



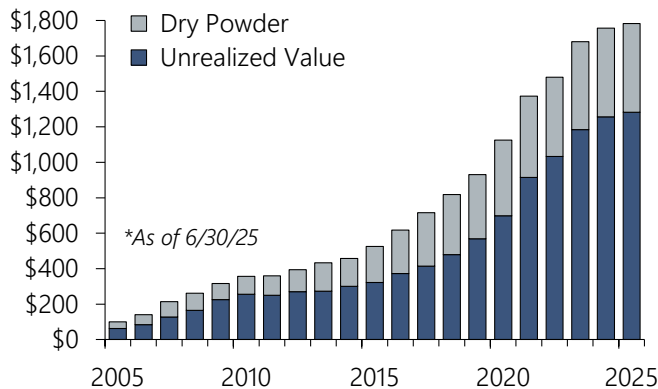
Key Points

- Fragile Multi-Party Truce in Iran Conflict Clouds Global Economic Outlook
- U.S. Economy Better Positioned to Weather Effects of Higher Energy Prices
- Solid Start to Year in China, but Growth Will Moderate Moving Forward
- Energy-Driven Inflation Uncertainty Complicates Monetary Policy Path
- Muni Performance May Remain Volatile but Anchored by High Income
- Energy and Power Remain Key Themes Within Diversified Equity Strategy

In Focus: Private Credit Strains Persist, but the U.S. Financial System Stronger Than Pre-GFC

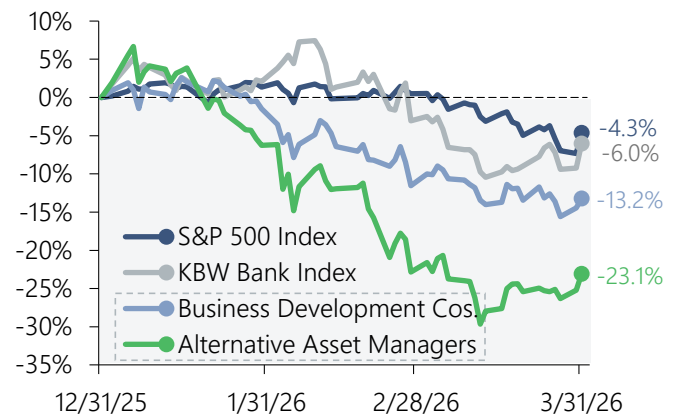
1 Decades-Long Surge in Private Credit AUM

Global Private Credit Assets Under Management, \$ Billion



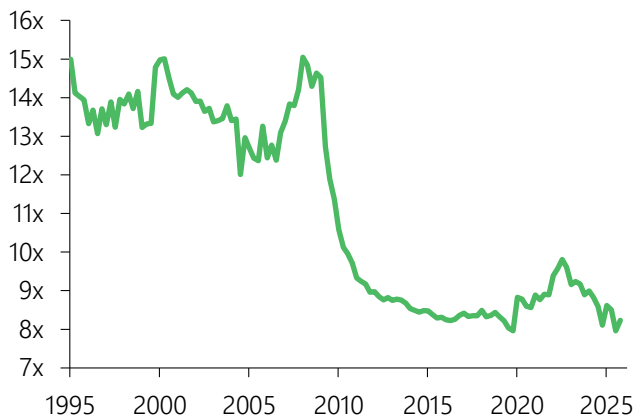
2 Stocks Under Pressure on Default Concerns

Year-to-Date Performance, as of 3/31/26

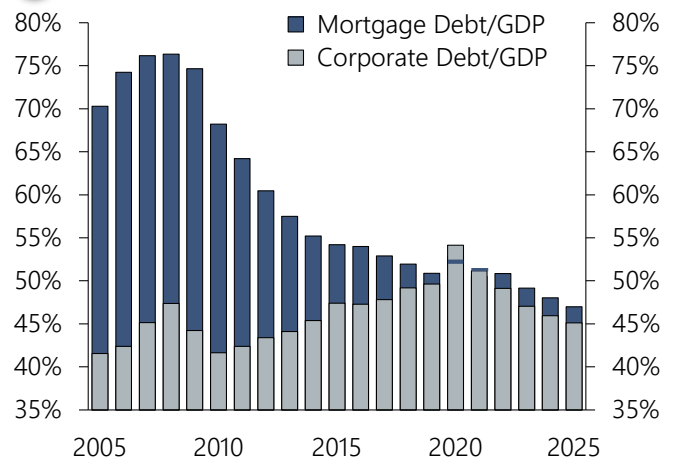


3 Broad Deleveraging Among U.S. Financials

S&P 500 Financials: Assets-to-Equity Ratio



4 U.S. Shows Few Signs of Debt Overload



Sources: Barclays, FactSet, BofA Research, Piper Sandler, 3/31/26

Private Credit: Problematic but Not Systemic

Concerns about private credit have intensified in recent months, with some fearing a boom-and-bust cycle like the 2008 Global Financial Crisis (GFC). While further dislocations and losses in private credit appear likely, the risk of a broader contagion is limited, provided the U.S. economy avoids a recession.

Private credit has evolved from a niche strategy into a pillar of the capital markets over the past two decades. The asset class has grown nearly tenfold over the past 20 years, reaching about \$1.8 trillion in 2025. Much of this growth traces back to post-GFC regulation, which inhibited banks' willingness to lend to middle-market and higher-risk borrowers, establishing a gap that non-bank lenders were well positioned to fill.

Investor demand for private credit followed, driven by the asset class's track record of delivering steady, high single-digit returns and low volatility. Allocations to the asset class accelerated further between 2020 and 2022, as pandemic-related uncertainty and increased market turbulence disrupted traditional financing channels. A concurrent decline in bond yields enhanced the relative appeal of private debt. However, inflows have begun to slow in recent years, and ongoing market uncertainty and shifting investor sentiment may continue to lessen demand in the near term.

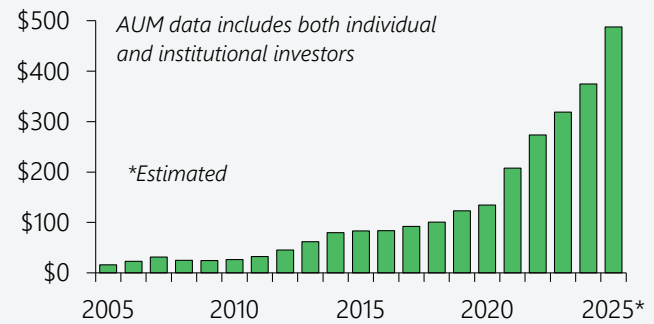
Investor unease is understandable. Many private credit fund structures have not been tested in a recession, and investors have been on alert for signs of stress for some time. Private credit loans are largely unrated, thereby foregoing the scrutiny of independent rating agencies, and are fairly illiquid, with no active secondary market to offer transparent, real-time price discovery.

The bankruptcies of private credit-backed companies, First Brands and Tricolor, last fall raised concerns about broader risk within the asset class. Fears intensified in the March quarter, when several business development companies (BDCs) faced elevated redemption requests. Perhaps most notably, Blue Owl Capital was forced to offload \$1.4 billion of its direct lending investments to provide liquidity to shareholders. Because most BDC fund structures impose redemption limits, or "gates," a mismatch exists between the liquidity requirements of many investors, especially individuals, and the liquidity of the underlying assets.

Prior to 2020, private credit was largely the domain of institutional investors. Since then, however, high net-worth has become the fastest-growing channel, driven mainly by BDCs, which now comprise over 25 percent of the industry. Many of the current challenges can be traced back to the 2020–2021 period, when significant capital was raised and deployed amid exceptionally low interest rates.

Retail Investors Drive BDC Boom

Business Development Companies Total AUM, \$ Billion



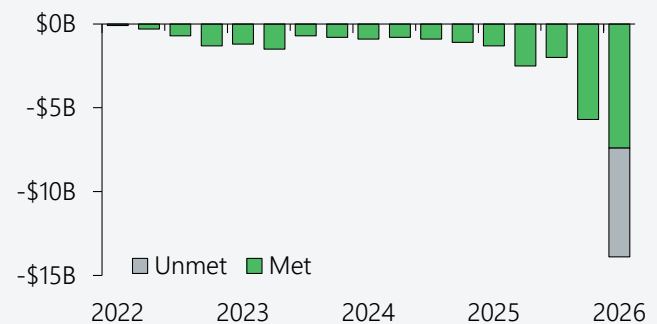
Source: Wolfe Research, 3/31/26

There was also significant concentration in lending to the then red-hot software sector, which now accounts for an estimated 20 percent of loans within BDCs. The concern is that AI may threaten the business models of many software companies by lowering barriers to entry and enabling customers to build solutions in-house. Compounding these pressures, many loans originated in 2021-2022 face a maturity wall beginning in 2027-2028, and the floating-rate structures that historically profited lenders are now adding to the strain on debtors.

It is unsurprising that negative headlines emphasizing the asset class's opacity and illiquidity have prompted some investors to run for the exits. By design, however, private credit funds usually impose withdrawal limits, especially on the "semi-liquid" funds marketed to high-net-worth individuals, and often cap quarterly redemptions at 5 percent of net asset value. While these gates deter the destabilizing outflows that often occur during periods of investor panic, they also risk prolonging the problem—as long as skepticism continues, redemption requests will build, especially if credit losses accelerate.

BDC Investor Redemption Requests Surging

Investor Redemption Requests from Non-Traded BDCs



Source: Wall Street Journal, 4/3/26

Predictably, investors are concerned that credit losses in private funds could spill over into the banking sector, possibly triggering contagion reminiscent of the 2008 GFC. While the untested nature of private credit during

economic stress merits caution, the asset class accounts for about 9 percent of total corporate borrowing, which is significant but unlikely, at least on its own, to imperil the broader financial system. According to S&P Global data, default rates have stayed relatively stable at about 5 percent over the past two years.

