First Quarter 2026: Quarterly Letter

We entered the first quarter on a bullish note, with the S&P 500 up 1.4% for January, nearly 19% annualized, and marking the ninth straight month of gains. Foreign equity markets performed even better, with developed international markets up more than 5% for the month and emerging markets up almost 9% for the month. Despite continued high valuations, a "Goldilocks" narrative was taking hold – growth still resilient, inflation coming down but not fully beaten, labor market cooling but not cracking – not too hot, not too cold, but just right.

In February, markets began to worry that inflation was not falling fast enough and that anticipated rate cuts would be delayed, while the AI narrative was evolving from euphoria to scrutiny. The S&P500 was down 0.8% for the month, while foreign markets continued to rise strongly, with developed markets rising another 4.6% and emerging markets rising 5.5%. The global bull market was still intact, and leadership continued to broaden beyond the U.S.

All this changed with the U.S./Israeli attack on Iran. The U.S and Israel dominated the skies, and Iran was beaten but unbowed. Iran closed the Strait of Hormuz, a chokepoint for 20% of the world's oil supply. Oil prices skyrocketed with Brent crude spiking to almost $120 per barrel. Yields rose across the Treasury yield curve from two to ten-year maturities by about 0.40%. Mortgage rates rose by more than 0.50%. The S&P 500 fell by 5% while international and emerging markets fell by 10.2% and 13.0% respectively.

Why? Rates rose because fears of inflation from the oil price spike outweighed the concerns that high oil prices would cause a recession. Stock prices fell amid higher oil prices and interest rates, which negatively impacted earnings, and higher yields, which reduced the present value of future earnings. Foreign markets were hit harder than the U.S. because foreign economies are much more dependent on Persian Gulf oil than the U.S. While the U.S. is a net exporter of petroleum products, we still import crude oil because our refineries are optimized for heavier crude blends that are produced outside the U.S.

So, while a sharp rise in oil prices has historically signaled significant economic pain, this time the impact on the U.S. economy is likely to be more contained than in past energy supply shocks. Not only is the U.S. a major energy exporter now, but oil intensity – that is, the number of barrels consumed per unit of GDP – has fallen by roughly half the level it was at the time of the Gulf War in 1990. Goldman Sachs estimates that the conflict will modestly dent GDP growth — perhaps by 0.3% in the coming quarter — while nudging inflation to 3.0%1. While this does not seem so bad, the path of the conflict - and its implications for oil prices - remains highly uncertain.

In times like these, it is instructive to return to one of Wealthcare's core principles, which is to focus on what we can control. That typically means a disciplined emphasis on risk management, tax management, and cost control. While we can't control the impact of the war, we can control our response. Please reach out so I can help with any concerns or explore ways to adjust your plan or portfolio to keep you on track.

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