FSA INSIGHTS

TURN! TURN! TURN!

In 1965, The Byrds took words written nearly three thousand years ago, from the Book of Ecclesiastes, and turned them into one of the most enduring songs in American music. The message was timeless then, and it remains timeless now: every season has its purpose. The season of difficulty is not a mistake. It is part of the cycle. And crucially, it does not last forever.

We find ourselves in a challenging season right now.

The first quarter of 2026 has tested investor resolve in ways that feel uncomfortably familiar — a geopolitical shock in the Middle East driving oil prices sharply higher, trade policy shifting beneath our feet, inflation proving stickier than hoped, and equity markets recording their longest losing streak in over a year. The VIX climbed above 30 for the first time since early 2025. Headlines have been relentless. The noise has been loud.

And yet. Beneath the turbulence, the economic foundation has not cracked. Corporate earnings continue to grow. International diversification is paying off again. And as March draws to a close, early signals of diplomatic progress on the Iran situation have prompted a broad market rally, a reminder that markets reprice quickly when the narrative begins to shift, even as the path and timing of a resolution remain uncertain..

This is not the season to abandon the harvest. It is a season to tend it carefully, and to trust the cycle.

THE MACRO BACKDROP: A PATIENT FED IN AN IMPATIENT WORLD

The Federal Reserve voted 11 to 1 to hold its benchmark interest rate steady at 3.5%–3.75% at its March 18–19 meeting, the second consecutive pause following three successive rate cuts to close out 2025. The decision was widely expected, but the reasoning behind it is worth unpacking, because it tells you a great deal about the complexity of the environment we are navigating.

The Fed is caught between two legitimate concerns pulling in opposite directions. On one side, inflation has re-accelerated. The Producer Price Index rose 0.7% in February which is more than double the 0.3% economists anticipated, driven by tariff-related cost increases in metals, industrial inputs, and manufactured goods. The Fed's updated PCE inflation projection for 2026 now sits at 2.7%, above the 2% target, and Chair Powell was candid that progress on inflation has been slower than hoped. The conflict in Iran has layered an energy price shock on top of an already-elevated inflation environment, complicating the path forward.

On the other hand, the labor market has softened meaningfully. February saw net job losses, a notable deterioration from the already-modest pace of hiring over the past several quarters. Powell attributed this to lower labor demand and reduced immigration flows, rather than broad-based layoffs. That distinction matters. A labor market that is cooling gradually is very different from one that is unraveling. But the Fed cannot ignore the softening, and it cannot address both sides of its mandate simultaneously with a single interest rate lever.

The honest summary from the Fed's March meeting: one rate cut is still projected for 2026, likely in the fall, with another possible in 2027. Market pricing suggests September or October as the earliest plausible timing. Powell's term as chair expires in May, introducing a communication transition while nominee Kevin Warsh awaits Senate confirmation thereby adding a layer of institutional uncertainty to an already unsettled landscape.

None of this is cause for alarm. The Fed's posture is deliberate, not panicked. GDP growth is projected at 2.4% for the year, a healthy number, and a revision upward from December. Longer-run inflation expectations remain well-anchored, which is the variable we watch most closely. When that changes, the calculus changes. For now, it has not.

READING THE DATA: WHAT'S GROWING, WHAT'S DORMANT, WHAT'S UNCLEAR

Every season has plants at different stages. The same is true of economic data right now.

What is growing: Core economic output remains above trend. Corporate earnings accelerated through the end of 2025 and consensus expectations for 2026 remain constructive, supported by the tax incentive provisions of the One Big Beautiful Bill, such as bonus depreciation, immediate R&D expense, and factory investment deductions that encourage companies to act now rather than wait. Credit quality at the investment-grade level remains sound. Bankruptcy filings, which we track on a weekly basis, do not show the kind of upward trend that would signal systemic stress. Long-run inflation expectations, the Fed's most important guardrail, remain within historical norms.

What is dormant: The labor market has gone quiet in a way that warrants watching. February's job losses were not catastrophic, but they represent a meaningful deceleration from even the modest pace of the prior several months. Manufacturing sentiment surveys have been mixed at best, and small business confidence has softened. Consumer sentiment reflects the anxiety you would expect from households dealing with higher goods prices, geopolitical uncertainty, and a news cycle that rarely rests. Soft data is not always predictive, but it can foreshadow hard data turning points.

