

Q1 2026

Quarterly Perspectives

MEEDER

Key Takeaways

- **The first quarter shifted from strong fundamentals and broadening market participation to heightened volatility driven by geopolitical shocks and a repricing of rate expectations.**
- **Despite significant macro and geopolitical disruptions, markets demonstrated resilience, supported by solid earnings, stable credit conditions, and healthy underlying breadth.**
- **The Federal Reserve remains constrained between persistent inflation and moderating growth, reinforcing a higher-for-longer policy backdrop and continued market uncertainty.**
- **Increased dispersion across sectors, particularly within technology, highlights the importance of active management and disciplined portfolio positioning in a more complex environment.**

FROM SURPRISINGLY STRONG TO SUDDENLY TESTED

Resilience Beneath the Volatility

The first quarter of 2026 presented a sharp contrast in market character. What began as a continuation of the constructive trends that defined late 2025, including broadening participation, resilient fundamentals, and a path toward policy normalization, quickly transitioned into a period of heightened uncertainty driven by geopolitical developments and a repricing of macro expectations.

For long-term investors, the most important takeaway is not the volatility itself, but what persisted beneath it. Despite an extraordinary number of macro, geopolitical, and policy disruptions, markets demonstrated notable resilience. This divergence between headlines and underlying fundamentals reinforces a familiar principle. Periods of stress often reveal the durability of the cycle rather than its fragility.

A TALE OF TWO PERIODS

Strength Followed by Stress

The first two months of the year extended many of the constructive trends observed in late 2025. Economic activity remained firm, consumer spending held up, the labor market cooled without breaking, and inflation appeared to be moving lower. Equity markets also continued to broaden, with leadership expanding beyond mega-cap growth into small- and mid-cap segments. This type of participation is typically associated with healthier market conditions.

March introduced a clear inflection point. The escalation of geopolitical tensions, culminating in the Iran conflict and disruption of the Strait of Hormuz, triggered a rapid repricing across asset classes. Oil prices moved above $100 per barrel, interest rate expectations shifted meaningfully, and volatility increased across both equity and fixed income markets.

Even with these developments, market outcomes were more contained than might have been expected. U.S. equities finished the quarter modestly lower, while equal-weight indices and smaller capitalization stocks held up relatively well.

This resilience is both notable and instructive.

THE FEDERAL RESERVE

Navigating Conflicting Pressures

The macro environment is increasingly defined by tension within the Federal Reserve's dual mandate. Inflation remains above target and now faces renewed upward pressure from energy prices, while labor market conditions are gradually softening.

Market expectations have adjusted accordingly. Earlier projections for multiple rate cuts in 2026 have largely been removed, with the prevailing view shifting toward a higher-for-longer policy environment.

At the same time, policy remains restrictive, as the Fed funds rate continues to sit above prevailing inflation levels. This creates a narrow path forward. Easing policy too quickly risks reigniting inflation, while maintaining restrictive conditions for too long risks slowing growth more meaningfully.

The policy environment is no longer linear. It is increasingly dependent on incoming data and evolving macro conditions.

OIL SHOCKS AND MARKET BEHAVIOR

The geopolitical shock in March, particularly the surge in oil prices, was the defining macro event of the quarter. History provides useful context. Oil shocks have consistently produced short-term volatility, but they have rarely disrupted long-term market trends.

Prior oil shock events have typically resulted in near-term equity weakness followed by recovery over subsequent quarters and years.

The key variable is duration. Temporary disruptions tend to be absorbed by markets. More prolonged supply shocks that feed sustained inflation can have more lasting consequences.

At this stage, markets appear to be treating the current episode as a temporary disruption, though the duration remains uncertain.

FUNDAMENTALS REMAIN CONSTRUCTIVE

While headlines dominated market sentiment in March, the underlying fundamental backdrop remains constructive.

Corporate earnings continue to provide support. Expectations call for another quarter of double-digit earnings growth, and profit margins remain near cycle highs.

Market breadth has also remained intact. Participation has not deteriorated in a way that typically signals a more significant market decline. This is an important distinction and suggests that the broader structure of the market remains stable.

Investor sentiment has shifted meaningfully. Measures of pessimism reached extreme levels during the quarter. Historically, these conditions have often been associated with stronger forward returns.

Taken together, these factors point to a market that has absorbed a significant shock while maintaining a solid underlying foundation.

INCREASING DISPERSION WITHIN EQUITIES

One of the most important developments in 2026 is the growing level of dispersion within equity markets.

This is particularly evident within the technology sector. Since late 2025, semiconductor stocks have advanced significantly, supported by strong demand related to artificial intelligence infrastructure. In contrast, software companies have experienced meaningful declines amid concerns about potential disruption from AI technologies.

This divergence highlights an important shift. Sector-level exposure alone is no longer sufficient. Outcomes are increasingly driven by differences in business models, competitive positioning, and the ability to adapt to structural changes.

For investors, this reinforces the importance of active management and selective positioning.

PRIVATE CREDIT

Differentiating Headlines from Reality

Private credit also received increased attention during the quarter, particularly given its exposure to software-related borrowers.

While headlines suggested rising stress, the underlying data presents a more measured picture. Default rates remain below long-term averages, and current pressures are more closely tied to liquidity dynamics driven by investor redemptions rather than a broad deterioration in credit quality.

Institutional activity remains constructive, with continued capital flowing into the asset class. This suggests that, while dispersion across managers may increase, the broader system is not exhibiting signs of systemic stress.

PORTFOLIO POSITIONING

Maintaining Discipline

In an environment defined by elevated uncertainty, maintaining discipline is essential.

Current positioning reflects a balanced approach:

- Neutral stance between U.S. and international equities
- Preference for emerging markets
- Continued exposure to small- and mid-cap equities
- Slightly shorter duration within fixed income
- Bias toward higher credit quality

This positioning reflects a focus on long-term opportunities while acknowledging near-term risks.

Diversification and active management remain central to navigating this environment.

LOOKING AHEAD

Volatility with Underlying Strength

The first quarter reinforced a key theme for 2026. Markets are transitioning into a more complex environment with less predictable policy outcomes and a greater influence from external factors.

Volatility is likely to remain elevated in the near term, driven by geopolitical developments, inflation dynamics, and policy uncertainty.

However, the broader foundation remains intact. Earnings growth is solid, market participation is healthy, credit conditions are stable, and sentiment has reset.

In our view, this combination supports a measured and disciplined outlook. While the path forward may be uneven, current conditions do not suggest a structural breakdown in the market cycle.

As always, Meeder's investment process remains focused on diversification, risk management, and adapting systematically to evolving market conditions.



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0289-MAS-4/14/26-53926