Osprey
PRIVATE WEALTH

April 2026 Commentary

With the onset of spring, we hope everyone has successfully emerged from what felt like a colder and longer than usual winter in the Northeast. Although we are only through the first quarter of the year, it has been an event-filled few months. After notching new all-time highs in each of the last two quarters of 2025, the new year began with the prospect of solid economic growth as measured by GDP, along with expectations of strong earnings growth for the S&P 500 (hereafter, "the market" or "the stock market").

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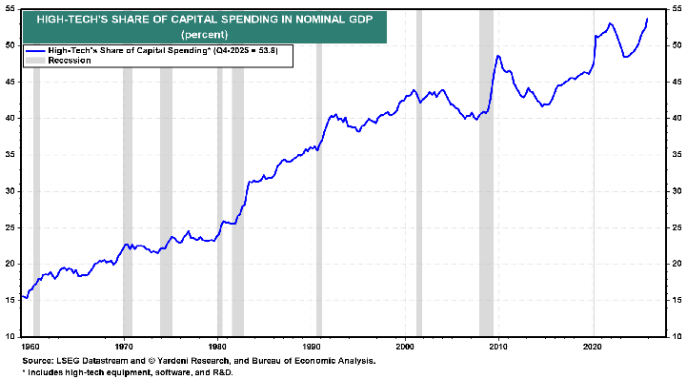
Through the end of February, the market was little changed for the year, which belied the turbulence beneath the surface as some areas saw sharp moves up (energy) and down (software). During the month of March, fears about the possible negative effects of artificial intelligence (AI) on the software industry, along with economic concerns regarding the Iran conflict increasingly weighed on the market. Ultimately, the market lost ground in the first quarter of 2026, generating a total return of -4.3%, after last year's 17.9% return.

Artificial Intelligence

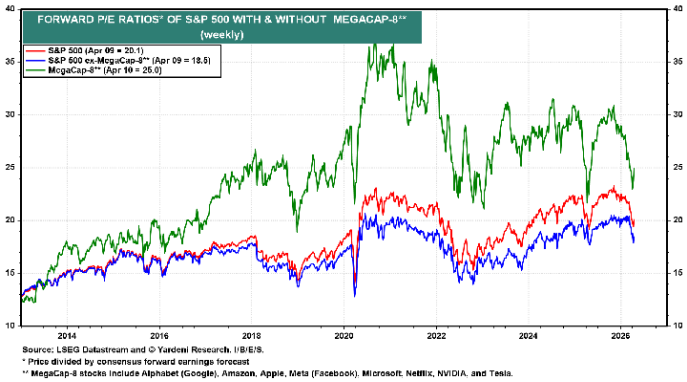
We have discussed AI several times over the past year, and this topic seems to grow in importance every day, as rapid technological developments continue to produce more efficient models with greater capabilities. Just in the past six months there have been several leadership changes in the horserace for the top-performing AI model, from Open AI's Chat GPT 5.4 to Google's Gemini 3.1, to Anthropic's Claude Mythos. This "leap frogging" of technology at such a rapid rate has set off chain reactions throughout the Mag 7 companies along with the software sector as investors attempt to discern the winners and losers.

Capital spending relating to this AI technology race amongst the Mag 7 companies (and a few private ones) accounts for a significant part of the stock market's earnings growth. The jobs and purchasing of equipment related to construction of data centers remains an important driver of economic growth, with high technology-related capital equipment, software and R&D accounting for nearly 55% of GDP in the fourth quarter of 2025.



AI-related capital expenditures continue to grow in astonishing fashion. As of January, the four largest hyperscaler companies are expected to spend nearly $635 billion this year, which compares to their 2025 spending of $380 billion. However, since AI spending has been such an important contributor to economic growth, if it were to falter or decline, the negative ramifications for the stock market and economic growth would be significant.

Despite the continued optimism for significant earnings growth, the concern over these eye-popping capital spending increases weighed on the performance of the Mag 7 stocks during the first quarter. This led to some compression of their elevated valuations, as they underperformed the market.



Much has been written about the jobs that could be eliminated by AI. While we do not claim to have a crystal ball on this topic, it is our belief that the U.S. economy is vibrant and adaptive, and through history there are plenty of examples of technological advances ultimately creating more jobs in new areas.

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In 1973, the NY Times published an article about ATM machines, that era's new technology, suggesting that up to 75% of bank teller jobs were at risk. Instead, ATMs ended up saving banks so much money that they opened many more branches, and bank teller employment expanded by over 80%. While there is no guarantee that the advent of AI will have a similar impact on employment, the efficiency of new technology usually leads to improvements in productivity and corporate earnings. This, in turn, typically leads to a faster-growing economy, which often drives an increase in hiring activity.

