

We've Seen This Before

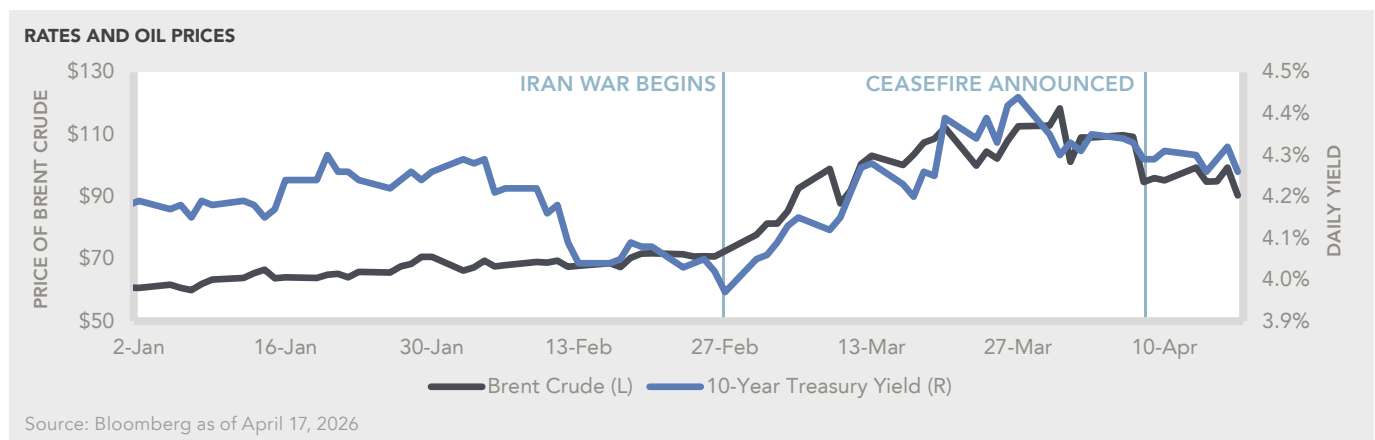
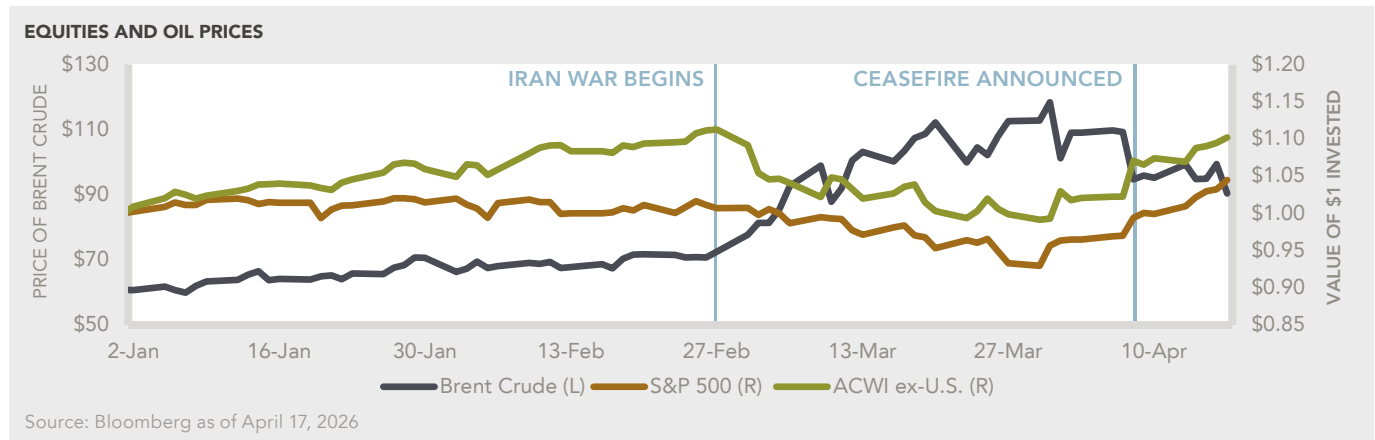
APR 2026

