

ECONOMIC REVIEW

Quarterly Economic Review

1st Quarter 2026

Establishing a Mindset of Informed Calm

We enter the second quarter of 2026 accompanied by a familiar but nevertheless unsettling companion: economic uncertainty. Relative stability has given way to volatility. Yet the fluctuations we're experiencing are a normal part of a healthy market's in-and-out breathing pattern.

Our job as your advisor is to filter out all the noise and focus on the structural underpinnings of your wealth so you can make more calm, informed decisions. So, let's take a look at some of the factors that may impact the coming quarter and the year ahead:

Midterm Year Dynamics: Policy & Prices

The Current Situation

It's no coincidence that the current market environment feels unsettled. 2026 is a midterm election year, a period historically defined by heightened policy uncertainty and accompanying market "indigestion."

Cycle Correction vs Structural Break



A Historical Perspective

Unlike the systemic crises of 2008 or 2020, today's volatility appears to be simply a byproduct of a healthy economy in the process of recalibrating to higher interest rates and political shifts.

Midterm Election Years: Chippy But Positive Performance

S&P 500: average return and drawdown by year of the presidential cycle (1950 – 2025)



What this chart shows:

This chart shows the S&P 500's typical path through the four-year Presidential Cycle. It highlights the unique volatility of "Year 2" (midterms) compared to the long-term historical average of all years since 1950.

Why it matters:

Midterm years are notoriously the "choppiest" phase of the presidential cycle, seeing an average intra-year drawdown of -17.5% as political uncertainty impacts sentiment. However, history shows this volatility is often followed by a robust recovery in Q4.

Staying the course through seasonal turbulence has often been the key to capturing both the Q4 rally and the transition into Year 3, which has historically been the strongest year of the entire four-year Presidential cycle.

Source: Morningstar, analysis by Lincoln Financial. S&P 500 price return index, does not include dividends. February 2026

Energy Markets: Assessing Supply-Side Pressure



Oil Prices Soar

Recent energy sector volatility has become a key driver of investor anxiety. The sharp spike in oil prices (Brent Crude recently broke above \$106 per barrel) is largely a consequence of supply-side disruptions resulting from elevated geopolitical risk in key producing regions. This supply tightness has downstream effects:

- ✓ Natural Gas: Prices have tracked upward in sympathy with oil, increasing overhead for utilities and heavy industry.
- ✓ Consumer Impact: The "pass-through" of fuel costs is beginning to manifest at the pump, which may provide a temporary headwind to the steady decline in headline inflation we saw last year.
- ✓ Industrial Exposure: We're also closely monitoring energy-intensive sectors (e.g., chemicals and manufacturing) where margin compression risks are elevated.

Global Economic Uncertainty



Central Bank Divergence

Beyond our borders, the global economic picture remains fragmented. Weighing on global trade volumes are a notable slowdown in key European economies along with a continued structural transition in China. This has led to a "Central Bank Divergence," with:

- ✓ The U.S. Federal Reserve maintaining a restrictive stance to keep inflation at bay.
- ✓ While the European Central Bank and the Bank of Japan navigate their own unique monetary policy paths.
- ✓ Not surprisingly, this divergence is creating friction in international capital flows.



The Dollar's Dominance

In times of global instability, the U.S. dollar remains the world's "flight-to-safety" currency.

- ✓ On the one hand, a strong dollar benefits American tourists abroad.
- ✓ It presents challenges, however, for U.S. multinationals (i.e., exports become more expensive and international earnings are devalued).
- ✓ And emerging markets, particularly those with significant dollar-denominated debt, tend to struggle.

Our firm's current positioning accounts for this by prioritizing domestic quality and international exposure where appropriate.

The Good News



The Bedrock of U.S. Economic Strength

Despite all the complexities we've touched on above, the underlying engine of the U.S. economy remains remarkably robust. That's the fundamental good news which all too often gets buried under the latest barrage of sensational headlines.

Three Positive Signals We Are Encouraged By

Despite the numerous headwinds the U.S. economy is facing, we're watching each of the following closely since they all have the potential to impact your portfolio:

1. Labor Market Resiliency

The American worker continues to be our economy's greatest asset. The latest data shows an unemployment rate remaining near historic lows at **4.4%**¹. More importantly, we are seeing **real wage growth** – gains that are finally outpacing inflation – which should sustain the consumer's capacity to spend, even in a higher-price environment.

