Fort Washington Investment Advisors, Inc.

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MONTHLY MARKET PULSE – MARCH 2026

HIGHLIGHTS

- **Iran Conflict:** On March 1, the U.S. and Israel struck multiple targets within Iran. Initial market reactions centered on potential disruptions to global energy markets and a shift toward risk-off sentiment amid uncertainty surrounding the conflict's timing and potential escalation.
- **AI Disintermediation:** Although headline equity indices appeared relatively stable, numerous sectors sold off in February amid growing debate over AI's potential effects on Software, Logistics, Financials, and other industries.
- **Supreme Court Strikes Down International Emergency Economic Powers Act (IEEPA) Tariffs:** Tariffs have been a cornerstone of the Administration's economic agenda, but that strategy recently faced a setback when the Supreme Court ruled that tariffs imposed under IEEPA were illegal. Amid rapidly shifting trade policy, we take a closer look at the implications in this month's *Spotlight*.

MONTHLY SPOTLIGHT:

IEEPA Tariffs Struck Down

Author: Daniel J. Carter, CFA

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MACRO INSIGHTS

Tariffs, Tensions, and Transition

U.S. equities were mixed in February, with headline index performance masking meaningful rotation beneath the surface. The S&P 500 declined 0.8%, its second negative month in the past three, while the Nasdaq fell 3.3%, marking its weakest month since March of last year. The Dow edged up 0.2%, and the Russell 2000 gained 0.8%. Notably, the equal-weight S&P 500 rose 3.5%, outperforming the cap-weighted index for a fourth consecutive month—further evidence that leadership continues to broaden beyond the largest Technology names.

Beneath the index level, market leadership continued to evolve. Energy, Utilities, and defensive growth areas such as Pharma and Staples were among the relative winners. Select infrastructure-oriented Technology names held up better than the broader tech complex. In contrast, mega-cap Technology—particularly Software—lagged as investors weighed AI-driven disruption against still-elevated capital spending plans. Financials, including credit card companies and investment banks, were also under pressure. The pattern reflected repositioning rather than wholesale risk aversion.

Trade policy moved back into focus during the month. In a 6–3 decision, the Supreme Court struck down the Administration's use of emergency tariff authority under the IEEPA, removing a central pillar of the current framework. While some legal constraint had been anticipated, the ruling introduces a new phase of uncertainty, as the White House signaled it would rely on alternative authorities and announced a new 10% "global tariff," with discussion of a potential increase to 15%. We address the broader implications of this shifting trade landscape in this month's *Spotlight*.

Economic data remained broadly supportive. January payrolls surprised to the upside, inflation continued to run modestly above target, and the Federal Reserve (Fed) remained in a holding pattern. Treasury yields declined meaningfully, with the 10-year falling roughly 30 basis points to finish below 4%, and markets continue to price in two rate cuts later this year. Fourth-quarter earnings season also concluded constructively: S&P 500 earnings grew approximately 14% year over year, marking a fifth consecutive quarter of double-digit growth and exceeding expectations entering the season. However, the magnitude of earnings beats was more muted, and stock reactions became increasingly selective.

Geopolitical tensions escalated late in the period as the U.S. launched strikes on Iranian targets following weeks of military buildup and rhetoric. Oil prices moved higher in response. For lower-income consumers already strained by housing, insurance, and utility costs, sustained strength in gasoline prices would represent an additional headwind. Beyond the direct energy impact, escalation risk warrants close monitoring given Iran's regional proxies and its strategic alignment with major powers, including China. While markets often look through geopolitical shocks, the energy channel remains particularly relevant in the current environment.

Disruption as a Service

AI-driven innovation is pressuring traditional Software-as-a-Service (SaaS) models and raising the bar for return on capital.

S&P 500 Software Sector vs. S&P 500

Sources: Bloomberg and Macrobond.

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WHAT TO WATCH

Markets are likely to remain focused on developments surrounding the Iran conflict, with implications for risk sentiment. However, as the Fed remains on pause, investors will monitor upcoming inflation data to gauge the likelihood of additional rate cuts in 2026. A notable softening in employment data could also bring those cuts forward. Consumer spending and sentiment data will be important to watch as tax season begins, with larger refunds expected to support household finances.

- The first readings on February inflation will come from the Consumer Price Index (CPI) release on March 11. Personal Consumption Expenditures (PCE) data remain slightly delayed due to the shutdown, but January figures will be released on March 13, along with the second estimate of Q4 GDP. The February Bureau of Labor Statistics (BLS) employment report will be released on March 6.
- The next retail sales report will be released on March 6. Consumer sentiment from the University of Michigan will be released on March 13, with data from the Conference Board available on March 31.

