WestStar
Wealth Management

WEALTH WATCH

2026 First Quarter Review
& Second Quarter Outlook

Within film and television there exists a genre defined by the story being set in or evocative of a particular time period of the past. Transporting viewers to a bygone era, the "period piece" can conjure nostalgia, elicit escapism, or effectively frame a narrative within the context of days of yore. As this year has progressed, the events of 2026 have roused reflections of a distinct decade marked by geopolitical conflict, social change, and economic upheaval—the 1970s. Both those that lived it and those that enjoy a good period TV series can relate.

That '70s Show

The first quarter of 2026 experienced a number of developments which echoed the 1970's, the primary catalyst of which was the advent of the war on Iran. In true-to-form fashion, Middle East turmoil rapidly resulted in soaring oil prices, with US crude recording its largest weekly jump in the 40+ year history of the West Texas Intermediate futures contract. Further exacerbating the situation was the closing of the Strait of Hormuz, a pivotal maritime chokepoint through which upwards of 25% of the global oil trade traverses. The energy crisis and ensuing spike in oil prices inflamed inflation and sparked fears of a global recession, once again giving rise to the dreaded "stagflation" term that marked a large market selloff between 1973 and 1974.

Given the first quarter's similarities to said era, let us consider the factors at play through the lens of popular period piece sitcom That '70s Show, examine the economy and markets for the rest of 2026, and determine whether--paraphrasing the immortal words of Mark Twain—history is indeed repeating itself or if it is simply rhyming.

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What You Need To Know:

- The Iran war sparked skyrocketing oil prices
- Real Assets led the market in Q1 as a result, with International stocks leading US stocks
- Spiking oil & gas prices have an impact, though less than in the 1970's on a macro economic level
- Lower income consumers are disproportionally impacted by energy costs and rising inflation
- Economy is slowing but presently no sign of imminent recession
- "Stagflation" would be the worst-case scenario for stocks
- Defensive tactical strategy positioning remains warranted within the context of long-term strategic allocation

Asset Class Index Performance* Year-to-Date As of March 31, 2026

STRONGEST

Commodities
24.41%

Real Estate (REITs)
1.30%

US Small Cap Stocks
0.89%

Money Market (Cash)
0.85%

Alternative Investments
0.03%

US Investment-Grade Bonds
-0.05%

International Emerging Market Stocks
-0.17%

High Yield Bonds
-0.50%

International Developed Market Stocks
-1.24%

International Bonds
-1.87%

US Large Cap Stocks
-4.33%

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Market Recap & Tactical Positioning

The themes we predicted in the January Wealth Watch began to materialize as data releases in February confirmed. As such, we made several tactical changes to our actively-managed strategies in February and March including:

- Reduced Stock exposure and increased Real Assets (inflation-defense) and Cash
- Reduced US stock exposure relative to International stocks
- Reduced Large company stock exposure relative to Small/Mid stocks
- Reduced Growth-style stock exposure relative to Value-style

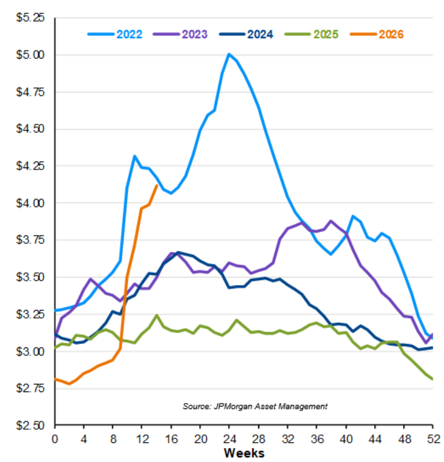
These maneuvers proved prescient, as the markets behaved as we expected. As can be seen on the column to the left, stocks underperformed commodities and real estate, US stocks underperformed international stocks, and large cap stocks underperformed small cap stocks. Moreover, growth stocks underperformed value stocks by nearly 12 percentage points in the first quarter—with all "Magnificent 7" stocks negative. Yet given the onset of the Iranian conflict and the economic ramifications related thereto, do these strategy positioning maneuvers remain appropriate for the second quarter and beyond? Let us examine the impact of oil shocks, inflation, consumer sentiment and spending, recession potential, and market volatility.

