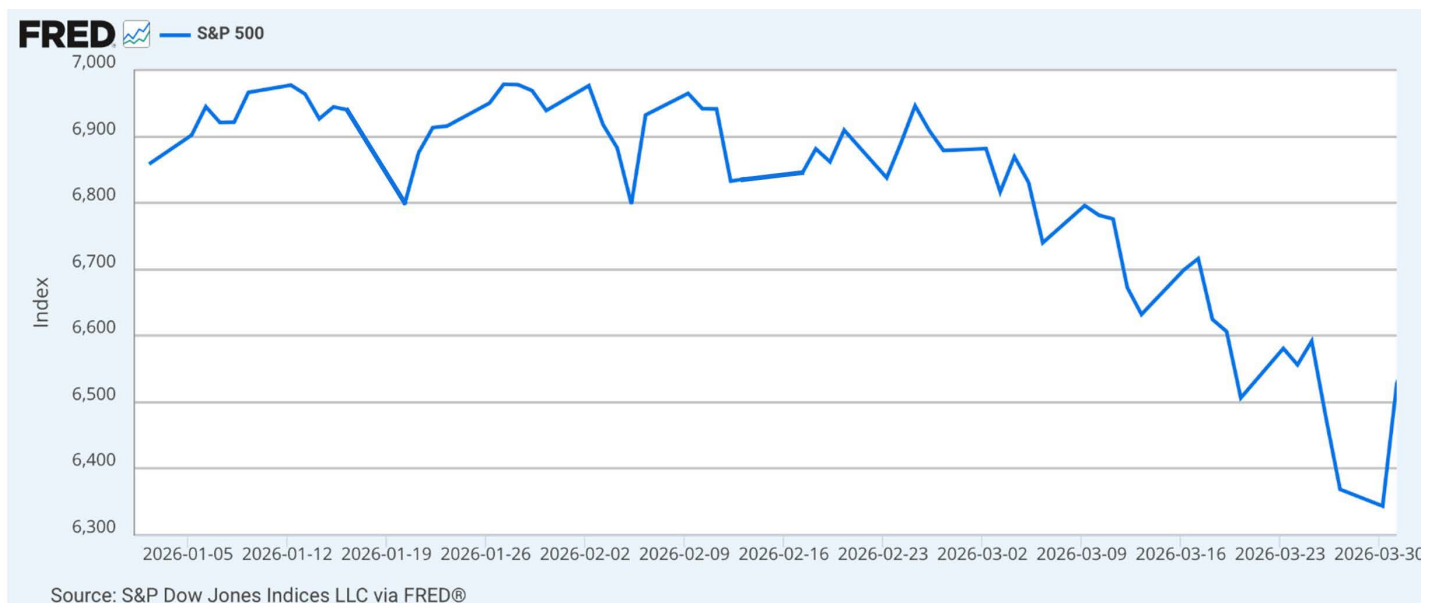


- ◆ Market Snapshot
- ◆ Geopolitical Developments & Financial Impacts
- ◆ World Reserve Currency Trends
- ◆ Oil Shocks: Then and Now
- ◆ Summary

S&P 500 CHART FOR 1ST QUARTER 2026



MARKET SNAPSHOT

The first quarter of 2026 was defined by a shift from stable economic conditions to heightened geopolitical influence on markets. The quarter began with continued positive equity pricing momentum from 2025, supported by moderating inflation, stable interest rates, and solid economic growth. Inflation data showed headline CPI at 3.0% and unemployment at 4.6% in February, reflecting gradual normalization rather than deterioration. Against this backdrop, equity valuations had become increasingly stretched. Price-to-earnings multiples expanded following strong performance in 2025, though this was largely supported by resilient corporate earnings and a constructive forward outlook.

