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## Market Commentary — March 2026

### Executive Summary

- The key takeaway of this note is to remind investors that risk management remains the core tenet of our investment philosophy.
- Markets are moving quickly as news headlines cross the tape, but investors can be assured that we are watching events closely, positioning portfolios appropriately from a risk management standpoint, and attempting to prudently take advantage of dislocations in the market.
- Market returns were positive early in the year even as volatility increased as concerns regarding AI funding, business model disruptions, the labor market, and private credit caused a change in market leadership early. Investor focus shifted quickly again at the end of February as the price of oil spiked higher with the start of Operation Epic Fury leading to higher global interest rates and lower equity index prices.
- Fortunately, AIQ's strategies (particularly those with active security selection) generally performed well during both periods with most strategies outperforming their respective benchmarks thus far this year.
- What will happen going forward is difficult to know, but it will likely depend highly on how the next week or two go in the war with a wide range of possible investment outcomes. We have taken advantage of the recent spikes in volatility by adding high-yielding structured notes to our mid- and large-sized accounts but remain generally pleased with our positioning and are patiently awaiting additional opportunities.
- No matter what unfolds, we are prepared to adjust portfolio holdings as needed to adapt to whatever environment emerges.

### Commentary

We have worked on several different versions of this commentary over the last few weeks only to have the news change, markets move, and new issues present themselves causing us to start anew. Well, here we go again. We have made some last-minute changes but believe that the news coverage is detailed enough for us to focus this piece on a few high-level market drivers, our thoughts, and how portfolios are positioned with the understanding that some of the specifics will

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be stale by the time others read it. Of course, we are happy to have more in-depth conversations with advisors as needed.

The key takeaway is that risk management remains the core tenet of our investment philosophy so investors can be sure we are watching events closely, analyzing their potential short- and long-term effects, and positioning portfolios appropriately while also attempting to prudently take advantage of dislocations in the market.

After very strong returns in 2025, markets continued to move higher in January, but volatility began to increase and there was a change in leadership as value and small caps led the way. Gains were limited, however, as concerns over the sustainability of the AI trade pressured several of the Magnificent Seven stocks while the rapid advancements of the AI technology itself also raised alarms of significant disruptions to business models across industries and material white collar job losses. Increasingly negative headlines from the once hot world of private credit led to increased pressure on financials and additional volatility. Fortunately, AIQ's strategies (particularly those with active security selection) generally performed well for the first two months of the year with most strategies significantly outperforming their respective benchmarks thus far this year (please see the Fact Sheets for the details).

As Operation Epic Fury commenced over the last weekend of February, however, AI took a back seat as oil, global interest rates, and volatility all spiked higher and stocks declined. We will leave most of the specific war commentary to others and instead focus on the potential economic and market impacts. While there is always a tragic humanitarian toll that comes with conflicts of this nature, the key element from an economic standpoint is energy prices – both oil and natural gas. The Middle East is of course one of the largest suppliers of these key commodities. While there is obvious and increasing concern for the facilities and infrastructure in the region as Iran targets these assets in neighboring countries, it is a 21-mile-wide waterway that is currently the critical chokepoint.

The Strait of Hormuz is an approximately 100-mile waterway that connects the Persian Gulf to the Gulf of Oman (and ultimately the Indian Ocean) bordering Iran to the north and Oman and the United Arab Emirates to the south. In normal course, roughly 20% of the world's total oil consumption flows through this strait which is only 21 miles wide at its most narrow point, making it a highly strategic part of the world. It is also relatively easy to disrupt and is, therefore, Iran's main

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leverage in the war. Iran is currently playing this card, with very little non-Iranian crude making passage. This is causing several major oil fields in the region to cease production as there are limited other feasible near-term modes of transportation. These logistic issues combined with damage to key energy infrastructure in the region have sent the price of Brent oil (the global benchmark) soaring from less than \$70/barrel to more than \$100/barrel as we write this with significant headline driven volatility (it peaked near \$120/barrel before governments began discussing releasing oil from strategic reserves and briefly traded below \$100/barrel as the U.S. President told the media of talks and a plan to end the war).

