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Overview: Global Capital Markets

Markets entered 2026 on a constructive footing, supported by resilient growth, strong earnings, and continued fiscal and capital investment tailwinds. This backdrop has been challenged by escalating geopolitical tensions in the Middle East, introducing a supply-driven disruption with direct implications for inflation and growth. The key issue is the scope and duration of the conflict and how those implications are priced.

Across asset classes, markets are treating the disruption as contained. Equity volatility has risen but remains below levels typically associated with systemic stress. Treasury yields have moved higher, reflecting near-term inflation pressure rather than a traditional flight-to-safety dynamic, while longer-term inflation expectations remain relatively anchored.ⁱ Oil prices have increased, but not to levels consistent with a sustained disruption. Taken together, markets are assuming that any tightening in energy supply and its spill over into other commodities and industrial inputs will be manageable and short-lived.ⁱⁱ

While growth remains resilient at present, risks are increasingly skewed toward moderation rather than acceleration.ⁱⁱⁱ The environment is fundamentally supply-driven. Higher energy prices act as a tax on consumers and businesses, compressing real incomes and margins while lifting inflation. Historically, this combination has created a stagflationary impulse at the margin. The current environment reflects similar dynamics, though with important structural differences, including lower energy intensity, more diversified supply, and more credible policy frameworks.^{iv} The United States is now a net energy exporter, and household sensitivity to energy prices is significantly lower than in prior decades. These structural factors reduce the likelihood of a 1970s-style outcome, even as inflation risks rise.^v

Growth remains intact and earnings continue to hold up, but the margin for error has narrowed. Markets are currently pricing a contained outcome, which is reasonable as a base case. However, this pricing leaves limited room for a more persistent outcome if energy price pressures persist and begin to weigh more broadly on growth and inflation.

The key question is duration. A short-lived increase in energy prices is manageable. A more persistent rise would more meaningfully weigh on growth and keep inflation elevated, tightening the policy constraint and narrowing the margin for error across asset classes.

TABLE 1 – ASSET CLASS PERFORMANCE HISTORY (AS OF MARCH 31, 2026)

Source: FactSet financial data and analytics

	1Q26	Trailing 12 Months
Bonds		
Short Term (3 Month T-Bills)	0.9%	4.2%
Total US Bond (Bloomberg Agg)	0.0%	4.3%
Stocks		
US Large Cap (S&P 500)	-4.3%	17.9%
US Small Cap (Russell 2000)	0.9%	12.8%
International Developed (MSCI EAFE)	-1.1%	31.9%
Emerging Markets (MSCI EM)	-0.1%	34.4%
Real Assets		
Real Estate (NAREIT)	4.8%	2.9%
Infrastructure (S&P Global)	8.3%	22.6%
Commodities (Bloomberg)	24.4%	15.8%
Currency		
USD	1.7%	-9.4%

U.S. Equities – Performance, Earnings, and Market Structure

In the first quarter, U.S. equities reflected resilient fundamentals alongside increasing valuation pressure. Corporate earnings remain strong, supported by stable demand, durable margins, and continued investment in artificial intelligence and infrastructure. S&P 500 earnings growth exceeded 14% year-over-year, with a majority of companies surpassing expectations.^{vi}

Performance is increasingly shaped by the interaction between earnings durability and higher discount rates. Rising yields, driven by inflation concerns rather than growth deterioration, are pressuring valuation multiples, particularly for long-duration assets. As a result, equity performance is becoming more sensitive to differences in cash flow timing, capital intensity, and balance sheet strength, increasing dispersion and leaving long-duration assets more exposed to further increases in real rates.

