

**MARKET REPORT
FIRST QUARTER 2026**

Key Points

- America has faced nearly 250 years of geopolitics and technological advancements.
- Equity markets remain concentrated; we have been finding more small- and mid-cap opportunities.
- Fixed-income yields rose; oil rocketed higher.
- Behavioral finance is a new series; cognitive and emotional biases are reviewed.
- Volatility may create opportunities.

Total Return as of March 31, 2026						
	Annualized					
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr
S&P 500	-4.3%	-4.3%	17.8%	18.3%	12.1%	14.2%
NASDAQ	-7.0%	-7.0%	25.6%	21.8%	11.1%	17.1%
Russell 3000						
Index	-4.0%	-4.0%	18.1%	17.9%	10.9%	13.7%
Value	2.2%	2.2%	16.4%	14.3%	9.2%	10.5%
Growth	-9.5%	-9.5%	18.8%	20.6%	12.1%	16.4%
Russell Mid Cap						
Index	1.3%	1.3%	16.0%	13.3%	7.3%	10.9%
Value	3.7%	3.7%	17.6%	13.1%	7.9%	9.8%
Growth	-6.4%	-6.4%	9.6%	12.7%	5.4%	11.7%
Russell 2000 (Small Cap)						
Index	0.9%	0.9%	25.7%	13.1%	3.8%	9.9%
Value	5.0%	5.0%	28.1%	13.8%	5.8%	9.6%
Growth	-2.8%	-2.8%	23.6%	12.3%	1.6%	9.8%

A Review of the Quarter

Nearly 250 years ago when America’s Founding Fathers signed the Declaration of Independence on July 4, 1776, the noun “geopolitics” had not yet been used, but had it been in use at the time – the geopolitical environment then may have been described as, well, unstable. Sound familiar?

In addition to America declaring its independence that year, another watershed moment was the commercialization of the steam engine by James Watt which ignited the industrial revolution. This new “technology” eventually allowed society to escape the agrarian era, which was characterized by slow and highly variable economic growth. Many labor-saving, time-saving and efficiency-enhancing machines followed – allowing fortunes to be made in transportation, mining, textiles, etc.

Then, like now, political fragility was ever-present and the population was likely mesmerized and terrified by the new inventions that displaced horses, harness makers and buggy whip makers. And, concurrently created new jobs and eventually increased economic output and raised living standards.

Fast forward. Much like the commercialization of the internet which began in the late '80s, accelerated in the early '90s and reached escape velocity in the late '90s / early 2000s with the increased availability of high-speed (broadband) internet, Artificial Intelligence (“AI” or as some veteran coders would say, “just really good programming”) appears to be in the **early stages** of unleashing incredible efficiencies.

In a system of democratic capitalism, doing things better, faster and cheaper is an endless pursuit. The AI revolution we are living through is just one of many experiments since the signing of the Declaration of Independence (creating one of the greatest experiments of all time: America) nearly 250 years ago.

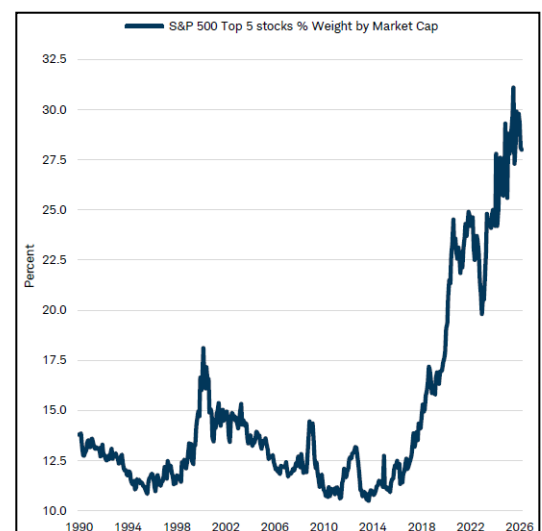
AI is anticipated to disproportionately impact knowledge-based labor. In some cases, roles will be eliminated and in other cases created. We believe the rate of adoption across industries will be uneven and possibly slower than currently touted; however, over time AI should help keep inflation in check and increase income per capita much like past technological advancements have done.

