Special Report

US Capital Markets Newsletter – 1Q26

March 2026

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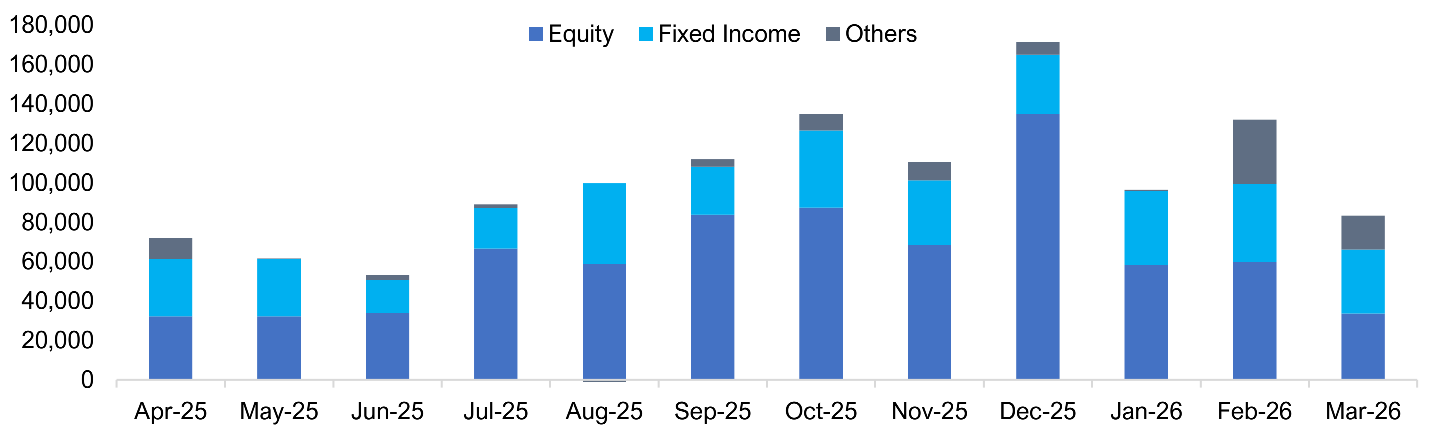
US Equity Market Analysis (1/6)

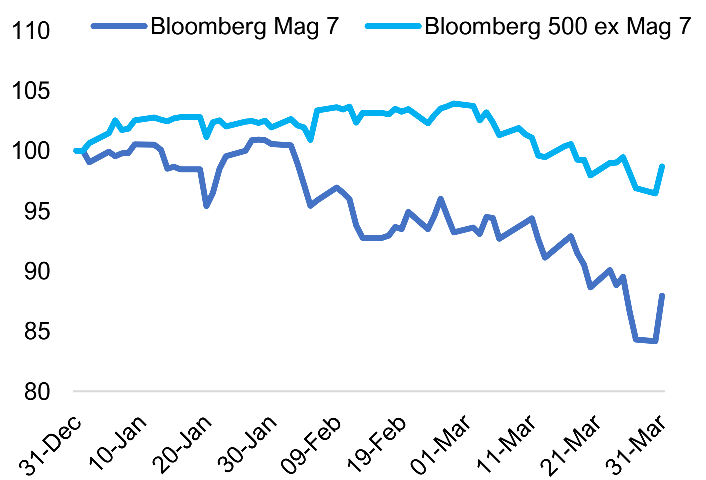
US fund flows soften; equity leadership narrows amid selective risk appetite

US Fund Flows (USD mn)

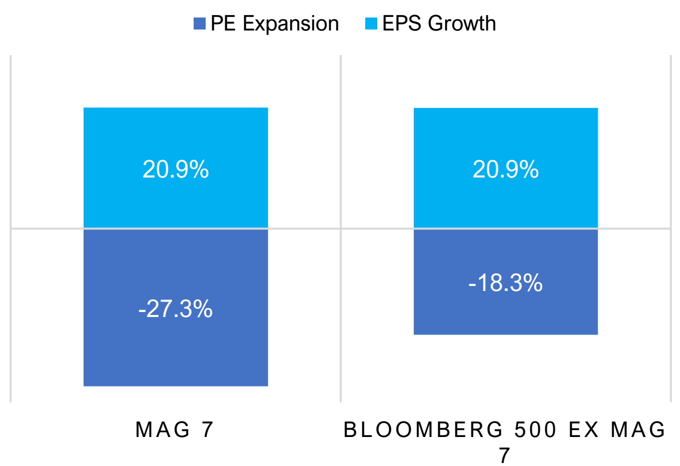


- In 1Q26, fund flows into the US capital markets declined 25% QoQ to US$ 83 billion, reflecting a cautious start. Equity inflows fell 48% QoQ as Middle East tensions drove oil prices higher, raised inflation concerns, and increased volatility, while fixed income flows rose 7% QoQ on stable yields.

Mag 7 vs. Rest of US Large Cap



Total Return Breakup Analysis



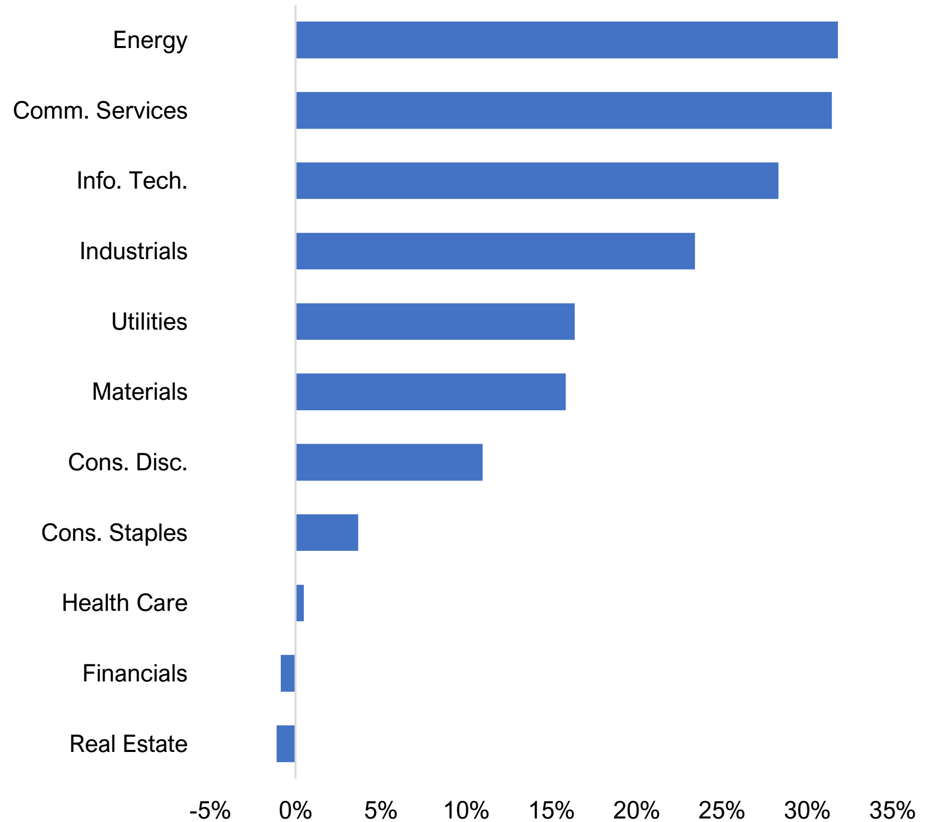
- The Mag 7 significantly underperformed US large caps over the period, both indices delivered near-identical EPS growth but diverged sharply on valuation: a 27.3% PE compression versus 18.3% for the broader index left the Mag 7 as a clear underperformer, despite robust earnings.

