



March 2026 Capital Markets Commentary

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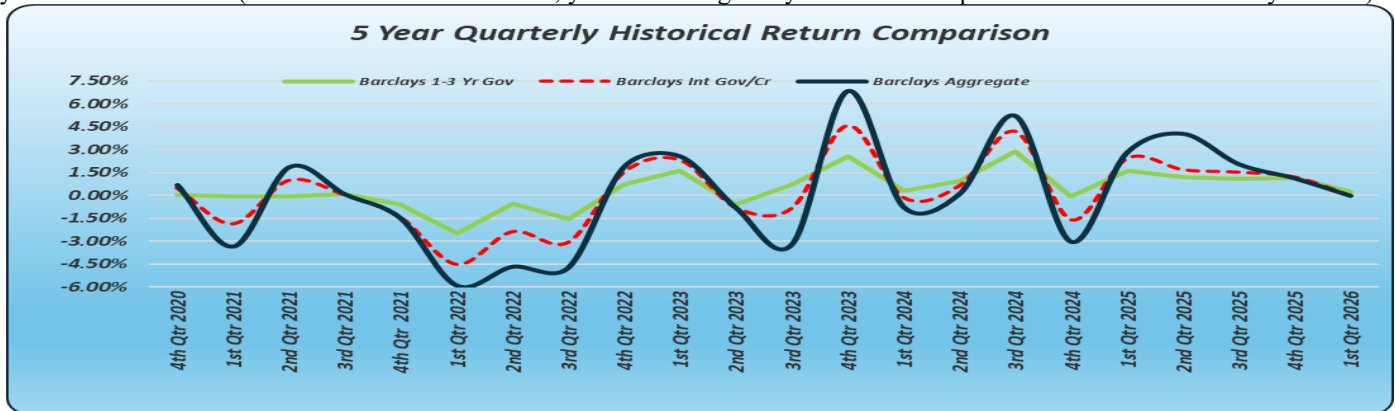
“Blessed are the young, for they shall inherit the national debt”

Herbert Hoover

Fixed Income

A new quarter and a completely different market atmosphere. The 1st quarter 2026 ended not only with a whimper, but in negative territory. This quarter was again characterized by geopolitical tensions – due to US tariffs, emigration tensions in the US, the continued turmoil between Russia and Ukraine, and as of early March, global oil problems caused by military action against Iran by Israel and the U.S. The Fixed Income markets were in turmoil as the quarter ended. In a normal environment, when there is military action, there is a flight to quality. Bonds yields fall and prices rise. However, due to the problem of Iran’s oil reserve exports being halted, inflation has spiked on fear of rising prices oil prices, which in turn has caused the Federal Reserve to change its policy stance on lowering rates. During the early part of the quarter, the Federal Open Market Committee (FOMC) held rates steady, and indicated an inclination to ease monetary policy. But that was put on hold. As the quarter ended, in a period full of uncertainty over tariffs, trade, global tensions, the DHS shutdown that began on February 14th, and now a military action, financial markets were thrown a curveball.

Yields were relatively low but moved higher as the quarter ended. With higher yields, returns were negative across the longer part of the curve during the quarter. The Barclays U.S. Aggregate posted a -0.05% return for the quarter, and the Barclays Intermediate Index was at -0.02%. The short end of the yield curve saw small positive returns, with the 1-3 Year Government Index at +0.27%. At the truly short end of the yield curve, you also saw a positive return. The 1-Year T-Bill returned +0.62% for the quarter. As for yields, the 10-year Treasury yield ended the quarter at 4.30%, the 5-year Treasury yield ended at 3.92%, and the 2-year Treasury yield ended at 3.79%. (As of the end of March 2026, yields were higher by 25 to 35 basis points across the curve from year end.)



Fixed Income Markets - Looking Ahead

At the most recent FOMC meetings, the January meeting and the March meeting, the FOMC held rates steady. This was due in large part to inflation numbers moving higher, which in turn seems to be due to the U.S. and Israel’s incursion into Iran, which in turn is causing a global oil crisis.

Last quarter we mentioned that 2025 was a great year for most fixed income markets. However, as we enter the 2nd quarter, the markets must proceed with caution. All-in yields are attractive for most sectors and have moved higher. But spreads are still narrow, and that still suggests investors aren’t getting paid to take on either yield curve risk or credit risk currently. Although Federal Reserve (Fed) policy will be key in determining returns in 2026, much of that policy will be determined by inflation and the economy. But with a new Fed Chair expected by May, rate volatility will remain elevated.

