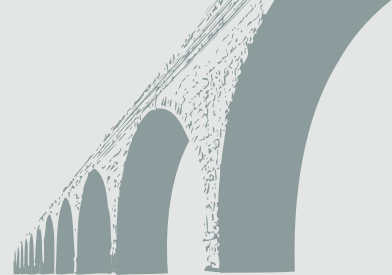


April 26, 2026

# 1Q26 Market Commentary



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## Overview

Macro events were at the forefront in the first quarter. Geopolitical shocks, including the capture of Venezuelan president Nicolas Maduro and the escalation of the Iran conflict, introduced increased volatility into global energy markets. Closer to home, growing concerns that inflation may re-ignite have decreased the likelihood of the Federal Reserve easing. Yet, stocks have done a good job of weathering the storm, with a rotation into under-owned market segments. Positive returns have spread beyond the S&P 500<sup>1</sup>, with small caps, international equities, and value stocks benefiting. Defensive plays also did well. The aggressive growth names that powered 2025 gave back substantial ground in March, as mega-cap AI darlings recorded losses.

Future possibilities of rampant white-collar unemployment, private credit and mortgage defaults, a cratering of consumer spending, and rapid obsolescence of established business models will now have to share the stage with a very real war in Iran. Markets have traditionally shrugged off geopolitical events after an initial burst of volatility, especially recently. However, a widespread, protracted conflict in the Middle East may upend that convention.

Nonetheless, after the S&P 500 booked a first-quarter loss of 4%, the stock market regained momentum in early April—despite \$100 oil prices and unresolved global tensions. The pendulum swung back in favor of AI-fueled growth stocks, with high expectations for earnings in the coming months. The S&P 500, Nasdaq Composite<sup>2</sup>, and Russell 2000<sup>3</sup> each hit a fresh all-time high, and four of our eight bellwether<sup>4</sup> indexes “confirmed” the new highwater mark in the S&P 500. Such broad participation across equity styles is a favorable sign, and investor optimism appears to be running high. Even with the breakdown of peace talks, the closure of the Strait of Hormuz, persistently downbeat headlines, and the lack of progress in the aftermath of Operation Epic Fury, the markets don’t appear panicked.

The first-quarter downdraft in equities im-

proved large-cap valuations, which had previously been in the red-alert range, akin to Y2K and the COVID stimulus bubbles. Sentiment measures have also moderated from extreme levels, while technical factors remain the primary pillar of strength behind our analysis of the prospects for stocks.

## Leuthold Select Industries

The firm’s domestic equity strategy soundly outpaced the S&P 500 in the first quarter. With oil prices surging, an overweight in Energy stocks was a strong tailwind. Other notable group concentrations behind out-performance came from a range of market sectors, including Electronic Manufacturing, Precious Metals, Pharmaceuticals, and Education Services. Such diversification is an advantage in and of itself, minimizing the risk of having too many eggs in one basket.

Although Select Industries had relatively limited exposure to AI-flavored Communication Services groups, stocks from that sector detracted from the first-quarter return. Allocations to software and diversified banks also performed poorly.

## Tactical Asset Allocation Portfolios

Based on a longstanding quantitative discipline for assessing the health of the stock market, our overall stance lingered in the “neutral” zone all quarter, shifting between high neutral, neutral, and low neutral. That has been the case since last June. Reflecting the on-the-fence status of our market analysis, net equity exposure in Leuthold tactical portfolios ended the first quarter at 47%. During April, this equity allocation has risen along with the stock market, and now stands at 51%.

Within fixed-income holdings, credit exposure was reduced by trimming investment-grade corporate bonds. Portfolio duration<sup>5</sup> is around 5.8 (versus 6.2 for the Global Aggregate<sup>6</sup> bond index and 5.8 for the U.S. Aggregate<sup>6</sup> index). The overweight in short-term Treasury Inflation Protected Securities and the underweight in mortgage-backed securities remain intact.

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## Outlook

As we said last quarter, the path of least resistance for equities is still to the upside, and if this market ultimately follows a more traditional course, we wouldn't expect a peak to form for at least a few more months. In a healthy market environment, when the S&P 500 climbs to a new high, most of the bellwether indexes follow suit within the next 30 days. Conversely, leading up to a market peak, the "topping" process is distributive in nature: Near the end of a bull cycle, as the S&P 500 rises to ever-higher highs, fewer bellwethers succeed in achieving new highs of their own to "confirm" the S&P 500's action is representative of broad market strength. When most bellwethers fail to endorse new highs, it is historically a sign that the index is vulnerable. For example, at the tops preceding both the 1990 recession and 2008's Great Financial Crisis<sup>7</sup> collapse, all eight bellwethers

were flashing red flags (none able to confirm new highs in the S&P 500). At the bubble peak of March 2000, seven of eight were lagging. Of course, every market top is different and one cannot predict how high the index might reach even while other market segments are diverging to the downside.

In any case, given that the S&P 500's latest high has been confirmed by several bellwethers, the market appears stable from the perspective of participation across differing equity styles. Leuthold tactical portfolios are therefore positioned to take part if the bull market continues, while allocations and diversified equity concentrations echo the more cautious message of our discipline's neutral standing.

We appreciate your ongoing support!



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<sup>1</sup> S&P 500 is a capitalization-weighted index of 500 stocks measuring performance of the broad domestic economy.

<sup>2</sup> NASDAQ Composite is a stock market index that includes almost all stocks listed on the Nasdaq stock exchange.

<sup>3</sup> Russell 2000 is a small-cap U.S. stock index that is made up of the smallest 2,000 stocks in the Russell 3000 Index.

<sup>4</sup> Dow Jones 65 (a price-weighted average of 65 stocks—30 industrial, 20 transportation, and 15 utility companies); Dow Jones Transports (includes major airlines, rail carriers, delivery services, trucking, and car rental companies); Dow Jones Utilities (water, electric, and renewable power producers); Russell 2000 (the smallest 2,000 stocks in the Russell Index); S&P 500 Financials (companies classified in the Financials sector); S&P 500 Cyclical Index (Consumer Discretionary, Industrials, and Materials stocks); S&P 500 Equal-Weighted Index (equally weighted version of the S&P 500); NYSE Daily Advance/Decline Line (a technical market breadth indicator tracking the cumulative total of daily advancing minus declining stocks on the New York Stock Exchange).

<sup>5</sup> A measure of a bond's sensitivity to interest rate changes, typically expressed in years.

<sup>6</sup> The Global Aggregate index is a flagship measure of global investment grade debt from a multitude of local currency markets. The U.S. Aggregate bond index is a broad benchmark for the investment-grade U.S. bond market.

<sup>7</sup> Great Financial Crisis was a severe global economic downturn sparked by the collapse of the U.S. housing bubble and the bursting of the subprime mortgage market in 2007–2008.

*Investors should consider the investment objectives, risks, charges, and expenses carefully before investing. For a prospectus with this and other information about the funds, please call 800-273-6886 or visit [LeutholdFunds.com](http://LeutholdFunds.com); please read the prospectus carefully before investing.*

**Past performance does not guarantee future results. Investing involves risk, principal loss is possible. Index performance does not reflect fund performance and it is not possible to invest directly in an index.**

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