Source: *Bloomberg, Aranca Research. Bloomberg Mag 7 Index NR and Bloomberg Large Cap Ex. Mag 7 Index NR*

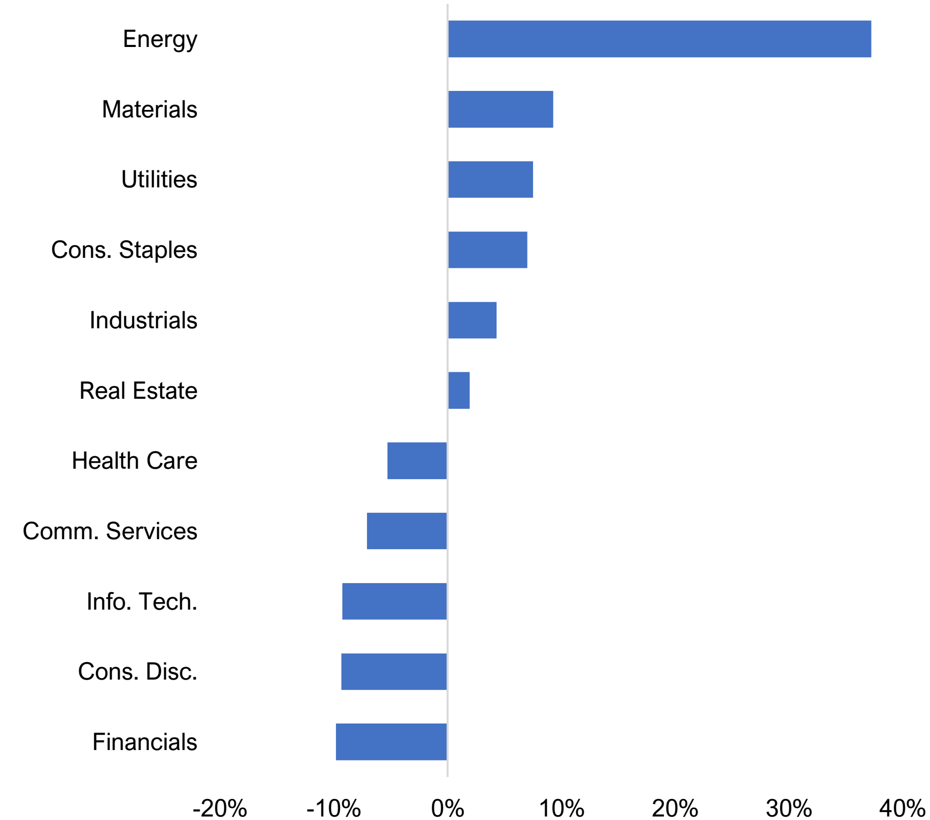
US Equity Market Analysis (2/6)

US Equity Returns Diverge: Energy Outperforms While Financials drag

US 1-Year (LTM) Sectoral Returns



US 1Q26 Sectoral Returns



US equities showed strong returns over the past year, led by energy (32%), communication services (31%), and information technology (28%), while health care (0%), financials (-1%), and real estate lagged (-1%). In 1Q26, sector performance was mixed, with energy (37%) outperforming others,, followed by gains in materials (9%) and utilities (8%), while sectors, including financials (-10%), consumer discretionary (-9%), and information technologies (-9%), declined, indicating a broader loss of momentum.

Source: *Bloomberg. S&P 500 Sector indices are used for sectoral returns*

US Equity Market Analysis (3/6)

Dual momentum indicator registers positive signals on utilities and information technology

S&P 500 3-month Dual Momentum Analysis (Earnings and Price Momentum)

Our 3-Month "Dual Momentum" analysis of S&P 500 companies had interesting insights:

- **Earnings vs. Price Divergence:** In 1Q26, median earnings momentum across S&P 500 sectors remained modest, with only selective sectors showing meaningful upgrades. However, price momentum remained uneven and dispersed, indicating that recent market performance continues to be driven by stock-level momentum rather than broad-based earnings acceleration.

- **Top-Quartile Companies:** Among the top 25% of S&P 500 stocks ranked by dual momentum, median 3-month price momentum was around 5.4%, while median earnings momentum was 3.6%, underscoring a continued reliance on price re-rating rather than broad-based earnings upgrades.

- **High-Momentum Sectors:** Communication Services, identified as one of the stronger earnings momentum sectors in our prior periods analysis, reflected relatively better alignment between earnings revisions and market performance compared with the broader market.

- **Sectors Performance:** Information Technology and Utilities exhibit stronger earnings momentum but lag in price performance, indicating potential catch-up opportunities. Communication Services shows strength in earnings and price momentum, while Materials remains weak on earnings, with only modest price support. Most other sectors remain mid-pack, with balanced but moderate momentum and no clear directional signal.

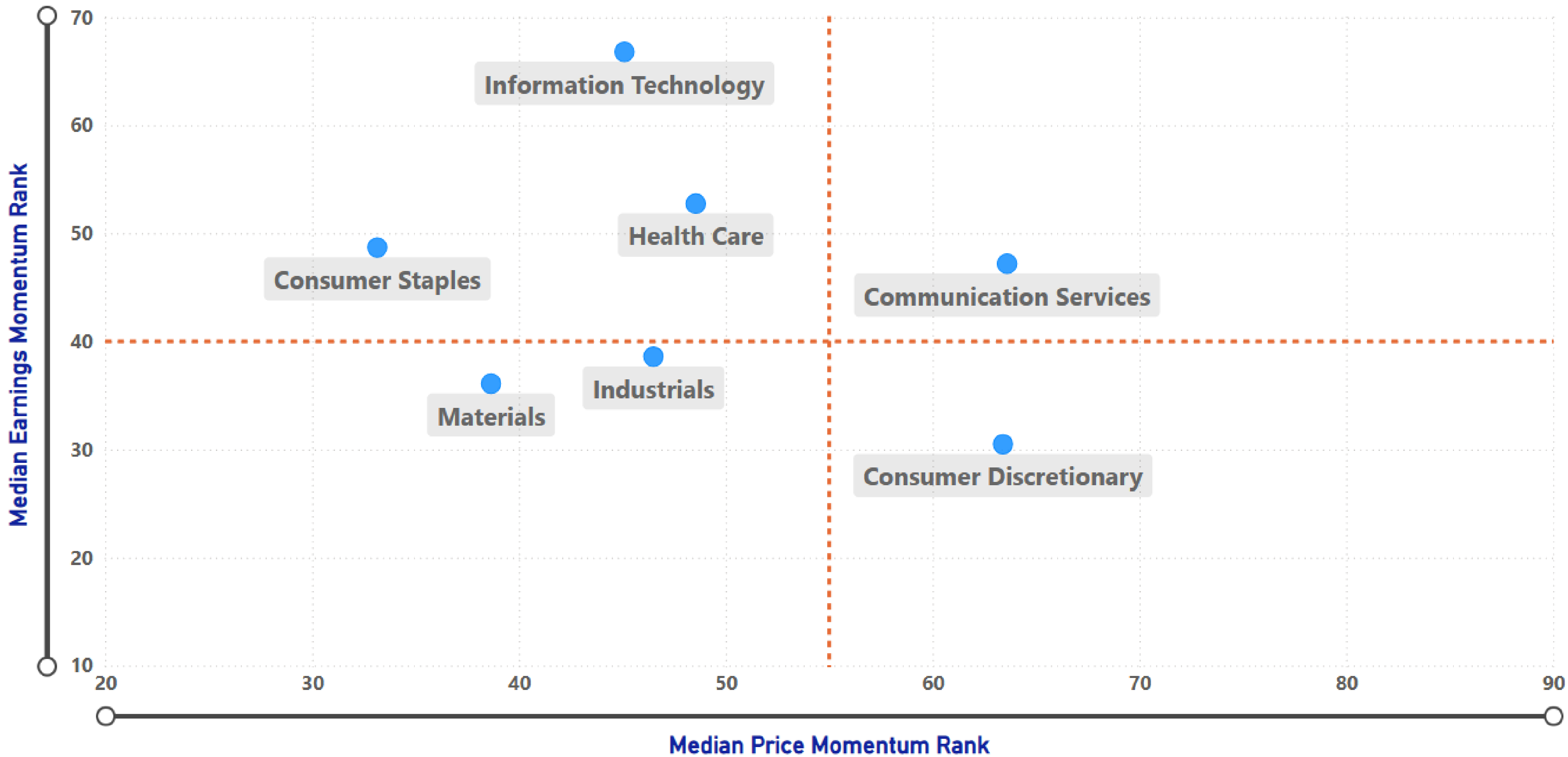
- **Stock-Level Opportunities:** Screening for high earnings momentum and attractive upside highlights a more cyclical tilt in 1Q26, with names such as CF Industries (CF), Marathon Petroleum (MPC), and General Motors (GM) emerging as well positioned for continued price momentum, supported by strong earnings revisions and improving sentiment..

