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The 1st quarter of 2026 proved eventful and turbulent with investors navigating a volatile mix of shifting market leadership and persistent macroeconomic uncertainty, but the defining event of the quarter was geopolitical. On February 28th, the United States and Israel launched a military campaign against Iran, which proved to be the quarter's most consequential development. Iran's subsequent closure of the Strait of Hormuz – through which roughly 20% of global oil and gas flows – caused a dramatic spike in energy prices. Oil prices soared, spiking as high as \$120/bbl at the peak, the highest level since the early 2020s. The head of the International Energy Agency (IEA), Faith Birol, declared this to be the “worst energy crisis in decades” and helped the agency coordinate the release of 400 million barrels from emergency reserves – its largest such action in historyⁱ.

After starting the year on a positive note, all major US benchmarks closed in the red for the 1st quarter after an ugly March. The S&P 500 dropped -4.3% as investors started to question the long-term competitive moats of the “Magnificent 7” technology stocks in an era of increasing AI capabilities, snapping the index's three-quarter winning streak. The Dow Jones Industrial Average (i.e., “the Dow”) dropped -3.2% but it was the Nasdaq Composite that fared the worst, returning -5.8% for the quarterⁱⁱ.

Stocks outside of the US saw weakness of their own but continued their stretch of relative outperformance for another quarter. The MSCI EAFE Index (the benchmark for stocks in countries with more mature and developed economies) fell -1.2% while the MSCI Emerging Markets Index (measuring stocks in countries with smaller and still-developing economies) were essentially flat for the quarter with a small loss of just -0.2%ⁱⁱⁱ.

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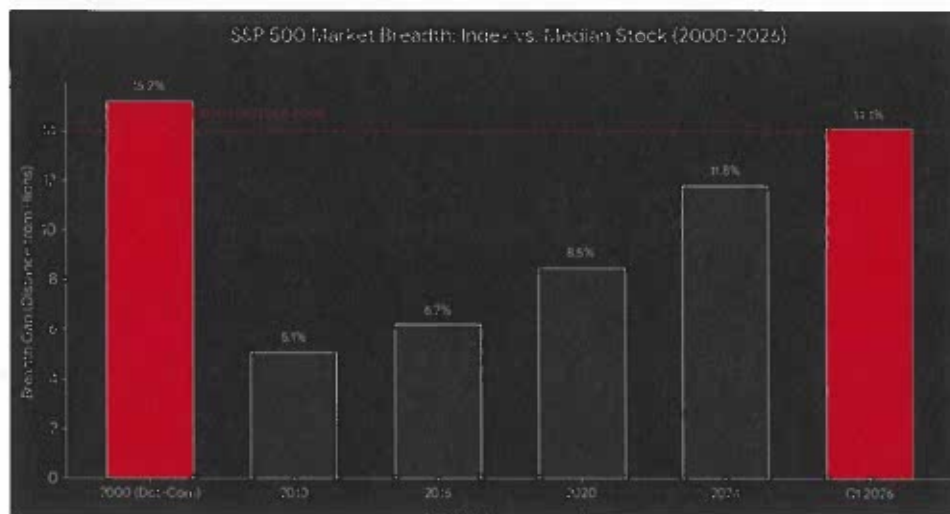
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Interest rates faced their own bout of fluctuations during the quarter, but bonds ultimately served as a safe haven across diversified portfolios providing relative stability. The Bloomberg US Aggregate Index (the measurement for taxable bonds) was down just -0.1% during the 1st quarter^{iv}, with the yield on the 10-year maturity US Treasury bond closing the quarter at 4.3%^v. The Federal Reserve saw consumer prices (which they watch closely as they set the super short-term Fed funds rate) jump to 3.3% in the month of March, driven almost entirely by the energy price surge. Inflation was growing again partly from the impact of the tariffs, even before the effects of the war. This all complicates the Fed’s interest rate policy path moving forward, as the median projection points to just one rate cut during the remainder of 2026. Newcomer Kevin Warsh, economist and former investment banker nominated by President Trump, is scheduled to be sworn in as new head of the Federal Reserve in mid-May, succeeding current Fed chairman Jerome Powell.

