

MARCH MARKET UPDATE

SIZING UP THE VOLATILITY
MARCH RESETS FIRST-
QUARTER EXPECTATIONS

As of
March 31st, 2026



American
National Bank
& Trust

Sizing Up the Volatility: March Resets First-Quarter Expectations

March marked a sharp repricing across both equity and fixed income markets as investors reassessed growth, inflation, and policy expectations. Broad U.S. equity indices posted meaningful declines during the month, with the S&P 500 down 5.03%, the Russell 1000 down 5.08%, the Dow Jones Industrial Average down 5.13%, and the Nasdaq lower by 5.02%.

Fixed income markets also came under pressure as Treasury yields moved higher. The U.S. Aggregate Bond Index declined 1.33% during the month, while U.S. municipal bonds declined 2.10%, reflecting a more challenging rate backdrop after the strong start to the year.

Investor sentiment remained steady but watchful. Historically, March has delivered a positive average return for equities, but this year's pullback underscored a market increasingly driven by incoming data, policy uncertainty, and a broader reassessment of first-quarter expectations.

The Big Picture

Policy Expectations Continue to Shift

Market participants continue to forecast lower policy rates over the next twelve months, though conviction around the path of easing remains limited. As of month end, consensus expectations implied only a modest reduction in the policy rate, reaching roughly 3.55% by March 2027.

March reflected a more restrained outlook on easing, after investors had priced in aggressive easing earlier in the year. The market's current view suggests that rates may remain somewhat higher than earlier expectations, highlighting the tension between a cooling inflation trend and a labor market that has not yet weakened enough to clearly justify a faster rate-cutting cycle.

The Federal Reserve's March meeting reinforced a wait-and-see posture. Policymakers continue to balance the progress made on inflation against the risk that easing too quickly could rekindle price pressures, particularly if growth remains resilient.

What the Economic Data is Telling Us

Inflation Continues to Moderate, but the Path Is Not Yet Settled

Inflation data improved further in the March release focusing on February data, with CPI ending at 2.41% year over year. That reading suggests continued progress from the elevated levels seen over the prior year and helps support the case that inflation pressures are gradually easing.

At the same time, the Federal Reserve continues to monitor Personal Consumption Expenditures closely, and recent PCE readings still suggest that inflation may prove somewhat sticky as data revisions and shifting growth conditions work through the economy. The direction is encouraging, but policymakers remain cautious about declaring victory too early. **(See Chart Book)**

Employment Remains Resilient, with Signs of Cooling Beneath the Surface

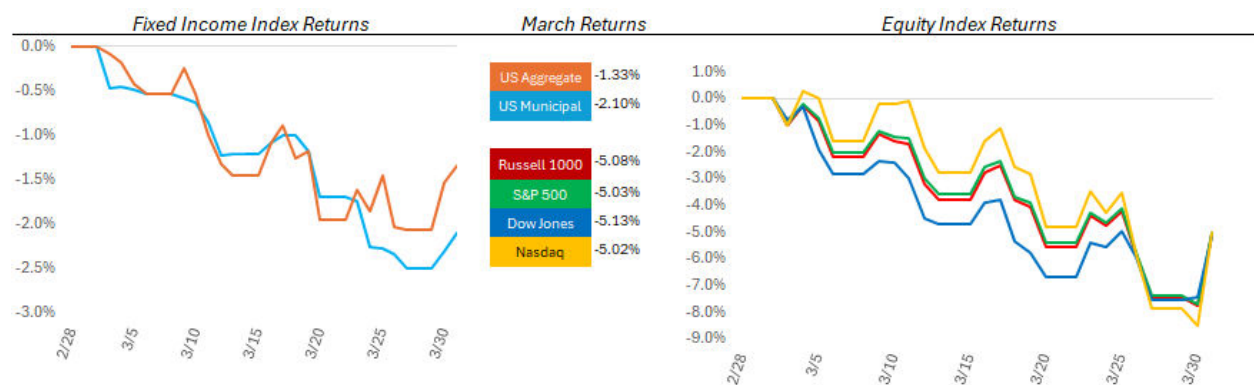
Nonfarm payrolls continued to trend in a moderate pattern through March, while the unemployment rate stood at 4.40%, up from 4.20% one year ago. This combination reinforces the complexity of the Federal Reserve’s dual mandate. Payroll stability points to ongoing economic resilience, yet the rise in unemployment suggests that some macroeconomic softness may be developing beneath the surface. **(See Chart Book)**

