

1Q 2026 Commentary

April 9, 2026

PSG'S PERSPECTIVES

Investing In Uncertain Times

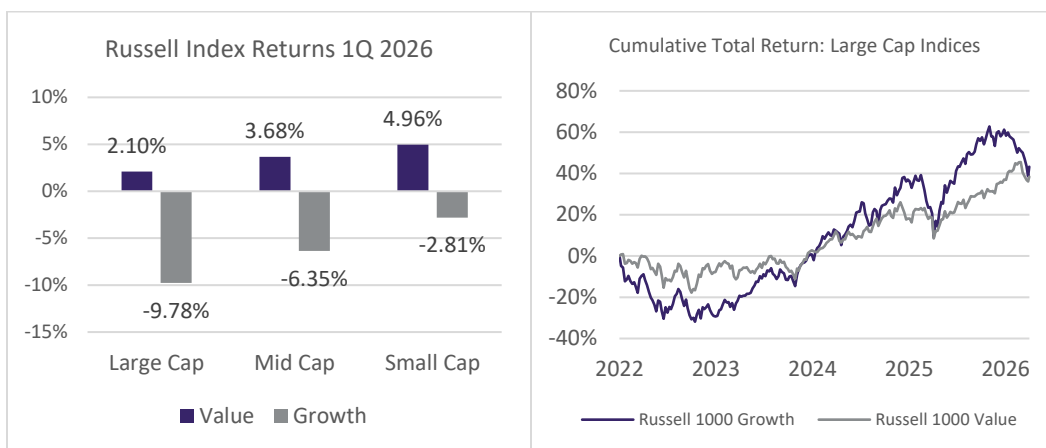
Diversification is better than trying to time markets.

We do not have the ability to predict what event will introduce the next period of uncertainty in markets. That fact keeps us from being market timers since timing requires both selling and buying back at the right time. We may get one right, but getting both right is very difficult. This is why we diversify client investments. Diversification provides smoother returns. An investor will almost always have some allocation to what is performing both best and worst, which helps prevent large losses at the expense of foregoing the highest possible returns.

New risks emerged; value stocks were up.

Diversified portfolios proved their worth in a quarter defined by the emergence of new risks. The continued improvements in Artificial Intelligence (AI) have potentially imperiled heretofore impregnable business models of many software companies. The war against Iran and subsequent closure of the Strait of Hormuz drove global energy prices higher and lowered economic growth prospects. Concerns around private credit funds not being able to meet redemptions added to investor concerns. Despite these headwinds, *US value indices were all higher in the quarter*, whereas all growth indices finished lower.

Large growth stocks and large value stocks have produced similar returns since 1/1/22, though growth was far more volatile.



Source: FactSet

*iShares ETFs used for return data; Source: FactSet

Large cap growth and large cap value index returns are similar from 1/1/22 through 3/31/26. This may surprise investors as growth stocks have generated the headlines in the last few years. The difference is growth was far more volatile, while value was steadier. The largest decline in the value index from its highest level to its lowest was (-19%). The largest decline in growth was (-32%). Assuming a 50/50 split between the two, the largest decline was (-24%), resulting in a significantly smoother experience for investors and a similar return.

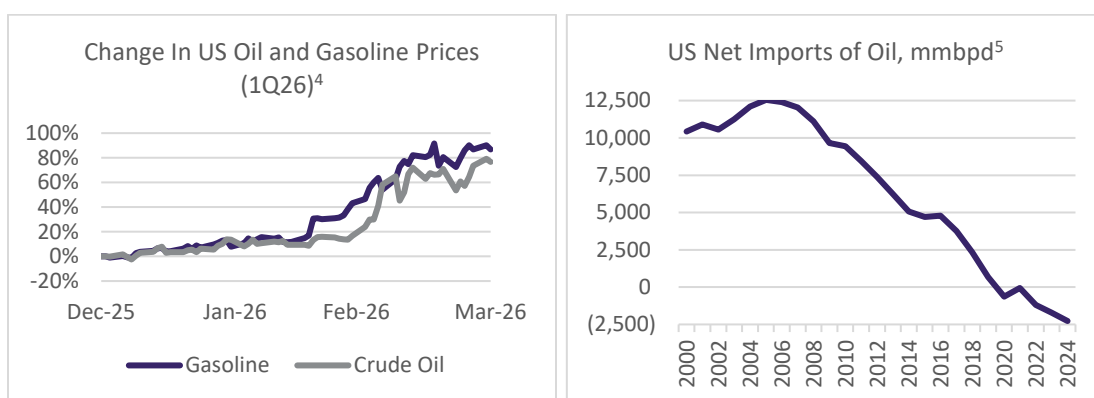
FIRST QUARTER REVIEW

2026 Iran War

Since our [March 2 letter](#) on the Iran war, stocks declined, with value down less than growth. Energy was the best performing sector. Iran was able to close the Strait of Hormuz, temporarily cutting off roughly 20% of the world's oil and oil products¹, along with 20% of global liquified natural gas (LNG) shipments.² Some critical energy infrastructure has been significantly damaged.³ Oil and oil product prices are up 50%+ since mid February.

The US is in a relatively good position as a net exporter of oil/oil products and natural gas. Though oil supplies are sufficient in the US, gasoline and other oil product prices are higher because they are subject to global prices. US natural gas prices, on the other hand, were roughly unchanged since the war started as LNG exporters were already running at full capacity – the US cannot export more natural gas. We are highly confident that the longer the strait is closed and the more energy infrastructure is damaged, the higher the probability of a more significant and longer lasting impact on the global economy. Iran's proven ability to disrupt energy flows is likely to have longer term negative consequences.