Source: *Aranca Research*

US Equity Market Analysis (4/6)

IT leads on earnings momentum, while communication services and consumer discretionary show the strongest price momentum.

S&P 500 - Sector Median Price and Earnings Momentum Rank



Notes: *Earnings Momentum is median of 3-months change in the consensus EPS estimate of companies in each sector. Price Momentum is median of 3-months change in price return of companies in each sector. ** Excluding Financials and Real Estate*

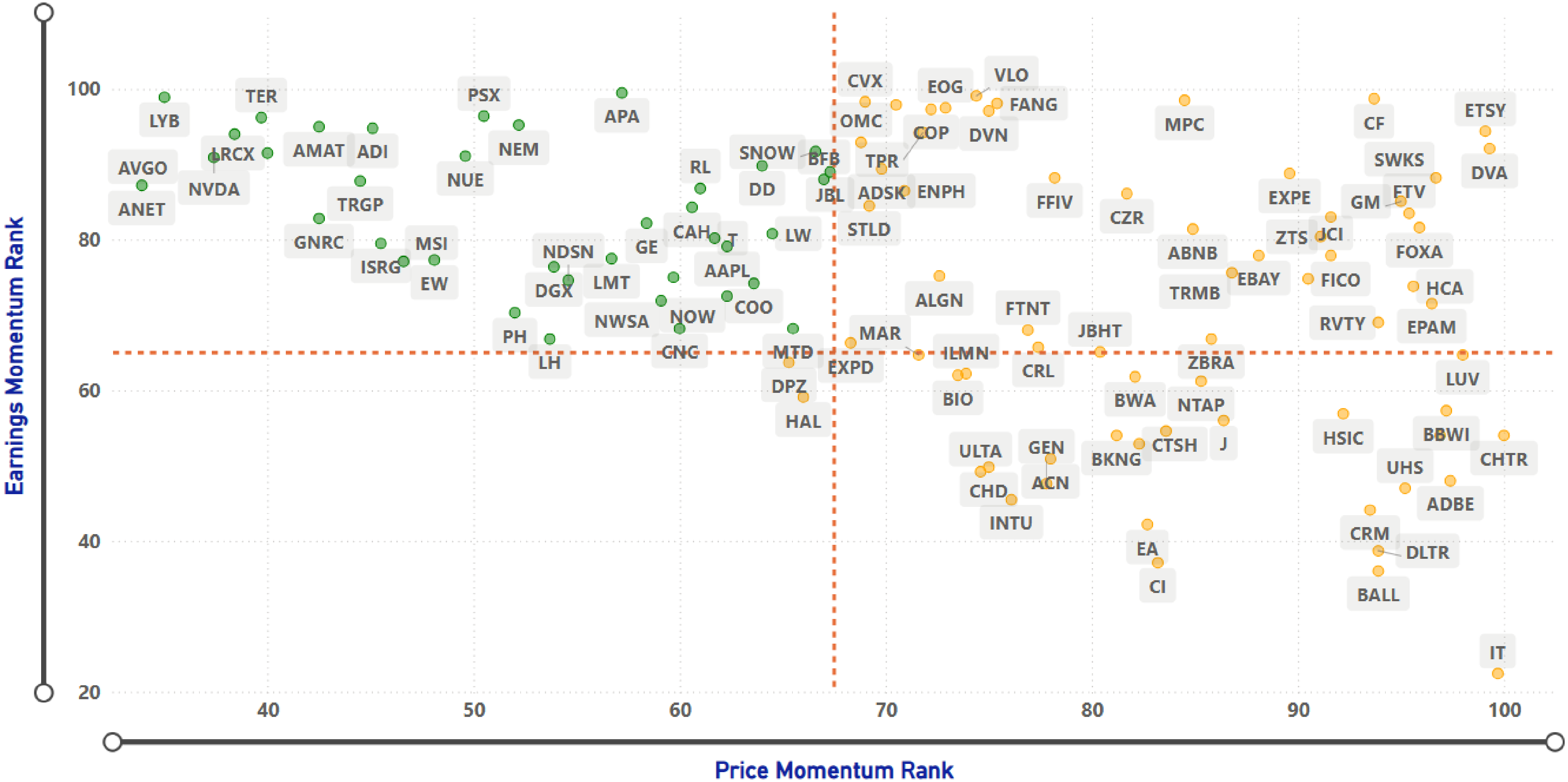
Source: Aranca Research

Energy and Utilities are not shown in the graph as their EM and PM Rank were out of range.

US Equity Market Analysis (5/6)

Broadcom (AVGO) and Arista Networks (ANET) see strong EPS upgrades, but price momentum remains muted.

Top Quartile S&P 500 Companies Ranked by Dual Score Momentum



Notes: *Earnings Momentum is 3-months change in the consensus EPS estimate. Price Momentum is 3-months change in price returns. ** Excluding Financials and Real Estate*

Source: Aranca Research

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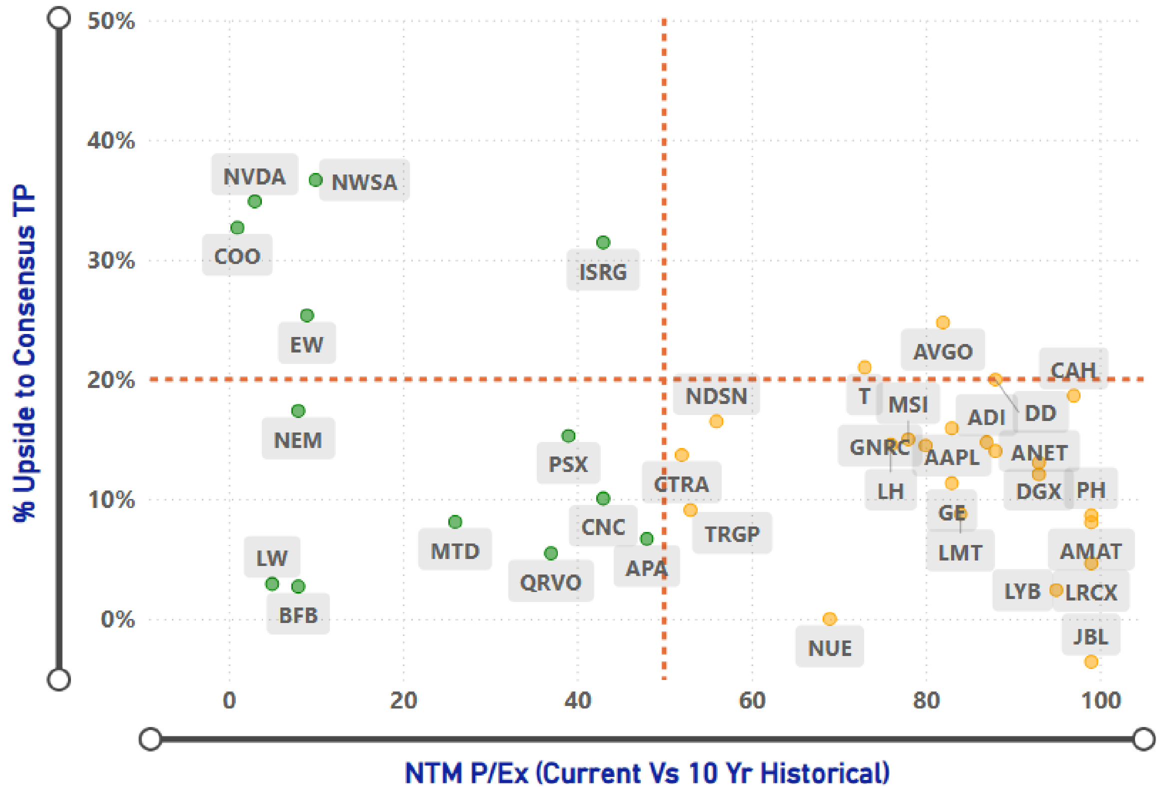
US Equity Market Analysis (6/6)