That balance helps explain the market’s cautious tone. Strong employment data can delay the urgency for rate cuts, but a gradual softening in labor conditions keeps investors alert to the possibility that growth could slow more meaningfully later in the year.

Investors Expect a Limited Easing Cycle

Following the March FOMC pause, market pricing continued to point toward only modest policy easing over the next year. That restrained view aligns with a market that is still searching for clearer evidence that inflation is fully under control and that labor conditions are weakening enough to warrant a more accommodative policy stance. **(See Chart Book)**

Market Performance in March



What Drove Markets in March

Stock market indexes were influenced by:

- A broad first-quarter reset in risk appetite as investors reassessed growth, policy, and valuation support
- Geopolitical and fiscal uncertainty that added to volatility and pressured sentiment
- A more selective earnings backdrop, even as March reporting broadly surprised to the upside
- Institutional rotation toward more durable and asset-heavy areas of the market

March earnings data still provided a constructive fundamental signal. Of the 79 companies reporting within the Russell 1000 during the month, 61% posted positive sales surprises and 76% exceeded earnings expectations. Overall sales and earnings surprises came in at 2.03% and 11.35%, respectively, suggesting that corporate fundamentals remained more resilient than headline market performance implied.

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Bond market indexes were influenced by:

- Higher Treasury yields across much of the curve, with the 10-year Treasury rising roughly 38 basis points to 4.32%
- Pressure on both taxable and tax-free bond prices as rates moved upward during the month
- A flatter Treasury curve and a steeper municipal curve as long-term yields adjusted higher
- Renewed opportunities to capture attractive yields after the repricing

Although March was a difficult month for total returns in fixed income, the backup in yields improved forward income potential. Periods like this can create opportunities to add high-quality bonds at more compelling entry points than were available earlier in the quarter.

What We Are Watching and How We Are Positioning

Key Themes Guiding Market Behavior:

- Inflation and PCE trends relative to Federal Reserve targets
- Labor market strength alongside a gradually rising unemployment rate
- The pace and magnitude of any eventual Fed easing
- Earnings durability as markets transition from momentum-driven returns to fundamentals-driven dispersion
- Relative value opportunities created by higher bond yields and renewed equity volatility

How We Continue to Allocate Across Portfolios

Our investment process continues to blend dynamic long-only equity with active fixed income strategies. Within equities, the Legacy portfolio balances growth and value on a discretionary basis, while the Dividend portfolio emphasizes lower volatility and higher current income. We also maintain factor-aware exposure through Momentum and Quality strategies, which seek to pair disciplined diversification with favorable market characteristics. Across portfolios, we remain focused on quality businesses, dependable cash flow, and durable competitive advantages rather than chasing narrow pockets of short-term momentum.

In fixed income, the recent rise in yields has improved the opportunity set. We continue to emphasize government and investment-grade credit for stability and dependable income, while also evaluating municipal bonds where tax-equivalent yields remain compelling for appropriate investors.

We Continue to Emphasize:

- **Quality U.S. equities** as the core of long-term appreciation, with a focus on AI infrastructure and power companies
- **Government and Investment-grade credit** for stability and dependable income
- **Strategic global allocations** to diversify macro and policy risk
- **Liquid alternatives**, including selective exposure to assets such as gold, to enhance portfolio responsiveness

How We Are Positioning Across the AI Stack:

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Rather than concentrating exposure in a narrow group of high-valuation companies, we seek diversified participation across multiple layers of the AI ecosystem.