Market narratives shifted significantly on February 28, 2026, when tensions between the United States and Iran escalated into direct military engagement, including a joint operation with Israel to remove key Iranian leadership and drastically erode Iran's military capability. Reports indicated that Iran had continued to enrich weapons grade uranium, enough to potentially build up to 11 nuclear bombs, as well as development of longer-range ballistic missile systems which posed

a dangerous threat to the region and beyond. After the initial strikes, Iran responded by effectively closing the Strait of Hormuz, which supplies roughly 20% of the world’s oil exports along with other key supplies. Given the region’s vast importance to global energy supply, the market response was notable.

Oil prices moved higher to approximately \$100 per barrel, raising forward inflation expectations. Interest rates became more sensitive to these pressures, reducing some confidence in near-term rate cuts. Equity markets experienced increased volatility and narrower leadership, particularly as elevated valuations left less margin for error.

While underlying economic fundamentals remain, markets are now balancing steady growth against renewed inflation pressures and heightened global and economic uncertainty.

Selected Indices	3/31/25	6/30/25	9/30/25	12/31/25	3/31/26	1Q%
S&P 500 (Large Cap)	5,611	6,209	6,688	6,845	6,528	-4.63%
S&P 400 (Mid Cap)	2,919	3,102	3,263	3,340	3,376	1.08%
S&P 600 (Small Cap)	1,277	1,333	1,449	1,467	1,513	3.14%
Dow Jones Industries (Large Cap)	42,001	44,126	46,397	48,063	46,301	-3.67%
Nasdaq	17,299	20,409	22,660	23,241	21,590	-7.10%
MSCI/EAFE (International)	82	89	93	95	97	2.11%
Treasury Bond Rates						
5-year Treasury Note Yield (%)	3.98	3.79	3.74	3.72	3.94	5.91%
10-year Treasury Note Yield (%)	4.25	4.21	4.15	4.18	4.31	3.11%

The chart above indicates the performance for each major asset category for the past 5 quarters. Returns shown reflect index price performance and exclude dividends.

Domestic Stocks

U.S. equities began 2026 on a weaker footing following strong gains in 2025, with performance diverging across market capitalizations. Based on index level changes for the quarter, the S&P 500 declined 4.63%, while the Dow Jones Industrial Average fell 3.67% and the Nasdaq Composite dropped 7.10%, reflecting pressure on large-cap and growth-oriented stocks.

The pullback was more pronounced in areas of the market where valuations had become increasingly stretched entering the year, particularly within technology and communication services. As geopolitical tensions escalated late in the quarter and interest rate expectations shifted, these segments experienced increased volatility.

In contrast, mid- and small-cap stocks posted modest gains. The S&P MidCap 400 rose 1.08%, and the S&P SmallCap 600 advanced 3.14% during the quarter. This relative outperformance reflects a rotation toward more domestically oriented and valuation-sensitive segments of the market, as well as less exposure to the largest mega-cap names that drove prior gains.

Overall, domestic equity performance in Q1 2026 reflected a shift from broad multiple expansion to a more selective environment, with heightened sensitivity to interest rates, earnings durability, and geopolitical developments.

International Markets

International equities continued to show relative strength. The MSCI EAFE Index increased 2.11% during the quarter, building on strong performance in 2025.

The U.S. dollar weakened modestly against several developed market currencies early in the quarter, which provided a tailwind to U.S.-based investors holding international assets. As the quarter progressed and geopolitical tensions increased, the dollar stabilized and, at times, strengthened as a safe-haven asset, partially offsetting some of those earlier gains.

In addition to currency dynamics, performance benefited from more attractive starting valuations and reduced exposure to the concentrated large-cap technology leadership seen in U.S. markets.

Treasury Bond Yields

Treasury yields moved higher during the first quarter, reflecting renewed inflation concerns and shifting expectations for Federal Reserve policy. The 5-year Treasury yield increased from 3.72% to 3.94%, while the 10-year Treasury yield rose from 4.18% to 4.31%.

The upward movement in yields was driven in part by rising energy prices following late-February geopolitical developments, which contributed to higher inflation expectations and reduced confidence in near-term rate cuts. At the same time, ongoing Treasury issuance and fiscal deficits continued to place upward pressure on longer-term rates.

