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Weekly Market Guide

Mildly Oversold, but Oil Prices Continue to Pressure Equities: We are now in the fifth week of the conflict, and markets remain highly sensitive to developments in the oil market. Until we see a meaningful reversal in the recent uptrend in oil prices, it will be difficult for sentiment to materially improve. WTI crude and S&P 500 valuation multiples have been moving in close lockstep—as oil prices have risen, valuation multiples have continued to compress.

Base Case Remains a 5–15% Drawdown from the High: Our base case continues to assume that downside will be contained within a 5–15% drawdown range, which we estimate corresponds to approximately 5,950–6,650 on the S&P 500, assuming the conflict is not prolonged. At present, the market appears mildly oversold, though not yet at true washout levels. ***This keeps us cautiously optimistic in the near term that we may be approaching a tradable low, even if some additional downside remains possible.***

Rallies Lack Follow-Through, but Early Signs of a Tradable Low Are Emerging: Recent relief rallies have lacked the buying conviction and follow-through typically associated with a more durable market bottom. While last week’s rally was encouraging on Monday, follow-through on Tuesday and Wednesday was tepid before the market rolled over late in the week. Even yesterday’s rally—which marked the strongest single-day gain since last May—showed less enthusiasm than the prior Monday’s relief rally. As a result, **we believe additional evidence is needed before markets can sustain a more durable advance.** In the interim, we expect continued back-and-forth trading, characterized by elevated down days followed by sharp rebound days, until there is greater clarity around developments in Iran and the potential for a sustained decline in oil prices.

Divergence Between Fundamentals and Price Action/Sentiment: A notable divergence has emerged between market price action and sentiment versus underlying fundamentals. While sentiment has deteriorated meaningfully during the war, fundamentals have continued to strengthen. **Consensus 2026 EPS estimates have been revised higher by 2.8% since year-end, including a 2.4% increase over the past month alone.** Although Energy has been a significant contributor, Technology has also seen robust estimate revisions despite a sharp contraction in valuations. While sentiment and fundamentals can diverge in the short term, sustained long-term divergences are rare, as earnings have historically been the primary driver of long-term market returns. ***Strengthening fundamentals reinforce our longer-term upside bias once current headwinds subside, assuming earnings do not roll over, and we would continue to use weakness as buyable opportunities.***

Equity Market Indices	Price Return	
	Year to Date	12 Months
Dow Jones Industrial Avg	-3.6%	10.3%
S&P 500	-4.6%	16.3%
S&P 500 (Equal-Weighted)	0.2%	10.7%
NASDAQ Composite	-7.1%	24.8%
Russell 2000	0.6%	24.1%
MSCI All-Cap World	-3.5%	18.4%
MSCI Developed Markets	-1.9%	18.2%
MSCI Emerging Markets	-0.5%	26.9%
NYSE Alerian MLP	14.8%	5.8%
MSCI U.S. REIT	3.8%	2.5%

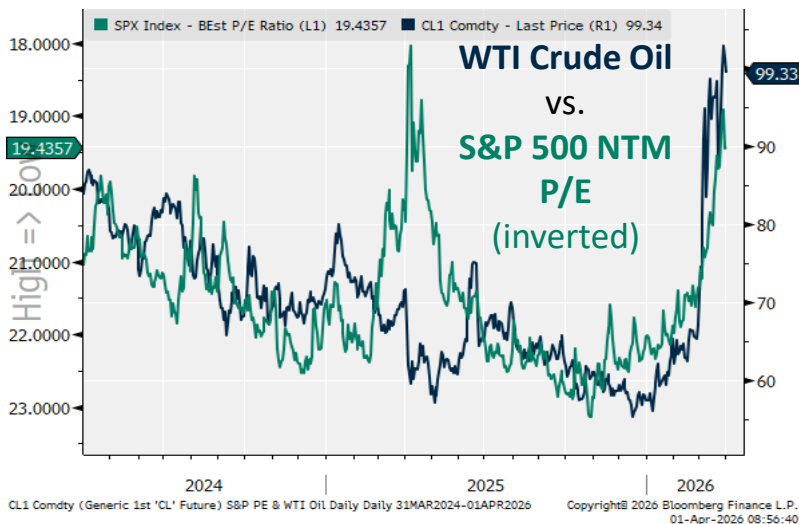
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	37.2%	4.0%
Materials	9.3%	2.1%
Utilities	7.5%	2.5%
Consumer Staples	7.0%	5.3%
Industrials	4.3%	9.0%
Real Estate	4.0%	1.9%
S&P 500	-4.6%	-
Health Care	-5.3%	9.5%
Communication Svcs.	-7.1%	10.3%
Information Technology	-9.3%	32.9%
Consumer Discretionary	-9.3%	9.9%
Financials	-9.8%	12.6%

