

## World markets review — First quarter 2026

### Equities

**Global stocks declined** as an escalating war in the Middle East heightened concerns about rising inflation, energy supply disruptions and slowing economic growth. U.S. and European markets sank, outweighing gains in Japan. Emerging markets were essentially flat. Overall, the MSCI All Country World Index (ACWI) fell 3%.

**MSCI ACWI growth-oriented sectors were hit hardest**, led by consumer discretionary's double-digit loss. Communication services, financials and information technology stocks also lagged. In contrast, the energy sector surged more than 30% as the conflict disrupted global oil flows and pushed prices higher. Utilities also delivered strong gains as investors turned toward more defensive sectors.

Equity index returns (%)	Mar 2026		1Q 2026		CY 2025	
	U.S. dollar	Local currency	U.S. dollar	Local currency	U.S. dollar	Local currency
S&P 500	-5.0	-5.0	-4.3	-4.3	17.9	17.9
MSCI ACWI	-7.2	-6.3	-3.2	-2.6	22.3	19.7
MSCI ACWI ex USA	-10.8	-8.4	-0.7	1.0	32.4	24.4
MSCI World	-6.4	-5.7	-3.6	-3.2	21.1	18.4
MSCI Emerging Markets	-13.1	-10.5	-0.2	2.1	33.6	31.3
MSCI EAFE	-10.3	-8.0	-1.2	0.1	31.2	20.6
MSCI Europe	-9.9	-7.4	-2.8	-1.0	35.4	20.6
MSCI Pacific	-11.3	-9.3	1.9	2.5	23.3	21.0

Source: RIMES

### Fixed income

**Bonds declined** and yields rose as investors responded to higher inflation expectations driven by the surge in energy prices. The Federal Reserve held interest rates steady at its January and March meetings, contributing to expectations for fewer rate cuts over the remainder of the year. Likewise, the European Central Bank and Bank of Japan left their key policy rates unchanged.

**In foreign exchange markets**, the U.S. dollar strengthened modestly against a basket of major currencies, including the Japanese yen, British pound and euro. The ICE U.S. Dollar Index rose 1.7% for the quarter, its second consecutive quarterly gain, though it remained lower over the trailing 12 months.

Fixed income index returns (%)	Mar	1Q	CY	Exchange rates (% change vs. USD)	Mar	1Q	CY
	2026	2026	2025		2026	2026	2025
Bloomberg U.S. Aggregate	-1.8	-0.0	7.3	Euro	-2.4	-1.9	13.4
Bloomberg Global Aggregate	-3.1	-1.1	8.2	Japanese yen	-1.9	-1.5	0.3
Bloomberg U.S. Corp IG	-2.0	-0.5	7.8	British pound	-1.9	-2.0	7.4
Bloomberg U.S. Corp HY	-1.2	-0.5	8.6	Canadian dollar	-2.3	-1.8	4.9
JPM EMBI Global Diversified	-3.3	-1.3	14.3	Australian dollar	-3.9	2.7	7.7
JPM GBI-EM Global Diversified	-5.5	-2.2	19.3	Swiss franc	-4.3	-1.4	14.4

Source: RIMES. Returns are in USD.

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## North America

**U.S. stocks declined**, as a conflict with Iran and new tariff policies kicked off a five-week losing streak to close the quarter, erasing early-quarter gains. Rising oil prices gave a boost to energy stocks, while the materials and utilities sectors also performed well. The financials, consumer discretionary and information technology sectors each had near double-digit declines. Overall, the S&P 500 Index fell 4%, closing at its steepest quarterly decline since the first quarter of last year despite reaching several all-time highs earlier in the period.

**The U.S. Federal Reserve (Fed) held interest rates steady** at its January and March meetings, ending a streak of three consecutive rate cuts to close 2025. Despite continued pressure from U.S. President Donald Trump to lower the current target range of 3.50% to 3.75%, Fed Chair Jerome Powell indicated that he doesn't expect rates to change until the impacts of recent geopolitical developments become clearer.

