



TIMBER POINT CAPITAL MANAGEMENT

POWERED BY  FORTIS CAPITAL ADVISORS

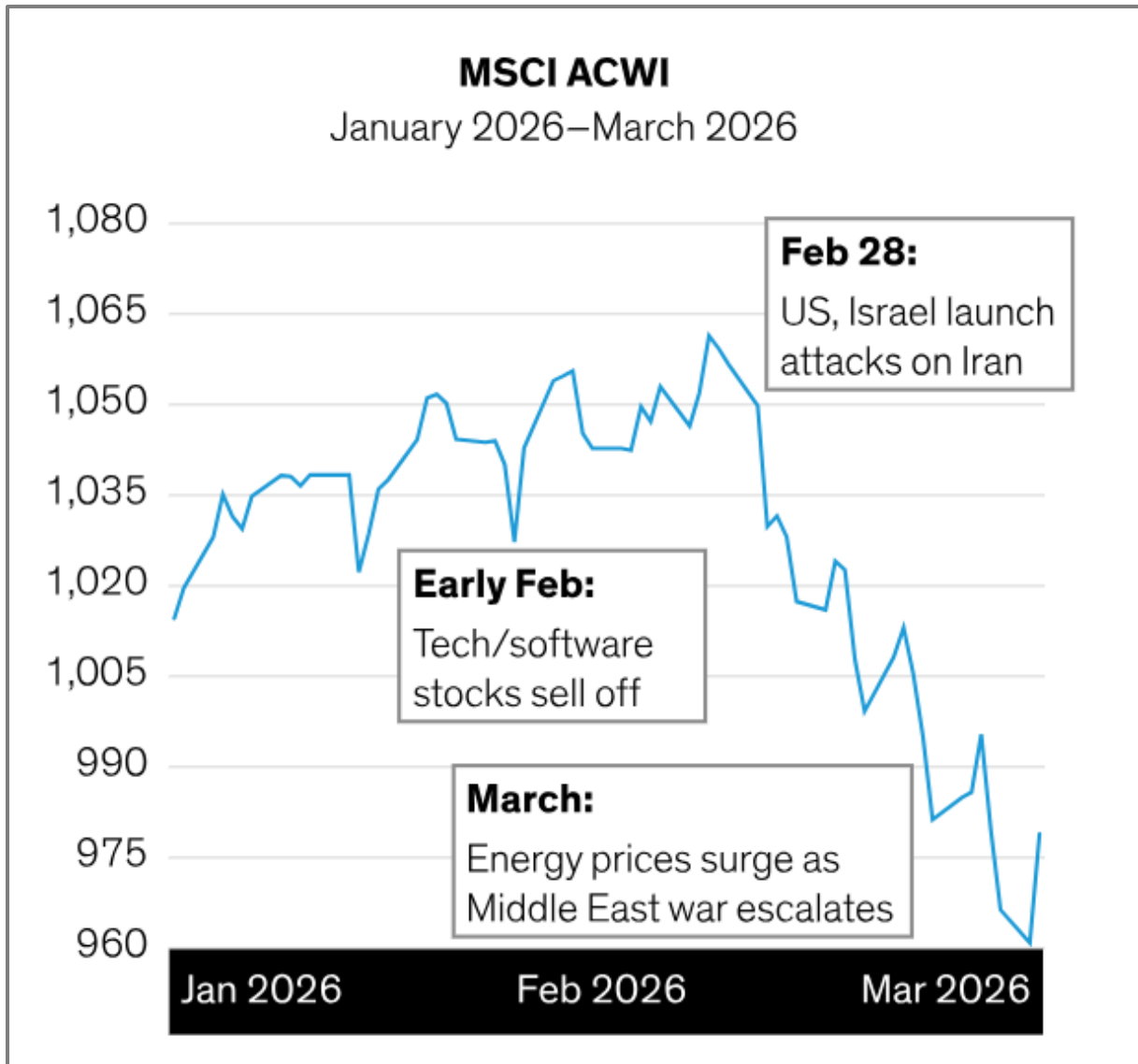


WAR DRUMS: NAVIGATING GEOPOLITICS & MARKETS

Market Backdrop

At the start of 2026, [we outlined a constructive backdrop](#) for markets, supported by resilient consumer spending, continued business investment, and the powerful secular tailwinds associated with artificial intelligence (AI). For the first two months of the year, this optimistic viewpoint materialized as the S&P 500 and MSCI ACWI both reached new all-time highs. However, the investment landscape quickly became more complex following the US/Israeli attack on Iran on February 28. As we enter the second quarter, while much of the positive economic backdrop remains, heightened geopolitical risk, rising oil prices, a more nuanced inflation outlook, and a significant shift in market leadership introduce various