
1st Quarter 2026 Market/Economic Update

April 14, 2026

"Everybody in the world is a long-term investor until the market goes down." -Peter Lynch

"The fact that an opinion has been widely held is no evidence whatsoever that it is not utterly absurd." -
Bertrand Russell

I hope this letter finds you enjoying the start of spring. Spring brings warmer weather, longer daylight hours, and a surge of new life, acting as a season of renewal, growth, and rejuvenation. Unfortunately, this spring also sees increased geopolitical tensions and much higher energy prices, among other challenges.

The first quarter of 2026 reminded investors that markets do not move in a straight line. Equity markets came under pressure as inflation remained sticky, interest-rate expectations shifted, and geopolitics added a new layer of uncertainty. By quarter-end, the S&P 500 fell almost 5% since the start of 2026, its worst start to a year since 2022. The Nasdaq fell over 7%, with the software industry down almost 24% on fears that AI would make software companies obsolete. Meanwhile, broader bond markets also struggled as inflation and energy-price concerns pushed yields higher.

The quarter began with a constructive tone, but sentiment changed as investors reassessed the outlook for inflation and Federal Reserve policy. The Fed held rates steady through the quarter, and policymakers signaled they wanted more convincing progress on inflation before cutting rates again. Tariff-related price pressures remained an important theme, although in late February, the Supreme Court ruled against the Trump Administration's sweeping tariffs. It remains to be seen what impact this may have on the economy and our nation's fiscal situation.

Within the equity market, leadership was narrow and volatile. Early in the quarter, energy and other inflation-sensitive sectors benefited from stronger commodity prices, while growth and technology names were more vulnerable to rising yields and valuation compression. As the quarter progressed, markets increasingly rotated away from the mega-cap tech leadership that had defined the previous couple of years. Thus, aggressive investors underperformed more conservative investors for the first time in quite a while.

Bonds, in general, were not quite the safe-haven investors had hoped for throughout the quarter. Government bond yields moved sharply as markets repriced the odds of rate cuts and reacted to higher energy prices, leaving many fixed-income categories with negative or only modest results. Inflation-protected securities and shorter-duration bonds generally held up better than the overall bond market, reflecting investor's focus on persistent inflation risk.



International markets also delivered a mixed picture. Emerging markets were relatively resilient compared with developed markets, though performance varied widely by country and sector. Commodities were broadly higher, led by energy, but gold also notched a solid return for the quarter.

Looking ahead, we continue to focus on quality, balance, and diversification. An environment of uneven growth, sticky inflation, and uncertain policy timing argues for disciplined portfolio construction rather than dramatic repositioning. We believe portfolios should remain prepared for volatility while still positioned to participate when conditions improve.

It is during these volatile times that maintaining a time frame longer than a few weeks or months is imperative for investment success. Ignoring the day-to-day market volatility brought on by the news of the moment, or by a social media post from the President of the United States, makes sense for all of us. As we've discussed many times over the last several years in our letters to you, the mechanics of financial markets have changed. Much of the trading is now done by keyword-reading computer algorithms that pay scant attention to actual fundamentals. The result is often wild swings during the trading day. Step back and see the big picture and you'll note that for all of the volatility, social media posts, and geopolitical news, equity markets are about where they were at the beginning of the year, having made up the losses of the first quarter so far in April. Simply put, let's continue to be long-term investors.

In my year-end letter, I suggested that the markets could face periods of increased volatility, perhaps even witnessing several corrections of 5% or more throughout the remainder of the year, which is normal. I also mentioned that several headwinds could precipitate such a pullback. Those included persistent inflationary pressures fueled by excess liquidity, heightened geopolitical strife, and a continued narrowing of market leadership among a dwindling number of equity winners. While inflation has increased, it was geopolitical strife (war with Iran) and the resulting surge in oil prices that was the main cause rather than excess liquidity. Meanwhile, as I alluded to above, the technology stocks that led the way in 2025 finally succumbed to profit-taking, as we saw a great deal of rotation under the surface of the market from "asset-light" stocks (technology) into "asset-heavy" stocks, like energy and utilities.

I also mentioned in my year-end letter that I expected more muted returns in 2026. While we still have 8 1/2 months to go in the year, my thoughts haven't changed on this. While the correction we experienced in the first quarter made valuations more reasonable, U.S. stocks still are not necessarily cheap on an index level. I think it is safe to say that returns over the next 5-7 years, on an index level, may not be as robust as they have been over the previous 5-7 years. Thus, diversification to asset classes outside of domestic stocks and U.S. bonds would seem necessary to generate returns and to manage risk effectively.



Recently, clients have been asking about AI and the world. The honest answer to both starts in an uncomfortable place: with great humility and not with strong conviction.

We are living through a period where change is happening faster than our ability to understand it. The future feels less certain, not because we know less, but because the range of possible outcomes has increased dramatically. When that happens, conviction can be dangerous. Ideas that once felt stable and normal begin to show cracks. Thus, the way we think about risk and opportunity must evolve. So, while I have some opinions about certain topics, especially investment-related topics, it is incredibly important to be intellectually honest and willing to change our mind as new information arrives. This emphasizes an important lesson learned from Ned Davis (founder of the research firm bearing his name), in his book 'Being Right or Making Money'. When we invest, opinions matter less than managing risk and our own behavior. Ultimately, our main goal as investors is to make money and to grow our wealth, in order to achieve our personal (family) goals. As the second quote on page one suggests, just because an opinion is widely held doesn't mean that opinion holds up in the face of new information. Adaptability is essential.

A few months into our new relationship with Farther and Schwab finds us adapting well. While we are experiencing some growing pains, particularly as we learn the new technology stack, the benefits of our transition have become evident. From incredible new estate planning tools to reduced custodial costs and better cyber security, things are going well. I know I said it in my year-end letter, but I want to thank you again for your patience during the move.

Please note that I will be out of the office attending a conference from May 13-15. Additionally, I will be on vacation from May 29 through June 6. As always, please let us know if there is anything we can do for you; we remain steadfastly here to help. From all of us at HFA, we appreciate the trust, confidence, and loyalty you place in us. It truly is a joy and a privilege to work with you and your family.

Best wishes,
Harvey E. Hutchinson IV
Principal, Wealth Advisor at Farther

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