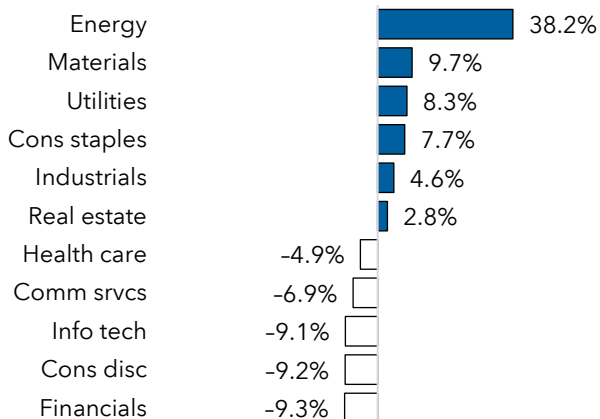
**The U.S. economy grew modestly**, as gross domestic product (GDP) rose an annualized 0.7% in the fourth quarter, the slowest rate since a decline in the first quarter of 2025. Inflation was unchanged in February, with the Consumer Price Index (CPI) up 2.4% from the previous year, matching January's figure. The unemployment rate inched up to 4.4%, ending two consecutive months of easing since November's high of 4.6%.

**The energy sector soared 38%** as geopolitical tensions drove oil prices higher. Shares of Exxon Mobil, Chevron and ConocoPhillips surged in tandem with the rise in oil prices that followed the start of the war in the Middle East. Sandisk was among the top contributors after an increase in demand for its NAND flash memory products. Johnson & Johnson also rose after reporting strong fourth quarter earnings and receiving recent product approvals from the FDA.

**Large-cap tech, consumer discretionary and communication services stocks were among the biggest decliners**, including each of the so-called "Magnificent 7" stocks, as investors grew wary over inflation and substantial CapEx commitments in AI. Select financials stocks, as well as GLP-1 maker Eli Lilly and semiconductor manufacturer Broadcom, also weighed on results.

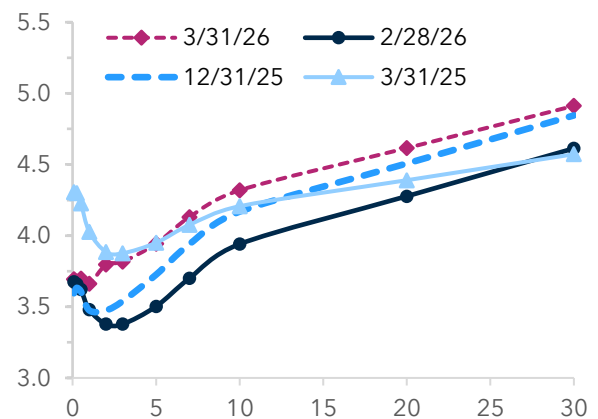
**U.S. bonds fell slightly**, with the Bloomberg U.S. Aggregate Index returning -0.05%. The yield curve flattened. Two-year Treasury yields rose 32 basis points (bps) to 3.80% and 10-year yields rose 15 bps to 4.32%. In credit markets, both investment-grade bonds (BBB/Baa and above), tracked by the Bloomberg U.S. Corporate Investment Grade Index, and high-yield bonds, measured by the Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index, fell 0.5%. Spreads to Treasuries widened 11 bps for investment grade and 51 bps for high yield.

**S&P 500 total returns (1Q 2026)**



Source: RIMES.

**U.S. Treasury yield curve**



Source: Bloomberg. The x-axis represents Treasury maturities (years). The y-axis represents the U.S. Treasury yield (%).

## Europe

**European stocks tumbled** amid rising energy prices, underscoring the region's exposure to imported energy and renewed inflation pressures. Oil prices surged following attacks on Middle East energy infrastructure, sparking fears of sustained supply constraints that weighed on European manufacturers and growth expectations. Overall, the MSCI Europe Index fell 3%.

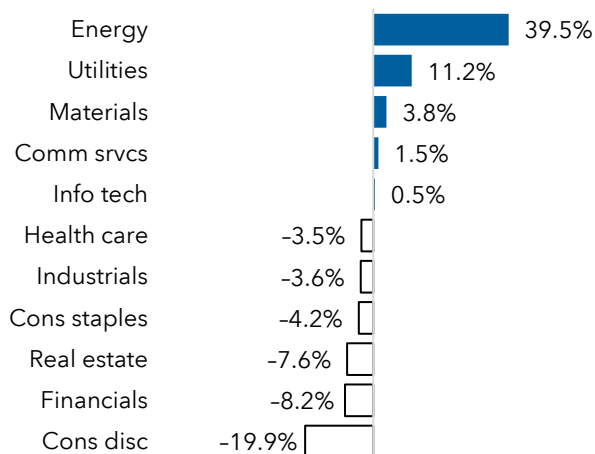
**Rising geopolitical tensions added to inflationary pressures** across the eurozone, stalling the recent disinflation trend. The European Central Bank held its policy rate at 2% in March as inflation rose to 2.5%. The central bank revised its 2026 inflation forecast upward to 2.6%, while lowering its growth projections to 0.9% from 1.2%. Policymakers warned that elevated energy costs would have a material near-term impact on prices and reiterated a data-dependent approach amid heightened economic uncertainty.