Source: FactSet

All Eyes On Oil in the Near-Term

We are amid week 5 of the war, and markets remain fixated on developments in the oil market. Until we see a reversal in the recent trend of higher oil prices, it will be difficult for sentiment to materially improve. WTI crude prices and S&P 500 valuation multiples have been moving in close lockstep—as oil prices have risen, valuation multiples have compressed.

That said, our base case remains that downside should be contained to 5–15% range (5,950–6,650 on the S&P 500), assuming the conflict is not prolonged. At present, the market appears mildly oversold, though not yet fully flushed. This keeps us cautiously optimistic that we may be approaching a tradable low, even if some additional downside remains possible in the near-term.

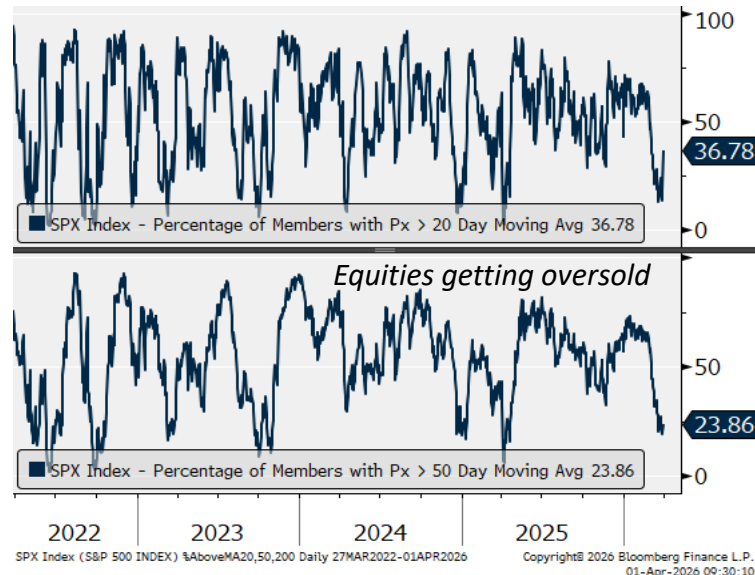


Source: Bloomberg, FactSet

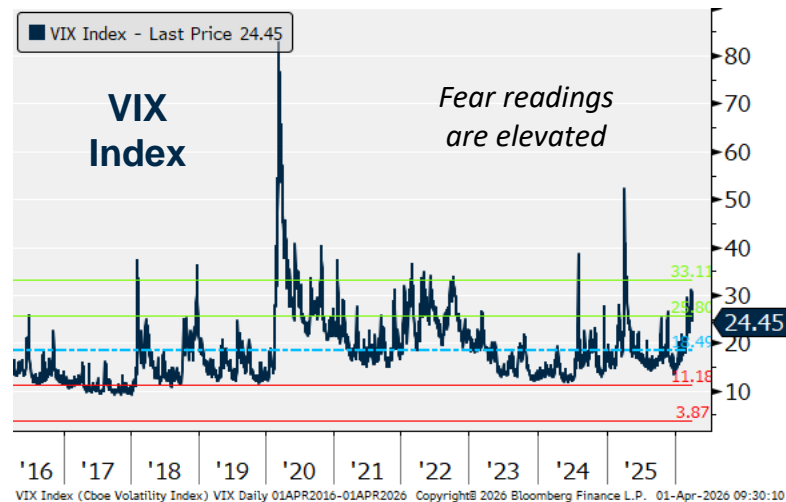
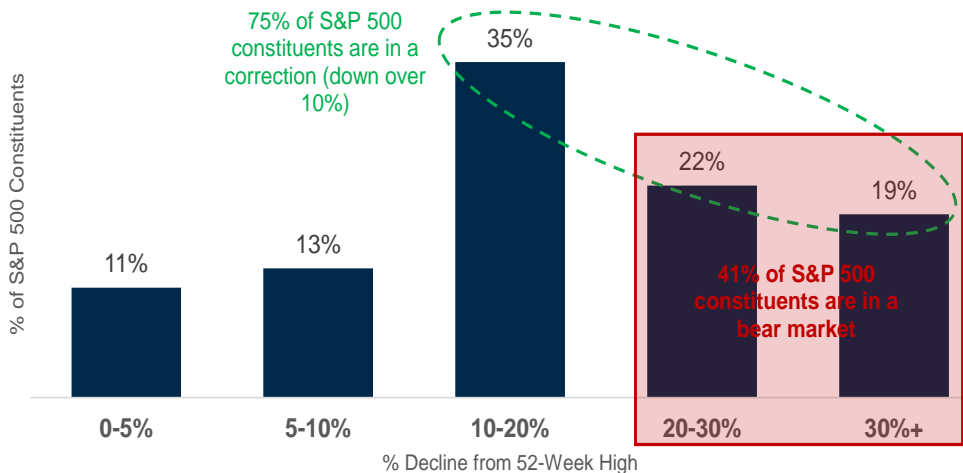
Encouraging Signals Suggest Nearing a Tradeable Low

Overall, we would characterize the current market environment as mildly oversold, though not yet at extreme or washout levels. This suggests that while some additional near-term downside remains possible, volatility is likely as headlines continue to be a dominate day-to-day driver of equities.

While not all indicators are signaling extreme oversold conditions, several encouraging signs suggest we may be approaching a tradable low. The VIX has recently moved above 30, reflecting elevated fear, and the percentage of stocks trading below their 20- and 50-day moving averages has declined toward roughly 20%, consistent with oversold conditions. With approximately 41% of S&P 500 constituents currently in bear-market territory, we would view additional weakness as an opportunity.



