

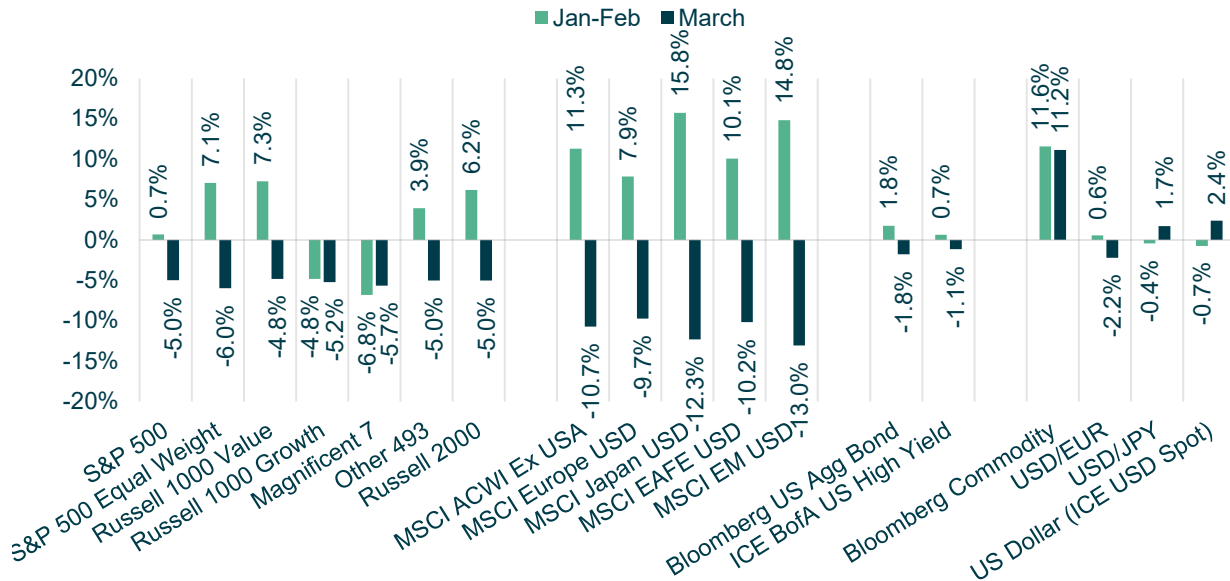
Dear Client:

Market Recap

Never a dull news cycle! Investors were barraged with a staggering number of events during the quarter. There was no shortage of geopolitical headlines, the year kicking off with the capture and extradition of Venezuela’s then-President, Nicolas Maduro. And as the first quarter ends, conflict in the Middle East dominates the market narrative and is roiling energy markets.

In the first quarter, the S&P 500 fell 4.3%. U.S. equities were marginally positive on the year until the conflict with Iran commenced in late February. The bar chart below shows how different asset classes have performed since the onset of the war at the end of February. Foreign equity markets have suffered worse than domestic markets. A stronger U.S. dollar in March contributed to some of the underperformance - another possible explanation is that higher energy prices have more of a negative impact on countries that import much of their energy. The U.S. has become a net exporter of oil in recent years and much less reliant on the Middle East for energy. Other nations, particularly many in Asia, import much of their energy through the Persian Gulf.

Returns Since Start of Iran Conflict



Source: Morningstar Direct Data as of 3/31/2026

Unsurprisingly, energy stocks (up 38.2%) were the top performer within the S&P 500 during the first quarter. More defensive sectors, such as utilities, also outperformed. The term, “HALO” was coined recently to describe stocks with the characteristics of “heavy-assets-low-obsolence.” Stocks in this category – Caterpillar, Honeywell, Lockheed Martin, and L3Harris Technologies, to name a few –

performed well during the quarter, logging returns in the 16% to 40% range. On the other hand, mega-cap tech stocks such as Google, Microsoft, NVIDIA, Meta, Salesforce, and Apple were the laggards during the quarter, dropping between 6% and 24%, as fears around elevated AI spend and a growing concern that many software stocks could see their moats weakened by AI agents. The S&P North American Expanded Technology Software Index has already fallen more than 24% this year and is now down in-excess of 30% from its high last September.