risks that demand investor attention. The momentum from improving global growth and ongoing strength in AI-related capital investment was disrupted as conflicts involving Iran unsettled energy markets and revived inflation concerns. The closure of the Strait of Hormuz - a critical global energy chokepoint - introduced a significant new source of volatility, reminding investors that macro stability can be quickly challenged when geopolitical risks intersect with already elevated valuations.

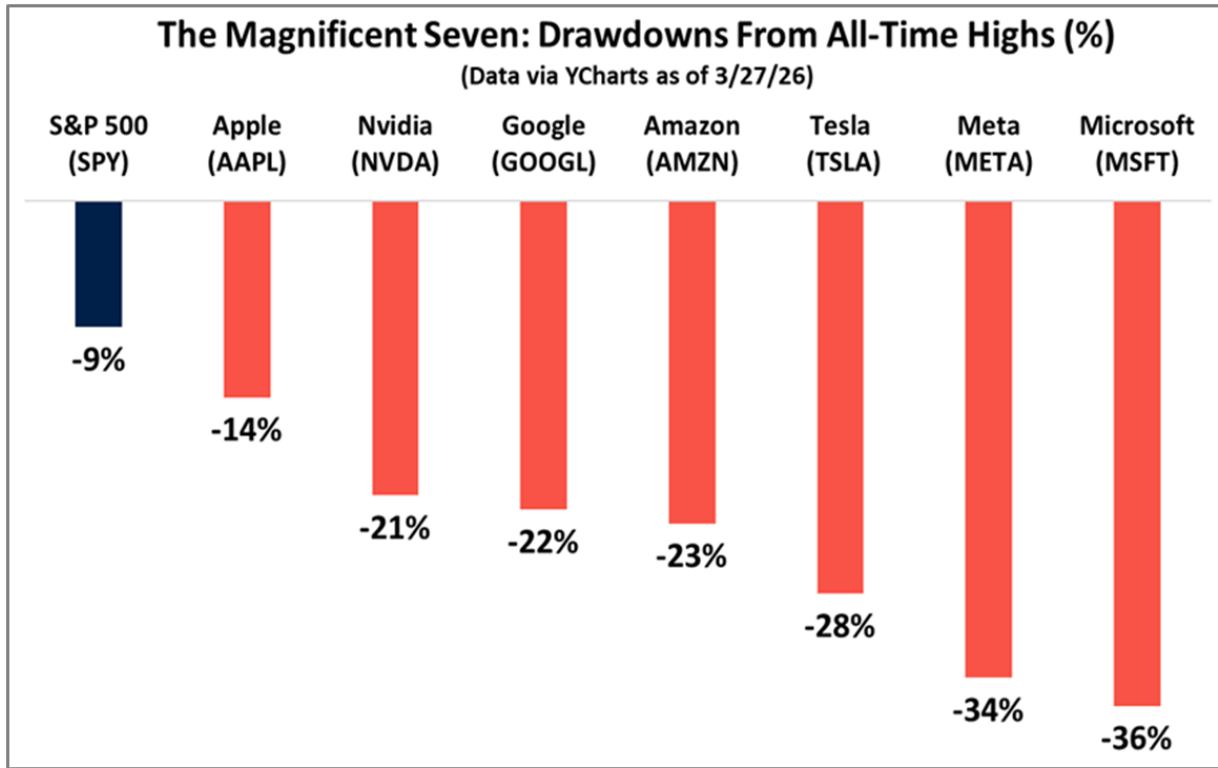
Despite the increase in volatility, for the entire quarter downside returns in markets were fairly muted, as the S&P 500 fell 4.6%. No fun, but far from a crash. Yet, the headline index return only tells part of the story as single stock volatility and dispersion increased sharply. In fact, 24% of the S&P 500 experienced +/- 20% returns over the period.



