



Market and Economic Review

Client Communication for the First Quarter 2026

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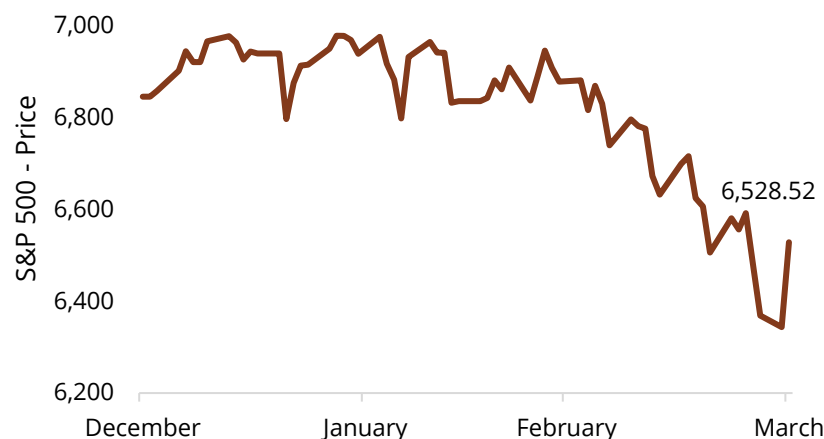
1Q 2026 – U.S. Equity Attribution

Summary of the First Quarter

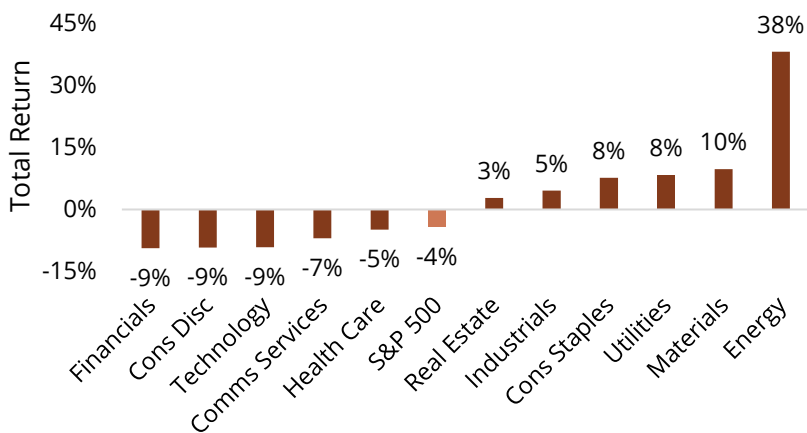
The S&P 500 fell 4.3% in the first quarter of 2026, its worst quarter since the third quarter of 2022. The decline masked a shift in market leadership. The average S&P 500 stock outperformed the cap-weighted index by nearly +5% while the equal-weight S&P 500 gained 0.7%.

The quarter's sharpest drawdown came in March following the launch of Operation Epic Fury by U.S. and Israeli militaries against Iran on February 28. Iran's closure of the Strait of Hormuz disrupted ~20% of global oil supply, sending Brent crude above \$100/bbl. Rising energy prices, inflation concerns, and the threat of stagflation weighed on equities in the final weeks of the quarter.

S&P 500 - 1st Quarter 2026



S&P 500 Sectors - 1Q26 Performance



Sector Snapshot

Energy dominated the first quarter, as the Iran conflict and Strait of Hormuz closure sent oil prices higher. Materials and Consumer Staples posted strong absolute results, while Utilities and Industrials found additional tailwinds from surging electricity demand to power AI data centers and manufacturing expansion attributable to the physical buildout of AI infrastructure.

The AI disruption narrative weighed on some growth-oriented sectors. Technology and Consumer Discretionary sold off as the "HALO" trade—heavy assets, low obsolescence—gained traction, with investors favoring companies perceived as less vulnerable to AI displacement.

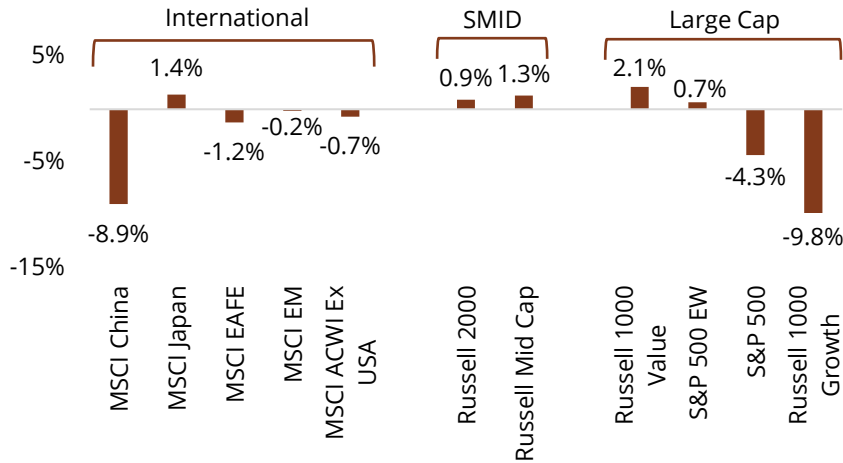
Financials also lagged despite solid underlying fundamentals. Rising private credit stress, bond market volatility from the oil-driven inflation spike, and corresponding uncertainty around the Fed's rate path all pressured the sector.

Sources: FactSet, Morningstar Direct, Madison Investments



Global Equity Markets in the First Quarter

Equity Market Returns in 1Q26: Size and Geographies



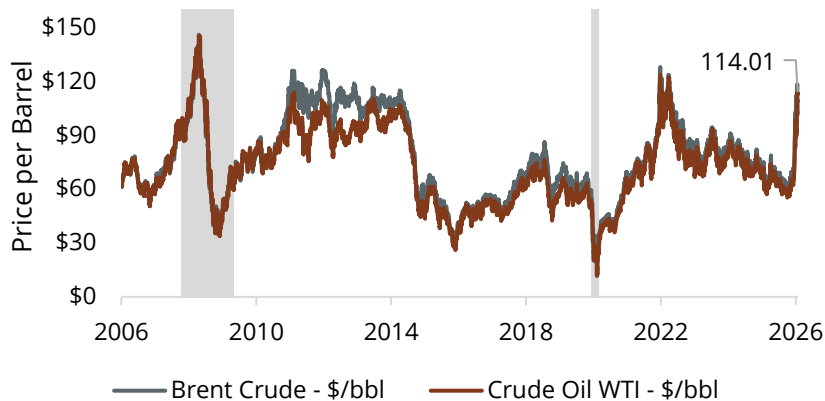
A Challenging Start to 2026

The first quarter of 2026 proved to be a difficult environment for equity investors as most major indices posted negative returns. In US markets, the script flipped from 2025 as value outperformed growth by a wide margin and mid and small caps outperformed large caps.