After delivering another rate cut last December, the Fed held rates steady at their two meetings in 2026. The Fed funds rate remains at 3.5%-3.75%. Since the onset of the war, the market has priced out any additional rate cuts this year. The implied number of cuts for 2026 was two cuts at the end of February - however, the market is now pricing a Fed that will hold rates at current levels. At one point in March, the market started pricing in Fed rate hikes in 2026, however, I believe this was an overreaction and that central banks around the world are unlikely to hike rates this year (more on that below). U.S. rates have moved higher on fears of higher inflation stemming from the spike in energy prices. After closing below 4% at the end of February, the 10-year Treasury rate has jumped to nearly 4.4% in recent days. The two-year Treasury, which is often cited as a good proxy for the Fed funds rate, has increased nearly 50 basis points to 3.9%.

Resiliency Despite Geopolitical Risks

Despite all the events of the quarter, the S&P 500 is only 6% off the all-time high it reached in January. Broadly, the global economy is still expanding, and inflation continues to moderate despite all the negative headlines. S&P 500 earnings growth grew at a 14% clip last year and is expected to grow 13.2% year-over-year in the first quarter, according to data from FactSet. For now, corporate profits and the broader economy continue to show resiliency despite all the gloom.

While geopolitical shocks can trigger sharp drawdowns, history suggests the impact is typically short-lived. Markets tend to re-price uncertainty quickly, with most of the reaction happening over days and weeks rather than quarters or years. Unless the event materially changes the path of the economy, inflation, or policy, risk assets can remain supported. The table on the next page from Ned Davis Research shows the market reaction to military events since World War II. The current conflict in Middle East has certainly resulted in negative equity returns, but nothing outside of the historical norm.

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Crisis	Actual Event Date	S&P 500 Returns After Actual Event Date (Market Days Later)					
		5	10	21	63	126	252
Germany invades France	5/10/1940	-14.4%	-24.6%	-23.8%	-18.4%	-11.6%	-15.8%
Pearl Harbor	12/7/1941	-5.4%	-8.1%	-6.8%	-9.1%	-15.3%	-2.0%
Korean War	6/25/1950	-9.0%	-7.8%	-8.8%	1.1%	2.9%	15.8%
Suez Canal Crisis	10/31/1956	1.6%	-0.8%	-2.8%	-3.8%	-0.1%	-11.5%
U.S. Bombs Cambodia	4/30/1970	-2.9%	-6.5%	-8.8%	-4.9%	1.8%	27.6%
U.S.S.R. Invades Afghanistan	12/26/1979	-1.8%	1.3%	5.6%	-7.9%	7.0%	25.7%
Falkland Islands War	4/2/1982	2.1%	2.7%	2.7%	-4.5%	5.8%	34.8%
U.S. Invades Grenada	10/25/1983	-1.5%	-2.5%	0.5%	0.0%	-4.8%	0.8%
U.S. Bombs Libya	4/15/1986	3.1%	2.4%	-0.4%	0.4%	-0.8%	23.3%
Invasion of Panama	12/20/1989	1.9%	3.9%	-1.0%	-0.8%	4.9%	-3.6%
Iraq Invades Kuwait	8/2/1990	-4.8%	-4.4%	-10.4%	-14.5%	-4.1%	9.1%
Gulf War	1/17/1991	4.4%	7.8%	15.2%	23.5%	20.6%	33.1%
War in Afghanistan	10/7/2001	2.6%	-0.1%	1.6%	9.6%	5.2%	-25.2%
Iraq War	3/20/2003	-0.5%	0.8%	2.2%	15.6%	17.4%	28.4%
Russia Invades Georgia	8/8/2008	2.1%	0.9%	0.1%	-24.8%	-31.4%	-20.2%
Israel Invades Gaza	12/27/2008	7.3%	2.6%	-2.6%	-6.0%	5.9%	29.8%
Russia Invades Crimea	3/7/2014	-1.6%	-0.3%	-0.6%	3.4%	6.4%	10.4%
Russia Invades Ukraine	2/9/2022	-1.1%	-6.6%	-5.8%	-11.5%	-6.9%	-9.7%
Israel-Iran 12-Day War	6/24/2025	3.0%	3.3%	5.5%	11.1%	13.4%	N/A
Mean		-0.8%	-1.9%	-2.0%	-2.2%	0.9%	8.4%
Median		-0.5%	-0.1%	-0.6%	-3.8%	2.9%	9.7%