The severity of potential losses will naturally depend on the economic cycle. For context, leveraged loan defaults peaked at just above 11 percent during the GFC. Private credit may face greater stress, especially given its higher exposure to riskier sectors such as technology. Even so, private fund managers are well incentivized to mitigate losses, often retain substantial dry powder, and have a well-honed toolkit of restructuring, M&A, and secondary-market solutions to manage distressed positions.

A strong case can be made that private credit is a net positive for the financial system. As noted in a Federal Reserve report issued last May, the growth of private lending represents a shift in credit exposure from banks to private credit funds and their investors, which may actually diminish financial stability risk. Private funds employ lower leverage than banks and pose less “run risk,” owing to contractual lock-ups and redemption restrictions. In stark contrast, banks fund about three-quarters of their balance sheets with run-prone demand deposits, nearly half of which are uninsured.

Estimates of bank exposure vary, but Moody’s surmises that U.S. banks hold around \$300 billion in exposure across lines of credit to BDCs, asset-based finance, and capital call (or bridge) lines. Banks have improved their disclosures on this front, as investors are increasingly focusing on the non-bank financial institutions part of loan books, which have seen outsized growth, driven in part by participation in private credit expansion.

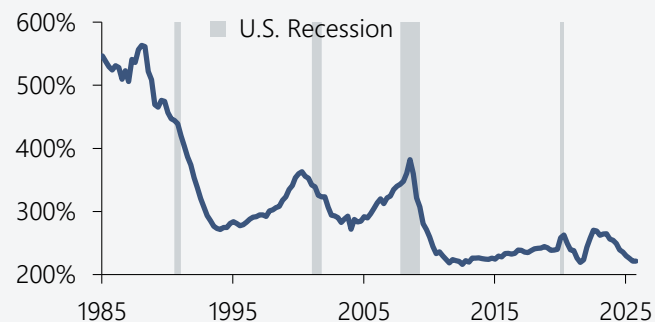
While disclosures remain imperfect, bank exposure to private credit is indirect, senior, and overcollateralized, and often structured with substantial protections. This is in stark contrast to the pre-GFC period, when banks carried far higher leverage and held sizeable credit risk on their balance sheets. If losses do materialize, they are more likely to be absorbed by equity investors than to be transmitted through the banking system.

The banking system entered 2026 on a strong footing: credit performance has remained stable, net charge-offs have hovered around 60 basis points for more than two years, and capital levels remain robust. Against this backdrop, outsized losses in private credit that would be transmitted to the banking sector are most likely to happen during a recession, when credit deterioration is generally more widespread. Importantly, the banking sector’s strong capital foundation continues to be a buffer supporting financial stability. Tangible common equity reached a record \$2.2 trillion at the end of 2025, according to Barclays, and recent revisions to U.S. bank

capital rules suggest meaningful excess capital, particularly among large institutions. At the same time, the share of loans classified as “risky” by the FDIC has plummeted since the GFC, underscoring the system’s improved risk profile.

Less Risk on Banks’ Books Since 2008 GFC

FDIC Insured Institutions: High-Risk Loans to Capital

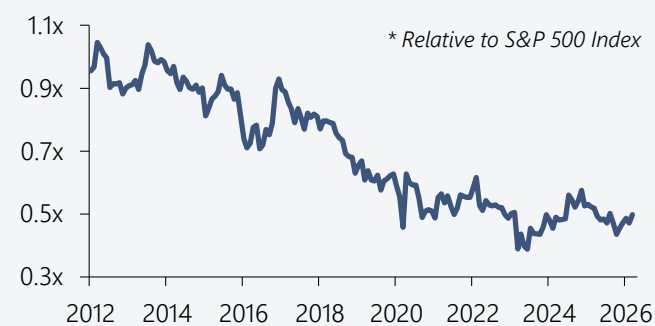


Source: RBC Capital Markets, 3/31/26

We are positive on financials and have taken advantage of recent dislocations to selectively increase exposure to high-quality, well-capitalized banks. While any fallout from the Iran conflict may dampen business conditions, valuations increasingly discount a downside scenario. If macroeconomic uncertainties begin to ease, investor attention could quickly return to the sector’s underlying strengths: robust loan growth, stable credit conditions, and a recovery in capital markets activity. In addition, dividend yields are well above market averages, offering investors the chance to be paid to wait as sentiment and macroeconomic clarity improve.

Given Solid Capital, Bank Valuations Attractive

State Street SPDR S&P 500 Bank Relative NTM P/E Ratio*



Source: FactSet, 3/31/26

Periods of rapid credit expansion have frequently been followed by a fallout, and private credit is unlikely to be an exception. Even so, private debt is a relatively small share of the broader debt market, is less susceptible to bank-run dynamics, and uses limited leverage, all of which help contain potential spillovers. In addition, the U.S. banking system’s strong capitalization remains a crucial foundation for broader economic resilience.



Global Macro Developments

Worst-Case Scenario Likely Avoided, but Fragile Truce Deal Clouds Global Outlook

Outgunned in conventional military capabilities, Iran has adopted a strategy aimed at imposing prohibitive military costs on its foes and maximizing global economic disruption to deter future attacks. The effective closure of the Strait of Hormuz through early April severely choked global energy flows and disrupted trade in other crucial commodities, notably fertilizers. The global market has been short a projected 9 million barrels of oil and refined products per day, or almost 10 percent of global demand (Exhibit 1). Policy interventions, including emergency inventory drawdowns, have bought time, but these finite measures cannot fully offset a structural shock of this size. While much is still unknown at writing, our base-case scenario anticipates that the strait will fully reopen within a month or two, at the latest, amid negotiations, limiting oil prices to a transitory spike above \$100 per barrel and ultimately fostering a return to a more palatable \$60 to \$80 range. Yet, prolonged Iranian control of the strait or sustained sporadic disruptions to energy flows if talks collapse are critical tail risks that cloud the global economic outlook.

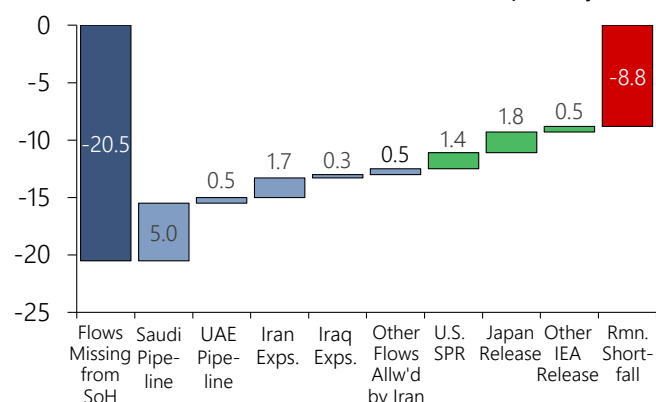
U.S. Economy Better Positioned to Weather Effects of Higher Energy Prices

The U.S. economy entered 2026 from a position of strength. A number of converging tailwinds signaled above-trend growth: recovery from the federal government shutdown, stimulus from the One Big Beautiful Bill Act, easing financial conditions, deregulation, and improving capital investment beyond hyperscalers. As a net energy exporter, the U.S. is better insulated from the conflict with Iran than most nations, particularly those in Asia. That said, higher gasoline prices now threaten to erode the consumer benefit from higher tax refunds, while greater geopolitical uncertainty could prompt companies to delay investment and hiring. Financial conditions have also tightened amid rising Treasury yields driven by inflation fears. U.S. energy spending as a share of GDP has more than halved since the early 1980s, leaving the economy less vulnerable, but not immune, to price shocks. Assuming Brent oil prices average \$113 per barrel in the June quarter and converge to the pre-crisis-expected path by 2028, Oxford Economics lifted its 2026 CPI forecast to 3.3 percent and cut its above-consensus GDP forecast to 2.4 percent (Exhibit 2).

AI Buildout Continues to Power U.S. Growth as Labor Market Remains on Hold

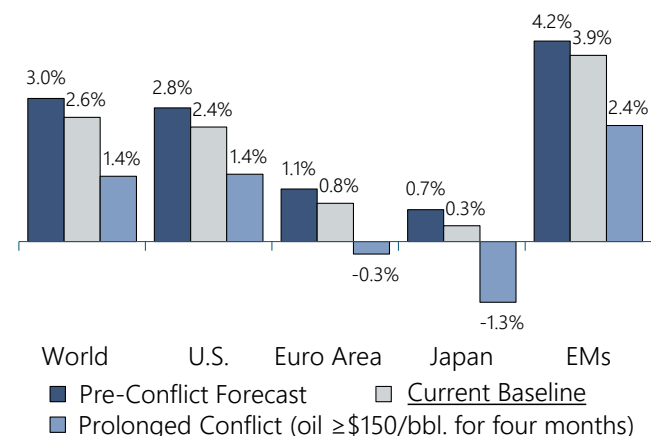
The aggressive infrastructure buildout for AI will continue to buoy U.S. economic growth, with the four largest hyperscalers (Alphabet, Amazon, Meta, and Microsoft) alone projected to spend over \$550 billion, up 60 percent year over year, on capital investment in 2026 and \$700 billion in 2027. BofA Research estimates that the contribution of AI investment to U.S. GDP growth, net of imports, will rise from 30 basis points in 2025 to 40 basis points in 2026. Although some pundits warn of an imminent AI-driven “jobageddon,” the U.S. job market broadly remains in no-hire-no-fire mode. Still, labor demand has been stagnant since 2022, even as the economy continues to grow, suggesting a realignment not yet tied to AI has been underway (Exhibit 3).

Exhibit 1: Estimated Impact of Hormuz Closure
Oil and Refined Products, Millions of Barrels per Day



Source: UBS Research, 3/26/26

Exhibit 2: Global Real GDP Growth Scenarios



Source: Oxford Economics, 3/27/26



The U.S. economy added 178,000 nonfarm jobs in March, nearly triple the consensus estimate. While encouraging, the data was distorted by favorable weather, the end of a healthcare worker strike, and methodological recalibrations. Revelio, an alternative data provider, reported March gains of 19,000. Job gains have averaged only 49,000 per month over the past two years, close to the estimated breakeven, or the level needed to keep the unemployment rate flat (Exhibit 4).

