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Economics Weekly

Wow, It's Been Quite a First Quarter



Once again, we are ending a quarter that looks remarkably different from how it started. This past quarter has been dominated by three major thematic events: 1) speculation about AI's impact on computer software and SaaS companies in particular; 2) yet another war in the Middle East; and 3) fears that dislocation in some parts of the private credit market could prove to be a systemic threat to the broader financial system. **In this *Economics Weekly*, we review these themes and contemplate where we go from here.**

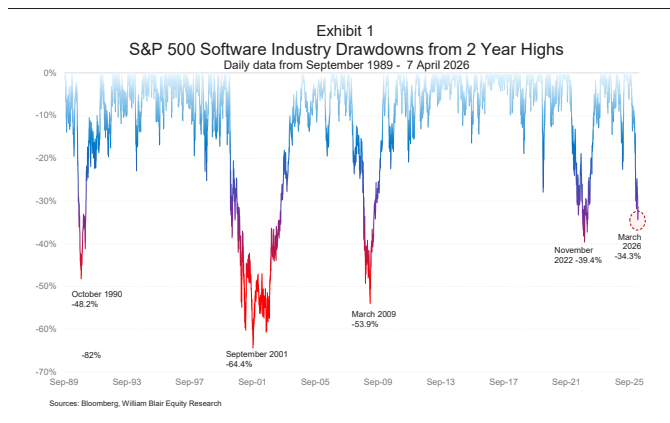
The Software Slump

At the start of the year, much of the market discussion was taken up by who would be appointed as the next Fed chair, how many rate cuts we could expect to see this year, to what degree AI might be disinflationary, and how much debt tech companies were taking on to fund capex investment.

From the end of January, however, the market started to reassess how much of an adverse impact AI was likely to have on the software industry. The threat began with November's release of the AI agent OpenClaw, which many people seem to have spent their December holidays tinkering with. They soon discovered that AI agents can effectively be viewed as personal technology butlers. AI agents could be a type of private concierge service that sits on top and monitors (or even supersedes) your main software apps, answering emails, preparing slide decks and repetitive reports, and booking flights and other travel arrangements—all of which increasingly distance users from the software they were previously inseparable from.

Furthermore, if AI agents are going to enhance productivity and require fewer white-collar workers tapping information into keyboards, the result will likely mean fewer seats to fill. For software companies that charge on a per-seat basis, that translates to less revenue growth going forward.

In an equity market that shoots first and asks questions later, the result has been a 24% decline in the S&P 500 software index over the first quarter—the largest quarterly drop since fourth quarter 2008, when we were in the midst of the global financial crisis (exhibit 1).



Exacerbating this decline was undoubtedly the fact that the P/E multiple for the software index at the start of the quarter was a lofty 40x earnings. The multiple currently sits at 29x (the lowest since January 2023).

Investors seem to be more comfortable with this level and are pausing to take a more objective view of what an AI future might actually mean for the industry. What we are discovering that software is far from dead, though growth and revenue models will require further tweaking as AI continues to transform the industry and the global economy. Investors are also rotating into hard asset areas that they believe will be at less risk of AI disruption.

The War With Iran

The U.S. and Israel launched a war on Iran on February 28. It is easy to see Israel's goal in this conflict—the elimination of a major nuclear and terrorist threat on its doorstep; however, it has been less clear what the U.S. ultimately hopes to achieve here: the elimination of the nuclear threat, the elimination of its military capabilities, the removal of a constant fomenter of terrorist activity, full regime change, and/or control of the Strait of Hormuz, or all of the above. The answer in part seems to have depended on how much leeway financial markets were likely to give the president and, in turn, how much pain the global economy could withstand following the closure of the strait.

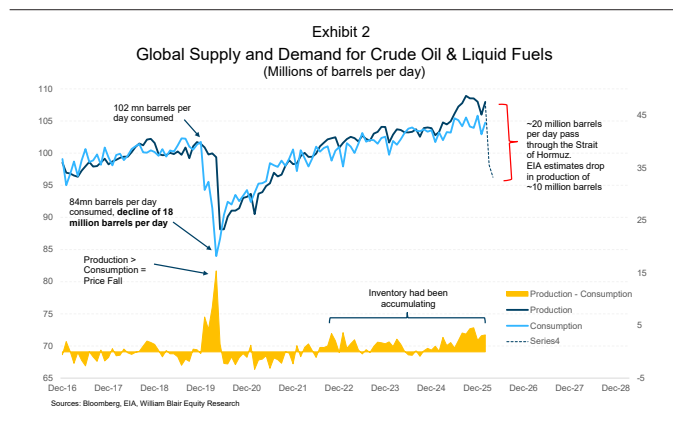
The importance of the Strait of Hormuz has been put into stark relief this past quarter, as 20% of the world's energy resources pass through it, or equivalent to approximately 20 million barrels per day. This is in addition to other resources, such as natural gas, helium, and urea fertilizer.

The war and the strait's closure have been a massive global supply shock. Those first and foremost being impacted

are Iran and countries in the Middle East that have been attacked by the Iranians, and who also depend on revenues from exports through the strait or on tourism and financial services.

The second layer of global disruption has been for the Southeast Asian countries, including Australia, Pakistan, and China, that depend on clear passage through the strait for the vast majority of their energy supplies.

To help illustrate just how disruptive this is, exhibit 2 shows the global production and consumption of crude oil and other liquid fuels. When production declines but demand remains the same, consumers face two near-term choices: reduce consumption or pay higher prices. Over the longer term, consumers can opt for more energy efficiency, switch to more renewable energy, and look for a greater diversity of suppliers, which many countries are already examining. The choices they make will dictate the impact on both economic growth and inflation.



The fact that production has been outpacing consumption for the last few years has meant that some countries (such as China) have been building large energy stockpiles, whereas other less wealthy Southeast Asian economies have not.

Those Southeast Asian countries that may not have the fiscal space to cushion themselves against the shock have opted to implement demand reduction measures, such as shorter work weeks, working from home, and limits on AC temperature settings. The result is greater demand destruction but less of an inflationary impact.

The third layer of disruption is across Europe, and the fourth is across North America. The response from some wealthier European nations (notably Spain) has been to enact supply-side measures, via government spending initiatives such as reducing the VAT on gasoline prices (and

other areas). These measures cushion the shock to consumers, who then do little to reduce demand. The trade-off here is that while there is less immediate demand destruction, prices are likely to stay higher for longer and in turn have a greater inflationary impact.

Most economists view energy price shocks as a tax on consumption and a relative price change—as oil prices rise, consumers are forced to spend more on gasoline and have less to spend on other more discretionary goods and services, where prices go down. The net effect is a temporary price increase that subsides over time.

For supply shocks to be inflationary, typically two things need to happen: either the price increases destabilize inflationary expectations, which causes workers to demand higher wages and sets in motion a wage-price spiral, and/or governments respond to the shock with stimulus, which promotes and extends the inflationary shock. Spain has chosen the latter route, with a €5 billion spending package. Most other European governments are not going down this road yet, but feel they may have to if the strait remains closed for much longer.