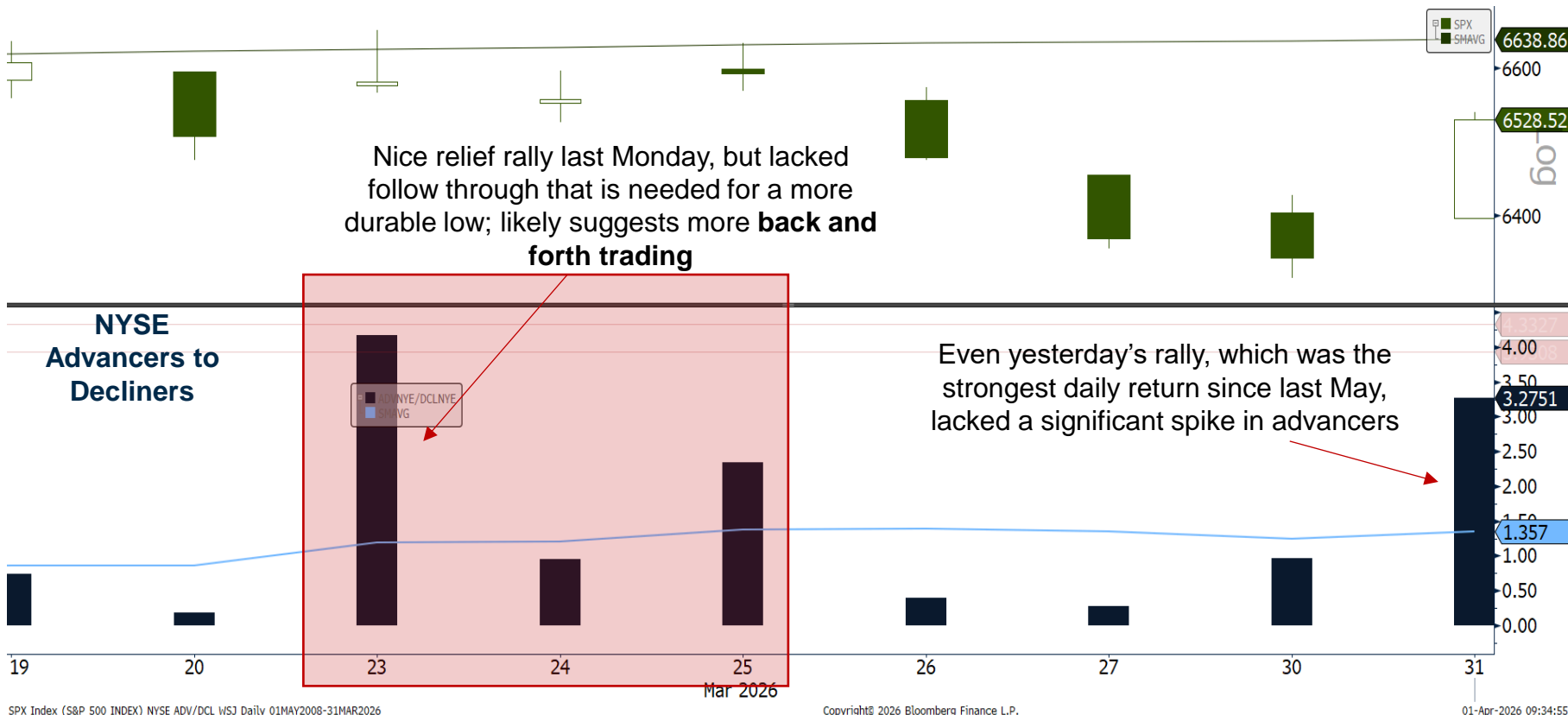
S&P 500 Constituents



Source: Bloomberg, FactSet

Rally Lacking Buying Conviction Follow-Through

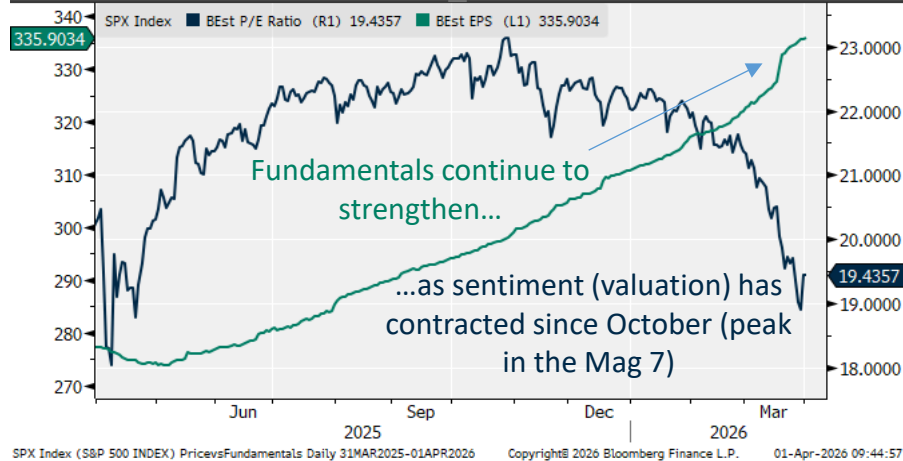
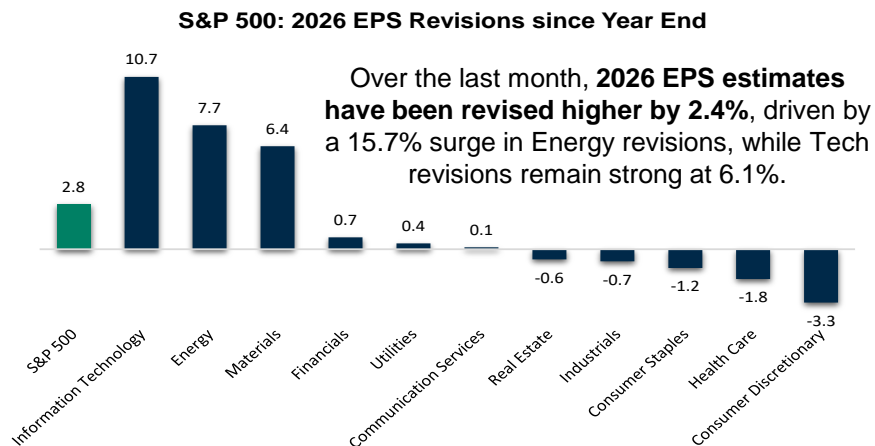
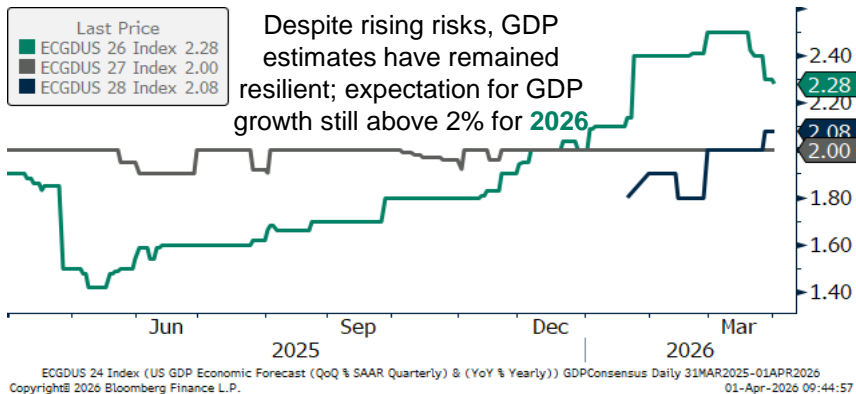
While we have seen attempts at relief rallies, follow-through has been muted and has lacked the buying conviction typically associated with a more durable low. Even yesterday's rally—which marked the strongest single-day gain since last May—showed less buying enthusiasm than the prior Monday's relief rally. As a result, we believe the market is setting up for further back-and-forth trading, characterized by elevated down days followed by sharp rebound days, until there is greater clarity around developments in Iran and the potential for a sustained move lower in oil prices.