Energy Crises: 1970s vs. 2026

The 1970s experienced two oil shocks, both of which related to turmoil in the Middle East. The first resulted from the US support of Israel during the Yom Kippur War in October 1973. In retaliation, OAPEC imposed an oil embargo which severely impacted global supply and quadrupled prices. The second arose amid the Iranian Revolution of 1979, wherein the Imperial State of Iran led by Shah Mohammad Reza Pahlavi was overthrown and replaced by the Islamic Republic of Iran led by Ruhollah Khomeini, thereby ending the monarchical rule that had reigned for over 2,000 years. While net oil production and global supply only decreased by approximately 4%, demand surged as still-skittish markets, wary from the 1973 oil shock, incited precautionary hoarding out of caution of a worsening situation and prices more than doubled.

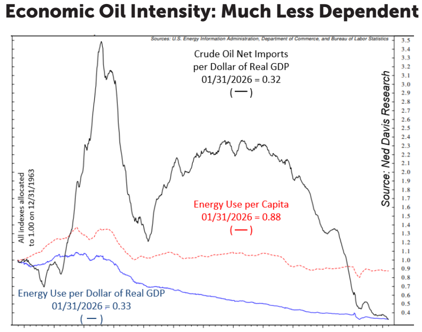
In 2026, following the attack on Iran by the US and Israel, the price of oil and gasoline have once again skyrocketed. Yet perhaps the surge in gas prices is more analogous to the post-COVID era rather than the 1970s. Indeed, as can be seen on the chart at right, the year-to-date gas price trajectory is tracking similarly to the spike of 2022. Furthermore, despite said spike, we have not experienced the rationing and gargantuan lines at gas stations as in the 1970s. Why?

Retail Gas Prices: 2026 Tracking 2022



The US in 2026 is much less dependent on imported oil as we were in the 1970s. The chart on the lower right shows that we are now actually a net exporter of oil, and energy use per capita and per dollar of real GDP is significantly lower than it was 50 years ago. This plunge in imports and enhanced efficiencies have rendered the US economy much less vulnerable to global oil shocks on a macro level. Yet there is no doubt that lower income households—already contending with elevated inflation and affordability issues—are bearing the brunt of higher gas prices.

Economic Oil Intensity: Much Less Dependent

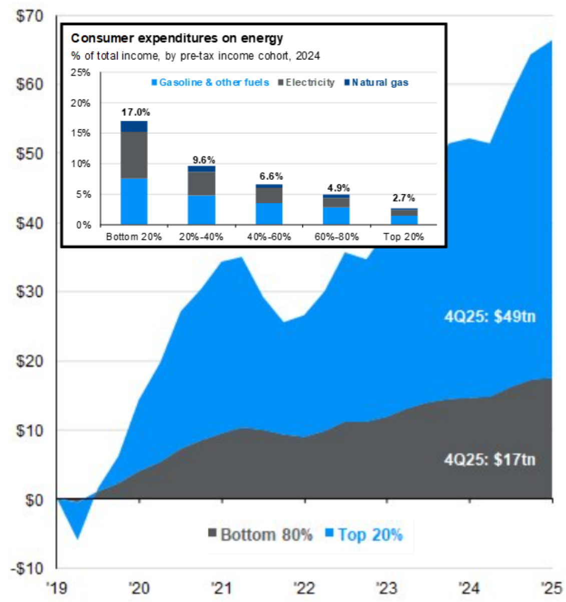


*Large Cap: S&P 500 Index; Small Cap: Russell 2000 Index; Int'l Developed: MSCI EAFE Index; Int'l Emerging: MSCI Emerging Markets Index; US Inv- Grade Bonds: Bloomberg Aggregate Index; Int'l Bonds: Bloomberg Global Aggregate ex-USD Index; High Yield: Bloomberg US Corporate High Yield Index; Cash: BofA Merrill Lynch 3-Month US Treasury Index; Real Estate: FTSE EPRA/ NAREIT Developed Index; Commodities: Bloomberg Commodity Index; Alternatives: Wilshire Liquid Alternatives Index