ISRG & NWSA stand out; strong consensus upside paired with valuations still below historical averages

Top Quartile S&P 500 Companies by Low Price Momentum and High Earnings Momentum Rank - Valuation Vs Consensus Potential Upside



Top Companies by % upside to Cons. TP and relatively low valuation

Ticker	First Sector	% Ups. to Cons. TP	1Yr Fwd PEx
NOW	Information Technology	99%	21.10
SNOW	Information Technology	73%	75.70
NWSA	Communication Services	37%	22.00
NVDA	Information Technology	35%	23.70
COO	Health Care	33%	15.30
ISRG	Health Care	31%	46.70
EW	Health Care	25%	26.40
AVGO	Information Technology	25%	28.30
T	Communication Services	21%	11.10
DD	Materials	20%	20.30
CAH	Health Care	19%	19.80
NEM	Materials	17%	12.80
NDSN	Industrials	16%	24.20
AAPL	Information Technology	16%	30.20
PSX	Energy	15%	11.60
MSI	Information Technology	15%	26.20
ADI	Information Technology	15%	29.10
LH	Health Care	15%	15.20
GNRC	Industrials	14%	24.90
ANET	Information Technology	14%	43.70
CTRA	Energy	14%	11.30
DGX	Health Care	13%	18.30
RL	Consumer Discretionary	12%	21.20
GE	Industrials	11%	42.60

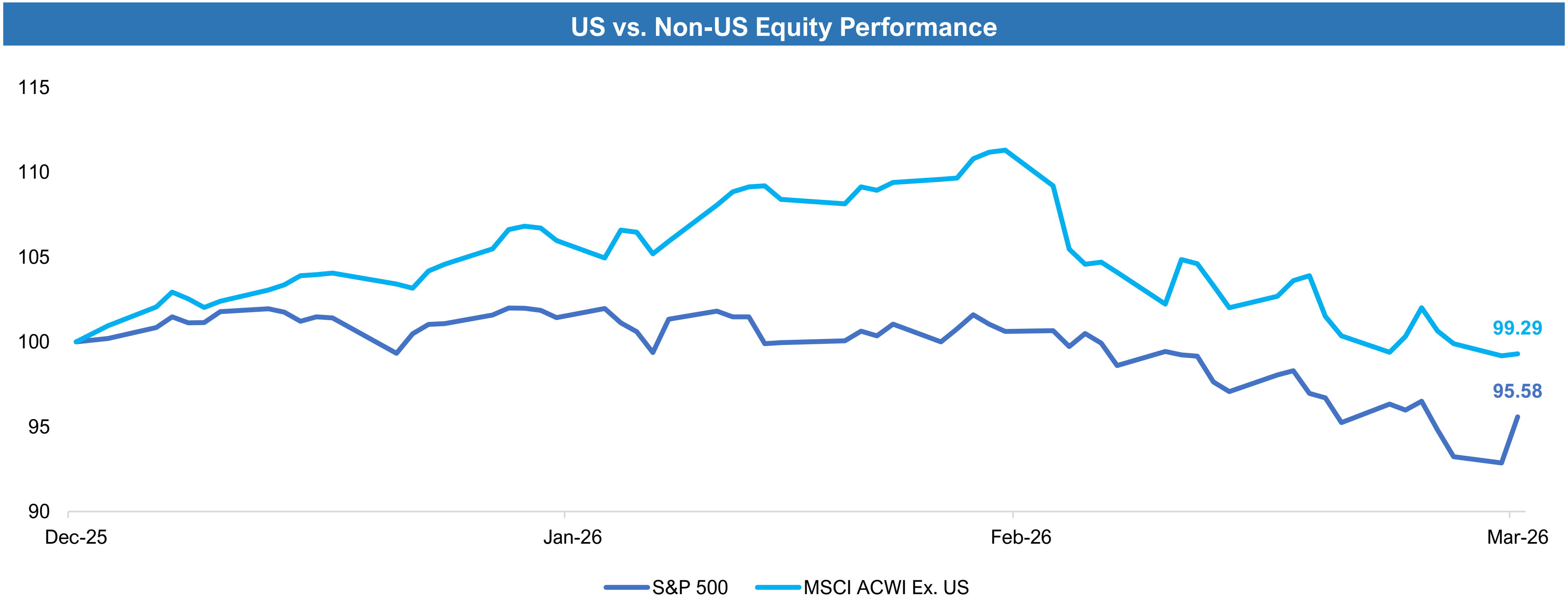
Notes: ***X Axis NTM P/Ex Rank (Current Vs 10 Yr Historical)*** *– Ranking of individual Stock NTM P/Ex Vs. its 10 year historical average. For e.g. a rank of 90th percentile Vs 10 year history indicate that in last 10 years only 10% of the times the stock has traded above the current NTM PEx. This also means the valuation is elevated vs historical average*

Y Axis % upside to Consensus TP *– (CMP/Consensus TP -1) ** Excluding Financials and Real Estate*

Source: Aranca Research

US vs. Non-US Equities (1/2)

Non-US Outperform US Equities



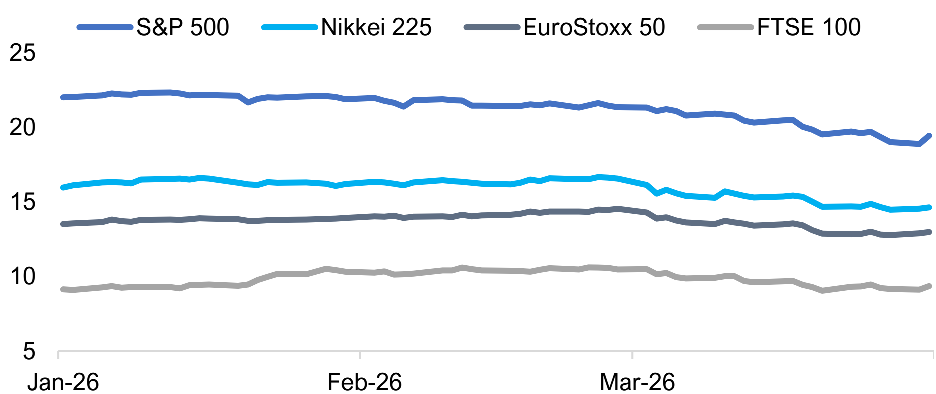
- During the quarter, non-US equities outperformed the US equites, led by stronger cyclicals and commodities, while US markets lagged due to weakness in tech and valuation pressures.
- US equity markets weakened amid rising geopolitical tensions and a surge in oil prices, which reignited inflation concerns and led to expectations of interest rates remaining elevated for longer.
- A broader shift in market leadership toward cyclicals, commodities, and value segments, where non-US markets have higher exposure, further supported relative outperformance.