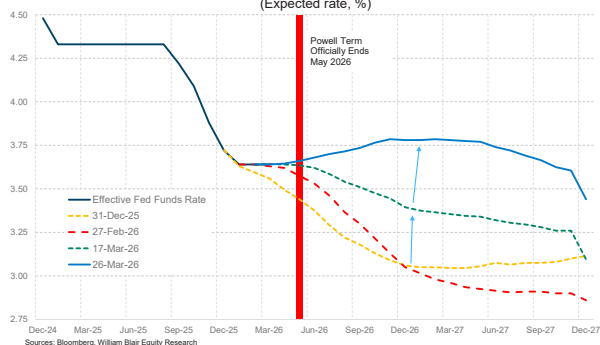
Central banks, meanwhile, will similarly often attempt to do nothing and look through the shock. Again, they know that if energy prices act as a tax on consumption, prices will eventually move lower if those prices are not supported by fiscal measures. What they cannot do is start easing in advance of that demand destruction, as this would only inflame the near-term inflationary pressures.

Hence, for central bankers, step one must necessarily be to address the higher inflation (i.e., by sounding more hawkish and dampening any increases in inflationary expectation). They can then proceed to the second step of actually lowering rates to address the weakness in growth.

Unfortunately, it is not possible to skip step one and jump straight to step two, as some are proposing. This is what makes dealing with stagflationary growth shocks a nightmare scenario for the policymakers, as their initial actions would further contribute to the growth shock coming out the other side of the inflation shock.

As shown in exhibit 3, there has been a sharp rerating of interest rate expectations, from an expected 50-75 basis points of *rate cuts* at the start of the year to the market pricing in the potential for a *rate increase*. Investors in Europe and the U.K. have been even more aggressive in pricing in much sharper rate increases as soon as April.

Exhibit 3
Fed Funds Rate and Futures Market Expectations
(Expected rate, %)



The U.S. has been somewhat insulated from this shock relative to the rest of the world, given the fact that since 2019 it is a net energy exporter.

This does not mean that U.S. consumers are not facing price increases at the gas pump—prices here have jumped from \$2.98 per gallon at the start of the conflict to \$4.16 per gallon today, given that energy prices are priced globally, not locally. It does, however, mean that the U.S. (just like for other energy producers such as Canada and Russia) captures the benefits of those price increases, which are then recycled back into their own economies, rather than being sent abroad for foreigners to profit from. This helps reduce the adverse impact on the tax base and federal budgets.

A second feature that is more specific to the U.S. is its abundant supply of natural gas, which remains largely domestic (due to export capacity constraints) and has allowed global gas prices to diverge from local domestic prices (exhibit 4). Hence, where gas prices for Europeans jumped by 94% from the start of the war to a peak in mid-March, U.S. prices have continued to trend lower. Given that the natural gas share of total U.S. energy consumption is approximately 36%, according to the EIA, this has provided an extra layer of insulation from the global oil shock.

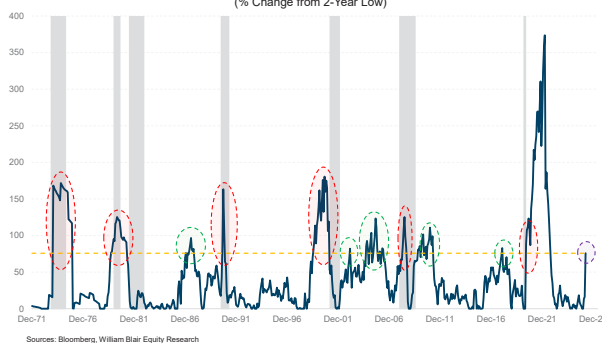
Exhibit 4
Natural Gas Price in United States, Europe & Asia
(\$/mmbtu)



Recession Alert?

The tag line for exhibit 5 could be *not all energy price shocks cause recessions, but most recessions are associated with energy price shocks.*

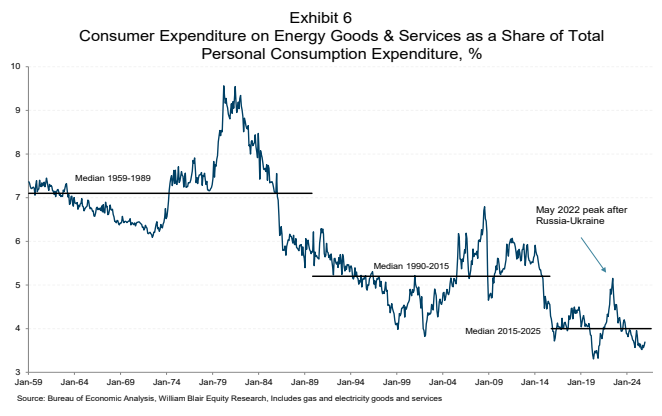
Exhibit 5
Real Price of WTI Crude Oil
(% Change from 2-Year Low)



The exhibit highlights that it's not the price of crude oil that matters, but the rate of change. That impact will also depend on the duration of the price increase; hence, we charted the scale of price increases from their two-year lows. As shown, there historically have been five instances where a similar scale of price increase has not been associated with a recession, against six instances where it has.

Given that energy is the basis for just about all economic growth, sharp increases have a tendency to expose underlying frailties in the economy and break things. Fortunately, the current price shock does not look to be a recessionary one (yet). U.S. consumers entered the crisis with strong balance sheets and a strong labor market (even though growth has decelerated in large part due to supply constraints). The energy share of total consumer

spending, currently 3.7%, has fallen substantially relative to levels of past energy crises, as consumers have become much more energy efficient (exhibit 6).



Furthermore, U.S. consumers are benefiting from the OBBB, with significantly higher tax refunds this year than in previous years, as well as increases in SALT deductible amounts and childcare tax credits. The corporate sector has also been in the midst of a longer-term capex wave that is being substantially boosted by the expansion in data centers and the energy infrastructure needed to support it, as well as the OBBB's accelerated depreciation allowance and the need for automation to compensate for a shrinking labor force.

Private Credit Has Been Having a Moment

For many years now, the private credit market has grown substantially in size while spreads compressed and competition for assets increased.

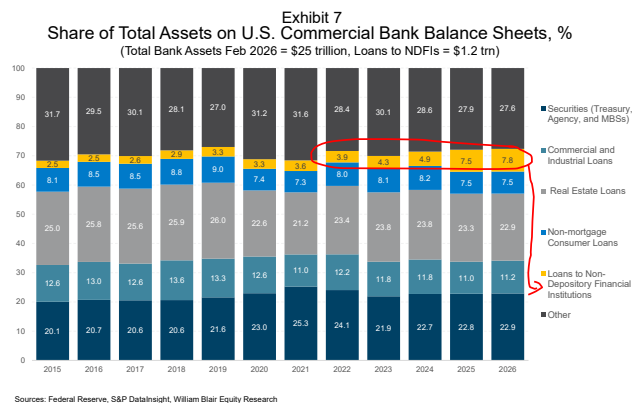
Private credit money flows accelerated following the post-GFC surge in banking regulation and then increased further in the post-COVID years, when interest rates were similarly dropped to the zero lower bound. The headwinds the private debt markets are facing today relate to:

- Investments undertaken that might have looked good when rates were closer to zero no longer look as good when the central bank rate has risen above 3.75%.
- We are at or nearing the five-year mark when many loans and funds mature and assets need to be marked to market, but performance in some cases has not matched rhetoric or the modeled returned. As a result, investors are seeking redemptions, which most gated funds are not fulfilling.

- Many of these funds invested heavily in software companies, whose values have been significantly marked down due to AI disruption.

