MARKET COMMENTARY
1Q 2026

syntrinsic
An IMA Company

***Jas Chen**, CFA, Senior Analyst*
***Matt Kukla**, Senior Analyst*
***Robin Meyer**, CFA, Senior Analyst*
***Eli Davidoff**, Research Analyst*

Economic Backdrop

Global Markets entered 2026 with a renewed focus on AI, both the productivity-enhancing progress with sweeping labor-market implications as well as more specific use-case progress with potentially meaningful disruptions to legacy software businesses and, in turn, their listed equity and debt securities. US tariff policy, too, featured prominently in headlines to start the year as the US Supreme Court ruled on the Trump Administration's implementation of tariffs under the International Emergency Economic Powers Act (IEEPA) argument. Ultimately, these themes fell to the wayside in importance as March saw the opening of global conflict in Iran which has remained active and unresolved through the end of the first quarter. As risk-off sentiment took hold later in March, traditional safe haven assets proved few and far between. The US Dollar was a notable beneficiary, strengthening during the first quarter (DXY spot rate +1.67%) relative to a group of global peer currencies.

Monetary Policy Dual Mandate: Price Stability

US Inflation over the last year has generally been trending toward but has not yet reached the US Federal Reserves (the Fed's) stated goal of 2% inflation. Comments from US Fed Chair, Jerome Powell, seem to indicate services inflation to be largely in-check, while a focus remains on lingering core goods inflation. The Fed had expected this inflation, largely driven by new tariff policy, would have a one-time impact on prices which would take roughly 9-12 months to pass through US supply chains. The developments of the Supreme Court's IEEPA tariff ruling late February were swiftly countered by the administration by reimposing global tariffs under Section 122 of the Trade Act of 1974. Despite this noise pertaining to tariff policy, global tariff rates likely will settle at roughly the same level, between 10-15% for most trade partners. Ultimately, the Supreme Court ruling may extend the time it takes for price impacts to settle.

Monetary Policy Dual Mandate: Maximum Employment

Unemployment over the last year has generally trended slightly higher, touching 4.5% in November and standing at 4.3% through March.[1] Jobs data has been volatile over recent months and has included large revisions to numbers after-the-fact. Anecdotes of layoffs due to AI enhancement and/or headcount recalibration following COVID-period over-hiring continue to reach media headlines, but data reflect relative balance within the labor market, at least on the surface. Jerome Powell has expressed caution that

[1] BLS: Civilian unemployment rate

this balance is a consequence of weak labor demand coinciding with a declining labor supply, likely due to immigration policy.

As of the January 2026 Federal Open Markets Committee (FOMC) meeting, the Fed has expressed the current state/level of policy is roughly at neutral if not at the lower bounds of restrictive policy. This statement taken as fact would suggest more inclination for the Fed to pause/hold current rates, with the bias leaning toward a single interest rate cut in 2026. This was largely consensus among market participants to start the year. The outcome of the FOMC's March meeting was for a hold on policy rates at the current 3.5-3.75% range. Votes from March's meeting included one lone dissenter. Notable data takeaways from the Fed's March 2026 Summary of Economic Projections include short-term upward revisions to inflation projections (up to 2.7% for both headline PCE and Core PCE for the duration of 2026) and a slight upward revision to US real GDP for 2026 and future years. One large undertone of the Fed's March meeting was that war introduces uncertainty, particularly in the task of forecasting data outcomes as FOMC members attempt to do during their two-day meetings. Post Fed meeting, the remaining two trading weeks of the quarter certainly reflected this uncertainty with swift and at times sharp swings in global debt and equity markets.

Geopolitical Uncertainty

Global markets ended 1Q 2026 in the red as multiple headwinds converged. Global economies already contending with supply chain disruptions from tariff-related policies faced another shock midway through the quarter as tensions with Iran escalated into a full scale conflict, triggering an oil price spike that further disrupted supply chains. Brent crude prices surged from the low \$60s to over \$100 per barrel in 1Q 2026.[2] The resulting disruptions and short-term energy shock are fueling market volatility, adding inflationary pressures, and weighing on global growth.

At the same time, policymakers' capacity to respond is increasingly constrained. Many economies, particularly in developed markets, are already grappling with elevated government debt burdens, leaving limited capacity for additional fiscal stimulus. In parallel, persistent above-target inflation has constrained central banks, limiting the ability to cut rates or deploy other easing measures to support growth.

