Intelligent Investment

First Quarter 2026

S&P 500 - YTD (-4.63%)[2]

MSCI INTERNATIONAL - YTD (-1.23%)[2]

"May I have your attention please? Will the real Slim Shady please stand up?"[1]

We began the new year full of optimism near all-time highs with market prognosticators singing in unison like a chorus of "Mockingbirds"[1] (yours truly included), "Not Afraid"[1] of any impending market turmoil or potential corrections. The world had other plans; the conflict in Iran quickly took center stage and roiled not just the equity markets but bonds and commodities as well. However, as bad as the headlines have been, I don't think "Doomsday part 2"[1] is in the cards.

2026 is playing out somewhat as expected. In fact, last quarter we wrote: "While we remain optimistic, risks including high stock valuations, geopolitical tensions, and policy uncertainty could bring pockets of volatility."[2] Volatility has arrived in buckets. In the first quarter, the S&P 500 lost 4.63%[3] — its worst quarter since the third quarter of 2022, with five of the 11 sectors down. Moreover, even the safety of high-quality bonds left a little to be desired. Largely made up of U.S. Treasurys, highly rated corporate bonds, and mortgage-backed securities, was down 0.3%[3].

The tech sector certainly wasn't spared and reminded everyone the market isn't going very far "Without Me"[1] as the Nasdaq Composite, which is heavily weighted toward growth-sensitive technology stocks, was particularly hard hit, ending the quarter down roughly 7.4%[3]. In fact, tech giants like Microsoft saw their worst quarterly performances since the 2008 financial crisis, as slowing growth in cloud services and high capital expenditures for AI began to worry investors.

As this mid-term election year grinds on, this is par for the course. Mid-term election years are historically the most volatile and weak, particularly in the first half of the year. So what can we look forward to for the remainder of 2026? Is this volatility here to stay, or will "The Monster"[1] go back into hiding? We need to peek under the hood to see if this will likely turn out to be a short-lived market wiggle or if the conflict in the Middle East could potentially lead to long-term economic contagion? "Will The Real Market Please Stand Up?"[1]

U.S. markets started the year with modest gains in January. The S&P 500 rose approximately 1.5%[3], while the Dow Jones Industrial Average saw an increase of 2.8%[3] during the first month. This positive start followed a strong 2025 and was initially supported by resilient consumer demand and continued expectations of a "soft landing" for the economy. However, this optimism was punctured mid-month by geopolitical tensions, including tariff threats related to a proposed Greenland deal, which led to the S&P 500's worst single-day session in nearly a year on January 20th. As the quarter progressed into February and March, the market narrative shifted from trade disputes to direct military conflict coupled with nagging inflation.

The escalation of armed conflict between the United States and Iran introduced significant risk premiums into energy prices, which brought "No Love"[1] from the commodity as Brent crude spiked to near $120 per barrel[3]. This energy shock renewed fears that inflation would remain stubbornly above the Federal Reserve's 2% target, potentially forcing the central bank to keep interest rates higher for longer. ARPG fundamentally disagrees with this position, as this price increase and bond sell-off are due to supply issues stemming from a regional conflict, not a consumption problem generated from an overheating economy thirsty for fossil fuels to keep it pumping. Unfortunately, the yield curve is reflecting these short-term inflation pressures as the two-ten treasury curve has flattened by 21 basis points or nearly 30% in 2026.

Cloud services contraction, AI over-expenditures, potential war spreading further and longer in the Middle East, coupled with a flattening yield curve, would make it appear the world is aiming for a "Killshot"[1] on the markets. Not so fast, "Houdini"[1]! The markets have already priced this "Venom"[1] in. But what "Rabbit"[1] will it pull from the hat this year?

Although it's certainly easy to "Lose Yourself"[1] amidst the never-ending hyper-volatile headlines surrounding geopolitics, ARPG is maintaining our 7850 S&P 500 price target for 2026[2], a full 20% higher than the end of the first quarter. This confidence stems from what caused the markets to pull back from a fundamental perspective. Economic forecasts aren't contracting in any manner; in fact, just the opposite. Valuations have contracted in a material way, 10.5%[3], since the start of the year; however, S&P 500 earnings estimates have actually expanded by 3.2% and 4.1% for 2026 and 2027[3], respectively. This tells us that although market participants remain nervous about the aforementioned risks, the economy is running on all cylinders. This represents opportunity and reminds us, "Intelligent Investment is Investment on Value, buying high quality companies in low quality times"[2]. This is one of those times, and we're reminded that the fundamentals will likely see this through and not to allow a few naysayers to take control of the narrative.

It's warming up, spring has sprung! Flowers and allergies are all in full bloom! (mine certainly are). It's a good time to go outside or straighten up the garage or maybe even just "Cleaning Out Your Closet."[1] Enjoy the charming springtime weather; the hot summer months will be here before we know it. In any season or market, the best investors always focus on the long term, and ARPG will continue to practice our approach to value investing: "Intelligent Investment is Investment on Value, buying high quality companies in low quality times". This is what we believe sets ARPG apart from the rest. As always, we thank you for your confidence and are humbled by your trust. Please feel free to contact us at any time.

INTELLIGENT INVESTMENT

Sincerely,
Matthew D. Dahl
Chief Investment Officer

1. Eminem
2. ARPG / Stockcharts.com
3. Factset