

First Quarter 2026 Commentary

Dear Clients,

Please find enclosed your First Quarter 2026 Investment Reports. US Large Cap Stocks finished down -5.6% for the quarter. US Mid Cap Stocks retreated -0.6% for the quarter, while US Small Cap Stocks were up +1.9%. Developed International Stocks declined -1.2% for the quarter, while Emerging Market Stocks posted a -0.2% return for the quarter. U.S. Bonds were flat at 0.0%, and Global Bonds were down -1.1%. Despite the moderately negative returns for the quarter, trailing twelve-month returns were strongly positive in all the major asset classes listed in the benchmark performance table below.

Benchmark Returns

	Last Quarter	Last Twelve Months	Last Five Years (annualized)
U.S. Large Cap Stocks	-5.6%	18.7%	12.6%
U.S. Mid Cap Stocks	-0.6%	12.8%	7.0%
U.S. Small Cap Stocks	1.9%	19.7%	5.6%
Developed International Stocks	-1.2%	21.3%	7.9%
Emerging Market Stocks	-0.2%	29.6%	3.7%
U.S. Bonds	0.0%	4.3%	0.3%
Global Bonds	-1.1%	4.3%	-1.5%

Data source: YCharts (get.ycharts.com/disclosure/). Past performance does not guarantee future results. It is not possible to invest directly in an index. Last five years data is annualized. Indexes in table are:

US Large Cap Stocks: CRSP US Mega Cap TR
 US Mid Cap Stocks: CRSP US Mid Cap TR
 US Small Cap Stocks: CRSP US Small Cap TR
 Developed International Stocks: MSCI EAFE NTR
 Emerging Market Stocks: MSCI Emerging Markets NTR
 US Bonds: Bloomberg US Aggregate TR
 Global Bonds: Bloomberg Global Aggregate TR

The first quarter of 2026 proved to be a turbulent period for global capital markets, defined by an ongoing shift in industrial policy, paradigm-shifting views of the technology sector, and ultimately the onset of armed conflict in the Middle East. While traditional macroeconomic indicators remained surprisingly resilient, the narrative shifted from soft landing debates

to the structural re-architecting of Western supply chains and the many implications of artificial intelligence (AI).

Perhaps the most significant policy development of the quarter was the unveiling of the Forum on Resource Geostrategic Engagement (FORGE) in February. The U.S. administration's move to establish enforceable price floors for critical minerals represents a departure from decades of neoliberal trade theory in favor of geopolitically driven pricing. By guaranteeing minimum returns for domestic mining and processing, the U.S. is signaling a long-term commitment to decoupling essential supply chains from dominant foreign competitors. For investors, this has injected significant volatility into the commodities complex while simultaneously providing a floor for industrial metals and rare earth equities.

Parallel to the U.S. strategy of industrial decoupling, the People's Bank of China has engaged in a historic, multi-year gold accumulation program, marking a decisive move to de-dollarize its foreign exchange reserves. By aggressively increasing its gold bullion holdings while simultaneously trimming its U.S. Treasury portfolio, Beijing is signaling a strategic intent to insulate its economy from Western financial sanctions and currency volatility. This monetary reshoring serves as a financial tilt toward a multipolar world order, where gold provides the hard-asset credibility needed to challenge the hegemony of the dollar-based system.

This monetary shift mirrors the strategic scarcity seen in the Western move toward commodity price floors. As the U.S. works to secure physical supply chains through blocs like FORGE, China is moving to secure its financial sovereignty by anchoring its currency to a neutral, physical asset. Together, these trends represent a global retreat from the interconnected world of the early 2000s towards a fragmented landscape of competing spheres of influence. In this new era, both economic and military security are increasingly defined by direct control over

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tangible resources, whether they are critical minerals in the ground or gold in the central bank vault.

This structural tailwind for the real assets sector, coincided with military action taken by Israel and the United States against Iran. The campaign was initiated after intelligence suggested that diplomatic efforts had been exhausted and that Iran's nuclear program had reached a critical threshold. The initial "shock and awe" phase resulted in the death of Supreme Leader Ali Khamenei and several top military officials, creating an immediate power vacuum that has since been filled by a more hardline military council. Since the initial strikes, the conflict has shifted into a high-stakes maritime and economic war. Iran's closure of the Strait of Hormuz in March sent global oil prices soaring above \$100 per barrel, prompting the U.S. to announce a formal naval blockade of Iranian ports today, April 13, 2026. While a 40-day ceasefire officially took effect on April 8, it is currently on shaky ground following failed peace negotiations during first-round talks in Islamabad.

The impact of the conflict on U.S. inflation is not yet widespread, but anxiety is building. March's 0.9 percent CPI jump, the biggest since 2022, was driven primarily by gasoline costs, while March core inflation proved less worrisome. However, elevated prices of energy and other key industrial inputs that flow through the Strait of Hormuz are beginning to seep into transportation, food, and beyond, suggesting broader price pressures may be just beginning.

The technology landscape was also upended in the quarter as investors wrestled with the implications of AI. The recent revelation of the Claude Mythos sandbox breakout, an incident where an AI model autonomously bypassed its own security containment, is yet another event investors can point to in supporting a fundamental repricing of the software industry. In a world where an AI agent can autonomously identify software vulnerabilities, refactor legacy systems, and replicate complex features in a fraction of the time it once took a team of engineers, the traditionally dependable value of in-place software intellectual property (IP) has arguably diminished.

Investors are increasingly wary of software as a service companies whose primary value proposition is a custom user interface on top of a data exchange. This has led to a valuation compression in the software space where the focus has shifted from growth-at-all-costs to uniqueness of data and integration depth, which are seen as the few remaining barriers to entry in an AI-accelerated development cycle.

This valuation shift has sent ripples of worry through the private credit market, which has become a primary lender to software companies over the last five years. Many private credit portfolios have exposure to mid-market software firms that were underwritten based on high valuations multiples and an expectation of stable, recurring cash flows. As these valuations shrink, the loan-to-value (LTV) ratios are effectively spiking, leaving lenders exposed. There is a growing concern that if these software firms cannot pivot to defensible AI strategies, they will face down-round capital raising events, potentially triggering technical defaults. Private credit funds, which lack the regulatory oversight of traditional banks, may find themselves holding distressed assets that are difficult to liquidate. These poor returns could ultimately flow back to their investors, including the many insurance and banking entities that have invested with them or lent to them.

This quarter's many shifts in confidence have (rightly) created some anxiety for investors. Rest assured that our Portfolio Managers are constantly re-evaluating markets and assessing the implications for client portfolios. However, also recognize that investors are compensated for providing capital amid uncertainty. Your Investment Counselor is here to help you set your asset allocation with your unique risk profile in mind. Our goal is to size investment risks in your portfolio that you can tolerate (meaning hold through tough times) so that you will ultimately have the opportunity to enjoy the returns that markets can deliver over the long-term.

As always, we thank you for your continued trust in us.

Leavell Investment Management, Inc.