

Investment Narrative

Quarter Ending March 31, 2026



During Q1 2026, the U.S. economy continued to grow, but the quarter felt more strained than the growth number alone suggests. Real GDP rose at a 2.0% annualized pace, supported by areas such as business investment, exports, consumer spending, and government spending, while a larger trade deficit worked against growth. Inflation rose to 3.3% in March, but the increase was mainly tied to a sharp jump in energy and gasoline prices rather than a broad surge across most categories. Consumers were still spending, with retail sales strengthening late in the quarter, but higher gas prices, low savings, and poor confidence created pressure on household budgets. The labor market remained stable but not especially strong; unemployment moved lower, while hiring activity stayed weak and fewer people participated in the job market.

U.S. markets had a difficult quarter. Large-cap U.S. stocks fell 4.3% (tracked by the S&P 500), while small-cap stocks rose 0.9% (tracked by the Russell 2000), marking a reversal from the prior leadership of large technology and growth-oriented companies. Investors moved away from some of the big technology and AI-related winners and toward value-oriented areas, especially energy and commodity-linked companies that benefited from higher prices. Bonds were flat (0.0%) overall for the quarter (tracked by the Bloomberg U.S. Aggregate), but longer-term bonds and lower-quality credit came under more pressure as inflation concerns pushed interest rates higher. While Q1 was not a recessionary quarter, it was a more stressful one for investors because higher energy prices, inflation uncertainty, and changing interest-rate expectations led to a sharp shift in market leadership.

Outside the U.S., economic growth was mixed. Developed international economies generally grew slowly, and some major regions barely expanded during the quarter. Inflation had improved in many places before Q1, but the spike in oil and gas prices brought inflation concerns back, especially for economies that rely heavily on imported energy. Emerging economies generally had better growth prospects than developed economies, but the picture varied widely. Economies tied to energy production, commodities, or domestic policy support were in a better position, while those more dependent on imported energy, global trade, or weaker domestic demand faced more pressure. Plainly, global growth continued, but the Middle East conflict and energy shock made the outlook less predictable.

International markets were choppy, but they held up better than large U.S. stocks overall. Developed international stocks fell 1.2% (tracked by MSCI EAFE), and emerging market stocks were nearly flat, down 0.2% (tracked by MSCI Emerging Markets), compared with the 4.3% decline in the S&P 500. The main divide was between markets helped by higher energy and commodity prices and markets hurt by higher import costs or trade concerns. In developed markets, value-oriented and defensive stocks held up better than growth stocks. In emerging markets, commodity-linked areas performed strongly, while energy-importing and trade-sensitive markets struggled. Overall, international markets were not broadly strong, but they were more resilient than U.S. large-cap stocks because commodity-linked strength and less exposure to U.S. mega-cap technology helped offset weakness elsewhere.

Endowment Portfolio

The Endowment Portfolio showed resilience while navigating the geopolitically driven market volatility in the first quarter of 2026. The portfolio had a -0.3% net return for the quarter, outperforming its benchmark by 0.6%. While U.S. stocks had a rough quarter, the portfolio's diversification insulated capital from broader market issues—specifically, allocations to international equities, private markets, and hedge funds. The portfolio's allocation is constructed with the intention of protecting capital in challenging environments like this one. Over the last year, performance has been more notable—a 13.7% net return, outperforming the benchmark by 1%. The strong trailing 1-year performance was driven primarily by allocations to public equities and private markets.

Long-Term Portfolio

The Long-Term Portfolio had a 0.0% net return for the quarter, outperforming its benchmark by 0.3%. Like the Endowment, the Long-Term Portfolio benefitted from its diverse allocation. The most additive allocations were those in international equities, real assets, and hedge funds which absorbed the negative performance of U.S. public equities. Performance over the last year was stronger as evidenced by the portfolio's 16.6% net return and outpacing the benchmark by 0.6%. The main drivers of performance over that period were allocations to international equities and real assets.

Medium-Term Portfolio

The Medium-Term Portfolio had a -0.1% net return for the quarter, matching its benchmark. Though the portfolio only has a 25% allocation to equities, the negative effects of U.S. public equities still posed as an obstacle. The portfolio is 70% allocated to fixed income; however, fixed income returns for the quarter were flat thus providing less insulation to those equity effects. Over the trailing 1-year period the portfolio's fixed income allocation was more additive, resulting in the portfolio generating a 9.7% net return against the benchmark's 9.2% return.

Intermediate-Term Portfolio

The Intermediate-Term Portfolio had a 0.1% net return for the quarter, outperforming its benchmark by 0.1%. Being solely allocated to fixed income, the portfolio was able to capture upside performance from a modest, but positive, fixed income market. The same theme is seen in the 1-year performance results where the portfolio produced a 5.2% net return, outpacing its benchmark by 0.9%.

Short-Term Portfolio

The Short-Term Portfolio had a 0.9% net return for the quarter, outperforming its benchmark by 0.1%. The portfolio continues to benefit from an elevated interest rate environment. Performance will be impacted on the future rate decisions by the Federal Reserve. The correlation to the Federal Reserve's interest rate policy is more evident in the 1-year performance figure of a 4.0% net return.

Sustainable Endowment and Non-Endowment Portfolios

The Sustainable Endowment and Non-Endowment Portfolios had a -4.8% net return for the quarter, lagging their benchmark by 0.3%. The portfolios faced a harsh equity environment with fewer options to diversify within equities or at the portfolio-level. The portfolios showed stronger performance over the last year, producing a 12.1% net return.