**Consumer discretionary was the weakest sector**, declining 20% amid potential tariff increases and inflationary pressures from higher oil prices. Luxury goods makers LVMH and Hermès were among the largest detractors. Shares of LVMH sank 30% as slowing consumer spending in key markets, including the U.S. and China, weighed on demand. Financials also declined, falling 8%. Shares of UBS fell 18% as outflows in its wealth management business and ongoing integration challenges related to its Credit Suisse acquisition weighed on investor sentiment.

**Energy stocks posted the largest gains**, rising 40% amid a sharp rotation into the sector. Shares of Shell and TotalEnergies rose more than 29% and 44%, respectively, as elevated oil prices and stronger refining margins supported expectations for improved profitability. Utilities also rallied, climbing 11%. Shares of France-based utility Engie advanced 21% following the announcement of its largest acquisition, the purchase of UK Power Networks, which is expected to expand its regulated network business and strengthen its presence in electricity infrastructure.

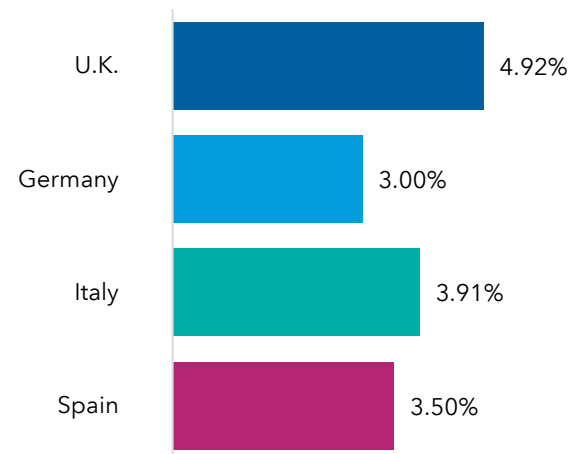
**In fixed income markets**, European bonds declined as markets lowered expectations for European Central Bank rate cuts and absorbed an increase in government bond supply. Germany's 10-year yield rose 15 bps to 3.00%, while Spain's 10-year yield increased 22 bps to 3.50%. In currency markets, the euro weakened 2.0% against the dollar.

**MSCI Europe total returns (1Q 2026)**



Source: RIMES. Returns are in USD.

**10-year government bond yields**



Source: Bloomberg. As of March 31, 2026.

## Asia-Pacific

**Japanese equities rose**, buoyed by increased post-election stability and expectations of supportive fiscal policy. Energy and materials led gains, while communication services and consumer discretionary lagged. The yen weakened 1.5% against the U.S. dollar.

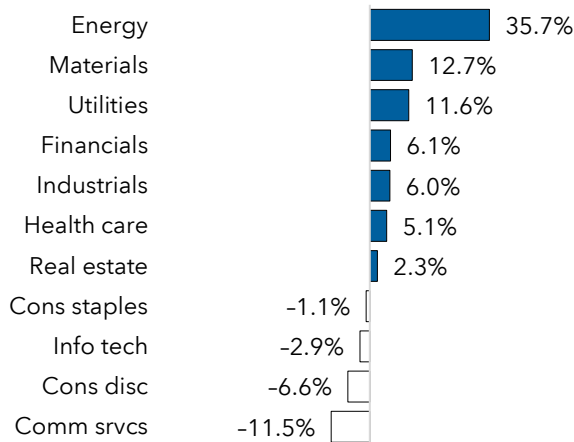
**The Bank of Japan (BOJ) kept policy rates unchanged.** The central bank held its key rate at 0.75% while maintaining a hawkish stance and cautioned that higher crude oil prices linked to the Middle East conflict could add to inflationary pressures. Core inflation, which excludes fresh food, fell under the BOJ's 2% target to 1.6% in February, its lowest level since March 2022. During the same month, Prime Minister Sanae Takaichi's governing party secured a two-thirds supermajority in parliamentary elections. Market watchers expect the landslide victory to make it easier for the prime minister to implement her agenda.

