

## QUARTERLY NEWSLETTER 2026.Q1

April 8, 2026

Global stocks started 2026 with continued momentum from the previous year but slid after the US-Israel strikes on Iran. For the quarter, the S&P 500 was down about 4.3%, including dividends. Global stocks excluding the US fared better, finishing down 0.60%, but were up more than 11% from January 1<sup>st</sup> through February 27<sup>th</sup>.

That headline performance for the quarter doesn't look (or feel) great, but we will remind our dear readers that these types of selloffs are common and healthy for markets. Sustained periods of "line go up" can lead to complacency and excessive enthusiasm in markets. This time it's armed conflict that is to blame, but many years have similar selloffs, including some recent ones that we imagine many have forgotten:

- 2025 – The "Tariff Tantrum" sent the S&P 500 down nearly 15%
- 2024 – A surprise rate hike from the Bank of Japan and a weak US jobs report led to an abrupt 7.5% drop in the S&P
- 2023 – Fears of "higher for longer" interest rates led to a nearly 8% selloff
- 2022 – Russia invaded Ukraine and the Fed was hiking rates to combat inflation with the S&P 500 falling nearly 20% for the year

Still, since the start of 2022, the S&P 500 total return is greater than 40%, and that includes the rough calendar year of returns in 2022 (from the lows of 2022, it's up more than 80%).<sup>1</sup>

The US-Israel attacks on Iran, and the subsequent closure of the Strait of Hormuz sent oil prices soaring, offering yet another stoking of inflation fears. Besides what we pay at the pump to fill our gas tanks, the conflict is interrupting other critical byproducts from oil and natural gas refining like fertilizer and helium.

The United Nations estimates that roughly one-third of seaborne fertilizer trade transfers the Strait of Hormuz.<sup>2</sup> Lower supply of fertilizer is likely to mean higher prices for farmers, and potentially lower crop yields and higher prices for consumers.

Besides making balloons float and voices squeak, helium has broad industrial applications, especially in its super-cold liquid state, including globally vital semiconductor manufacturing. Amazingly, the smaller-than-Connecticut Arab state of Qatar supplies roughly one-third of the globe's helium. Attacks on its liquid natural gas production facilities may take three to five years to repair, leading to fears of the downstream supply chain consequences of a helium shortage.<sup>3</sup> Poor timing considering

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<sup>1</sup> Data from YCharts

<sup>2</sup> <https://unctad.org/news/hormuz-shipping-disruptions-raise-risks-energy-fertilizers-and-vulnerable-economies>

