



WALKER, HIGGINS & ASSOCIATES
WEALTH MANAGEMENT, LLC

Second Quarter 2026 Review and Outlook

Market Snapshot

Stock Market Data @ 3.31.26

DOW Jones Industrial (DIA)	13.58%	3-year average annual return ¹
S&P500 Index (SPY)	18.19%	3-year average annual return ²
NASDAQ Composite (ONEQ)	21.89%	3-year average annual return ³
S&P Small Cap (IJR)	10.68%	3-year average annual return ⁴
MSCI EAFE (EFA)	14.38%	3-year average annual return ⁵
U.S. Market Valuation		
S&P 500 Forward P/E Ratio		19.7x ⁶
S&P 500 Forward P/E Ratio 30-YR average		17.2x ⁷

Interest Rates, Bonds, Federal Reserve Data @ 3.31.26

U.S. Aggregate Bond (AGG)	3.62%	3-year average annual return ⁸
3 Month U.S. Treasury Bill Yield		3.70% ⁹
10 Year U.S. Treasury Bond Yield		4.30% ¹⁰
U.S. Federal Reserve Effective Federal Funds Rate		3.50-3.75% ¹¹

Q1 2026 Recap

While January was solid for market performance, the 1st Quarter will be remembered as the start of the conflict with Iran. As we discussed in the last quarterly report, it was likely that 2026 was going to be more volatile than 2025. We listed some potential reasons: financial markets had become expensive; mid-term elections historically are more volatile; leadership of the Federal Reserve was influx. We did not have a crystal ball that led us to know that an armed engagement was going to start, but it just seemed logical that something would bruise the stock market's advance.

We want to encourage everyone to keep proper perspective during this time. The stock market has provided high returns over the previous 3 years with the S&P 500 hitting an all-time high at the end of January.¹² Since the strikes began in late February, the S&P 500 has declined only a little over 5%.¹³ We point these facts out to say that financial markets went into this conflict on solid ground and while any declines can be frustrating, so far, the damage to stock prices has been limited.

Outlook / Q2 2026

Iranian Conflict

Many people have strong views on this conflict. We will strive to sidestep the legal, ethical, and political landmines and focus on the economic and market impacts.

Iran's main economic leverage lies in restricting Persian Gulf shipping. Obviously, the biggest issue is that 20% of the world's oil and liquid natural gas goes through the Strait of Hormuz and of that roughly 80% goes to Asia, primarily to South Korea and Japan.¹⁴ Fortunately, for the U.S., only a small percentage of our crude oil is

imported from Persian Gulf countries via the Strait of Hormuz.¹⁵ However, that may be the case, oil is a global market so the price of crude worldwide is affected.

Concerns are emerging that as transportation costs rise, this will lead to an increase in inflation across all aspects of the global economy. If there is an inflation shock (like in 2022), then interest rates will go up and that will lead to an economic slowdown and potentially a recession. At least that is the worst-case scenario.

From our perspective, those fears are a bit premature and overdone. Currently, the Atlanta Federal Reserve projects Q1 GDP to be 1.6%.¹⁶ That is not robust growth, but it is not recessionary either. We share the perspective that the length of this conflict plays a huge part in the potential impact. At this stage, it is virtually impossible to assess how long it will last but Trump insists it will be short. Even if the U.S. provides an off ramp, the Iranians must agree. It takes two to tango, so to speak.

Oil Markets

Positively, the oil market is projecting a short-term conflict. Currently, crude oil futures for December 2026 are priced a little over \$72 per barrel.¹⁷ Based on a recent \$107 price, that is a decrease of roughly 36%.¹⁸ This provides us with some comfort that those who trade oil anticipate a substantial drop over the course of the year.

Additionally, we offer a refresher that geopolitical events, while scary in the moment, often do not present a major issue for the U.S. economy and stock market. LPL's Research Team recently examined more than two dozen geopolitical events dating back to the attack on Pearl Harbor. The average length of market decline of those events was 17.9 days and markets were fully recovered within 38.8 days, on average.¹⁹ Further, they looked at these events and other events to get a sense of the scope of the recovery. Twelve months after the start, in the absence of a recession, markets were higher on average by 9.9%.²⁰ The calculus changes if recessionary forces are present as markets on average declined by 11.5% after 12 months.²¹

Which brings us back to the ever-constant question: are we staring down the barrel of a recession? As we sit and evaluate economic data today, we see little evidence of an imminent recession. If we change our minds, we will let you know.