QUARTERLY LETTER FROM THE DIRECTOR OF RESEARCH

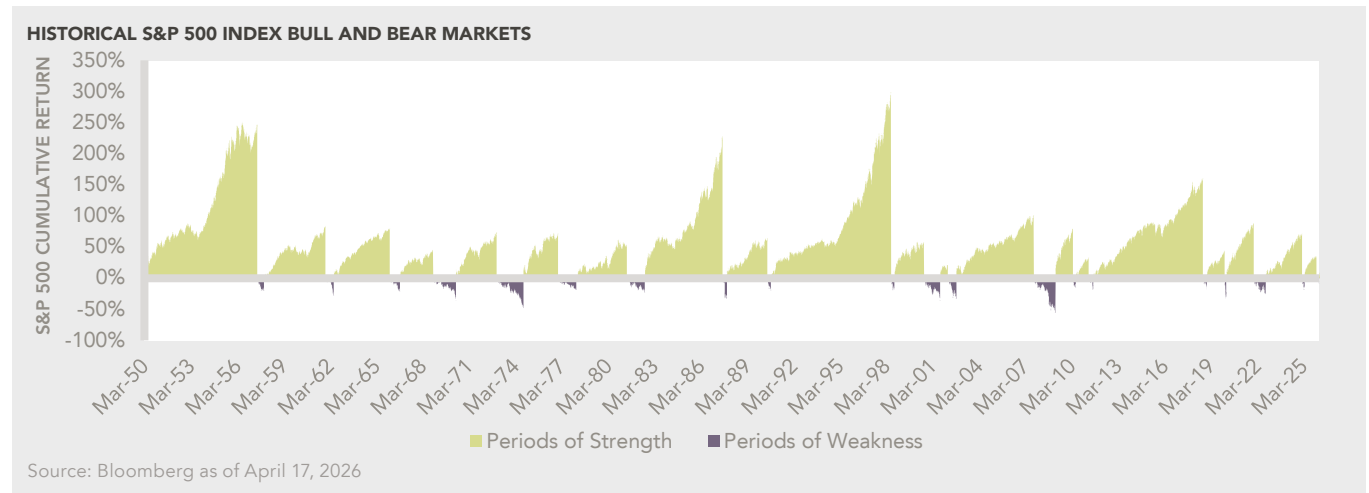
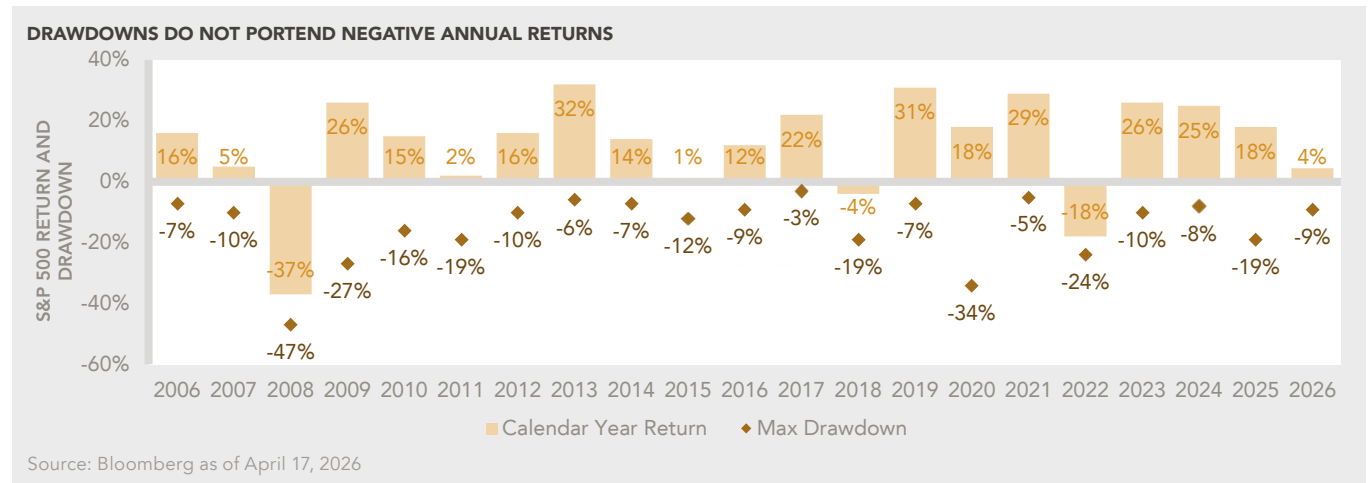
Diversify. Rebalance. Stay invested. Every one of these letters has concluded with that same advice in some shape or form. It's not particularly shiny and new, but the best documented path to a successful long-term investment program. The last eight weeks are another data point in support of these practices.