Over the past several years, aggregate growth has been disproportionately concentrated in sectors tied to artificial intelligence, data centers, and infrastructure investment, while the broader market experienced more modest growth.^{vii} That concentration is now beginning to ease. Stabilizing industrial activity and improving capital market conditions are supporting a gradual recovery in earnings breadth. Cyclical sectors and small-cap equities appear positioned to benefit from this transition, particularly if financial conditions ease, the yield curve steepens, and the Middle East conflict is contained.^{viii}

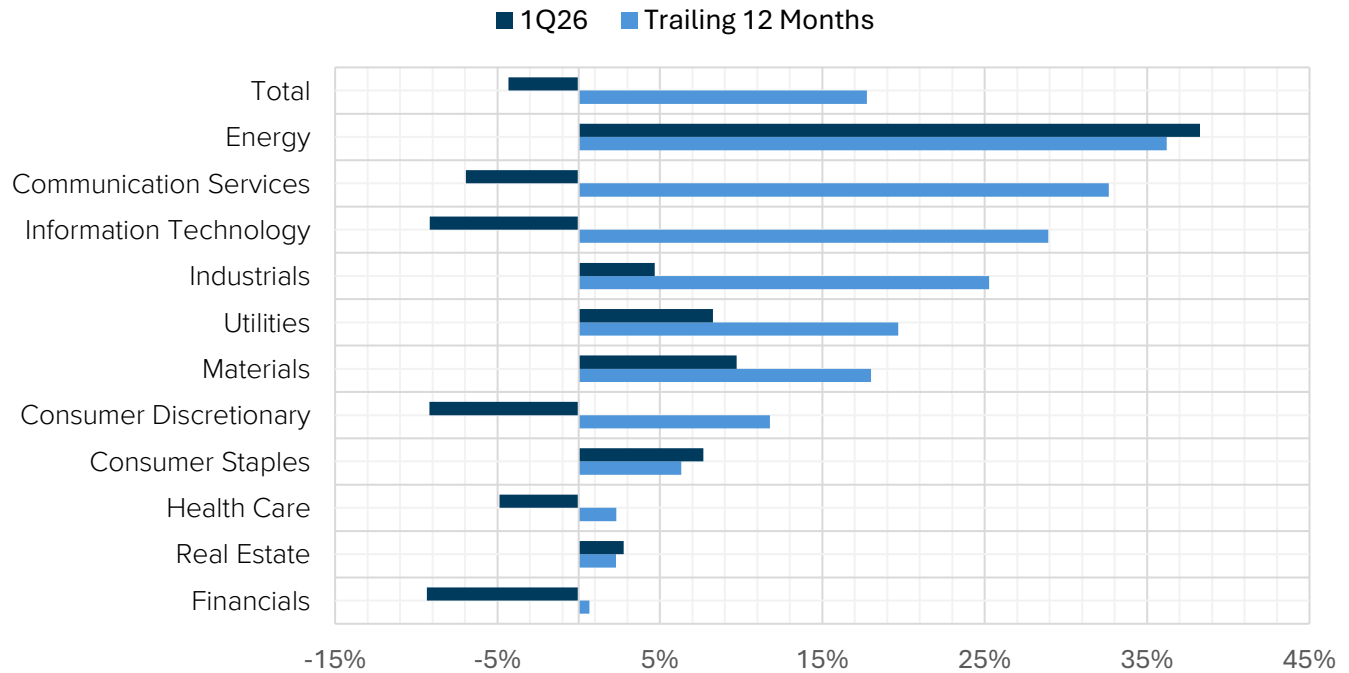
This reflects a broader shift in market leadership. Investors are increasingly distinguishing between companies that benefit directly from ongoing capital investment cycles and those facing margin pressure or competitive disruption.^{ix} Businesses with tangible assets, barriers to replication, long-lived assets, and exposure to infrastructure and energy demand are seeing renewed investor interest, while capital-light models with longer-duration cash flows remain more sensitive to higher real rates and a renewed focus on their economic resilience.^x



We see the equity market performance becoming less dependent on a narrow group of large-cap leaders and more influenced by broader participation across sectors and styles. Selectivity is increasingly central to equity returns.

TABLE 2 – S&P 500 SECTOR RETURNS (AS OF MARCH 31, 2026)

Source: FactSet financial data and analytics



International Equities – Developed Markets & Emerging Markets

Prior to the escalation in the Middle East, the outlook for international equities was improving, though with meaningful regional divergence. Developed markets were beginning to benefit from more supportive policies, while emerging markets entered the year with stronger macro foundations. Recent developments have introduced a new source of dispersion, with outcomes driven primarily by energy exposure and policy flexibility.