At the time of writing, the US and Iran have entered a two-week ceasefire, though the timeline for a lasting resolution to hostilities remains uncertain. Further escalation, particularly any that damages additional energy infrastructure in the Persian Gulf region, could prolong supply chain disruptions and further weigh on global growth.

Unlike the US, which has significant domestic oil production and can partially offset the energy shock, many developed and emerging market economies are heavily reliant on energy imports. The Strait of

[2] Bloomberg: Brent Crude Price

Hormuz supplies roughly 20% of global petroleum liquids consumption.[3] This narrow corridor is critical for energy imports to Europe and Asia, the regions most exposed to disruption.

Beyond oil, other critical commodities, including liquefied natural gas, fertilizers, and helium, also transit the strait. Disruptions to these inputs could raise production costs across manufacturing, agriculture, and semiconductors, posing an additional headwind to key global growth drivers in 2026. Syntrinsic will continue to monitor developments closely, as diversification remains important to navigating periods of heightened uncertainty.

Public Fixed Income

US fixed income markets experienced a constructive January and February to start the year, with a healthy yield profile driving income generation while declining market interest rates across most of the US treasury yield curve boosted bond values accordingly. However, bond markets reversed course entirely in March as the Iran war reignited inflationary fears within the US monetary policy framework. US Treasury yields increased sharply as a result and interest rate levels across all maturities ended the quarter higher than they were on January 1. The 10-year US Treasury yield increased +15 bps to start the year, ending at 4.30% as of March 31.[4]

General risk-off sentiment at the end of the quarter only served to exacerbate the performance weakness within subsectors that are typically more risk-oriented such as high yield corporate credit and emerging market debt, as these segments experienced larger spread widening during March than higher quality bond segments. Upward interest rate pressure and credit spread widening dampened first quarter total returns across the broad global fixed income landscape, with notable, strong-performing exceptions being high-quality/government US bond issues specifically within shorter-duration exposures.

Fixed income markets closed the quarter in a more erratic state, attempting to reconcile an inflationary narrative pressuring interest rates upward while an emerging recessionary narrative argued for the opposite to occur, all the while the prospects for increasing defense spending seem to indicate the US fiscal position will not improve in the near-term.

Public Equities

The equity markets began 2026 on a positive note, with US equities, international developed equities, and emerging market equities all posting gains during January and February. Notably, non-US equities—including both developed and emerging markets—continued to outperform US equities, as had been the case in 2025. Through February, the S&P 500 rose 0.7%, while U.S. small- and mid-cap indices gained

[3] Bloomberg: Iran War: How High Could Oil Prices Get with Strait of Hormuz Closure?
[4] St. Louis Fed: Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis (DGS10) | FRED | St. Louis Fed

7.6%. Non-U.S. equities performed strongly, with developed markets up 10.1% and emerging markets returning 14.8% for U.S. investors.

While the depreciation of the dollar contributed modestly to this outperformance, a significant factor in the divergence of returns was the shift in investor preference from mega-cap US technology stocks in towards value-oriented equities outside of the US. Additionally, the phenomenon dubbed by the media as the "SaaSpocalypse"[5] led to a substantial market selloff, which resulted in the erasure of hundreds of billions of dollars in market capital from software-related stocks. In late January 2026, Anthropic introduced Claude Cowork and throughout February, the market began pricing SaaS companies as if they might be replaced by Artificial Intelligence, not merely changed by it. Many of the largest publicly traded Software-as-a-Service (SaaS) and workflow vendors are listed on US stock exchanges, with high-profile companies such as Salesforce, ServiceNow, Adobe, and Workday among the most significantly affected during the selloff.

On February 28, an escalation in the long-running conflict with Iran sharply altered the backdrop, injecting significant economic and market uncertainty with disruption of the free flow of shipping through the Strait of Hormuz affecting global trade and energy transit. These developments have driven oil prices higher, which in turn has created uncertainty about future earnings and introduced even greater uncertainty for risk-on assets like equities. All geographic segments of the equity market declined in March, with US equities down 5.0% and non-US equities declining by 10.8%.

For the quarter ending March 31, 2026, global equities returned -3.20%. Regionally, emerging markets exhibited the least significant drawdown at -0.17%, followed by Non-US Developed markets at -1.24%, while the US declined by -3.96%.[6]

Private Equity

Looking back, the rapid interest rate hikes by the Federal Reserve in late 2022 into 2023 to combat inflation brought private equity activity to a near standstill – deal flow, exits, distributions, valuations, returns, and fundraising all declined. Limited exits muted distributions to limited partners (LPs), creating negative cash flows and liquidity pressures for investors. As a result, many LPs have shifted focus from internal rates of return (IRR) to distributed to paid-in capital (DPI) as a performance metric. Investors continue to emphasize the need for exits and liquidity in 2026. In turn, General Partners (GPs) and LPs have tried creative means to provide liquidity through net asset value (NAV) loans, dividend recapitalizations, GP continuation vehicles, and LP secondary asset sales.

