

# Select Subsector

## Q1 | 2026 Commentary

The first quarter of 2026 was marked by a dynamic macroeconomic backdrop, with interest rate expectations, inflation trends, labor market strength, and geopolitical developments influencing equity market performance at a more granular level. 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 mixed environment for risk assets.

Despite these pressures, 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. These labor market dynamics were central to the positioning of the strategy during the quarter.

Select Subsector is built on 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 slightly expansionary posture as labor market conditions stabilized and forward expectations improved.

This transition drove a targeted reallocation across equity subsectors. Exposure was reduced in more defensive and rate-sensitive areas, including real estate, food & beverage, home builders, home construction, and utilities. At the same time, allocations were increased in subsectors more closely aligned with cyclical growth and innovation, including communication services, leisure & entertainment, semiconductors, software & services, and pharmaceuticals.

These adjustments reflect the strategy's systematic approach to aligning subsector exposures with evolving economic conditions as indicated by labor market trends. The shift toward a more balanced and modestly pro-growth posture is supported by continued strength in employment data, even as inflation and interest rate uncertainty remain key considerations.

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 subsectors as economic conditions evolve.

**Should you wish to speak with one of our portfolio managers, please email [investments@kingsview.com](mailto:investments@kingsview.com).**

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