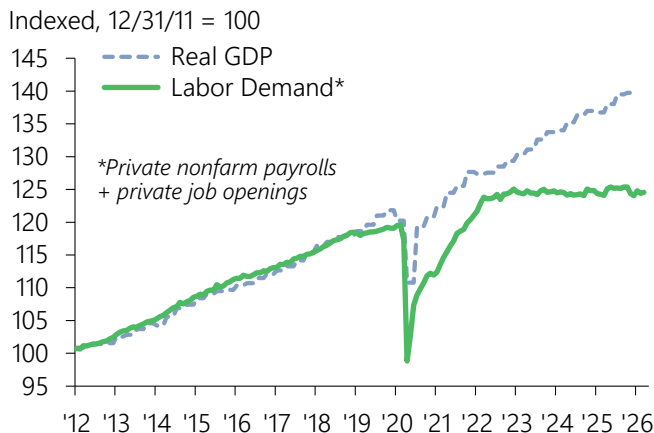
Energy Shock Complicates Fed's Path as Markets Priced Out Interest Rate Cuts

The U.S. labor force has not grown since January 2025, a byproduct of increased deportations, stricter immigration policies, and an aging population. At the same time, the estimated output gap shows little economic slack, likely contributing to inflation persistence (Exhibit 5). As we have stressed previously, with employment stagnant, the burden falls on productivity to drive growth and keep inflation in check. Surging prices for raw industrial commodities, combined with tariffs, have pushed up manufacturing costs. Although the effects of tariffs will soon roll off year-over-year measures, the ISM price indices imply the energy shock could increase headline inflation to near or above 4.0 percent in the near term (Exhibit 6). As per Oxford Economics, each sustained \$10-per-barrel increase in oil prices raises headline inflation by about 40 basis points and shaves 12 basis points off GDP growth. Fed Chair Powell insists the Federal Reserve will look past a temporary spike in energy prices. But the Middle East conflict has significantly pushed out market expectations for rate cuts, with a small but rising probability of a rate hike.

Solid Start to Year in China, but Growth Will Moderate Moving Forward

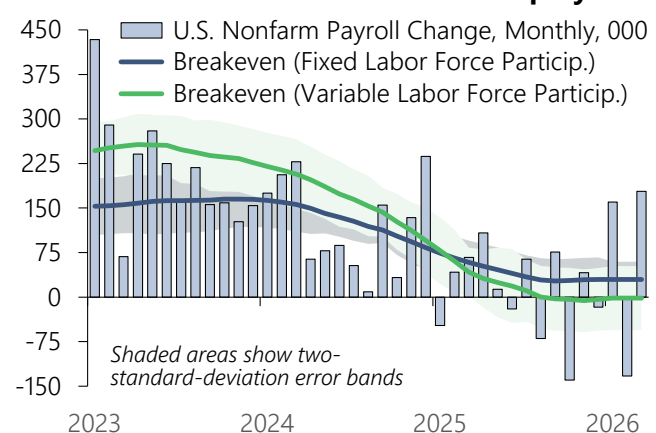
Technology adoption, especially of AI, and industrial development are the top priorities for the 15th Five-Year Plan (2026-2030). While it stops short of setting a goal for growth in household

Exhibit 3: U.S. Real GDP Versus Labor Demand



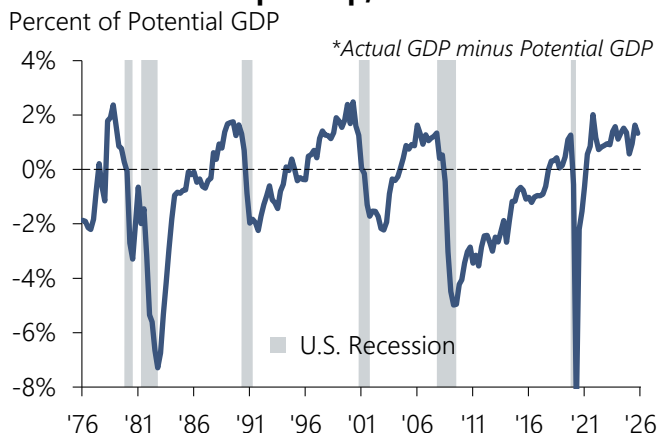
Source: Bureau of Labor Statistics, Bureau of Economic Analysis, 4/3/26

Exhibit 4: Nonfarm and Breakeven Employment



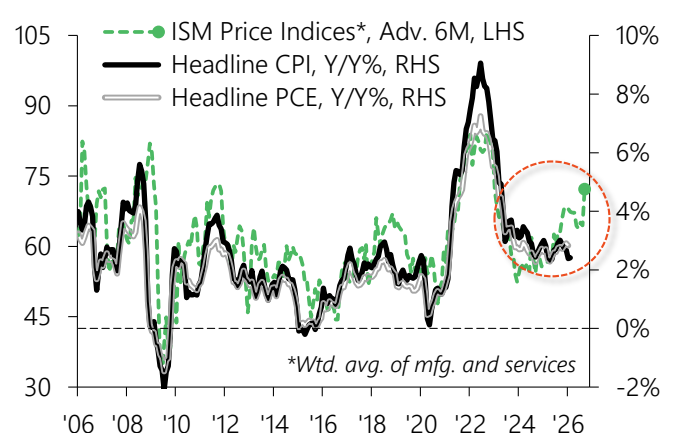
Source: Dallas Federal Reserve, Bureau of Labor Statistics, 4/3/26

Exhibit 5: U.S. Output Gap, % of Potential GDP



Source: Bureau of Economic Analysis, CBO, NBER, 3/31/26

Exhibit 6: ISM Prices Versus Headline Inflation



Source: Institute for Supply Management, BLS, BEA, 4/6/26



spending as a share of GDP, the government’s preference remains for supply-side rather than demand-side stimulus. Policymakers also set the 2026 GDP growth target at 4.5-5.0 percent, down from “around 5.0 percent” in 2025 (Exhibit 7). The recalibration reflects a pragmatic shift toward high-quality growth, structural rebalancing, and an effort to exit from deflation. China’s economy started 2026 with solid momentum, with data surprising to the upside in the first two months, driven in part by a favorable calendar effect and the front-loading of fiscal support. But we expect momentum to moderate as the fiscal impulse wanes and the impact from consumer trade-in subsidies lessens. Moreover, absent large-scale government intervention, the housing downturn will likely continue, albeit at a more modest pace. The Middle East conflict also poses a risk to global demand, clouding the outlook for exports, a key engine of growth in recent years.

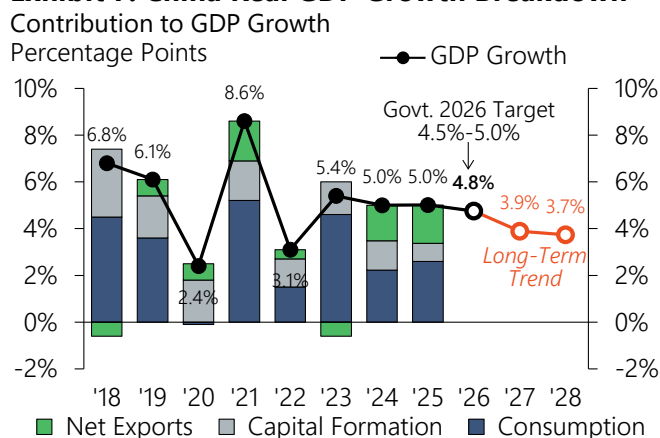
Euro Area’s Economic Growth Hobbled by Yet Another Exogenous Shock

The Euro Area just cannot catch a break. A series of exogenous shocks—Covid-19, the Russian-Ukrainian war, and a surge in Chinese goods exports (“China Shock 2.0”)—has hamstrung real GDP growth in recent years. However, despite the added headwind from increased U.S. tariffs, leading indicators have strengthened since mid-2025, putting the Euro Area in its best cyclical position in some time. At least that was the case before Iran closed the Strait of Hormuz to most commercial traffic. The Euro Area receives only about 10-12 percent of its oil and LNG imports from the Middle East. But as a significant net energy importer, higher global prices threaten to stall growth, raising the specter of stagflation. Whereas the Federal Reserve has dual mandates to promote maximum employment and stable prices, the European Central Bank (ECB) has just one—maintaining price stability. With the 2022 energy shock and the policy errors made still top of mind, the ECB is keeping its options open. While the policy path depends on how events unfold in the Middle East, futures investors are discounting higher short-term rates (Exhibit 8). We also have cut our above-consensus 2026 real GDP forecast from 1.5 percent to 1.0 percent.

Energy Supply Shock to Test Durability of Japan’s Economic Expansion

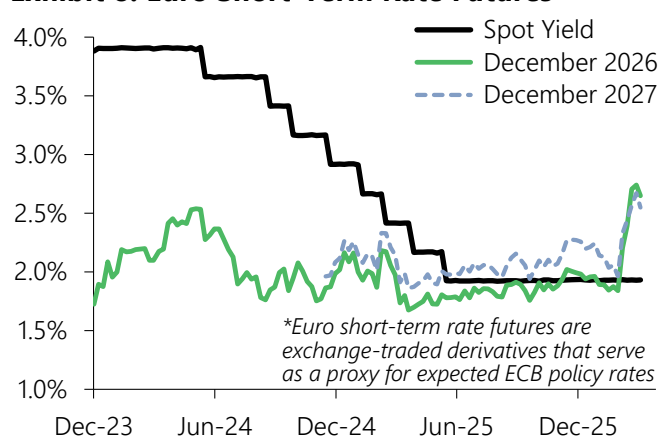
Japan’s economy showed promise early in the year, but its reliance on imported energy has re-emerged as a critical headwind. Domestic drivers remained supportive during the first quarter as consumer sentiment firmed, labor union negotiations signaled a fourth consecutive year of solid wage gains, and corporate sentiment remained buoyant. In addition, the LDP’s landslide victory in the recent Lower House election has solidified political stability under Prime Minister Takaichi, providing a clearer mandate for her expansionary agenda. Yet, Japan remains acutely exposed to disruptions in the Middle East, as the region accounts for over 90 percent of its oil imports. The terms-of-trade shock adds pressure to the yen and threatens to erode real wages and stifle consumer spending. Emergency stockpile releases and retail gasoline price caps buy time but are not a lasting fix. The Bank of Japan must now balance energy-driven inflationary pressures against the possible damage to domestic growth, complicating its efforts to normalize policy. We expect 2026 real GDP to grow by 0.5-1.0 percent, but, as elsewhere, the economic outlook is skewed to the downside should Strait of Hormuz-related energy disruptions persist.

