

FIRST QUARTER FINANCIAL MARKET COMMENTARY
“NINETY DAYS IN NINETY SECONDS”
MARCH 31, 2026

GEOPOLITICAL RISKS AND A RESILIENT DOMESTIC ECONOMY

- ♦ The Iranian conflict remains a source of high uncertainty. The short-term focus of the news media has resulted in an emphasis on vague and conflicting goals, off-ramps, and threats of a ground war. Alternatively, the long-term benefits of restraining Iran’s access to nuclear weapons could usher in decades of stability in oil markets, supply chains, and geopolitical security. The ultimate outcome, as well as what “victory” might look like, is still a great unknown.
- ♦ Amid this global turmoil, the domestic economy continues to exhibit strong growth, especially capital spending for AI and data centers. Corporate earnings growth is expected to be in the mid-teens in both 2026 and 2027. The most recent labor market data showed stronger than expected job creation and a wide variety of retailers reported strong customer trends. The spike in gasoline prices does not appear to have had a broad impact on consumer spending at this point.

THE PATH OF FEDERAL RESERVE POLICY REMAINS COMPLICATED

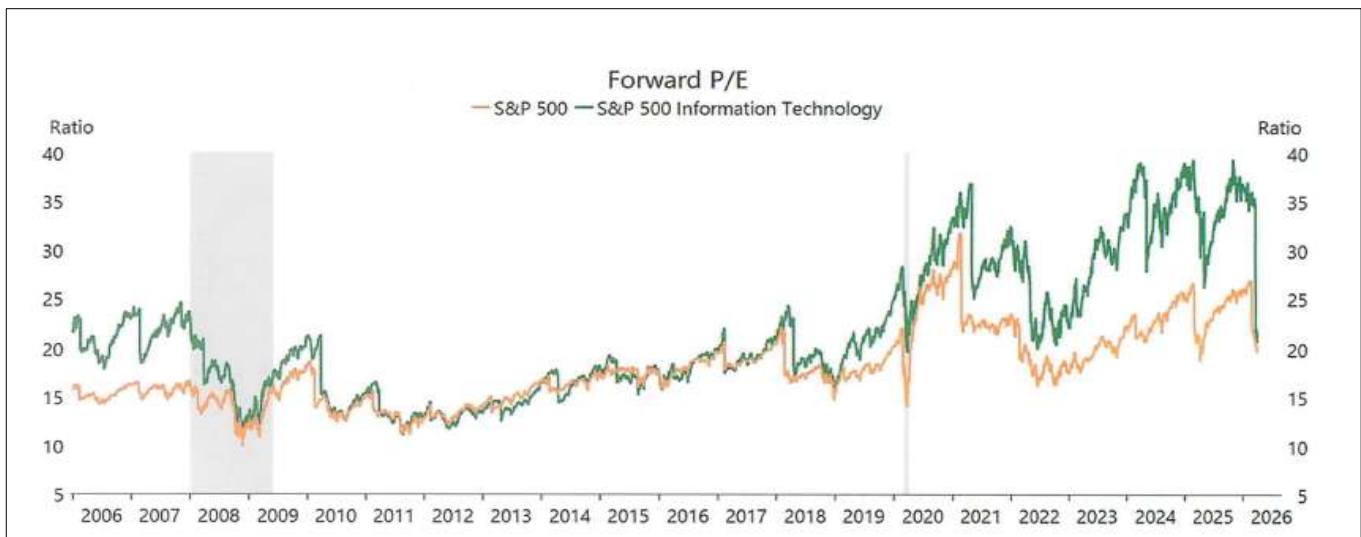
- ♦ Inflation pressures have forced the Fed to pivot from a policy of interest rate cuts that supports the job market to a more balanced posture that recognizes inflation persistently running above their long-term target. This more balanced view of policy represents the consensus of the FOMC and is unlikely to change abruptly with a new Fed Chair.
- ♦ The independence of the Fed has been repeatedly challenged by Trump, but in a January video, Chairman Powell issued a strong rebuttal to the DOJ probe. The delay by the Senate of Kevin Warsh’s nomination hearing has also buttressed the importance of an independent central bank.