**Japan's economy exceeded earlier estimates.** GDP was revised sharply higher to an annualized 1.3% from an initial estimate of 0.2% for the fourth quarter. Growth was supported by higher capital investment and consumer spending. At the same time, rising costs related to the Middle East conflict added pressure on businesses. The S&P Global Flash Japan Manufacturing Purchasing Managers' Index (PMI) eased to 51.4 in March from 53.0 in February while remaining above the 50 threshold for expansion. Exports climbed 4.2% year over year in February, extending gains for a sixth consecutive month. Elsewhere, shares of trading house Mitsubishi Corporation rose after it announced strong earnings and the acquisition of U.S. shale gas assets. By contrast, multinational conglomerate Sony's stock declined after artificial intelligence-driven cost pressures impacted several of its business lines.

**Australian stocks moved higher**, supported by strong earnings and steady credit growth, benefiting major banks. Energy and consumer staples led gains, while information technology and health care detracted. Boosted by higher household spending, the economy advanced 2.6% in 2025, the strongest growth in three years. The Reserve Bank of Australia implemented two 25-bps rate hikes in an effort to curb inflation. Miner BHP was one of the top contributors as it reported stronger than expected earnings. Australia also reached a trade agreement with the European Union (EU) that would provide the EU with access to critical minerals and remove 98% of tariffs on Australian exports. The Australian dollar gained 2.7% against the greenback.

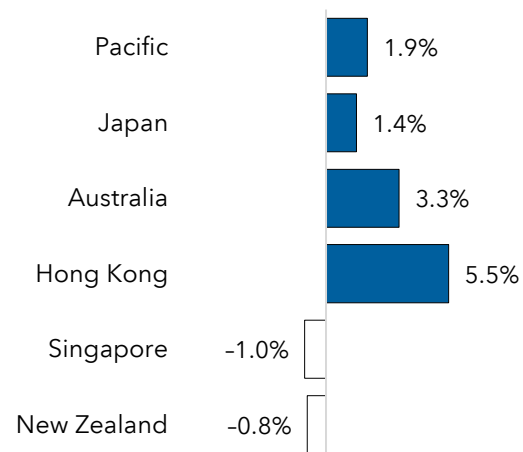
**Hong Kong stocks advanced** as investor sentiment improved after the National People's Congress outlined a 4.5% to 5% economic growth target. Consumer staples and real estate led gains, while consumer discretionary was the sole detractor. Meanwhile, the S&P Global Hong Kong SAR PMI rose to 53.3 in February from 52.3 in January, marking the seventh consecutive month of expansion.

**MSCI Japan total returns (1Q 2026)**



Source: RIMES. Returns are in USD.

**MSCI Pacific total returns (1Q 2026)**



Source: RIMES. Returns are in USD.

## Emerging markets

**Emerging markets (EM) equities fell slightly during the quarter** but outpaced many developed markets amid heightened volatility linked to the Middle East conflict. South Korea and Taiwan reported gains driven by robust demand for semiconductors and memory chips. Latin American equities surged following elevated foreign capital inflows. In contrast, Indian stocks declined on investor outflows while Chinese equities fell partly due to rising geopolitical uncertainty. Overall, the MSCI Emerging Markets Index fell 0.17%.

**The information technology and energy sectors** led the gains, both rising around 11%. Semiconductor companies, including Samsung Electronics, Taiwan Semiconductor and SK Hynix, contributed significantly due to artificial intelligence (AI) demand. Meanwhile, the communication services and consumer discretionary sectors led the losses, falling 15.3% and 11.6%, respectively. China-based companies Tencent and Alibaba detracted the most from index performance.

**Chinese stocks declined nearly 9%**, weighed down by a slowing economy and a prolonged property downturn. Rising energy prices further pressured sentiment, even as the U.S. and China entered a fresh round of trade talks. The People's Bank of China kept its benchmark one-year loan prime rate at 3.0% for the 10th straight month in March to support growth and stabilize currency. Factory output increased 6.3% year over year in the first two months of the year.

**Indian equities fell 18%** on persistent outflows and higher energy prices. Overseas investors withdrew at least \$12 billion during March. The Indian rupee fell to a record low against the U.S. dollar. India and the U.S. agreed on a trade framework in February, but the deal remains stalled following the U.S. Supreme Court decision challenging tariffs. Meanwhile, February's core inflation came in at 3.4%, remaining within the central bank's target range.