Furthermore, as we discovered during the GFC, financial interlinkages are often unknown, or little understood, until something breaks. However, several factors make this likely to be painful for some investors in the private markets space but not result in a systemic banking crisis. These include the following:

- 1) **Private credit accounts for a small share of bank assets:** As exhibit 7 shows, U.S. bank loans to non-depository financial institutions (NDFIs) account for 8% of total bank assets, and of those loans, private credit accounts for an estimated 20%-25%, and only a fraction of those will be nonperforming.



- 2) **Low leverage:** Most of these private credit funds take very little, if any, leverage, and when they do it is usually 1.0x-1.5x. On the other hand, had banks retained these funds on their balance sheets rather than outsourcing the loan-making to private credit, they would normally have leveraged them up 10x-12x. Hence, there is a legitimate argument to be made that private credit has helped deleverage the financial system.
- 3) **Duration matching:** While banks run greater risk with greater leverage, they also run greater risk by duration mismatching—i.e., borrowing short and lending long. If, for whatever reason, those short-term lending funds dry up—a bank run, for example—it can cause fire sales of assets and panic across the system, as was the case with Northern Rock in the U.K. during the GFC. For private funds, much of the lending has been done by asset managers and institutional funds, and investments are matched to the duration of the loans; the result is that there is very little duration

risk. Furthermore, funds are able to gate themselves and limit duration, which gives them time to better manage and adjust their portfolio assets.

Conclusion

The past quarter has been a reminder that regime shifts—whether technological, geopolitical, or financial—rarely arrive one at a time. AI is forcing a reassessment of long-standing software business models; the war with Iran has been yet another old-fashioned supply shock in a solid economy, but also one still grappling with inflation scars from the pandemic and the invasion of Ukraine; and private credit has started to experience some cyclical headwinds.

Looking ahead, software is not disappearing, but growth paths are likely to be flatter and more dispersed. Energy shocks do not automatically lead to recessions, particularly in economies that are more energy efficient and better capitalized than in past cycles; however, they do increase and expose existing fragilities in the system, often to a breaking point. If the war stops with the latest ceasefire and the strait is reopened, then a recession at this point does not seem likely. If the war continues, the strait remains closed for much longer, oil prices shoot significantly higher, and demand destruction starts to set in, then that probability rises. While some private credit managers may be forced to have difficult conversations with their investors, the structure of the market suggests this is far more likely to be a redistribution of losses than a systemic financial crisis.

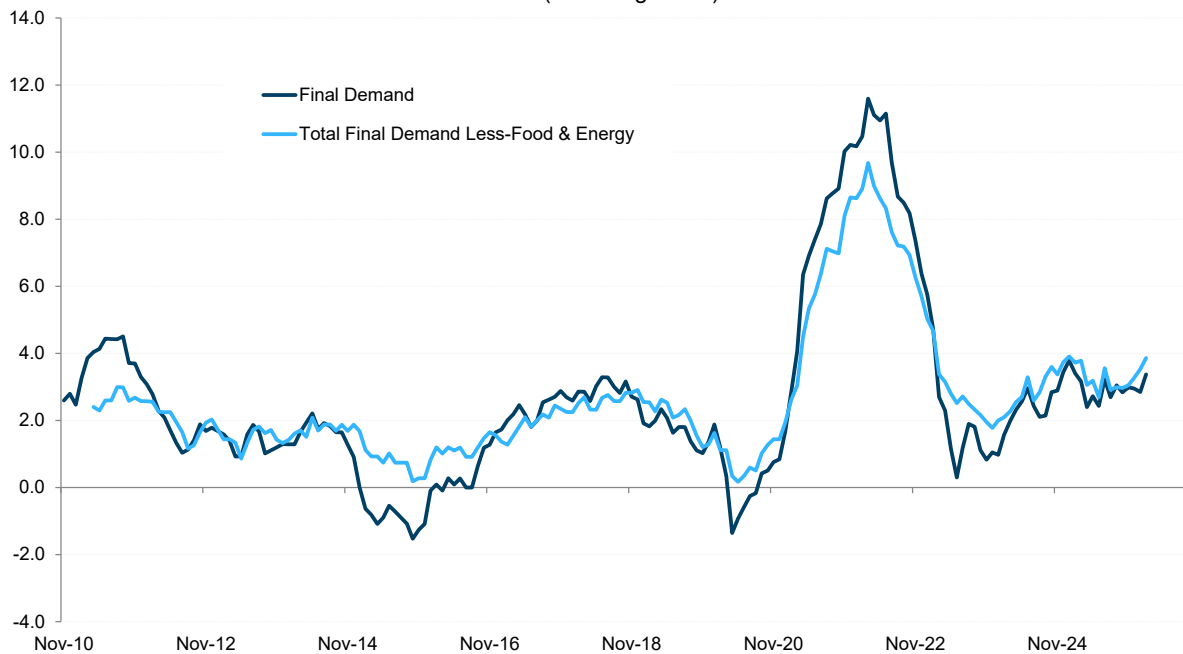
Highlights in the Week Ahead

Date	Time (ET)	Indicator	Last	Consensus	WB Estimate	Actual
14 Apr	6:00 a.m.	NFIB Small Business Index (Mar)	98.8	NA	NA	
14 Apr	8:30 a.m.	Producer Prices Index (Mar)	0.7%	1.2%	1.4%	
		PPI Less-Food & Energy	0.5%	0.5%	0.6%	
15 Apr	2:00 p.m.	Fed's Beige Book				
16 Apr	9:15 a.m.	Industrial Production (Mar)	0.2%	0.1%	0.0%	
		Capacity Utilization	76.3%	76.3%	76.3%	

Sources: Bloomberg, William Blair Equity Research

Indicator of the Week: Producer Prices Index

Producer Price Index: Total Final Demand & Total Less-Food & Energy (% Change YoY)