Source: Bloomberg, FactSet

Divergence: Fundamentals vs. Price Action

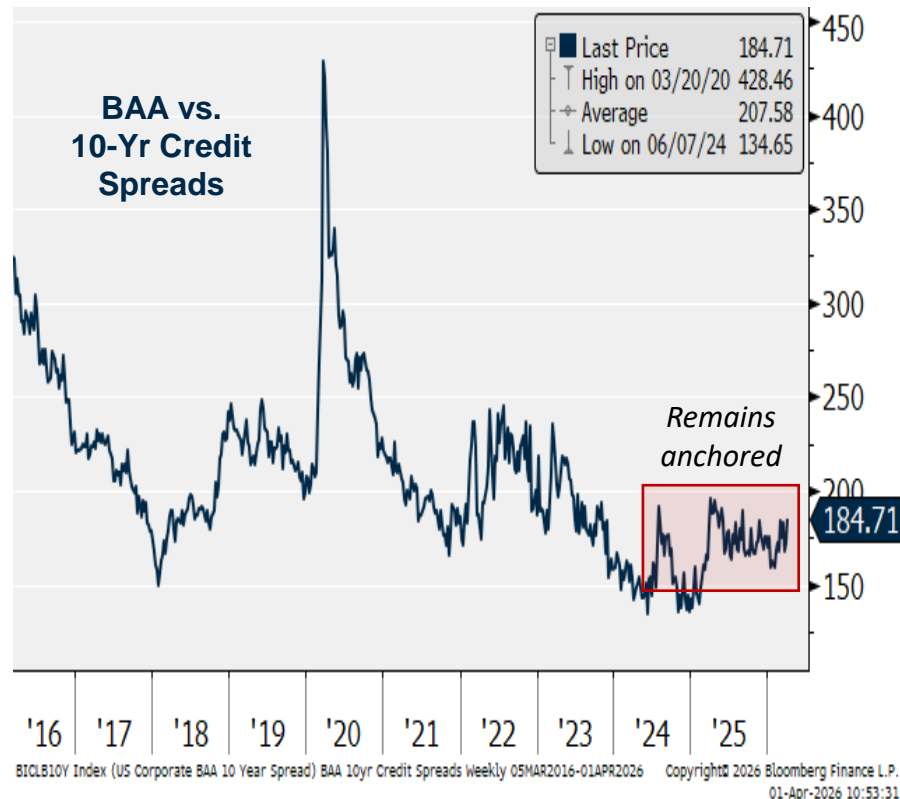
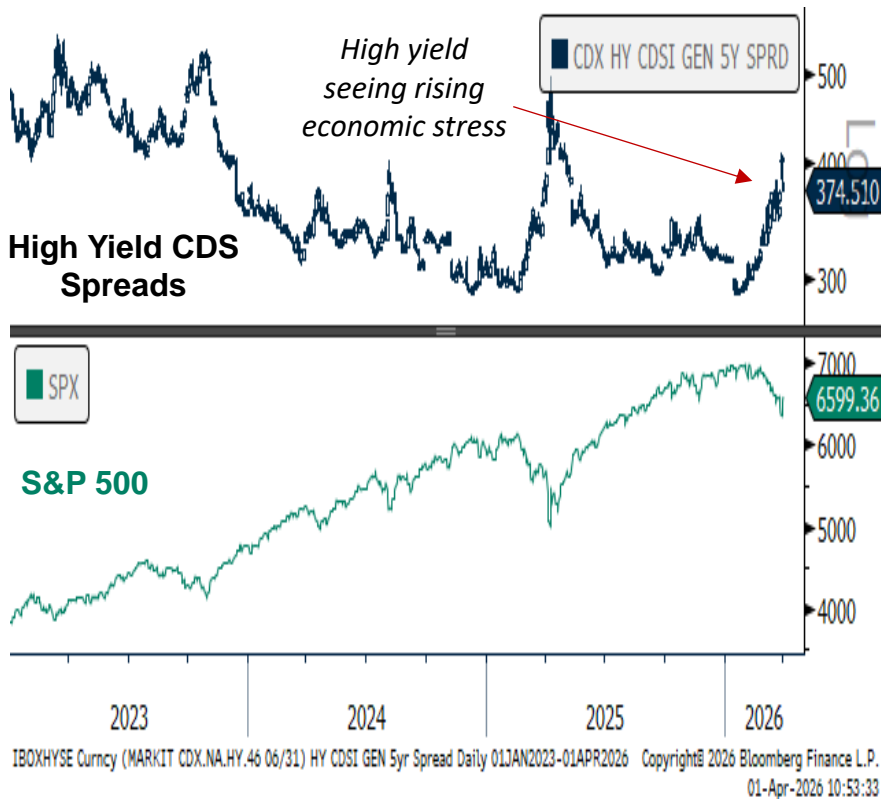
Price action and sentiment has recently seen a divergence versus the underlying fundamentals. Fundamentals have continued to strengthen throughout the war while market sentiment has deteriorated meaningfully. While sentiment and fundamentals can diverge in the short term, sustained divergences are rare as earnings have historically been the primary driver of long-term market returns. The strengthening fundamentals reinforces our longer-term upside bias once current headwinds subside, assuming earnings do not roll over.