Developed Markets

Within developed markets, Europe remains the most exposed to the current environment. Its reliance on imported energy means that higher prices feed more directly into inflation and margin pressure, reinforcing the tradeoff between growth and inflation.^{xi} While fiscal policy, particularly in Germany, has shifted toward expansion and provides some support, policy flexibility remains constrained by inflation. As a result, the region faces a more challenging near-term environment, with downside risks to both earnings and multiples if energy prices remain elevated.

In contrast, Japan represents a more constructive backdrop. Growth is supported by domestic demand, improving wage dynamics, and corporate reforms focused on capital efficiency. Although higher energy prices represent a headwind given Japan’s import dependence, the broader policy and structural environment provide a more stable foundation.



Overall, developed markets are likely to see increased dispersion, with performance driven less by broad regional trends and more by differences in energy sensitivity, fiscal support, and policy response.

Emerging Markets

Emerging markets are exhibiting increasing dispersion driven primarily by commodity exposure and trade dynamics. Commodity-exporting economies are relatively better positioned, as higher energy and commodity prices support fiscal balances, trade balances, and currency stability. In contrast, energy-importing economies, particularly in Asia, face more significant headwinds, including higher inflation and weaker growth.^{xii}

At the same time, structural improvements across emerging markets have increased resilience relative to prior cycles. Greater reliance on local currency debt, improved policy frameworks, and stronger external balances have reduced vulnerability to currency volatility and external shocks.^{xiii} This provides a more stable foundation than in prior cycles, even as near-term outcomes diverge.

China remains relatively insulated in the near term due to strategic reserves and policy flexibility, with the primary impact likely to come through weaker external demand rather than direct energy constraints.^{xiv} While structural challenges persist, including elevated debt levels and ongoing property sector weakness, targeted policy support has helped stabilize growth at the margin.

Overall, we do not believe international equities will not move as a single asset class. Dispersion is increasing across regions, with performance driven more by country-specific fundamentals than by broad market trends. This reinforces the importance of selective allocation across both developed and emerging markets.

Interest Rates & Central Banks

Central banks appear to be operating in a more constrained environment, shaped by the combination of growth and renewed inflation pressure. Policymakers retain the ability to respond to growth weakness, but inflation persistence limits their ability to ease preemptively.

Central banks with greater exposure to energy-driven inflation, particularly in Europe, face a more direct constraint on easing. In the United States, the Federal Reserve has adopted a wait-and-see approach, with policy likely to remain on hold until there is clearer evidence that inflation is moving sustainably toward target.^{xv} Higher energy prices complicate this process by reinforcing near-term inflation pressures. As a result, the bar for rate cuts has increased, and expectations for easing have been pushed further out.

Trade policy continues to add to this constraint. The recent Supreme Court ruling limiting the use of IEEPA for broad tariff implementation has reduced flexibility in deploying tariffs, while the shift to alternative tariff methods has introduced a more fragmented and legally contested framework.^{xvi} While the near-term tariff burden has moderated, this policy uncertainty remains elevated and contributes to a more cautious policy stance.

The result is a more constrained policy backdrop, where markets are more sensitive to inflation expectations. This reinforces the likelihood of a higher-for-longer rate environment and reduces the margin for policy error.

Currency

Currency markets are increasingly driven by energy dynamics and policy differentials. The current environment has reinforced the importance of trade dynamics, with currencies of energy exporting economies benefiting from higher commodity prices, while those of energy-importing regions face more pronounced pressure from higher import costs.^{xvii}

Across developed markets, this dynamic is most evident in Europe, where higher energy import costs act as a drag on growth and weigh on currencies. In contrast, commodity-linked currencies and those of energy exporters have shown relative strength. Emerging market currencies exhibit similar dispersion, with outcomes largely determined by commodity exposure, trade dynamics, and policy credibility.

The U.S. dollar has strengthened in the near term, supported by safe haven flows and its relative economic insulation. As a net energy exporter, the United States benefits from higher oil prices relative to energy importing economies, reinforcing demand for dollar denominated assets.^{xviii} However, this strength is largely cyclical, driven by current geopolitical and macro conditions. Over the medium term, the outlook for the dollar is more balanced. Structural headwinds, including persistent fiscal deficits, reduced rate differentials, and a gradual diversification of global capital flows, are likely to limit sustained appreciation.^{xix} As a result, while the dollar remains supported during periods of uncertainty, it lacks a strong structural driver for a prolonged upward trend.