The first two charts show the directions of oil prices, interest rates, and equity markets before and after the U.S.–Iran conflict launched on February 28. Predictably, oil prices spiked as the attacks began and the Strait of Hormuz was closed. Interest rates rose in anticipation of higher inflation, stoked by higher oil prices. Equity markets fell on inflation fears and higher input costs. The stock market story flipped from the "Great Rotation" to the "Energy Shock Quarter." Consistent with previous exogenous market shocks, very few saw the conflict coming and market pricing did not account for this latest geopolitical conflict.

As threats and counterthreats mounted to the point of no return, a ceasefire was mercifully announced on April 8. Predictably, markets roared back with both the S&P 500 and NASDAQ hitting all-time highs the week of April 13. While the market rally wasn't surprising, the speed and depth exceeded expectations. As of Friday, April 17, the S&P 500 and MSCI ACWI ex-U.S. indices are up 4.5% and 10.2%, respectively, on a year-to-date basis.



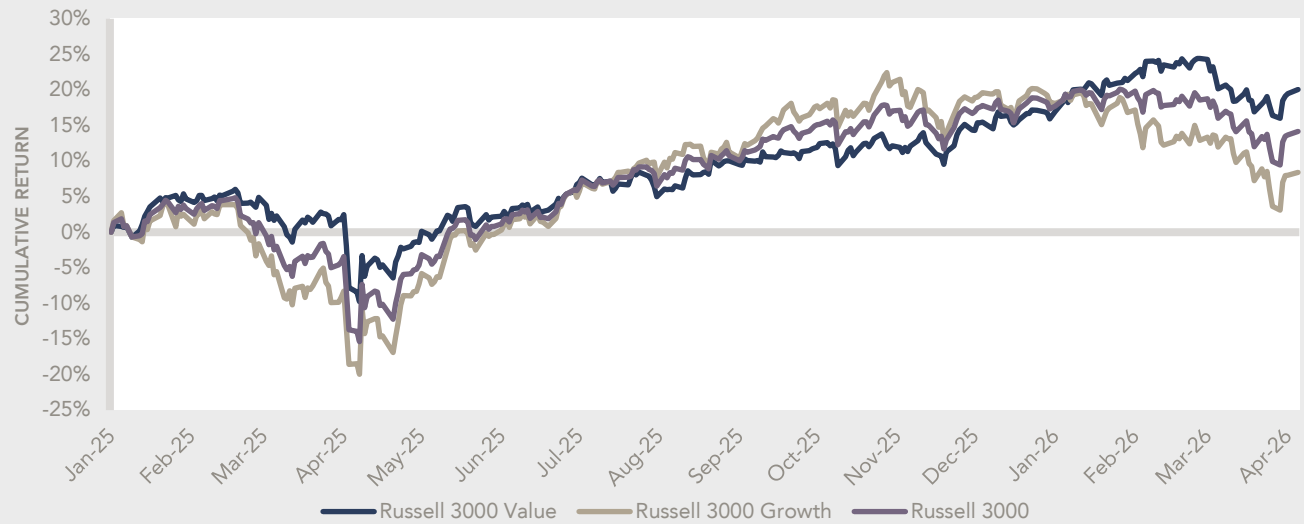
While probably none of this is shocking, the last two months have been a good reminder that intra-year volatility is common and certainly doesn't imply a negative year. We lived this same narrative almost exactly a year ago with the Liberation Day market gyrations. If we look back over the last twenty years, the great majority have featured an intra-year drawdown over 10%. The charts below underscore how critical it is to remain invested throughout every market cycle; as the last two weeks have shown, some of the market's best days follow some of its worst and trying to time entries and exits will only lead to underperformance versus industry and peer benchmarks.