International equities were a mixed bag, with Japanese equities posting modest gains, while China was a notable laggard. Developed markets slightly lagged emerging markets, which were essentially flat in the quarter.

The Russell 1000 Growth Index was the worst performing major index, falling 9.8% during the quarter, while the Russell 1000 Value index led the way, benefitting from energy exposure, with a +2.1% return, a stark reversal from the growth-led rally of last year.

Energy Prices Surged During the Quarter



Geopolitical Risk Premium

Oil markets experienced their most dramatic quarter since 2020. Brent crude entered the year near \$75/barrel of oil (bbl) and traded in a narrow range through mid-February before Operation Epic Fury was launched on February 28th, fundamentally altering the supply picture.

Iran's closure of the Strait of Hormuz disrupted roughly 20% of global crude oil supply and sent Brent above \$100/bbl in mid-March, briefly touching \$118/bbl before settling near \$110 by quarter-end. The spike in energy prices reignited inflation concerns that many had assumed were behind us. Higher energy costs complicate the Federal Reserve's path toward further rate cuts, with markets repricing expectations from three cuts to just one this year.

Source: Factset, Morningstar Direct, Madison Investments

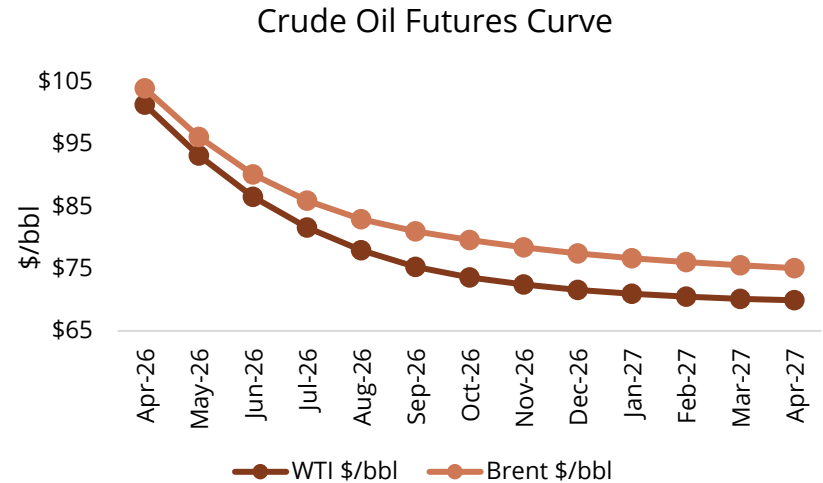


Implications of Conflict in the Middle East

Duration of the Conflict is Paramount

The price of oil rose sharply in the month of March; however, the markets are pricing in a short-lived conflict in the Middle East without a lasting impact on energy prices, illustrated by the crude oil futures curve.

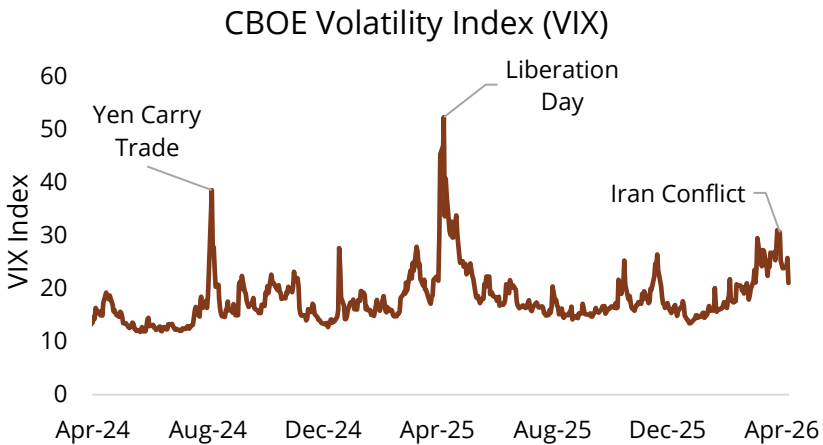
With the oil markets in steep backwardation, near-term contracts are much higher than long-term contracts. Should these market assumptions prove correct, in terms of price level and duration, the follow-on inflationary impacts from a temporary oil price shock will be limited. However, should longer-dated contracts begin to follow near-dated contracts higher, it could prove to be a structural underpinning of higher levels of inflation.



Volatility was Persistently Higher

The oil price shock injected uncertainty back into the markets as the rapid increase in crude oil prices lowered expectations for interest rate cuts, pushing short-term rates up. The potential inflationary impact of rising energy costs drove medium- and long-term rates higher as well. The move in oil, and subsequent moves in interest rates, drove an upward spurt in equity volatility after it had been drifting higher earlier in the quarter.

Historically, rapid increases in volatility have created opportunities over the following 6- and 12-months. While the CBOE Volatility Index (VIX) didn't reach the same extreme levels it did during the Liberation Day sell-off, it did move above 30 in the final days of the quarter.



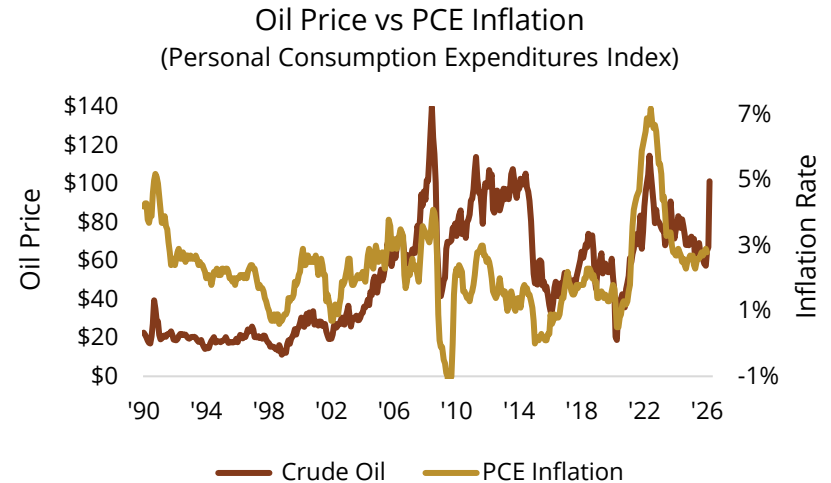
Sources: Factset, Madison Investments



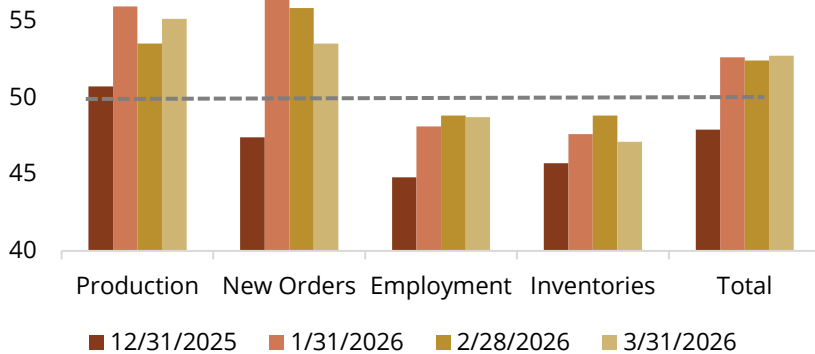
Inflation Expectations Edge Upward

In early March, markets began pricing in higher inflation expectations as crude oil and gasoline prices rose sharply, triggered by Iran conflict. Market participants now believe the Fed is unlikely to cut rates this year given higher energy prices.