The three rate cuts by the Federal Reserve in 2024 did lead to a modest improvement in the private equity market from the 2023 lows. There was optimism heading into 2025 that further rate cuts and deregulation

[5] "SaaS" is the term of art for companies considered software-as-a-service.

[6] Morningstar: Global Equities (MSCI ACWI), Emerging Markets (MSCI EM), International Developed Markets (MSCI EAFE), Non-US Equities (MSCI-ACWI ex-US), US Equities (Russell 3000)

would spur exit activity via mergers and acquisitions (M&A) and, to a lesser extent, initial public offerings (IPOs). However, exits continued to trend downward from 3Q24 through 4Q25 and finished the year down 13% on a year-over-year basis. Despite fewer exits, the value of exits surged by 78% driven by mega deals – those valued at $1 billion or greater.

The expectation that rate cuts in 2025 would drive exits did not fully materialize, likely due to economic uncertainty driven by US policy in general and more specifically volatile tariff policies. Additionally, there is wide dispersion among Federal Reserve members as to whether to cut interest rates further, with some FOMC members advocating cuts amid a weakening labor market, while others cite potential sticky inflation from rising oil prices and increased uncertainty from the US and Iran war as a reason to maintain rates at current levels.

Looking ahead, tariff negotiations appear to be less erratic, and inflation has been lower than expected both of which could reduce uncertainty in 2026. However, depending on the duration of the US and Iran war, oil prices could remain elevated leading to persistently higher inflation causing the Federal Reserve to pause any potential rate cuts. If rates hold steady, exit activity may remain flat with 2025 levels; if cuts resume, modest improvement is likely. Investors expect rates to decline this year, though timing and magnitude remain uncertain. Pitchbook's recent survey aligns with this view – 60% of respondents anticipate some improvement in exits in 2026.

Venture Capital

Like private equity, the venture capital market was negatively impacted by the Federal Reserve's tightening cycle which effectively closed the IPO window – the primary exit route for venture capital – leading to a lack of liquidity for LPs.

There were 48 IPOs in 2025, roughly in line with the levels seen in 2022, 2023, and 2024. This pace remains meaningfully below the long-term average. Of those startups that have had IPOs, most were at meaningful discounts to their last private market valuations as most of the private market valuations were elevated due to low rates and strong public markets.

Going forward, we anticipate that IPOs in 2026 may be like or slightly better than 2025 levels, although the US and Iran war has increased volatility in the equity markets and could create a relatively muted IPO environment – the backlog of potential IPOs is currently low. The IPO market has become much more selective and focused on those startups that are profitable or have a clear path to profitability, later-stage start-ups, and those companies that are aligned with US policies that support AI, crypto, fintech, cybersecurity, robotics, drones, and space technology. Roughly 75% of 2025 IPOs occurred in these policy-aligned sectors. The anticipated IPOs of SpaceX, Open AI, and Anthropic in 2026 could improve sentiment depending upon how they trade post-listing relative to recent private market valuations.

Private Debt

Private debt markets faced heightened scrutiny at the start of the year, carrying forward negative sentiment from late 2025. “SaaSpocalypse” concerns that emerged in public equity markets spread into private equity and, in turn, private debt direct lending, reflecting the segment’s concentrated exposure to PE sponsor-backed software companies. It remains to be seen whether artificial intelligence will materially disrupt the software industry by rendering existing software companies obsolete. That said, we acknowledge the risks associated with software concentration, particularly for loans originated between 2020 and early 2022, when valuations were elevated amid abundant liquidity. In combination, heightened uncertainty, potential AI-related disruption, elevated valuations at time of underwriting, and a looming 2028 maturity wall[7] increase refinancing risk for software loans. These risks are surfacing in the leveraged loan market, with the weighted average bid price of performing software loans in the Morningstar LSTA US Leveraged Loan Index at approximately $88 versus $96 for non-software loans as of March 31, 2026.