Federal Reserve Actions

The Federal Reserve adopted a more measured stance during the first quarter of 2026 following its easing cycle in late 2025. At both its January 29 and March 19 meetings, the Fed held the federal funds rate steady at 3.50%–3.75%, signaling a pause as policymakers evaluated incoming economic data.

Inflation remained above target, with core readings holding near 3.0%–3.1%, while labor market conditions remained stable. As a result, Fed communication throughout the quarter emphasized a data-dependent approach, with Chair Powell noting that while progress has been made, inflation is not yet fully contained. He also acknowledged that rising energy prices and geopolitical developments late in the quarter could introduce additional uncertainty into the inflation outlook.

In a significant update, the Fed formally transitioned away from quantitative tightening (QT). Rather than allowing securities to roll off, the Fed fully reinvested principal from maturing Treasuries and mortgage-backed securities, directing those flows primarily into short-term Treasury bills. This approach effectively held the size of the balance sheet steady, shifting policy from passive tightening to neutral liquidity management.

Importantly, this is not a return to quantitative easing (QE), as the Fed is not expanding its balance sheet or adding incremental stimulus. However, by ending QT, the Fed removed a prior source of liquidity withdrawal, contributing to more stable financial conditions.

Looking ahead, markets are also beginning to factor in a potential leadership transition. With Chair Powell's term set to expire in May 2026, attention is turning toward how future leadership may influence the trajectory of monetary policy in an environment defined by persistent inflation, elevated fiscal deficits, and increased geopolitical uncertainty.

GEOPOLITICAL DEVELOPMENTS & FINANCIAL IMPACTS

Competing Global Powers

The escalation of conflict between the United States and Iran on February 28, 2026, reflects a convergence of longer term geopolitical and economic forces rather than a single isolated event. Tensions have developed over time through regional territory control, sanctions enforcement, and disputes over critical energy infrastructure, particularly the Strait of Hormuz, a key choke point for global oil supply.

This conflict sits within a broader framework of competing global interests. The United States and its allies, including key partners in Europe, Israel, and portions of the Gulf region, are focused on state specific political and economic goals, including the oversight of global energy markets. On the other hand, Iran operates with varying degrees of alignment with countries such as China and Russia, both of which have strategic and economic incentives to expand influence and reduce reliance on U.S. led financial networks and security structures.

The Middle East remains a central theatre for global power. China has emerged as a primary counterweight to U.S. influence, with expanding economic and strategic ties across the region, including energy partnerships with Iran and other producers.

Dollar as the World Reserve Currency

An important aspect to the current conflict is the underlying framework of the U.S. dollar as the world's reserve currency, as established in 1944 at the end of World War II. Originally, the U.S. dollar was pegged to gold until that regime was changed in 1971 to an untethered fiat currency. Following the 1973 Oil Crisis, the U.S. negotiated an agreement with major oil producing nations, most notably Saudi Arabia, to peg the U.S. dollar to another important commodity - oil. Since 1974, this has been viewed as the petrodollar system which still exists today, as most worldwide oil exports are still priced predominately in dollars.

Over the past 50 years under the petrodollar system, countries were required to hold dollars to participate in oil markets as well as to trade with the U.S. These accumulated dollars were then reinvested into U.S. financial assets, particularly Treasury securities, creating a “recycling” of capital that has consistently supported sustained demand for U.S. debt. Over the past decade, countries including China, Iran and Russia have sought to establish payment systems outside of the dollar to avoid sanctions and increase their own economic power and partnerships. There have been increasing efforts by Iran and China to encourage oil trade in yuan, especially during this most recent conflict. This is in line with China's overall long-term strategy. Of course, this aspect is particularly important, and likely an unacceptable outcome to the U.S. and its allies.

Impact on Financing the U.S. Debt and Deficit

Today, this dynamic and conflict remains highly relevant. Approximately \$9 trillion of the roughly \$31 trillion in U.S. public debt is held by foreign investors, or roughly 30 percent, underscoring the continued role of global capital in financing U.S. deficits. This persistent demand reflects what has often been described as the “exorbitant privilege” of being the world's reserve currency, allowing the United States to borrow at lower cost than would otherwise be possible.