Source: BLS, William Blair Equity Research

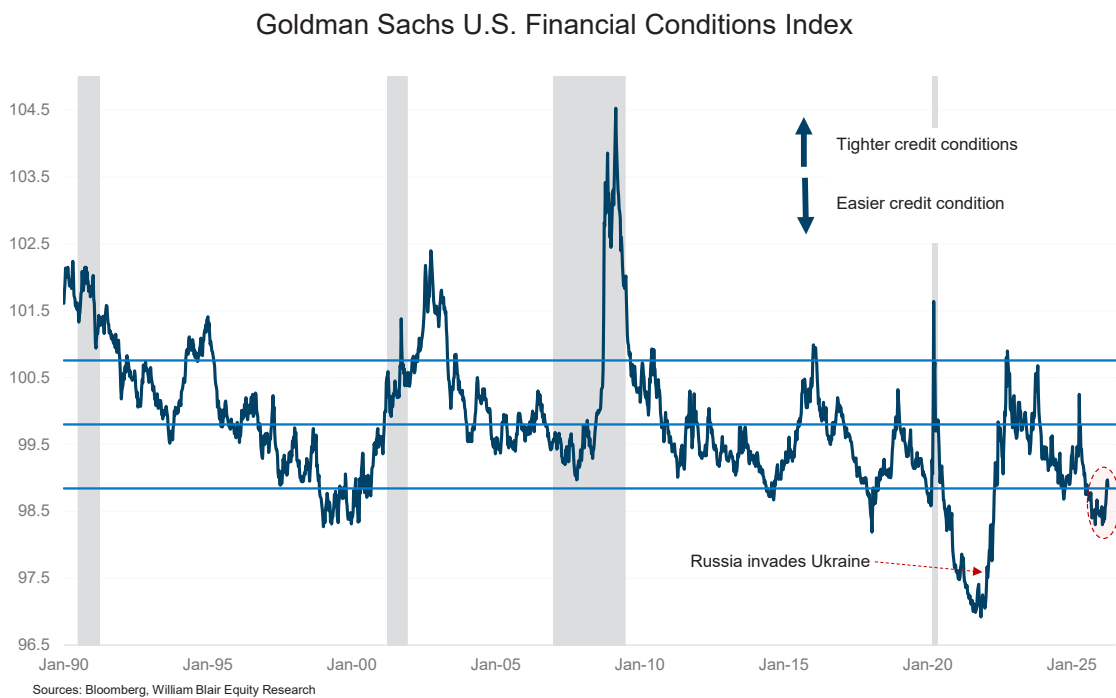
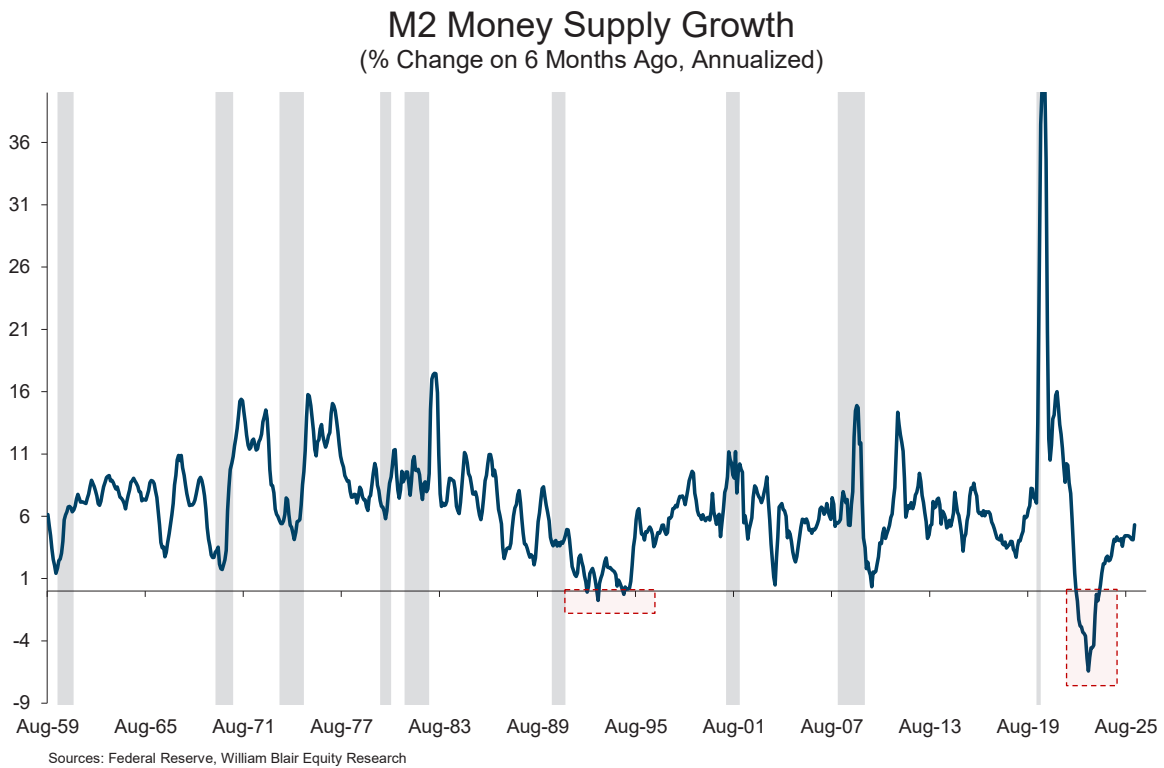
Economic Scorecard

Rolling monthly heat map, % Change on Year Ago (unless otherwise noted)