What remains to be seen: The duration and economic impact of the Iran conflict is the single biggest unresolved variable in our current framework. Oil prices are the transmission mechanism and elevated energy costs raise input prices across the economy, strain consumer budgets, and complicate the Fed's ability to ease. Furthermore a rise in oil prices hits lower and middle income consumers more as they pay higher energy bills, food costs and gas prices. Early diplomatic signals as of this writing are encouraging, but they are signals, not settlements. The trajectory of tariff policy also remains genuinely fluid following the Supreme Court's February ruling on IEEPA tariffs, with new Section 301 investigations opened as recently as March 11th. And the leadership transition at the Fed in May will bear watching for any shifts in communication tone or policy emphasis.

MARKET CONTEXT: THE SEASON OF ROTATION CONTINUES

Through March 25, the S&P 500 was down 4% on a year-to-date basis, a dramatic contrast to the 18% it delivered in 2025, but still only 6% off its highs. Four consecutive weeks of losses, a VIX above 30, and the Dow briefly breaking below its 200-day moving average captured the tone of a difficult quarter for U.S. large caps. Technology names, which had driven so much of the prior cycle's gains, faced particular pressure as higher-for-longer rate expectations dampened stock valuations.

But the story for the diversified investor has been more nuanced, and in some ways, more rewarding.

International equities have continued to perform well, largely under the radar. Developed international markets (MSCI EAFE) is flat year-to-date, while Emerging Markets are up nearly 5%, following a very strong 2025 when developed international markets surged 31% and emerging markets returned 34%. The global diversification case we have been making for the past several years is not a theory. It is showing up in performance data, quarter after quarter. Valuation differentials between international markets and the U.S. remain wide. For example, the U.S. Cyclically Adjusted Price to Earnings ratio ("CAPE"), while off its 2025 peak, remains in the top decile of historical readings for US stocks. This is not a reason to abandon domestic equities, but it is a strong reason to maintain meaningful global balance. However, we are mindful that Europe and Japan could be most exposed to a negative growth shock from the oil disruption as they are energy importers and more prone to any issues there.

In fixed income, long-term government bonds have sold off, showing they are no longer the place to hide when conflicts trigger supply shocks and stoke inflation. Energy is pricing in a longer durable disruption in the markets due to the Iranian conflict. These levels represent inflation, growth and rate shock. This makes it more difficult for Central Banks that were in easing mode. Intermediate-duration high-quality bonds remain our preference — today's yields are meaningfully higher than the near-zero world of a few years ago, which restores the math of fixed income investing in a way that benefits long-term portfolios.

One market moment worth highlighting: on March 23rd, signals of U.S.-Iran diplomatic engagement prompted a broad single-day rally with the S&P 500 rising over 1%, Dow gaining more than 600 points, and all 11 sectors advancing together. Markets were pricing in a substantial geopolitical risk premium. When that premium begins to ease, the repricing can be swift. Investors continue to remember the April 9th, 2025, rally where stocks gained 6-8% on Trump's about-face with tariffs. This is precisely why staying invested through uncertainty matters. The best days in the market tend to cluster around the worst periods of anxiety.

