INVESTMENT UPDATE

Q1 Summary: Few places to hide in March

✓UNCERTAINTY ✓VOLATILITY ✓FRUSTRATION

While these boxes were all checked in the first quarter it does not mean there's a lack of opportunity for returns in the medium and long term. The March drawdown in equities was widespread, erasing gains across most asset classes. Growth and Value were both impacted. Large and Small were impacted.Cyclicals and defensives fell in tandem.Non-US equities largely felt more pain than US stocks. Gold was down. Bitcoin fell. Prices of the 10-year US Treasury Fell (yields rose).Outside of oil stocks and commodities, there were few places to hide in March.

	Q1 Performance
S&P 500	-4.3%
Russell 2000	0.9%
Nasdaq	-8.1%
MSCI EAFE	1.2%
Bitcoin ETF	-22.6%
Gold ETF	8.6%
Bloomberg Aggregate Bond ETF	0.0%

Sector	Q1 Performance
Energy	37.0%
Materials	10.2%
Utilities	7.5%
Communications & Information	-5.8%
Information Technology	-7.7%
* Software ETF	-24.3%
Financials	-9.9%

Episodes of volatility are often characterized by and most remembered for the opportunities they create!

While the conflict in Iran has created enormous short-term uncertainty, we do not feel that it has completely unraveled the economic strength that was in place before the coordinated military action. The AI expenditure has not slowed (in fact "hyperscaler" estimated capital expenditures for 2026 were raised from $500-550 Billion to $625-675 Billion in the first quarter).

The need for power generation has not slowed. The need for global defense spending is likely to accelerate in the coming years. Data security and cybersecurity needs are not falling. The unemployment rate remains well below historical averages, and the global fiscal backdrop is highly accommodative! Few politicians across the globe today speak to fiscal restraint. Demographics of the developed economies necessitate a focus on productivity. Emerging economies look to be more like the "Western" economies and are home to ~2/3 of the world's population.

Today, the focus is squarely on oil prices and the Strait of Hormuz. For how long that remains the case is unknowable. What seems likely, however, is that in a quarter or two we will return to being most focused on corporate earnings and global economics. Through the recent market drawdowns, P/E ratios have fallen, and earnings revisions have held around 10-14% for the S&P 500.

"We choose to go to the Moon in this decade and do the other things, not because they are easy, but because they are hard."
– President John F. Kennedy

A Quick Reminder that the Mag 7 wasn't always "magnificent"

Most recall the dominance of the Magnificent 7 from '23 to '25, however many have forgotten their drawdowns in 2022:

- Meta Platforms (META): Dropped over 60%, marking the worst performer of the group as it faced advertising revenue declines and high metaverse spending.
- Tesla (TSLA): Fell by roughly 65%, hit by demand concerns and leadership distractions.
- Amazon (AMZN): Declined by roughly 50% due to slowing e-commerce growth and high fulfillment costs.
- Nvidia (NVDA): Dropped approximately 50% as the gaming market cooled and crypto demand waned.
- Alphabet (GOOGL): Fell by around 30% along with the broader digital advertising downturn.
- Microsoft (MSFT): Declined by nearly 30% amidst a broader tech sell-off, despite strong cloud performance.
- Apple (AAPL): Held up better than its peers, declining around 25-27%, supported by its strong balance sheet, but still lagging the broader market

Before the monumental run, each of these names experienced a period of challenging stock performance.Absent perfect timing or sheer luck, selling in 2022 would have cost an investor meaningfully in the subsequent years.Rarely are momentous moves to the upside unchecked, yet such momentum is also seldom stopped by "old age." When shifts occur, they are rooted in disruption and punish the complacent investor.

It's easy to identify today's dominant brands with a 40+ year span of success. Often forgotten are those who were dominant but failed to adapt, pivot, or reconfigure. From Sears and JCPenney to Blockbuster and Blackberry to GE, Kodak, and Woolworth's...the list is long of those who failed to thrive in a new era.

While it's logical to believe the Magnificent 7 will remain dominant brands decades into the future, it's also prudent to evaluate that thesis daily. These seven separate and unique businesses are interlinked, but far from a homogenous group.