TECHNOLOGY STOCKS COMPARED TO AI BUZZ

- ♦ The media has created a high level of excitement around AI capital spending and new AI models from Anthropic, OpenAI, and xAI, but the irony is that the technology sector has been the worst performing economic sector in the stock market over the past five months. Among the complexities of the current environment are that the three biggest AI companies are all private and there are widespread fears of the disruption that AI could inflict on established technology companies, especially software firms.
- ♦ Multiple truths for AI likely exist at once. AI is a game changer for almost every industry. AI is likely to be more impactful than many people understand, but it is also likely to fall short of the most enthusiastic visions. AI capital spending is an arms race, which definitionally produces over investment. Like the dot-com period, there can be an investment bust, and AI can still be transformative.

AN EMERGING VALUATION OPPORTUNITY

- ♦ We often quote the adage that earnings drive stocks. However, the internal rotation that has occurred in the market has put that relationship on hold. Earnings estimates for mega-cap growth stocks have continued to move higher, while stock prices have moved lower. This has compressed price-to-earnings ratios to levels not seen since 2019. While the constituents of the growth cohort are not as uniform as several years ago, this is still a development that we find intriguing.



LABOR MARKET CROSSCURRENTS

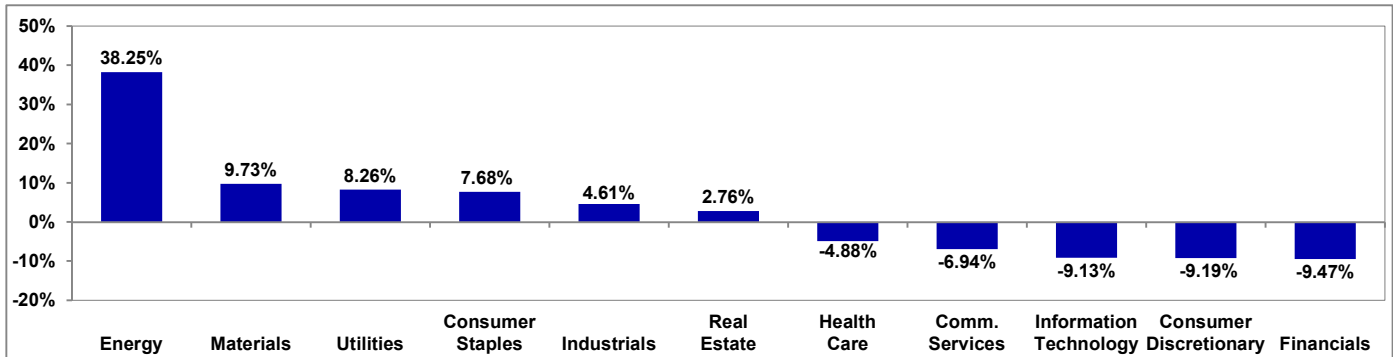
- ♦ Domestic job growth has slowed over the past year but is offset by a shrinking labor supply and lower immigration, thus keeping the unemployment rate stable. The big question is whether past labor trends will be predictive in the future.
- ♦ AI agents are increasingly able to preform a wide range of tasks, including customer service, financial analysis, graphic design, and office support. At this point, error rates are still too high, security vulnerabilities are often disqualifying, and fiduciary gaps are unacceptable. However, these challenges are likely to be corrected over time and AI will create new divisions in the labor market between employees with AI skills and those without.
- ♦ Managing the near-term dynamics of the labor market, as well as the transformational changes from AI will be challenging for Federal Reserve officials, as well as other policy makers.