The US is self-sufficient in energy but US oil products are still subject to global prices.



Investors are questioning many software company models; some active managers are buying.

Is Artificial Intelligence Eating Software?

Venture capitalist Marc Andreessen famously wrote in August 2011, "Software is eating the world." It now appears that AI may be eating up software and reshaping software economics. Software stocks were among the worst performers in the quarter as investors began to question which companies are safe from AI's growing capabilities and how software business models will evolve. Not even Microsoft was immune, down 26% in the quarter. NVIDIA CEO Jensen Huang's projection of \$1 trillion in AI spending in 2027 could not help the Magnificent 7 stocks – all were down in the quarter. Some active managers we work with have been buyers of select, beaten-up software names and believe they will use AI to make their businesses even stronger and are therefore more durable than currently feared.

¹ Oil - <https://www.eia.gov/todayinenergy/detail.php?id=65504>

² LNG - <https://www.eia.gov/todayinenergy/detail.php?id=65584>

³ Qatar's large LNG export facility Ras Laffan lost 17% of capacity for 3-5 years from an Iranian missile. [QatarEnergy 3/19/26 Press Release](#)

⁴ Crude Oil is WTI; Gasoline is RBOB; NYMEX prices; Source: FactSet

⁵ US oil and oil products net imports; mmbpd is millions of barrels per day. Source: EIA

Private credit fund redemptions have accelerated despite few signs of impairments.

Private Credit

Concerns about software companies were not limited to equity markets. Software company debt also traded lower (yields rose), as software companies have few real assets backing the loans (compared with real estate or asset backed lending which have hard assets as collateral). Many semi-liquid private credit funds have significant exposure to software, and investors decided to exit given the action in public software equity and debt prices. The funds have reported little to no decline in value of their loans to software companies, so investors hope to redeem at attractive values. The quarterly redemptions exceeded the thresholds funds promised would be available, so many funds put up “gates,” which limit withdrawals, to avoid a fire sale of assets to meet the redemptions. News of gates going up triggered more redemptions as investors did not want to be stuck in a fund before the window to get out closed despite little evidence of impairments or sharply lower returns.

Private credit funds have been an important source of lending in the US economy. We do not know the long-term fate of these gated funds. We do know the credit available is likely to be lower, which can have negative impacts on the US economy. We have not been immune to the changes in the private lending environment. One direct commercial bridge lender we redeemed from in 2024 has had trouble returning all client capital. Their loans continue to be marked at par (100), and their team believes the loans and interest owed are “money good,” but their borrowers have had trouble refinancing. These loans are backed by real estate, which offers more security than loans only backed by company receipts, but with a new war and increasing concerns about the US consumer, we expect the already tight lending environment will become even tighter. This does, however, create interesting opportunities for distressed drawdown funds with no redemption requirements, like ones we have used since 2012, to step in and generate strong risk adjusted returns.

DEEPER DIVE

Quarter Review

EQUITIES

1st Quarter – Value Up, Growth Down

- 🌿 US Value indices were all up, while US growth indices were all down.
- 🌿 The S&P 500 returned (-4.3%).
- 🌿 International indices were down slightly.
- 🌿 Gold returned +8%, but was well off its highs, while Bitcoin returned (-22%).

BONDS

1st Quarter -

- 🌿 Bond returns were roughly flat or down slightly in the quarter.
- 🌿 The Federal Reserve appears to be on hold for now as they weigh the inflationary impacts from higher oil prices combined with the negative impact on overall demand.
- 🌿 Interest rates were up slightly (*See Table 1, next page*), but the interest earned by many higher coupon bonds covered much of the negative price impact.

Returns were more bifurcated in 1Q.

Interest rates are slightly higher.

Table 1

US Treasury Yields (source: FactSet; numbers may not sum due to rounding)

Maturity	12/31/24	12/31/25	3/31/26	1Q26 Yield Change
3 Month	4.3%	3.6%	3.7%	+0.1%
2 Year	4.2%	3.5%	3.8%	+0.3%
5 Year	4.4%	3.7%	3.9%	+0.2%
10 Year	4.6%	4.2%	4.3%	+0.2%
30 Year	4.8%	4.9%	4.9%	+0.1%

Value outperformed growth; potential opportunities in distressed.

SUMMARY

Growth indices pulled back while value indices advanced. Energy and stable companies (utilities, consumer staples, healthcare) benefited from the rotation out of relatively expensive, suddenly less certain technology names. A protracted war raises the risks of disruptions to the global economy, though the US looks to be in a relatively stronger economic position than the rest of the world. Distressed drawdown funds could be well positioned to take advantage of forced sales from gated funds. Diversification paid off in the quarter and we believe investors will continue to benefit from that approach.

FUN FACTS

- 🌿 China had received ~5.4mm barrels per day of oil / oil products through the Strait of Hormuz before the conflict started.
- 🌿 There were \$13.9 billion in redemption requests from private credit funds in 1Q 2026, and \$7.4 billion is expected to be paid out.
- 🌿 Google's new quantum discovery changes the estimate needed to crack Bitcoin or Ethereum encryption from ~1,000 years to 9-23 minutes.

DISCLOSURE

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