So where do we go from here? As I write this, round two of U.S.–Iran peace talks are pending. Market reaction week to date has been muted, but elevated volatility in the short term is more likely than not. It goes without saying that the longer the conflict goes on, the greater the uncertainty for this year's economic and financial market outlook. In particular, should traffic through the Strait of Hormuz remain stalled, the greater the inflationary pressures due to higher energy prices. By extension, the outlook for interest rates is also likely to move higher, creating more headwinds for fixed income returns and introducing the possibility of a Fed rate hike if inflation unpredictably spikes.

As for equity markets, the first two months of the year marked the "Great Rotation" out of large tech stocks as value and small-cap stocks led the way. Everything sold off in March but value and small-caps retain their leadership positions through April 17.

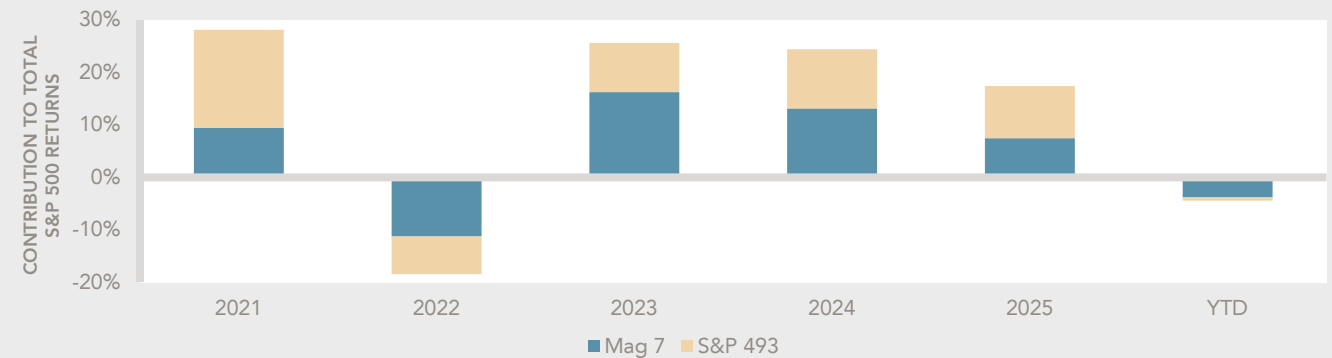
THE MARKET ROTATION CONTINUES



Source: Bloomberg as of April 8, 2026

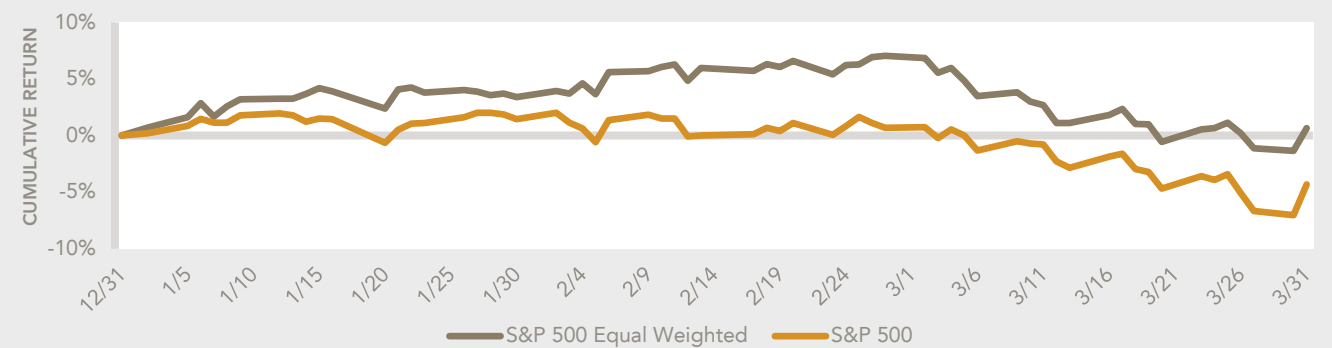
In a notable reversal of trends, the Magnificent Seven stocks actually detracted from the S&P 500 return during the first quarter and the S&P 500 Equal Weighted Index meaningfully outperformed the traditional market capitalization index, further underscoring the rotation out of the previously dominant large technology stocks.