Source: *Bloomberg*

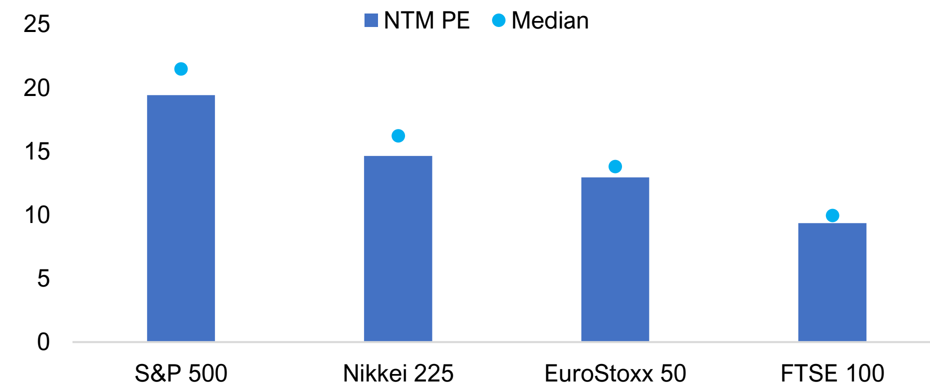
US vs. Non-US Equities (2/2)

US valuations moderated but remain elevated relative to global peers

NTM PE of Key Geographies



NTM PE Comparison with Median



- Equity valuations moderated across markets, with P/E multiples at ~19x for the S&P 500, ~15x for the Nikkei 225, ~13x for the Euro Stoxx 50, and ~9x for the FTSE 100.
- The Nikkei 225 recorded the sharpest valuation compression versus the previous quarter.
- The overall decline across markets was concentrated in the latter half of the quarter, amid escalating geopolitical tensions and a sharp rise in commodity prices.

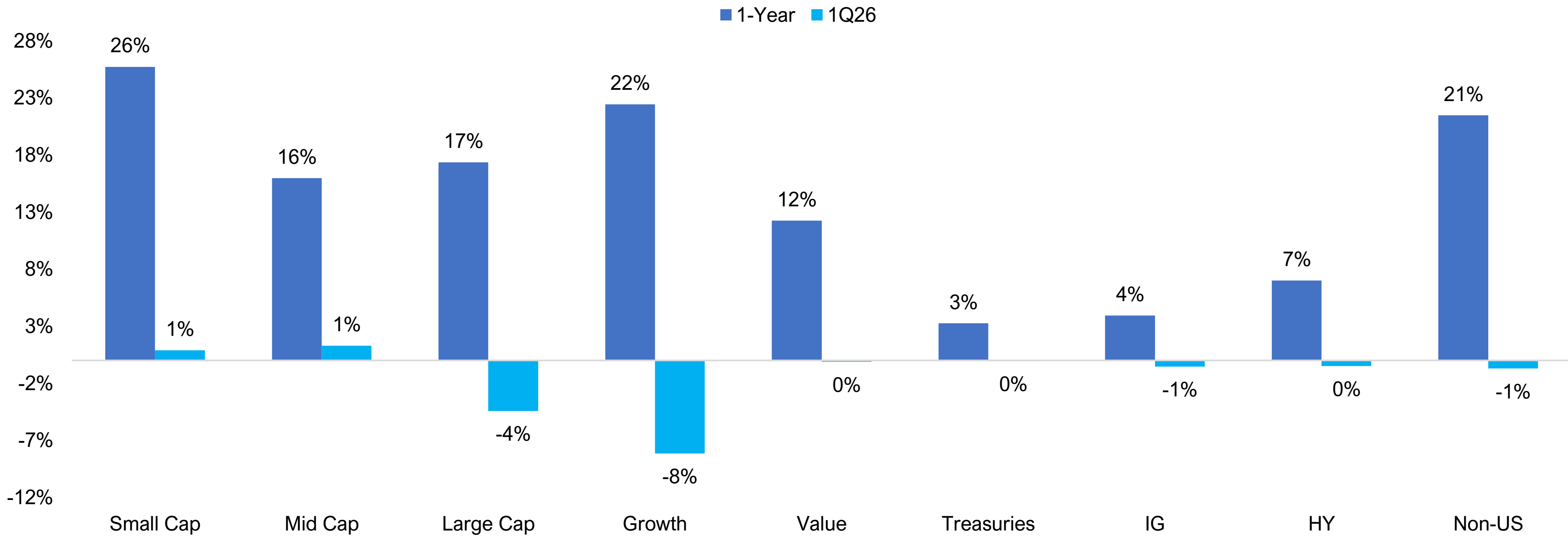
- Valuations across major markets declined and are now trading below median levels.
- The Nikkei 225 saw the sharpest QoQ NTM P/E compression, driven by late-quarter risk-off sentiment and post-rally normalization.
- The S&P 500 also experienced multiple compression, primarily due to weak earnings upgrades and some moderation in valuation premiums.

Source: *Bloomberg. Median: 1Q26 Median*

Asset Class Performance (1/2)

Equity weakness broad-based; non-US resilience stands out amid stable fixed income

Asset Class Performance - 1Q26 and 1-Year (LTM)



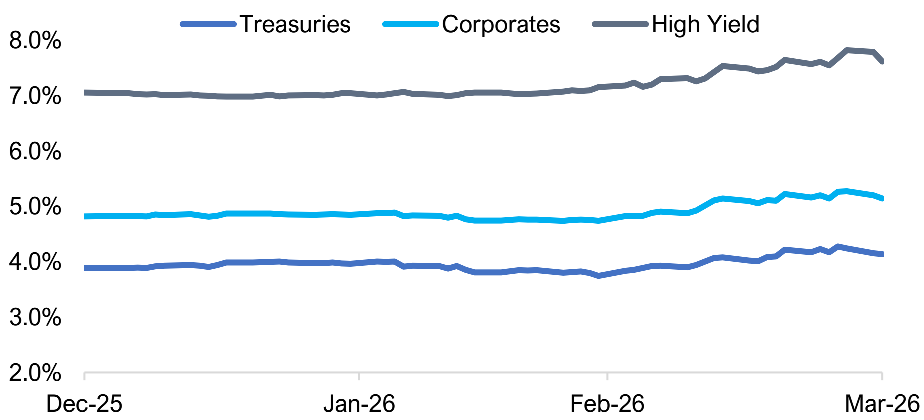
- On a one-year basis, market performance remained broadly positive, led by strong equity performance across styles and market caps, while fixed income generated modest positive returns. By contrast, quarterly performance was softer, with small- and mid-caps posting marginal gains, while large-cap and growth segments declined. Fixed income remained largely flat to slightly negative.
- Over the one-year period, non-US equities were supported by a weaker US dollar and stronger performance in value-oriented sectors, while in 1Q26, returns were muted, as rising oil prices and higher global yields weighed on key energy-importing regions.

Source: *Bloomberg, Aranca Research. Small Cap: Russell 2000 NR; Mid Cap: Russell Mid Cap NR; Large Cap: S&P 500 NR; Growth: S&P 500 Growth NR; Value: S&P 500 Value NR; Treasuries, IG and HY: Bloomberg US Aggregate Indices for Treasuries, Corporate and High Yield, TR Value Unhedged USD, MSCI reports.*

Asset Class Performance (2/2)

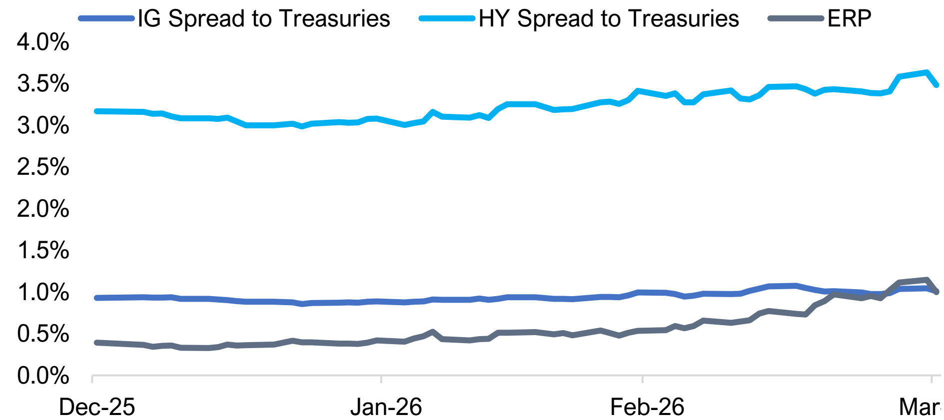
Range-Bound Yields and Contained Credit Risk

Yield Analysis



- Yields remained broadly range-bound, with US Treasuries at 4.1%, investment-grade corporates around 5.1%, and high-yield close to 7.6%.
- Early in the quarter, easing inflation expectations and growth concerns pulled the 10-year Treasury yield briefly below 4%.
- A sharp reversal followed, as rising oil prices and escalating geopolitical tensions pushed yields back toward recent highs.
- With rate cuts largely priced out and the Federal Reserve expected to remain on hold, yields stayed range-bound within a modestly higher band.

