



First Quarter 2026 Economic and Market Recap

The first quarter of 2026 was marked by increased market swings as investors grappled with a more uncertain economic environment. U.S. stocks retreated from record levels, with the S&P 500 falling about 4% over the quarter. The pullback was led by large-cap growth stocks, as investors reconsidered lofty expectations for A.I. spending and questioned how quickly those investments would pay off. By contrast, value stocks, international markets, and smaller companies held up better, reflecting a gradual shift away from a narrow group of market leaders.

Geopolitical tensions added to the volatility. The conflict involving Iran, which began in late February, sent oil prices sharply higher. Brent crude jumped from around \$70 per barrel to a peak near \$118 before easing back to roughly \$96. Rising energy costs pushed inflation higher, with March CPI increasing 3.3% year over year, up from 2.4% in February. Energy prices alone rose 10.9%. In response, the Federal Reserve kept interest rates unchanged at 3.5%–3.75% at its March meeting, pointing to ongoing uncertainty and noting that geopolitical risks could keep inflation elevated.

Overall, market performance became more balanced during the quarter. Value oriented, international, and smaller-capitalization stocks outperformed areas that had previously dominated returns. Corporate earnings also held up well, underscoring the value of diversification, thoughtful portfolio construction, and maintaining a long-term perspective during periods of heightened uncertainty.

Sources: Bloomberg Finance L.P Data as of March 25, 2026 · US Treasury, Haver Analytics, Apollo Chief Economist · US Bureau of Economic Analysis, Haver Analytics, KKR Global Macro & Asset Allocation analysis · Bloomberg, Western Asset. As of 10 Apr 26. Bloomberg Municipal Bond Index yield · Bloomberg; MSCI; SPI by StepStone · KBRA DLD Default Research

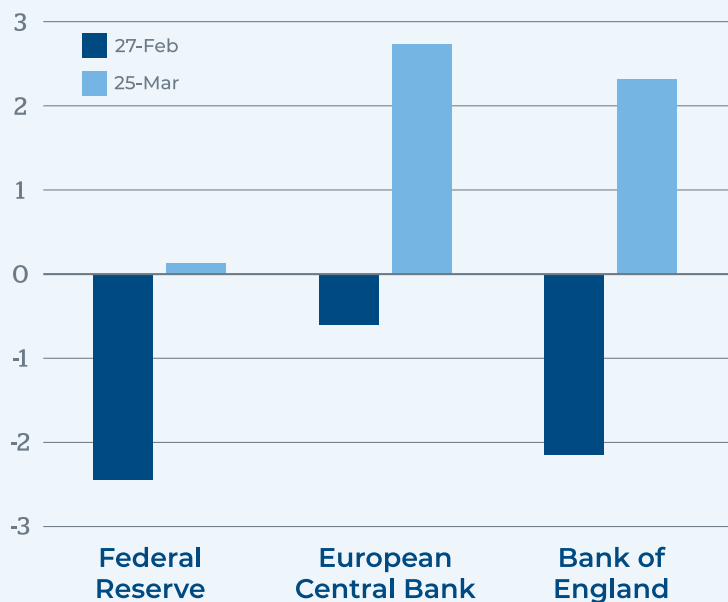
Interest Rates

Entering the year, markets anticipated two Fed rate cuts. That outlook has changed, with the Fed now expected to hold rates steady as it prioritizes inflation control.

The European Central Bank and the Bank of England are expected to raise rates, as higher inflation tied to the Iran conflict weighs more heavily on their policy outlook.