Outside of traditional stock and bond markets, the surge in energy prices pushed the Bloomberg Commodity Index, a broad measurement of a diversified basket of commodity prices, higher by +24.4% during the 1st quarter. Energy is typically the largest sector, generally representing 35-40% of the index. Although off the quarter’s peak price, the price of WTI crude oil closed at over \$101/bbl by the end of March – up about +77% from \$57/bbl just at the beginning of the year. The price of gold saw its price increase to \$4670/oz, up about +8% during the quarter^{vi}.

The broad stock market environment continues to be cocktail of stretched valuations, historic index concentration amongst just a few individual stocks, wide-spread investor speculation, and the 2nd worst market breadth since the dot-com bubble. “Market breadth” measures the degree of participation across a broad group of stocks, revealing whether a market trend (positive or negative) is broad-based and durable, or narrow and potentially fragile. Narrow breadth is typically a warning before stock market weakness. Record highs ≠ healthy markets.

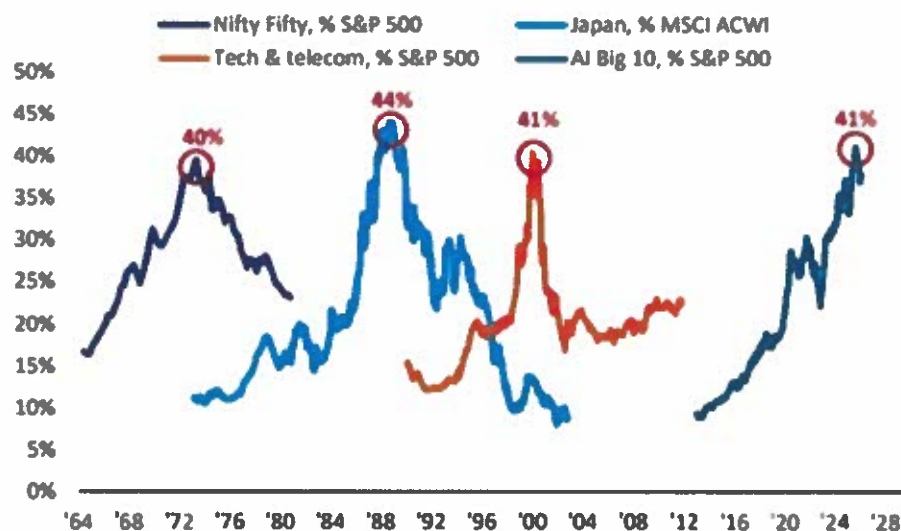


Source: Goldman Sachs Investment Research & Barchart Q1 2026

Today's AI concentration looks eerily similar to previous bubbles of the Nifty Fifty in the early 70s, Japan in the late 80s, and technology in the early 2000s...

Chart 6: Historical concentration peaks

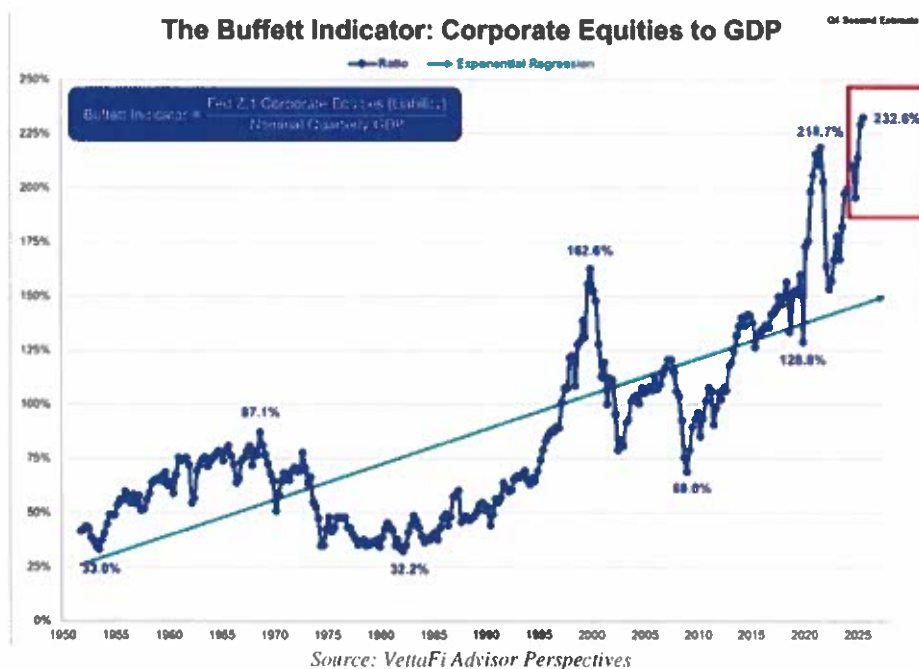
Concentration of Nifty Fifty in '70s, Japan in '80s, Tech in '00s, AI in 2020s



