

First Quarter 2026

Economic and Market Commentary

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As I sit down to write this quarter's commentary, I find myself in a bind. On one hand, I promised to write the second installment on Artificial Intelligence. Science that will continue to affect our lives (we hope mainly for the better) for the next century. Can it be intrusive? For sure. Can it be disruptive? You bet. Think about it; within the next twelve months scientists tell us A.I. will surpass the intelligence of man. In some ways, a scary thought, particularly for those old enough to remember Stanley Kubrick's 1968 masterpiece, **2001: A Space Odessey**.

»Open.the.pod.bay.doors?Hal? .(says.astronaut?Dave.Bowman)
(Hal.666.the.AI.enabled.computer.running.the.space.craft.responds?»I'm.sorry.Dave?I'm.
afraid.I.can't.do.that?

Pretty chilling even today, perhaps even more chilling today than in 1968 because it's happening in the present.

Intel co-founder, Gordon Moore, calculated in 1965 the number of transistors on a microchip doubles every 24 months. The AI/ML compute curve, the modern-day model of Moore's law calculates AI capabilities are doubling roughly every 6 months. Now that's where the conundrum comes in. Along with the fear of AI comes incredible innovation, advances in productivity, robotics and, most importantly, medicine.

WE USE THEM EVERYDAY

They are technically idiomatic phrases. Most people would know them as idioms. Idioms are figurative expressions whose words alone don't convey the intended message. They have been used for thousands of years to make language more colorful. The oldest known idiom still in use today is "clean slate" from the epic poem, Gilgamesh, which dates back some 3800 years from ancient Mesopotamia. "Tabula Rasa" meaning "scraped table", or as Americans adopted it in the 18th century, "clean slate."

The idiom “clean slate” is really not as optimistic as you might think. When trying to start over on a “clean slate” you are actually writing over smudges of past mistakes, not simply just restarting or a fresh beginning. Think about how you hear them every single day. Odds are you have used them yourself:

“I’m feeling under the weather.”
“He’s between a rock and a hard place.”
“Guess we’ll just have to bite the bullet.”

Well, that’s exactly what I’m dealing with now.

“ON THE HORNS OF A DILEMMA”

The meaning of this idiom is you find yourself in a difficult situation where both options are undesirable. Its origins go back to medieval logic: “Argumentum Cornutum” refers to two sharp and equally painful horns, very much like a charging bull. So, the question begs to be asked why do you think I’m on the horns of a dilemma? The answer is quite apparent; how can I ignore the 800lb gorilla in the room (another idiom and I didn’t even realize I was using one until I looked at the words on the paper). IRAN.

THE COUNTRY GOES TO WAR

Since the end of February, the country has been at war with the country of Iran, and all its proxies, Hezbollah, Houthis and Hamas, just to name a few. The President has sent mixed messages at times saying it is a war and at times saying it is an “excursion.” He meant “incursion” a term other administrations have relied upon rather than go to Congress seeking a declaration of war. Merriam-Webster’s most current dictionary defines excursion as “a brief pleasure trip or outing.” In this case, wrong; this is no “walk in the park.” (Alright, I promise I’ll try to avoid the use of any more idioms.)

Iran is a country long protected on three sides by severe mountain ranges like the Zagros and the Alborz with a small lush and humid coast line on the Caspian Sea to the north and a critical chokepoint to the south: The Strait of Hormuz, which has long been the gateway of global trade, not only as the conduit between south and west Asia, but through which more than 20% of the world’s oil, natural gas, fertilizer and minerals pass through. All told an area in size equal to Spain, France and Germany combined. The US may be an energy net exporter, yet gas prices have gone through the roof. Allies like Japan, South Korea and Taiwan have gone into a 4-day work week. It’s no wonder when you realize Japan imports 92% of all its oil. Thousands of civilians dead, its cities have been decimated with vast loss of lives, most of which were just ordinary people trying to live their lives day to day, yet these people from a 5000-year-old civilization are held down by a brutal minority with no hesitation at all to kill their own.

So, what we see abroad is a slowed down economy and higher prices. One could even call it stagflation. (Incidentally, stagflation is a noun.) A grammarist would identify it as a “Portmanteau”. (Don’t worry, I had to look it up too. Thank you again Merriam-Webster.) It means it’s a word blending both the sounds but the meanings as well. I didn’t want to be falsely accused of using yet another idiom.

LET ME BRING IT HOME

It’s my guess that many a writer would use this as an opportunity to transition to an AI conclusion, but I’ve decided to stay on topic. In the rodeo circuit, the term is “Bulldoggin’.” The goal is simple but dangerous; leap off a galloping horse onto a galloping steer, grab both horns (obviously one in each hand) and use leverage to pull it to the ground.

To say the current global geo-political climate is dangerous and irresponsible is a gross understatement. It’s not like the Gaza calamity has cured itself. It’s not like the Ukraine war is over as the war continues to wear on into its 5th year. Not to mention the constant tension of China invading Taiwan.

Separate from a world at war you have a bifurcated America having a hard time agreeing on anything, you have a national debt that’s going to hit 40 trillion dollars this October and gerrymandered mid-term elections coming up in the next several months. So, with all the world chaos compounded by hubris going on around us, it’s no wonder we’ve seen choppiness in the market.

CONCLUSION

Yes, there is choppiness in the market and there will be more to come. But think about the resilience the American markets have shown. On February 1st, President Trump announced tariffs on China, Mexico and Canada.

By February 10th, the President announces tariffs on steel, aluminum and so on. How did the market react? Talking heads referred to it as the tariff.tantrum and a short-term selloff occurred. Was it catastrophic? No. It didn’t even qualify as a market correction. The S&P 500 started the year at 6,858, hitting a low on March 31st of 6,528. That’s approximately an 8% decline and remember the war with Iran, coming out of nowhere (probably an idiom) started February 28th. At the time of this writing, the S&P 500 closed at 7,126, a new all-time high. So, with everything that’s going on, why in the world has the market reacted so well?

If you want to break it down to its component parts, it’s amazingly fundamental. It focuses on corporate productivity, increased sales and, most importantly, increased earnings. “It’s

not what you make, it's what you keep." (No, now don't try to tag that as an idiom, it's a commonly known business mantra.) You know true productivity is up when people (or machines) are producing more and better widgets without their cost going up. It's when efficiency meets advances without increasing inflation.

The market resilience is tied into increased sales of over 16% year on year, and corporate earnings are up over 9% year on year based on the S&P 500. Can things change? Most certainly. Is there a commonsense explanation for the market's resilience? Without a doubt. We will all be watching closely what happens in the Middle East. Until the Straits of Hormuz are once again truly open and trade flows uninterrupted, this war won't be over. It's my hope that by second quarter commentary, I can get back to the final installment on artificial intelligence. Until then we will remain vigilant looking for quality companies at good entry points and not get distracted by the headlines of the day.

Wishing you a happy and healthy Spring. As always, with best regards,

Ray