Without consistent foreign participation, the United States would potentially need to issue debt at higher yields, increasing borrowing costs and placing additional pressure on an already stretched fiscal position. However, it is a subject of debate among many of the research-oriented PhDs inside the Federal Reserve, on how to best quantify what kind of “premium” this privilege affords. While challenges to U.S. dominance exist, the dollar's hegemonic position as global reserve is sustained by many factors including the depth, liquidity, and stability of U.S. capital and Treasury markets, military dominance, the U.S. legal system, as well as several other structural factors.

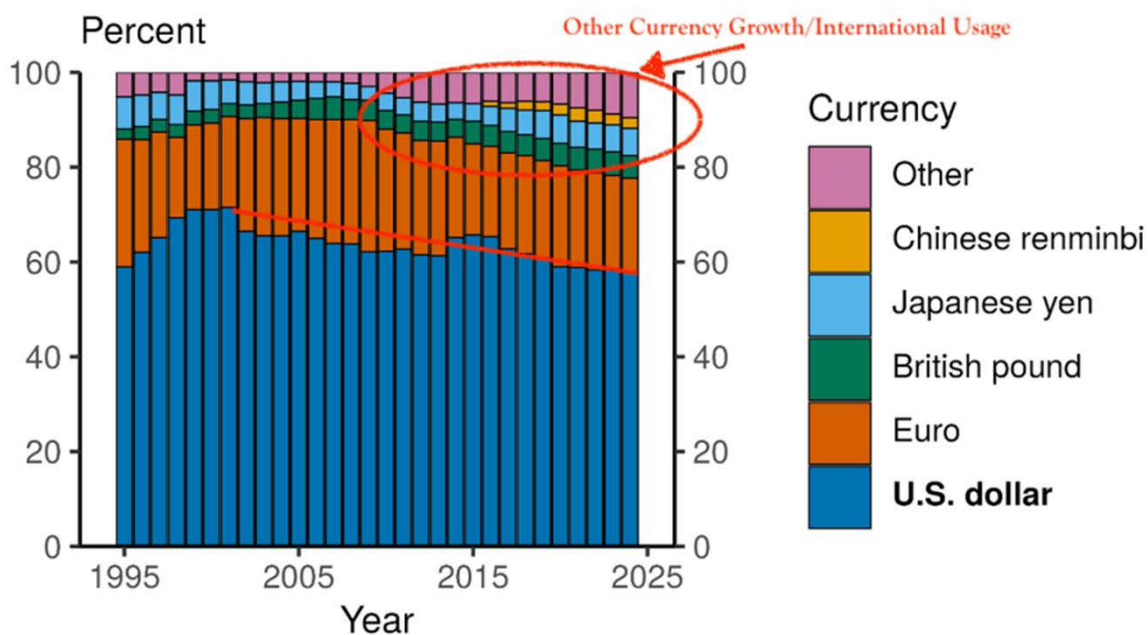
Outlook on Economy and Inflation:

The near-term path will depend on the duration and scope of the conflict. Disruptions to energy supply, particularly through key transit routes, could place upward pressure on oil prices, which would likely result in higher inflation expectations. This, in turn, could delay or reduce the pace of interest rate cuts and contribute to higher Treasury yields. While a contained conflict would likely have a more limited economic impact, a prolonged or expanding situation could create more persistent pressure on energy markets and financial conditions.

WORLD RESERVE CURRENCY TRENDS

The chart below highlights the trends of global foreign exchange holdings since 1995 as per the International Monetary Fund. While the U.S. dollar remains the dominant reserve currency, its share has gradually declined from levels above 70 percent in the early 2000s to approximately 58 percent today. This shift has not been driven by a single alternative, but rather by a gradual increase in allocations to other currencies, including the euro, Japanese yen, Chinese renminbi/yuan, and a broader category of smaller reserve currencies.