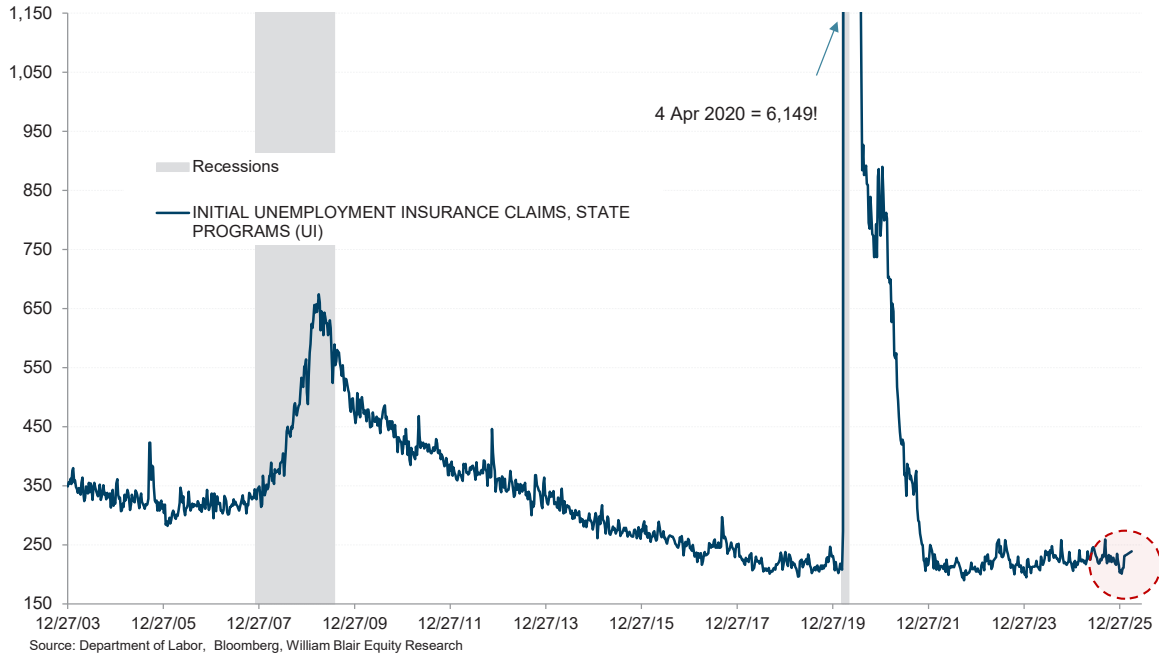
	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26
Growth																			
US Leading Indicators	-3.7	-3.0	-3.0	-2.7	-3.0	-3.6	-4.3	-3.9	-4.0	-3.5	-3.5	-3.3	-3.3	-3.8	-3.9	-3.8			
US Coincident Indicators	1.6	1.3	1.7	1.5	1.5	1.8	2.0	1.4	1.3	1.6	1.4	1.1	1.1	1.1	0.7	1.2			
US Lagging Indicators	0.1	0.0	0.1	-0.1	0.1	-0.1	-0.2	0.7	0.4	0.4	0.4	1.1	1.2	0.9	1.2	1.0			
Consumer																			
Total Retail Sales	3.2	3.9	4.5	4.5	3.9	5.1	5	3.4	4.4	4.1	5	4.1	3.2	3.2	2.4	3.2	3.7		
Personal Income	5.5	5.3	5.3	5	5	5.2	5.6	4.5	4.3	4.8	5.1	5.1	4.7	4.7	4.6	4.4			
Real Disposable Personal Income	2.7	2.4	2.2	1.8	1.8	2.3	2.8	1.5	1.2	1.7	1.8	1.8	1.4	1.3	1.2	1.8			
Real Personal Consumption	3.3	3.2	3.6	3.3	2.7	3.2	3.1	2.5	2.5	2.6	2.8	2.4	2.5	2.3	1.6	2.4			
Personal Saving Rate (%)	5	4.9	4.3	5.1	5.2	5.1	5.5	4.9	4.6	4.5	4.4	4.3	4	4	4	4.5			
Consumer Confidence (Conference Board)**	109.6	112.8	109.5	105.3	100.1	93.9	85.7	98.4	95.2	98.7	97.8	95.6	95.5	92.9	94.2	89	91		
Employment																			
Employment Growth	0.9	0.9	0.9	0.8	0.7	0.6	0.6	0.6	0.5	0.5	0.5	0.4	0.3	0.2	0.1	0.2	0.1		
ASA Temporary Staffing Index	-9.5	-6.6	-21.0	-8.2	-7.5	-8.7	-6.4	-5.8	-5.3	-0.8	-0.9	0.8	1.5	4.5	7.3	2.3	3.2		
ISM Employment Index Manufacturing*	44.6	48.3	45.4	49.7	47.1	44.4	46.2	46.1	45.1	44.9	44.3	45.4	45.8	44.1	44.8	48.1	48.8		
ISM Employment Index Services*	52.2	50.8	51	51.4	53.4	46	49.2	50.4	47.7	46.9	46.9	47.6	48.1	48.7	51.7	50.3	51.8		
Unemployment Rate, %	4.1	4.2	4.1	4	4.2	4.2	4.2	4.3	4.1	4.3	4.3	4.4		4.5	4.4	4.3	4.4		
Average Hourly Earnings	4	4.2	4.1	4	4.1	4.2	3.9	4	3.9	4	4	3.8	3.9	3.9	3.7	3.7	3.8		
Initial Jobless Claims (avg. wkly. chg. '000s)	236	219	223	219	226	223	226	233	239	222	231	234	226	221	219	213	216		
Job Openings	-14.0	-12.0	-14.4	-11.3	-14.2	-15.3	-5.7	-6.1	-2.9	-4.5	-8.0	3.3	-2.8	-9.5	-10.2	-2.6	-5.0		
Layoff Announcements	50.9	26.8	11.4	-39.5	103.2	204.8	62.7	47	-1.6	139.8	13.3	-25.8	175.3	23.5	-8.3	117.8	-71.9		
Housing Market																			
Housing Starts	-1.2	-14.5	-0.5	-1.7	-4	3.3	0.9	-2.6	4.1	12.3	-7.2	-2.1	-5.9	2.2	-8.4	9.5			
New Home Sales	-8.8	10.7	11.7	-2.8	-2.4	-4.6	-1.8	-5.7	-1.3	-10	1.9	0.3	4.7	13.2	-0.8	-11.3			
Existing Home Sales	3.1	6.2	8.6	1.7	-1.0	-2.7	-1.5	-0.5	0.5	0.8	2.3	4.4	2.2	-1.2	1.9	-1.7	-1.5		
Median House Price (Existing Homes)	2.1	-7.4	1.1	-0.2	-1.4	-5.4	-0.4	2.5	-1.2	-7.4	3	-1	-5.2	1.8	-0.9	-6.8			
Existing Homes Inventory (Mths' supply)	3.9	3.8	3.8	3.9	4	4.2	4.2	4.3	4.3	4.3	4.3	4.3	4.2	4	4.2	4.2			
New Homes Inventory (Mths' supply)	9.3	8.7	8.2	9	9.3	9.2	8.5	9.6	9.1	9.3	8.4	8.1	9	7.6	8	9.7			
NAHB Homebuilder Sentiment*	43	46	46	47	42	39	40	34	32	33	32	32	37	38	39	37	37		
Inflation																			
Consumer Price Index	2.6	2.7	2.9	3	2.8	2.4	2.3	2.4	2.7	2.7	2.9	3		2.7	2.7	2.4	2.4		
CPI Less-food & energy	3.3	3.3	3.2	3.3	3.1	2.8	2.8	2.8	2.9	3.1	3.1	3		2.6	2.6	2.5	2.5		
Producer Price Index	2.8	2.9	3.5	3.8	3.4	3.2	2.4	2.7	2.4	3.2	2.7	3	2.8	3	3	2.9	3.4		
PPI Less-food & energy	3.6	3.4	3.7	3.9	3.7	3.8	3.1	3.2	2.7	3.5	2.9	3	3	3	3.3	3.5	3.9		
PCE Price Index	2.5	2.6	2.7	2.6	2.7	2.4	2.3	2.5	2.6	2.6	2.7	2.8	2.7	2.8	2.9	2.8			
PCE Prices Less-food & energy	3.0	3.0	3.0	2.8	3.0	2.7	2.6	2.8	2.8	2.9	2.9	2.8	2.8	2.8	3.0	3.1			
Business Activity - US																			
Industrial Production	-1.0	-1.6	-0.3	0.9	0.8	0.6	0.9	0.1	0.6	1.9	1.2	1.9	1.8	2.1	1.4	2.3	1.4		
New Cap Gds Orders less-aircraft & parts	0.2	-1.1	1.9	3.3	-0.9	2.2	0.5	2.2	4.5	4.4	2.5	5.3	6.2	4.1	8	2.9	5.6		
Business Inventories	1.9	2.2	2.7	1.8	2.5	2.3	2.5	2.2	1.7	1.6	1.4	1	1.3	1.3	1.2	1.5	1		
ISM Manufacturing PMI*	47	48.4	49.2	50.5	50	48.9	48.8	48.6	49	48.4	48.9	48.9	48.8	48	47.9	52.6	52.4		
Markit US Manufacturing PMI*	48.5	49.7	49.4	51.2	52.7	50.2	50.2	52	52.9	49.8	53	52	52.5	52.2	51.8	52.4	51.6		
ISM Services Index*	55.5	52.4	53.5	52.6	53.2	50.8	51.6	50.2	50.8	50.5	51.9	50.3	52	52.4	53.8	53.8	56.1		
Markit US Services PMI*	55	56.1	56.8	52.9	51	54.4	50.8	53.7	52.9	55.7	54.5	54.2	54.8	54.1	52.5	52.7	51.7		
Business Activity - International																			
Germany Manufacturing PMI Markit/BME*	43	43	42.5	45	46.5	48.3	48.4	48.3	49	49.1	49.8	49.5	49.6	48.2	47	49.1	50.9		
Japan Manufacturing PMI Jibun Bank*	49.2	49	49.6	48.7	49	48.4	48.7	49.4	50.1	49	49.7	48.5	48.2	48.7	50	51.5	53		
Caixin China Manufacturing PMI*	50.3	51.5	50.5	50.1	50.8	51.2	50.4	48.3	50.4	49.5	50.5	51.2	50.6	49.9	50.1	50.3	52.1		
China Manufacturing PMI*	50.1	50.3	50.1	49.1	50.2	50.5	49	49.5	49.7	49.3	49.4	49.8	49	49.2	50.1	49.3	49		
UK Manufacturing PMI Markit/CIPS*	49.9	48	47	48.3	46.9	44.9	45.4	46.4	47.7	48	47	46.2	49.7	50.2	50.6	51.8	51.7		
France Manufacturing PMI Markit*	44.5	43.1	41.9	45	45.8	48.5	48.7	49.8	48.1	48.2	50.4	48.2	48.8	47.8	50.7	51.2	50.1		
Currencies***																			
Euro (EUR/USD)	2.9	-2.9	-6.2	-4.2	-4.0	0.2	6.2	4.6	10.0	5.4	5.8	5.4	6.0	9.7	13.4	14.4	13.9		
Renminbi (USD/CNY)	-2.7	1.6	2.8	1.1	1.2	0.5	0.4	-0.6	-1.4	-0.4	0.6	1.5	0.0	-2.4	-4.3	-4.0	-5.7		
Yen (USD/Yen)	0.2	1.1	11.5	5.6	0.4	-0.9	-9.3	-8.4	-10.5	0.5	0.6	3.0	1.3	4.3	-0.3	-0.3	3.6		
Sterling (GBP/USD)	6.1	0.9	-1.7	-2.3	-0.4	2.3	6.7	5.6	8.6	2.7	2.9	0.5	2.0	3.9	7.7	10.4	7.2		
Canadian \$ (USD/CAD)	0.4	3.3	8.6	8.2	6.5	6.3	0.2	0.8	-0.5	0.3	1.8	2.9	0.5	-0.2	-4.6	-6.4	-5.7		
Mexican Peso (USD/MXN)	11.0	17.2	22.7	20.1	20.5	23.6	14.4	14.3	2.3	1.4	-5.4	-7.0	-7.4	-10.2	-13.5	-15.6	-16.2		
US Equities																			
S&P 500	36.0	32.1	23.3	24.7	16.8	6.8	10.6	12.0	13.6	14.8	14.4	16.1	19.9	13.5	16.4	14.9	15.5		
S&P 400 Midcap	30.9	31.3	12.2	18.6	7.1	-4.2	-0.3	0.6	5.9	1.7	5.3	4.5	4.8	-1.7	5.9	6.1	15.5		
S&P 600 Smallcap	27.6	30.9	6.8	14.5	4.5	-5.0	-3.6	-3.4	2.8	-6.3	1.8	1.9	3.8	-4.0	4.2	7.0	15.9		
Russell 2000	32.1	34.6	10.0	17.5	5.3	-5.3	-0.5	-0.2	6.2	-1.9	6.7	9.3	12.9	2.7	11.3	14.3	21.7		