Source: FactSet, FTSE Russell, MSCI, S&P and AllianceBernstein (AB)

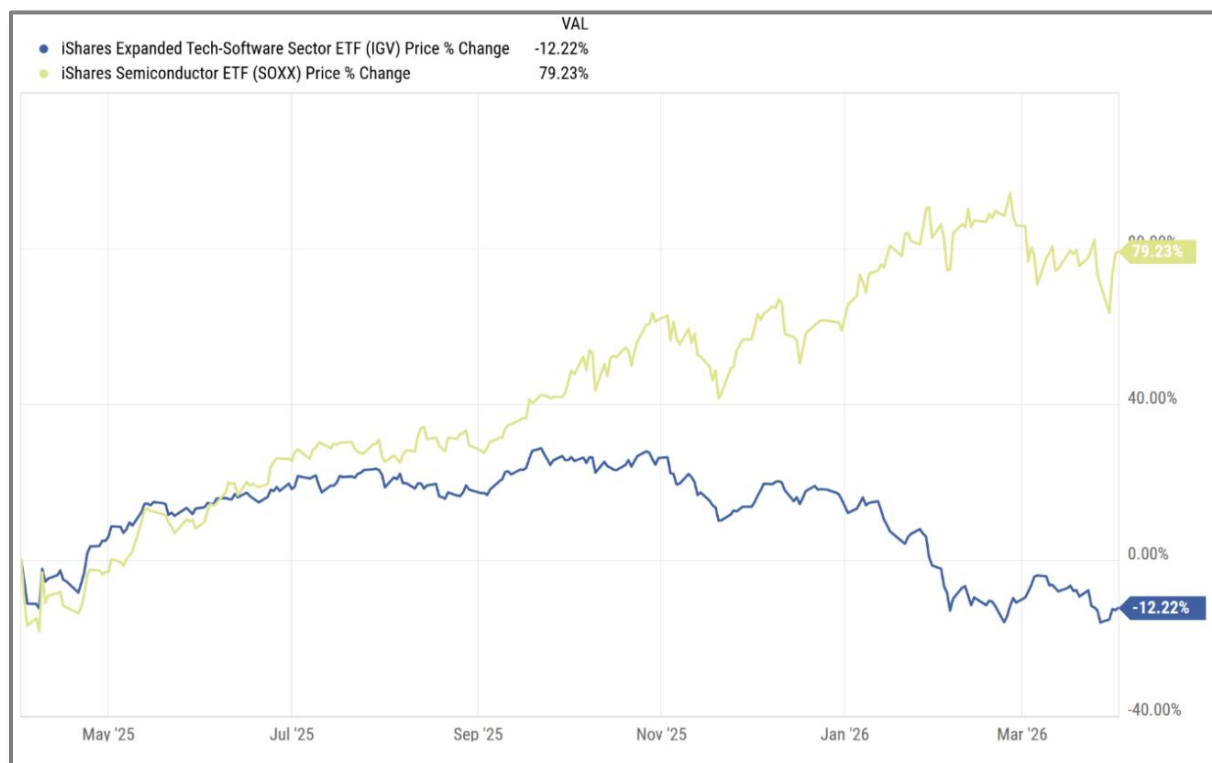
Equity Market Leadership

Importantly, this rise in uncertainty is occurring alongside a meaningful recalibration within equity markets themselves. After several years of highly concentrated returns driven by a narrow group of mega-cap technology companies, early 2026 has shown signs of broadening leadership. The largest beneficiaries of the AI buildout - dominant for much of the past three years - have begun to cede some relative ground as investors reassess where the economic benefits of AI will ultimately accrue.