Source: Ned Davis Research

The conflicts duration will largely determine the impact on the global economy. With the Strait of Hormuz effectively shut, 20 million barrels of oil that move through the Strait daily are stranded. This accounts for roughly 20% of daily global oil demand. Liquefied natural gas (LNG) is also heavily impacted by events in the Middle East. Qatar is responsible for 20% of global LNG supply and now 100% of this is offline due to the war. It has been reported that the damage to a portion of Qatar's Ras Laffan LNG complex has resulted in the elimination of roughly 17% of their capacity, and it could take years to repair and bring back production to normal levels. Any escalation that results in additional energy infrastructure being damaged will have lasting effects on the energy market.

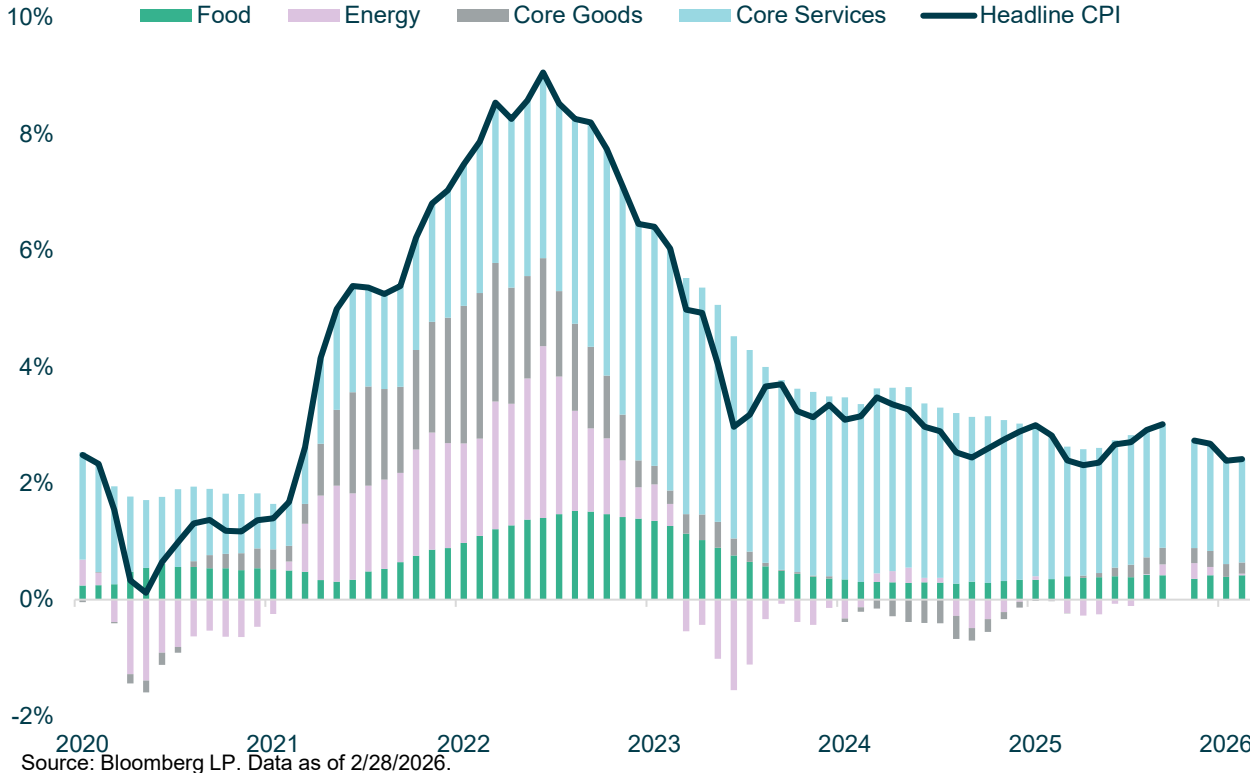
Oil and gas fields are not like faucets - they cannot just be turned off and on. Once shut down, there are engineering and geological risks that jeopardize a resumption of production at previous levels. Restarting these fields will take weeks to months, plus another 3-4 weeks for tankers to transit through the Persian Gulf and to Asia. The longer the Strait of Hormuz remains closed, the worse it will be for the global economy. The recent cease fire agreement, which includes a commitment to reopen the strait, has given markets some hope, but already there are signs that the agreement may not last. On April 8, Israel bombed Lebanon, sparking Iran to again close the Strait of Hormuz, while accusing the US and Israel of breaking the terms of the cease fire agreement.