The Global Rates Repricing

Number of Interest Rate Hikes or Cuts Priced by Year-End



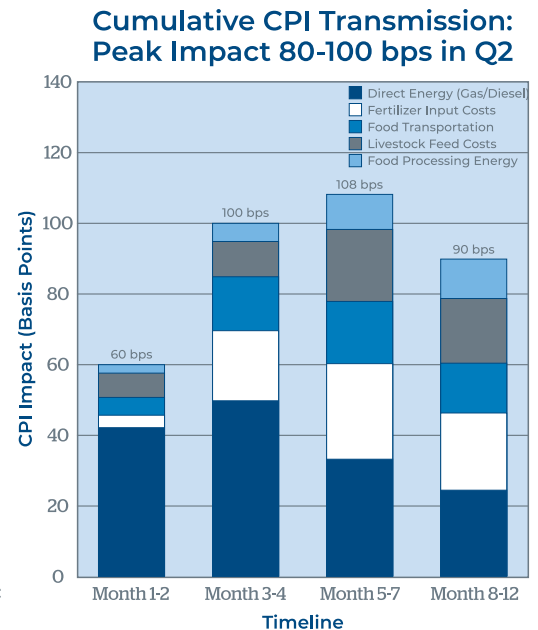
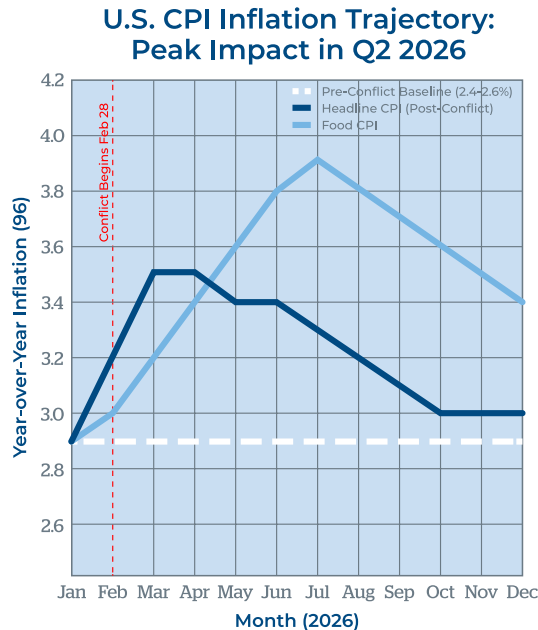
Source: Bloomberg Finance L.P. Data as of March 25, 2026.

Inflation

Before the conflict began, inflation expectations called for CPI to average between **2.5% and 3%** for the year.

Current expectations now point to CPI reaching 3.5% or higher in April/May, before gradually easing toward **3% by year-end.**

Higher energy prices tend to impact inflation immediately, while categories such as food are expected to peak later, in **mid-to-late summer.**



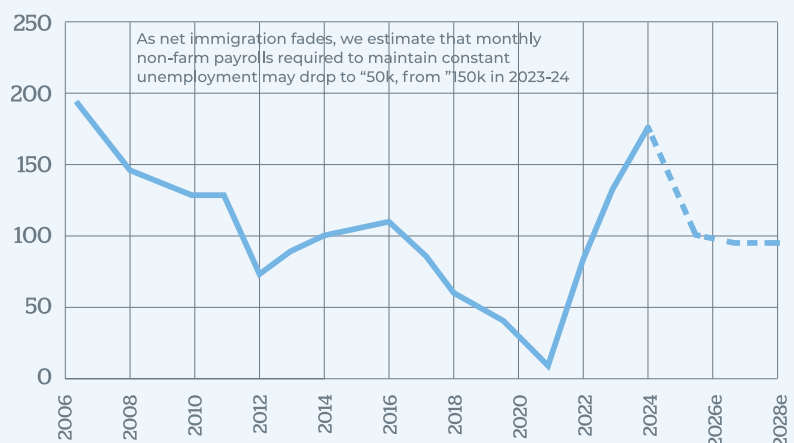
Employment

Historically, the U.S. needed to add roughly **100,000–150,000 nonfarm jobs per month** to keep the unemployment rate from rising.

With slower population growth and lower immigration, **fewer than 50,000 jobs per month** may now be enough to hold unemployment steady.

If this remains the case, today's slower pace of hiring should **not, by itself, lead to higher unemployment.**

Approximate Monthly NFP Growth Required to Maintain Constant Unemployment Rate (Thou.)



Data as at September 30, 2025. Source: U.S. Bureau of Economic Analysis. Haver Analytics, KKR Global Macro & Asset Allocation Analysis

Consumer

Although higher energy prices will affect consumer spending, they make up a smaller share of household budgets than they did during the energy crises of the 1970s.