Source: BofA Global Investment Strategy, Bloomberg, Global Financial Data, BofA Global Research Investment Committee

Back in 2001, billionaire Warren Buffett, whose fame stems from his long-standing investing success and wisdom, wrote a landmark article that introduced a crucial stock market metric that became renowned as the “Buffett Indicator.” At the time, Buffett was writing when the dot-com bubble was deflating. He identified why the drop was inevitable and was likely to continue big time. His thesis: the total value of US stocks, over the long-term, can’t outpace the growth of businesses as reflected in the GDP. So when the ratio of US stocks to national income diverts enough from the norm, it’s bound to swing the opposite way – though the timing of the retracement is impossible to predict. Buffett highlighted how that number, at the craze’s peak in March 2000, reached a doomy level. He went on to write, “The message of the chart is that if the relationship between the total value of equities and GDP drops to 70% or 80%, buying stocks is likely to work out very well for you. But if it approaches 200%, you are playing with fire^{vii}.”

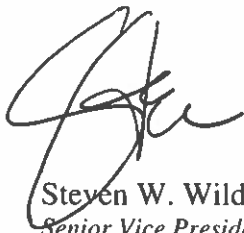
Playing with fire. We'll say it again for emphasis. The concept that Buffett presented now-a-quarter-century ago is timeless, and it's especially relevant today because the yardstick he used to identify the danger then, looks even more ominous now. Right now, markets are riding a seldom-before-witnessed explosion in enthusiasm and animal spirits. The Buffett Indicator now stands at 232%, a figure that's around one-sixth higher than what he identified as the prepare-for-a-roasting zone.



In last quarter's letter, we discussed how investors (and fellow financial advisors, for that matter) can often times have a compulsion to "stick with what has worked." It can feel like a safe and comfortable decision to make, but most investors – regardless of if novice or sage – generally can agree the years ahead will likely look much different than the past. Our team's philosophy of investing in the areas that look most favorable for our clients and avoiding the most vulnerable – even if it means sticking our necks out and going against mainstream thinking – is generally the opposite of our financial advice industry. We think simply "sticking with what has worked" over the past few years will likely result in a very disappointing financial outcome.

Please do not hesitate to reach out to us with any questions about any of these topics, or how they may pertain to your portfolio and financial plan. We are always available to help address any concerns you may have. And as always, our team appreciates and highly values the continued confidence you have placed in us.

All the best,



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- i “War in Iran is causing biggest energy crisis in history, IEA says” by Reuters.com, April 21, 2026
 - ii All domestic equity index returns courtesy of Morgan Stanley Capital Markets Research
 - iii All international equity index returns courtesy of Morgan Stanley Capital Markets Research
 - iv All fixed income index returns courtesy of Morgan Stanley Capital Markets Research
 - v JP Morgan Guide to the Markets 2Q 2026
 - vi All commodity returns courtesy of Morgan Stanley Capital Markets Research
 - vii “The Buffett Indicator, explained by the Oracle of Omaha himself” by fortune.com, April 26, 2026

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Equity securities may fluctuate in response to news on companies, industries, markets conditions and general economic environment.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally, the longer a bond's maturity, the more sensitive to it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer. Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate.

A basis point is defined as one hundredth of one percent (1%), used chiefly in expressing differences of interest rates.

An investment cannot be made directly in a market index. For index and indicator definitions referenced in this report please visit the following: <https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions>

Investing in commodities entails significant risks. Commodity prices may be affected by a variety of factors at any time, including but not limited to, (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in commodities and related contracts, (vi) pestilence, technological change and weather, and (vii) the price volatility of a commodity. In addition, the commodities markets are subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention.

International investing may not be appropriate for every investor and is subject to additional risks, including currency fluctuations, political factors, withholding, lack of liquidity, the absence of adequate financial information, and exchange control restrictions impacting foreign issuers. These risks may be magnified in emerging markets.

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Because of their narrow focus, sector investments tend to be more volatile than investments that diversify across many sectors and companies.

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