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# ADVISORY Notes

MARCH 2026

## First Quarter 2026 Review

As the first quarter of 2026 concludes, market conditions have shifted from the momentum-driven environment of recent years to one defined by increased geopolitical and economic complexity. In response, we remain focused on disciplined analysis and providing long-term financial guidance through evolving market conditions.



U.S. equity markets experienced heightened volatility during the quarter, as early optimism gave way to renewed geopolitical concerns. Following strong performance in 2025, the S&P 500 encountered several periods of retrenchment, particularly as mega-cap technology stocks faced profit-taking and increased scrutiny around AI

competitiveness. Encouragingly, market leadership has begun to broaden, with value-oriented and cyclical sectors providing underlying support. Corporate earnings remained resilient. Fourth-quarter 2025 results generally exceeded expectations, and forecasts for the first quarter of 2026 indicate continued double-digit growth. However, rising energy costs are emerging as a key variable, with analysts closely monitoring their potential impact on margins for both the current quarter and the remainder of the year. (See Market Table below for index returns.)

The escalation of the conflict involving Iran has been a defining market influence this quarter, contributing to significant disruptions in global energy supply. International equities continue to trade at a meaningful valuation discount relative to U.S. markets, particularly in Europe and Asia, where dependence on energy flows through the Strait of Hormuz has heightened vulnerability. Oil prices have been a primary driver of investor uncertainty. Current projections for Brent crude

suggest that prices may remain elevated if supply disruptions persist, increasing pressure across global markets.

The rise in energy costs has also disrupted last year's declining-rate narrative. Inflation concerns have resurfaced, and while interest rate cuts were previously anticipated, the Federal Reserve now appears more likely to maintain a cautious stance amid persistent pricing pressures. The U.S. labor market remains relatively firm; however, sustained cost pressures could begin to weigh on hiring trends. Within fixed income portfolios, we continue to emphasize high-quality holdings to provide stability during periods of increased volatility. (See Chart 2: U.S. Gas Prices on Page 2)

Artificial intelligence continues to be a defining force across the economy. Companies that successfully integrate AI are benefiting from improved efficiency, enhanced customer engagement, and stronger margins. At the same

*See First Quarter on Page 2*

MARKET TABLE	VALICENTI ADVISORY SERVICES, INC. Comparative Index Period Returns From 12-31-25 THROUGH 03-31-26								
	Dow Jones Industrial Average	S&P 500 Equal Weight Index	S&P 500 Index	NASDAQ	Russell 2000	BBG Barclays AGGR Bond Index	BBG Barclays Muni Bond Index	FTSE USBIG Corporate Bond Index	ICE B of A US Treasury Bill Index (0-3)
12-31-25 to 01-31-26	1.80	3.39	1.45	0.95	5.35	0.11	1.01	0.21	0.30
01-31-26 to 02-28-26	0.31	3.55	-0.76	-3.38	0.80	1.64	1.34	1.39	0.28
02-28-26 to 03-31-26	-5.20	-5.97	-4.98	-4.75	-5.00	-1.76	-2.50	-2.14	0.30
<b>Cumulative Returns</b> 12-31-25 to 03-31-26	-3.19	0.67	-4.33	-7.11	0.89	-0.05	-0.19	-0.56	0.88



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**Director’s Chair**

As the first quarter of 2026 closes, we find a return of volatility and at the time of this writing a down stock market. Military conflict in Iran, pre-existing worries



about inflation current worries that higher hydrocarbon prices will stoke a new round of inflation, and rising probability of a global recession have all taken an effect on financial markets.

It’s time to roll up our sleeves and put in hard work to generate outperformance for the accounts in this environment, just like the character of first year law student James Hart in the 1973 film *The Paper Chase*. Investors today can find sympathy for the character as they both navigate a period of volatility and a lack of control over their environment. For Hart, it was the domineering professor

Kingsfield that acted as tormentor while for investors it is a continual stream of worries that have created a high-pressure scenario. We can see the downside burden in a multitude of declines from all-time highs that were, set in early February, with the S&P 500 down 6.8%, international stocks down 8.9%, the “magnificent 7” stocks down 16.2%, small-cap stocks down 8.7%, and gold down 15.5%. Mind you, the stock market hasn’t failed its test and gone into a bear market.

