## CRM 1Q 2026 Market Commentary

U.S. equity markets entered 2026 on a wave of strong momentum established in the second half of 2025, as economic growth was supported by the stimulus from the One Big Beautiful Bill and the lagged benefits from the 75 basis points cut in Fed Funds during the second half of 2025. That constructive backdrop was disrupted in late February 2026 by the U.S. and Israeli military conflict in Iran, and the closure of the Strait of Hormuz, which triggered a renewed spike in volatility and a sharp repricing of risk assets. Oil prices soared nearly 70% during this period but thankfully never reached the levels experienced when Russia invaded Ukraine in February of 2022. As Morgan Stanley indicated, at the market nadir in March, "over 50% of the Russell 3000 stocks were down at least 20% from their trailing 52-week high with many stocks down 30%+ and the S&P 500 forward P/E ratio fell by 18%," an outcome generally not witnessed outside of a recession. While the episode felt like déjà vu of another geopolitical shock early in the calendar year, markets have been resilient. Importantly, the underlying U.S. economic activity continued to grind higher, with a rising ISM Manufacturing PMI, and consensus forecasts continuing to call for double-digit earnings growth across both small-cap and mid-cap U.S. companies, underscoring the durability of the fundamental backdrop despite intermittent macro shocks.

The dominant macro event during the quarter was the U.S. and Israeli military conflict in Iran and the closure of the Strait of Hormuz. This development triggered a rapid repricing of risk assets in March as markets initially discounted worst-case scenarios related to energy supply disruptions, inflationary pressures, and global growth. As the calendar turned from March into April, volatility subsided as investors gained greater clarity around the potential scope and duration of the disruption. While wars are inherently unpredictable, markets began to look through the conflict as the probability of a broader systemic escalation diminished. While the U.S. does not have an agreement with Iran at this point, it is hopeful that the ceasefire and conciliatory language from interested countries in the Mideast, Asia, and across the world point toward a potential resolution in the near future.

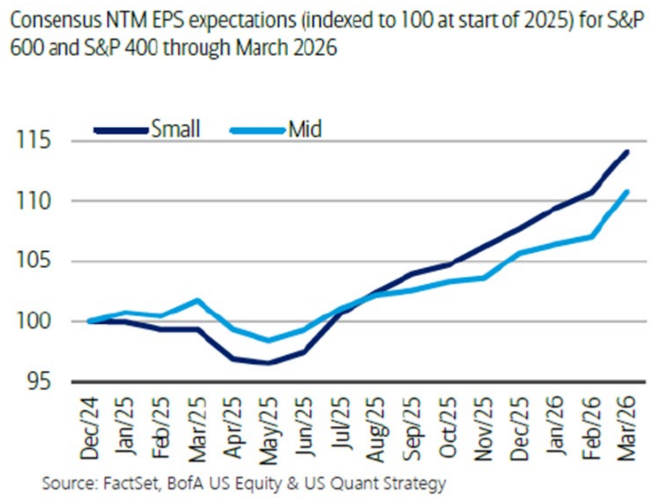
The broader U.S. economic expansion acted as a shock absorber to the geopolitical uncertainty created by the Iran conflict. Economic activity in the U.S. was supported by fiscal stimulus from the One Big Beautiful Bill, monetary stimulus from the lagged impact of the 75 basis points in Fed Funds interest rate cuts in the second half of 2025, and improved manufacturing momentum with the ISM Manufacturing Index reaching expansionary levels not seen in three years. Capital markets continued to function well, as evidenced by improving equity and debt issuance, and a pickup in merger and acquisition activity. In addition, credit spreads widened but did not blow out like other periods of geopolitical uncertainty.

**ISM Manufacturing PMI Has Re-Accelerated**


Source: RBC US Equity Strategy, Bloomberg, Russell, S&P, latest available data as of 4/8/26