Oil prices tend to affect inflation as measured by the Personal Consumption Expenditures Index, the Fed's preferred inflation gauge. Higher oil prices are likely to permeate the price of goods should transportation, production, and service costs rise.



ISM - Manufacturing
(values above 50 indicate expansion)



Source: Madison, Bloomberg

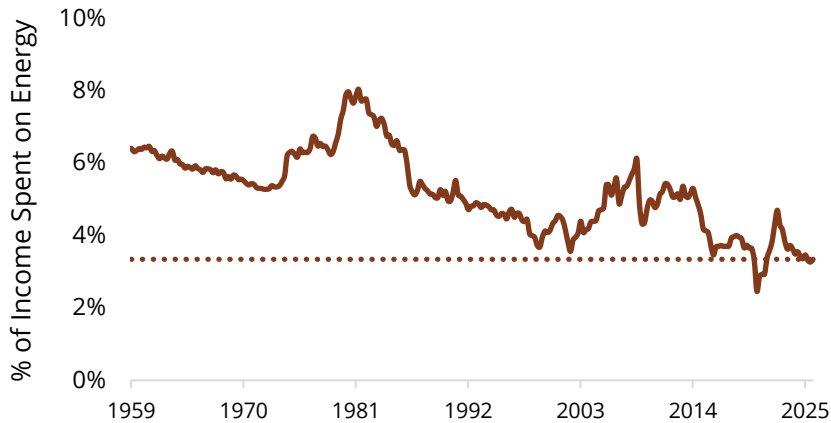
The Manufacturing Sector Rebounded

According to the Institute for Supply Management (ISM), the manufacturing sector entered expansion territory during the first quarter. A reading above 50 (for the total index) indicates expansion while levels below 50 suggests sector contraction.

Survey respondents indicated changes in the U.S. tariff structure provided cautious opportunities to offset significant costs in 2026. Customer orders increased substantially due to a strong construction market. Of concern is the ongoing geopolitical tensions and persistent tariff uncertainties affecting global trade dynamics. Barring an unforeseen drop in economic growth, we believe manufacturing companies will resume hiring once the headwinds clear.



US Consumer Spending on Energy



The Pain of Higher Oil Prices

Unlike the energy price shocks of the 1970s and early 1980s, when energy consumed over 8% of disposable income, the US consumer is far less burdened by energy costs today. At approximately 3.3%, energy's share of disposable income sits near its lowest level in over 60 years, having declined steadily from the ~4.7% in early 2022.

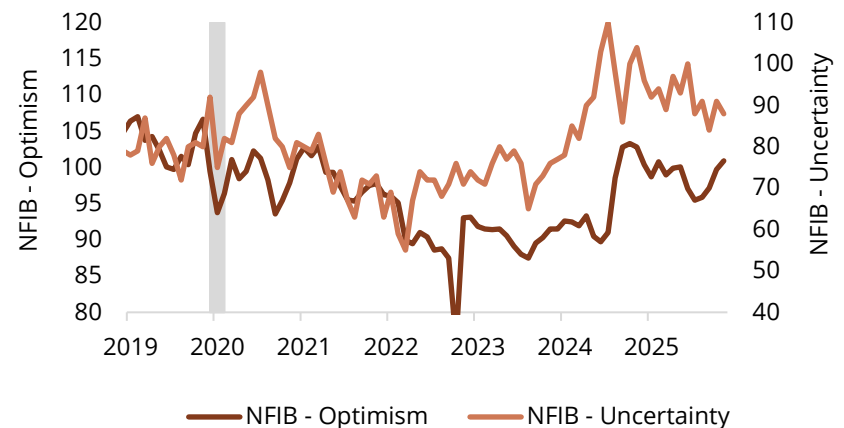
While rising geopolitical tensions in the Middle East present a risk to energy prices, and have the potential to further dampen consumer confidence, the structural shift toward a less energy-intensive economy and greater domestic energy production could provide a meaningful buffer against energy price shocks.

Uncertainty is Back

For much of the past year, uncertainty among small business owners had been easing from the initial surge following last year's announcement of tariffs, and the following on-and-off again announcements. The longer the conflict in the Middle East persists, the higher uncertainty will likely go, which could result in negative economic consequences.

Consumer confidence has remained dour so far this year with higher energy prices and labor market concerns driven by the unknown but expected impact from AI on existing jobs. Despite a challenging confidence backdrop, the US consumer has continued to spend, suggesting that the historical connection between sentiment and spending could be fading.

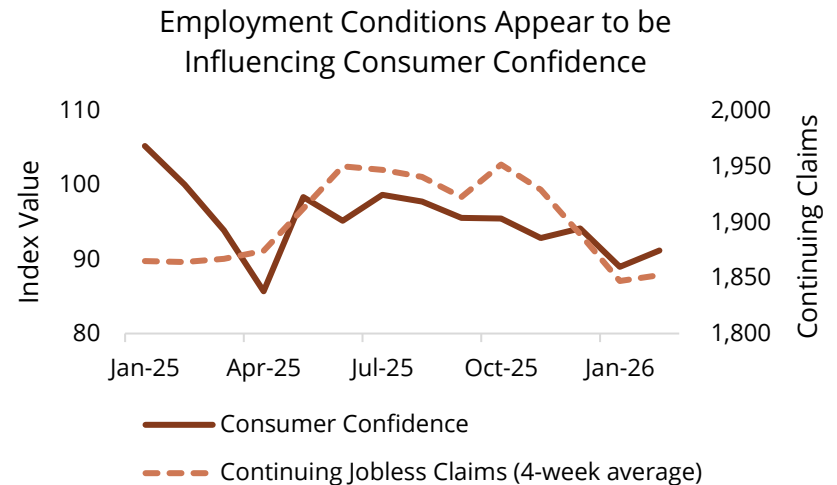
NFIB Small Business Optimism & Uncertainty