Source: Creative Planning, Charlie Bilello

This shift has been most evident within technology, where concerns around AI-driven disruption - particularly in software - have led to increased dispersion in returns. Investors are no longer treating AI as a uniformly positive force across the technology ecosystem. Instead, the market is asking more fundamental questions: who captures the revenues, who absorbs the cost, how durable are margins, and which business models are most vulnerable to disruption? That is a healthier market dynamic and is creating a more selective opportunity set.



Source: YCharts

Year-to-date, that rotation has been notable. U.S. large-cap equities have lagged smaller companies, while value-oriented sectors - including energy, materials, and consumer staples - have outperformed after trailing meaningfully in prior years. At the same time, equal-weighted equity indices have begun to outperform their market-cap-weighted counterparts, suggesting a healthier breadth of return contribution across the market.

AI and the Broadening Opportunity Set

We view this not as a reversal of the AI theme, but as its next phase of evolution. The long-term impact of AI remains profound and, in our view, underappreciated in terms of its ability to reshape productivity, capital investment, and profitability across industries. However, the market is increasingly recognizing that AI's benefits will not be confined to a handful of early winners. The buildout is becoming more capital-intensive and more broadly distributed across the economy, extending into infrastructure, energy, compute, data, and industrial applications. This evolution is occurring alongside a [broader expansion in earnings participation](#). Following a period where growth was heavily concentrated among a small number of mega-cap companies, we are now seeing a wider set of businesses contributing to earnings growth. In our view, that creates a more fertile environment for active management and differentiated return opportunities.

Global Opportunities

While we continue to see attractive opportunities outside the United States, the international opportunity set may face a more complicated backdrop in the quarters ahead given elevated geopolitical risk, a potential realignment of global economic interests following the Iran conflict, and the implications of a stronger U.S. dollar. U.S. equities remain supported by relatively strong earnings growth and durable corporate fundamentals, while select international markets still appear compelling on both relative valuation and diversification grounds. That said, we believe the environment increasingly calls for selectivity rather than a broad-based bullish stance on non-U.S. equities.

Within emerging markets, we continue to hold the highest conviction in EM Asia, particularly South Korea and Taiwan, where companies remain central to the global AI hardware and semiconductor ecosystem. These markets continue to offer meaningful long-term exposure to secular growth themes, but they are also more vulnerable than the U.S. to a sustained rise in oil prices, given their reliance on imported energy and trade-sensitive economies. In our view, that dynamic does not negate the opportunity, but it does raise the bar for near-term upside and reinforces the need for careful positioning.

China remains a more nuanced case, but one that has become increasingly important in the context of the Iran conflict. As a major buyer of Middle Eastern energy and a key stakeholder in regional stability, China sits at the center of several important macro and geopolitical crosscurrents. Prolonged disruption in the Strait of Hormuz would have implications not only for China's domestic growth outlook, but also for global commodity flows, shipping routes, and supply chain resilience more broadly. Higher oil prices are likely to act as a headwind for many Asian and emerging economies, particularly those with large import needs and weaker external balances.