As we move through the 2nd quarter, tariffs may still cause problems, but inflation caused by our administration’s policies will be a stronger influence on monetary policy. Although tariff policies can and probably will further undermine consumer and business confidence, higher inflation caused by increasingly higher prices, due to oil’s trickle down, will weigh heavily on sentiment and activity. With that said, we may see fixed income yields move higher as the year progresses.

For the rest of 2026, the Federal Reserve’s stance will be crucial to both the Fixed Income and Equity markets. The 2026 fixed income outlook may be in for a slightly higher rangebound rate environment, due to a cautious Fed policy. Expectations are that the Fed will not move until at least the 4th quarter, if at all.

Equity

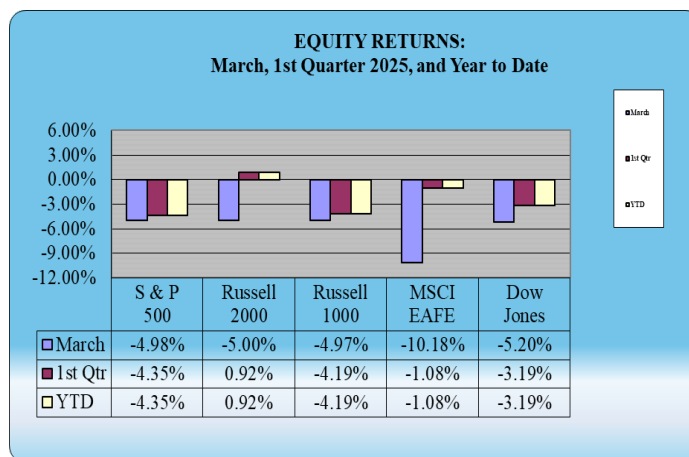
Wow! This was an interesting quarter (I am not sure interesting is the correct word). After a great 2025, the equity market, as measured by the S&P 500 Index, fell -4.35% in the 1st quarter.

The 1st quarter of 2026 saw a mix of challenges and opportunities for the equity markets. As global equities reached new highs and AI continued to drive performance in 2025, the broad stock market fell in the beginning of 2026. The S&P 500 experienced a decline of 4.3%, most of which was in the month of March. It was 7% off the record highs. Also, the Nasdaq was down 10% from record highs. Despite the volatility in the equity markets as well as bond markets, there was some resiliency helped by a strong dollar and an economy, that although slowing, was still moving forward. However, the overall decline did mask some gains in select sectors. The losses were led by technology and communication services stocks, and general overall indexes down, due to their heavy weightings in the market.

In the quarter, value stocks outperformed growth stocks. In addition, small-company stocks did better than those for larger companies, and dividend paying stocks finally outperformed. The sector rotation has been driven by a combination of fundamental concerns, AI undercutting revenue and business models, the war-driven spike in oil, and stretched valuations on the stocks that had been leading the rally last year.

For the quarter, stocks were negative across almost all major US market segments, and non-US stocks followed suit.

All indexes except one were negative for the quarter. On the US side, the Dow returned -3.19%, the S P 500 Index returned -4.35%, and the Russell 1000 Index ended with negative -4.19% return. Only the Russell 2000 Index had a positive return of +0.92%. As mentioned, the International markets also posted negative returns at -1.08% on the EAFE for the quarter.



Equity Markets - Looking Ahead

2nd quarter 2026. The big question? Do we continue the correction?

The stock market isn't starting well in 2026. With numerous issues weighing on stocks today, including the military excursion into Iran, elevated oil prices, and question marks still looming about where the economy really is, there is no real direction in the markets. Because the market has been hot for multiple years now, is it perhaps overdue for a bit of a pullback?

In past cycles, when the stock market starts the year poorly, it is sometimes a sign that investors are worried about what the future holds for the economy. That uncertainty and bearishness may persist and combine to weigh down the market for some time, potentially the entire year. But that doesn't mean it's always the case.