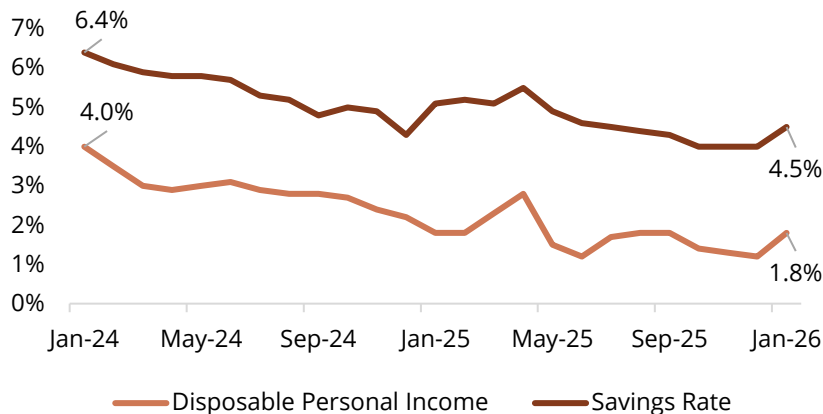
Consumer Confidence Affected by Employment

U.S. employment conditions continue to exhibit signs of weakening as companies announce layoffs, reduce the number of job openings, and report fewer employees quitting jobs in search of better opportunities. As shown at right, the outlook for jobs (along with inflation expectations) tends to influence consumer confidence, a factor for spending activity.

This year the number of initial jobless claims has fallen to around 210,000 per week in comparison to an average of about 225,000 weekly job losses during 2025. Continuing claims shown in the chart suggests unemployed persons are either finding jobs relatively quickly or dropping out of the labor market.



Savings Rate Has Declined with Personal Income



Source: Madison, Bloomberg

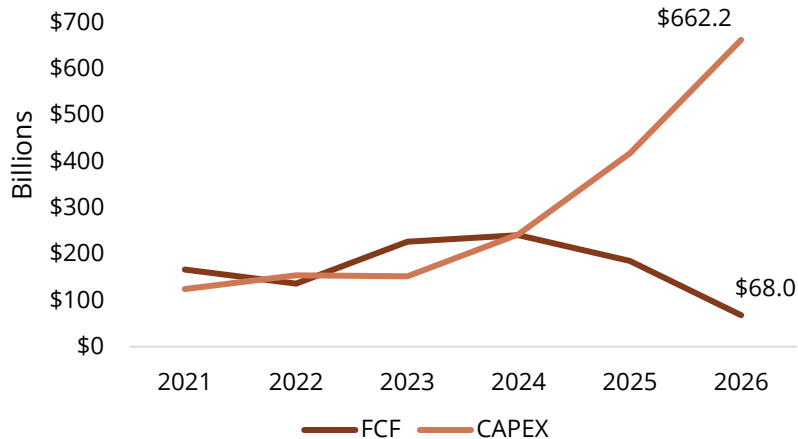
Some Consumers Are Struggling Financially

In aggregate, U.S. economic conditions appear favorable with 2% GDP growth, 4.3% unemployment, and 2.5% consumer price inflation. Of concern are the disproportionate living conditions experienced by lower- and middle-income wage earners versus higher-income households.

As shown at left, wage gains currently outpace inflation by a lesser amount than two years ago while the saving rate (as a percentage of disposable income) has dropped from 6.4% to 4.5%. Additionally, many lower income households have depleted savings and are using various forms of consumer debt to finance purchases. Higher unemployment and/or inflation could also affect consumption behavior for higher income families, thereby threatening economic activity and the housing market.



Capital Intensity of AI Continues



Software's Threat of Obsolescence

The perceived threat these AI advancements pose to the recently dominant Software as a Service (SaaS) companies continued to build during the quarter after starting late last year. The pressure sent shares of many in the industry, and recent market leaders, lower as questions arose regarding the durability of the moat around their business models and projected growth assumptions.

We don't believe that AI will fully replace the SaaS industry; however, we do believe it will compel established software vendors to adapt their product offerings, pricing structures, and value propositions or risk ceding ground to more nimble, AI-native competitors.

Sources: Factset, Morningstar Direct, Madison Investments



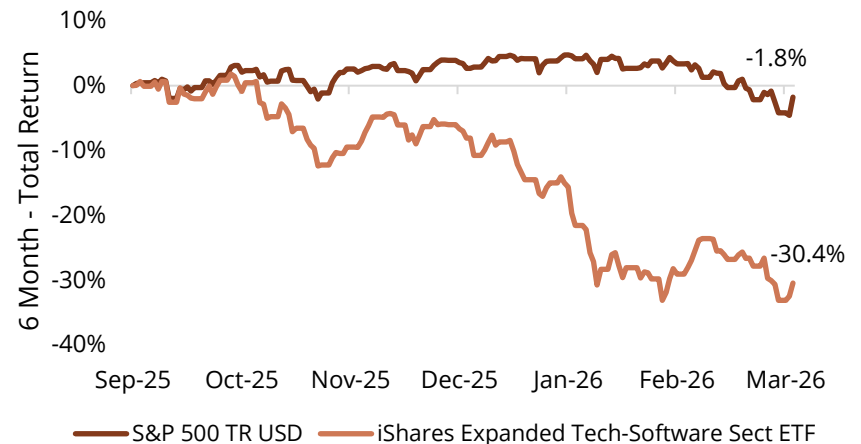
Diminishing Free-Cash-Flows

Last year, massive amounts of capital were invested in the buildout of AI which is expected to continue for the foreseeable future.

The capital intensity hasn't slowed, however, the hyper-scalers, (MSFT, GOOGL, AMZN, META, and ORCL) which historically were perennial free-cash-flow generators, are now borrowing to fund their respective buildouts as business models have not yet created a solid revenue stream.

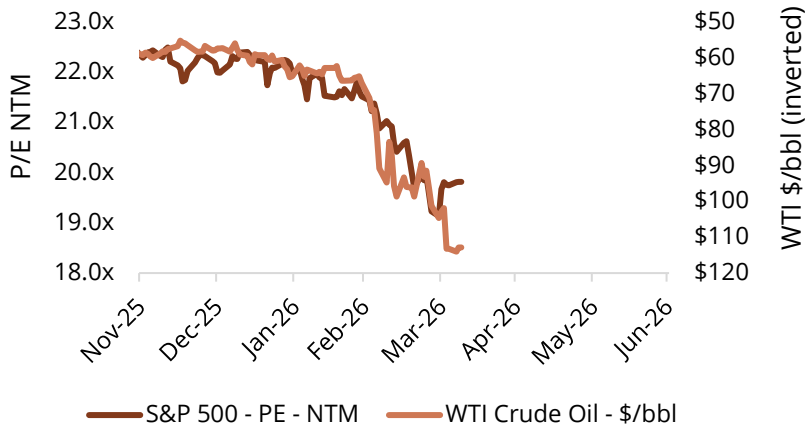
While the capital intensity of the AI buildout continues, companies are beginning to see meaningful progress in advancements in the technology, posing a threat to the status quo for many companies and market leadership.