Year-to-date the S&P 500 is down 4.3%, nowhere near the media hysteria the financial press likes to engage in. It’s reminiscent of the “tariff tantrum” stoked by the press last year. Serious questions remain as to how long the military conflict will take to resolve, when will oil markets return to normalcy, and will our global trading partners suffer economic contraction. As for the United States, we have become a net exporter and producer of oil thanks to the “fracking” technology revolution that began at the turn of the century, and has truly blossomed in the past fifteen years. For consumers it may not feel pleasant to pay

higher gasoline or home heating oil prices, but American oil companies and their workers are benefiting from current prices. For oil producing regions such as Texas, Oklahoma, and the Dakotas, those communities will see higher economic activity. Unlike Europe or Asia who are oil importers, American oil production makes it much less likely for a recession to occur domestically. If international oil markets can return to stability within the next month, it is also more likely that foreign markets do not enter into recession.

We remain U.S. dominant focused investors at Valicenti and expect less volatility than international markets. Don’t be like Hart’s classmates that fail by dropping out of college, or I mean the stock market. Long-term investing historically is a proven success with average U.S. stock market returns of 10% since 1926.

Louis F. Ruize  
*Director of Research*  
*Portfolio Manager*  
*Chief Investment Officer*

**First Quarter**

*(Continued from Page 1)*

time, the pace of disruption is contributing to uncertainty and uneven outcomes across industries, leading to greater variability in earnings results and valuations.

While the current geopolitical and economic backdrop presents challenges, our long-term investment philosophy remains unchanged. We remain committed to prudent portfolio construction aligned with each client’s goals, maintaining discipline through periods of volatility.

We sincerely appreciate the continued trust you place in Valicenti Advisory Services and wish you a healthy and prosperous spring.

Joseph M. Valicenti  
*President*  
*Chief Executive Officer*

**Weekly U.S. All Grades All Formulations Retail Gasoline Prices**

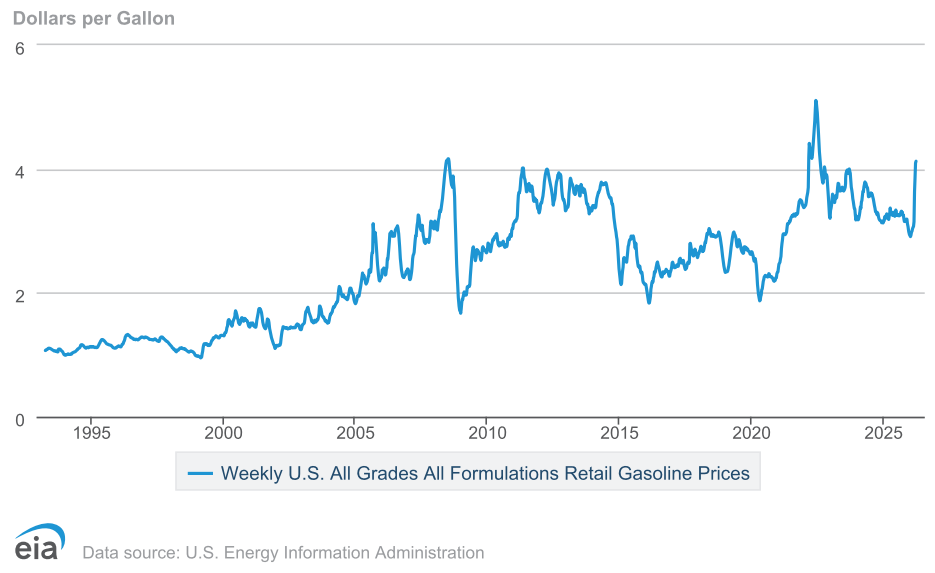


Chart 2: U.S. Gas Prices

**Tax Corner**

The tax season has now come to a close, and for many clients, the natural instinct is to move on. However, this is actually one of the most valuable points in the year to step back and evaluate what your return is telling us.



At our firm, we do not view the tax return as the finish line. It is a starting point for better decisions going forward.

**Your Tax Return Is a Diagnostic Tool** — Your return shows where your income is coming from, how it is being taxed, and where planning opportunities may exist. If something surprised you, such as higher tax, lower refund, or unexpected income, that is not just a result. It is something we should understand and address now, while there is still time to act.

**Refund or Balance Due: What It Really Means** — A large refund often means you gave the government an interest free loan. A balance due may mean you underpaid or simply that your cash stayed in your hands longer. Neither is inherently good or bad. What matters is whether it was intentional.

**Estimated Taxes: Adjust Early** — If your income is variable, business income, investments, or bonuses, your estimated payments should be revisited now. This is one of the easiest things to adjust in April, and one of the hardest things to fix in December.

## Now What? Turning Your Tax Return Into a Plan



**Business Owners: Now Is Your Window** — This is the time to reset expectations, evaluate your structure, and align your tax strategy with how your business is actually performing. The clients who take an hour to plan now are the ones who avoid surprises next March.