Spread Analysis



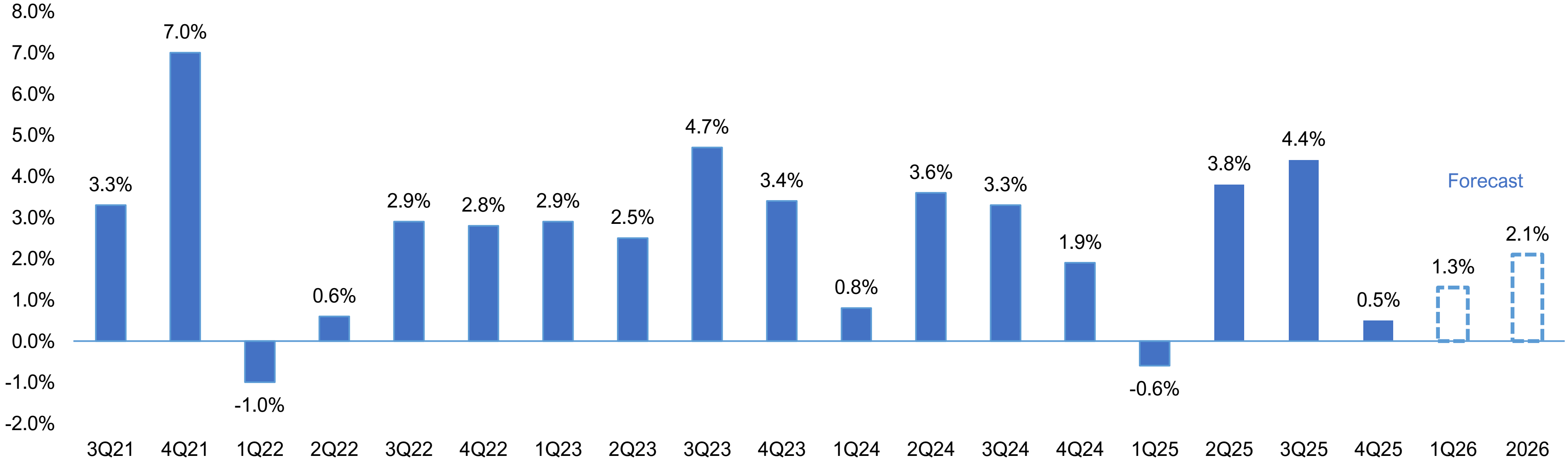
- Credit spreads remained largely stable over the quarter, with investment grade spreads around 1% and high yield spreads near 3.5%.
- Spreads drifted modestly wider, but the move was orderly.
- The equity risk premium remained compressed, indicating relatively stretched equity valuations compared with bonds.

Source: *Bloomberg, Aranca Research. Small-cap: Russell 2000 NR; Mid-cap: Russell Mid Cap NR; Large-cap: S&P 500 NR; Growth: S&P 500 Growth NR; Value: S&P 500 Value NR; Treasuries, IG and HY: Bloomberg US Aggregate Indices for Treasuries, Corporate and High Yield, TR Value Unhedged USD.*

US Macroeconomic Performance (1/6)

US GDP growth slowed; momentum weakened across key drivers

US Real GDP Growth



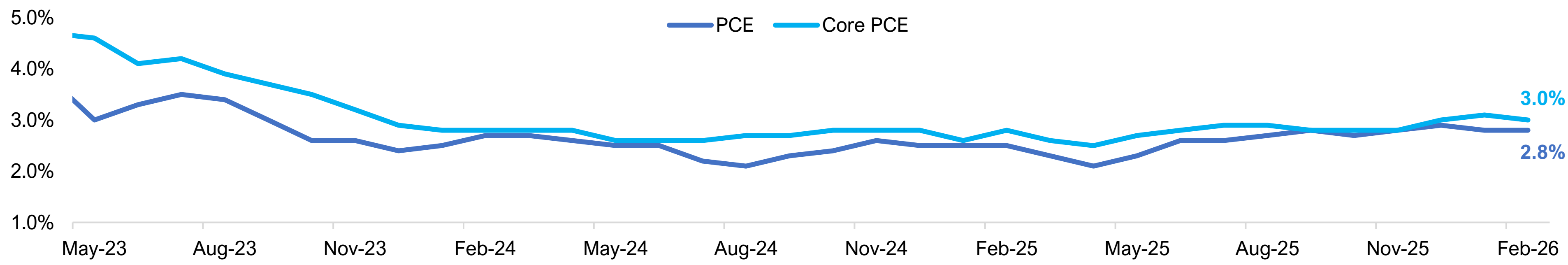
- In 4Q25, US GDP growth slowed to 0.5% after a strong 4.4% in 3Q25, marking a sharp reversal. For the whole year, GDP growth stood at 2.1%.
- The slowdown was driven by broad-based weakness across consumption, investment, trade and government spending, with the largest drag coming from a sharp contraction in public expenditure alongside softer capital formation.

Source: *Bloomberg, *1Q26 data as per Atlanta Fed latest release*

US Macroeconomic Performance (2/6)

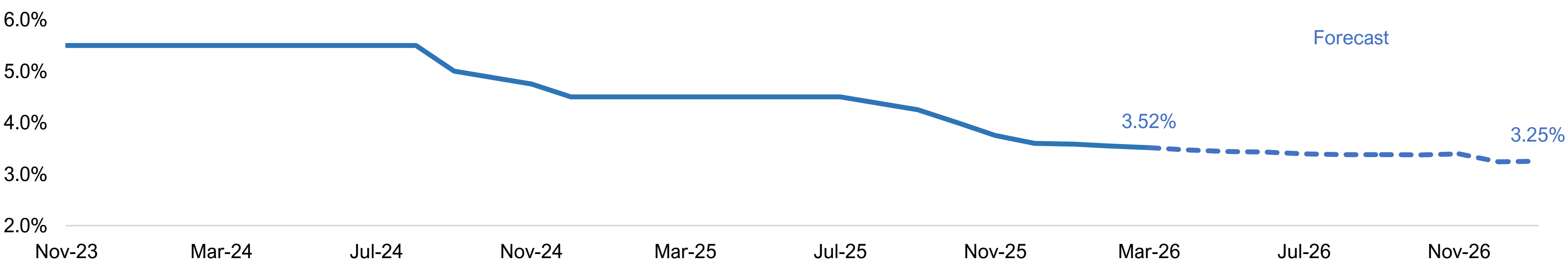
Inflation stabilizes but remains sticky; Fed keeps policy restrictive

US Inflation



- US inflation declined in the first two months of 2026 and broadly stabilized around the 2.5% to 3.0% range. Headline PCE remains slightly below core PCE, indicating that underlying price pressures remain persistent.