Exhibit 7: China Real GDP Growth Breakdown



Source: National Bureau of Statistics, Sit Investment Associates, 3/31/26

Exhibit 8: Euro Short-Term Rate Futures*



Source: FactSet, 3/31/26

United States: Other Notable Data Points

Business Conditions Improving Pre-Conflict

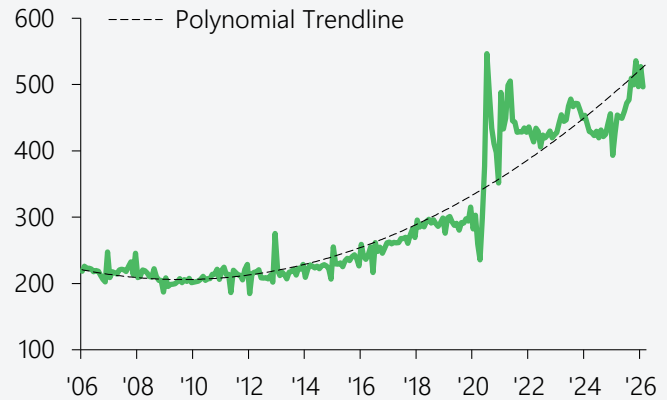
Evercore ISI Company Surveys
0 = Weak, 100 = Strong



Source: Evercore ISI, NBER, 4/3/26

New Business Applications Have Been Robust

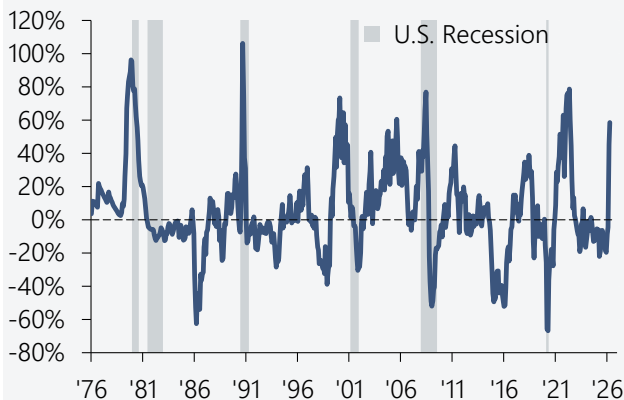
New Business Applications
Monthly, Thousands, Seasonally-Adjusted



Source: U.S. Census Bureau, 3/11/26

Energy Supply Shock Increases Downside Risk

WTI Oil Spot Prices
Percent Deviation from Trailing Two-Year Average



Source: Commodity Research Bureau, NBER, 4/3/26

Historical Effects of Supply Shocks a Mixed Bag

| | Oil Rally Start | Oil Rally End | Brent ¹ Oil Price Chg. | U.S. Real GDP Y/Y ² | U.S. CPI Y/Y ³ |
|---------------------------------------|-----------------|---------------|-----------------------------------|--------------------------------|---------------------------|
| Yom Kippur War | 9/73 | 1/74 | 380% | -0.5% | 9.7% |
| Iranian Revolution | 3/79 | 12/79 | 146% | -0.3% | 12.0% |
| Gulf War | 7/90 | 9/90 | 163% | -0.2% | 5.5% |
| OPEC Constraints | 4/00 | 5/00 | 32% | 2.5% | 3.4% |
| Venezuelan Oil Strike | 11/02 | 12/02 | 42% | 2.8% | 2.4% |
| Outages: Venezuela, Iraq, and Nigeria | 2/08 | 7/08 | 64% | -2.4% | 3.5% |
| Arab Spring | 12/10 | 4/11 | 36% | 1.7% | 3.0% |
| Russian Invasion | 12/21 | 3/22 | 79% | 2.1% | 8.1% |

¹Brent data not available prior to 1985, used WTI for 1979 and Dubai for 1973

² Average of four quarters following the end date

³ Average of twelve months following the start date

Source: UBS Research, 3/13/26

High-Income Household Confidence Plunging

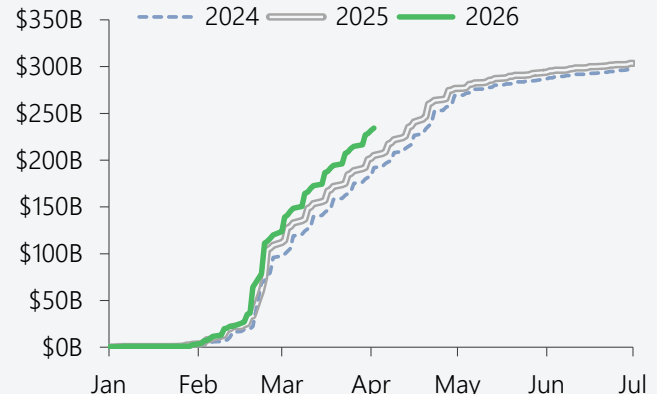
U.S. Consumer Confidence
By Annual Household Income



Source: Morning Consult, 3/31/26

Rising Tax Refunds Poised to Add Some Relief

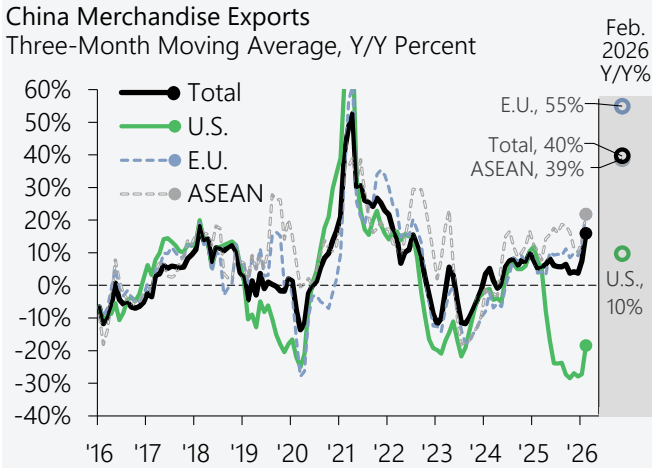
U.S. Individual Tax Refunds, by Filing Year
Cumulative



Source: U.S. Treasury Department, 4/6/26

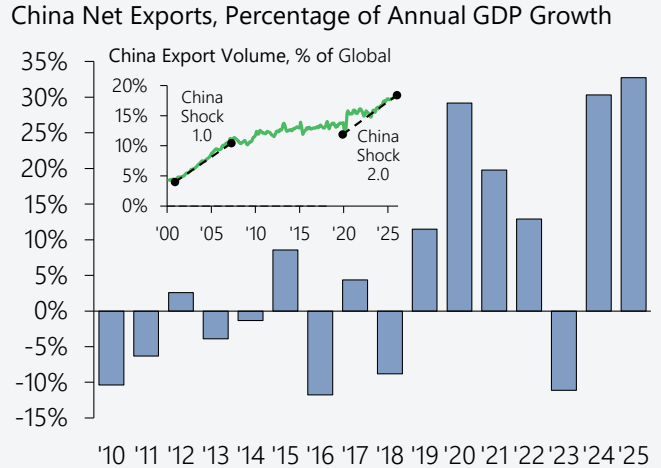
International: Other Notable Data Points

China Export Growth Surged in February 2026



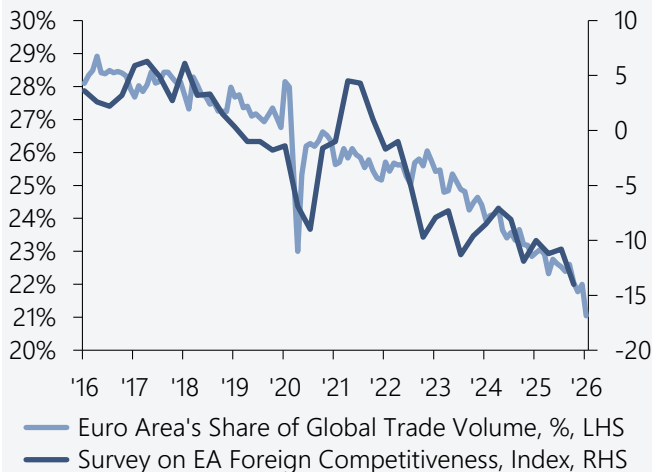
Source: China Customs, 3/10/26

China's Growth Has Become Reliant on Exports



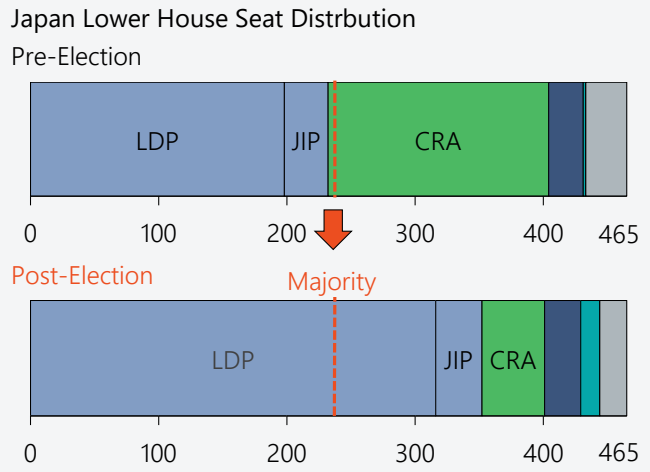
Source: CEIC, CPB Economic Policy Analysis, 3/25/26