* Diffusion Index, **1985=100, ***Currencies - green/red = strengthening/weakening foreign currency vs dollar
 Source: ISM, Federal Reserve, Census Bureau, Bureau of Labor Statistics, Conference Board, Bloomberg, William Blair

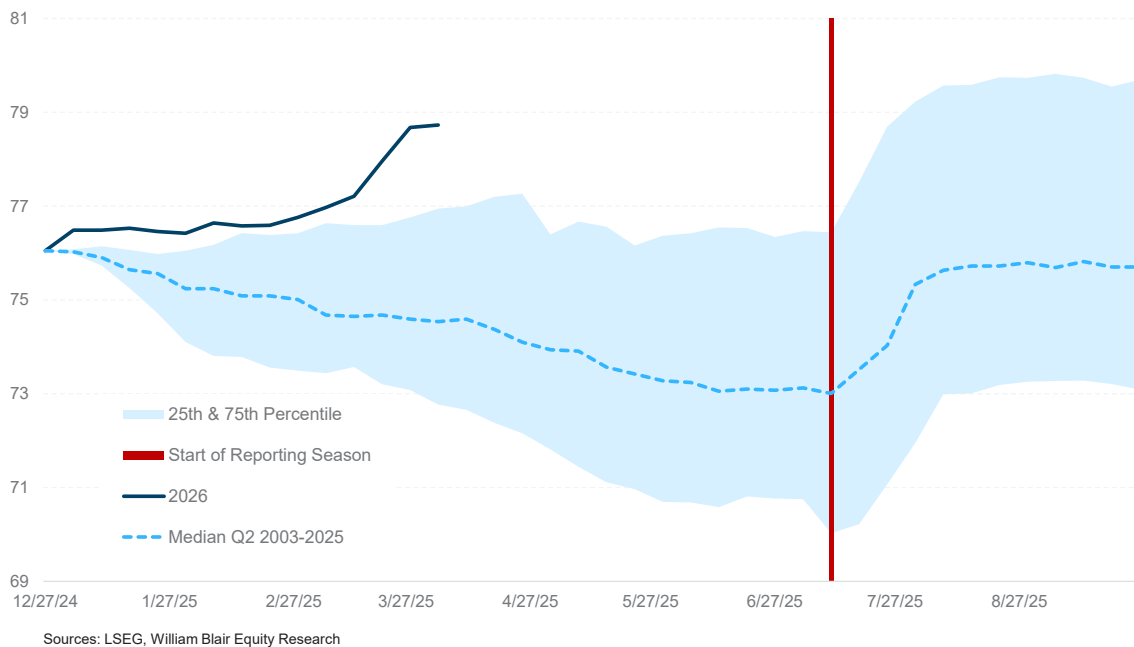
Other Economic Indicators



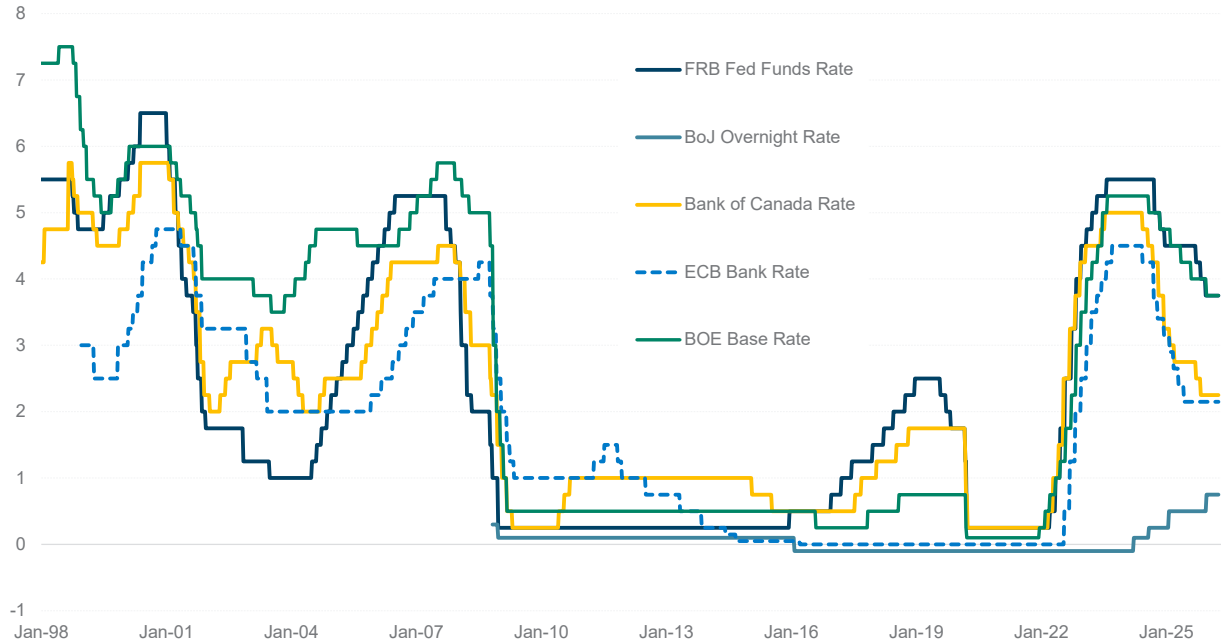
Initial Jobless Claims (‘000s, Seasonally Adjusted)