We can't overemphasize the importance that the U.S. receives relatively limited oil from Persian Gulf countries and that we are a NET exporter of oil.²² Yes, oil is a global commodity, but availability in the U.S. is not in doubt.

Federal Reserve Focus

Kevin Warsh Steps Up to the Plate

The presumptive Chair of the Federal Reserve is Kevin Warsh as the current Fed Chair Jerome Powell's term as chair expires in May and Trump has already announced Warsh. Assuming his nomination is confirmed, he will enter a high stakes game at an important moment.

Inflation Risk

First, inflation remains higher than the Fed's long-stated goal of 2.0%. Second, there is some disagreement over the level of interest rates within the voting members of the Federal Reserve.²³ Third, they will need to continue to evaluate the Iranian conflict, its impact on inflation, and interest rates. Fourth, they will need to continue to interpret unemployment data as fears of AI job displacement continue to rise. That is a lot, they will need to walk and chew gum at the same time. Oh yeah—Jerome Powell is planning to stay on as a voting member of the Federal Open Market Committee, which is a bit unusual historically.

The next Fed meeting is set for mid-June, so Warsh won't have long to assess and adjust to the changing conditions presented by the conflict.

At the time of the start of the Iranian conflict, the consensus was that the Federal Reserve was going to cut rates two times in 2026.²⁴ Currently, those projections have evaporated to no cuts. It is important to remember that there are two ways to view interest rate cuts. The "good" view is that the economy is solid and inflation is in

check. The “bad” view is that unemployment is struggling, there is economic weakness and a boost is needed.

Well, is unemployment struggling? Over the last year, job growth has been volatile. Just this year, January produced 160,000 jobs, in February 133,000 jobs were lost, and in March jobs increased by 178,000.²⁵ There are many explanations for the erratic nature: immigration crackdowns; reduction of Federal employment; AI disruptions. Whatever the case, Warsh and the rest of the Federal Reserve must keep their fingers on the pulse to ascertain whether it is the start of an economic slowdown or a confluence of a variety of changes causing a shift in employment needs.

For the sake of the U.S. economy and financial markets, it is our hope that he hits a grand slam!

Investment Strategy Updates

That is a lot to consider—and we haven’t even talked about mid-term elections, stock market valuations or tariff changes. Mark Twain is credited with saying, “History doesn’t repeat itself, but it often rhymes”.²⁶ Well, that surely is true. It is easy to understand how we all can have emotional reactions to the non-stop news cycle.

First, we remain confident that artificial intelligence (AI) investments are not a flash in the pan. What provides us with the most confidence is the sheer amount of money that companies are spending to build out AI. It is projected that five companies (Oracle, Microsoft, Meta, Alphabet and Amazon) will have AI-related spending in 2026 that equates to 2.0% of U.S. GDP.²⁷ To provide context, the Manhattan Project equated to 0.4% of U.S. GDP in 1944, the Apollo moon landing project was 0.7% of U.S. GDP in 1965 and the Internet buildout was 1.2% of U.S. GDP in 2000.²⁸ AI is real and from an investment standpoint, we believe its prudent to be allocated to it.

Second, we have received inquiries about increasing exposure to the energy sector. Many energy related stocks saw a rapid share price increase in March. However, we would caution against overallocation in that sector as we would anticipate a rather solid retracing should the conflict end and oil prices fall. As we mentioned earlier, the projected future price of oil begins to fall later this year.

Third, we believe the U.S. stock market is generally the best place on earth to look for equity allocations. The U.S. leads in technology and AI, is energy independent, is reducing the regulatory and tax burden of individuals and companies and generally has an accommodative interest rate policy. We can’t think of another place in the world that can meet the same criteria.

Finally, we continue to look for diversification beyond stocks. We maintain a high level of conviction that more traditional bonds and fixed income assets provide the ideal blend of diversification and income for most clients. We tend to favor the shorter to middle end of duration where yields can still be found in the 4%-7% range. If interest rates remain stable or decline, that represents an attractive yield with some appreciation opportunities.

