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From Goldilocks to Gridlock: Markets at a Crossroads

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From Goldilocks to Gridlock:

Markets at a Crossroads



By Mike Harris, Chief Investment Officer

The “Goldilocks with Fragility” backdrop we outlined last Summer evolved into a powerful broadening phase as we entered 2026. Growth was firming, earnings were strong, inflation was cooling, and leadership was expanding beyond a narrow group of names. It was a constructive, durable setup.

That backdrop is now firmly on hold.





A sharp escalation in geopolitical activity, a surge in Oil prices, and a renewed rise in interest rates have introduced new variables that markets cannot ignore. What had been a clean transition toward stronger global growth is now being tested by an inflation impulse that was largely expected to fade.

We now sit at a true crossroads.

One of our biggest risks called out in the 2026 outlook piece was that a geopolitical event causing Oil to spike would have a huge impact on the trajectory of inflation and increase risk. And that in turn would put pressure on Valuations. Unfortunately, we are living that right now.

Markets are no longer trading purely on growth and earnings. They are trading on Oil, rates, and credit spreads (risk).

As credit spreads widen and yields rise, the mechanism is straightforward: multiples compress (price which people pay for stocks). This means lower stock prices.

That compression is already happening. Despite mid-teens earnings growth expectations, valuation has begun to do the heavy lifting in the opposite direction.

The Market is shifting from rewarding growth to discounting risk.

This is a meaningful change in regime. The unanswerable question at the moment is: how long will it last? To us, it will last as long as the data changes.

The primary pressure points are clear:

- Higher Oil feeding into inflation
- Elevated yields tightening financial conditions
- Widening credit spreads signaling rising economic risk

Together, they form a feedback loop that begins to weigh on both valuations and forward growth expectations.

This is how a market transitions from expansion to tension. This tension needs to be appeased.

The Fine Line: Growth vs. Stagflation

At its core, the Market is now trying to answer a single question:

Is this a temporary inflation shock or the start of something more persistent?

If energy prices stabilize and geopolitical risks fade, the Market can absolutely look through the recent inflation spike. Growth reasserts itself, earnings remain intact, and the broadening thesis likely resumes.

But if Oil remains elevated and uncertainty lingers, the setup becomes more difficult.

Higher input costs, tighter financial conditions, and slower activity begin to feed on each other. That's where the risk shifts toward a stagflationary environment: slower growth paired with stickier inflation, one of the least favorable backdrops for equities. This puts pressure on everything from businesses to individual consumers.

We are walking a fine line.

Valuations Are Adjusting: But Not Enough to Be Cheap

Valuations have begun to reset.

The S&P 500 forward multiple has moved from over 22x at the start of the year to approximately 20.8x today. That adjustment reflects price declines occurring alongside continued earnings growth.

But let's be clear. This is not a cheap market. And we've consistently shared with you that valuations can remain high until growth slows. That's why the previously mentioned points are so important.

Markets don't trade on earnings in isolation. They trade on what investors are willing to pay for them. And right now, that willingness is declining.

At current levels, there is limited margin for error. If growth slows meaningfully or earnings expectations begin to roll, further downside becomes a function of continued multiple compression. Going back through history, it takes 2

months for earnings estimates to be adjusted by the Street. That's a serious lag, and why the next few weeks and months of economic data will have serious implications.

Markets don't break when earnings fall; they correct. They break when valuations and earnings growth fall together.

That risk has unfortunately increased, and we are firmly paying attention.

What the Market Is Starting to Price

Beneath the surface, several pressures are beginning to build:

- **Consumer Squeeze:** Real income growth is softening while prior tailwinds from 2025 fade. With consumption representing ~68% of GDP, even modest slowing matters.
- **Housing Weakness:** Higher rates continue to weigh on activity, limiting a key cyclical support.
- **AI Capex Questions:** Financial stress is beginning to show in parts of Tech and private credit, raising questions about the durability of one of the largest growth drivers.
- **Credit Deterioration:** Widening spreads are not just a signal, they are a transmission mechanism tightening conditions across the Economy.

At the same time, inflation is reaccelerating.

Recent data suggests Consumer Price Index will potentially move back above 3% for March and even back to 3.5% or higher in April. Largely driven by energy. What was previously a disinflationary backdrop is now being challenged by a renewed inflation impulse.



Wages were growing around 5% entering the year and inflation was moving towards the low 2% region proving a very nice "real" spread for consumption. With inflation likely jumping back to well over 3% that spread narrows, and narrows in a hurry.

This also puts the Fed in a difficult position. Cut too early, and inflation risks can become more emboldened. Stay too tight, and growth slows further; you can be too late to help stimulate the Economy.

The Market has been ping-pong, from pricing in no interest rate cuts by year-end, to a small rise in rates, back to small cuts. And it's happening really fast.

This tension is now embedded in the Market. You can see it and feel it.

Leadership: Rotation, Not Collapse

Leadership has shifted meaningfully beneath the surface.

Year-to-date, Growth stocks are down -9.3% while Value is up +2.3%; a stark difference to the past few years, where it's been all about Growth. Marking a clear rotation rather than a broad-based breakdown.

The divergence is even more pronounced at the sector level, Energy +32% and Materials +10.66% are leading, while Financials (-9%), Consumer Discretionary (-9%), and Technology (-6%) have lagged.

Mega-cap leadership has also cooled, with the Magnificent 7 down roughly (-12%), a notable reversal from the prior period of concentration-driven returns.

This is exactly why diversified portfolios matter. When leadership rotates, as it is now, exposure across sectors and factors becomes critical. The Market isn't simply moving lower; it has been redistributing opportunity. We've been positioned well to capitalize on these shifts.





The Setup From Here: Not Broken, But No Longer Clean

This is not yet a broken environment. But it is no longer the clean, synchronized expansion we entered the year with.

Instead, we are in a transition phase, a pause, a crossroads...

Where:

- Growth is still present, but increasingly fragile
- Inflation is no longer reliably falling but spiking higher
- Valuation is adjusting to reflect this rising uncertainty

The Market is recalibrating in real time. We took action and recalibrated right before it did. We followed our process and shifted as the facts changed. We moved to a more defensive posture by raising cash, exiting some cyclical positions, and using hedges where appropriate. As a result, we are holding up well in a market that is actively repricing risk.

The path forward is highly conditional. That's okay. We've been here before. Markets are never one thing, and right now the number of variables has increased meaningfully: Oil, rates, credit, and growth are all moving at once.

To the casual observer, it can feel chaotic. To us, it's a process-driven environment.

Our investment framework is built for moments like this. We incorporate inputs that account for uncertainty and adapt dynamically as new data comes in. Risk management is not a buzzword; it is embedded firmly in our investment process.

When the inputs shift, we act. That was the case in early March, and it will continue to be the case going forward.

Sometimes protecting capital is more important than growing it. In environments like this, discipline, not prediction, can have a very meaningful edge.

If the Market can gain clarity on energy prices and geopolitical risk, it can stabilize, reprice, and resume a more constructive growth trajectory.

If not, this environment becomes one where multiple compression continues, growth expectations drift lower, and risk assets likely face sustained pressure.

That's the difference between a **pause** and a **regime shift**.

We are watching ever so closely.

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