Source: Bloomberg, FactSet

Divergence: Credit Spreads

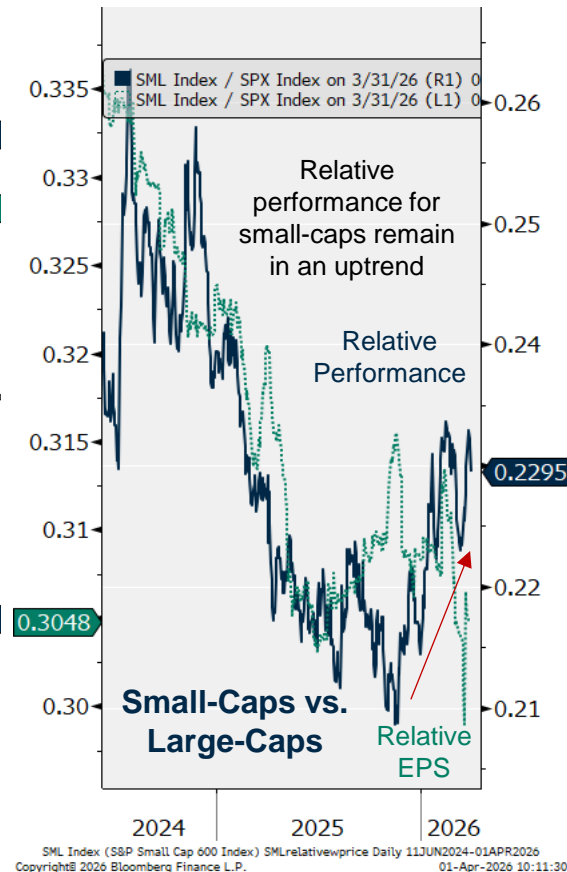
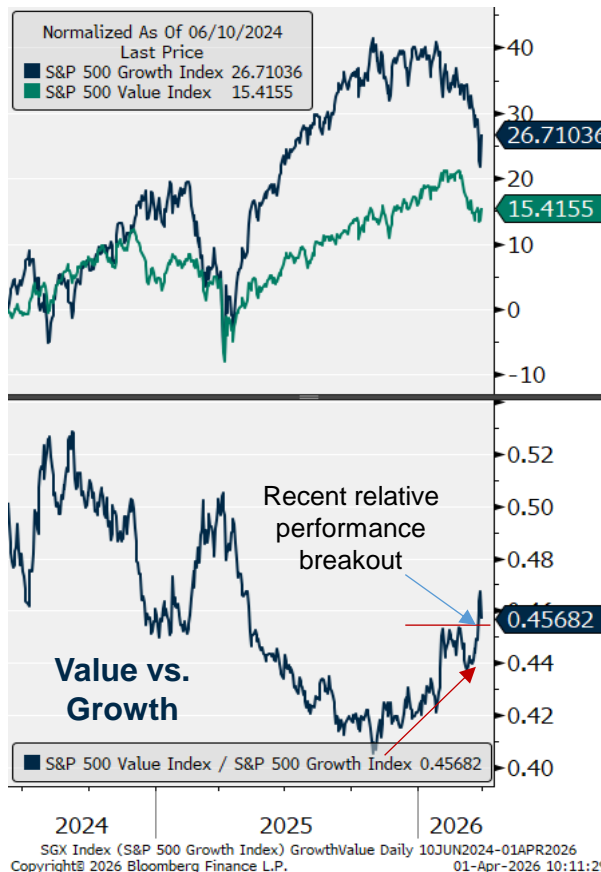
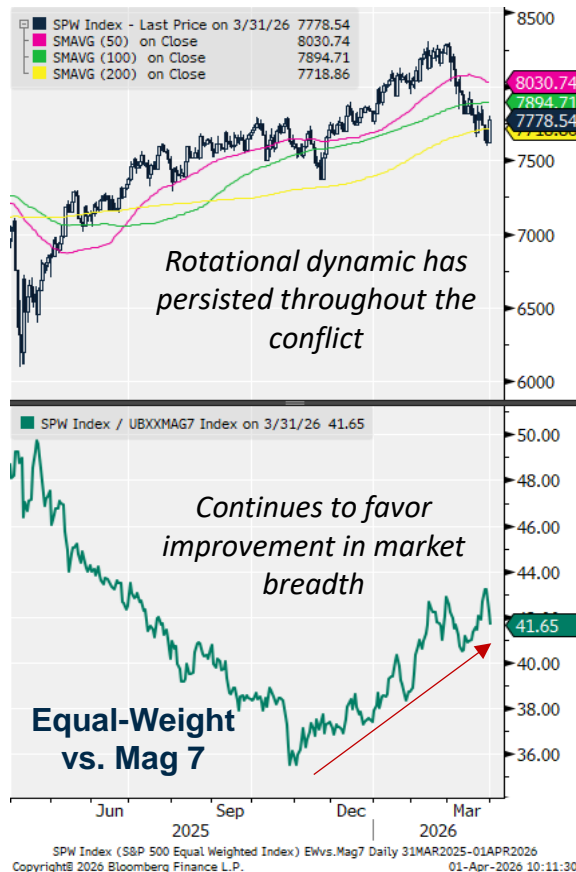
It is not surprising that, against a K-shaped economic backdrop, pockets of weakness have emerged amidst global uncertainty and rising oil prices. However, some sectors and subsectors remain resilient. Credit spreads are highlighting these divergences. High-yield spreads have exhibited more volatility, suggesting rising economic stress at the lower end of the credit spectrum. In contrast, the BAA-to-10-year Treasury spread remains relatively anchored, indicating that investment-grade issuers are not experiencing the same level of stress. At this stage, we remain vigilant but not overly concerned about credit conditions, given the relative stability in investment-grade spreads versus Treasuries.