Figure 2. Foreign exchange reserves



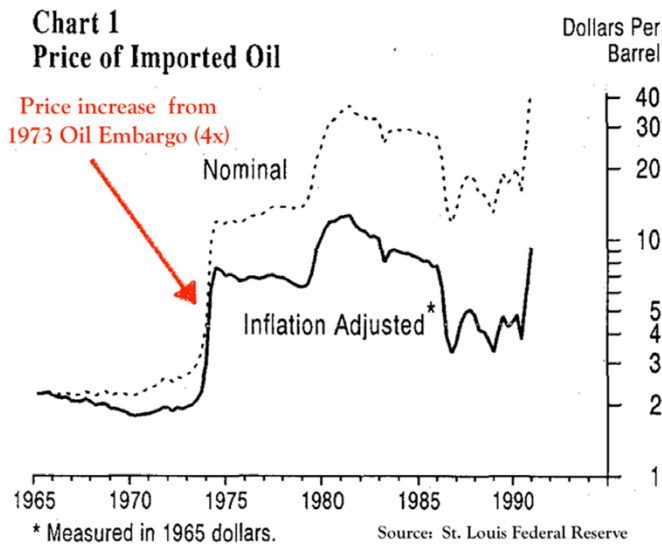
Note: Share of globally disclosed foreign exchange reserves. Data are annual and extend from 1995 through 2024. Legend entries appear in graph order from top to bottom. Chinese renminbi is 0 until 2015-Q2.
Source: IMF COFER.

The trends reflect diversification at the margin rather than a displacement of the dollar, as no other currency currently offers the same global acceptance as U.S. dollar-based assets. Still, even incremental shifts in reserve allocation can influence demand for U.S. financial assets over time.

From a market perspective, these dynamics are increasingly important because geopolitics is no longer operating in the background. Prior to the conflict, Iran had been exporting 90% of its oil to China at a market discount - exclusively sold in Chinese yuan, a result of being under sanction. In recent years, China has been pressuring other oil producers such as Saudi Arabia to price exports in yuan or other currency swaps. This presents a most recent challenge to the dollar-based system, and the importance in following the economic outcomes impacting global trade, partnerships and currency usage.

OIL SHOCKS: THEN AND NOW

The current conflict draws some parallels to what occurred in the 1970s during the last major oil shock, but the underlying dynamics today are meaningfully different. In 1973, following U.S. support of Israel during the Yom Kippur War, Arab oil producers imposed an embargo on exports to the United States and its allies.



At the time, the U.S. was heavily dependent on imported oil and had limited ability to replace that supply. The result was a sharp and meaningful shock. Oil prices rose almost 400% from roughly 3 dollars to 12 dollars per barrel over a relatively short period. With declining domestic production and few alternative supply sources, the U.S. had little ability to respond. Gasoline shortages emerged, rationing followed, and the effects worked through the economy, contributing to a prolonged period of elevated inflation, interest rates and weak growth that continued for almost a decade. As a result, the U.S. experienced a difficult period of stagflation (high inflation/low growth).

The current environment shares some surface similarities, but the structure is very different. Over the past 50 years, the United States has become far less dependent on foreign oil, supported by strong domestic production and integration with Canada. At the same time, demand for Middle Eastern oil has shifted toward China and other Asian and European economies. This reflects long term policy decisions by the U.S. following the 1970s energy crisis, as President Nixon initiated Project Independence with the goal of making the U.S. energy independent, along with establishing the Strategic Oil Reserve as well as the later establishment of fuel standards and the International Energy Agency during the Ford Administration.

Because oil is still priced globally, supply disruptions continue to impact prices everywhere, including in the U.S. However, the magnitude of the current move has been much more contained. Prices have increased materially, but far less than the fourfold spike seen in the 1970s, generally on the order of 30 to 50 percent. Just as importantly, the U.S. is far less likely to experience physical shortages or rationing. Supply is more diversified, domestic production is more responsive, and there is some capacity within OPEC plus countries to increase output if needed. In addition, some oil continues to move through alternative routes even during periods of disruption.

