



**Market Review**  
**First Quarter 2026**

The first quarter of 2026 was dispiriting as stocks and sentiment were upended by the war in Iran.

During the period, the S&P 500 declined 4.33% while the Russell 2000 gained 0.89%. The returns worsened as the quarter progressed. Consistent with the deterioration, Value outperformed Growth on both ends of the market capitalization spectrum. The Nasdaq was the biggest loser among the major indices, retrenching -7.11% for the quarter and -4.75% in March. There were three primary drivers behind the intensifying decline.

First, the focus on artificial intelligence (AI) became more balanced and discerning. In addition to concerns about the return on the staggering investment, investors began to fret about the competitive and business model disruption for large swaths of the economy. The software industry, which bills per user and is vulnerable to new AI-driven coding tools, emerged as “ground zero” with the IGV (iShares Expanded Tech-Software ETF), falling 24.26% in three months. There were also new worries about the compromised role of service professionals and the potential for structurally higher white-collar unemployment.

Additionally, there were more signs of strain in private credit, which has grown into a \$3.0 trillion alternative to traditional bank lending. After two high-profile bankruptcies in late 2025, Blackstone reported a rare monthly loss for its \$83 billion Blackstone Private Credit Fund (BCRED) in February, attributed to mark-to-market losses on specific technology sector assets. The combination triggered a surge in withdrawal requests that forced Blue Owl, Apollo, and Ares – among others – to limit investor redemptions. It also raised questions about the quality of lending and legitimacy of valuation in an important funding channel.

The ultimate cause for consternation, however, was the unexpected war in the Middle East. On February 28, 2026, the U.S. and Israel launched joint air and sea strikes on Iran, initially under the guise of regime change. One week later, the new Iranian leadership closed the Strait of Hormuz – the world’s most famous chokepoint for fossil fuels. Oil prices spiked and stocks and bonds tumbled as investors braced for a longer and more disruptive conflict. The market is still processing the massive financial and supply chain impact of the waterway closure and attacks on regional energy infrastructure.

As sentiment has soured, the persistent hope has been that there will be a swift resolution to the conflict. The positive spin is that while the threats and rhetoric have ratcheted higher, there is a lot of familiarity with the President’s “brinkmanship bargaining” from every angle. The challenge is that, unlike trading partners, the Iranians do not seem keen to corroborate the Trump administration’s accounts of the peace negotiation process and progress.

At this point, the question for investors is to what extent the war has stymied an otherwise blossoming economy. Heading into the year, with the impact of tariffs largely digested, it felt like inflation was whipped and the country poised to benefit from reinvigorated domestic investment. This set the stage for a broadening recovery and stock market. Instead, oil has persisted around \$100 per barrel, supply chains have snarled, bond yields have climbed, and the prospect for future interest rate cuts have diminished. The conflict has also derailed the President’s affordability focus and push at a crucial time.

In this environment, we continue to apply a thoughtful and balanced approach to our products that is consistent with our conservative growth process. Although we have fitting exposure to the most important growth themes in the market – including AI – we focus on profitable companies and avoid “story stocks”. The benefit of the bifurcated economy is that there is significant opportunity to invest in high-quality growth businesses in less trafficked part of the market. Despite the wall of worry, the team is keenly aware that financial markets were also in a dire place at this time last year before a strong advance. However, our hope is to celebrate policy success that drives a stronger, broader economy rather than the resolution of an unexpected conflict.



# RICE HALL JAMES

& ASSOCIATES, LLC

Sources: FactSet, GICS Sector Classification, Percent's 2026 Private Credit Outlook, Bloomberg

*Past performance is no guarantee of future results. This commentary represents the portfolio managers' opinions as of the date of this presentation, and may change based on market and other conditions. This commentary is provided for informational purposes only and is not intended to forecast future events, guarantee future results, serve as investment advice, or serve as a recommendation to buy or sell any types of securities. Rice Hall James obtained some of the information provided herein from third party sources believed to be reliable but such is not guaranteed. There is a risk of loss from an investment in securities, including the risk of loss of principal. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will be profitable or suitable for a particular investor's financial situation or risk tolerance. Any forward looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts and the information contained in these materials should not solely be relied upon when making any investment decision.*

*Indices are provided for comparative purposes only. Broad-based securities indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. An investor cannot invest directly in an index. This is an actively managed strategy that does not invest in all of the securities of an index, and will have some associated concentration risk. Comparisons have limitations because indices may have volatility, investment and other characteristics that may differ from an investment account strategy to which it is compared. Indices are unmanaged, include the reinvestment of dividends, and do not reflect transaction costs, management, or other fees. See the following for a description of each index used in this material.*

*The S&P 500 is widely regarded as the best single gauge of U.S. large cap equities. The index includes 500 leading companies spanning all sectors of the U.S. stock market. It covers approximately 80% of the U.S. equity market capitalization and over 50% of the global equity market.*

*The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 7% of the total market capitalization of that index, as of the most recent reconstitution. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small cap opportunity set.*

*The Nasdaq Composite Index is the market capitalization-weighted index of over 2,500 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities.*

*The iShares Expanded Tech-Software Sector ETF (IGV) seeks to track the investment results of an index composed of North American equities in the software industry and select North American equities from interactive home entertainment and interactive media and services industries.*

*The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by Rice Hall James & Associates, LLC. GICS® is used for all portfolio characteristics involving sector and industry data such as benchmark, active and relative weights, and attribution. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classification have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.*

Index Definition Sources: Standard & Poor's, FTSE Russell, Nasdaq, iShares