



Capital Markets Commentary – March 2026

Well, we never said this year wouldn't be interesting. The Supreme Court, in a 6 to 3 ruling, declared the administration's Liberation Day tariffs illegal. Sources vary as to how much tariff revenue has thus far been collected, but according to Reuters, citing data from Penn Wharton, the US businesses and individuals who paid tariffs in 2025, may now be due a refund of over \$175 billion. Lawsuits have been filed (in addition to the suits that led to the Court's ruling in the first place). It stands to reason that the subject of refunds could be tied up in the courts for years.

In response, the administration cited an obscure statute known as Section 122 of the Trade Act of 1974 to reimpose a global carpet tariff of 10% along with a threat to take that number up to 15%. Markets howled in protest but moderated the following day. Perhaps investors believe the threat is all hat, no cattle, or maybe they believe that deals already struck with international trading partners for lower duties will prevail. Will our trading partners instead make commitments to China in search of a more stable relationship? We don't know (and could not have imagined living in a world where that's an actual possibility). Regardless, it seems reasonable to expect the volatility around trade, the dollar and sovereign debt to persist.

Not all of this year's headlines have been contentious. For the first time in 46 years, since the "Miracle on Ice," the U.S. men's hockey team brought home Olympic gold. The women's team also brought home gold, with both teams defeating Canada in overtime during their respective gold medal matches. Consider it a rare surplus in the hockey trade balance. Moments like these remind us that, despite policy debates, political tension, shifting trade dynamics, and the steady drumbeat of economic uncertainty, there are still occasions that unite the country in pride, perspective, and shared celebration.

As we discussed last month, the outlook for 2026 includes a balanced mix of potential upside catalysts and downside risks. We are most definitely not wallowing in doom and gloom. We highlight the negative only in an effort to ward off complacency. With the exception of an odd year here and there, we've been blessed with up markets since 2009. As the years have added up, the pain of the last major bear market has faded to the point where many may risk believing it will never happen again. Hear this: Bear markets happen. While there are plenty of reasons to be optimistic about 2026, too, we have concerns. We'll discuss those concerns in a moment, but first, let's look at the numbers for February.

February delivered a mixed picture across global markets. In the U.S., returns leaned negative, with the Dow managing a modest gain of 0.3% while the S&P 500 slipped 0.8% and the NASDAQ fell 3.3% as technology shares faced renewed pressure. Overseas, results varied. Europe's STOXX 50 advanced 2.9% for the month, while Hong Kong's Hang Seng declined 2.9%. Japan stood out, with the Nikkei 225 rallying 9.3% and delivering one of the strongest performances among major developed markets. Yields moved lower over the period, with the U.S. ten-year Treasury finishing the month at 3.94%.ⁱ Next, we'll quickly hit on a few comments from the State of the Union Address.

In his recent State of the Union address, President Donald Trump delivered what was reported to be the longest such speech in modern history, focusing heavily on domestic policy and economic messaging. He noted that more Americans are working today than at any time in the nation's history, an encouraging data point, though one that is partly attributable to the growth of the U.S. population over time. Last year, employment growth increased, but at a significantly slower pace. The President also pointed to crime statistics, stating that the murder rate is now the lowest it has been in roughly 125 years, with last year marking the single largest annual decline in the murder rate in recorded history. There were numerous other economic data points discussed, but we won't bore you with all the details.

The speech also marked the President's first public appearance alongside members of the Supreme Court of the United States since they declared the administration's Liberation Day tariffs illegal. Notably, the President again suggested that tariff revenue could eventually serve as a substantial replacement for the modern income tax system. Whether that idea gains traction remains uncertain, especially given the recent ruling and the practical and political challenges such a shift would entail.

The final point from the address we'd like to mention, or really have the space to mention, resonates particularly close to home for our team. Among the evening's highest recognitions spanning both civilian and military honors, including awards like the Medal of Honor, the President honored two members of the West Virginia National Guard, who were shot in Washington, D.C. last year. Staff Sgt. Andrew Wolfe was awarded the Purple Heart and Spc. Sarah Beckstrom was awarded the Purple Heart posthumously, which was received by her parents on her behalf. Our team is deeply thankful

for the men and women who serve this country. We all get one life on this earth, and these individuals willingly accept the risk of losing theirs in service to something greater than themselves. We encourage you to do something kind for those who serve or have served. You never know the impact a simple act of appreciation may have. Now on to our glass-half-empty concerns. For the sake of brevity, we'll limit this month's list to just two – trade and debt.

It is important that America's trading partners provide us with as level a playing field as possible. It is also important that their markets are open to our goods. Perhaps, though, measuring the relative fairness of a trading partnership based upon a trade deficit isn't the best way to gauge its value. What do we mean by that? There are approximately 342.3 million Americans and our mean household income is \$83,730.ⁱⁱ Compare that to the UK with a population of 69.3 million and an average income of \$51,374 per year, or France with a population of 68.6 million and an average income of \$48,597.ⁱⁱⁱ We buy more from these (and other) countries because we have more people and our people make more money than their people. Simple math. Plus, we Americans are kind of a rapacious lot. We like to accumulate stuff.