While geopolitical concerns, the U.S. – Israel conflict with Iran, private credit and AI news largely drove sentiment during the quarter, America’s long-term economic underpinnings remained intact, in our view.

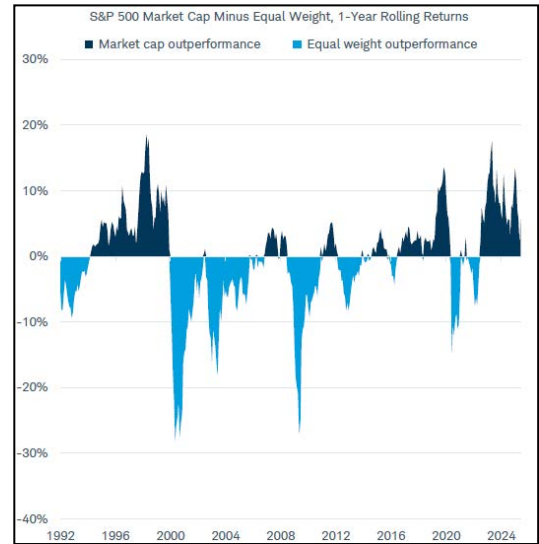
U.S. Equities

Equity volatility was **elevated** during the quarter and peaked near quarter-end as U.S. – Israel conflict with Iran intensified. Equity averages posted **mixed** results for the period. Market cap-weighted indexes tilted toward pricier (growth) companies contracted the most while value-oriented averages fared better.

Markets remained very concentrated at quarter-end with just **five** companies representing **nearly 30%** of the S&P 500 market cap (see accompanying chart, rightⁱ).



Periods of elevated market concentration are often associated with new technology and enthusiasm-induced valuations (lofty). During such periods, market-cap weighted averages can outpace their equal-weight brethren; **however**, that concentration can work against cap-weighted indexes in subsequent periods (see accompanying chart, right i).



Our equity and balanced strategies which call for individual securities often **do not** correlate well with market averages in the short run as we strive to produce absolute type rather than relative returns. We believe our value-oriented investment process can **help** reduce the risk of the compounding process being interrupted.

In our strategies permitting the purchase of small-, mid- and large-cap companies, we have found **more** small- and mid-cap opportunities in recent quarters.

Energy (+38.2%), materials (+9.7%) and utilities (+8.3%) were the best performing economic sectors in the S&P 500 during the quarter. Financials (-9.3%), consumer discretionary (-9.2%) and technology (-9.1%) were the worst. Within the technology sphere, software shares were some of the hardest hit with many issues trading down 20% - 40% on concerns of AI disrupting the traditional Software as a Service (SaaS) business model.

Fixed Income & Commodities

On the fixed-income front, yields **increased** across maturity and credit spectrums during the quarter as rising tensions in the Middle East led to higher oil prices, increasing concerns that elevated prices may persist and lead to higher and stickier inflation. Yields

Total Return as of March 31, 2026						
	QTD	YTD	1 Yr	Annualized		
<i>Fixed Income</i>				3 Yr	5 Yr	10 Yr
ML U.S. Corp. 1-10 Yrs	-0.2%	-0.2%	5.3%	5.7%	2.1%	3.1%
ML U.S. Tr./Age. 1-10 Yrs	0.1%	0.1%	4.0%	3.7%	1.0%	1.5%
<i>Commodities</i>						
Bloomberg Comm. Index	23.3%	23.3%	27.1%	8.6%	10.1%	5.5%
Oil (WTI)	76.6%	76.6%	41.8%	10.2%	11.4%	N/A

along the two-to-three-year segment of the yield curve rose the most. Credit spreads widened marginally across investment grade maturities but remain tight relative to historical norms. Given the tightness of spreads, our Income Strategy held 23% in Treasuries at quarter-end which can be swapped for more attractive non-Treasury issues when they surface.