CONCLUSION

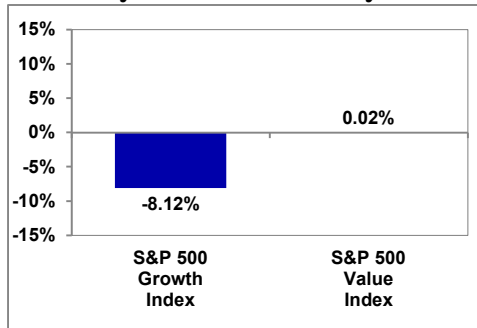
- ♦ Observations regarding the economy and the financial markets are subject to a high degree of variability. The economy is solid at this point, but the margin for error is shrinking. The evolving Middle East conflict and limited shipments of crude oil through the Strait of Hormuz are negatively impacting our global trading partners and will make policy decisions by the Fed more difficult.
- ♦ The first quarter “earnings season” will be more important than usual. Earnings results for the past quarter will be important, but the real insights will come from the outlook statements that managements provide regarding the impact of geopolitical uncertainty and AI on their specific businesses.

First Quarter Investment Performance (including income)

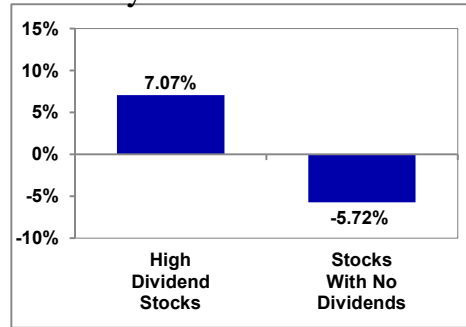
By Economic Sector



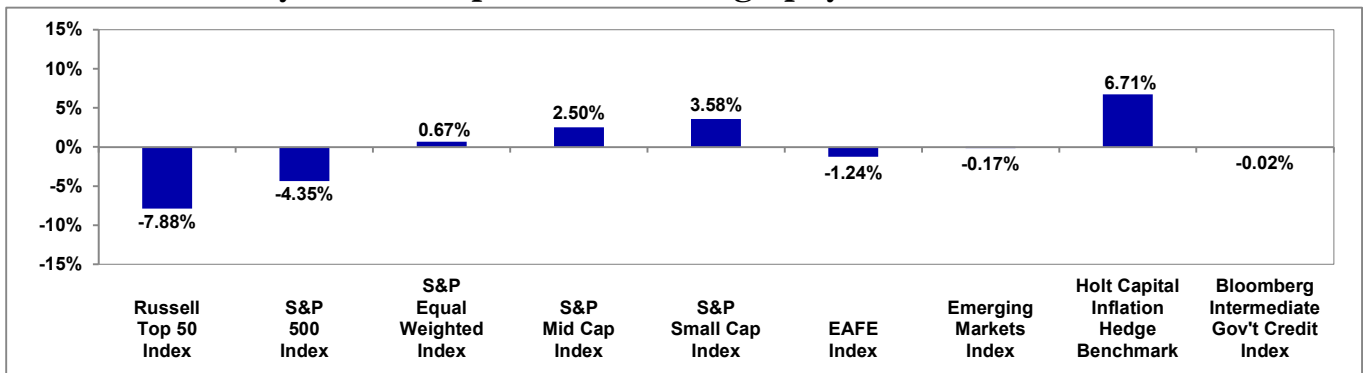
By Investment Style



By Dividend Yield



By Market Capitalization, Geography and Asset Class



- ♦ Inflation beneficiaries, such as energy and materials, were the best performers during the quarter. Sectors characterized by higher growth rates and higher valuations declined as investors reacted to the geopolitical turmoil and attempted to reduce portfolio risk.
- ♦ In this environment growth indexes underperformed their value counterparts. Across sectors, stocks with above average dividend yields performed well.
- ♦ The equal weighted S&P 500, as well as small and midcap indexes, are more exposed to domestic revenue sources, which made them a safe haven amid the global instability.