

**MARCH 2026**

QUARTERLY INVESTOR LETTER

For the first time in three years, Artificial Intelligence (“AI”) was not the focus of investors. The Iran Conflict (some commentators call it “Gulf War III”) disrupted commodities markets, particularly oil and liquefied natural gas. A single chokepoint (i.e., the Strait of Hormuz) exposed the fragility of an otherwise efficient global distribution system. Disruptions extend beyond the energy sector to include fertilizers and chemicals used to manufacture semiconductors.

Supply shocks tend to be short duration events because extreme price swings lead to demand destruction. In other words, commodity price surges tend to self-correct. However, this particular supply shock has geo-political origins which implies market forces are secondary. Resolution depends on a political process, but economic impact is likely to influence the parties involved. The economic impact is positively correlated with duration – i.e., a longer conflict will inflict more economic damage.

We note the market’s reaction includes higher bond yields, falling gold prices, and a rising Dollar. Falling bond yields generally characterize a flight to safety, and rising yields suggest investors have concerns regarding the inflationary impact of the conflict. The decline in gold and the rise of the Dollar suggest a flight to liquidity.

Early in the year, investors were positioned for Fed rate cuts, but in response to the conflict, investors have begun to price in rate hikes. Short-term price spikes create complications for the conduct of monetary policy. The Fed usually discounts food & energy impacts on inflation and focus instead on stabilizing core inflation trends. To the extent commodity inflation spills over to other sectors, the Fed might view rate hikes as necessary and unavoidable.

The so-called Magnificent Seven stocks entered correction territory in March. The Magnificent Seven stocks share a common characteristic in that they each have AI involvements. Their correction is a healthy development for several reasons. First, the S&P 500 had become excessively concentrated in these companies. It is noteworthy that extreme concentration often demarcates market peaks. The other 493 stocks that comprise the index generated relatively paltry returns for the past three years. Second, there was growing concern over an AI bubble, reminiscent of the 1990s dot-com bubble. A bubble that gradually deflates inflicts less economic damage than one that bursts abruptly. Finally, markets with broader participation tend to sustain gains longer than markets with narrow, concentrated leadership.

We remain concerned that US economic growth depends excessively on artificial intelligence infrastructure and tech-related investments. Massive projects to expand data center capacity and power generation contributed disproportionately to US GDP growth the past three years. Recent investor skepticism regarding the magnitude of invested capital manifested in the sector’s recent underperformance.

The markets enter the Second Quarter confronting a high degree of uncertainty. We caution against reacting to headlines and short-term developments. We do not recommend attempting to day trade markets with extreme volatility. Numerous false market bottoms are likely to characterize this cycle. We recommend remaining invested with a long-term strategic allocation appropriate for your situation. We look forward to reviewing your accounts and our outlook. Please contact our office to schedule an appointment.