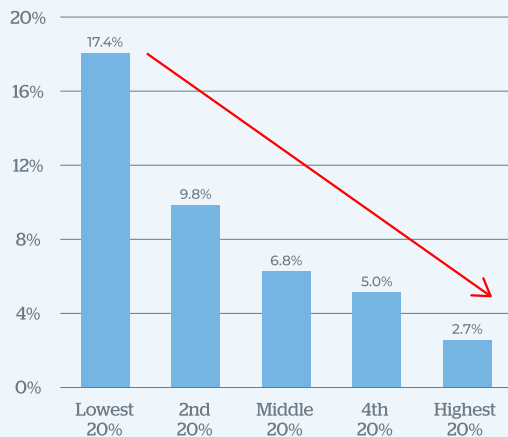
Today's economy is increasingly driven by older, wealthier households. While higher costs will weigh more heavily on lower-income consumers, the overall impact is unlikely to be severe enough to push the U.S. into a recession

Income tax refunds boosted by the *One Big Beautiful Bill (OBBB)* are running **14% higher than in 2025**, providing additional cash to consumers.

Before the Iran conflict, economic growth for 2026 was expected to be around **2.5%**, supported by stronger consumer spending power.

Rising prices are now expected to offset much of that benefit, likely slowing GDP growth to **around 2%**.

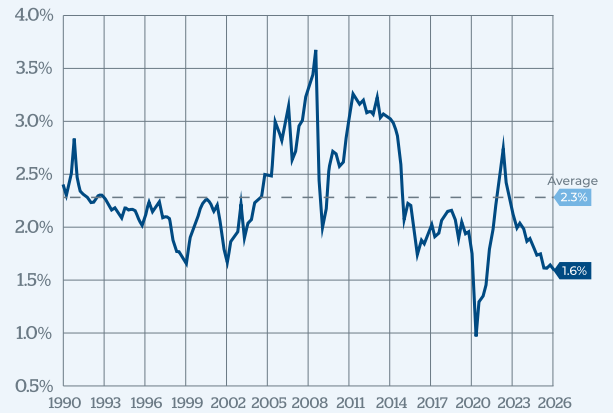
Annual Energy Spend as a % of Pretax Income, by Income Quintile



Energy spend here includes gasoline, motor oil, electricity, fuel oil, and natural gas. Source: KKR

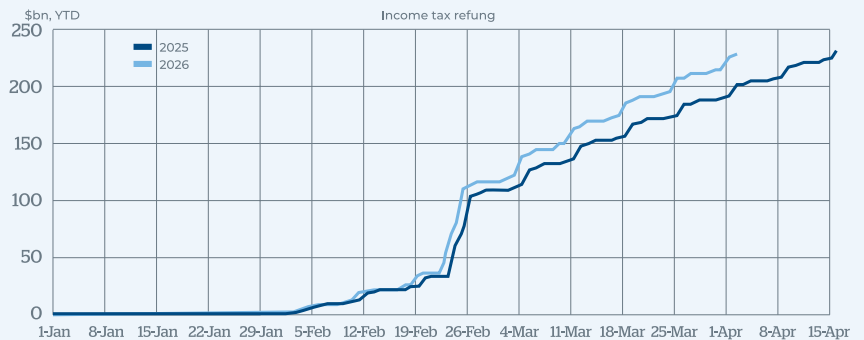
Impact on US Quite Low

US Nominal PCS Gasoline and Other Motor Fuel as a Percentage of Disposable Personal Income



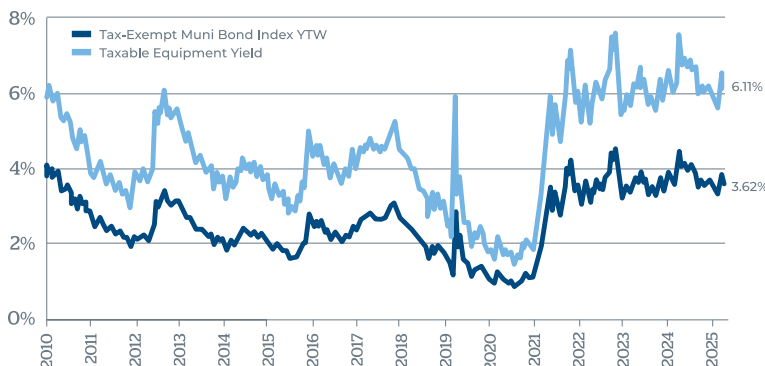
Source: Brevan Howard

Income tax refunds running 14% higher than last year



Sources: US Treasury, Haver Analytics, Apollo Chief Economist

Fixed Income



Source: Bloomberg, Western Asset. As of 10 Apr 26. Bloomberg Municipal Bond Index yield

Fixed Income

As inflation expectations have risen, **bond yields have moved higher.**

After more than a year of relatively unattractive pricing, **longer-term municipal bonds are becoming more appealing**, particularly on a taxable-equivalent basis.