Overall, currency movements are increasingly reflecting energy exposure and macro resilience. In the near term, safe-haven demand and commodity dynamics are likely to dominate. Over a longer horizon, relative growth, policy direction, and capital flows are expected to play a more significant role.

Fixed Income and Real Assets

Fixed income markets reflect a more complex environment of persistent inflation risk and constrained policy. While credit markets have remained relatively stable, with spreads widening modestly from low levels, they are not signaling significant economic stress. This suggests investors continue to view the environment as manageable, though with increased caution.

Inflation expectations remain bifurcated across the curve. Near-term expectations have moved higher, reflecting the impact of energy prices, while longer-term expectations remain more stable. This suggests uncertainty is centered on the persistence of inflation and the extent to which it broadens across the economy.

Market positioning, particularly in the United States, reflects this environment. Since the escalation in geopolitical tensions, yields have moved higher, driven by inflation concerns and a repricing of policy expectations. Rate cuts that were previously anticipated have largely been pushed out, and markets have begun to price a more restrictive policy path. Despite more attractive yields at intermediate and longer maturities, there has been limited willingness to extend duration among investors. Demand has shifted toward higher quality credit and shorter duration instruments, while higher beta segments, including high yield and bank loans, have experienced outflows. This reflects a preference for capital preservation and liquidity amid uncertainty. Until clarity emerges, the bias toward shorter duration, higher quality, and liquidity is likely to persist, as these exposures offer more stable income and lower sensitivity to interest rates.

Government bonds are less reliable as a hedge in this environment. In supply-driven inflation periods, yields can rise even as growth slows, weakening traditional stock-bond diversification. This differs from growth-

driven downturns, where bonds have historically provided diversification, as weaker activity leads to lower yields.

Real assets are playing an increasingly important role in portfolio construction. Assets such as commodities, infrastructure, and real estate provide potential resilience in periods of elevated inflation and can offer diversification benefits relative to traditional equity and bond allocations. Historically, real assets have demonstrated positive sensitivity to inflation, with return profiles that differ from traditional assets while delivering competitive long-term returns.

In our opinion, the environment favors a more selective approach within fixed income and a broader role for real assets, particularly as investors seek to manage inflation risk and diversify beyond traditional stock and bond frameworks.

Outlook & Portfolio Positioning

The global macro environment remains constructive but increasingly constrained. Growth is expected to moderate rather than contract, supported by earnings resilience, ongoing capital investment, and fiscal policy, while inflation is likely to remain above target for longer, reflecting persistent energy-related cost pressures and broader structural drivers.

Markets are currently pricing a contained outcome in which higher energy prices have limited spillover into broader economic activity. This is a reasonable base case but, in our opinion, it is highly dependent on the persistence of current price pressures. We view the key risk as not the initial increase in energy costs, but their duration and second-order effects. The asymmetry is that markets are priced for containment, leaving limited margin for error if inflation proves more persistent.

At a total portfolio level, the objective is resilience across outcomes rather than optimization for a single path. This requires balancing participation in continued expansion with protection against a more persistent inflation-driven slowdown.

From a portfolio perspective, positioning is guided by this asymmetry:

- Maintain selectivity within equities, prioritizing earnings durability, pricing power, and balance sheet strength over multiple expansion
- Maintain a bias toward shorter duration, reflecting continued sensitivity of long-duration assets to real rates
- Emphasize income and quality within fixed income, rather than extending into higher beta segments
- Expand diversification beyond traditional stock-bond exposures, particularly through real assets that provide more direct inflation sensitivity

The environment does not require broad repositioning, but it does require greater discipline. Valuation sensitivity is higher, policy flexibility is lower, and the margin for error has narrowed. Managing exposure to duration and inflation risk, while maintaining flexibility in portfolio construction, remains central to navigating the current environment.