MONTHLY SPOTLIGHT

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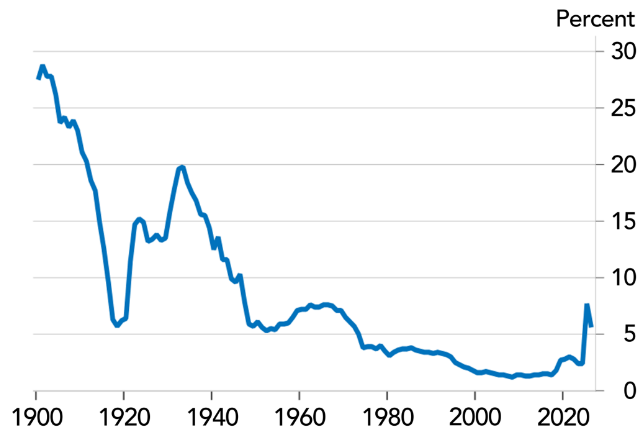
IEEPA Tariffs Struck Down

The Supreme Court recently struck down a key component of the Administration's trade policy, ruling that the President does not have authority under the IEEPA to impose tariffs. The decision, issued in a 6–3 vote, represents a meaningful check on executive power; however, it is important to understand both what the Court did—and did not—do. The ruling applies only to tariffs enacted under IEEPA. Other trade authorities remain intact, and the Administration has already begun using alternative tools to offset the decision. With multiple moving pieces—including the potential for tariff refunds—the situation warrants a closer look.

Prior to the ruling, the Administration relied on three primary statutes to raise tariffs: Section 232 of the Trade Expansion Act of 1962, which permits sector-specific tariffs on national security grounds; Section 301 of the Trade Act of 1974, which authorizes country-specific retaliation in response to unfair trade practices; and the IEEPA, which had been used to implement broad "reciprocal" tariffs under a declared national emergency. The IEEPA measures were a significant contributor to the sharp rise in the average effective tariff rate on U.S. imports. While the effective rate remained below 3% in the decades prior to 2025, it moved into the double digits following the combined expansion of Section 232 and 301 measures, as well as the subsequent IEEPA actions in 2025.

Average Tariff Rate on U.S. Imports



The Court concluded that, while IEEPA permits the President to regulate imports during a national emergency, it does not explicitly authorize the imposition of tariffs, which are constitutionally rooted in Congress's taxing power. As a result, the IEEPA-based tariffs are invalid. However, tariffs enacted under Sections 232 and 301 were unaffected by the ruling and remain in place.

Market reaction was relatively muted, in part because legal observers had long viewed the use of IEEPA for tariffs as a vulnerable foundation for broad-based measures. Additionally, the Administration was prepared for this outcome. Within hours of the decision, the President invoked Section 122 of the Trade Act of 1974, which allows for temporary tariffs of up to 15% on countries with which the United States runs a trade deficit. A 10% across-the-board tariff was announced, with the possibility of increasing the rate to 15%. While Section 122 authority is limited to 150 days, it provides a bridge as the Administration considers more durable actions under Sections 232 and 301.

Looking ahead, the temporary nature of Section 122 suggests the Administration is likely to pursue additional Section 232 investigations and potentially expand Section 301 actions to replace part—though likely not all—of the invalidated IEEPA tariffs. Meanwhile, the question of refunds for duties already collected under IEEPA, as well as the timing of those refunds, remains unresolved and will likely be addressed in lower courts, as the Supreme Court did not rule on remedies. Given the implications for federal revenue, inflation dynamics, and monetary policy expectations, developments in trade policy remain a key variable for investors in the months ahead.

Chart sources: Tax Foundation and Macrobond.

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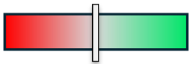
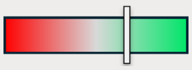
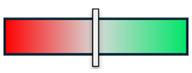
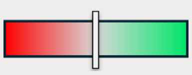
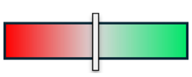
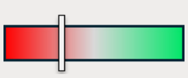
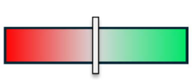
CURRENT OUTLOOK

