual chair than the market's instinctive process of recalibrating expectations. Episodes such as the 1987 crash early in Alan Greenspan's tenure and the sharp 2018 sell-off shortly after Jerome Powell took office illustrate how quickly markets can probe a new chair's approach.

More meaningful market declines tend to occur later in a chair's first year and are usually driven by broader economic forces rather than the leadership transition itself. Historically, the S&P 500 has experienced average maximum drawdowns of about 20% during this period, reflecting underlying macro conditions.

With Kevin Warsh nominated to succeed Jerome Powell in 2026, investors are watching for potential shifts in regulatory priorities and monetary policy. This transition may bring near-term volatility consistent with past patterns, though any deeper market moves will likely hinge on the economic backdrop rather than the change in leadership alone.

Solid Momentum

The recent increase in energy prices has renewed concern about the growth outlook, given the historical link between sustained oil shocks and recessions. However, the U.S. economy entered the escalation in Iran-related tensions with solid underlying momentum. Labor markets remain tight, with unemployment edging lower and jobless claims near historic lows, pointing to ongoing income support for demand.

Activity data likewise suggests resilience. Manufacturing sentiment improved in March, with the Institute of Supply Management's Purchasing Manager Index reaching its highest level since 2022 on the back of steady demand and firmer pricing. While firms increasingly cite geopolitical risks and tariffs as sources of uncertainty, these headwinds have not yet translated into a material slowdown.

Overall, recent data indicate moderate growth without a clear resurgence in broad-based inflation. Although higher energy prices pose upside risks to inflation and downside risks to confidence, spillovers to core activity remain limited so far. This backdrop supports a Federal Reserve on hold, focused on monitoring whether geopolitical-driven price pressures become more persistent or begin to weigh meaningfully on growth and financial conditions.

Please contact us at 1-855-829-7192 if we may be of assistance.

Market Indicators

3/31/26 Year-to-Date Change

S&P 500	-4.33%
NASDAQ	-6.96%
Russell 2000	0.89%

Interest Rates

	9/30/25	3/31/26
10-Year Treasury Note	4.14%	4.35%
3-Month Treasury Bill	4.06%	3.71%