Source: Bloomberg, FactSet

Market Breadth

Despite yesterday's flows back into Tech-centric areas, the market's rotational dynamic has persisted throughout the conflict. Prior to the onset of the war, market breadth was beginning to show signs of improvement, and those trends have since continued. Value has recently experienced a relative performance breakout, while small-caps and equal-weight stocks remain in uptrends. Taken together, we view these developments as a positive signal for equities' ability to support a longer-term rally once current headwinds abate.



Source: Bloomberg, FactSet

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Index Definitions

The **S&P 500** is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The **Dow Jones Industrial Average (DJIA)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The **NASDAQ Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The **MSCI World All Cap Index** captures large, mid, small and micro-cap representation across 23 Developed Markets (DM) countries. With 11,732 constituents, the index is comprehensive, covering approximately 99% of the free float-adjusted market capitalization in each country.

The **MSCI EAFE (Europe, Australasia, and Far East)** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations.

The **MSCI Emerging Markets Index** is designed to measure equity market performance in 23 emerging market countries. The index's three largest industries are materials, energy, and banks.

The **Russell 2000** index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks.

The **NYSE Alerian MLP** is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

The **Barclays Intermediate Government/Credit Bond** index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

The **Euro Stoxx 50 Index** is a market capitalization weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations. Components are selected from the Euro STOXX Index which includes large-, mid- and small-cap stocks in the Eurozone.

The **China CSI 300** is a capitalization-weighted stock market index designed to replicate the performance of top 300 stocks traded in the Shanghai and Shenzhen stock exchanges. It had a sub-indexes CSI 100 Index and CSI 200 Index.

The **S&P 500 Futures** is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **DJIA Futures** is a stock market index futures contract traded on the Chicago Mercantile Exchange`s Globex electronic trading platform. Dow Futures is based off the Dow 30 stock index.

The **Nasdaq 100 Futures** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international companies listed on the NASDAQ.

Europe: DAX (Deutscher Aktienindex (German stock index)) is a blue chip stock market index consisting of the 40 major German companies trading on the Frankfurt Stock Exchange.

Asia: Nikkei is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions.