

A Quarter That Asked Hard Questions



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The first quarter of 2026 reminded investors that markets, like seasons, still have weather. After a three-year stretch where good news seemed to arrive on schedule, this one delivered a storm. The S&P 500 ended the quarter down 4.6%, its worst first quarter since 2022⁽ⁱ⁾ and the Nasdaq fell 7.1%.⁽ⁱⁱ⁾ The declines were sharp but hardly mysterious. Three distinct pressures converged—each testing a different kind of investor conviction.

1. The War That Locked the Strait

When U.S. and Israeli forces struck Iranian targets on February 28, the world's most vital shipping lane—the Strait of Hormuz—effectively closed.⁽ⁱⁱⁱ⁾ Roughly 20% of global oil supply normally passes through that narrow corridor; suddenly, much of it wasn't. Brent crude prices briefly doubled before retreating, energy stocks spiked, and the word “stagflation” started reappearing in research notes.^(iv)

In the weeks that followed, tanker traffic stalled, fertilizer prices jumped, and European jet fuel markets experienced temporary shortages. Global inflation expectations turned higher again. For investors, it was another lesson in how quickly an “energy story” becomes an “everything story.”

And yet, by April, a new narrative began to take hold: that this conflict, while severe, may also be fleeting. Markets began pricing in de-escalation. As we write, both the S&P 500 and Nasdaq have clawed back losses and reached new highs^(v), a sign that investors believe some semblance of normal shipping—and normal risk appetite—will return.

2. The AI Hangover

Even before the first missile launch, tech valuations were wobbling under their own weight. The breathtaking capital spending that fueled the AI boom—estimated above \$650 billion in 2026—started prompting uncomfortable questions about ROI. Investors no longer asked whether these projects were transformative, but when they would pay off.

SaaS and cloud software names were hit hardest, as markets recalibrated expectations around a

business model built on per seat pricing in a world where AI tools might replace the seats themselves. For many companies, rationalization has replaced euphoria. This is a normal, even healthy, phase of a new technology cycle—what history tends to label the “show me” period.

3. Cracks in the Shadows

Quietly, another stress point emerged in private markets. After a decade of growth and record inflows, private equity and private credit valuations are under scrutiny. Liquidity limits, questionable marks, and growing redemptions in some funds have raised eyebrows across Wall Street. None of this signals systemic risk, but together it adds friction to what had been one of the market's most confident corners.

4. The Macro Picture: Resilient, but No Victory Lap Yet

Despite the shocks, the U.S. economy refuses to crack.

- **Jobs:** Payrolls remain solid, unemployment has barely moved, and weekly jobless claims remain below 220,000, still far from recessionary levels.^(vi)

- **Inflation:** Headline and core inflation remain above the Federal Reserve's 2% target, pushed higher by energy and supply costs.

- **Policy:** The Fed is likely on hold through mid 2026; markets that began the year expecting up to three rate cuts are now pricing in one—or none.^(vii)

This combination of strong employment, sticky inflation, and higher short term rates defines today's crosscurrents. The economy is stable, but not serene. The Fed is patient but not done. Consumers are still spending but feeling it more at the pump.

5. Perspective

Markets live on narrative. In Q1, those stories—war, AI, credit stress—felt heavy, and at times, overwhelming. But they are also filters through which resilience becomes visible. Energy companies surged, value stocks outperformed growth, and market breadth improved to levels not seen since 2021.^(viii)

If history is any guide, quarters like this one—where investors are forced to reprice optimism into realism—are the ones that quietly reset future opportunity.

Looking Ahead

As we enter the second quarter, the path for investors looks narrow but navigable. A lasting ceasefire in the Middle East could ease energy prices and inflation pressure, giving the Fed space to adjust policy later this year. But if the conflict lingers, or oil remains above \$100 per barrel, policy flexibility shrinks quickly.

Either way, our investment approach remains consistent: while paying close attention to the broader economy and the many factors affecting it, we try to mitigate external risks by building portfolios from the ground up, with high performing companies that have structural and competitive tailwinds, strong managements and balance sheets, to drive them forward through thick and thin.

The headlines will shift; but fundamentals will win in the end.

As the Chief Investment Officer of **BD8 Capital Partners**, I appear on CNBC frequently to talk about stocks and the stock market, as well as on other news outlets (e.g. Bloomberg, Fox Business), and we post on “X” (Twitter), LinkedIn and our **BD8 Capital Partners** Facebook page so you can follow our market commentary. Our website also has updates and information about the firm (<https://bd8cap.com/>).

As always, we at **BD8 Capital Partners** continue to focus on your long-term financial future and planning needs, while managing your investments to help meet your financial goals.

Thank you for your continued interest and trust. We look forward to navigating the remainder of the year with a measured and informed approach.

Warmest regards,



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Endnotes

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