Euro Area Continues to Lose Competitiveness



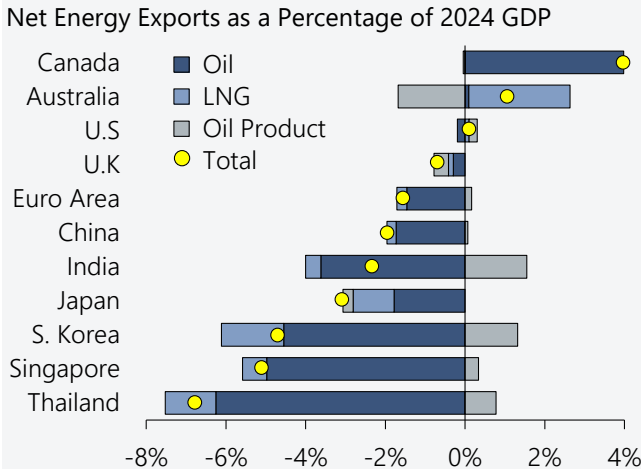
Source: CPB Economic Policy Analysis, Eurostat, 3/25/26

Japan's Election Clears Path for Fiscal Stimulus



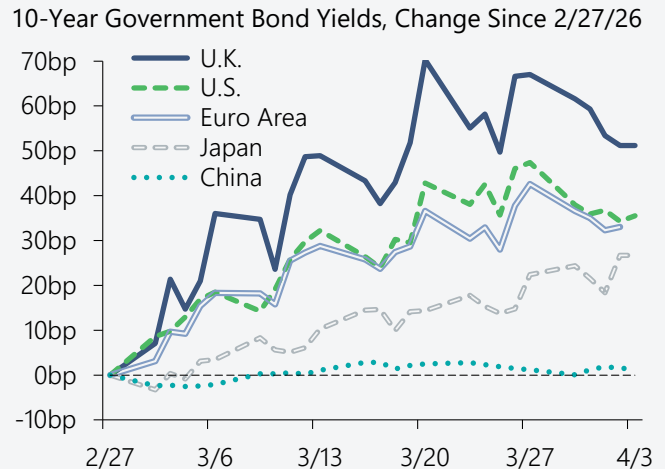
Source: Center for Strategic and International Studies, 2/9/26

Asia & Europe Most Exposed to Energy Shock



Source: UN Comtrade, World Bank, 3/31/26

Global Yields Have Risen on Inflation Fears



Source: FactSet, 4/3/26



Monetary Policy in the Fog of War

The Federal Reserve (Fed) has maintained the fed funds target range at 3.50–3.75 percent year to date, signaling a continued preference for policy patience amid an uncertain macroeconomic backdrop. Although earlier market expectations had centered on a gradual pivot toward easing, escalating geopolitical tensions in the Middle East have muddled the inflation outlook. Rising oil prices have reintroduced upside risks to headline inflation, effectively delaying expectations for rate cuts until much later in 2026. The latest Summary of Economic Projections reflects this more cautious stance (Exhibit 9). The median policy rate path is broadly unchanged, but the distribution of forecasts shifted meaningfully, with more participants now expecting either no cuts or just one 25-basis-point cut in 2026. On the growth side, median GDP projections were revised modestly higher, suggesting ongoing economic resilience. At the same time, near-term projections for both inflation and unemployment edged slightly higher, reflecting stickier prices and a cooling job market. Longer-run estimates, however, were left unchanged, indicating that the Fed still views the current challenges as cyclical rather than structural.

Mortgages Will Benefit From Affordability Initiatives and Deregulation

Affordability and deregulation have become priorities for the current administration, driving a series of measures to lower consumer costs and ease regulatory burdens, especially in financial services. A key development is the March proposed revisions to banking regulations, designed to better align capital requirements with underlying risk and loan quality, thus improving the balance between financial stability and economic growth. The changes free up bank capital to support loan growth while fortifying prudent underwriting via risk-sensitive capital treatment. Mortgage markets stand to benefit meaningfully, as lower capital requirements for residential lending could reduce mortgage rates by up to 40 basis points, improve credit availability, and boost demand. Additional support has come from the administration’s January announcement that Fannie Mae and Freddie Mac would buy up to \$200 billion in mortgage-backed securities, which has already tightened spreads and lowered rates. These actions enhance banking system efficiency, support lending, and reduce the risk of a credit contraction during economic stress.

Taxable Fixed Income Strategy

We are underweight lower-quality credits where valuations do not justify the risk, but periods of volatility, such as the recent Middle East conflict-driven spread widening, are creating select opportunities in fundamentally strong issuers. We view these dislocations as temporary and expect risk premiums to normalize in the coming weeks. Similarly, while higher oil prices have pushed inflation concerns and long-term yields higher, we expect these effects to be short-lived. We aim to capitalize on short-term market overreactions by increasing exposure to temporarily dislocated sectors while maintaining a focus on credit quality and valuation. Portfolios remain positioned with longer durations than benchmarks, especially in the 10-year segment, reflecting relative value and our expectation for lower rates over time. With policy favoring lower long-term yields, we are prepared to extend duration if rates rise. Across strategies, we maintain an income advantage of about 100 basis points over benchmarks while keeping high credit quality, positioning portfolios to navigate near-term volatility and capture longer-term opportunities.

Exhibit 9: Federal Reserve’s March 2026 Summary of Economic Projections

| Percent | Median | | | | Range | | | |
|---------------------------|------------|------------|------------|------------|----------------|----------------|----------------|----------------|
| | 2026 | 2027 | 2028 | Longer-Run | 2026 | 2027 | 2028 | Longer-Run |
| Change in Real GDP | 2.4 | 2.3 | 2.1 | 2.0 | 2.1–2.7 | 2.0–2.7 | 1.8–2.7 | 1.7–2.5 |
| December Projection | 2.3 | 2.0 | 1.9 | 1.8 | 2.0–2.6 | 1.8–2.6 | 1.7–2.6 | 1.7–2.5 |
| PCE Inflation | 2.7 | 2.2 | 2.0 | 2.0 | 2.3–3.3 | 1.8–2.4 | 1.9–2.2 | 2.0 |
| December Projection | 2.4 | 2.1 | 2.0 | 2.0 | 2.2–2.7 | 2.0–2.3 | 2.0 | 2.0 |
| Federal Funds Rate | 3.4 | 3.1 | 3.1 | 3.1 | 2.6–3.6 | 2.4–3.9 | 2.6–3.9 | 2.6–3.9 |
| December Projection | 3.4 | 3.1 | 3.1 | 3.0 | 2.1–3.9 | 2.4–3.9 | 2.6–3.9 | 2.6–3.9 |

Source: Federal Reserve, 3/18/26



Mixed Municipal Bond Returns as Yields Increase

The tax-exempt yield curve steepened during the first quarter. Short-term yields out to three years were relatively stable, while intermediate and long-term yields increased roughly 15-40 basis points (Exhibit 10). Looking deeper at the intermediate and long-term portion of the yield curve, yields increased the most in the 10-year portion and the least in the 20-year portion. Credit spreads tended to tighten as benchmark yields rose, particularly for single-A and below-rated bonds and non-rated bonds. Tax-exempt bond performance was mixed during the quarter. The 1-3-year maturity range performed best, followed by the 20-year maturity range. Other maturity segments were generally flat or down for the month, with the weakest performance in the 7-15 year maturity range.

New Issue Supply of Municipal Bonds Continues at a Robust Pace

First-quarter supply of new issue bonds totaled \$127 billion, more than \$7 billion above the first-quarter 2025 level. This increase was due to a larger-than-usual supply surge in March. Looking at the demand side of the equation, fund flows were robust for most of the quarter, although they did weaken late in the quarter. In terms of recovering the outflows experienced in 2022-2023, long-term municipal bond funds had recovered 35 percent of the total drawdown by late in the third quarter, but including exchange-traded funds, the drawdown was fully recovered by mid-February. Secondary trading volume was down slightly from the fourth quarter and remained the lightest since the third quarter of 2024.

Tax-Exempt Fixed Income Outlook

We expect coupon income to anchor returns for the rest of 2026, but recognize that price movements could remain volatile. The Fed may be on hold for some time, given that the conflict with Iran and the effective closure of the Strait of Hormuz are having an inflationary impact, which could complicate the Fed's short and intermediate-term decisions. While this leaves us with less certainty regarding the path of future interest rate changes, market yields have increased, and bonds are providing an attractive level of income. Most municipal bond strategists expect new-issue supply to continue at a strong pace this year, a view with which we tend to agree, unless rates increase further and remain elevated for an extended period.

Tax-Exempt Fixed Income Strategy

All strategies continue to possess a significant income advantage over their benchmarks. We continue to favor revenue bonds, especially housing and airports, as well as other revenue bond issues with attractive relative yields. Short-call bonds are usually a focus for us, but we have also been buying bonds with intermediate-term call provisions where appropriate. We also like bonds with coupons above 5 percent, given their defensive nature and attractive income. Moreover, we continue to opportunistically reduce our exposure to lower-coupon bonds, given their volatility relative to higher-coupon bonds. This tactic mostly applies to intermediate- or long-term maturities, where average lives are not markedly shorter than stated final maturities, or where yields to expected average life dates are not compelling. As a result, average coupon rates are gradually increasing, particularly for intermediate- and longer-duration portfolios. Lastly, most portfolios maintain duration longer than their benchmarks, which should help them benefit from a relatively steep tax-exempt yield curve.