Against this backdrop, redemptions in semi liquid evergreen private debt funds reached record levels during 1Q 2026, with requests exceeding 5% at many funds, resulting in pro rata rather than full investor redemptions. As private market investments continue to democratize, the current environment represents a meaningful test of the evergreen fund structure. Dispersion is expected, with managers demonstrating strong liquidity management, prudent underwriting, and disciplined portfolio construction better positioned to withstand the liquidity squeeze.

Turning to loan pricing, spreads may be approaching a floor, as base rates may not decline as quickly or as much as initially expected amid elevated uncertainty at the start of the year. Combined with the sentiment overhang, credit standards are likely to tighten alongside pricing, even with increased competition between the broadly syndicated loan market and private debt lenders. According to the Cliffwater Direct Lending Index, sponsor backed first lien direct lending spreads averaged 501 basis points in 2025 and have inched higher year-to-date. As for credit health, as of 4Q 2025, payment-in-kind (PIK) levels held steady at 7.3%, implied recovery rates increased 4.2% from the prior quarter to 53%, and non-accruals were largely unchanged quarter over quarter.[8]

Taken together, credit health in private debt direct lending markets remain below historical dislocations, spreads are approaching a floor, and credit standards are firming up. While the current liquidity squeeze warrants close monitoring, we do not view these dynamics as a catalyst for a broad-based credit dislocation. Diversification within private debt allocations remains important. We continue to favor managers with proven and disciplined underwriting, structuring, and portfolio construction capabilities, as well as exposure to less trafficked segments of the private debt market, such as specialty finance and non-sponsored direct lending.

---

[7] Bloomberg: Private Markets’ Software Pain Is About to Get a Lot Worse

[8] Cliffwater Direct Lending Index

Private Infrastructure

Infrastructure assets typically provide essential services, benefit from high barriers to entry, and often operate under regulated frameworks with inflation linked revenues – offering stability across economic cycles. As such, the asset class remains well-positioned for secular growth, supported by demographics, decarbonization, urbanization, digitalization, and fiscal policy. Global infrastructure needs are projected at over $100 trillion by 2040, with $23 trillion required for energy transition alone, although achieving these targets may be challenging given current investment shortfalls and recent US policy shifts toward hydrocarbons. Data centers remain a prominent theme, although the influx of capital into the space has caused entry multiples to expand making them less attractive at the margin, while infrastructure assets adjacent to the data center buildout remains an area of opportunity.

Infrastructure fundraising grew steadily from 2008 because of the low-interest-rate environment following the global financial crisis (GFC). Fundraising peaked in 2022 from when rates were zero following COVID-19 (there is a greater lag in infrastructure fundraising compared with other private market assets) and is largely an outlier. As the Federal Reserve began its tightening cycle in 2022, fundraising bottomed out in 2024.

Fundraising for 2025 as of 3Q25 has already surpassed levels seen in 2024. If fundraising continues at its current pace, fund commitments would reach $154 billion, exceeding its five-year and 10-year averages. The capital raised so far has largely been among funds $1 billion or larger in core, core plus, and value-added strategies, with less emphasis on only traditional core strategies. This shift has created less competition in the middle market infrastructure space where assets can be purchased at lower multiples and possess the ability to drive greater efficiencies and grow EBITDA compared with the large and mega cap infrastructure markets. Allocators remain attracted to the infrastructure space given the risk-return profile, stability of the asset class, and relative value compared with other private market assets.

DEFINITIONS

Internal Rate of Return (IRR)
The annualized rate of return at which the net present value of all cash flows (inflows and outflows) from an investment equals zero, reflecting the time value of money.

Multiple on Invested Capital (MOIC)
A ratio showing how much money has been made or is expected to be made on an investment relative to the amount invested. Calculated as the total value divided by invested capital.

Return on Invested Capital (ROIC)
Measures how efficiently a fund uses its invested capital to generate profits, calculated by dividing aggregate net operating profit after tax by total invested capital.

Total Value to Paid-In Capital (TVPI)
A metric that shows a fund's aggregate returns as a multiple of its cost basis. Calculated as cumulative distributions plus residual value divided by paid-in-capital.

DISCLAIMER

*Investment advisory services provided by IMA Advisory Services, Inc. (CRD#112091), a federally registered investment adviser, doing business as **Syntrinsic**. Registration as an investment adviser does not imply a certain level of skill or training. For additional information about our business, please review our Form ADV by visiting: https://adviserinfo.sec.gov and search for our firm name. Additional disclosures regarding **Syntrinsic's** business can be found by visiting: Disclosure | Syntrinsic Neither the information nor any opinion expressed herein is to be construed as solicitation to buy or sell a security or as personalized investment, tax, or legal advice.*