AI's Threat to Software



Equity Valuations

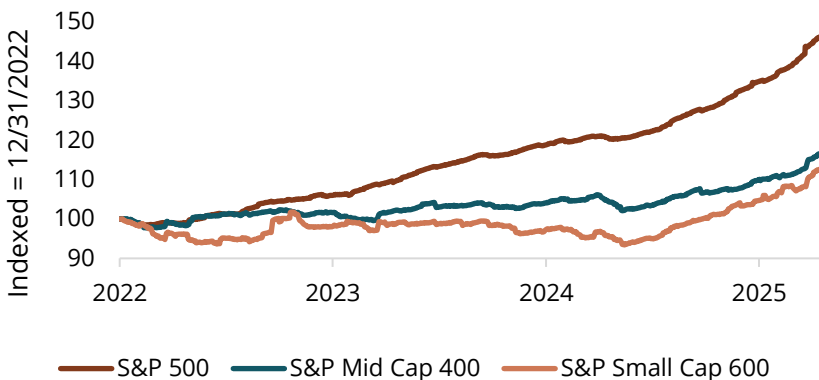
S&P 500 P/E NTM vs. WTI Crude Oil



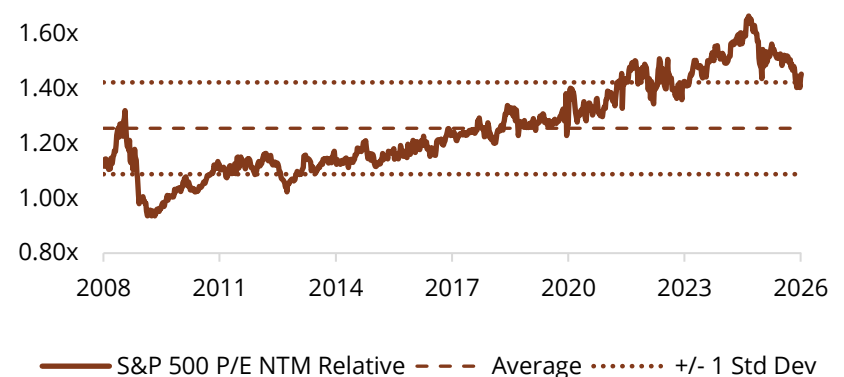
The market's singular focus on energy prices during the quarter, as the price of crude oil surged from roughly \$65/bbl to over \$100/bbl in the final weeks, pressured the S&P 500 Next Twelve Months Price/Earnings multiple from approximately 22x to under 20x by the end of March. Despite the volatility in equities, earnings expectations improved for large, mid and small cap stocks throughout the quarter, with all three market-cap segments earnings estimates ending the quarter at all-time-highs. However, these estimates may prove to be overly optimistic considering the unknowns revolving around the conflict in the Middle East.

US equities continue to trade at a premium to international equities; however, this premium has somewhat eased over that past 15 months as international equities have benefited from strong fundamentals, accommodative monetary policy, and a weaker US dollar.

US Equities - NTM EPS



S&P 500 NTM P/E Relative to ACWI ex-US



Sources: Piper Sandler, Factset, Madison Investments



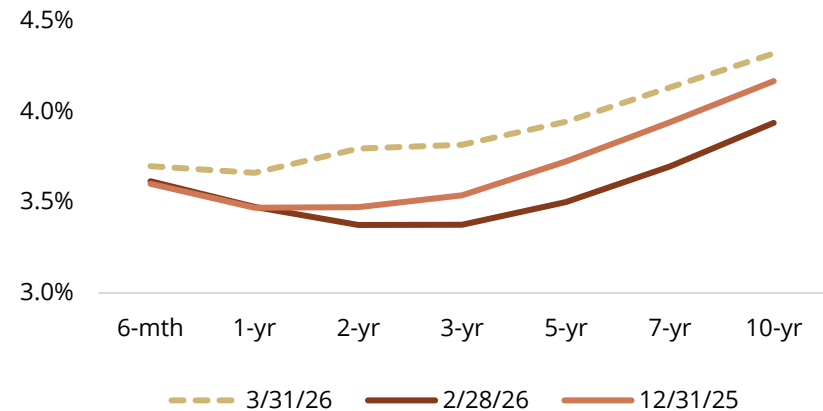
1Q 2026 – Fixed Income Attribution

Attribution Comments

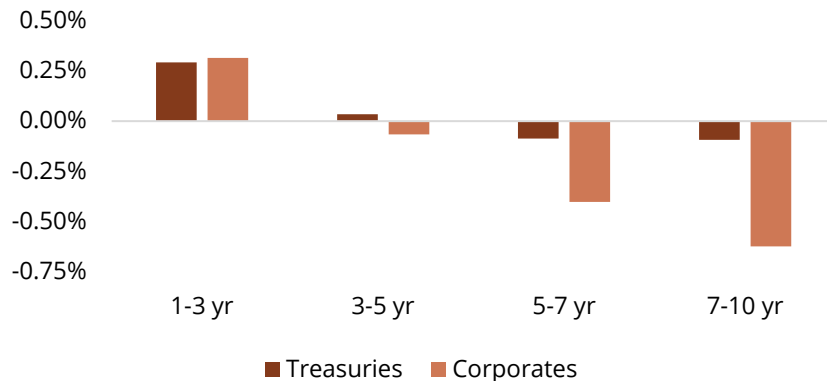
The Bloomberg Intermediate Government/Credit index posted a -0.02% return during the first quarter. Performance was driven by higher yields attributable to an increase in both interest rates and credit spreads.

Intermediate investment grade corporate bonds and fixed rate agency mortgage securities generated returns of -0.22% and +0.40% during the first quarter. Credit quality influenced corporate performance with AA, A, and BBB-rated paper producing -0.08%, -0.21%, and -0.26%, respectively. Mortgage returns benefited from a shorter duration profile, coupon income, and principal paydowns.