That said, the way energy impacts the economy has not changed. Higher oil prices flow through transportation, manufacturing, and utilities, and ultimately into broader inflation. In addition, higher energy costs can feed into shipping, insurance, and other input costs, creating secondary pressure beyond the direct impact of oil itself. If prices remain near or above 100 dollars per barrel through the summer, we would expect modest upward pressure on inflation, potentially in the range of approximately 0.3 percent to 0.7 percent on headline CPI over the following several months. This would be meaningful, but not necessarily indicative of a prolonged inflation cycle, particularly if prices stabilize or reverse.

There are also global implications. Higher energy costs tend to place more pressure on oil importing countries, particularly in Asia and parts of Europe, which can add to broader economic and geopolitical stress. While the U.S. is better insulated than in the past, the global system remains interconnected.

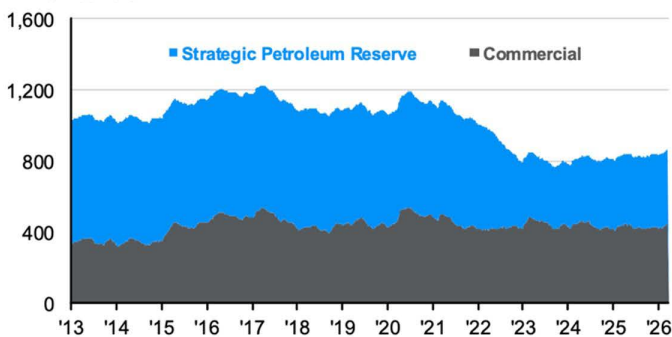
Change in production and consumption of liquid fuels

Production, consumption and inventories, millions of barrels per day

Production	'23	'24	'25*	'26*	'27*	'23-'27
U.S.	22.0	22.8	23.6	23.9	24.6	20.5%
OPEC	32.9	32.9	33.8	33.4	34.6	3.9%
Russia	10.9	10.5	10.5	10.7	10.7	-3.0%
Global	102.7	103.3	106.3	107.0	109.6	8.9%
Consumption						
U.S.	20.3	20.5	20.6	20.6	20.7	3.6%
China	16.0	16.4	16.6	16.8	17.0	11.9%
India	5.4	5.6	5.7	6.0	6.3	22.2%
Global	101.4	102.8	103.9	105.2	106.6	6.9%
Inventory Change						
	1.2	0.5	2.4	1.9	3.0	