**Multi-State Considerations** — If you moved, split time between states, or worked remotely, your tax exposure may be more complex than it appears, particularly in New York. Residency is not just where you say you live. It is what you can document.

**Client Scenario**  
*(What This Looks Like in Real Life)*  
We recently worked with a new client whose tax situation had evolved over the course of the year. Their income mix had shifted to more investment income with less withholding which changed how their overall tax picture came together.

Nothing was incorrect. It simply had not been actively adjusted along the way.

By revisiting their estimated payments and aligning their income streams early in the new year, we were able to bring their tax payments in line with their current income, smooth out cash flow throughout the year, and give them greater visibility and control over the outcome.

That conversation took less than an hour, but it completely changed how this year will play out.

Situations like this are common, especially when income is not static, and are exactly where proactive planning adds the most value.

**Final Thought**  
Effective tax planning does not happen during filing season. It happens in the months that follow. If your return raised questions or did not go the way you expected that is the right place to start.

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Richard P. Burchill  
*Director of Tax and Business Services*



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## Analyst Corner

The first quarter of 2026

featured sharp swings in policy expectations, market returns, and yields. Before the Iran war began, mortgage rates briefly dipped below 6%. Inflation, as measured by CPI, did not surprise to the upside, while labor market data softened. Together, these developments supported the view that the Fed could deliver two rate cuts by year-end. The most recent FOMC dot plot also showed that most participants maintained their projections for one or more cuts this year.

At the same time, the release of new AI tools unsettled investors across several industries, including software, legal services, data analytics, and cybersecurity. Some market participants viewed these tools as a potential threat to business models and employment. While it remains too early to assess their full impact, others argue that these tools are more likely to complement existing workflows rather than replace them.

Beginning on February 28, markets became more volatile and moved lower as the Iran war intensified. Mortgage rates rose above 6% again. Markets have since largely priced out rate cuts for this year, with some even assigning a small probability to a hike. This remains a very fluid situation. Higher oil prices, elevated rates, and policy uncertainty have all contributed to increased market volatility.

The S&P 500 delivered a -4.3% total return for the quarter. Energy was the leader and gained 38.3%. Financials and Consumer Discretionary were the laggards, declining 9.5% and 9.2%, respectively.



### Positive Market Influences

Corporate Earnings  
ISM Surveys  
Tax Refunds

### Negative Market Influences

Iran War  
Labor Market  
Rate Uncertainty

The 10-year U.S. Treasury rate spiked from 3.9% before the war started to 4.3% at the end of the quarter. This increase likely reflected the market's repricing of Fed policy expectations, along with the spike in oil prices. In corporate credit, spreads have widened, and the FTSE USBIG Corporate Index returned -.6% in Q1.

Although macro uncertainty has weighed on sentiment, economic data and corporate earnings remain broadly stable. Market sentiment and expectations can change rapidly and thus it is better to adopt a long-term perspective rather than react to short-term narratives.

### Positive Market Influences

- **Corporate Earnings** – According to FactSet's Earnings Insight, the Street is looking at 11.6% S&P 500 earnings growth in Q1. If realized, this would mark the sixth consecutive quarter of double-digit earnings growth.
- **ISM Surveys** – ISM Manufacturing PMI has moved above 50 since the start of this year, indicating an expansion in manufacturing activity. ISM Services PMI has also trended higher since September 2025 and has remained above 50. Continued readings of both measures above 50 would signal a positive direction for the economy.
- **Tax Refunds** – Tax refunds are expected to increase year-over-year. Average tax refunds are up about 11% this year, which equates to about \$350. This increase, however, may be offset by the higher spending at the pump.

### Negative Market Influences

- **Iran War** – On February 28, the United States launched Operation Epic Fury targeting Iran. Since then, the Strait of Hormuz's effective closure led to a massive spike in oil, increased market volatility, and interest rates. If oil continues to stay or rise above these elevated levels, broader economic disruption will become increasingly likely.
- **Labor Market** – Recently, the unemployment rate printed at 4.40%. While not a high absolute figure, the trend has been moving higher. Additionally, U.S. nonfarm payroll data, while delayed and revision prone, has come in on the softer side. This could ultimately challenge resilient consumer attitudes should it continue.
- **Rate Uncertainty** – Before the war began, markets were pricing in two rate cuts by the end of the year. As of now, they are pricing in no rate cuts this year. The continued geopolitical uncertainty has reverberated throughout the markets and has affected mortgage rates as well. This has made it increasingly difficult for the already challenged housing market.