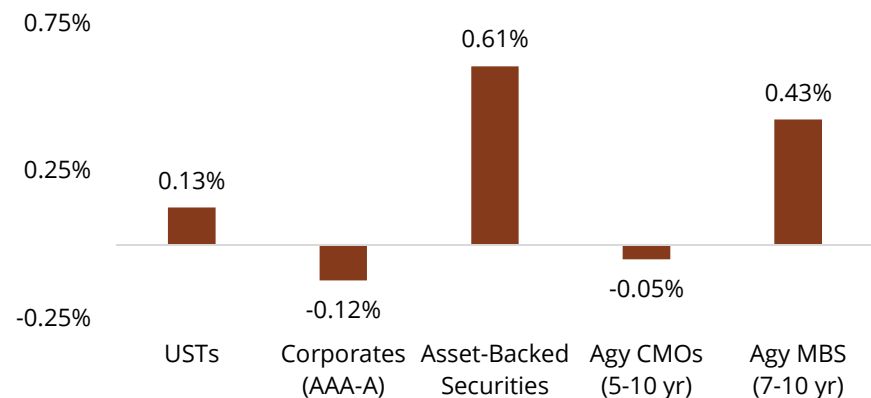
Recent Treasury Yields



YTD Return Comparison by Maturity Segment as of 3-31-26



YTD Return Comparison by Sector As of 3-31-26



Source: Madison, Bloomberg, ICE Global Indices

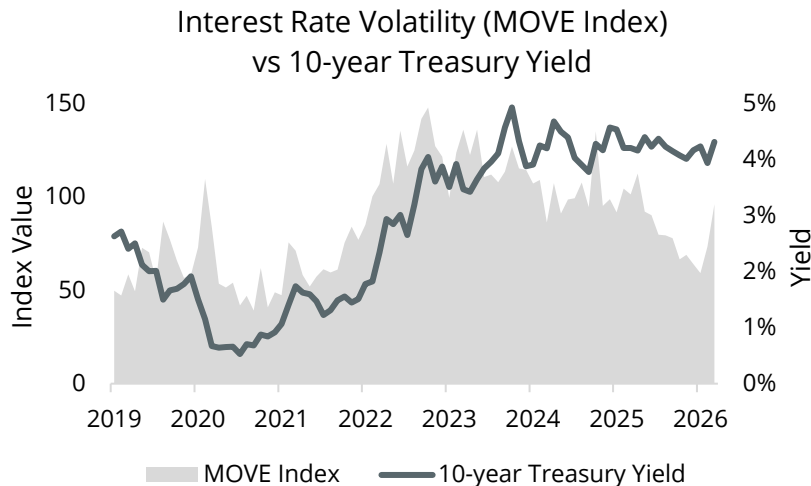


Fixed Income Asset Class (Governments)

The Federal Reserve May Be On Hold

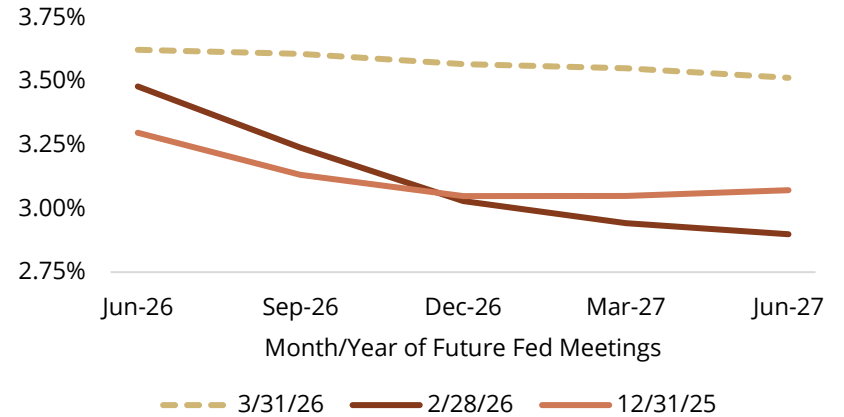
At the end of March, market participants priced in a less than 15% probability the Fed rate cuts rates by yearend. The chart at right shows the anticipated path of monetary policy through mid-2027. In February, the federal funds futures market foresaw the need for an additional rate cut (versus December sentiment) as hiring weakened, capital spending slowed, and near-term GDP estimates inched downward.

Heightened inflation expectations due to rising energy prices caused by the Iran conflict led to a spike upward in the rate projections. Though federal funds futures do not accurately portray the level of future rates the insight can be used to gauge potential market mispricing versus our internal analysis.



Source: Madison, Bloomberg

Evolving Path of Anticipated Fed Policy (Fed Funds Futures)



Interest Rate Volatility Has Intensified

Amplified uncertainties specific to domestic economic conditions, global trade, and geopolitical worries have been the catalysts for recent interest rate volatility. Instability tends to affect interest rates.

We are monitoring many matters apt to shape the direction of interest rates this year. This includes:

- monetary policy given economic conditions;
- transition of Federal Reserve leadership;
- tariff policy;
- geopolitical tensions and the impact of higher energy prices;
- U.S. fiscal policy as it relates to deficit spending, loftier federal debt, and higher debt service costs.

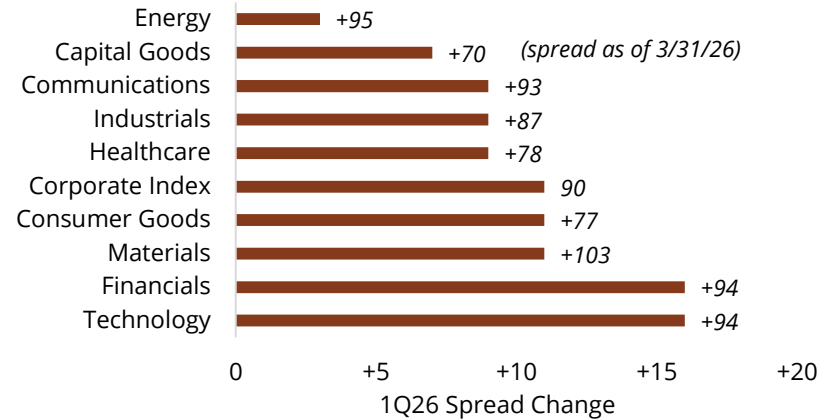
Fixed Income Asset Class (Corporates)

Corporate Risk Premiums Increase

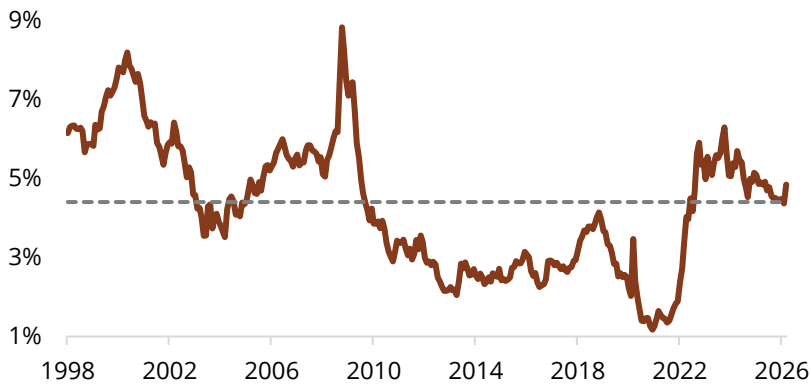
Investment grade spreads tightened slightly in January before moving wider in February and March due to heavy AI-related debt issuance and the Iran conflict. Spreads finished the quarter wider than yearend 2025, but in our opinion remain tighter than fair value.