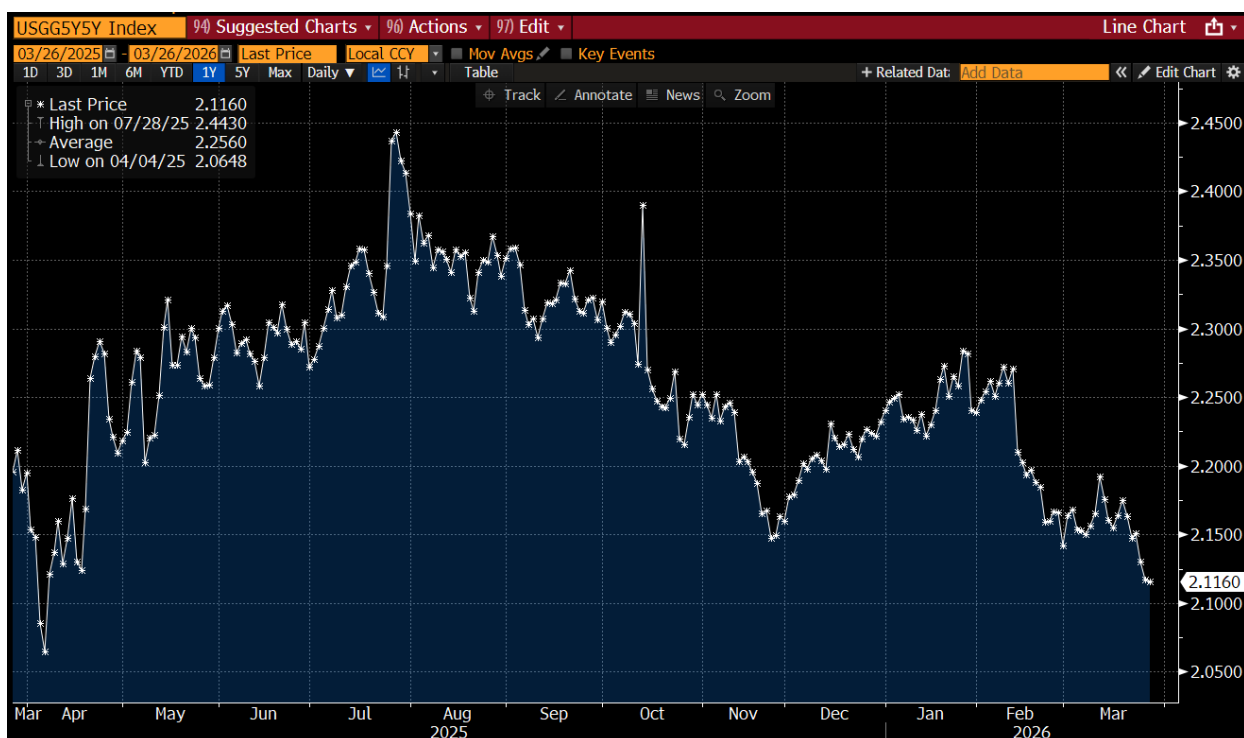
In Europe, we see a somewhat improved opportunity set emerging, supported by fiscal stimulus, increased defense spending, and a greater emphasis on industrial and strategic self-sufficiency. Over time, this could evolve into a more durable investment cycle across defense, infrastructure, and resilience-related sectors. That said, Europe remains more exposed than the U.S. to higher energy prices and trade-related disruptions, which suggests that opportunities there should still be approached selectively.

Elsewhere, Latin America remains underappreciated in our view. The region may benefit from the global AI and electrification buildout through its role in supplying key commodities and raw materials, including copper and other inputs essential to power infrastructure and digital expansion. Valuations in parts of the region also remain reasonable, though returns are likely to remain more uneven given commodity sensitivity and political volatility.

Overall, we believe the case for international equities remains intact, though it has become somewhat more complex. While the U.S. continues to offer a relatively strong earnings and quality backdrop, opportunities abroad are still broadening in ways that can enhance diversification and long-term return potential - but likely with a narrower margin for error than earlier in the year.

Inflation and Fixed Income

Given the war in Iran, the most immediate macro question has been the impact of sharply higher energy prices on inflation. With WTI crude moving above \$100 per barrel, the intuitive assumption would be that markets would begin pricing a renewed inflation problem. Interestingly, that has not been the case. Despite the supply disruption and spike in oil prices, market-based inflation expectations have continued to decline, with 5-year breakevens falling to roughly 2.1%. That is a notable and somewhat surprising development, suggesting investors may be increasingly focused on the possibility of slower economic growth, while also perhaps recognizing the longer-term disinflationary effects of AI adoption as productivity-enhancing technologies continue to spread across the economy.