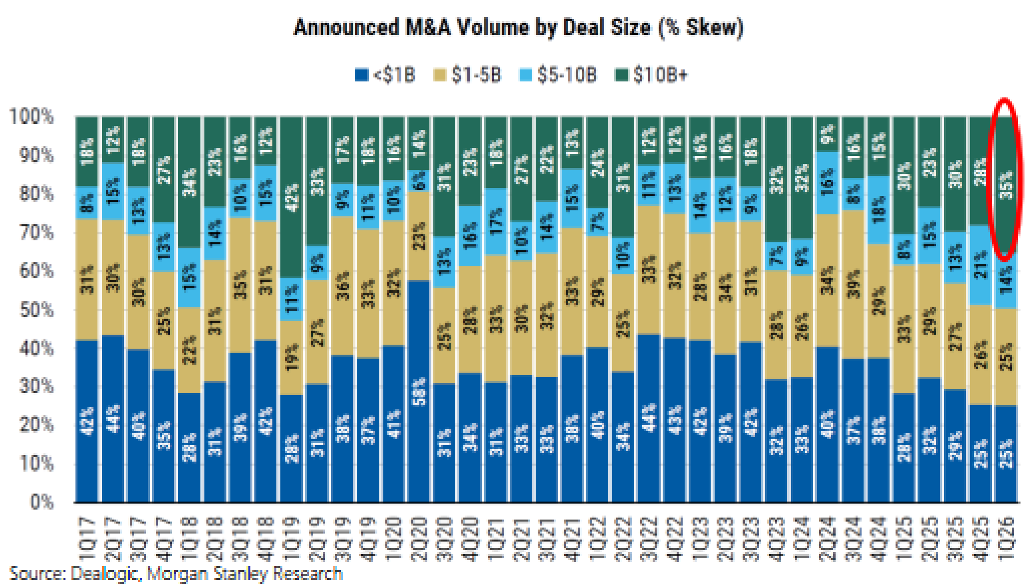
Despite the macro uncertainty surrounding the conflict in Iran, earnings growth expectations for small and mid-cap companies have continued to climb. Consensus next-twelve-month EPS estimates for both the S&P 600 and S&P 400 have moved steadily higher since mid-2025, reflecting growing confidence that fiscal stimulus from the One Big Beautiful Bill, lower interest rates, on-shoring and near-shoring initiatives, and deregulation are translating into improved earnings momentum. This development is particularly notable given that small and mid-cap companies are emerging from a multi-year earnings recession, positioning the group for meaningful operating leverage as growth accelerates.

**Small & Mid-Cap Earnings Expectations Continue to Climb**




Merger and acquisition (M&A) activity rebounded sharply for large cap transactions last year into early 2026 as corporations executed on discussions delayed by Liberation Day while funding markets remained constructive. This was coupled with a more supportive Trump administration and a less combative Federal Trade Commission (FTC). Despite the rebound, global M&A volumes remain below trend and are still poised for further cyclical and secular rebounds. As depicted below, small and mid-cap M&A transactions remain under-represented during this recovery, which should provide a source of future alpha opportunities as the M&A market broadens. Lastly, we expect the historically large discount that small and mid-cap stocks are trading relative to large cap stocks will spur higher consolidation until that spread compresses.

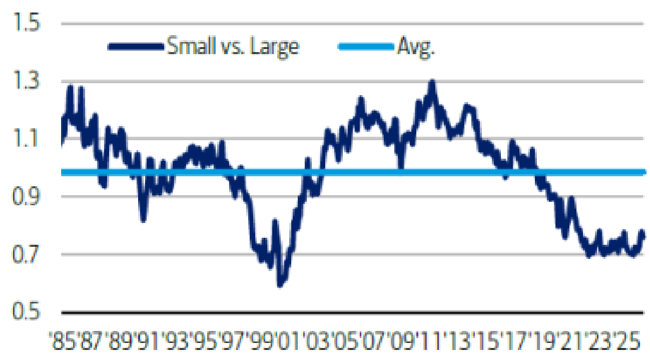
**Large Cap M&A Deals Have Dominated During the Initial Recovery**



Looking ahead, we expect the market to continue to broaden as we move further into 2026, with the administration's pivot toward a pro-growth agenda proving highly constructive for small and mid-cap stocks. While geopolitical and policy-related uncertainty may continue to generate episodic volatility, we believe the market will increasingly shift its focus back toward fundamentals. Accelerating manufacturing activity in the U.S., supply chain re-orientation, deregulation, and a recovery in merger and acquisition activity should collectively support improving earnings growth and outperformance by small and mid-caps stocks going forward. Given the attractive starting valuations and meaningful under-allocation by investors to this group, we believe this remains an opportunistic environment for down-cap strategies as fundamentals continue to improve.

**Small caps remain historically cheap vs large caps: relative forward P/E of 0.76x is below the historic avg. of 0.99x and has been trending around ~0.7x since 2022**

Russell 2000 Forward P/E, 1985-3/31/2026




**Small caps trade at a historical discount vs large on all metrics we track.**

Relative valuations for the Russell 2000 vs the Russell 1000 (1/31/1985-03/31/2026)

| | Relative Valuation | | | | % Difference From | | |
|---|---|---|---|---|---|---|---|
| **Valuation Metric** | **As of Mar-26** | **Max** | **Min** | **Long-Term Average** | **Max** | **Min** | **Long-Term Average** |
| Trailing P/E | 0.72 | 1.27 | 0.54 | 0.98 | -43% | 32% | -26% |
| Forward P/E | 0.76 | 1.30 | 0.59 | 0.99 | -41% | 28% | -23% |
| Price/Book | 0.46 | 1.11 | 0.39 | 0.74 | -58% | 19% | -37% |
| Price/Sales | 0.51 | 1.02 | 0.42 | 0.73 | -50% | 22% | -31% |
| P/E To Growth | 0.72 | 1.07 | 0.49 | 0.77 | -33% | 48% | -6% |
| Enterprise Value to FCF | 0.59 | 1.22 | 0.55 | 0.83 | -52% | 6% | -29% |

Note: P/E measures exclude negative earnings. Forward P/E is on I/B/E/S consensus N12m forecast earnings. EV/FCF excludes negative FCF.

Source: FactSet, BofA US Equity & US Quant Strategy