



MARKET UPDATE
FOR INFORMED INVESTORS
QUARTER 1 | 2026

Global conflict continues to impact market volatility

The war with Iran has dominated headlines in the first quarter of 2026. This has also led to growing economic concerns, including inflation, a weakening labor market, higher oil prices, and ongoing trade and tariff uncertainty.

The U.S. consumer is beginning to feel these effects through higher gas prices, persistent core inflation, and a softer job market, all of which are putting additional pressure on consumer confidence.

What was originally expected to be three Federal Reserve rate cuts in 2026 has now shifted to discussions about possible rate hikes, with potential rate cuts coming later.

HIGHLIGHTS

- **Interest Rates:** The Federal Reserve has a dual mandate: to maintain full employment and control inflation. Higher oil prices and persistent inflation have caused markets to rethink expectations for rate cuts throughout the year. The Fed remains in a difficult position as it balances rising inflation with a weakening labor market.
- **Inflation:** Inflation has declined from last year's highs but remains at 2.4%, which is still above the Federal Reserve's target of 2%.
- **Jobs:** Unemployment stands at 4.4%. Job growth has stalled, with the labor market showing little expansion or contraction.
- **Oil:** Oil prices had been stable between \$60 and \$80 per barrel, but disruptions caused by the war with Iran have pushed prices above \$100 per barrel, which consumers are beginning to feel at the gas pump.
- **Tariffs:** In a surprising decision, the Supreme Court ruled that many tariffs imposed under the Emergency Powers Act were illegal. The administration quickly replaced them with broader tariffs using a different approach. Companies will need to be refunded for the previous tariffs. Tariffs continue to be used to reduce trade deficits, encourage domestic manufacturing, influence pricing, and increase government revenue.

- **GDP Growth:** Economic growth has slowed compared to 2025 levels, with some analysts suggesting the early stages of stagflation. Consumer spending remains one of the few bright spots, especially among higher-income households.
- **Stock Markets:** Markets declined in the first quarter, nearly reaching correction territory (a drop of 10%). Volatility has increased as uncertainty continues around the war's goals and duration, along with sustained high oil prices. Large technology and software companies led the declines due to concerns about high valuations and aggressive spending. In contrast, U.S. small-cap stocks held steady, supported by relatively low valuations. A stronger U.S. dollar contributed to a decline in international stocks.
- **Bonds:** Bonds, which typically help stabilize portfolios during market volatility, have also weakened alongside stocks. This is largely due to concerns about inflation and reduced purchasing power. Investors should be cautious with riskier areas of fixed income, as credit spreads remain tight. Private credit has also drawn attention, as investors grow concerned and request withdrawals from funds with limited liquidity.

Most economists still expect markets to remain relatively strong, although volatility is likely to continue. A key factor to watch is how long the war with Iran lasts. Strong consumer spending and corporate earnings continue to support stock prices, especially after the recent pullback has made valuations more attractive. Currently, there are no clear signs of a recession. Diversified portfolios remain one of the best ways to manage uncertainty and market volatility.

At North Star Investment Resource Center, we believe that diversified portfolios and disciplined investment strategies offer the best opportunities for long-term growth. Diversification can reduce risk, smooth performance over time, and help protect against uncertainty rather than attempting to predict the future.

We welcome the opportunity to discuss your investments. If your financial situation or investment time horizon has changed, please reach out to your advisor.

Written by North Star Investment Resource Center

	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
S&P 500	-4.33%	17.80%	18.30%	12.06%	14.15%
US Small Caps	0.89%	25.72%	13.03%	3.77%	9.88%
Int'l Stocks	-1.24%	21.27%	13.60%	7.91%	8.37%
Bond Market	-0.05%	4.35%	3.63%	0.31%	1.70%

Returns over 1 year are annualized. S&P 500 index, US Small Caps use Russell 2000 index, international stocks use MSCI EAFANR USD, Bond Market use Bloomberg US Agg Bond TR USD.

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The Russell 2000 is a stock market index measuring the performance of 2000 small capitalization stocks. It represents the 2000 smallest companies in the Russell 3000 Index, which in turn represents the 3000 largest companies in the U.S. Thus, the Russell 2000 is a barometer of small-cap stocks. Though small, the companies represented by the Russell 2000 are not the smallest of the small as they are not penny stocks. The Russell 2000 is weighted by the market capitalization of the stocks.

MSCI EAFE – Designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.

The Bloomberg U.S. Agg Total Return Value Unhedged, also known as “Bloomberg U.S. Aggregate Bond Index,” formerly known as the “Barclays Capital U.S. Aggregate Bond Index,” and prior to that, the “Lehman Aggregate Bond Index,” is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).