We expect **10–20 year municipal bonds** to outpace inflation, with **taxable-equivalent yields around 6%.**

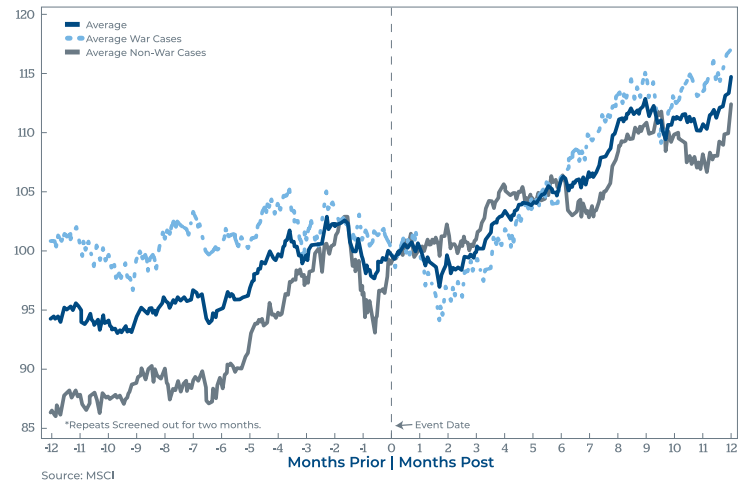
Equity

Equity markets experienced a sharp sell-off in March, with the S&P 500 down **4.4% for the quarter**.

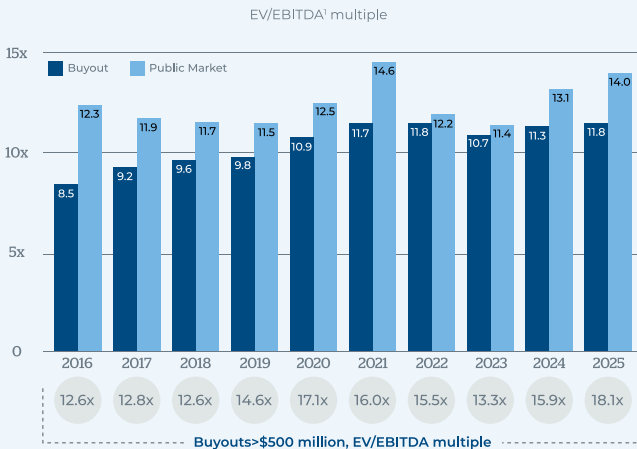
Historically, sharp increases in oil prices have tended to trigger quick equity pullbacks, followed by recoveries within three to six months.

With corporate earnings remaining strong and continued momentum in A.I. investment, equity markets are expected to **stabilize and normalize** over time.

Performance of MSCI US Around 25% Oil Increases in One Month*



Buyout and Public-Market Valuation Multiples, 2016-25



Note: MSCI World Index average multiples. Data as of Sept 30, 2025.
*Ratio of total enterprise value to EBITDA.
Source: Bloomberg, MSCI, SPI by StepStone

Alternatives

Private equity has underperformed public equities for the past **three years**.

Trends are beginning to shift back in favor of private equity, particularly in **small- and mid-sized buyouts**.

Buyout valuations became elevated in 2022 relative to public markets, but have since become more attractive as public equities—especially A.I. driven stocks—have surged.

Large buyouts are now becoming more expensive, as private equity firms compete for **larger, fast-growing companies**.

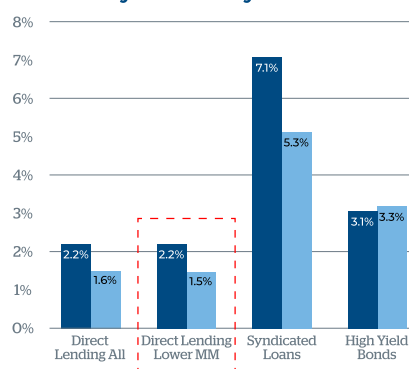
Private Credit

Private credit has been the subject of heavy criticism over the past **six to nine months**.