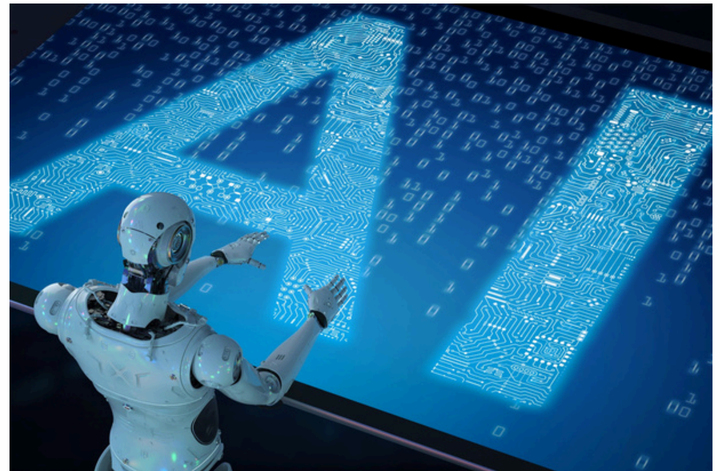
Oil Shock Flashback: comparing 2026 to the 1990 Persian Gulf episode

The first televised US military strikes I recall occurred during the Persian Guld War in 1990.From its peak, the S&P 500 fell 16.9% in 87 days, only to rebound 20% by the end of the conflict. Having just felt the single most traumatic day in market history 3 years earlier (-22.6% Black Monday crash in 1987), there were plenty reasons for unrest. Oil rose more than 90% during the conflict at a time when the US was far more energy reliant on the rest of the world.

Fast forward less than a decade and you will see an S&P 500 that sat nearly 5x where it was at the time of the beginning of the Persian Gulf conflict. Why? Fundamentals of the global economy were strong before the war and remained that way at its conclusion. The terms of George H W Bush and Bill Clinton were marked by economic growth and relatively favorable tax and regulatory policies.

Thirty-five years later we have lower taxes, more fiscal spending than ever, and low unemployment.The wealth effective of US exceptionalism has fueled record consumption and incredible innovation.

n 1990 we were on the precipice of the Internet Age. Today we sit in the early innings of AI Adoption and a world of autonomous everything. By no means are we suggesting that the markets duplicate the run of 1990's...but becoming too conservative/negative could prove costly!



Agentic AI: Take note

What began with code and some neat functionality is evolving (rather quickly) into a tool that can enable many tasks to be done more efficiently and proficiently. Agentic AI is here! From customer service to taking orders at a restaurant to reviewing and prioritizing your e-mail responses, AI agents can help.

The common headline we see nearly weekly revolves around the idea that AI Agents will replace a large portion of the human workforce. We believe it will shift what we do and how we do it more than anything.Many remember a time when there were attendants at every gas station. What about telephone operators? Some jobs will be phased out and many more transformed.

But how many cybersecurity professionals were there 50 years ago? AI and its capabilities will increase the number of people needed in other parts of the economy. Many jobs that people prefer not to do or that come with extreme health risks can be replaced by an agent or robot. Imagine if there were no car accidents and no need for long-haul truck drivers? While that's not today's reality, it would free up a world of possibilities. The internet didn't eliminate travel agents or realtors. Accountants are in more demand than ever before, despite Turbo Tax.

To us, the key when thinking about AI as an investor is not to be too confident any of us know how this will play out! When the internet came on-line, Google and Facebook didn't exist. AOL and Yahoo were dominant brands and Netflix and Amazon were mere concepts. The possibilities are endless (and some are scary) but none of us have a crystal ball. The key is being nimble enough to adapt as things change. For us, we look to hire teams with research capabilities that can keep up with the enormous changes coming our way.

Price Discovery Matters!

