

CORE

Q1 | 2026 Commentary

The first quarter of 2026 is the latest in a recent sequence of quarters that have seen increasing global sentiment changes and a market continually digesting the possibility of increased US economic independence coupled with stronger US involvement in global foreign policy abroad. The resulting headline summary for the quarter has been elevated asset price volatility linked to increased geopolitical tensions, a pause on any action from the Fed, and a very divided corporate earnings and outlook across the market. All of this has led to elevated inter-asset volatility across the portfolios and increased opportunities to possibly benefit from holding a wider variety of less correlated assets.

For nearly the entire second half of last year the broader market shrugged off any concerns of increased US global policy changes impacting corporate earnings long-term. However, so far in 2026 we have seen markets become highly reactionary and divided on these risks. As a result of this increased market responsiveness, mixed performance was seen across the equity space over the quarter. This difference in equity performance is once again apparent by comparing the performance of the more popular cap-weighted S&P 500, with its equal weight counterpart for the quarter, which notably outperformed in Q1. This was mainly due to decreased momentum from larger, more established companies with higher starting weights in the cap-weighted S&P 500 and increased market broadening and interest in other parts of the equity market outside of large-cap growth. As a result, international and smaller capitalization securities did the majority of heavy lifting for the equity space during the quarter.

Fixed income has also struggled to find solid footing so far this year with most rate cut expectations getting pulled off the table with the rising cost of oil and other critical input commodities threatening renewed inflation. This headwind of possible higher inflation due to geopolitics kept fixed income in a holding pattern for most of the first quarter.

Closing out Q1, the markets appear coiled for a bit of a bounce on any good news. As the stage has now been set for a more volatile 2026 with respect to equities and bonds, the market may run with any good news that supports a tamer inflation story. Volatility remains slightly elevated with both the VIX and credit spreads closing out the quarter near recent highs.

Within equities for the first quarter, the total return crown went to small cap value. Large cap growth was the worst performer for the quarter, bucking the dominant trend of the past few years. This quarter's outperformance with small-cap, mid-cap, and international stocks can be mostly attributed to a reduction in momentum for the large cap space, coupled with attractive relative valuations in other parts of the market. Q1 saw some continued rotation into value, inexpensive growth and other neglected and inexpensive parts of the equity market.

It is likely bonds will continue to see a welcoming and positive total return environment if rates continue to remain rangebound to lower and Inflation concerns can remain muted and subdued. According to Fed futures rate consensus information, only one more rate change is possible throughout 2026, largely dependent on updated economic and inflation data from this point forward. There is also a large percentage chance of no rate changes this year.

Fixed income remains subdued by renewed inflation concerns and modest increases across the yield curve for the quarter. This, combined with widening credit spreads, has kept any meaningful returns at bay for now. While bond yields did in fact push higher during the quarter, the majority of the real returns for fixed income can be directly attributed to yields and not from pricing help along the curve.

The treasury risk barometer, as measured by the 2/10 year treasury spread, declined significantly over the entire quarter, moving from notable bull steepener territory into a lackluster bear flattener portion of the yield curve. Overall, the current bond environment is still signaling underlying confidence in the general economy, even as credit spreads currently trade near recent swing highs. The flattening aspect of the overall yield curve is mainly due to the likelihood of a more hawkish and watchful Fed moving forward.

Overall, the equity market is still signaling confidence in the underlying global economy - now with a higher focus on valuations as the era of easy valuation expansion driven equity returns might be nearing an end. Fixed income in general continues to remain historically inexpensive even after recent rallies, and the intermediate and longer-term bond market outlook continues to remain attractive with current pricing. The Fed's long-term target for both inflation and its stated neutral aiming point for short-term rates still leaves significant opportunity on the table for fixed income.

In the Core Portfolio Series, our general strategy is to own a bit of everything in weights reflective of the optimized forward valuation market opportunity. This generally means acquiring more asset classes that may be out of favor and holding them steadfast, rebalancing as needed instead of simply chasing and owning only the top performers.

One of the key pillars of CPS is rebalancing asset classes to normalize overweight winners and add to underperformers as well. This in general means that CORE portfolios may benefit from reversion to the mean. We feel that the markets ahead may bring continued widening breadth that should reward those with well diversified portfolios via portfolio rebalancing over time.

We at Kingsview Investment Management appreciate your continued support of the CORE Portfolio Series. **Should you wish to speak with one of our portfolio managers, please email investments@kingsview.com.**

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