

Aptus Market Recap and Outlook: Q1 2026 Highlights

Resilient Fundamentals Amid Emotional Volatility

Q1 2026 concluded with significant market fireworks, yet equities remained remarkably resilient despite a backdrop of geopolitical tension and shifting narratives. While emotional volatility stemming from Middle East conflicts and domestic politics has been high, the underlying data remains strong. The S&P 500's pullback of -4.33% during the quarter was driven almost entirely by valuation compression rather than a decline in growth. Forward P/E ratios for the S&P 500 have pulled back to a sub-20 level of 19.7x, making domestic large caps and the NASDAQ appear more palatable than many investors perceive. Expectations for 2026 EPS growth actually moved higher during the quarter, rising from 15% to 17%.

Fixed Income: Breaking the 40-Year Bull Market

The 40-year bull market in rates that began in 1981 is likely over. Q1 was a chaotic period for bonds, which once again failed to act as effective insulators for equity drawdowns. Markets briefly priced in the potential for rate hikes due to the energy crisis, causing the two-year Treasury yield to rise above the three-month yield. Over the next 12 months, 33% of outstanding Treasuries must be refinanced. Coupled with deficits and AI CapEx needs, over \$13 trillion in debt will need financing in the near term. We remain convicted that bonds are poor vehicles for preserving purchasing power given the necessity to inflate away the massive national debt.

Equity Themes: Energy, Productivity, and AI

Growth remains strong, fueled by the consumer and corporate spending. Recent earnings growth was driven largely by the energy sector. While higher oil prices act as a headwind for manufacturers, historical data suggests the market can digest these costs as \$90 oil typically represents only a 5% headwind to S&P 500 EPS. S&P 500 operating margins reached nearly 19%, which is an all-time high, while equal-weighted margins are also inflecting higher. The best way to capture AI benefits is through equity ownership. AI provides a productivity boost that benefits equity holders while leaving cash and bond holders to deal with the resulting inflationary pressures without the upside of productivity gains.

Market Structure and Tail Management

Since 2022, markets have climbed 50% despite a litany of black swan events, including bank failures, 9% inflation peaks, and global wars. We prioritize long-term hedges that maintain a



negative correlation to equities, providing more consistent protection than traditional diversifiers like gold or fixed income. While retail bank runs are occurring in private credit due to illiquidity, we do not currently see a systemic risk given that 90% of the asset class is held by longer-term institutional investors. We continue to favor structured equity and hedged outcomes to manage the behavioral gap that occurs when clients face drawdowns.

Outlook and Positioning

We remain rational optimists for the remainder of 2026. We prefer owning the equity interest in businesses to benefit from their ability to fight inflation and capture productivity gains. We maintain a focus on domestic assets, as the fundamental backdrop for U.S. equities continues to be more favorable. Our strategy emphasizes staying invested in risk assets while utilizing explicit hedges to neutralize the impact of left-tail events.

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