The Energy sector outperformed during the quarter as the price of crude oil jumped from \$56 to \$101 per barrel. Technology and Financial sectors spreads increased the most during the quarter due to hefty debt issuance and concerns related to private credit and equity exposure, respectively. Given valuations, we prefer certain Financial paper over most high-quality Industrial bonds.

1Q26 IG Corporate Sectors
Spread and Spread Change



Investment Grade Corporate Bond Yield
1-10 Year Maturities



Source: Madison, Bloomberg, ICE Global Indices

Corporate Bond Yields Remain Attractive

Although risk premiums are low relative to most historical periods, the absolute yield available on many corporate bonds remains above average. The yield on 1- to 10-year investment grade corporate bonds is roughly 4.80% which is about 0.40% above long-term averages.

Current yields may benefit investors by providing excess return over time versus comparable maturity Treasuries. Additionally, the extra yield offered by corporates provides a cushion against price decay should interest rates move higher. We retain our bias for positioning high-quality corporates within sectors less sensitive to economic instability.



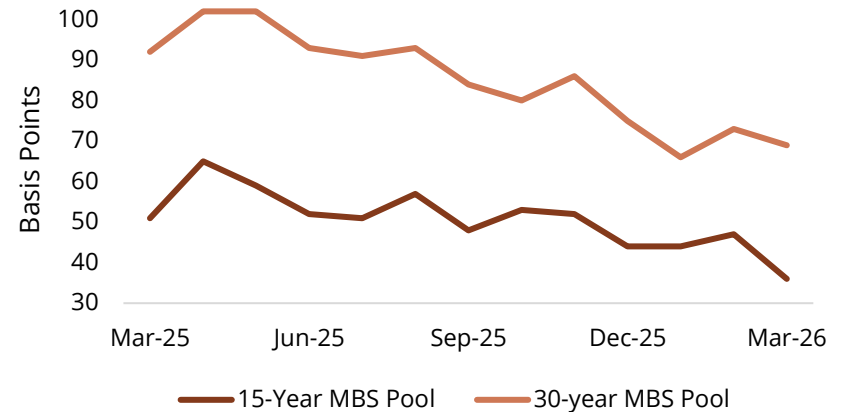
Asset Class (ABS/MBS & High Yield)

Mortgage-backed Securities Performed Well

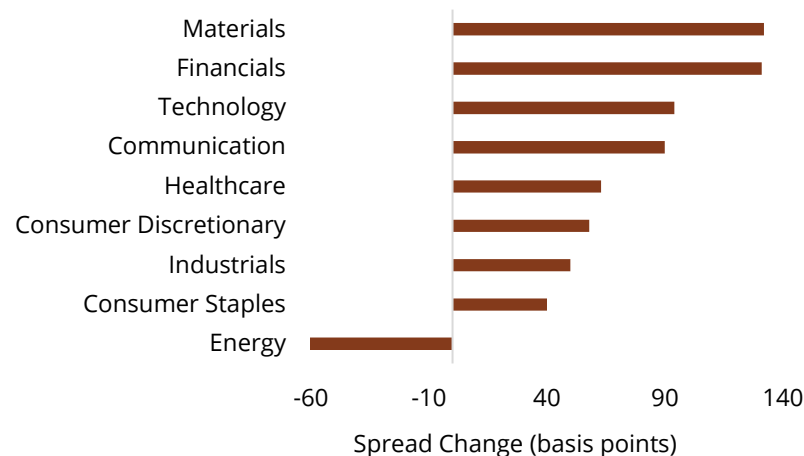
Fixed rate agency mortgages (MBS) were among the few fixed income sectors that generated positive returns during the first quarter. Lower spreads versus comparable maturity Treasuries along with principal paydowns benefitted performance.

Agency MBS continues to be a desirable asset class given the implied AAA-rating of agency issued paper and competitive yields versus high quality corporate bonds. Quarter-end mortgage loan rates were about 25 basis points (bps) higher than yearend with 15- and 30-year average national rates quoted at 5.87% and 6.48%, respectively. Given tighter valuations and prepayment concerns, we prefer to position MBS with prices at or below par value.

Agency Mortgage-backed Security Spreads



1Q26 High Yield Spreads Change



Growing Credit Concerns Pressure High Yield Spreads

Non-investment grade spreads widened by an average of 57 bps as economic fears and the upward shift in interest rates elevated credit concerns. Risk premiums within sectors most susceptible to economic distress rose more than 100 bps while Energy sector spreads declined 60 bps.

This year more high yield issuers have been downgraded than upgraded by the credit rating agencies, especially within the Materials, Healthcare, and Energy sectors. In part, risk premiums have adjusted in response to the rating changes. The Energy sector has benefited from the spike in oil prices given the potential for higher revenues in the near term.

Source: Madison, Bloomberg, ICE Global Indices



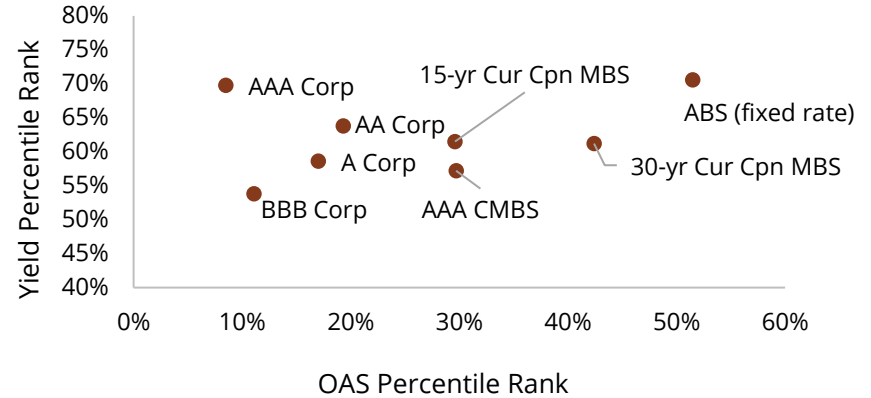
Fixed Income Sector Valuations

Valuation Comments

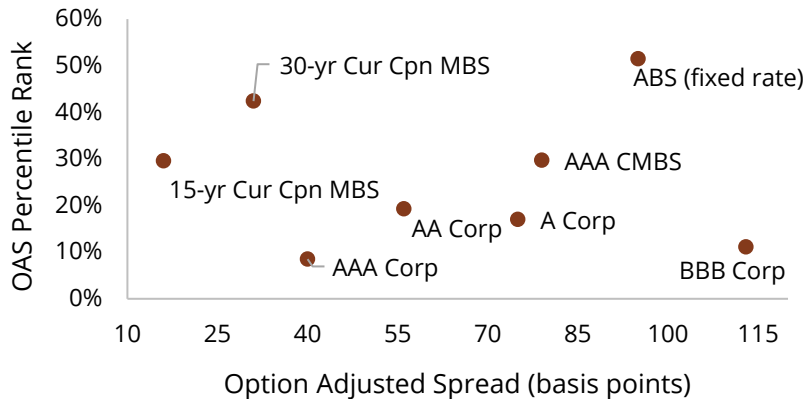
Corporate risk premiums (*as measured by percentile rank of option-adjusted spreads*) remain well below long-term averages while most securitized sectors remain closer to average valuations. In contrast, the percentile rank for most sector/quality yields are above long-term averages.