Exhibit 10: Bloomberg Municipal Bond Index Returns, Percent

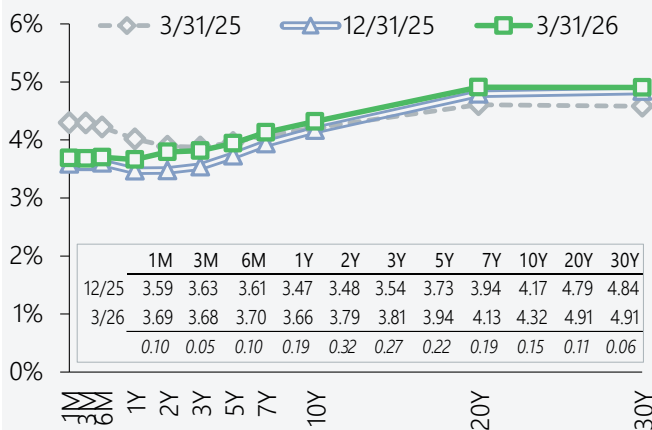
| | QTD | | QTD | | QTD | QTD | |
|-----------------|-------|-----|-------|--------------------|-------|-------------------|-------|
| Muni Bond Index | -0.18 | AAA | -0.34 | GO Bond Index | -0.32 | | |
| 3-Year | 0.47 | AA | -0.20 | Revenue Bond Index | -0.13 | Education | -0.45 |
| 5-Year | 0.01 | A | -0.03 | Electric | -0.22 | Water & Sewer | -0.14 |
| 7-Year | -0.56 | BBB | -0.08 | Hospital | -0.18 | Resource Recovery | -0.46 |
| 10-Year | -0.79 | | | Housing | -0.03 | Leasing | -0.10 |
| 20-Year | 0.37 | | | IDR/PCR | -0.12 | Special Tax | -0.18 |
| Long | -0.22 | | | Transportation | 0.08 | Tobacco Index | 0.49 |

Source: Bloomberg, 3/31/26

Fixed Income: Other Notable Data Points

Yield Curve Flattened on Rate Cut Uncertainty

U.S. Treasury Yield Curve

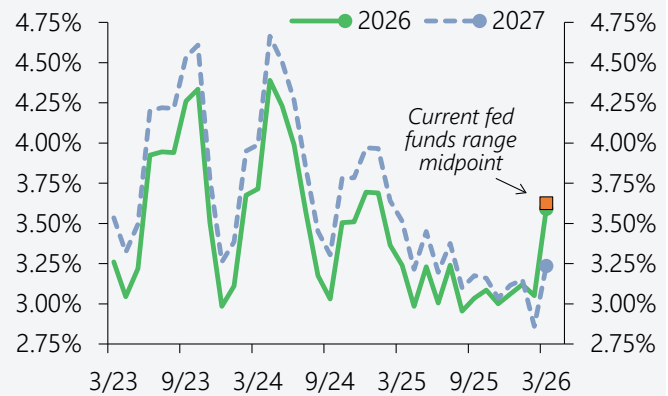


Source: FactSet, 3/31/26

Futures Discounting Fewer Fed Funds Rate Cuts

Fed Funds Futures

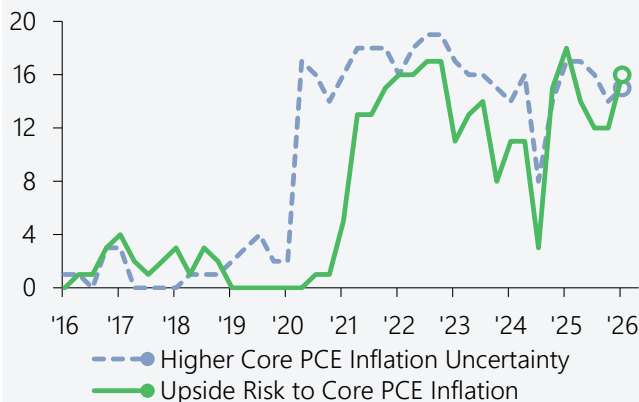
Implied Fed Funds Rate at Year-End



Source: CME Group, 3/31/26

Upside Risk to Inflation Forecast Rising Again

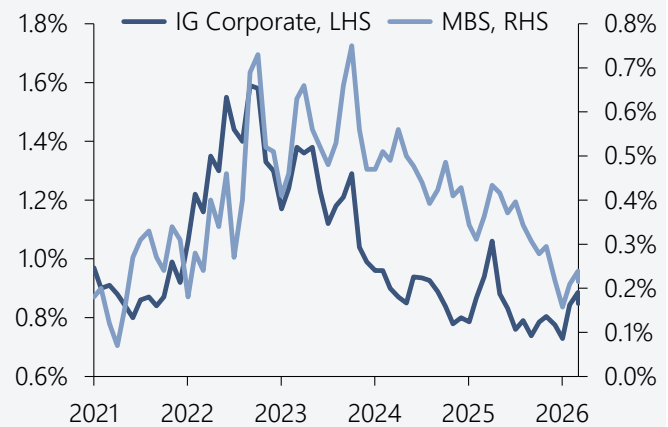
FOMC Assessments of Inflation Uncertainty and Risks
Number of Participants Reporting



Source: Federal Reserve, 3/18/26

Spreads Have Widened from Recent Lows

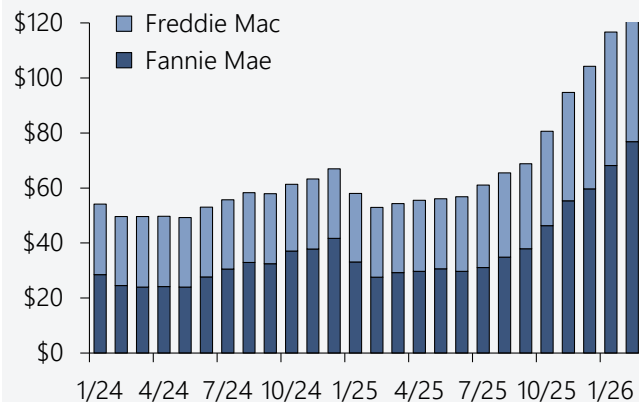
Bloomberg U.S. Aggregate Option-Adjusted Spreads



Source: Bloomberg, 3/31/26

Rising Agency Demand Supports Mortgages

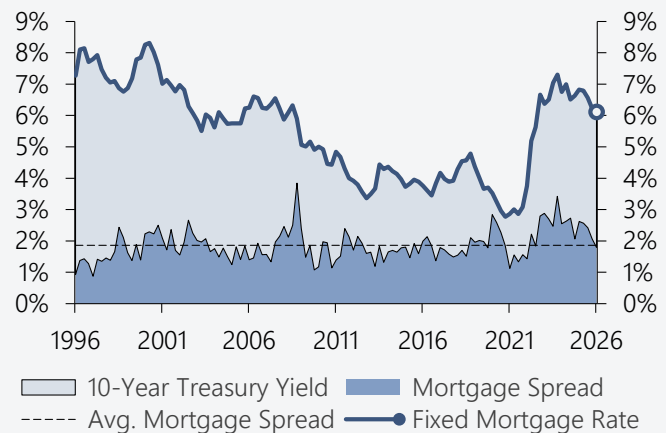
Fannie Mae and Freddie Mac MBS Portfolios
Billion



Source: Fannie Mae, Freddie Mac, 3/26/26

Mortgage Spreads Should Continue to Tighten

Components of U.S. 30-Year Fixed Mortgage Rate



Source: Freddie Mac, Tullett Prebon, 3/31/26



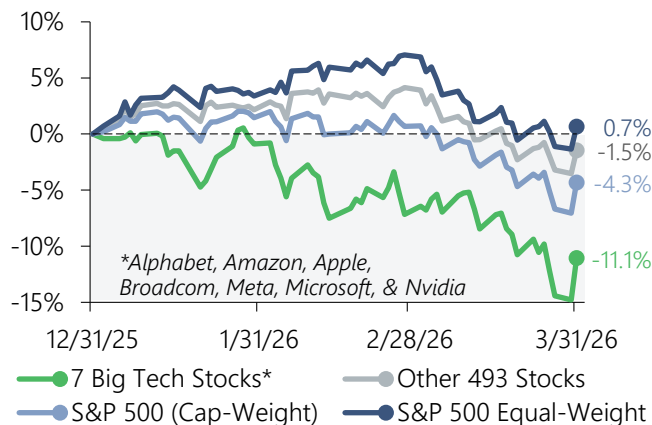
First-Quarter Returns Mask Magnitude of Underlying U.S. Equity Turbulence

The S&P 500 Index lost 4.3 percent in the first quarter of 2026, and the S&P 500 Equal-Weight Index gained 0.7 percent, with profit-taking in Big Tech stocks accounting for a majority of the performance differential (Exhibit 11). The relatively subdued index-level returns understate the underlying market turmoil as investors rotated sectors amid uncertainties about AI disruption, the Iran conflict, and the trajectory of the economy, inflation, and central bank policy rates. The CBOE Volatility Index surged nearly 70 percent during the quarter, while measures of S&P 500 return and volume dispersion soared to levels not seen since 2008-2009. Earnings growth and dividends together added about 8.3 percentage points to the S&P 500 Index’s first-quarter loss of 4.3 percent, while a contraction in the forward price-to-earnings multiple subtracted roughly 12.6 percentage points. Of the 11 GICS sectors, energy was the big outperformer, delivering a first-quarter return of 38.2 percent (half from earnings growth, half from multiple expansion), then materials at 9.7 percent, utilities at 8.3 percent, and staples at 7.7 percent (Exhibit 12).

International Stocks Retraced Strong YTD Returns Following Outbreak of Conflict

As for international equities, the quarter started with a roar, continuing the strong performance from 2025, but ended with a whimper. The MSCI All-Country (ex. USA) Index returned 11.3 percent in the first two months of 2026, before giving it all back in March following the February 28 attack on Iran (Exhibit 13). Unsurprisingly, nations dependent on energy imports from the Middle East, many of which are in Asia, bore the brunt of the post-attack sell-off (Exhibit 14).