**The MSCI EM Latin America Index surged 14.6%**. Brazilian equities climbed 19% as investors anticipated the start of a potential monetary-easing cycle after the central bank signaled possible rate cuts. Mexican stocks gained 7.7% on economic resilience despite uncertainty surrounding the review of the U.S.-Mexico-Canada pact. Meanwhile, Colombian and Peruvian equities each surged around 21%.

**Developing market currencies were mixed against the U.S. dollar.** The Argentine peso and the Kazakhstani tenge led gains against the U.S. dollar, while the Egyptian pound and the South Korean won declined the most.

**Hard and local currency-denominated emerging markets bonds weakened.** EM local-currency government debt declined 2.2% in dollar terms, as measured by the J.P. Morgan GBI-EM Global Diversified Composite Index. U.S. dollar-denominated debt slipped 1.3% in dollar terms, as measured by the J.P. Morgan EMBI Global Diversified Index. Turkish local debt dropped 6.7% in dollar terms while local Brazilian bonds gained 7.3%. ■

### 1Q 2026 total returns (%)

Equity indexes	(USD)	Fixed income / currency	USD debt (USD)	Local debt (USD)	Local debt (Local)	Exchange rate (vs. USD)
MSCI Emerging Markets	-0.2	JPM EMBI Global Div	-1.3	---	---	---
MSCI Brazil	19.1	JPM GBI-EM Global Div	---	-2.2	-0.8	---
MSCI China	-8.9	Brazil	0.6	7.3	2.2	4.9
MSCI India	-18.1	China	0.2	1.9	0.7	1.2
MSCI Mexico	7.7	Indonesia	-2.4	-4.2	-2.4	-1.9
MSCI South Africa	-3.4	Malaysia	-0.2	0.1	-0.1	0.2
MSCI Korea	16.5	Mexico	-0.6	0.3	0.6	-0.3
MSCI Saudi Arabia	9.2	Poland	-0.9	-5.2	-1.7	-3.6
MSCI Taiwan	9.1	South Africa	-3.6	-6.5	-3.4	-3.2
MSCI Thailand	15.4	Turkey	-3.3	-6.7	-3.4	-3.4

Source: RIMES

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S&P Global purchasing manager indexes (PMIs) track business trends across both manufacturing and service sectors for various countries. The indexes are based on data collected from companies and follow variables such as sales, new orders, employment, inventories and prices. The **S&P Global Flash Manufacturing Purchasing Managers' Index** and the **S&P Global Hong Kong SAR Purchasing Managers' Index** provide similar information about Japan and Hong Kong.

**J.P. Morgan Emerging Markets Bond Index (EMBI) Global Diversified** and related country-specific indexes track total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, eurobonds. **J.P. Morgan Government Bond Index – Emerging Markets (GBI-EM) Global Diversified** and related country-specific indexes cover the universe of regularly traded, liquid fixed-rate, domestic currency emerging market government bonds to which international investors can gain exposure.

MSCI indexes are free-float-adjusted, market-capitalization weighted indexes. Developed market index results reflect dividends net of withholding taxes. Emerging market index results reflect dividends gross of withholding taxes through December 31, 2000, and dividends net of withholding taxes thereafter. Each index is unmanaged, and its results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes. **MSCI All Country World Index (ACWI)** is designed to measure results of more than 40 developed and emerging equity markets. **MSCI All Country World (ACWI) ex USA Index** is designed to measure equity market results in the global developed and emerging markets, excluding the United States. **MSCI EAFE® (Europe, Australasia, Far East) Index** is designed to measure developed equity market results, excluding the United States and Canada. **MSCI Emerging Markets Index** is a free-float-adjusted market-capitalization-weighted index designed to measure equity market results in more than 20 global emerging markets. Individual emerging markets listed herein represent a subset of the MSCI Emerging Markets Index. **MSCI Europe Index** is designed to measure developed equity market results across 15 developed countries in Europe. **MSCI Pacific Index** is designed to measure the equity market performance of the developed markets in the Pacific region. It consists of Japan, Australia, Hong Kong, New Zealand and Singapore. **MSCI World Index** is designed to measure equity market results of developed markets. The index consists of more than 20 developed-market country indexes, including the United States.

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The **Consumer Price Index (CPI)**, reported by the U.S. Bureau of Labor Statistics, measures the change in prices paid by consumers for goods and services.

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