K-Shaped Economy & the Consumer

In addition to the fear factor spurring higher oil prices amid the oil shock of 1979, another source of increased demand at that time was the booming global economy. In the post-COVID era, the US economy has led the world in recovery and has proven more resilient than nearly any observer could have predicted. While the ensuing rising tide of the exceptional US stock market has lifted all boats to some degree, higher income households have disproportionally benefited. The larger chart at right shows that since 2019 the top 20% of income earners have garnered over 70% of the wealth gains. It is this cohort that has sustained spending and has produced the economy's resiliency, yet the bottom 80% of earners have continued to contend with rising price pressures. This so-called "k-shaped economy" poses a potential risk to continued growth, given 2/3rds of it is driven by consumer spending—particularly as inflation is creeping back up. Indeed, while consumer prices had been declining and posted a 2.3% reading early last year, tariffs and now the Iran war have reversed the trend, causing a full 1 percentage point jump to 3.3% in March. Inflation is projected to rise to 4% by June. Meanwhile, lower income consumers will continue to struggle as they are disproportionally impacted by elevated gas prices. As the smaller chart to the right reflects, the bottom 20% of income earners spends 17% of their total income on energy, while the top 20% spends only 2.7%. It is no wonder that consumer sentiment hit a record low in March. This again hearkens back to the fears of the 1970s, where rising inflation coupled with slowing economic growth coined a new term, "stagflation."

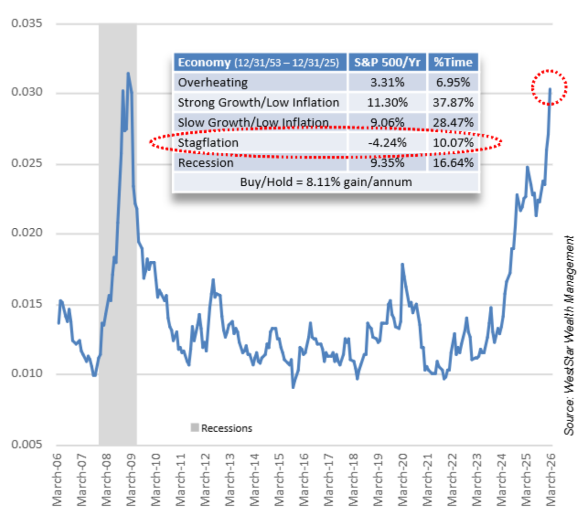
Lower Income Struggling, Higher Income Doing Well
Cumulative net worth growth by pre-tax income cohort, USD trillions



Stagflation & the Stock Market

Historically, for every $1 rise in the in the real price of oil, global GDP has fallen -0.01 and global inflation has risen +0.03 percentage points one year later. We have already noted that inflation has risen, but what is the near-term risk of recession here in the US? The good news is that, despite current events, the probability of recession remains low at this time, with not a single one of the 10 indicators on our recession watch report indicative of such a slowdown. There is, however, an interesting data point conceived by Wall Street investment strategist Dr. Jim Paulsen—the "Walmart Recession Signal." Shown on the large chart at right, this analysis compares the stock price of Walmart to that of a basket of 80 luxury retailers, with a high reading suggesting consumers are shifting away from luxury retailers to discounters. This behavior could portend a significant economic slowdown, and the current WRS reading is at levels not seen since 2008. While no single indicator should ever be the basis for action, it is nonetheless thought-provoking. Should inflation rise and economic growth ultimately fall simultaneously, the stagflation environment would be the worst-case scenario for stocks as indicated on the small chart at right.

Walmart Recession Signal Highest Since 2008
Walmart stock price vs. S&P Global Luxury Retailer Index price



Economy (12/31/53 – 12/31/25)	S&P 500/Yr	%Time
Overheating	3.31%	6.95%
Strong Growth/Low Inflation	11.30%	37.87%
Slow Growth/Low Inflation	9.06%	28.47%
Stagflation	-4.24%	10.07%
Recession	9.35%	16.64%
Buy/Hold = 8.11% gain/annum		

Retrospective Prognostication: Second Quarter & Beyond

While it is human nature to seek patterns in experience and therefore considering current circumstances through the prism of "That '70s show" is understandable, there are marked societal and structural differences between the two eras. It is true that once again war in the Middle East has impacted oil prices, exacerbated economic slowdown, and inflamed inflation, yet America's reliance on foreign oil is much lower, the economy is likely to dodge recession in the near term, and inflation should begin to decline once again later this year. History, it would seem then, is rhyming rather than repeating. In the meantime, volatility is to be expected and the typical mid-term election year downturn may yet materialize. We will therefore maintain a tactical underweight in stocks and a more defensive posture overall in our actively managed strategies while, as always, adhering to our long-term strategic positioning.

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As true fiduciaries, our focus isn't on selling products to our clients. Instead, we focus on providing personalized service and real financial solutions.

Our team of wealth management professionals has the valuable depth of expertise you need to navigate life's events.

From retirement planning and investment management to trust services and estate settlement, we can help you devise the most effective plan to meet your financial goals.

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