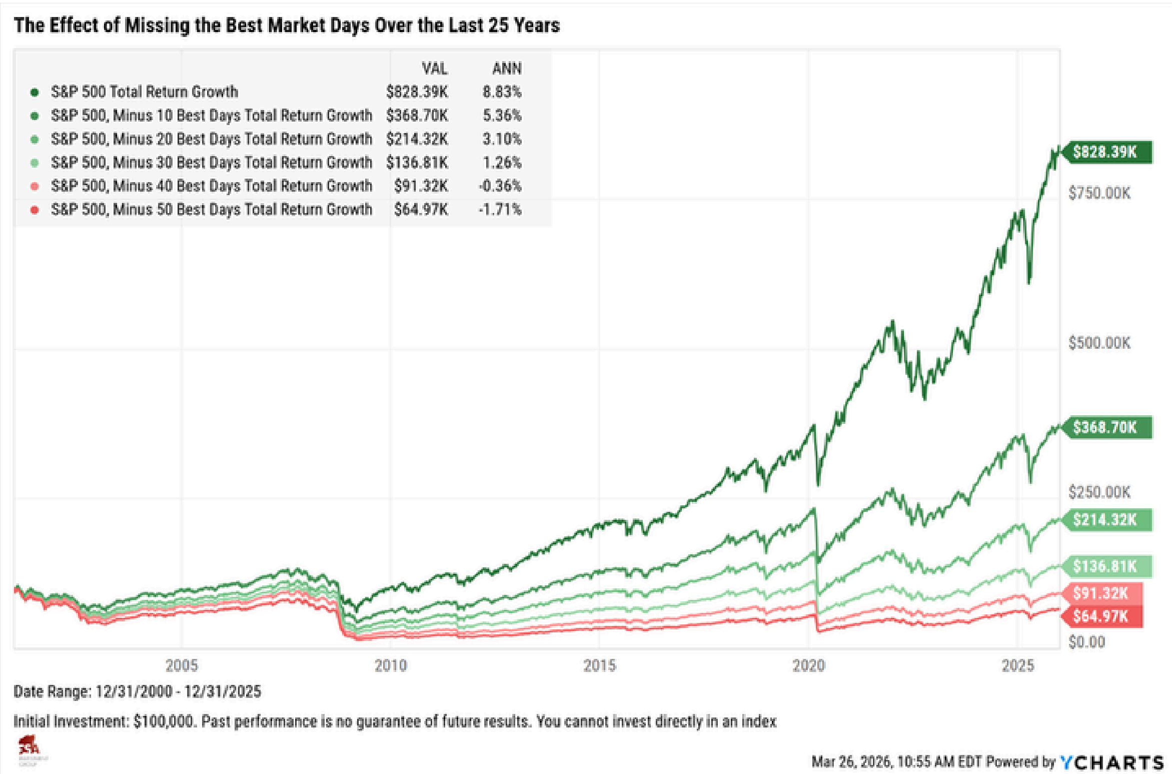
PORTFOLIO POSITIONING: TENDING THE GARDEN WITH DISCIPLINE

The portfolio adjustments we made beginning in October, shifting toward equal-weighted U.S. equity exposure, expanding international allocations, broadening real assets and infrastructure holdings, and introducing private real estate for eligible clients, remain well-suited for this environment. We are not making wholesale changes in response to the current volatility. That is by design.

The writer of Ecclesiastes understood something about human nature that is still true today: we struggle to trust the cycle when we are in the difficult part of it. When the harvest feels far away, the temptation is to stop tending. When the market is falling, and the headlines are frightening, the instinct is to act, to do something, to change course, to seek safety on the sidelines.

That instinct is understandable. It is also, historically, one of the most expensive mistakes a long-term investor can make.

The data we track on missing the market's best days tells a clear story: investors who stepped away during the volatility of the past year and a half would have paid a permanent price in long-term wealth (see Figure below). The best return days cluster around the worst periods of uncertainty precisely because uncertainty creates the dislocations that disciplined investors are positioned to capture.



We are not dismissing the risks in front of us. The Iran conflict is real. Tariff-driven inflation is real. The Fed's dual mandate tension is real. But none of these risks have changed the fundamental architecture of a well-constructed, globally diversified portfolio.

The season is difficult. The harvest is still coming.

What matters most from an asset allocation perspective is not predicting when this season ends, but rather remaining positioned for when it does.

IN CLOSING: TO EVERY SEASON

The Byrds recorded "Turn! Turn! Turn!" in a single afternoon in 1965. Pete Seeger, who wrote the adaptation, later said he was drawn to those ancient words because they captured something no economic model ever could: the deep human need to believe that difficulty has a purpose, and that better seasons follow hard ones.

We close this quarter with that same belief, not as a platitude, but as a disciplined investment conviction grounded in data and history. The season we are in is one of elevated uncertainty, genuine geopolitical risk, and a Federal Reserve navigating real competing pressures. It is also a season in which diversified portfolios are doing what they are built to do: absorbing shocks, generating income, and preserving the foundation for long-term growth.

Spring is here. The turning has begun.

Stay diversified. Stay invested. Stay the course.

With appreciation for your continued trust,

Andy Webb
Chief Investment Officer

Brett Akers
Director of Investments

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