- Price is what you pay. Value is what you get. – Warren Buffett
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- The stock market is filled with individuals who know the price of everything, but the value of nothing. – Peter Lynch
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- It takes a different approach to descend a mountain than to climb one. It's much less exhilarating and no one takes pictures at the bottom. – Dave McGarel

In a recent interview, First Trust's Dave McGarel confidently articulated that multiples **will** come down. It wasn't posed as a question...just mathematical truth. They always have (otherwise we wouldn't be talking about them being **above** average). It's also true that there are a couple of ways stock market multiples can come down: the "elevator" (stock prices drop) or the "escalator" (earnings grow faster than stocks for a period).

The stock market almost NEVER trades at an average valuation. Periods of extended valuations are often followed by periods of painful consolidation. Valuations can remain above average and press higher for years at a time (i.e. the late 1990's). The 1970's and post-GFC markets saw P/Es sustained well below 10!

Price paid mattered a lot!

Remember, the S&P 500 is a **market of stocks**! Not all components move in tandem, nor in for the same reasons. It may surprise you to know that the smallest 200 names in the S&P 500 index have a combined weighting less than that of NVDA.

The top 10 S&P 500 index components are all names you likely know. At current valuations, the question becomes whether they present the most attractive investment opportunities for the next 3-5 years. We would suggest that they do not. You would likely also recognize many of the bottom 200 of the index as great businesses. These companies include large airlines, energy and financial companies, and technology component providers. Transportation and chemical giants, consumer products companies and retailers are also heavily represented...at a cumulative weight of ~6% of the index. Below are a few names you likely recognize from the bottom 200 of the S&P 500.

We are not trying to time the top of a market cycle.We are not trying to be "different for the sake of being different." We are focused on generating returns for clients in the most responsible manner possible.

Private Credit: Contagion or Scary Narrative?

Private Credit has been among 2026's most reported upon topics. Much like the Mag 7, headlines suggest Private Credit is a single homogenous entity. Few things are further from the truth! Private credit refers to non-bank lending where institutional investors or private funds provide loans to companies, bypassing traditional bank financing. These loans are usually tailored, privately negotiated, and held by the lender until maturity, often offering higher yields than public bonds, with a market size now exceeding $1 trillion. Below is a quick overview:

Key Characteristics

- Non-Bank Lenders: Capital comes from private funds, insurance companies, or business development companies (BDCs) rather than traditional banks.
- Customized Terms: Loans are privately negotiated, offering tailored repayment schedules and structures for borrowers.
- Illiquidity: Private credit is not publicly traded; lenders typically hold the loans to maturity.
- Floating Rates: Loans generally feature floating interest rates, providing protection against rising interest rates.
- Seniority: These loans are often senior secured, meaning lenders are first in line to be repaid if a borrower defaults.

HALLIBURTON CO	HAL
SOUTHWEST AIRLINES CO	LUV
ESTEE LAUDER COMPANIES CL A	EL
WILLIAMS SONOMA INC	WSM
TRACTOR SUPPLY COMPANY	TSCO

GENERAL MILLS INC	GIS
DOLLAR TREE INC	DLTR
DOW INC	DOW
DUPONT DE NEMOURS INC	DD
BEST BUY CO INC	BBY

Common Private Credit Types

- Direct Lending: The most common form, involving direct loans to middle-market companies.
- Mezzanine Financing: A hybrid of debt and equity that is subordinate to senior debt.
- Special Situations/Distressed Debt: Investing in companies undergoing restructuring, mergers, or financial hardship.

Why Choose Private Credit?

- For Borrowers: Provides faster execution, flexibility, and availability for small-to-mid-sized companies that may not qualify for traditional bank loans.
- For Investors: Offers higher income (yield), reduced price volatility compared to public markets, and potential for portfolio diversification.

Risks

- Lower Liquidity: Investors cannot easily sell their positions.
- Higher Credit Risk: Often involves lending to non-investment grade companies.
- Lack of Transparency: Less public disclosure compared to public debt markets.

We own ZERO private credit for clients. To us, the sacrifice of liquidity for the hope of a bigger yield was a poor tradeoff.Recent headlines have focused on the fact that these vehicles have started limiting liquidity of their illiquid holdings. Thankfully, we do NOT believe there are major systemic risks to other liquid asset classes.Owners of private credit are ~80% institutional, with pension funds, insurance companies, sovereign wealth funds, and endowments among the largest owner groups. Retail comprises the other 20% of the $3 Trillion plus market.