Exhibit 11: S&P 500 Cumulative YTD Returns



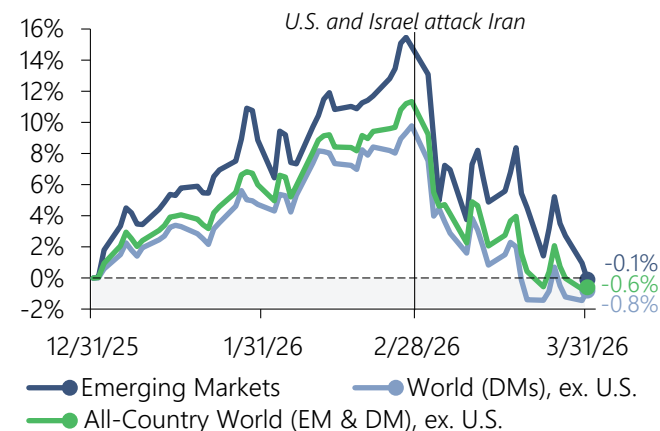
Source: FactSet, 3/31/26

Exhibit 12: S&P 500 Index Sector Returns

| Total Returns, % | Jan | Feb | Mar | YTD |
|------------------------|------|------|------|-------------|
| Energy | 14.4 | 9.4 | 10.4 | 38.2 |
| Materials | 8.7 | 8.4 | -6.9 | 9.7 |
| Utilities | 1.4 | 10.3 | -3.2 | 8.3 |
| Consumer Staples | 7.7 | 7.9 | -7.4 | 7.7 |
| Industrials | 6.7 | 7.1 | -8.4 | 4.6 |
| Real Estate | 2.8 | 6.4 | -6.0 | 2.8 |
| Health Care | 0.0 | 3.5 | -8.1 | -4.9 |
| Telecom Services | 5.8 | -5.1 | -7.3 | -6.9 |
| Information Technology | -1.7 | -3.9 | -3.8 | -9.1 |
| Consumer Discretionary | 1.7 | -5.4 | -5.6 | -9.2 |
| Financials | -2.4 | -3.7 | -3.5 | -9.3 |

Source: FactSet, 3/31/26

Exhibit 13: MSCI Cumulative YTD Returns (USD)



Source: FactSet, 3/31/26

Exhibit 14: MSCI Returns by Region/Country

| Total Returns in USD, % | Jan | Feb | Mar | YTD |
|--------------------------|------|------|--------------|-------|
| MSCI EM Latin America | 15.3 | 3.8 | -4.3 | 14.7 |
| MSCI USA | 1.3 | -0.9 | -4.9 | -4.5 |
| MSCI China | 4.7 | -5.8 | -7.7 | -8.9 |
| MSCI World (ex. U.S.) | 4.7 | 4.8 | -9.6 | -0.8 |
| MSCI Europe | 4.5 | 3.3 | -9.8 | -2.7 |
| MSCI EAFE | 5.2 | 4.6 | -10.2 | -1.1 |
| MSCI AC World (ex. U.S.) | 6.0 | 5.0 | -10.7 | -0.6 |
| MSCI Japan | 6.6 | 8.6 | -12.3 | 1.5 |
| MSCI AC Asia Pac | 7.6 | 6.9 | -12.9 | 0.1 |
| MSCI Emerging Markets | 8.9 | 5.5 | -13.0 | -0.1 |
| MSCI India | -5.1 | 1.4 | -14.9 | -18.1 |

Source: FactSet, 3/31/26



Similar to the S&P 500 Index, energy was the only sector in the MSCI All-Country (ex. USA) Index to deliver a positive return in March, with interest rate-sensitive sectors coming under the most pressure (Exhibit 15). Prior to March, the technology and materials sectors were the big outperformers, generating year-to-date returns of 24.0 percent and 22.2 percent, respectively, through the end of February. Given still attractive relative valuations, as shown in Exhibit 16, we suspect a timely Middle East resolution could entice investors back into international shares.

Energy Shock a Downside Risk to Earnings; Offset by Potential AI Buildout Upside

Forward earnings expectations for the S&P 500 Index have been on a steady upward trajectory since mid-2025, with bottom-up consensus estimates pointing to year-over-year growth of 18 percent and 16 percent in 2026 and 2027, respectively (Exhibit 17). A sensitivity analysis by Goldman Sachs, from a top-down perspective, reveals that each sustained 10 percentage-point rise in oil prices will detract \$1 per share from S&P 500 earnings in 2026, while each 100 basis-point fall in U.S. GDP growth will deduct \$10 per share. In contrast to the bottom-up estimates, the top-down (equity strategists) consensus currently suggests S&P 500 earnings growth of 11 percent in 2026 and 10 percent in 2027. The downside risk to bottom-up estimates is at least partly, if not wholly, reflected in the recent contraction in P/E multiples (Exhibit 18). However, continued AI investments are a significant swing factor, hopefully more so to the upside, given that the beneficiaries could account for about 40 percent of S&P 500 earnings growth in 2026.

Global Equity Strategy

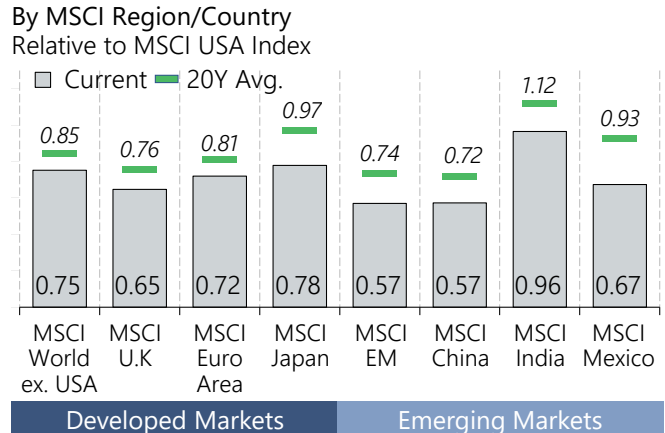
Although our initial motivation for portfolio diversification stemmed from expectations of a broadening market (which has generally played out since late 2025), the evolving Iran conflict

Exhibit 15: MSCI ACWI (ex. USA) Sector Returns

| Total Returns in USD, % | Jan | Feb | Mar | YTD |
|-------------------------|------|------|-------|-------|
| Energy | 8.7 | 7.2 | 10.5 | 28.7 |
| Utilities | 7.2 | 7.3 | -5.0 | 9.3 |
| Telecom Services | 1.3 | -3.0 | -7.8 | -9.4 |
| Financials | 4.3 | 1.9 | -9.2 | -3.5 |
| Health Care | 4.8 | 2.2 | -9.2 | -2.8 |
| Consumer Staples | 1.2 | 7.8 | -11.0 | -2.8 |
| Industrials | 7.8 | 6.7 | -13.2 | -0.2 |
| Materials | 10.6 | 10.5 | -13.6 | 5.5 |
| Consumer Discretionary | -0.8 | 1.6 | -14.0 | -13.2 |
| Information Technology | 12.8 | 9.9 | -15.5 | 4.7 |
| Real Estate | 6.0 | 7.5 | -16.0 | -4.2 |

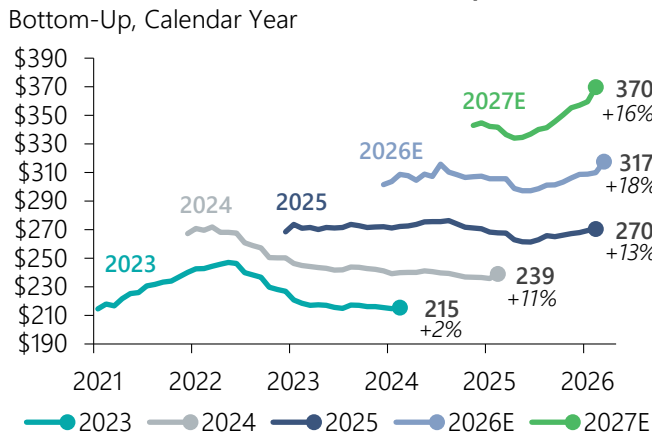
Source: FactSet, 3/31/26

Exhibit 16: MSCI Forward Relative P/E Ratios



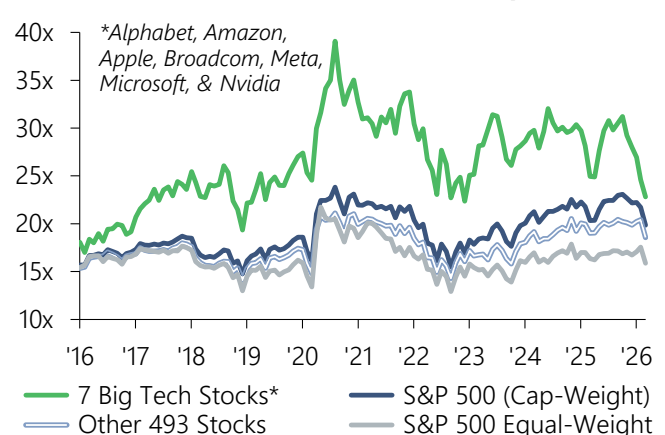
Source: FactSet, 3/31/26

Exhibit 17: S&P 500 EPS Estimates, Consensus



Source: FactSet, 3/31/26

Exhibit 18: S&P 500 Index Forward P/E Ratios



Source: FactSet, 3/31/26



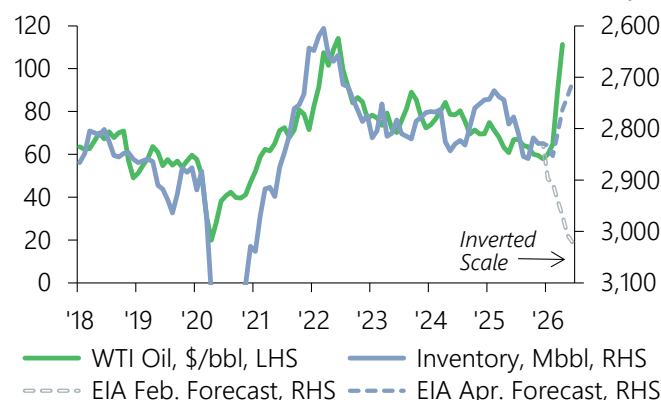
reinforces the same strategic direction. Positioning around specific geopolitical or economic outcomes remains inherently uncertain, making a balanced allocation across both procyclical and secular growth industries prudent. That said, we maintain a more cautious stance toward consumer-related sectors. A combination of soft employment conditions, persistently elevated inflation, and increasing energy costs continues to pressure consumer sentiment. Although markets shaped by stagflationary concerns can be particularly difficult to navigate, we believe the most effective hedge lies in quality. Accordingly, we continue to prioritize companies with visible growth, strong cash flow generation, resilient balance sheets, and, ideally, a consistent and disciplined approach to capital returns.

