

Garde Market Monitor

The first quarter of 2026 proved to be a sobering reminder that volatility is always lurking around the corner for investors. After three consecutive years of double-digit gains in U.S. equities capped by a nearly 18% return for the S&P 500 in 2025, investors encountered a more turbulent environment to start the new year. The primary culprit was the outbreak of military conflict between the U.S. and Israel against Iran on February 28th, which closed the Strait of Hormuz to commercial traffic and sent oil prices surging past \$100 per barrel for the first time since 2022. As a result, the S&P 500 finished the first quarter of 2026 in negative territory, down approximately 4.3%. While that is never welcome news, history offers perspective: the index has frequently bounced back strongly from a rocky start, and the underlying earnings picture for U.S. companies remains constructive heading into the remainder of the year.

1st Quarter Highlights

- **U.S. equities pulled back amid geopolitical uncertainty.** The S&P 500 declined 4.3% in Q1 2026, weighed down by rising energy prices and uncertainty stemming from the U.S.-Israel conflict with Iran. This follows an 18% gain in 2025 and back-to-back returns exceeding 25% in 2023 and 2024. The forward 12-month price-to-earnings ratio for the index now stands near 19.8x, below the elevated 22.0x reading seen at year-end 2025, representing a modest improvement in valuations and a potential entry point for investors who had been waiting for an adjustment.
- **U.S. earnings fundamentals remain solid despite market volatility.** Corporate earnings have continued to deliver. Many analysts are projecting 2026 year-over-year earnings growth in excess of 13%, which would mark the sixth consecutive quarter of double-digit growth.
- **International stocks offered relative resilience.** Non-U.S. developed markets, as measured by the MSCI EAFE Index, held up better than their U.S. counterparts, declining only 1.2% in the first quarter. While European markets showed weakness, Asia Pacific indexes experienced solid gains and once again provided much needed ballast in the portfolios of diversified investors.
- **Bonds faced headwinds as yields moved higher.** The 10-year U.S. Treasury yield began 2026 at approximately 4.16% and climbed to 4.44% just before quarter-end, its highest level since July 2025, as renewed inflation concerns tied to rising oil prices pushed yields upward. The Federal Reserve held its benchmark federal funds rate steady at 3.50% - 3.75% at its March 18th meeting, the second consecutive pause following three rate cuts in late 2025. The Bloomberg U.S. Aggregate Bond Index faced pressure in this environment, with higher yields translating into modest price declines.

- **Inflation remains above target and the path forward is uncertain.** The February 2026 Consumer Price Index showed inflation at 2.4% year-over-year, unchanged from January and broadly in line with expectations. However, that report predates the oil price surge triggered by the Iran conflict. Energy economists have warned that if oil prices remain elevated near current levels, headline CPI could push meaningfully higher in the coming months. The Fed faces a genuine policy challenge: rising energy costs could reignite inflation at the same moment that a softening labor market might otherwise argue for rate cuts. 2026 will be a pivotal year for the Fed as prospective Chairman Kevin Warsh, once confirmed, will take over mid-year for Jerome Powell.
- **The Iran conflict may be the defining macro event of the decade.** The joint U.S.-Israeli military operation against Iran that began on February 28th triggered the largest oil supply disruption in the history of the global oil market, according to the International Energy Agency. Iran's closure of the Strait of Hormuz effectively removed close to 20% of global oil supplies from markets, and Brent crude surged past \$100 per barrel. Some analysts estimate that persistently elevated oil prices could shave roughly 0.5% or more off global GDP growth in the first half of the year.
- **AI investment themes remained intact even as markets retreated.** Amid the broader volatility, the secular story around artificial intelligence continued to develop. The so-called Magnificent Seven stocks, which together represent nearly one-third of the S&P 500's total market capitalization, remain heavily invested in AI infrastructure buildout.

Three Big Things

This quarter's edition of *Three Big Things* focuses on some practices that we can all be doing to protect our data from fraud. In today's digital world, our personal information is more vulnerable than ever. Cybercriminals are becoming increasingly sophisticated, and data breaches have become a near-daily occurrence. The good news? A few simple habits can dramatically reduce your risk. Here are three critical steps you can take right now to protect yourself:

1. **Enable Two-Factor Authentication (2FA)** Passwords alone are no longer enough. Two-factor authentication adds a second layer of security by requiring a code sent to your phone or generated by an app, in addition to your password, before granting access to your accounts. Even if a criminal steals your password, they can't get in without that second step. Enable 2FA on every account that offers it, especially your email, bank, and social media accounts, and make sure the code comes to a device other than your computer. Authenticator apps like Google Authenticator or Authy are more secure than SMS text codes.
2. **Use Strong, Unique Passwords for Every Account** One of the most common ways fraudsters gain access to multiple accounts is through "credential stuffing", taking a stolen username and password from one breach and trying it on dozens of other sites. The fix is simple but powerful: never reuse passwords. Use a password manager (such as Keeper, IPassword, or LastPass) to generate and store complex, unique passwords for every account. You only need to remember one master password, the manager handles the rest.

3. Be Skeptical of Unsolicited Messages Phishing, where criminals impersonate banks, government agencies, or trusted companies to trick you into handing over personal information, remains one of the most effective fraud tactics. Before clicking any link or providing any information, pause and ask: Did I expect this message? Does the sender's address look legitimate? Is there unusual urgency, a change to recipient bank information, or a threat? When in doubt, go directly to the company's official website rather than clicking a link. *Remember: no legitimate institution will ever ask for your password or full Social Security number via email or text.*

At Garde, we employ risk management strategies, such as global diversification, to protect client portfolios and allow them to navigate through a host of potential disruptions, be they economic, geopolitical, or other unforeseen events. While navigating through volatility is critical, it is equally important that we protect our hard earned capital by protecting our data so that fraudsters cannot disrupt our ability to achieve our long term goals and objectives.

As always, we are available as a resource on any of these topics. Please do not hesitate to reach out to us at any time with questions or concerns, and we look forward to connecting with you soon.

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