The primary concern centers on **liquidity mismatches**. Many newer funds have been launched to appeal to retail investors, who tend to have shorter time horizons, while private credit investments are inherently less liquid.

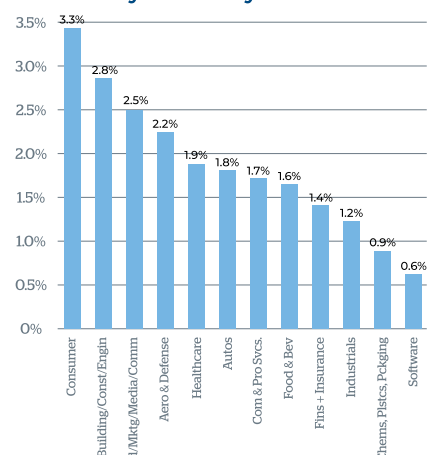
So far, underlying credit conditions have remained **generally manageable**, even in areas such as software that have drawn increased scrutiny.

Default Rate (TTM) by Market by Count



Source: KBRA OLO Default Research; Note: Trailing 12-month period through February 16. Data shown is by count. DL results pending Q4 BDC holdings. Sectors with no defaults not included.

Direct Lending Default Rates (TTM) by Sector by Count



Portfolio Market Positioning

Equity allocations remain **balanced between growth and value**.

While we expect the yield curve to re-steepen, we anticipate a **less dovish Federal Reserve**, with **zero to one rate cut by year-end** unless the economy enters a recession.

Within alternatives, we launched a **2024 Private Equity Vintage** alongside a **Private Credit Fund**.

- **Equity:** Emphasis on higher quality companies and reduced exposure to the *Magnificent Seven* helped soften the March drawdown. Allocations remain balanced between **growth and value**.
- **Fixed Income:** We expect the yield curve to remain **steep** and favor a **five- to six-year duration**. Municipal bonds look attractive, particularly in the **10–15 year** range.
- **Hedge Funds:** We are increasing exposure to **uncorrelated strategies** within absolute return. Historically, hedge funds have tended to outperform equities during periods of **higher inflation**.
- **Private Equity:** Focus remains on **lower middle-market buyout managers** with proven value-creation frameworks, low historical loss rates, and top-quartile performance. We are also evaluating **venture and growth capital** opportunities as valuations have reset.

2026 Second Quarter Outlook

As we enter the second quarter, the global economic picture looks noticeably different from what we anticipated at the start of 2026. While U.S. growth is still expected to continue, GDP is now more likely to fall in the **1.5%–2% range**, compared with earlier expectations of **2%–2.5%**. Early in the year, consumers benefited from lower taxes under the *One Big Beautiful Bill (OBBB)* passed in the summer of 2025, with higher tax refunds providing a meaningful boost in the first quarter. However, rising oil prices stemming from the Iran conflict now act as an effective energy tax, dampening much of that benefit.

Equity markets began the year with elevated valuations and narrow leadership, and the conflict accelerated a long-overdue shift toward value and international stocks. U.S. large-cap equities—particularly technology and software—experienced the steepest declines. In contrast, value, small-cap, and international stocks held up better, supported by strong performance in energy and materials. This rotation reflects the impact of higher energy prices and interest rates on longer-dated cash flows. As the Iran conflict becomes more fully priced into markets, we expect to see opportunities emerge in stocks that were overly punished during the sell-off. We continue to emphasize broad diversification and maintain confidence in long-term trends in A.I. and software, which should drive efficiency gains. Companies that move quickly to capture those efficiencies are likely to see stronger profit margins.

Interest-rate expectations have also shifted meaningfully, with the probability of Fed rate cuts in 2026 now close to zero. The focus is likely to remain on balancing inflation pressures against signs of a slowing economy. At the same time, longer-term trends—such as continued investment in A.I. infrastructure and efforts to reduce reliance on foreign sourcing and manufacturing of critical materials—are expected to remain firmly in place.

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