While trade deals most assuredly ought to be fair, we should be wary of driving our current trading partners into the arms of another alpha country. There are benefits to keeping our trading partners both happy and close. We pay foreign vendors in dollars which they in turn can use to purchase dollar-denominated things like US stocks and Treasuries. The United States's position as the world's dominant capital market is one reason the dollar remains the world's primary reserve currency. This healthy global appetite for Treasuries (and dollars) helps keep interest rates lower. Lower interest rates in turn make it more affordable for the US to service its debt and can be a moderating influence on borrowing costs for American companies and consumers. In short, trade deficits are not a net negative for the US.

Should our trade policy fail to become more dependable and less chaotic, our trading partners could choose to improve and increase their commitments to other countries, like China or India, thus reducing the dominance of the dollar and reducing the global appetite for Treasuries. In its worst iteration, this can result in the "Sell America" trade that we caught glimpses of in January when Treasury yields spiked and equities sold off. Note that the inverse of this is on our list of potential upside catalysts for 2026. Should all of this trade angst be amicably resolved, investors could offload at least one major concern.

And then there's debt (yes, we always wring our hands about debt, sovereign, corporate and consumer). In remarks to investors on February 23rd, JP Morgan Chase CEO, Jamie Dimon, again discussed his concerns about debt markets. As ever blunt, Mr. Dimon said, "I see a couple of people doing some dumb things." He's referring to the fierce competition for loans that can tempt banks and businesses to make overly aggressive bets. Furthermore, an increasingly unwieldy chunk of the

debt being created is linked to artificial intelligence and hyperscalers linked to data centers. A report from UBS, as cited by CNBC, estimates that public debt issuance linked to hyperscalers could exceed \$230 billion this year alone, representing an increase of \$40 billion over 2025. Morgan Stanley estimates that technology borrowing may approach \$1.5 trillion (with a “T”) over the next few years. One Mag 7 company recently issued a 100-year bond. And it’s not just the amount of debt being issued. Much of data center lending is incestuous, meaning that the lenders and borrowers are deeply interconnected, with companies lending to each other or operating with overlapping capital structures. How this debt is later leveraged or compiled into derivatives is anybody’s guess.

Our point, and we think Mr. Dimon’s point, is that there’s a ton of leverage out there dependent upon the continued, some would say exponential, growth of artificial intelligence infrastructure. If those growth projections are accurate then OK, but it would not be the first time that the near-term growth projections for a hot new technology were overly ambitious. The amount of debt tied to those growth projections, should they prove overly ambitious, has the potential to cause trouble in the banking sector and within some private credit vehicles.

As we close this letter, we would like to recognize a very special member of our team. Last month, Katherine Jones retired from the firm. Katherine has been a foundational influence on our team’s perspective, a driver of culture, and an exceptional leader who has shaped not only our practice, but the experience of countless clients over the years. Many of you may not realize that Katherine has authored this Capital Markets Commentary dating back to at least 2013. Her steady voice, intellectual curiosity, and disciplined perspective have guided these pages for more than a decade. She approached markets with both conviction and humility, a rare and valuable combination. Katherine will be deeply missed, both professionally and personally. We are grateful for her leadership, her mentorship, and the standard of excellence she set for our team. We wish her the very best in this next chapter.

We could venture into a discussion of other concerns, not the least of which are geopolitical, but we’ll spare you (for now). We also emphasize that trade policy *could* be normalized, and AI growth *could* live up to the hype. Both of those events resolving under the best-case scenario *could* be a boom for stocks. We just can’t know, and this is why we’re preaching from the hymnal of quality. Again. Let’s do a risk tolerance gut check, take another look at those concentrated positions, and review diversification across both sector and region. Taking the time to review your portfolio is critical to staying aligned with your long-term objectives. If you ever have questions or concerns, please never hesitate to reach out to our team.

We look forward to hearing from you.

Graystone Consulting | Charleston, WV

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Euro STOXX 50 Index: Provides a blue-chip representation of super-sector leaders in the Eurozone.

NIKKEI 225 Index: This price-weighted index is comprised of Japan's top 225 blue-chip companies on the Tokyo Stock Exchange.

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ⁱ Source: Morgan Stanley Wealth Management GIO, Bloomberg, FactSet

ⁱⁱ Source: Federal Reserve Bank of St. Louis <https://fred.stlouisfed.org/series/MEHOINUSA672N>

ⁱⁱⁱ Source: OECD / Organization for Economic Cooperation and Development <https://www.oecd.org/en/data/indicators/average-annual-wages.html>