Samson Lin  
*Director of Economic Research  
and Investments*



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## Investment Strategy

The first quarter of 2026 has had a bumpy start, with markets pressured by geopolitical tensions, conflict in the Middle East, rising energy



costs, inflation concerns, and uncertainty around future Federal Reserve policies. These factors have impacted markets both domestically and internationally.

Despite these headwinds, markets have demonstrated broad resilience. As we approach first quarter earnings results, corporate and government spending continues to be robust, and the domestic economy and labor markets remain solid.

On the positive side, strong corporate earnings and solid fundamentals have provided support, while continued investment in artificial intelligence and related infrastructure remains a secular growth tailwind. Expectations of supportive monetary policy have also helped cushion some of the volatility.

We maintain a dynamic investment strategy, emphasizing financially strong large cap companies with durable margins and steady cash generation. Our current asset allocation reflects a balanced and flexible approach, with approximately 40 to 60 percent in equities, 30 to 40 percent in fixed income, and 5 to 10 percent in money markets or short-term government securities. This structure enables us to adapt to changing market conditions while addressing individual client needs.

In conclusion, while volatility remains elevated, our disciplined, diversified approach positions portfolios to navigate uncertainty while capturing opportunities for growth.

Jeffrey S. Naylor  
Executive Vice President  
Chief Financial Officer  
Chief Compliance Officer

## Reverse Budgeting and Automated Banking: Simplify Your Savings Plan

Traditional line by line budgeting works for some people but feels restrictive and time consuming for most. Reverse budgeting flips the script by prioritizing savings and fixed obligations first, allowing the remaining funds to be used flexibly. Pairing this approach with automated banking converts good financial intentions into consistent deposits and reduces mental budgeting fatigue, allowing you to reach your financial goal with less effort.



Reverse budgeting begins with a clear picture of your after-tax income and fixed obligations such as rent/mortgage, insurance, utilities, and minimum debt payments. Before dining out, entertainment, or impulse purchases,

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*Reverse budgeting combined with automated banking is a financial plan that protects your financial priorities while freeing mental bandwidth.*

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es, designate amounts that go automatically towards your highest priorities, commonly an emergency fund, retirement accounts, or extra payments on high interest debt.

Automation is the operational backbone that makes reverse budgeting effective. Set up recurring transfers from your checking account to separate savings for investment accounts,

enroll in payroll deductions for employer retirement plans and enable auto-pay for recurring bills. These automated mechanisms end overdue payments, reduce the risk of missing submissions, and help build wealth consistently with minimal effort.

Map your cash flow: list net income, fixed monthly bills, and current savings balances. Decide which savings allocations to automate first. Emergency funds and capturing employer retirement matches are great targets. Schedule transfers for pay day to move money before temptation arises. Set up distinct accounts for emergencies, short term goals, and long-term investments to keep funds earmarked and off limits from everyday spending.

To avoid common pitfalls including lifestyle inflation, underestimating irregular expenses and poor account design be sure to schedule quarterly reviews. As income grows, increase savings and debt repayments before increasing discretionary spending. Allocate a buffer to cover taxes, annual subscriptions, and other irregular expenses. Aim for a small number of well-labeled accounts.

Reverse budgeting combined with automated banking is a financial plan that protects your financial priorities while freeing mental bandwidth. Start small, automate one critical transfer like retirement or emergency fund, then expand. The payoff is consistency: predictable savings, faster progress towards goals, and a simpler relationship with money.

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Kathryn E. Stage, FPQP®  
Client Relationship Associate



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### Taxation

- Personalized tax preparation: Individual, Partnership, Corporation, Estates, Trusts and exempt organizations
- Tax planning for individuals and businesses
- Audit assistance or representation before tax authorities
- Online research capabilities for Federal and all 50 states
- Semi-annual client newsletter

### Accounting Services

- Financial statement analysis and preparation
- Bookkeeping
- Sales tax returns

### Business Consulting

- Business entity design: Sole Proprietor, Partnership, Corporation and Limited Liability Company (LLC)
- Business plan design and execution
- Analysis of business direction and strategic planning
- Fringe benefit evaluation

## For ALL Your Wealth Management Services Needs

### Portfolio Management

- Individual and joint accounts
- Individual retirement accounts (IRA's)
- Trust and estate accounts
- Endowment and Foundation accounts
- Business retirement plans
- Agent for the Fiduciary

### Planning and Consulting

- Estate
- Financial
- 401(k) review and analysis
- Income
- Retirement
- Taxes

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