Private Credit

During the first quarter, the health of the private credit market drew a lot of scrutiny. This is a segment of the asset management industry that has grown significantly over the past decade. Private credit managers underwrite loans to small- and medium-sized private companies, typically at higher interest rates than loans from a commercial bank. Investors have been attracted to the somewhat higher yields offered by private credit managers, sending a lot of funds their way.

Such loans, unlike many publicly traded securities purchased by investors, are illiquid. Because of the illiquidity of these loans, it's not unusual for a private credit manager to limit redemptions to 5% of assets in any given quarter. Recently, concerns about the quality of such loans and the potential negative impact of AI on some of the borrowers led clients to request withdrawals of their funds in excess of the redemption limits. As a result, the private credit managers in many cases have had to say "no" and limited the withdrawals. (The industry term for this is "gating" withdrawals, meaning that the private credit manager puts up a "gate" so that the client cannot withdraw all their funds at once.)

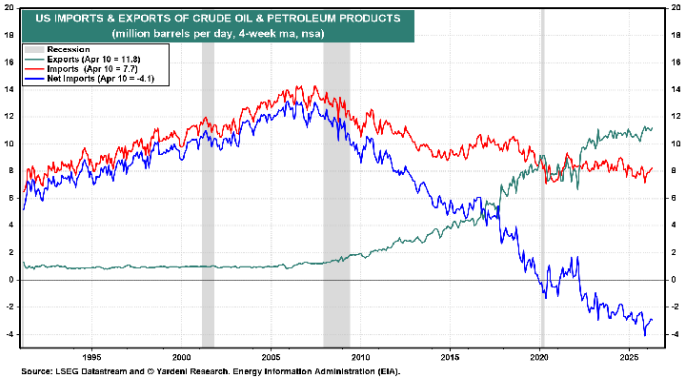
Over the next few years, a wave of private debt will mature and need to be refinanced at prevailing interest rates, which are currently higher than they were in the years immediately following the pandemic. In addition, many private credit firms are seeking to reduce their exposure to software company loans since some firms are over-exposed today. It is unclear how this combination of more expensive debt and fewer buyers of debt will play out, but we would not be surprised to see an increase in distressed sales and bankruptcies among these companies in the coming years. This could end up having a negative impact on commercial banks that have lent money to private credit managers.

Iran Conflict

Market concerns about the potential effects of AI faded quickly on February 28th with the onset of war between Iran, the United States and Israel. The conflict has had a substantial impact on commodity prices (for example, West Texas Intermediate crude oil rose by 74% through the first week in April), curtailing supplies of oil, LNG (liquified natural gas), fertilizer and helium. These supply shortages continue to be a major economic concern, although if recent developments continue to hold and the Strait of Hormuz is truly open for business once again, these concerns are likely to wane.

According to AAA, the U.S. national average price for a gallon of unleaded gasoline has increased by 40% over the same time period, while diesel is up 47%. In the past, spikes in the price of fuel have often led to a recession, as the Fed aggressively raised rates to combat rising inflation. This time may or may not be different, as our economy today has transitioned into more of a service economy, compared to the manufacturing-led economy of decades ago.

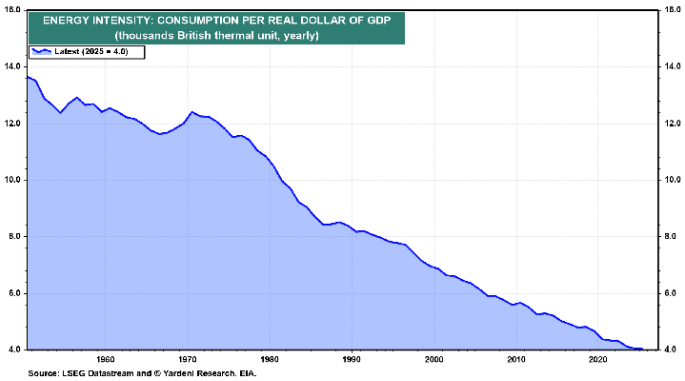
After peaking at over 14 million imported barrels of oil per day in 2007, the U.S. economy has effectively weaned itself off oil imports since that time and is now a net exporter. Due to differences in grades of oil, the U.S. still imports 8 million barrels per day, but we export 11 million barrels per day. This does not mean the U.S. is immune to global oil price changes, but the significant shift in demand/supply dynamics suggests that we may be less impacted this time around.



Over many decades, our economy has become far less energy intensive. Cars produced today are a combination of electric vehicles, hybrids and significantly more energy-efficient gasoline cars, reducing our dependence on gasoline. Gasoline usage peaked in early 2020 at 9.3 million barrels per day even though vehicle miles traveled in the U.S. continues to make new highs.

