



April 1, 2026

Dear Valued Client

Returns for the major stock indexes for 2026 and the current bond and money market yields are as follows:

Index	2026 YTD
Dow Jones Industrial Average	-3.58%
S&P 500	-4.63%

Fixed Income Yields	1 year	2 year	5 year	10 year	30 year
Municipals	2.40%	2.41%	2.59%	3.08%	4.50%
US Treasuries	3.65%	3.79%	3.94%	4.32%	4.91%

Fidelity Government Cash Reserves Money Market Fund	3.43%
Fidelity Money Market Fund Class Premium	3.52%

The markets have taken a breather in the first quarter. After three strong years, the equity markets have retreated by 4% year to date. The S&P 500 is now down 6% from its January 28th all-time high. The broadening-out trend has emerged as US growth and large-cap stocks have lagged behind US value, mid-cap, small-cap, and international equities. Sector performance has also shifted meaningfully. The previously overlooked energy sector has been the superior performer in the first quarter, up 37%. Defensive sectors: consumer staples, utilities, industrials, and materials, have all posted positive returns for the year. Meanwhile, the popular Magnificent Seven stocks (Amazon, Meta, Google, Tesla, Microsoft, Apple, Nvidia) have all declined significantly more than the broader market. Long-term investors are again enduring some modest market volatility.

The conflict in Iran and the resulting surge in crude oil have dominated the headlines and contributed to recent market turbulence. Oil prices, up 54% since the start of the conflict, are certainly a concern for markets, as rising oil prices can contribute to inflation. When and how the Iran conflict ends are impossible to know, but historically, market declines following oil shocks have been relatively brief. Whether it be the Iraq War, the Russian invasion of Ukraine, or the Gulf War of 1990, the markets have generally shrugged off quick spikes in oil prices. Further, we know that circumstances can change and recover quickly. At LYNCH & Associates, we have only slightly trimmed some oil over-weightings in portfolios. We are not making any significant portfolio changes due to the Middle East turmoil, as we generally believe the problems will be short-lived for long-term investors.

While the Iran conflict is indeed a concern, the market continues to price in optimism. Valuations remain elevated, though have improved slightly as stock prices have come down. We remind ourselves that valuations improve as earnings rise and/or prices fall. Currently, 2026 earnings estimates remain strong, with projected double-digit earnings for the 3rd consecutive year. While we have continually expressed concern about valuations, projected earnings growth remains historically high. The AI revolution is the transformational narrative in today's markets. The potential for a massive productivity boom and an explosion in corporate margins seems to be the core concept driving rich valuations. At a minimum, AI is driving great disruption, enthusiasm, and uncertainty.

We remain optimistic for the remainder of 2026, despite elevated valuation concerns and the current Middle East tensions. We are maintaining a value-oriented approach in our equity portfolios and continue to moderately reduce exposure to the concentrated positions in the S&P 500. We have increased our international exposure over the past year, but are not looking to increase the weightings for now.

On the fixed-income side, despite the recent rise in interest rates, the spread between the 3-month Treasury bill and the 30-year Treasury remains historically tight. We have repeatedly raised our concern about the implied Fed backing of the bond market; there remains very little incentive to invest in longer-yielding bonds. We remain heavily allocated to the highest-yielding money markets available and are even adding some higher-yielding CDs until more attractive bond options become available.

We encourage our clients to stay focused on their long-term investment goals. Our team is here to provide guidance and support as needed, and we remain committed to helping you achieve your investment objectives. We thank you for your continued confidence in LYNCH & Associates.

Sincerely,

Ryan T. Lynch, CFP®, ChFC®
President