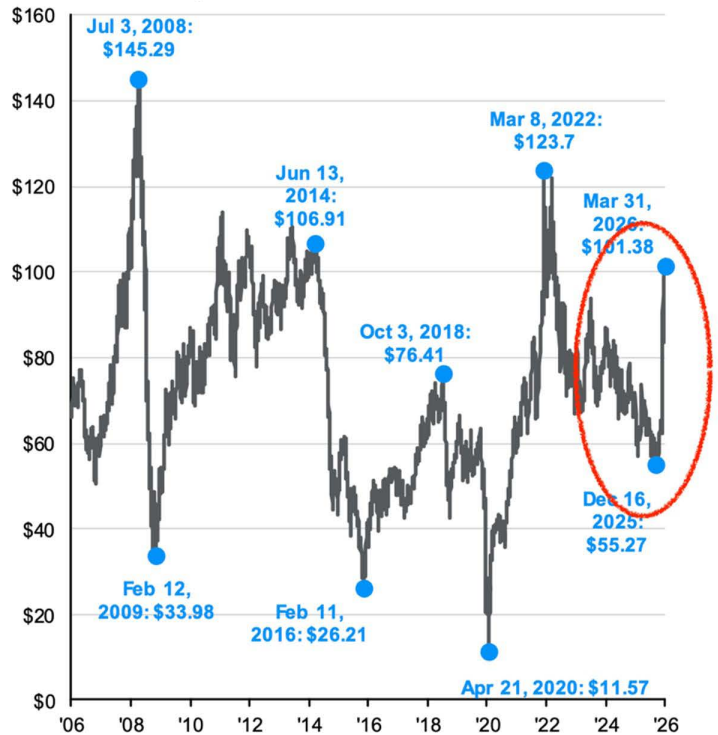
U.S. crude oil inventories

Million barrels



Price of oil

WTI crude, nominal prices, USD/barrel



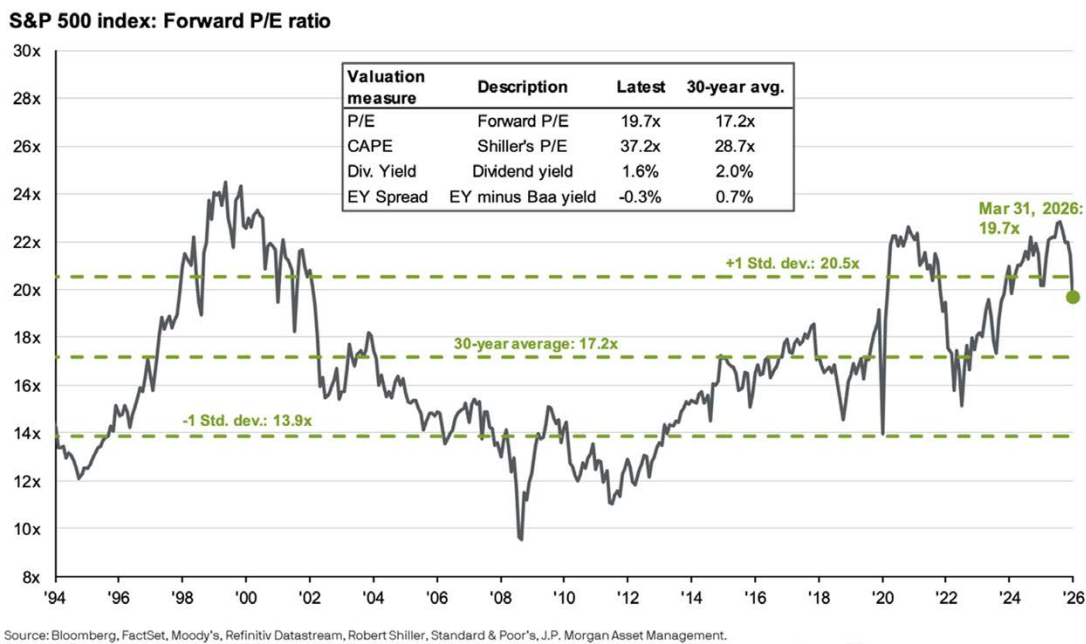
Source: Factset, EIA, JP Morgan

At the same time, this situation remains fluid. Unlike the 1970s, when the disruption proved prolonged, today’s environment could reverse relatively quickly if key supply routes reopen. However, wartime conditions introduce a level of unpredictability that is difficult to model. Damage to critical energy infrastructure, including oil production, transportation routes, and liquefied natural gas exports, could extend or intensify the current environment.

The key takeaway is that while the risks are real, the United States is in a much stronger position today than it was in the 1970s. That improved positioning helps explain why markets have remained relatively stable and orderly through the current disruption. Ultimately, the duration of this event will matter more than the initial move. A shorter disruption may leave only a temporary mark on inflation, while a more prolonged period of elevated prices would begin to place greater pressure on both the economy and markets.

SUMMARY

The first quarter of 2026 reflected a volatile but orderly market environment following three consecutive positive years for equity markets. As shown in the chart above, intra-year declines remain a normal feature of equity investing, even in periods that ultimately produce positive returns. While pullbacks can be uncomfortable, history shows that patient investors are often rewarded rather than attempting to time short-term market movements.



While risks remain, including elevated government borrowing, geopolitical uncertainty, and the potential of higher energy costs leading to inflation pressure, equity price to earnings multiples have moved downward and closer to historical averages. As the above chart indicates, the S&P 500 is currently trading near 19.7 times forward earnings compared to a 30-year average of 17.2 times. At Chancellor Wealth Management, we remain committed to personalized planning and disciplined investment management, and we welcome the opportunity to support your goals.

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