We think about the AI opportunity in three primary layers:

Infrastructure and Compute

- This includes semiconductor designers, equipment manufacturers, data center operators, and networking providers that enable the computational backbone of AI systems. These businesses benefit from sustained capital investment cycles tied to AI buildout.

Platforms and Cloud Providers

- Large cloud and hyperscale providers are integrating AI tools directly into enterprise workflows. These companies are positioned to monetize AI through subscription pricing, productivity enhancements, and enterprise adoption.

Applications and Productivity Beneficiaries

- Beyond the infrastructure buildout, we see opportunities in companies leveraging AI to improve margins, automate processes, enhance customer targeting, and increase operational efficiency across industries.

In addition, we maintain selective exposure to power and energy infrastructure companies, as the electrical demand required to support AI data centers continues to grow at a rapid pace. Reliable energy generation and grid modernization are becoming increasingly important components of the AI expansion cycle.

Final Thoughts

The first quarter of 2026 closed with a more volatile tone than where it began. After a constructive start to the year, March brought a broad-based correction as markets recalibrated for higher rates, lingering inflation uncertainty, and a more complicated macro backdrop.

Even so, the underlying picture remains more balanced than the headline moves alone might suggest. Corporate earnings have generally held up, economic growth has remained resilient, and higher bond yields have improved the income opportunity available to fixed income investors. Our approach continues to balance growth opportunities with defensive positioning so portfolios remain aligned with long-term objectives while staying responsive to changing market conditions.

Thank you for your continued trust in American National Bank & Trust for your financial needs.

