

# FLAGSTONE

FINANCIAL ADVISORS, INC.

## MARKET REVIEW FIRST QUARTER 2026

### *What Happened:*

Navigating the financial markets is always challenging, but especially so in times of war. The conflict in Iran caused an abrupt spike in oil prices and triggered a market downturn. Remarkably, stock prices held up reasonably well despite the war. In fact, the broader S&P 500 Index fell about 9% from its January high and was down only 4.3% for the entire quarter. Some stocks in the technology sector, however, saw larger losses but the culprit was not solely from the Iran conflict. A closer examination suggests that investors have been growing concerned about artificial intelligence (AI) in recent months. The pure excitement of AI was being replaced with fears of disruption to business, our economy and our lives in general.

As you know, AI was all the rage for the past few years, and stock prices soared. Recently, however, we are seeing some market participants express concerns that AI will be too disruptive, eliminate jobs and put too much stress on our energy infrastructure. This negativity towards AI gave pause to the tech rally and pushed tech stocks lower. On the positive side, it provided a welcome backdrop for other parts of the market to prosper, which indeed happened.

### *First Quarter 2026 Performance:*

S&P 500 Index (large stocks)	(4.3%)
Russell 2000 Index (small stocks)	0.9%
MSCI EAFE Index (international stocks)	(1.2%)
Bloomberg U.S. Aggregate Bond Index (bonds)	(0.1%)

### *Prognosis:*

As of this writing, the Iran conflict seems to be progressing towards a close, including restoring oil transport through the Strait of Hormuz. This will provide relief to oil prices and lessen investor anxiety in general. As things calm down, we suspect that investors will refocus on the key drivers of market returns like corporate earnings and the state of the economy. In that regard, corporate earnings expectations are very robust with many analysts projecting over 16% growth in 2026. On top of that, consumer spending remains strong and March employment numbers were better than expected. Inflation is a concern, especially with upward pressure from oil prices, but we should see improvement in the coming months as energy supply chains stabilize.

Regarding AI, fear is often associated with new technologies. To be sure, AI is a powerful technology that will change the way business is done by improving productivity and efficiency. More than just benefitting business, we are optimistic that AI will enhance and improve our personal lives in ways that nobody can foresee. Developing reasonable controls and safeguards are certainly warranted but AI is here to stay.

As always, when the markets are uncomfortable, we encourage you to think long-term and take comfort that our portfolios are well positioned to endure market downturns and to take full advantage of the recovery when it comes. Brighter days are ahead.

We wish you all a happy spring season!

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