

# MARKET SPOTLIGHT

March 2026

## AI Disruption, Tariffs, and a Return of Volatility

The opening weeks of 2026 have been a reminder that markets do not move in straight lines. A confluence of technological disruption, policy uncertainty, and shifting investor sentiment has driven unusually sharp moves across asset classes, even among long-established market leaders. While the headlines can feel overwhelming, we believe this period is best understood as an adjustment phase — one in which expectations, valuations, and narratives are being recalibrated rather than rewritten entirely.

### AI Optimism Meets Reality

The rapid release of new artificial intelligence tools, coupled with a steady stream of articles warning of a potentially dystopian future, has unsettled investors across a broad swath of industries. Software companies, financial firms, and even diversified technology incumbents have all seen their business models questioned in recent weeks. This reassessment has not been subtle, market moves have been swift and, at times, severe.

A notable example was IBM, whose shares fell more than 13% on February 23 — its largest single-day decline since the technology-driven downturn of 2000. While IBM is hardly alone, the move underscores how sensitive markets have become to perceived disruptions in competitive positioning and long-term earnings power.

Importantly, most of the more dramatic narratives around AI assume rapid and frictionless deployment across the economy. History suggests this is rarely how transformative technologies unfold. Adoption takes time, workflows must be redesigned, and capital investment cycles often stretch longer than initial enthusiasm implies.

There are also real-world constraints that might temper the pace of this transition in our view. For example, U.S. electricity prices rose nearly 6% year-over-year as of January 31, 2026, according to Consumer Price Index data. Part of this increase reflects the massive data center buildout required to support AI workloads, a trend that is now generating visible political and community resistance in areas hosting new facilities. These physical and regulatory frictions matter, particularly when market expectations have moved well ahead of observable economic change.

### Stress Points in Private Credit

At the same time, stress has emerged in the private credit market — an area we highlighted as vulnerable in our 2026 outlook. Several high-profile asset managers with a heavy private debt focus have faced client redemptions and unflattering media coverage. These developments

have brought renewed attention to structural features of the asset class that tend to receive less scrutiny in more ebullient markets.

Increased reliance on payment-in-kind (PIK) interest, combined with significant exposure to software and other growth-oriented borrowers, has made private debt portfolios generally more sensitive to shifts in sentiment and funding conditions. The inherent opacity of private credit, along with its growing linkages to the insurance industry, has added to investor unease. While this does not imply systemic stress, it does suggest that differentiation among managers — and transparency around underwriting standards — will matter more going forward.

## **A Major Tariff Ruling Adds Policy Uncertainty**

Overlaying these market-specific dynamics is a significant policy development: the Supreme Court's February 20, 2026, decision striking down a large portion of the Trump Administration's tariff program. In a 6-3 ruling, the Court held that the president exceeded his authority under the International Emergency Economic Powers Act (IEEPA) by using it to impose broad-based tariffs on imports from nearly every major trading partner.

One of the most consequential aspects of the ruling is what it did not address: refunds. As of January 2026, the federal government had collected an estimated \$289 billion in tariff revenue under the invalidated programs, according to the Bipartisan Policy Center. Independent estimates from the Penn Wharton Budget Model suggest potential refund claims could reach \$165-\$175 billion. The stage has been set for what is likely to be a prolonged and messy legal process.

The Trump Administration responded swiftly to the ruling. Within hours of the ruling, President Trump announced a new temporary global tariff, initially set at 10% and later increased to 15%, the statutory maximum allowed for up to 150 days without congressional approval. While this move will preserve some tariff revenue and leverage, it also reset negotiated exemptions and reintroduced uncertainty for U.S. trading partners and domestic businesses alike.

From a market perspective, the key takeaway is not the precise tariff rate, but the broader environment of policy volatility. Tariffs had increasingly been viewed as a partial fiscal offset to the recently enacted One Big Beautiful Bill Act (OBBBA). That assumption is now less secure. While tariffs could still generate meaningful revenue, legal challenges and statutory limits make them a less reliable tool for deficit management than previously assumed.

## **Asset Class Performance and Positioning**

As we mentioned in our outlook, market sentiment coming into the year was, by many measures, extended. When markets become overheated, corrections often overshoot in the opposite direction before settling into a more sustainable level. We may be in the midst of one of those normalization phases.

During this time, high-quality, dividend-paying equities have materially outperformed the broader indices year-to-date as of February 24, 2026, reflecting renewed investor interest in cash flow durability and balance sheet strength. U.S. small-cap equities and international markets, both developed and emerging, have also delivered relative outperformance, benefiting from more reasonable valuations and different exposure to U.S.-centric policy risks.

Given the speed and magnitude of these moves, we believe much of the near-term adjustment has already occurred. As a result, moving closer to market-capitalization weights within equity allocations appears reasonable, particularly after the recent leadership rotation.

In fixed income, corporate credit spreads, especially in high yield, continued to compress into early 2026, prompting us to recommend investors reduce exposure. This is a departure from our previous stance, as we recommend investors hold little to no high yield allocations and maintain an underweight to investment-grade corporates relative to the Bloomberg U.S. Aggregate Bond Index. These views extend to private credit, where we remain neutral overall but continue to emphasize vigilance around manager selection and portfolio construction.

If equity markets are broadly correct about the longer-term deflationary potential of AI-driven productivity gains, that would ultimately be supportive of duration-sensitive assets. U.S. Treasuries, agency mortgage-backed securities, and high-quality municipal bonds stand to benefit in such an environment. Within this group, government-guaranteed mortgages remain particularly attractive, and we are actively evaluating a modest extension in duration as conditions evolve.

## **Closing Thoughts**

Periods like the one we are experiencing can feel uncomfortable, but they are not unusual when multiple long-term themes intersect. AI innovation and trade policy realignment are all powerful forces, and markets are still working through what they mean in practice rather than in theory.

For investors, the challenge is less about predicting the next headline and more about maintaining perspective—recognizing that structural change unfolds over years, not weeks, and that volatility often accompanies transitions. As always, we are monitoring these developments closely and are happy to share additional data, research, and analysis to help navigate the current environment.

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