Progression of S&P 500 Q2 EPS Estimates, Q2 2026 vs Median Q2 2003-2025 (Rebased to Q2 2026 Estimate at End of Q4 2025 of \$76.10 per share)

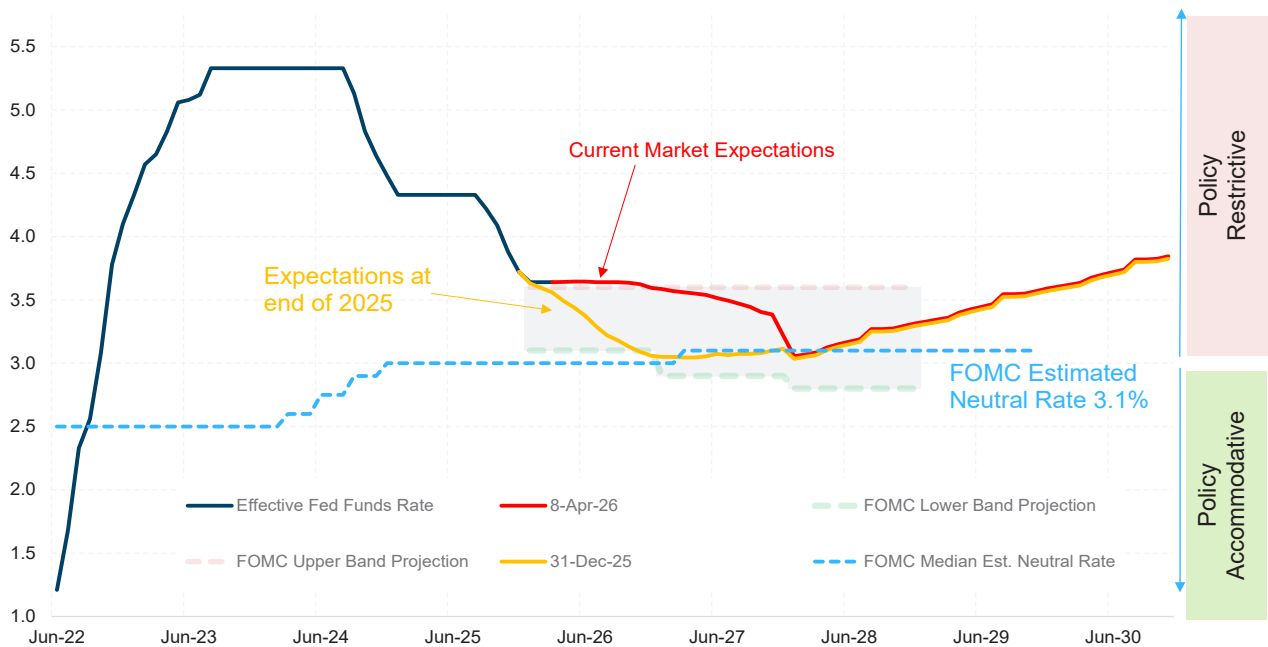


Central Bank Target Short-Term Interest Rates, %



Sources: Bloomberg, William Blair Equity Research

Fed Funds Rate Futures Market Expectations & FOMC Projections, %



Sources: Bloomberg, William Blair Equity Research

S&P 500 Sector Performance

Global Industry Classification System	Current Weight* 09-Apr-26	Week Ago 02-Apr-26	Month Ago 09-Mar-26	Qtr-to-Date 31-Mar-26	Year-to-Date 31-Dec-25
S&P 500 Index	100.00	3.68	0.42	4.54	-0.30
S&P 400 MidCap Index		3.69	2.63	4.67	6.92
S&P 600 SmallCap Index		4.22	4.17	5.15	8.41
Dow Jones Industrials		3.61	0.93	3.98	0.25
Nasdaq Composite		4.31	0.56	5.71	-1.81
Communication Services	10.49	6.10	0.76	7.70	0.05
Advertising	0.05	-1.84	-16.31	-3.12	-22.43
Broadcasting	0.06	7.58	3.86	8.39	-14.67
Cable & Satellite	0.08	-2.37	2.12	3.02	8.02
Integrated Telecommunication Services	0.78	-3.14	-5.01	-5.16	9.68
Interactive Home Entertainment	0.14	-0.78	-2.71	-0.35	-11.68
Interactive Media & Services	7.86	8.10	1.68	10.34	-0.53
Movies & Entertainment	1.16	3.07	1.58	4.78	1.35
Publishing & Printing	0.02	0.85	0.83	-1.10	-5.39
Wireless Telecommunication Svcs	0.35	-1.92	-9.18	-5.95	-2.71
Consumer Discretionary	10.14	5.23	-0.06	4.62	-5.16
Apparel Retail	0.41	2.28	4.81	3.46	11.87
Apparel & Accessories & Luxury Goods	0.10	8.35	4.41	9.19	2.98
Auto Parts & Equipment	0.02	-1.43	-5.14	-0.48	-9.17
Automobile Manufacturers	2.25	-3.18	-11.89	-5.93	-21.60
Automobile Retail	0.29	3.82	-1.30	3.57	-4.22
Broadline Retail	4.06	11.18	9.31	12.04	1.37
Casinos & Gaming	0.09	1.03	2.22	1.40	-11.87
Computer & Electronics Retail	0.02	0.05	-2.17	0.51	-3.59
Consumer Electronics	0.08	7.94	5.73	10.57	26.46
Distributors	0.04	5.01	-2.17	3.55	-10.17
Footwear	0.11	2.10	-17.22	-11.84	-24.91
Home Furnishings	0.01	6.59	-4.33	4.80	-5.59
Home Improvement Retail	0.76	6.07	-3.10	3.72	-0.16
Homebuilding	0.16	3.02	-4.29	3.80	-3.35
Hotels, Resorts & Cruise Lines	0.81	4.68	0.66	4.44	-5.12
Leisure Products	0.02	3.22	-2.84	-0.58	13.48
Restaurants	0.82	2.25	-5.47	2.81	-2.02
Other Specialty Retail	0.08	1.62	-13.61	1.33	-10.36
Consumer Staples	5.68	1.93	-1.57	2.01	9.17
Agricultural Products	0.09	-4.81	3.56	-3.26	27.13
Brewers	0.01	1.45	-2.89	3.76	-4.28
Consumer Staples Merchandise Retail	2.70	1.97	1.69	3.24	15.72
Distillers & Vintners	0.06	8.82	11.52	9.76	17.75
Food Distributors	0.06	5.38	-11.46	5.13	1.76
Food Retail	0.11	-2.40	-3.76	-2.42	13.02
Household Products	0.76	2.38	-5.76	1.58	3.51
Packaged Foods & Meats	0.35	1.32	-5.69	1.03	-0.44
Personal Care Products	0.08	3.18	-10.71	1.46	-12.57
Soft Drinks	1.05	1.76	-1.00	2.36	8.69
Tobacco	0.58	2.18	-4.70	-1.06	5.13
Energy	3.43	-3.30	2.45	-6.62	28.15
Integrated Oil & Gas	1.72	-3.94	2.29	-8.46	27.94
Oil & Gas Equipment & Services	0.28	4.37	8.70	1.75	37.08
Oil & Gas Exploration & Production	0.69	-4.91	1.00	-7.12	25.77
Oil & Gas Refining & Marketing & Transportation	0.32	-6.56	3.77	-8.27	35.38
Oil & Gas Storage & Transportation	0.43	-0.10	0.46	-1.88	22.13