Inflation Is Cooling, But Energy Is Back in Focus

While the surge in oil prices has certainly been felt by all of us at the pump, research from the Federal Reserve suggests that energy prices accounted for only a portion of the overall inflation increase. The Fed estimates that the oil price spike added roughly half a percentage point to overall inflation during 2022. Inflation has certainly cooled in recent years (see chart below), however, it remains above the

Fed's 2% target. Central Banks tend to focus on *core* inflation readings, i.e., those that exclude the more volatile food and energy prices. Given this, the Fed is more likely to respond to higher oil prices by holding rates where they are instead of hiking them. We can see this is born out in the futures market where further rate cuts this year are being priced out of expectations. For now, my current base case is that the current oil shock is far more likely to produce a temporary bump in headline inflation rather than a repeat of the broad and persistent inflation cycle experienced during and after the pandemic.

Goods and Services are the Larger Drivers Behind Inflation



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Equity Markets

After peaking in late February, global equities (MSCI ACWI) have fallen 7.6% from that high. Global equities finished the quarter with a negative return of 3.2%. U.S. stocks underperformed international stocks over the full quarter - S&P 500 fell 4.3% compared to a modest 0.7% loss for MSCI ACWI ex. U.S. Index. However, since the onset of the Iran conflict, U.S. stocks have outperformed. This is partly due to a strengthening U.S. dollar in March, acting in its typical safe-haven fashion.

While the S&P 500 is off roughly 6% from its high, the index is flat since last summer. However, underneath the surface there is meaningful volatility at the constituent level. Unlike last few years, in 2026 more than half of S&P 500 stocks are outperforming the broader index return. Dispersion across sectors has increased as well - with the energy sector up over 38% this year, while the financials and tech sectors have fallen by 9%. A historically large number of S&P 500 stocks are setting 52-week highs and 52-week lows at the same time. Based on calculations from iM Global Partners, 41.6% of the stocks within the S&P 500 are already more than 20% below their 52-week high. See the table below.

The divergence in returns is most evident in the technology sector. Software names have taken the brunt of the selling thanks to worries about AI technology eating away at their moat. Whereas other areas of the tech sector, such as those tied to the AI buildout, have fared much better. There is a historic spread within the tech sector between those names making new highs and those making new lows.

% of stocks down 20% or more from 52-week high	
S&P 500	41.6%
Communication Services	52.2%
Consumer Discretionary	56.3%
Consumer Staples	48.6%
Energy	0.0%
Financials	34.2%
Health Care	49.2%
Industrials	36.7%
Information Technology	59.7%
Materials	26.9%
Real Estate	48.4%
Utilities	12.9%

To date, the drawdown has mainly been through a repricing of lofty valuations. The forward price to earnings ratio of the S&P 500 ("P/E" is a measure of how much investors are paying for one dollar of earnings) has contracted nearly 12% this year, while earnings expectations for the 500 companies comprising the index have not come down meaningfully. It is sentiment and uncertainty about the future that is driving this selloff in stocks, not concern about the ability of companies to continue to

deliver earnings growth. Fundamentals remain largely intact with double-digit earnings expected for this calendar year. This is good news for investors.