Markets entered the beginning of the 2nd quarter in a more fragile state than the year began. The April 6th diplomatic deadline between the U.S. and Iran represents the most immediate risk event: a de-escalation that reopens the Strait of Hormuz could rapidly reverse oil prices and lessen much of the inflationary pressure currently gripping markets, while further escalation could push oil prices higher, which in turn moves the needle on inflation and accelerates the below mentioning of stagflation. Beyond geopolitics (if anyone can get by that), investors will be focused on the April labor market data, any further Fed commentary considering the dramatic shift in rate expectations, and the numbers from the 1st quarters' earnings season. With valuations under pressure, earnings guidance will be watched closely for any signs that the macro headwinds—tariffs, higher energy costs, and softening consumer spending—are beginning to erode corporate margins.

The market outlook for the next few months will be dependent on the outcome of current military action in Iran. With relative resilient growth, and broadening profit drivers, the markets can still do well this year. However, the market will not be without challenges. With inflation ticking up and the economy slowing, "Stagflation" talk has started again.

The Economy

The Economy, and Inflation.

In the 1st quarter of 2026, the US economy continued to demonstrate continued resilience amid aggressive trade policies and increased geopolitical tensions and inflation seemed to be trending downward. That was until late February, when the U.S. and Israeli forces began airstrikes on Iran.

The enthusiasm around U.S. growth momentum that prevailed in February has been tempered and almost halted by the escalation of the Middle East conflict. The war in the Middle East is a negative supply shock, globally. The big conductive mechanism to the global economy is through the energy market. For the U.S., while net exports of petroleum and refined products help somewhat cushion the hit to real GDP, they do not offset the inflationary consequences. That also transfers to the markets. Since the end of February, the stock market is down almost 5.0%. The bond market has been equally hit, returning -1.8%.

During the early part of the 1st quarter, the Federal Reserve continued its transition toward easing. However, with inflation starting to rise, even with the signs of weakness in the labor market, the Fed opted to hold rates steady at the January and March FOMC meetings. There was only one holdout on the FOMC board that voted to cut rates. It seemed that the majority was more worried about future inflation caused by Global energy problems, to ease monetary policy further.

The Economy - Looking Ahead

Inflation? Economic Growth? WHO KNOWS.

As we move into the 2nd quarter of 2026, we are in a totally different environment than we were at the beginning of the 1st quarter.

As we enter April, the Federal Reserve is trying to get a handle on balancing the possibility of further monetary easing, along with maintaining inflation stability. After rate cuts in the 4th quarter that brought the Federal Funds rate to the 3.50%–3.75% range, officials and market forecasters are now suggesting that there will be a pause in the easing policy, with the potential for additional cuts later, depending on inflation and labor market data. Current inflation continues to remain above the Fed's 2% target and is now trending higher, mainly due to oil prices higher by approximately 40% to 50%.

Minutes from the Fed's January meeting's told one story. However, minutes of the March meeting noted that, due to the ongoing Iran conflict that the U.S. and Israel are part of, inflation and the economy are now on the Fed's front burner. Fed Chairman Jay Powell recently said it is appropriate for the Fed to look past any oil shock, but only up to a point. Unfortunately, he did not say where that point might be. Still, the odds of a rate hike this year, which the fed funds futures market put at about 25% recently, have now dropped close to zero. The implied forward rate is still around zero, but the peak, at the April meeting was at only at a 2.6% chance. Based on the current CME Fed Watch futures markets, there's a 5.6% chance of a rate cut in June, a 9% chance of a rate cut in July, 9% in September, 13.4% in October, before moving to a 25% chance of a cut by year end.

As we move forward the markets remain cautious on the economy. The unemployment rate as of February was 4.4% and trending higher. Although there is anticipation that the unemployment rate will rise through the summer, the Federal Reserve's projections indicate a gradual cooling of the labor market, and anticipate that the rate will move lower, with expectations of averages from 4.4% to 4.2% over the next 2 years.

Fed policy is going to be fluid as we move through 2026. Not only do we have a weaker economy, and inflation ticking up, but a weakening job market, along with the pending transition in Fed leadership. All this adds a layer of uncertainty to future Fed Policy.

For the rest of 2026, the expectations that the FOMC would cut rates to as low as 3% by year end are pretty much off the table. However, the Fed (or the current makeup of it) still has the priority of inflation reduction and full employment. Stay tuned, it will probably be even more volatile as the rest of the year progresses.

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