

Sector Alpha

Q1 | 2026 Commentary

The first quarter of 2026 was characterized by a shifting macroeconomic environment, with interest rate expectations, inflation dynamics, labor market resilience, and geopolitical developments all influencing equity sector performance. The S&P 500 Total Return Index declined -4.34% during the quarter, representing its weakest quarter since 2022. Inflation eased early in the quarter, but rising energy prices tied to the Iran conflict renewed pressure and reinforced a higher for longer rate outlook. As a result, interest rates remained elevated, and expectations for near-term monetary easing were pushed further out, creating a more challenging backdrop for equity markets.

At the same time, the U.S. labor market continued to demonstrate resilience. Non-farm payroll growth was uneven but trended higher, and unemployment levels stayed relatively low, signaling ongoing economic durability despite tighter financial conditions. These labor market dynamics were central to the evolution of the strategy's positioning during the quarter.

Sector Alpha is anchored in a disciplined and objective economic model focused on U.S. non-farm payroll trends. During Q1, the model shifted from a more contractionary stance to a slightly expansionary posture as labor market conditions stabilized and forward expectations improved.

This transition drove a reallocation across equity sectors. Exposure was reduced in more defensive and rate-sensitive sectors, including materials and utilities. At the same time, allocations were increased in sectors more closely aligned with economic expansion and cyclical growth, including consumer discretionary and communication services.

These adjustments reflect the strategy's systematic approach to aligning sector exposures with prevailing economic conditions as indicated by labor market trends. The shift toward a more balanced and modestly pro-growth positioning is supported by the continued strength of the U.S. jobs market, even as inflation and interest rate uncertainty persist.

Looking ahead, the strategy will continue to monitor labor market developments closely, alongside inflation trends, interest rate policy, and geopolitical risks. While these factors may contribute to near-term volatility, the disciplined, model-driven framework remains focused on capturing opportunities across sectors as economic conditions evolve.

Should you wish to speak with one of our portfolio managers, please email investments@kingsview.com.

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