Chart Book

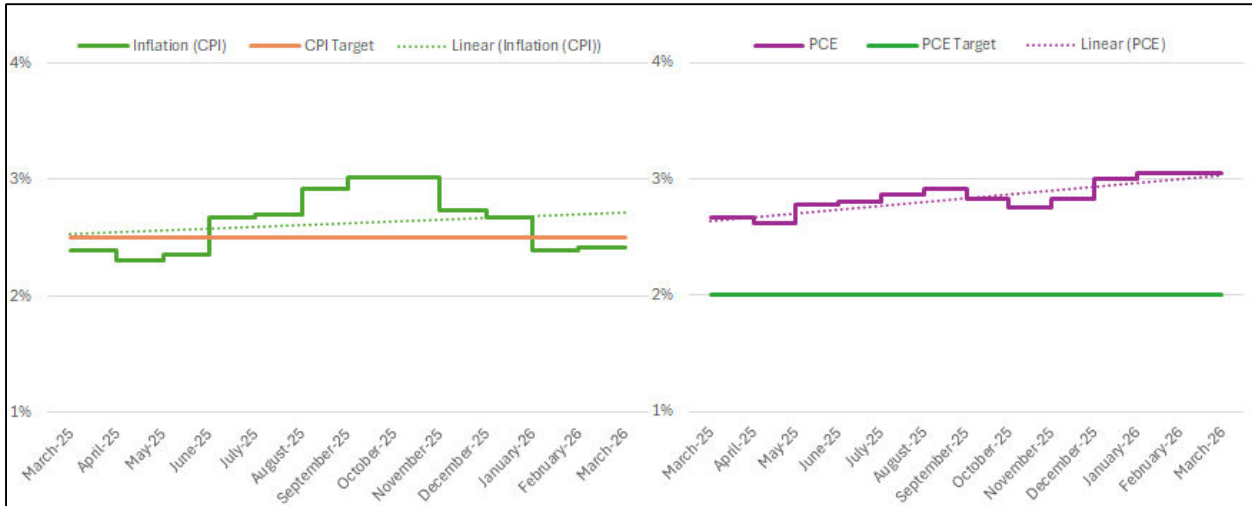
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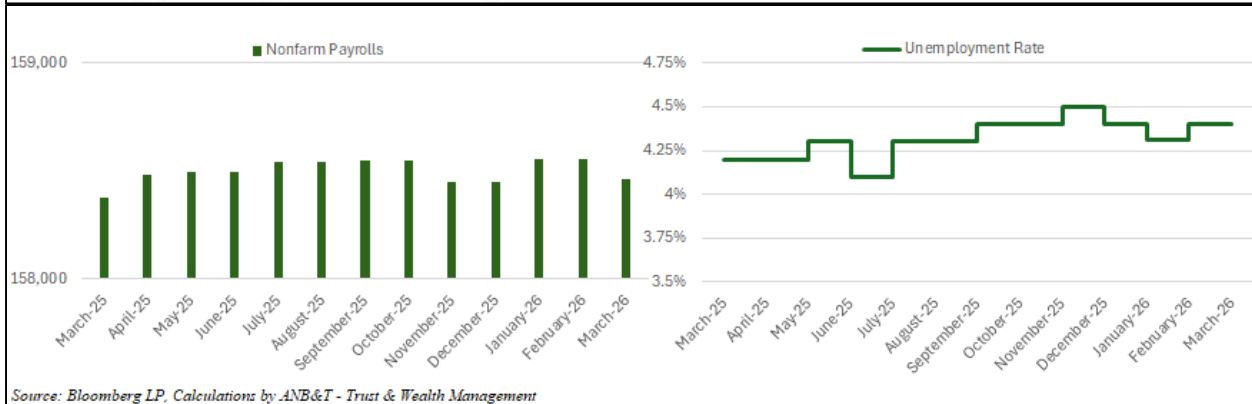
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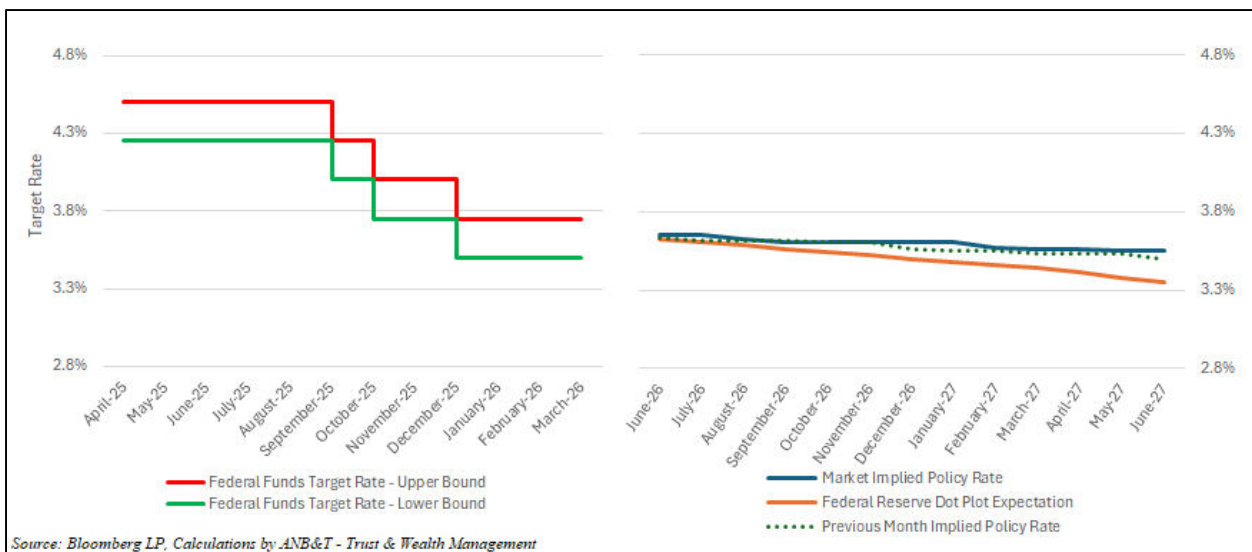
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