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Financials	11.72	3.53	2.33	3.84	-6.34
Asset Management & Custody Banks	0.93	3.96	5.18	3.85	-10.53
Consumer Finance	0.58	6.32	4.67	5.82	-16.26
Diversified Banks	3.07	6.21	9.11	7.14	-2.15
Diversified Financial Services	6.73	2.62	-0.15	2.64	-8.97
Financial Exchanges & Data	0.91	-1.23	-5.20	0.77	-8.47
Insurance Brokers	0.41	0.10	-2.48	0.46	-10.39
Investment Banking & Brokerage	1.32	5.08	5.81	5.92	-3.65
Life & Health Insurance	0.27	2.62	3.04	3.02	-3.14
Multi-Sector Holdings	1.07	1.64	-2.41	1.25	-3.47
Property & Casualty Insurance	0.92	2.52	0.55	2.59	-1.41
Regional Banks	0.29	6.33	6.82	8.25	4.21
Reinsurance	0.02	2.61	2.31	2.68	-1.10
Transaction & Payment Processing	1.82	2.19	-3.22	1.40	-12.63
Health Care	8.90	1.72	-2.95	1.83	-3.55
Biotechnology	1.59	1.73	-4.96	-0.43	1.65
Health Care Distributors	0.36	-0.53	-7.25	1.72	2.71
Health Care Equipment	1.53	0.72	-7.45	0.46	-14.75
Health Care Facilities	0.20	7.36	-6.36	6.92	5.51
Health Care Services	0.36	4.27	1.18	6.01	2.80
Health Care Supplies	0.06	2.61	-3.42	0.94	-7.26
Life Sciences Tools & Services	0.78	1.61	-1.18	2.29	-14.05
Managed Health Care	0.63	9.54	7.50	12.53	-8.76
Pharmaceuticals	3.38	0.53	-1.65	1.02	2.81
Industrials	8.73	5.14	0.96	6.46	11.04
Aerospace & Defense	2.23	4.37	-4.42	5.98	7.20
Agricultural & Farm Machinery	0.27	7.35	3.09	9.71	32.74
Air Freight & Logistics	0.33	3.17	1.69	4.04	12.28
Building Products	0.48	7.54	4.20	8.17	12.61
Cargo Ground Transportation	0.10	5.50	5.40	6.93	27.66
Construction & Engineering	0.28	6.40	7.77	8.92	44.55
Construction Machinery & Heavy Trucks	0.90	9.41	10.62	11.10	30.78
Data Processing & Outsourced Services	0.03	-3.82	-18.10	-4.73	-30.64
Diversified Support Svcs	0.16	-0.48	-12.90	1.74	-10.33
Electrical Components & Equipment	0.77	9.57	7.77	11.47	17.16
Environmental & Facilities Services	0.33	-0.68	-5.19	1.09	1.33
Heavy Electrical Equipment	0.41	7.73	16.61	10.90	48.11
Human Resource & Employment Services	0.18	-3.99	-11.89	-3.82	-22.69
Industrial Conglomerates	0.36	3.32	-0.68	4.16	10.01
Industrial Machinery	0.67	6.93	1.76	7.01	6.95
Passenger Airlines	0.15	4.08	4.68	4.36	-5.98
Passenger Ground Transportation	0.23	-0.04	-2.76	-0.17	-12.12
Railroads	0.47	2.73	0.15	3.37	9.22
Research & Consulting Svcs	0.12	-3.32	-13.36	-3.16	-16.26
Trading Companies & Distributors	0.25	5.29	1.13	6.20	10.43
Information Technology	31.37	4.02	0.43	5.96	-3.84
Application Software	1.80	-7.48	-16.59	-7.37	-31.34
Communications Equipment	1.17	7.16	11.51	12.04	16.97
Electronic Components	0.59	10.54	11.54	15.99	27.52
Electronic Equipment & Instruments	0.15	8.89	8.39	11.47	37.02
Electronic Manufacturing Services	0.16	9.28	13.15	9.68	7.97
Internet Software & Services	0.08	-0.97	4.02	1.64	-0.78
IT Consulting & Services	0.61	-5.63	-8.31	-3.73	-25.28
Semiconductor Equipment	1.51	15.64	20.14	18.44	52.06
Semiconductors	12.77	7.38	3.67	10.05	4.34
Systems Software	5.67	-0.87	-9.10	-0.12	-23.15
Technology Distributors	0.03	3.89	4.97	4.73	-6.94
Technology Hardware, Storage & Peripherals	6.85	2.85	2.61	4.40	0.79
Materials	1.96	2.85	3.79	4.04	13.71
Commodity Chemicals	0.08	-8.56	9.76	-9.33	64.42
Construction Materials	0.24	7.50	6.44	8.40	-3.17
Copper	0.15	8.26	9.85	13.05	30.83

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Fertilizers & Agricultural Chemicals	0.13	-3.74	5.49	-2.13	27.83
Gold	0.20	4.35	1.75	9.94	19.19
Industrial Gases	0.48	0.42	5.01	1.73	18.58
Metal & Glass Containers	0.03	4.84	0.77	6.36	18.69
Paper Packaging	0.15	4.38	-2.72	2.67	0.01
Specialty Chemicals	0.39	3.57	-0.13	2.56	6.96
Steel	0.11	6.21	6.85	7.54	12.54
Real Estate	1.84	2.76	-0.17	4.66	6.69
Data Center REITs	0.26	3.28	7.47	4.93	29.44
Health Care REITs	0.32	1.93	-1.53	3.75	9.57
Hotel & Resort REITs	0.02	4.02	3.91	3.91	12.30
Industrial REITs	0.20	3.18	2.12	4.41	8.11
Multi-Family Residential REITs	0.00	0.79	-3.99	2.95	-6.33
Office REITs	0.01	1.36	0.00	1.13	-22.23
Other Specialized REITs	0.10	3.36	-1.71	4.59	13.83
Real Estate Service	0.09	1.04	-5.13	1.33	-23.90
Retail REITs	0.26	3.13	0.25	4.47	10.15
Self-Storage REITs	0.13	4.38	-4.52	7.44	10.55
Single-Family Residential REITs	0.13	4.38	-4.52	7.44	10.55
Telecom Tower REITs	0.23	3.72	-1.44	7.92	2.62
Timber REITs	0.03	1.59	1.52	1.59	4.77
Utilities	2.37	1.71	1.22	2.74	10.47
Electric Utilities	1.56	1.89	0.94	2.66	10.68
Gas Utilities	0.05	1.76	3.81	4.10	14.71
Independent Power Producers & Energy Traders	0.10	0.99	-5.31	1.73	-4.35
Water Utilities	0.04	0.80	1.10	2.32	6.71
Multi-Utilities	0.61	1.42	2.84	3.03	12.58

*Current Weight is market cap based, based on calculations by William Blair Intl. Ltd.

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DOW JONES: 48185.80

S&P 500: 6824.66

NASDAQ: 22822.40

Additional information is available upon request.

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Market Perform (Hold)	26	Market Perform (Hold)	2
Underperform (Sell)	1	Underperform (Sell)	0

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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