Fed Policy Rate (Upper Bound)



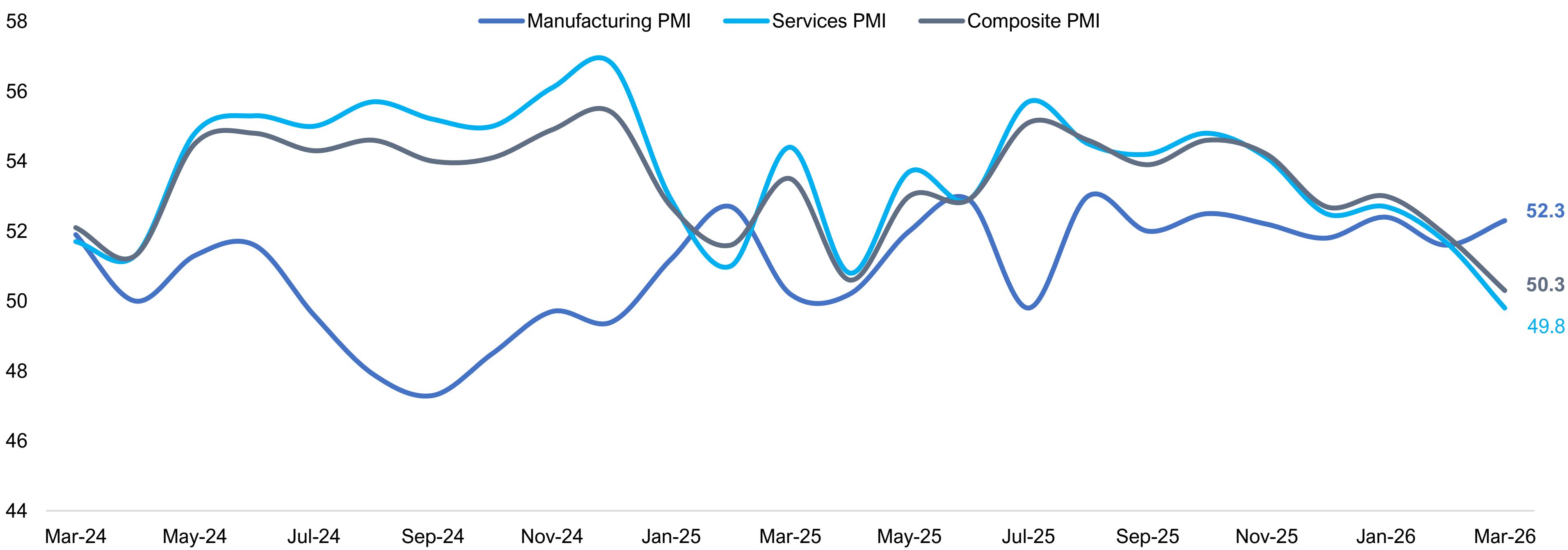
- The Fed kept rates unchanged at 3.5% citing solid economic activity and still-elevated inflation, while maintaining a data-dependent stance amid heightened uncertainty and balanced risks to its dual mandate.

Source: *Bloomberg*

US Macroeconomic Performance (3/6)

PMIs signal uneven momentum; services weaken while manufacturing remains resilient

US PMI



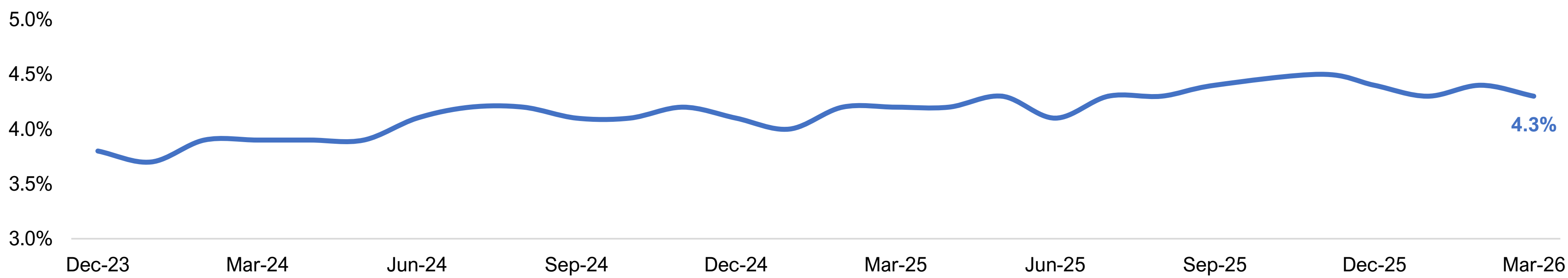
- 1Q26 showed a gradual loss of momentum, with manufacturing staying in expansionary territory and improving modestly, while services steadily weakened from early-quarter strength and slipped into contraction in March. Composite PMI also showed decline and stood near-stagnation by quarter-end.
- Services weakened on softer demand and rising cost pressures, while manufacturing remained resilient on domestic demand and inventory stocking despite supply and trade disruptions.

Source: *Bloomberg*

US Macroeconomic Performance (4/6)

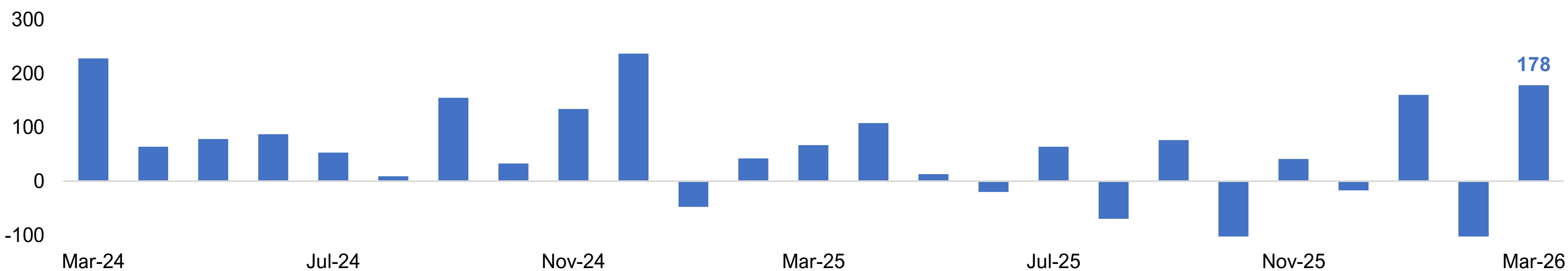
Labor market softens despite job gains; unemployment stability masks underlying weakness

US Unemployment



- US unemployment edged down to 4.3% from 4.4% in December end, although underlying labor market conditions remained soft.
- The decline was largely driven by a reduction in labor force participation, which fell from 62.1% in January 2026 to 61.9% in March 2026, rather than a meaningful improvement in employment.

US Non-Farm Payrolls (in ‘000s)



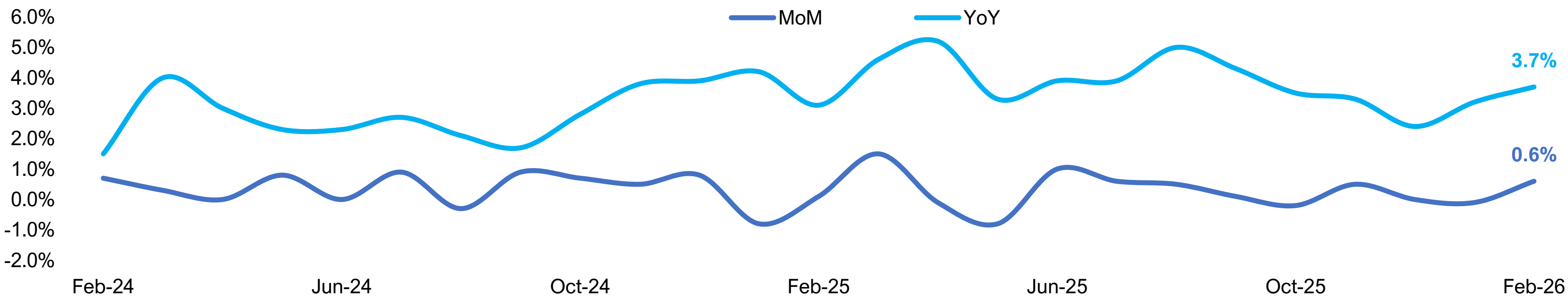
- The US economy added 178,000 jobs in March 2026, reflecting a rebound from prior weakness, with hiring supported by recoveries in key industries and continued strength in domestic activity.