Since the 1970s, in addition to having far more efficient cars, many factories switched from using crude oil to natural gas as an energy source. Furthermore, there are fewer factories in the U.S. today as manufacturing has increasingly been outsourced to other countries. In light of all of the changes highlighted above, the impact of an oil price spike on our economy could pose less of a problem today.

Depending on whether the conflict has truly ended, one concern is the degree to which persistent inflationary pressure will arise from the commodity price spike, and how this pressure might translate into the spending patterns of both consumers and corporations. In the "persistent inflation" scenario, economic growth would be negatively impacted, thus complicating the Fed's rate decisions going forward.



Inflation

While February's 2.5% year over year core CPI was the lowest such inflation reading in five years, the March figure crept up to 2.6%. March headline CPI rose to 3.3% from 2.4% in February, since the headline measure includes energy. However, energy is just 6.3% of Noncore (or headline) CPI, far smaller in importance than housing (45%), food & beverages (14%), and transportation (15%). Nevertheless, we should expect headline CPI to trend higher in the coming months as higher energy prices work their way through the economy.

The Fed's dual mandate is to promote stable prices (targeting a core inflation rate of 2%) and maximum employment. Fed officials do not want to see inflation picking up while the employment outlook starts to look shaky, because cutting rates in support of job growth might stimulate inflation, and hiking rates to fend off inflationary pressures could increase unemployment.

Since the FOMC meeting in mid-March, the market is no longer discounting any rate cuts in 2026. For the time being, the Fed's hands may be tied with respect to cutting or hiking rates, as we all wait to see how the inflation and employment conditions develop over the coming months due to the volatility of oil prices.

Employment

As for the other half of the Fed's dual mandate, employment, conditions currently remain favorable. The monthly payrolls data from early April was positive and helped confirm the underlying strength in the economy. The unemployment rate fell to 4.3%, while weekly initial claims fell to their lowest level of 2026.

Fed Chair Powell recently described the jobs environment as "sort of a zero-employment growth equilibrium." Demand for labor has slowed, partly due to companies adopting productivity measures including automation and AI. At the same time, the supply of labor has declined, as baby boomers retire from the workforce and immigration policies have become more restrictive, even for H1-B visas and green cards, slowing the growth of foreign-born workers.

Economic Growth

Recent economic growth modestly slowed after robust growth in 2025. The government shutdown during the fourth quarter of 2025 negatively impacted Q4 GDP and made the headline figure less comparable to prior quarters. We isolated a subset of the GDP data called "final sales to domestic purchasers" (FSDP) and compared that to the first three quarters of the year to get a better sense of the underlying trend. First quarter 2025 FSDP grew by 1.9%, while the second and third quarters grew by 2.9%, and then reverted back to a still healthy 1.9% in the fourth quarter.

As for the first quarter of 2026, the official GDP report from the Bureau of Economic Analysis won't be released until the end of April. The latest Atlanta Fed GDPNow forecast is for GDP growth of 1.3%, down quite a bit from the late February forecast of 3%. There are a few more weeks' worth of data ahead of us that could push that forecast either higher or lower, and we believe the unusually severe winter may have negatively impacted growth due to several factors that are likely to reverse in the second quarter.

Outside of the U.S., economic growth appears mixed, with most major economies showing slower growth this year compared to 2025. Many countries are likely to feel the burden of higher commodity

prices to a greater degree than the U.S., with shortages potentially impacting growth. Tariffs also continue to be a potential headwind for companies reliant on exports to the U.S.

U.S. consumer spending accounts for roughly 70% of our economy, so assessing the health of the consumer is important as a predictor of growth. In 2025, the first quarter saw somewhat weak consumer spending, so this year's first quarter should have an easy comparison. In addition, weekly retail sales data from Redbook have been consistently robust since the end of January, and quite strong over the last month, with year-to-date figures averaging better than in the last several years.

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A likely headwind to the strong retail sales data is the steady increase of gasoline and diesel fuel prices that occurred during March, although gasoline has a far larger impact on lower income cohorts which account for a smaller portion of consumer spending. The price of diesel is also important as transportation fuel used by trucks, trains, and ships to move goods around the world. The second quarter could experience a larger oil-related headwind to spending, but oil prices should begin to normalize if the hostilities have truly ended.

The Treasury yield curve has historically provided a good indication of economic conditions, with the difference between 2 and 10-year yields increasing (steepening) when the economy is growing and decreasing (flattening) when growth is slowing. Since the yield curve's steepness has barely changed from the outset of the Iran conflict, the indicator suggests to us that economic conditions have not significantly deteriorated.

Month-over-month growth in durable goods orders for the last four months has been the strongest period in recent history, which bodes well for economic growth over the coming quarters. The ISM non-Manufacturing PMI (Purchasing Managers Index) for March, which includes the impact of rising fuel prices, declined slightly from the February reading but remained above the average for the last several years. ISM's March Manufacturing PMI has been steady for the last three months at the highest level seen in the last three years.