2. Strong Consumer Balance Sheets

Consumer spending accounts for roughly 70% of U.S. GDP, and that backbone remains solidly intact. While we've seen a slight uptick in credit card delinquency rates (returning to pre-pandemic norms), overall household net worth is at an all-time high (\$175.25 trillion).

3. Still On Track for a “Soft Landing”

The Fed’s current posture is one of watchful stability. With the Fed Funds rate held steady, and the Personal Consumption Expenditures (PCE) price index trending higher than the 2% target, the “higher for longer” narrative has actually become a signal of confidence. The transition from “crisis management” to “steady-state” is a hallmark of an economy finding its footing.

The Path Forward

At BLBB Advisors, our investment philosophy remains anchored in three pillars: *diversification, quality, and a long-term horizon*. We do not manage portfolios for the next quarter; we manage them for the next decade.

Our current positioning reflects:



A Tilt Towards High-Quality Equities

Firms with exceptionally strong balance sheets are poised to weather potentially higher borrowing costs over the short-term.



A Strategic Allocation to Fixed Income

The repositioning we undertook in the latter part of 2025 is finally delivering a meaningful yield for our clients.



Close Monitoring of Evolving Risks

We are actively assessing potential risks in both the energy sector and global trade dynamics, ready to adjust our tactical weightings as conditions dictate.

Our Outlook for the Coming Quarter

The persistence of near-term uncertainty is a certainty in itself. However, the fundamental strengths of the U.S. domestic economy give us great confidence in the path forward. Keep in mind that selling during short-term downturns has historically cost investors significantly. Your portfolio is designed specifically to withstand occasional seasons of volatility so you can be better prepared to capture the growth that follows.

S&P 500: Calendar returns and intra-year declines

What this chart shows:

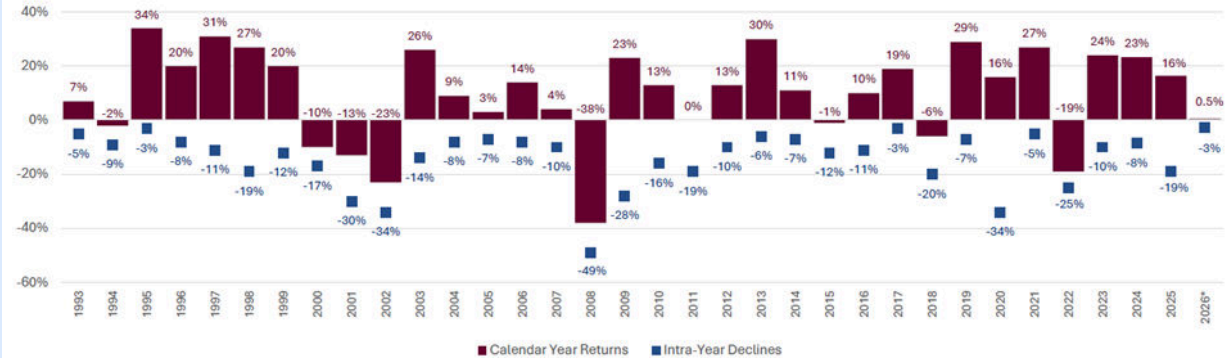
This chart shows calendar year returns of the S&P 500 Price Index from 1993 to present. It also shows the largest intra-year declines (lows) for each year.

Why it matters:

Investors can use this to understand how looking at annual returns alone can hide that there are often large drops that occur within the year.



Despite average intra-year declines of 14.1%, annual returns were positive in 24 of 33 years.



Source: Morningstar, Standard & Poor's, data as of February 27, 2026

We Are Here for You

Your Partners in Uncertain Times

Mixed economic signals can be unsettling, but that's exactly when having a trusted advisor matters most. We are actively monitoring the job market, inflation trends, Federal Reserve policy, trade developments, and global markets to ensure your portfolio is positioned for whatever comes next.

If you are feeling concerned about any of these developments, or if your personal circumstances have changed, we encourage you to reach out. We're here to review your financial plan, stress-test it against current conditions, and discuss any adjustments that might make sense for your situation.

Contact your BLBB wealth advisor at 215-643-9100

We're here to help you navigate these uncertain times with confidence.

Sources:

¹<https://www.bls.gov/charts/employment-situation/civilian-unemployment-rate.htm>

Disclosure

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BLBB's investment approach incorporates, among other things, asset allocation and portfolio diversification. While these strategies are designed to limit risk, there is no guarantee that such strategies alone, or in combination, will guarantee against a loss of principal.



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