Source: *Bloomberg*

US Macroeconomic Performance (5/6)

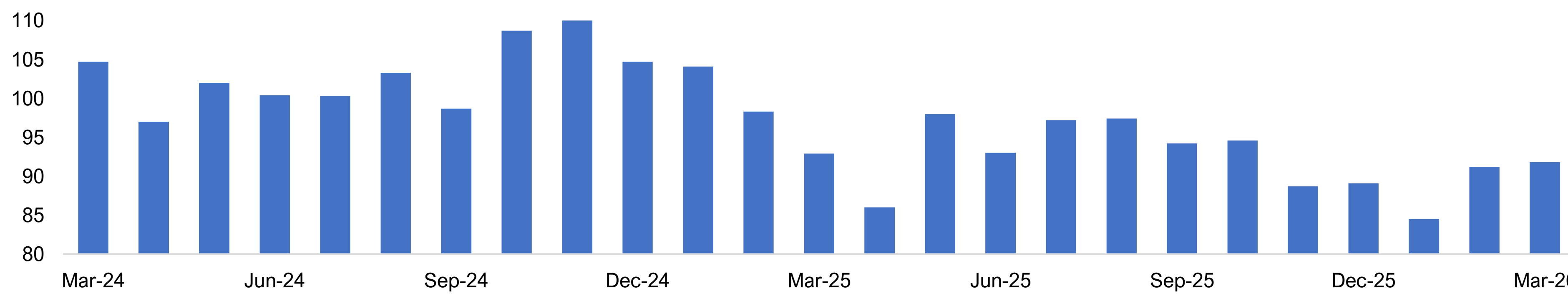
Retail growth remains steady; consumer confidence softens

US Retail Sales Growth



- US retail sales remained resilient, with YoY growth holding in the 3-5% range despite a choppy MoM trend.

US Conference Board Consumer Confidence



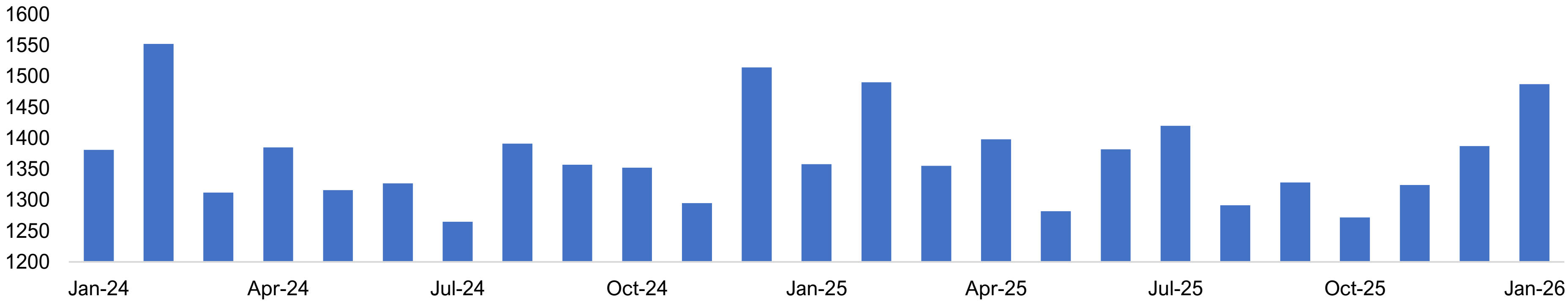
- Consumer confidence improved from 84.5 in January to 91.8 in March but stayed below earlier peaks, pointing to cautious spending behavior.
- Weaker consumer confidence pointed to necessity-driven spending amid inflation and geopolitical uncertainty.

Source: *Bloomberg*

US Macroeconomic Performance (6/6)

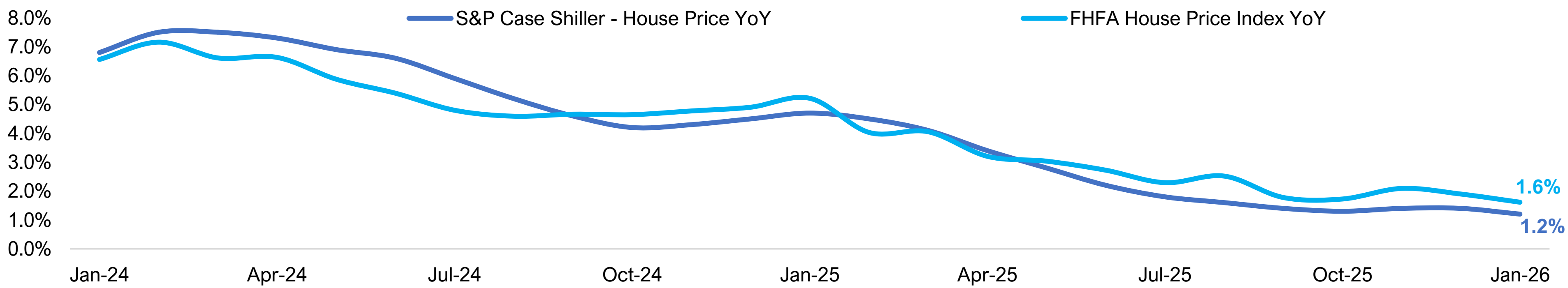
Housing activity modestly improves; price growth continues to decelerate

US Housing Starts (in '000s)



- US housing starts showed a modest recovery, rising to 1,487,000 in Jan 2026 after a softer trend through late 2025. Overall momentum remained upwards, with activity constrained by affordability pressures and cautious builder sentiment.

US House Prices YoY Change



- US house price growth continued to decelerate in 4Q25, as affordability pressures reduced buyer demand.
- Recent rate cuts provided limited support, with borrowing costs remaining relatively high.

***Source:** Bloomberg, LSEG Workspace*

US-Israel-Iran Conflict Timeline and Market Impact

Geopolitical shock drives oil spike, elevating inflation risks and market volatility

28th Feb: US and Israeli strikes triggered retaliatory actions by Iran, marking the start of the conflict.

5th March: Significant disruptions to global shipping caused from blockade of the Strait of Hormuz pushed oil prices to $85/bbl.

31st March: Oil Reaches peak $118/bbl.

7th April: A two week pause to de-escalate tensions and work towards a negotiated resolution.

9th April: Oil prices show signs of recovery closing near $95/bbl.

- The war disrupted flows through the Strait of Hormuz, which carries nearly 20 mb/d of oil, or around 20% of global supply.
- This pushed crude oil price upwards from ~$70/bbl pre-war to a peak of $118/bbl, which increased inflation risks, delayed Fed rate cuts, and raised equity market volatility.
- Despite heightened geopolitical risks, gold price declined, as persistent inflation, elevated oil prices, and a stronger US dollar reduced its safe-haven appeal, highlighting a shift in investor preference towards yield and currency strength over traditional hedges.

- The macro backdrop is increasingly skewing toward a stagflation regime, with softer growth and persistent inflation likely to keep the Fed on an extended pause on interest rate for 2026, even as broader consensus expectations lean modestly toward a dovish opinion.
- US GDP forecasts have been trimmed to around 1.3-2.3% range for 2026, pointing to a controlled slowdown. The International Monetary Fund warns that a prolonged conflict could push global growth towards 2%, nearing recession territory.
- March CPI inflation rose to 3.3% from 2.4% in the previous month, and the 2026 full-year consensus remains around 3% as oil prices are expected to stay in the $85-100/bbl range until flows through the Strait of Hormuz and the ceasefire backdrop stabilize.

Source: *Bloomberg*

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