Key Takeaways

As we have often said, it is rarely as good as it seems or as bad as it seems. The U.S. economy and financial markets have witnessed a variety of strange and alarming events over a long period of time. We feel blessed to live in a country that has weathered those storms as well as any other country in history.

The Iranian conflict will end at some point. Technology will cause the economy and financial markets to look different than they do today. Politics will remain frustrating and will be more in our faces than ever. Many “experts” will point to events today as a being different this time. We can’t predict the future. However, we are supremely confident that those that keep their emotions in check and eyes fixed on their own goals and objectives will have a far better probability of success than those that do the opposite.

We hope that you and your family have a wonderful Spring!

As always thank you for your continued trust and confidence. If we can do anything to support your goals and provide clarity to your questions, please let us know.

We look forward to talking with you soon.

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Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. Stock investing includes risks, including fluctuating prices and loss of principal. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. ETFs trade like stocks, are subject to investment risk, fluctuate in market value, and may trade at prices above or below the ETF's net asset value (NAV). Upon redemption, the value of fund shares may be worth more or less than their original cost. ETFs carry additional risks such as not being diversified, possible trading halts, and index tracking errors.

¹ <https://www.morningstar.com/etfs/arcx/dia/performance> The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors. Indexes are unmanaged and cannot be invested in directly.

² <https://www.morningstar.com/etfs/arcx/spy/performance> The S&P500 is comprised of 500 stocks that are major factors in their industries and widely held by individuals and institutional investors. Indexes are unmanaged and cannot be invested in directly.

³ <https://www.morningstar.com/etfs/xnas/oneq/performance> The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index. Indexes are unmanaged and cannot be invested in directly.

⁴ <https://www.morningstar.com/etfs/arcx/ijr/performance> The S&P Small Cap 600 Index is an unmanaged index generally representative of the market for the stocks of small capitalization U.S. companies. Indexes are unmanaged and cannot be invested in directly.

⁵ <https://www.morningstar.com/etfs/arcx/efa/performance> The MSCI EAFE Index is an unmanaged index generally representative of the market for the stocks of international companies. Indexes are unmanaged and cannot be invested in directly.

⁶ Global Market Insights Strategy Team. "Market Insights: Guide to the Markets®". J.P. Morgan Asset Management. Page 5. March 31, 2026.

⁷ Ibid.

⁸ <https://www.morningstar.com/etfs/arcx/agg/performance> The Bloomberg U.S. Aggregate Bond Index is an unmanaged index generally representative of the market for the fixed income securities in the U.S. Indexes are unmanaged and cannot be invested in directly.

⁹ https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value=202604

¹⁰ Ibid.

¹¹ <https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html?redirect=/trading/interest-rates/countdown-to-fomc.html>

¹² <https://finance.yahoo.com/quote/%5EGSPC/history/>

¹³ Ibid.

¹⁴ <https://www.iea.org/about/oil-security-and-emergency-response/strait-of-hormuz>

¹⁵ www.eia.gov/todayinenergy/detail.php?id=65504#:~:text=In%202024%2C%20the%20United%20States,imports%20from%20Canada%20have%20increased.

¹⁶ <https://www.atlantafed.org/research-and-data/data/gdpnow>

¹⁷ <https://www.cmegroup.com/markets/energy/crude-oil/light-sweet-crude.quotes.html>

¹⁸ Ibid.

¹⁹ Smith, George. "Iran Escalation: How Markets Have Reacted to Geopolitical Events". LPL Research. 4 March 2026.

²⁰ Ibid.

²¹ Ibid.

²² <https://www.eia.gov/energyexplained/oil-and-petroleum-products/imports-and-exports.php>

²³ Federal Open Market Committee. "Summary of Economic Projections". Federal Reserve. 18 March 2026.

²⁴ <https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html?redirect=/trading/interest-rates/countdown-to-fomc.html>

²⁵ <https://www.bls.gov/news.release/empsit.nr0.htm>

²⁶ <https://quoteinvestigator.com/2014/01/12/history-rhymes/>

²⁷ Capital Group. "AI Spending Dwarfs History's Biggest Moonshots". 27 February 2026.

²⁸ Ibid.