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MARKET COMMENTARY

Stocks started off the year positive but then tumbled in March with the start of Operation Epic Fury. The S&P 500, representing large-cap stocks, fell -4.33% in the quarter. Small cap stocks in the Russell 2000 Index were up almost 10% but gave up most of their gains finishing with quarter with a return of just 0.89%. International stocks were also up double digits but finished the quarter lower with developed market stocks losing -1.24% in the quarter, and emerging market stocks losing -0.17%. The Barclays U.S. Aggregate Bond Index also had a slight loss at -0.05% for the quarter.

The attacks on Iran have caused oils prices to surge resulting in the Energy sector posting a whopping 38.2% return in the first quarter. The next best sectors were Materials and Utilities with returns of 9.7% and 8.3%, respectively. The worst performing sectors were Financials, Consumer Discretionary and Technology with returns of -9.3%, -9.2%, and -9.1%, respectively.

For the fourth quarter, the S&P 500 had 14.0% earnings growth resulting in 13.1% for full year 2025. Zacks projects the S&P to have earnings growth of 12.8% in the first quarter of 2026 and 14.4% for the full year. Zacks notes that the earnings outlook is improving despite the Iran War.

As expected, due to the government shut down, fourth quarter GDP growth of 0.7% was much lower than the 4.4% growth of third quarter. Full year GDP growth was 2.1%. Strategas currently estimates first quarter GDP growth at 1.5%. However, they have

increased their 2026 recession odds to 35% due to fall out from the Iran War.

The U.S. unemployment rate remains low at 4.3% as of March, reflecting a labor market that is still relatively resilient despite economic headwinds. However, recent layoffs across technology, finance, and other sectors suggest a gradual cooling, particularly as companies restructure and adopt more automation and AI. Looking ahead, economists expect unemployment to remain near current levels, signaling continued balance rather than a sharp downturn.

Inflation has been slowly increasing even before Operation Epic Fury, with the Fed’s preferred measure—the Core PCE deflator—running at 3.1% year-over-year in January. Renewed geopolitical tensions and rising oil prices tied to the Iran conflict are increasing concerns that inflation could reaccelerate in the near term, particularly through higher energy and transportation costs. Looking ahead, inflation is expected to remain somewhat sticky and potentially more volatile, as energy-driven price pressures complicate the path back to the Fed’s 2.0% target.

Gold has continued to be popular with investors. Gold is often seen as a safe haven in times of geopolitical and/or economic uncertainty and as a store of value or inflation hedge when higher inflation is expected. Gold prices surged more than 20% early in the quarter but like other assets, fell in March and ended with gains closer to 8%.

Bitcoin and crypto currencies continued to plummet in the first quarter. Bitcoin reached a low near \$60,000 from its year end level near \$88,000. Bitcoin is known for its volatility. Its current 50% decline from its 2025 highs is actually less than previous declines—in 2021-2022 the decline was

2026 BENCHMARK RATES OF RETURN

| INDEX | FIRST QUARTER | YTD |
|-----------------------|---------------|--------|
| S&P 500 | -4.33% | -4.33% |
| Russell 2000 | 0.89% | 0.89% |
| International | -1.24% | -1.24% |
| Fixed Income | -0.05% | -0.05% |
| JPMorgan Diversified* | -1.11% | -1.11% |

*25% S&P 500 large cap stocks, 10% Russell 2000 small cap stocks, 15% MSCI EAFE international stocks, 5% MSCI EME emerging market stocks, 5% REITs, 25% Barclays US aggregate bonds, and 5% each in short term Treasuries, high yield global bonds, and commodities.

We value our relationship with you, and we are always available to meet with you in person, virtually or by phone. Please do not hesitate to call or email us with any questions that you may have. Also, if your situation has changed, please contact your advisor so we can determine if any changes are needed in your account. A copy of our proxy voting policy and how proxies have been voted is available on request.

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about 75%, and in 2017-2018 and 2013-2015, the declines were around 85%. Bitwise Asset Management projects high growth opportunities over the long term as countries (and even states) announce plans for building Bitcoin reserves and as it becomes more accessible in retirement plans. Institutions are also adding allocations; Harvard University's Endowment initiated a position last year. Although the allocation is less than 1%, it was their largest public holding at the end of September. Bitwise has a \$1.35 billion price target on Bitcoin 2035. Please note that even with attractive growth potential, digital assets carry significant risk and do have much higher levels of volatility as demonstrated this quarter.

The Fed seems to be on pause from further Fed Funds rate cuts. The current rate is between 3.50% and 3.75%. With inflation possibly rising, the "higher for longer" tone returned along with data-dependent decisions on a meeting by meeting basis. The Fed's base case is still for one cut later in the year. Chairman Powell's term ends in May and Kevin Warsh has been nominated to replace him. If confirmed, the timeline and number of cuts could change as Warsh is believed to act faster as risks shift.

Money markets are yielding around 3.5%. The 10-year Treasury bond yield was 4.16% at the end of last year, and is currently 4.31%. It has basically been trading in a range between 4% and 4.5% for about 2.5 years.

Diversification continues to be prudent in times of uncertainty. Bonds can provide stability and income when stocks are volatile. "Target outcome" or "buffer" ETFs can also add protection to portfolios and provide upside potential if stock prices rise. Dividend income is also attractive in equity and premium income funds. In these funds, managers own dividend paying stocks and sell out-of-the-money call options to collect extra income. The dividends help with total returns or with income needs depending on the account.

Measuring risk tolerance and investing accordingly is important in this environment. Timing the market or chasing returns may work in the short-term but is more difficult over longer periods. The goal is to be invested appropriately so that you don't panic and sell when the market goes down. Selling out when markets are volatile, can be detrimental.

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Also, now that tax season is over, it is a great time to send us a PDF of your 2025 tax return. We have tax planning software to help us identify strategies for reducing future taxes. Please do not email them to us, but instead upload them to your client portal.

As always, if you have friends or family who would benefit from a relationship with Cambridge, please tell them about us. We would love to help the people who are important to you and we waive our \$500,000 minimum for your referrals.

SCAM ALERT

Each quarter we want to highlight a scam we've seen in hopes it helps prevent it from happening to you.

Text messaging is being used more by scammers and in a variety of ways. The bank and credit card impersonators were among the first. Now common are text messages about a package delivery problem either from USPS or FedEx. These seem plausible as many of us are buying more and more online. Also, beware of texts about unpaid tolls or warrants for unpaid fines. You may receive an alarming text from Amazon/Apple/Netflix that your account has been locked and needs to be verified. Surprisingly, even the wrong number text that starts out asking something vague such as "are we still meeting for lunch" is a ploy to try to start a conversation and build trust so that they can lure you into a future scam—often involving a great crypto investment. And job offers where you can work from home and make easy money...not real. Don't engage or reply or click anything in these text messages—better to just delete and report as spam to stay safe.

Be aware and be cautious and let us know if you have seen other scams we should alert our clients to in future newsletters.



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