The bottom two charts illustrate OAS and yield from the perspective of actual levels versus percentile rank. This provides investors with a glimpse as to the source of future returns. Currently, OAS valuations suggest a low likelihood for spread contraction. In comparison, yield levels imply most sectors are historically attractive. We believe investors may benefit over a longer horizon by locking in today's yields.

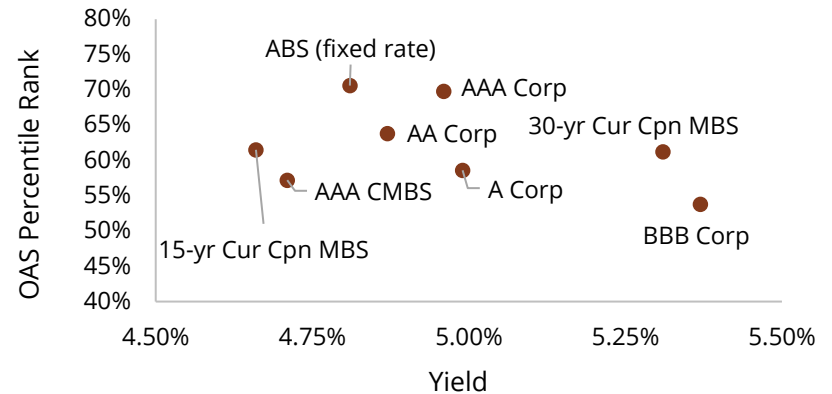
Sector Valuation: OAS and Yield
(based on data 1997 thru Mar-26)



Sector Valuations: OAS
(based on data 1997 thru Mar-26)



Sector Valuations: Yield
(based on yield data 1997 thru Mar-26)



Source: Madison, Bloomberg, ICE Global Indices



Disclosures

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Non-deposit investment products are not federally insured, involve investment risk, may lose value and are not obligations of, or guaranteed by, any financial institution. Investment returns and principal value will fluctuate.

This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security and is not investment advice.

Although the information in this report has been obtained from sources that the firm believes to be reliable, we do not guarantee its accuracy, and any such information may be incomplete or condensed. All opinions included in this report constitute the firm’s judgment as of the date of this report and are subject to change without notice.

All investments contain risk and may lose value. Equities may decline in value due to both real and perceived general market, economic and industry conditions. Investing in foreign-denominated and/or -domiciled securities may involve heightened risk due to currency fluctuations, and economic and political risks,

which may be enhanced in emerging markets.

In addition to the ongoing market risk applicable to portfolio securities, bonds are subject to interest rate risk, credit risk and inflation risk. When interest rates rise, bond prices fall; generally, the longer a bond’s maturity, the more sensitive it is to this risk. Credit risk is the possibility that the issuer of a security will be unable to make interest payments and repay the principal on its debt. Bonds may also be subject to call risk, which allows the issuer to retain the right to redeem the debt, fully or partially, before the scheduled maturity date. Proceeds from sales prior to maturity may be more or less than originally invested due to changes in market conditions or changes in the credit quality of the issuer.

Upon request, Madison may furnish to the client or institution a list of all security recommendations made within the past year.

Madison-918757-2026-04-15



Definitions

A basis point is one hundredth of a percent.

Bond Spread is the difference between yields on differing debt instruments of varying maturities, credit ratings, and risk, calculated by deducting the yield of one instrument from another.

Income from tax-exempt bonds may be subject to the federal Alternative Minimum Tax and state and municipal taxes.

Federal funds rate is the target interest rate range set by the Federal Open Market Committee (FOMC) for banks to lend or borrow excess reserves overnight. It influences monetary and financial conditions, short-term interest rates, and the stock market.

Option-adjusted spread (OAS) measures the difference in yield between a bond with an embedded option (e.g. callable bonds, mortgage-backed securities) with the yield on Treasuries.

Percentile Rank is a statistical measure that indicates the relative standing of a value within a dataset. As an example, a sector with an OAS of 35 and a percentile rank of 25 indicates that historically the OAS has been below 35 twenty-five percent of the time and above 35 seventy-five percent of the time.

Price earnings ratio (P/E) is the ratio for valuing a company that measures its current share price relative to its per share earnings (EPS).

Volatility is the degree of variation of returns for a given security or market index.

Yield Curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity. There are three main types of yield curve shapes: normal (upward sloping curve), inverted (downward sloping curve) and flat.

Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only, and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance.

Bloomberg U.S. Intermediate Government/Credit Bond Index measures the performance of United States dollar-denominated United States Treasuries, government-related and investment-grade United States corporate securities that have a remaining maturity of greater than or equal to one year and less than 10 years.

The VIX Index is a calculation designed to produce a measure of constant, 30-day expected volatility of the U.S. stock market, derived from real-time, mid-quote prices of S&P 500® Index (SPXSM) call and put options.

The S&P 500® is an unmanaged index of large companies and is widely regarded as a standard for measuring large-cap and mid-cap U.S. stock-market performance. Results assume the reinvestment of all capital gain and dividend distributions. An investment cannot be made directly into an index.

The S&P Midcap 400 is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment.

S&P Small Cap 600® Index: seeks to measure the small-cap segment of the US equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable.



Definitions

The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 11% of the total market capitalization of the Russell 3000® Index.

The Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000® Index, which represent approximately 35% of the total market capitalization of the Russell 1000® Index. As of the latest reconstitution, the average market capitalization was approximately \$3.7 billion; the median market capitalization was approximately \$2.9 billion. The largest company in the index had an approximate market capitalization of \$10.3 billion.

The Russell 1000® Growth Index is designed to track those securities within the broader Russell 1000 Index that FTSE Russell has determined exhibit growth characteristics.

The Russell 1000® Value Index is designed to track those securities within the broader Russell 1000 Index that FTSE Russell has determined exhibit value characteristics.

The MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries. With 1,138 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI EAFE (Europe, Australasia & Far East) Index is a free-float adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. and Canada.

The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets countries (excluding the US) and 23 Emerging Markets countries. With 1,843 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

The MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs).

The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market.