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- ⁱ Fidelity Investment. "Iran conflict: Is investor reaction proportionate to potential outcomes?". March 17, 2026.
- ⁱⁱ Fidelity Investment. "Iran conflict: Is investor reaction proportionate to potential outcomes?". March 17, 2026.
- ⁱⁱⁱ Franklin Templeton. "Macro Views: Resilient regions, rising risks--2026 economic outlook". March 23, 2026.
- ^{iv} Goldman Sachs Asset Management. "IRAN CONFLICT: HOW LONG, AND HOW BAD?". March 20, 2026.
- ^v Fidelity Investment. "5 takeaways from the recent volatility Stocks, oil, and sector leadership could take unexpected turns". March 12, 2026.
- ^{vi} Goldman Sachs Asset Management. "Learnings from Earnings". March 2026.
- ^{vii} Morgan Stanley. "US Equity Strategy | North America Weekly Warm-up: Payroll Data Supports Our Thesis on Rolling Recession and Recovery". September 8, 2025.
- ^{viii} BNY Mellon. "2026 Outlook: Innovation Drives Opportunities". <https://www.bny.com/wealth/global/en/insights/2026-outlook.html>.
- ^{ix} Franklin Templeton. "Macro Views: Resilient regions, rising risks--2026 economic outlook". March 23, 2026.
- ^x RBC Global Asset Management. "Macro Memo". March 10, 2026.
- ^{xi} Franklin Templeton. "Macro Views: Resilient regions, rising risks--2026 economic outlook". March 23, 2026.
- ^{xii} Morgan Stanley. "Morgan Stanley Global Economic Briefing The Weekly Worldview: Inflation Versus Growth in EM". March 23, 2026.
- ^{xiii} JP Morgan. "Emerging Markets Equity Strategy: 2026 Outlook – Strength From Within". December 2, 2025.
- ^{xiv} JP Morgan. "Emerging Markets Equity Strategy: 2026 Outlook – Strength From Within". December 2, 2025.
- ^{xv} RBC Capital Markets. "FOMC Recap: Faux hawk". March 18, 2026.
- ^{xvi} RBC Global Asset Management. "Macro Memo". March 10, 2026.
- ^{xvii} Goldman Sachs Asset Management. "IRAN CONFLICT: HOW LONG, AND HOW BAD?". March 20, 2026.
- ^{xviii} RBC Capital Markets. "Currency Report Card Oil Shock Rebalances Global Valuations". March 20, 2026.
- ^{xix} RBC Capital Markets. "Currency Report Card Oil Shock Rebalances Global Valuations". March 20, 2026.

The Standard and Poor's 500, or simply the S&P 500, is a stock market index tracking the stock performance of 500 large companies listed on stock exchanges in the United States. It is one of the most commonly followed equity indices. The Bloomberg Barclays U.S. Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. The MSCI Europe Index is a stock market index that measures the performance of large and mid-cap companies across developed countries in Europe. With 432 constituents, the index covers approximately 85% of the market capitalization across developed countries in the European region. For a complete listing of all strategies contact Anchor Capital Advisors LLC (617) 338-3800. The views expressed are those of Anchor Capital Advisors, LLC ("Anchor") as of the date written and are subject to change at any time. Anchor does not undertake any obligation to update the information contained herein as of any future date, nor does it have liability for decisions based on this information. Certain information (including any forward looking statements and economic and market information) has been obtained from sources we deem reliable, but is not guaranteed by Anchor, nor is it a complete summary of available data. The information is for educational purposes only and should not be considered investment advice or a recommendation of any particular strategy or investment product. These opinions are not intended to be a forecast of future events or a guarantee of future results. No part of this document may be reproduced in any form, or referred to in any other publication, without express written permission of Anchor. Past performance is not guarantee of future results. Inherent in any investment is the possibility of loss. The benchmark returns include in reinvestment of income. Time-weighted portfolio returns are calculated for each monthly period in the prior quarter. Quarterly results are linked to determine annual returns. Individual client portfolio results may vary from the results presented for the model because of different investment objectives, tax status and other considerations. Returns of individual client accounts will be reduced by advisor fees and other expenses which might be incurred to provide investment management, custody, administrative, actuarial, accounting or other services to the client. A complete list of each security that contributed to performance is available upon request.