We do believe there could be meaningful losses sustained in the coming quarters for holders of many of these strategies. Likewise, those seeking liquidity are likely to find that liquidity scarce as outflows have accelerated in recent months.

To us, the key takeaway from the private credit episode for us as fiduciaries is as follows:

- Understand what you own and why you own it
- Don't sacrifice liquidity unless there's a unique reason to do so
- Leverage can cut both ways
- Focus on parts of the market that have a proven track record of navigating volatility
- Stay disciplined when the "herd" clamors for something new and shiny

"Buckets" of Risk…a brief HIP Refresher

Those who have been around our practice for long realize that we are willing to look different for a very specific reason: we feel it gives our clients the greatest probability of a successful outcome! Given recent market volatility, we thought it might be helpful to lay out a quick reminder to how we view our "buckets" of money and how each look to manage risk for our clients.

	Why we own & how the "bucket" manages risk
Buffered ETFs	Index-based solutions offer "structural/ defined protection against a portion of loss exposures; a typical holding will reset its terms every 6 or 12 months; performance will track the underlying index on the upside to a capped level and will be protected on the downside against loss on the first 9-15%; indices available include the S&P 500, Nasdaq, Russell 2000
Covered Call ETFs	Our covered call strategies vary widely in their actual mechanics, but all "play defensive" with their security selection and cash flow generation. Whereas many growth-oriented stocks feature no dividend, option writing can generate 5-10% on such an underlying portfolio; this group of strategies is known for faring well during periods of volatility and in sideways markets.
Alternatives	For HIP, this "bucket" includes strategies that employ aytpical approaches to return generation. We own a merger arbitrage, convertible arbitrage, long-short, and covered gold strategy in this "box." These strategies are seeking less volatile nad market-dependent returns. In March the group fared well relative to nearly every other asset class.
Fixed Income Strategies	Our fixed income allocation has a distinctive flavor that is very different than most bond indices. We have maintained a duration well below that of the index since 2022 and are overweight securitized credit (mortgages, commercial loans, etc.) and underweight IG Corporates and government debt. Our weighted average yield is more than 1.5% higher than that ofthe Bloomberg Agg. We own NO private credit and never have!
"Long" Equity strategies	Strategies in this "bucket" vary widely and all seek to generate returns that compound over time through manager skill and security selection. Some managers are limited in scope (i.e. industrials or technology stocks) while others have the entirety of the global landscape as their "hunting ground." In each case, what is owned matters and what is not owned is the primary tool of risk management. It's far easier to identify a flawed business than the next Trillion dollar company.

What Lies Ahead for Q2 and beyond?

If one must do something, do whatever presents the possibility for the least harm! -- HIP

Stepping back from the intensity of the last few weeks of trading, an investor is more clearly able to decipher what is noteworthy and what is noise. With a proper timeline and a portfolio shaped to your goals and objectives, very little has changed in terms of long-term possibilities.

We entered 2026 with a cautiously optimistic outlook, recognizing elevated valuations in the US and geopolitical and political headwinds as possibilities. Below is an excerpt from last quarter's outlook:

Put it all together and you can see why this section speaks to RESPONSIBLY taking risks. Having little to no exposure to risk assets is making a bearish market call and has hampered performance for many skeptics over the years. Being fully "long" risk assets is taking the position that risks are limited, a position that we believe shows too little respect for current valuations and risks.

We believe the conditions that existed prior to the conflict with Iran remain largely in place today. Specifically, we believe the opportunity set extends beyond the US borders to other parts of the world. Whether European banking, Japanese robotics, semiconductor infrastructure in the Netherlands and Taiwan, or natural resources in Latin America, there are an amazing number of opportunities priced more attractively than they were 30 days ago and more attractively than many US peers (assuming such peers exist).

