knowledgeable thoughtful ethical experienced interac

summaries

SIGMA INVESTMENT COUNSELORS

the official newsletter of sigma investment counselors April 2026

MARKET COMMENTARY

The first quarter of 2026 certainly did not finish how it started. What began as a fairly optimistic January quickly evolved into one of the more eventful quarters in recent memory. January was largely uneventful as markets ticked higher, corporate earnings remained solid, and there was still reasonable confidence that the Federal Reserve would continue cutting rates throughout the year. February was somewhat quiet as well. Then March arrived and with it, a geopolitical shock that few had penciled into their outlooks: U.S./Israeli strikes on Iran, followed by the closure of the Strait of Hormuz - a waterway responsible for transporting roughly 20% of the world's oil supply. What followed was a sharp spike in oil prices, a rapid reevaluation of inflation expectations, and a market environment that looked quite different from the one investors had been navigating just weeks earlier.

Despite the volatility, the quarter served as a meaningful reminder that a well-diversified portfolio doesn't just sound good in theory, it actually works when tested. Many asset classes held up better than news headlines suggested, and investors with broad exposure across market capitalizations, sectors, and geographies were largely insulated from the worst of it.

Stocks entered 2026 with optimism supported by steady economic growth, a labor market that, while showing early signs of softening, remained fundamentally healthy, and corporate earnings that largely remained solid. That optimism did not last long and soon gave way to a reality where areas of the market that had dominated headlines in recent years (i.e. mega cap technology stocks) began to face greater scrutiny and areas of the market previously overlooked started to reemerge.

Investors with diversification across equities may be surprised to see Q1 did not produce returns as negative as one might have assumed. While the S&P 500 finished Q1 down -4.33%, the equal-weighted S&P 500 finished up 0.67% demonstrating a meaningful shift in market leadership during the quarter.

Smaller and mid-sized companies, which tend to be more domestically focused, proved resilient against geopolitical risk during the quarter. The S&P 400 mid cap index produced a 2.5% return and the S&P 600 small cap index surpassed that with a 3.51% return. Had an investor been only chasing the headline trades of recent years they likely would have felt the full shock of March but, by diversifying US equity exposure across other segments of the market, overall domestic equity returns were insulated from the full brunt of the selloff.

International equity returns lagged US small cap and US mid cap but still provided meaningful protection from the full S&P 500 decline. Developed international stocks (MSCI EAFE) returned -1.24% and emerging international stocks (MSCI EM) returned -0.17%. Compared with the S&P 500's heavier concentration in technology and growth-oriented companies, international equities tend to have greater exposure to sectors such as financials, industrials, materials, and energy which supported returns this quarter.

The bond market finished the quarter somewhat muted with the Bloomberg US Aggregate essentially flat at -0.05%. Just looking at this return does not tell the whole story. Coming into 2026 the market was largely expecting the Federal Reserve to continue its process of lowering interest rates. As the Strait of Hormuz closed, global oil supply decreased and the price of

186 E. Main Street • Suite 200 • Northville, MI 48167 • tel (248) 223-0122 • fax (248) 223-0144 • www.sigmainvestments.com

oil skyrocketed. This led to fears of inflation ramping back up and made investors rethink their predictions about what steps the Federal Reserve might take next. This shift caused treasury yields to rise and, as a result, credit spreads widened as well as investors grew more cautious about the economic outlook and demanded greater compensation to hold corporate bonds over treasuries. Importantly, the bond market in Q1 was not panicking, and while bonds were not completely immune to the volatility this quarter, their ability to generate predictable income and provide diversification benefits was on display.

History has a long track record of surprises. Many of the events that rattled markets this quarter almost never appeared in anyone's outlook before the year began. In January very few had an Iran war on their radar or expected oil to approach $100 a barrel by March, and yet here we are. This quarter threw just about everything at investors - geopolitical shock, inflation fears, a reversal in interest rate expectations, and a significant repricing in parts of the market that had been carrying the most weight. The good news is that portfolios built with diversification at their core largely weathered it. Mid and small cap stocks held up. International equities provided a cushion. Bonds, while not exciting, did their job. The headlines told one story but a well-diversified investor likely lived a different one. The goal of a long-term investment strategy is not to try and predict every storm coming but rather to make sure that when one arrives without warning, your portfolio doesn't depend on you having predicted it. Q1 2026 was a good reminder of why that matters, and why it always will.

Uncertainty in the markets is, of course, never a comfortable thing, and we do not take lightly the responsibility of helping our clients through it. The trust you place in us means a great deal, and we want you to know that we are always available to talk through any questions or concerns. If you are interested in discussing any of these themes in greater detail please do not hesitate to reach out to any of our advisors directly.

Eric E. Larson

Disclosure: The information presented in this newsletter is the opinion of Sigma Investment Counselors and does not reflect the view of any other person or entity. The information provided is believed to be from reliable sources but no liability is accepted for any inaccuracies. This is for information purposes and should not be construed as an investment recommendation.