The conflict with Iran has fundamentally shifted the global energy outlook. The closure of the Strait of Hormuz has transformed projected oil and LNG surpluses into acute shortages. For oil, the resulting inventory drawdowns have reset global balances, reversing the surpluses generated by OPEC+ production hikes over the past year (Exhibit 19). In the LNG market, the destruction of Qatari export facilities effectively removes a significant volume from the market for three to five years. Beyond this immediate reset, the potential for lasting regional supply disruptions amplifies market tightness at a time when U.S. shale production is maturing, and international project pipelines are thinning (Exhibit 20). These developments reinforce the critical importance of energy security. As a result, we favor energy companies with significant resource depth, oilfield service providers, and businesses managing critical infrastructure, such as pipelines and LNG export facilities, within stable jurisdictions like the U.S. Separately, we remain positioned to capture growth from the continuing U.S. AI-driven power buildout, with a preference for gas power equipment and service providers.

In international portfolios, we are positive on stocks in China, South Korea, Taiwan, and India due to strong AI demand, military defense opportunities, and reasonable valuations. We expect stocks to remain volatile as the Iran conflict and closure of the Strait of Hormuz create downside risk for economic growth, along with higher inflation from energy and commodity prices. The MSCI China Index's valuation is reasonable relative to the MSCI USA Index, trading at 0.57 versus its 20-year average of 0.72. As the conflict appears increasingly prolonged and poses a risk of a global growth slowdown, we favor a balanced China portfolio emphasizing structural growth opportunities, companies with better earnings visibility, and attractive dividend yields. The MSCI Emerging Markets Index is also attractive relative to the MSCI USA Index, at 0.57 against its 20-year average of 0.74. Our investments in South Korea, Taiwan, and India are focused on AI-related semiconductor memory, military defense, consumer, and financials.

Exhibit 19: WTI Prices Versus OECD Inventory

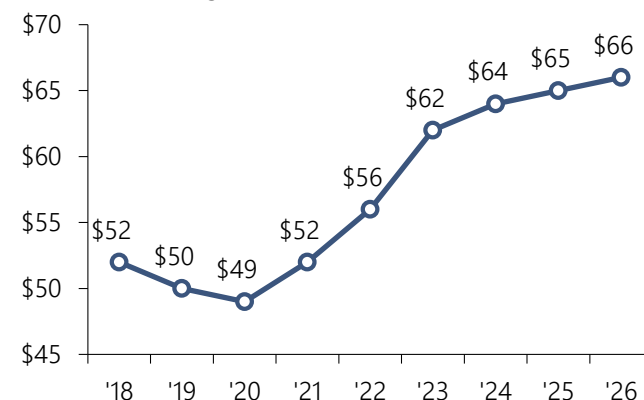
Oil Prices vs. OECD Commercial Oil & Product Inventory



Source: FactSet, Energy Information Administration, 4/7/26

Exhibit 20: Price Needed to Profitably Drill Well

New Wells, Average WTI Price per Barrel

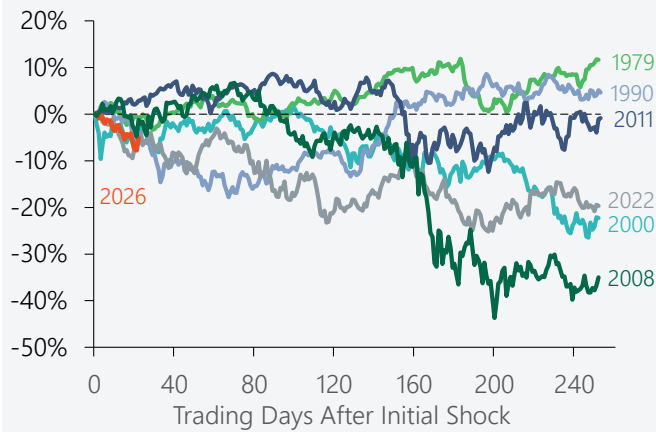


Source: Federal Reserve Bank of Dallas, 3/25/26

Global Equities: Other Notable Data Points

Market Path Highly Variable After Oil Shocks

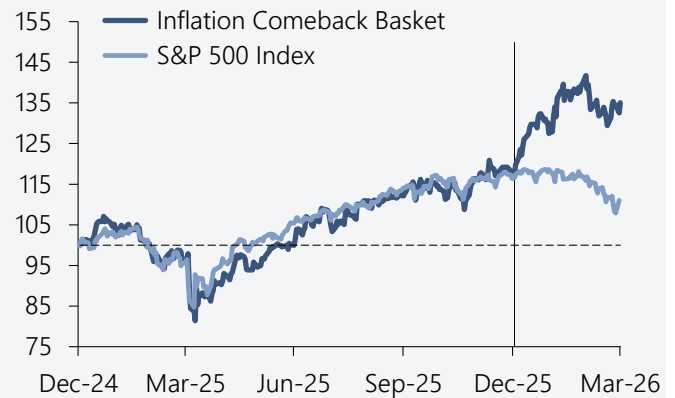
S&P 500 Cumulative Returns After Oil Supply-Side Shocks



Source: FactSet, 3/31/26

Breakout in Inflation Comeback Performance

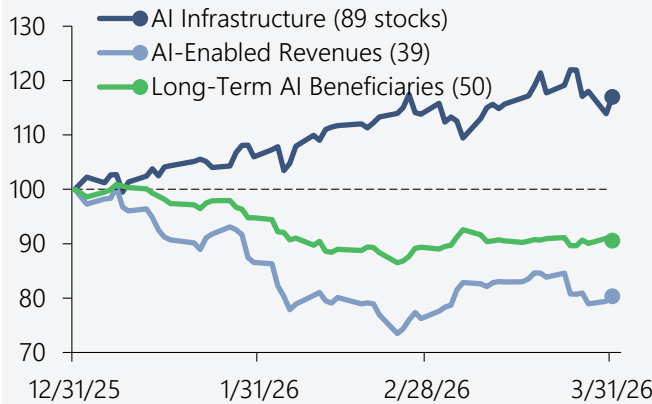
GS Inflation Comeback Equity Basket vs. S&P 500 Index Rebased, 1/1/25 = 100



Source: Goldman Sachs, Bloomberg, 3/31/26

AI Infrastructure Basket Still Outperforming

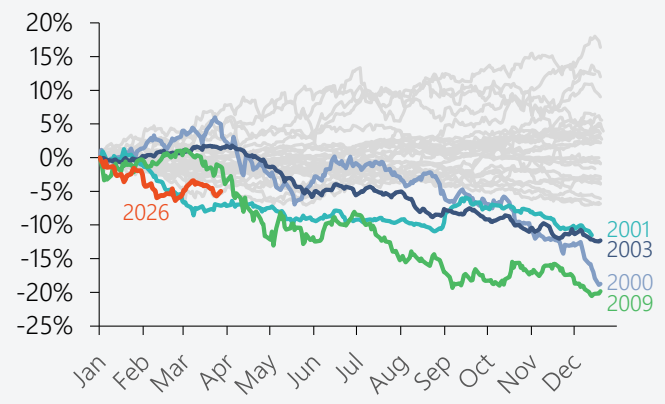
Performance of AI-Exposed Stocks in GS Equity Baskets Relative to Equal-Weight S&P 500, 12/31/25 = 100



Source: Goldman Sachs, Bloomberg, 3/31/26

Cap-Weight Lagging Equal-Weight Index YTD

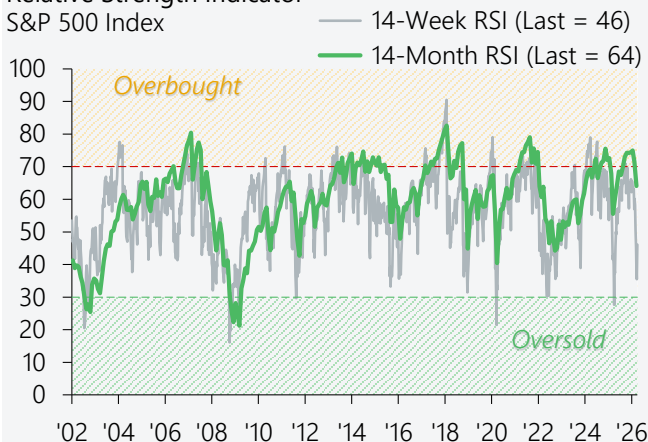
S&P 500 Index vs. S&P 500 Equal-Weight Index Relative Total Return, Cumulative, 1996-2026



Source: FactSet, 3/31/26

S&P 500 Was Overbought Before YTD Pullback

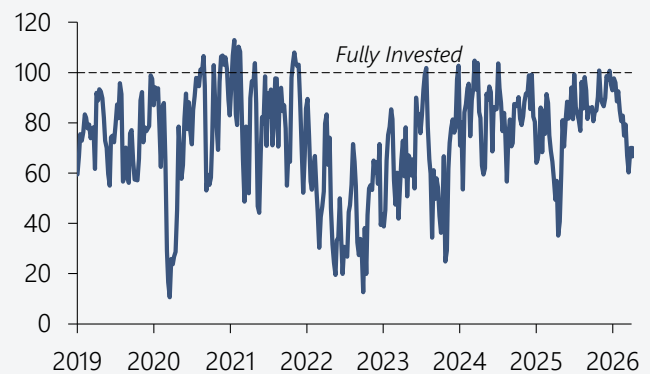
Relative Strength Indicator
S&P 500 Index



Source: FactSet, 3/31/26

Equity Managers De-Risking But Not Panicking

NAAIM Active Manager Exposure Index (U.S. Equity)



Range of Responses: -200% Leveraged Short; -100% Fully Short; 0% (100% Cash or Hedged to Market Neutral); +100% Fully Invested; +200% Leveraged Long

Source: National Association of Active Investment Managers, 4/1/26

NOTICE: This analysis contains the collective opinions of our analysts and portfolio managers and is provided for informational purposes only. While the information is accurate at the time of writing, such information is subject to change at any time without notice, and therefore, so may the investment decisions of Sit Investment Associates.