The Federal Reserve held the Fed Funds rate range steady during the quarter at 3.50% - 3.75% as inflation ran ahead of its 2%-average target. Elevated inflation may leave the incoming Fed Chairman fewer options to pursue a lower rate strategy.

Commodities, as measured by the Bloomberg Commodity Index, rose 23.3% for the quarter, largely driven by energy due to conflict in the Middle East. On the supply side, the extent of energy infrastructure damage in the region coupled with passability of the Strait of Hormuz will likely influence the level and duration of global oil price increase, as well as that of LNG, Sulphur, Urea, Helium and Aluminum.

“The Strait of Hormuz is a narrow sea passage, separating the Arabian Peninsula and Iran, and connecting the Persian Gulf with the Gulf of Oman and the Arabian Sea. At its narrowest point, the Strait is only 29 nautical miles wide and it consists of 2-mile-wide navigable channels for inbound and outbound shipping as well as a 2-mile-wide buffer zone,” according to The International Energy Agency. In normal times, around 20m barrels of crude oil and related products pass through the Strait daily, accounting for roughly 25% of the seaborne oil trade of which **around 80% is bound for Asia**. Around 93% of Qatar’s and 96% of UAE’s LNG exports pass through the Strait, representing about 19% of global LNG trade. It is impractical for the Strait to be closed for an extended period, in our view.

Historically, the market impact of conflicts has been reasonably short-lived. With our investment process being long-term oriented, weekly, monthly and quarterly events, on average, do not have a material impact on our estimate of companies’ intrinsic values or our investment decision making.

2026 1Q Behavioral Finance

In this series, we discuss the topic of **behavioral finance**—the study of how psychology, emotions, and cognitive biases influence financial decision-making, investor behavior, and markets. In this piece, we compare behavioral finance to traditional finance, outline common cognitive and emotional biases investors exhibit, and explain how awareness of these biases **can help** investors act more rationally during periods of market stress.

Traditional finance **assumes** that investors are **rational**, objective decision-makers who consistently seek to maximize utility. **Behavioral** finance presents a more **human view** of markets, recognizing that investors and markets **do not** always behave rationally. Traditional finance is rooted in classical academic economic theories such as the Efficient Market Hypothesis and Modern Portfolio Theory. Those frameworks assume markets are efficient, with logic and objective data driving investment decisions. Behavioral finance is more nuanced,

integrating psychology with economics to better understand why markets and individuals sometimes behave illogically.

Behavioral biases are commonly categorized as either **cognitive** (errors in thinking) or **emotional** (errors in feeling). Below are several of the most prevalent biases investors should be aware of:

Cognitive Errors

Conservatism – A belief-perseverance bias in which individuals maintain prior views or forecasts by inadequately incorporating new or conflicting information.

Confirmation – Closely related to conservatism, this bias describes the tendency to seek out information that supports existing beliefs while disregarding evidence that contradicts them.

Anchoring – Individuals rely too heavily on initial information (the “anchor”) when making decisions and often fail to adjust sufficiently as new information becomes available.

Representativeness – The tendency to classify new information based on past experiences or patterns, even when the situations differ meaningfully. This bias can influence all future thinking and decision-making.

- **Base-rate neglect** occurs when individuals ignore large datasets in favor of specific anecdotal information. For example, assuming a new local restaurant will succeed because of a passionate owner and good food, while overlooking the high failure rate of restaurants overall.
- **Sample-size neglect** occurs when individuals draw conclusions from small samples. For instance, choosing a five-star restaurant based on two reviews instead of a 4.5-star restaurant with 1,000 reviews.

Illusion of Control – The belief that one can influence outcomes that are beyond one’s control.

Hindsight Bias – Often referred to as “knew-it-all-along” bias, this occurs when individuals believe past events were predictable after the outcome is known. This bias causes people to overlook alternative outcomes that were plausible at the time.

Mental Accounting – The tendency to treat different pools of money differently instead of viewing all assets as part of a unified portfolio. This can lead investors to irrationally separate income and capital appreciation—viewing income as spendable while prioritizing principal

preservation. It may also result in treating gains as “house money,” encouraging excessive risk-taking that bypasses overall portfolio risk considerations.