Fixed Income

After a quiet start to the year, the threat of energy driven inflation unsettled global fixed income markets, resulting in U.S. interest rates rising between 35-45 basis points in March, and even larger increases in European markets, which have greater exposure to the effects of rising oil & gas prices. Expressed another way, bond prices fell across the globe due to investor fears that inflation will erode the return they earn from their bond investments. This helps explain why bonds failed to fulfill their role as a portfolio “diversifier” in the first quarter and delivered largely negative returns.

One of the wonderful things about bonds is that, in the absence of defaults, one can accurately estimate forward total returns, given both the maturity value (par or \$1,000) and the starting coupon amount, both known quantities. On the other hand, if inflation increases the cost of living by 4% and the precise return an investor will earn on a bond investment is known to be 4.5%, that investor will not be excited to earn a return just above the cost of living. That’s not growth, that’s trading water.

Should inflation persist well past the conclusion of the Iran conflict, bonds could sell off further – bad for current bond holders – but the *prospective* return on bonds could then become more compelling for conservative investors. Such a scenario could draw money out of equities and into bonds, the result being downward pressure on stock prices. Could this happen? Definitely. But it is not a scenario to which I subscribe, given that any rise in inflation due to energy is likely to be short-lived or ‘transitory.’ Once the war ends, energy prices are more likely to reverse course and bring down inflation. And should inflation eventually approach the Fed’s 2% target rate, there’s a good chance they will lower interest rates (in no small part due to political pressures), which will be kindling for stocks to burn even brighter. Stay tuned.

Outlook

The conflict in Iran has introduced several unknown variables into my investment outlook. Thus far, markets have largely looked beyond the clash. An entire generation of investors have become conditioned to the markets rebounding from transient disruptions. Maybe investors are finally learning? Possibly, but with each passing day the impact on the global economy becomes greater. Energy prices are rising quickly, with Asian and European economies having more exposure than the U.S. I do not believe central banks will react to this energy price spike, however if the conflict drags on and energy prices remain elevated it is likely that the cost of other goods using oil by-products in their manufacturing process – and there are many - will begin to pass through these costs to the consumer, impacting living standards and potentially forcing the central bank’s hand.

Absent the conflict in Iran, my outlook continues to remain positive. Real GDP growth continues, supported by consumer spending. Plus, the ongoing investment in infrastructure, energy and Artificial Intelligence is expected to enhance productivity, and productivity gains, more than anything, are catnip for the continuation of corporate earnings growth.

Despite recent weakness, equity market fundamentals remain strong. We're now seeing market leadership broaden away from mega-capitalization technology stocks to smaller and more value orientated companies, providing crucial breadth for the market. Importantly, corporate earnings expectations continue to expand, with the S&P 500 earnings expected to grow 13.2% in 2026 according to FactSet (up from 12.8% at year-end).

Credit fundamentals continue to remain sound. The market has now priced in no rate cuts in 2026; however, it is my belief a resolution to the Iranian conflict could bring out the animal spirits in investors, which supports an upward rise in bond prices as inflation fears fade. Also, attractive starting yields have resulted in fixed income returns increasingly driven by income – the more stable aspect of a bond's total return - rather than price appreciation.

There is no question that tail risks have increased because of the Iranian conflict. However, with the range of outcomes so wide I do not believe it prudent to make large-scale portfolio changes as sentiment can change quickly with pronouncements from our political leaders.

I remain vigilant to a rapidly changing economic environment and thank you for your continued trust and partnership.

Best,

Kelly D. Kane, ChFC®, CFP®

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