April is tax season, and many Americans will be receiving tax refunds. Due to legislation passed last year and based on recent confirmatory data, refunds are on track to be 10 -15% larger than in 2024. This boost should help mitigate the higher price of gasoline and could boost discretionary spending.

In the last few days of March, we noted a few quotes from corporate earnings calls. The CEOs of Paychex, Darden Restaurants, Dover, and the CFOs of Nike and Affirm (a "Buy Now, Pay Later" lending company), all indicated that after a month of higher gasoline prices, to date there is no sign of more cautious spending behavior by consumers. We will certainly be hearing more about this topic in the coming weeks on earnings calls.

Outlook

Despite the likelihood of near-term headwinds from the Iran conflict and its repercussions, we remain optimistic about the economy and the stock market over time. Recently updated consensus views on the odds of a recession remain relatively low, the Fed appears to be on hold with interest rates at modest levels, and corporate earnings growth expectations for 2026 continue to edge higher, even outside of the Mag 7 companies. In fact, current estimates for 2026 earnings growth for the S&P 500 sit at nearly 17%.

Research from Fundstrat indicates that the stock market typically bottoms early in wartime episodes. Similar research from Deutsche Bank, recently reported in the Wall Street Journal, shows that the average stock market decline across 30 major geopolitical events since 1939 was just 4%. From the start of the Iran conflict to the recent market bottom on March 30, the decline was just under 6%.

Therefore, it could be that this episode is playing out in textbook fashion, although we may not be out of the woods just yet.

In summary, our cautious optimism about the economy and the stock market is based upon a long list of tailwinds that we think are likely to help boost growth. They include not only the massive amount of spending on AI that we discussed, but efficiency gains from automation and robotics, all of which are likely to boost productivity. This will help companies produce more even if their labor force remains flat or shrinks modestly.

Additional corporate investment spending in the U.S. will be driven by re-shoring of manufacturing. Early signs of this have been demonstrated in recent months by ISM Manufacturing PMI surveys that are the highest in several years. As of late 2025, there have been major investment commitments from foreign governments and corporations to the tune of $9.6 trillion. Even if only a fraction of these commitments materialize, it should be stimulative to the growth of the economy.

Capital spending has an additional tailwind this year from the legislation passed last year which provides for 100% depreciation, allowing companies to immediately expense the cost of qualifying equipment and machinery. In addition, the bill allows 100% expensing of R&D, rather than the prior rule which required amortizing the expense over five years. These changes are likely to be very stimulative to capital investment activity, a driver of economic growth, while at the same time helping to boost corporate cash flow.

Consumers as a whole continue to spend. While lower income cohorts are clearly facing challenges, upper income spending continues to surprise to the upside and is a large proportion of the total spending pie. Baby boomer net worth approaches $90 trillion, and as retirees they have been spending down their savings. This year's higher tax refunds may spur additional spending activity.

As we have already discussed, the Fed is likely on hold for now, but the Fed's three rate cuts from last fall should positively impact economic growth this year as it is generally believed that rate cuts exert their positive impact with a lag of 6-18 months. We may already be seeing some green shoots in the form of an increase in lending activity, but we'll have to wait for more official data to verify this.

In addition to the tailwinds we have outlined above, recall that a few pages earlier we showed a chart of forward price-to-earnings valuations for the Mag 7 and the rest of the market. Since its peak in the fall, the market index forward valuation excluding the Mag 7 has declined by 10%, while the Mag 7 forward valuation has declined by over 20%. These declines happened while earnings estimates have been rising, meaning that analysts hold the view that the outlook for corporate earnings is even stronger now than at the beginning of the year. In other words, fundamentals have apparently improved and stocks have gotten cheaper.

Bears would argue that these earnings estimates are too optimistic given recent geopolitical developments, and as we enter earnings season, it is certainly possible that management teams will want to give themselves wiggle room by highlighting the increased uncertainty in their outlook and guide to a wider range of possible outcomes for 2026. History shows that it is not unusual for the market to struggle during the first half of midterm election years; however, as election uncertainty gets resolved the market typically strengthens into year end.

Due to current levels of uncertainty, investors are likely to continue to see heightened volatility. However, we continue to focus on the longer-term benefits of the many positive drivers of growth this year and beyond.

—The Team at Osprey

About Osprey Private Wealth

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As an independent Registered Investment Adviser (RIA) registered with the SEC, we provide ongoing investment advice through separately managed accounts. Our professionals each have more than 25 years of experience in independent investment advisory firms, directly advising clients and managing portfolios.

We focus on growth and preservation of wealth, tailoring investment portfolios based on your objectives through individual investment selections. Our dedicated Wealth Advisors and team members handle portfolio management, wealth advisory, and client contact with a highly personalized approach.

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