<sup>3</sup> <https://www.bbc.com/news/articles/c4gjxv5g19no>

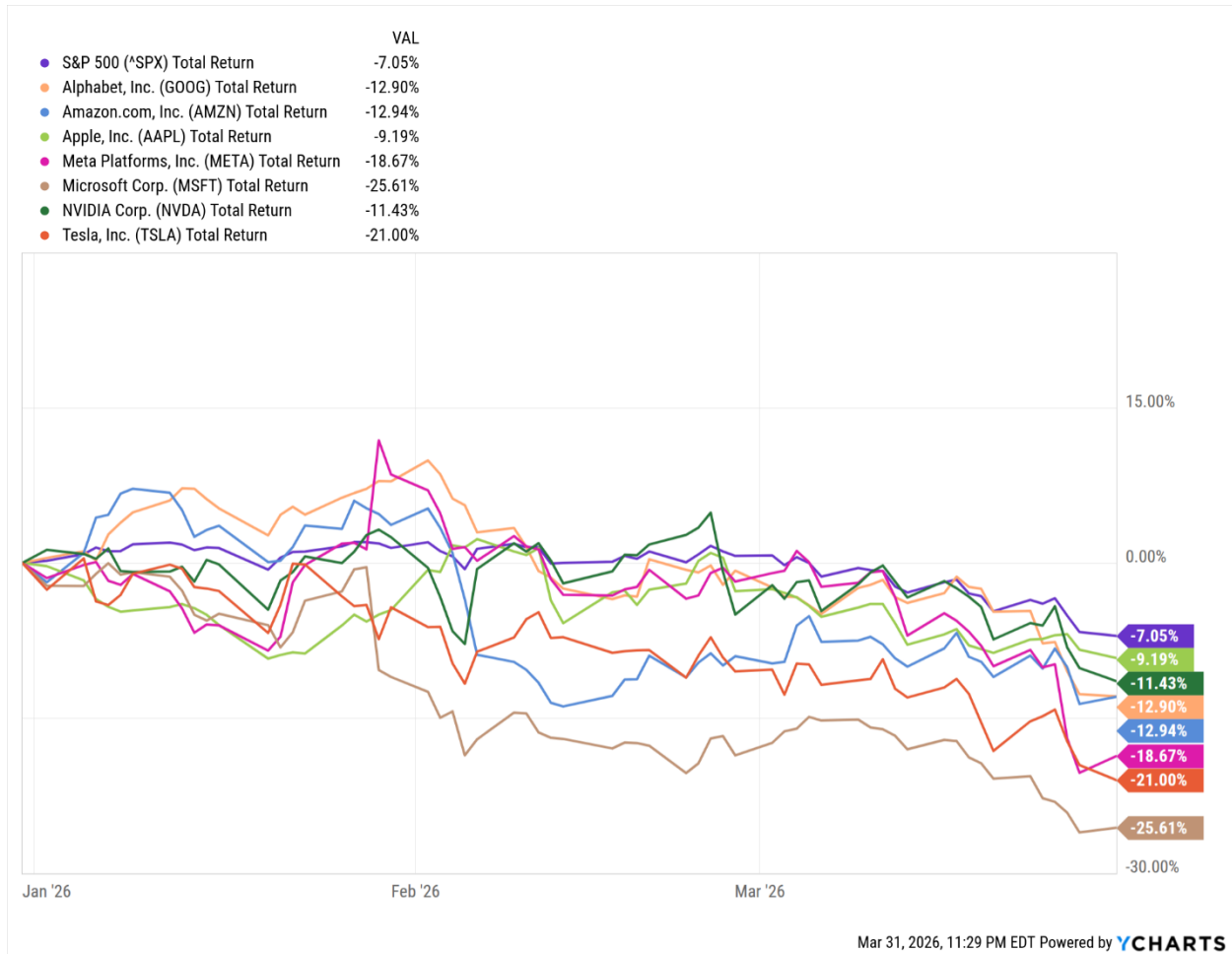
the already high demand for chips and projected investment in data centers to power AI's proliferation.

These higher order effects that may be inflationary along with a US labor market that continues to look "OK" mean that Federal Reserve Chairman nominee Kevin Warsh will likely face a tricky argument to lower interest rates after Chair Powell cedes his leadership role in May. For fixed income investors, these persistent inflation concerns are a major bugaboo.

Leading up to the attacks on Iran, the benchmark US 10 Year Treasury yield had fallen to 3.94%, matching its lowest rate in more than a year. Since then, yields have risen to 4.35%, turning what looked like a pretty good quarter for the Bloomberg US Aggregate Bond Index into a slight loser (an increase in bond yields means a drop in price).

Losses in both stocks and bonds in a quarter is a challenging setup for investors, yet we see some encouraging signs in the quarter and looking ahead.

The headline weakness of the S&P 500 understandably receives the most attention, but it misses that the Magnificent 7 all underperformed the S&P 500, some by significant margins:



We have said it before: these companies are *humongous*. Because the S&P 500 is market capitalization weighted (i.e. bigger companies have a bigger influence), these behemoths were a drag

on the index. However, the average stock in the index was *up* about 0.7% during the quarter, as measured by the Equal Weight S&P 500 Total Return Index. Similarly, even smaller US stocks, as measured by the Russell 2000 Total Return, were also up about 0.9%.

We half-jokingly wonder whether the Mag 7 will be demoted to the Massive 7 given the “what have you done for me lately” attitude markets often exude. Our caution towards these stocks has been rewarding, but as they have sold off, we are becoming more optimistic about some of their prospects.

This “broadening” of the market along with a lowering of expectations for the biggest companies in the index is a positive development, in our opinion. That said, the S&P 500 is still expensive compared to historical multiples.

Valuations of international stocks still look favorable, and we believe that those markets will recover once energy (and other) supply chains normalize when the Strait of Hormuz is reopened, hopefully soon.

Overall, we are happy with performance in the quarter and how our client portfolios are positioned but are continually looking for opportunities to strengthen them. This quarter was a prime example of how effective diversification can reduce downside risk. We are committed to this strategic pillar and believe that long-term investors will be rewarded for riding out these bumpier periods.

Now in our third year, Jack and I would like to reiterate our appreciation to all our clients for entrusting us with such an important and sensitive part of your lives. We love what we do, and we hope it shows. If you or the ones you hold near and dear ever have any questions, we would love to chat and help in anyway that we can.



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