Framing – The way information is presented influences decision-making. Individuals may take different stances depending on context. For example, in medicine, presenting surgical outcomes as “98% survival” versus “2% mortality” can dramatically influence patient consent. This distinction between gain and loss framing applies equally to financial decisions.

Availability – Estimating the probability of an outcome based on information that is most readily available. **Recency bias**, a related concept, places excessive weight on recent events when projecting future outcomes.

Cognitive errors are often more easily mitigated through deliberate processes such as extensive data collection, seeking contrary opinions, and establishing objective investment rules.

Emotional Biases

Loss Aversion – The tendency to prefer avoiding losses over acquiring gains. Research shows that individuals feel the pain of losses roughly twice as intensely as the pleasure of equivalent gains. This bias can lead investors to hold losing positions too long while exiting winning positions prematurely.

Overconfidence – Unwarranted faith in one’s own abilities, often resulting in taking excessive credit for successes and assigning blame to external factors for failures.

Self-Control – The failure to act in one’s long-term best interest in favor of short-term gratification, such as insufficient saving or excessive borrowing to finance current consumption.

Status Quo Bias – A preference for maintaining existing positions rather than making changes. An investor may hold a position that has appreciated far beyond its intrinsic value, allowing it to become overly concentrated. Inaction can increase portfolio risk and create significant opportunity costs.

Endowment Effect – The tendency to value an asset more highly simply because one owns it. This bias can be related to loss aversion, anchoring, and overconfidence. For example, an investor may believe their home is worth a certain price based on purchase price or past comparable sales, even when market conditions suggest otherwise.

Regret Aversion – Avoiding decisions out of fear that a poor outcome will lead to regret. This manifests through both errors of omission (failing to act) and commission (acting incorrectly).

- Errors of omission may include holding excessive cash due to fear of market declines, resulting in long-term underperformance.
- Errors of commission often stem from herd behavior and fear of missing out, driving investors toward popular or trending investments while overlooking fundamentals and valuation.

Adherence to a disciplined, long-term investment strategy can help manage emotional biases and reduce impulsive and reactive decisions during periods of market volatility.

Summary – In reality, humans and markets are far more complex than traditional finance models assume. Behavioral finance explores the psychological factors that influence investor decision-making and market behavior. Investors are susceptible to a wide range of cognitive and emotional biases that can impair judgment, particularly during times of stress. Awareness of these biases may help investors improve decision-making and maintain discipline through inevitable market cycles.

Looking Ahead

With the U.S.'s naval blockade of the Strait of Hormuz and its impact on Iran, Gulf States, Asia and global energy markets, as well as an incoming Federal Reserve Chairman (assuming Mr. Warsh is confirmed) who may not meet the President's expectations for lowering interest rates due to stronger economic growth, above target inflation and a desire to reinforce the Fed's independence – volatility could rise, causing stock prices to deviate from their underlying intrinsic values.

AI capital spending is a concern too. Historically, when abnormally large amounts of capital have flowed into a specific area in a compressed time frame, future investment returns within that area have suffered due, in part, to valuations being "bid up" (pulling investment returns forward) and management teams being less disciplined than when capital is constrained.

On the other hand (as a user of AI), many companies are becoming increasingly efficient by doing the same amount or more work with fewer people. We believe automation will be an important aspect of preserving corporate profit margins and should help control inflation (all things being equal).

If volatility spikes, it can create an opportunity to swap more fully valued and/or lower quality companies for those more attractively priced relative to our estimate of intrinsic value and/or that are higher quality with respect to revenue predictability and growth, pricing power and return on capital capabilities. Volatility could also provide an opportunity within our Income strategy to reposition Treasury holdings into higher yielding corporate issues if credit spreads become more

attractive. It may also provide an opportunity to swap straight corporate issues for convertible securities in our Income & Appreciation strategy.

Past performance is not indicative of future results and all investments involve some degree of risk. Market and economic data have been provided by third party sources. This data, while believed to be reliable, has not been independently verified by EBS.

ⁱ Quarterly Chartbook: Q2 2026