THE CONTRIBUTION OF THE MAG 7 TO OVERALL INDEX RETURNS



Source: Bloomberg as of March 31, 2026

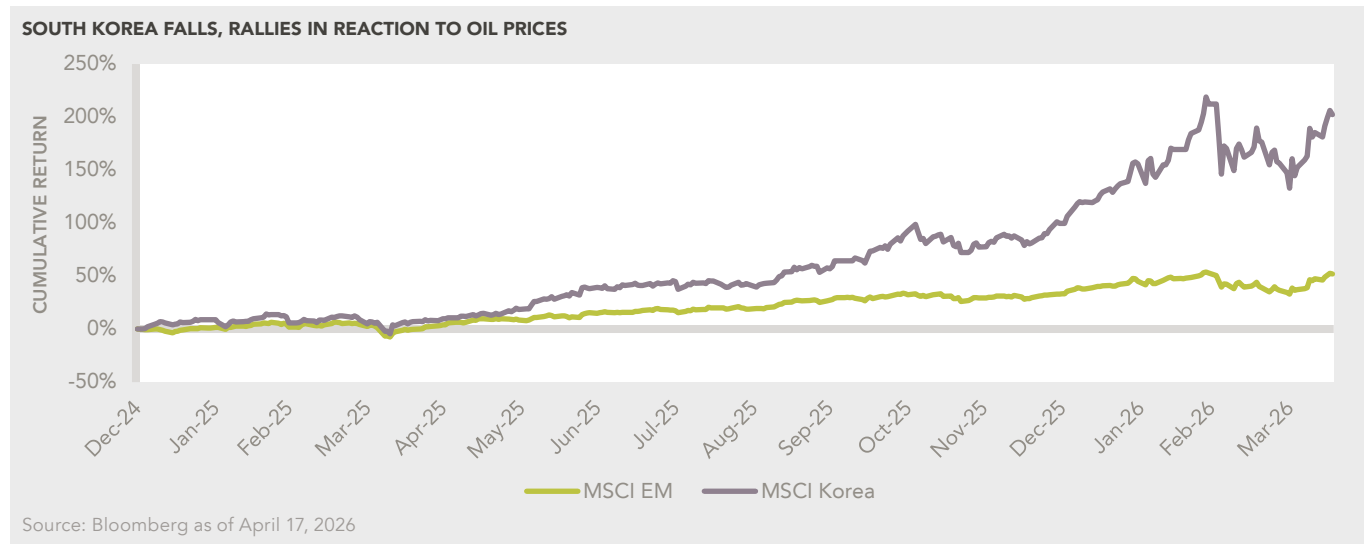
THE MARKET TAKES A "BREATH"



Source: Bloomberg as of March 31, 2026

Overall, the quarter can be characterized as a transition period, as markets moved away from the broad, liquidity-driven rally of prior years toward a more fundamentally driven environment with greater emphasis on earnings quality, balance sheet strength, and the repricing of technology and AI-related expectations contributing to higher dispersion and a less forgiving backdrop for companies with weaker fundamentals.

Non-U.S. stocks followed a similar pattern of strong performance in the first two months and a significant sell-off during March, but had an even more dramatic comeback during the first half of April. The conflict has had particularly pronounced effects on international stocks due to the prolonged closure of the Strait of Hormuz; oil-importing nations including South Korea and India experienced some of the steepest drawdowns while oil-exporting and more energy-independent economies remained relatively insulated. Supply disruptions may take time to normalize, raising the likelihood of a more prolonged inflationary environment and putting downward pressure on earnings expectations for non-U.S. companies. As a result, the early-year momentum for international equities has stalled. That said, a durable resolution to the conflict could help restore investor confidence and allow markets to refocus on fundamentals. In the meantime, we are closely monitoring both geopolitical developments and potential economic spillovers, highlighting the importance of portfolio diversification and careful risk management.



Rapid market reactions in response to geopolitical events are not new. We have long said that headlines are great for selling newspapers but lousy for making portfolio decisions. Indeed, we have seen this before — in fact, just twelve months ago — and while the underlying causes are different, the best practices are unchanged. Diversify. Rebalance. Stay invested. Your future long-term performance thanks you for these decisions made today.

Until next time,

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