Topic	View	MoM Change	Commentary
Macroeconomic Views			
Economic Growth		–	▸ Growth expectations for 2026 are largely centered on trend growth (~2%), as tariff headwinds dissipate and easier financial conditions contribute to a **broader economic expansion**. Additionally, the ongoing data center buildout should support growth. ▸ Job growth remains subdued, but layoffs have been relatively stable, keeping the unemployment rate range bound. ▸ **Uncertainty remains elevated** amid evolving U.S. trade policy following the recent Supreme Court decision, as well as ongoing geopolitical tensions and questions surrounding Fed independence.
Inflation		–	▸ Market expectations are that **inflation is plateauing and will decline gradually toward the mid-2%** range in 2026. Services inflation continues to cool, and we expect that trend to remain intact over the coming quarters. Goods inflation remains the primary source of concern for any upside inflation surprise. ▸ The conflict in Iran has created elevated uncertainty around global energy supply, pushing oil and gas prices higher and presenting an upside risk to inflation in the near term. ▸ The tariff-related impact on consumers has been limited so far, as companies are absorbing part of the cost. The Supreme Court's decision to strike down IEEPA tariffs should result in a lower average tariff rate on imports.
Monetary Policy		–	▸ The President announced his nomination of Kevin Warsh as Fed Chair, who would succeed Jerome Powell when his term ends in May. However, confirmation hearings have been delayed by the Senate Banking Committee pending the resolution of the inquiry into Powell. ▸ The Fed **paused the rate-cutting cycle at its January** meeting following 75 basis points of cuts in 2025 and 100 basis points in 2024. Federal Open Market Committee (FOMC) members are balancing their dual mandate of stable prices and full employment, but divisions remain over whether to prioritize upside risks to inflation or downside risks to the labor market. ▸ Tariff concerns and executive-branch actions have resulted in shifting expectations for the path of monetary policy. Current pricing implies a terminal rate of around 3.0%.
Fiscal Policy		–	▸ The Big, Beautiful Bill (BBB) is expected to provide a boost of approximately 0.5% to 1.0% to GDP growth in 2026 through two primary avenues: individual tax cuts and accelerated depreciation. We expect larger-than-normal **tax refunds** to provide some relief to households next year and **support consumption**. ▸ Flexibility within fiscal policy remains low, as federal debt levels continue to increase and **higher interest costs** consume a larger portion of government outlays.
Market Valuations			
Rates		–	▸ Rates moved lower during the month as investors adjusted inflation expectations and a shift toward risk-off sentiment increased demand for bonds. The 10-year Treasury yield ended the month below 4%, at 3.97%. ▸ We anticipate that the **timing of expected rate cuts will continue to shift**, with new labor market data serving as a primary driver. ▸ Both short- and long-term rates are at the lower end of our expected fair-value range, leaving us biased toward higher interest rates from current levels.
Credit		–	▸ Credit spreads widened during February amid shifting AI narratives, but valuations remain **elevated relative to historical averages**. ▸ We believe the **risk–reward is skewed to the downside**, although strong corporate fundamentals should help support spreads. ▸ Investment Grade spreads (10-year BBB industrials) ended the month at their 16th percentile, while High Yield spreads (single-B corporates) widened modestly, ending at their 19th percentile since the 1990s.
Equity		–	▸ The **S&P 500 exhibited additional volatility in February** as caution persisted around the AI trade, valuations, and potential AI disintermediation. The index declined 0.8% during the month and is now up 0.7% year to date. Investors also began to see signs of broader market participation, with mid and small caps up more than 8% and 6%, respectively, year to date. ▸ Fourth-quarter earnings season exceeded expectations, as S&P 500 earnings grew roughly 14% year over year. Market fundamentals remain healthy, and we expect returns in 2026 to be driven by continued earnings growth. ▸ **Equity valuations** remain **above long-term averages**, largely due to elevated multiples on mega-cap Technology companies, which continue to increase their share of economic profits.

MARKET DATA & PERFORMANCE | AS OF 02/28/2026

U.S. Snapshot	Current	6 Months Prior	1 Year Prior
Core Inflation (YoY%)	3.0	2.9	3.0
Unemployment Rate	4.3	4.3	4.2
Real GDP (YoY%)	2.2	2.1	2.4
Retail Sales (YoY%)	2.4	5.0	3.9
30-Year Mortgage Rate	6.0	6.6	6.8
10-Year Treasury	3.9	4.2	4.2
US Corporate IG Yield	4.7	4.9	5.1
US Corporate HY Yield	6.7	6.8	7.2

TOTAL RETURNS

Asset Class	MTD	QTD	YTD	1 Year	3 Years*	5 Years*
Equity						
Russell 3000 Index	-0.5%	1.1%	1.1%	17.0%	20.9%	12.8%
S&P 500 Index	-0.8%	0.7%	0.7%	17.0%	21.8%	14.2%
S&P Midcap 400 Index	4.1%	8.3%	8.3%	17.2%	12.9%	9.1%
Russell 2000 Index	0.8%	6.2%	6.2%	23.3%	13.1%	5.0%
MSCI World Index	0.8%	3.0%	3.0%	21.8%	21.1%	13.0%
MSCI World Excluding US	4.8%	9.8%	9.8%	36.2%	19.8%	11.8%
Fixed Income						
Bloomberg US Aggregate	1.6%	1.7%	1.7%	6.3%	5.1%	0.4%
US Corporate Investment Grade	1.4%	1.5%	1.5%	6.7%	6.3%	0.8%
US Corporate High Yield	0.2%	0.7%	0.7%	7.2%	9.4%	4.5%
Emerging Market Debt	1.4%	1.6%	1.6%	11.7%	10.6%	2.8%
US Treasury (7-10 Year)	2.4%	2.1%	2.1%	6.8%	4.3%	-0.2%
Cash	0.3%	0.6%	0.6%	4.2%	4.9%	3.4%

Source: Fort Washington and Bloomberg. *Returns longer than 1 year are annualized. Past performance is not indicative of future results.

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