It is estimated that 80+% of the oil shipped through the strait is bound for Asia causing fears of shortages and large price swings. Oil is, however, a global commodity so these events affect all economies including the U.S. despite its position as the largest producer of oil (and natural gas) in the world. The biggest issue in the U.S. is a mismatch between the oil produced (light) and the refining capacity (heavy) meaning it still relies heavily on imports to produce gasoline, etc. The magnitude of that impact is, however, still in doubt. Gasoline prices in the U.S. are up about \$1.00/gallon or 33% nationally since February 28 and are poised to rise farther should hostilities continue. Diesel prices, which are key to freight transportation, are up over 40%. While \$100 oil is no longer the big economic drag that it used to be, and gas prices remain below levels where most economists predict significant economic damage, they are still one of the most visible expenses faced by consumers. This can impact both consumer confidence and their inflation expectations.

This brings us to interest rates, which have been rising around the world. Higher inflation typically drives higher rates. The yield on the benchmark 10 year U.S. Treasury bond has increased from a 52-week low of 3.9% on February 27 to 4.38% as of March 20 while expectations for Federal Reserve rate cuts, which have a direct impact on shorter term rates, have fallen from 50-75 basis points of cuts this year as of February 27 to expectations for a rate hike now (albeit small odds). Higher rates often have a significant impact on both consumer and business spending activity as well as the labor market. They also pressure both stock and bond prices, making it difficult to find a place for investors to hide.

Making matters worse, there are also increasing headlines of credit issues in the once hot private credit market. This is a complex and somewhat opaque space, but it garnered significant headlines and asset flows over the last few years as asset managers touted its higher returns and lower



volatility. As with almost anything in the investment industry, as more capital chases limited assets, asset managers “manufacture” securities to fill that demand, quality declines, and returns suffer. In this case, however, the funds also generally have liquidity issues so investors are now realizing that they can be like the famous roach motels seen in TV commercials many years ago (those in the younger generations can Google it). While we believe the vast majority of private credit investments are sound and that most fund managers do a good job managing these assets, we have been concerned that many of the newer investors in the space did not fully understand the liquidity dynamics or the risks. We were also skeptical of managers’ ability to source enough quality investments to meet the demand and, thus, our portfolios have very limited direct exposure.

Our fixed income portfolios also generally have less exposure to rising rates (i.e., shorter duration) than the relevant indices and are highly focused on credit quality. So, while there is a real risk that higher inflation and/or higher war-driven fiscal deficits will lead to increasing interest rates and that an economic slowdown, higher costs, and a deteriorating credit cycle will lead to higher credit spreads (both of which pressure bonds); we remain comfortable that our portfolios will hold up better than their relevant indices.

As for the stock side, index level losses thus far have been reasonable given the elevated risks (generally 5-10%) and AIQ strategies have generally outperformed those returns thus far during the selloff. What will happen is difficult to know, but it will likely depend highly on how the next week or two go in the war. As we write, President Trump is suggesting talks with the Iranians are going well and that there is a peace plan being offered. The Iranians have publicly disputed many of the president’s comments and reportedly rejected the peace plan, Israel has suggested that the war will not end soon, and both continue to attack one another. The famed U.S. 82nd Airborne division is also reportedly being deployed to the Middle East in addition to the ~5,000 Marines, two aircraft carriers, several other warships and an estimated 200+ aircraft already there/on their way. While the TACO trade appears to be the flavor of the week as President Trump appears to be seeking an offramp, any escalation – especially troops on the ground – is likely to lead to additional losses. In that case, we do have put options, alternatives, and buffered structured notes in place to help protect client portfolios (depending on the strategy) from the significant losses that can derail long-term financial plans. We have already taken advantage of the recent spikes in volatility to add some high-yielding structured notes to our mid- and large-sized accounts, but we remain generally pleased with our positioning and are patiently awaiting additional opportunities. If hostilities end



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soon and the strait re-opens, oil and inflation will remain elevated but the risk-premia across markets would likely decline leading to nice gains. It is also possible that a regime change (or a significant deterioration of its capabilities) leads to a new, lasting peace in the region which would clearly be even more positive for risk assets globally.

No matter what unfolds, we are prepared to adjust portfolio holdings as needed to adapt to whatever environment emerges.

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