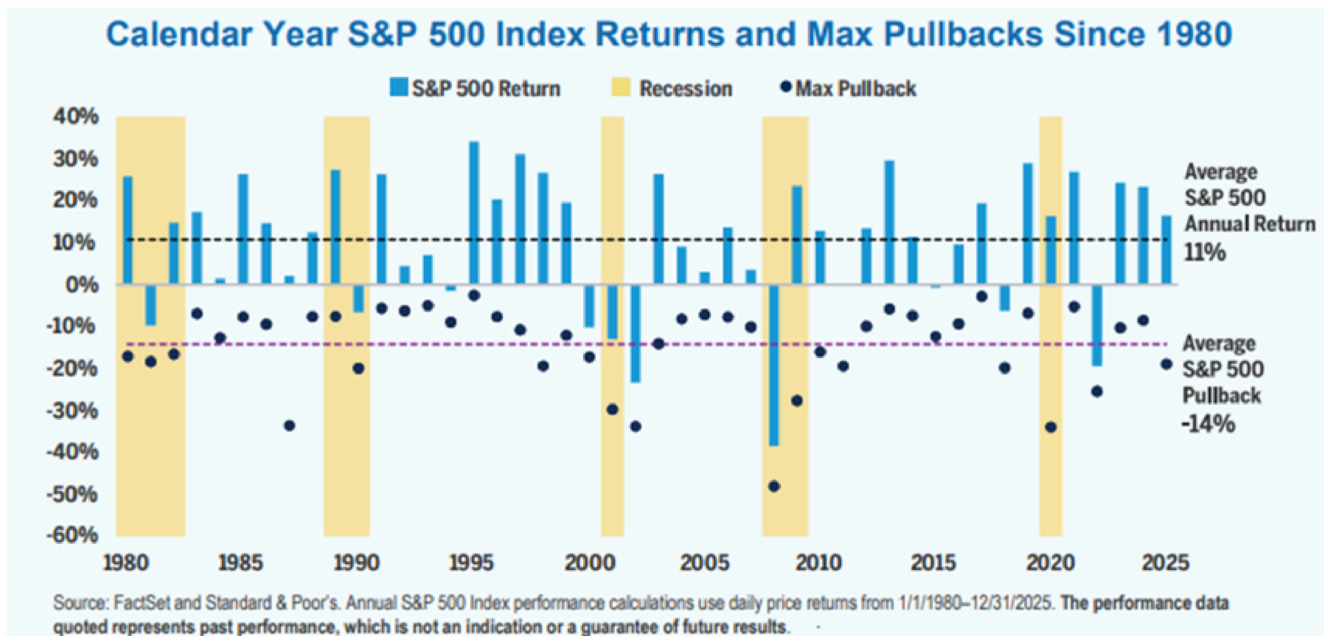
We will not be surprised to see gold regain momentum as a hedge against a range of outcomes and the US Dollar weaken once again. To us, it's not a bet against the US or even a bet on other nations, but a recognition that the US is not home to all the world's great companies and innovators.

As we navigate the weeks and months ahead, we do so with an understanding that we were well-positioned entering this episode of disruption. We were not recklessly riding the market's momentum and hoping for it to continue.We own defensive components for a reason and have weathered the storm with them providing durability and preserving capital. For us, the list below is a list that is always at the center of our focus.

- Patience
- Discipline
- Asset Allocation
- Global Diversification
- Focus on Cash flow and resilience

Many have seen this chart in some form dozens of times over their time as an investor. Nonetheless, it serves as a visual reminder that comfortable and "normal" returns come with pullbacks and periods of unrest. Some of the markets' greatest opportunities were created by geopolitical or political chaos. ***We can benefit from volatility in a variety of ways and seek to avoid the permanent impairment of capital!***

Whereas many in our industry will bury their head in the sand, we are working daily to keep you informed and make changes as we deem them appropriate. Please reach out any time for an update or to hear our thoughts on what matters to you.



Source: FactSet and Standard & Poor's. Annual S&P 500 Index performance calculations use daily price returns from 1/1/1980–12/31/2025. **The performance data quoted represents past performance, which is not an indication or a guarantee of future results.**

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