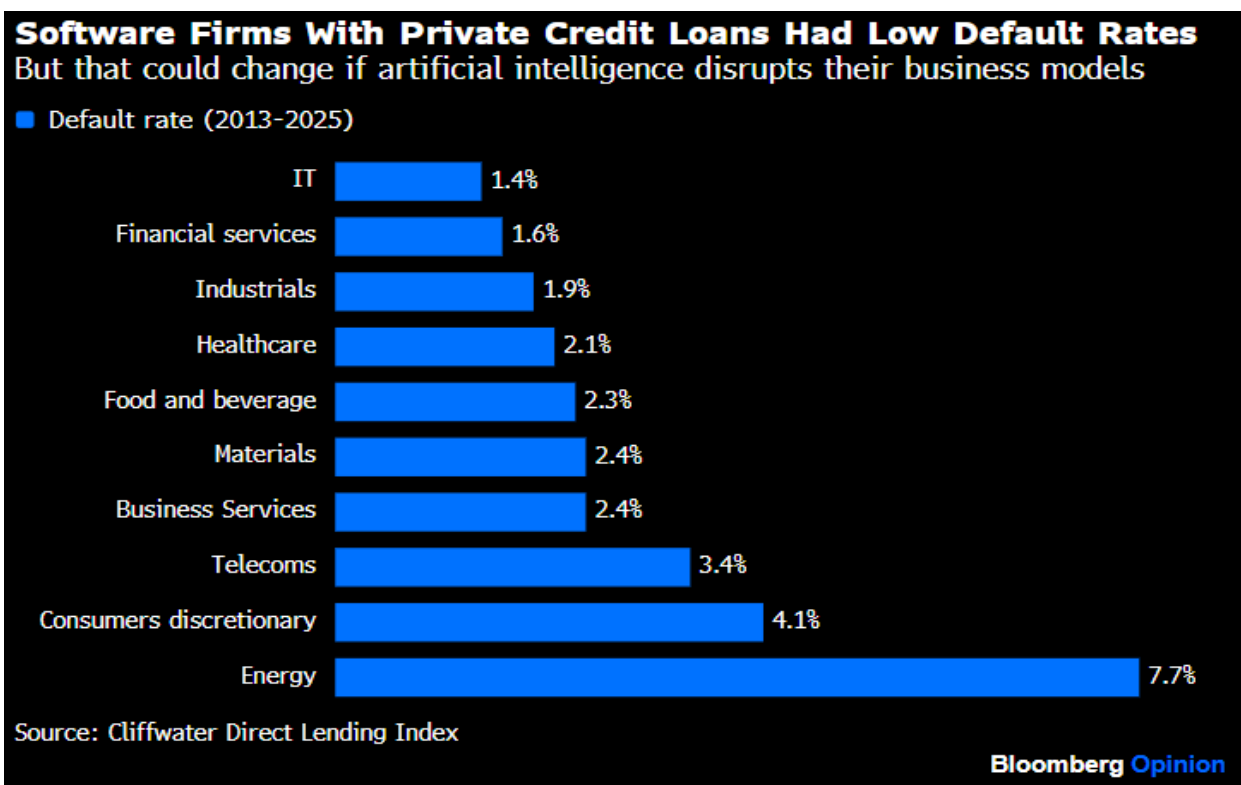
Source: Bloomberg

That divergence has been particularly visible in the Treasury market. During the first quarter of 2026, U.S. fixed income experienced a sharp reversal, with the Bloomberg Aggregate Bond Index giving back nearly all of its early gains to finish the quarter essentially flat. The more unusual aspect of the move, however, was not simply the weakness in bonds = it was why bonds sold off. In a traditional geopolitical shock, one would normally expect a meaningful flight into Treasuries. Instead, the 10-year Treasury yield rose sharply, reflecting a market that appeared less concerned about near-term inflation itself and more focused on a rise in [term premium](#).

In our view, that distinction matters. The selloff in Treasuries does not appear to have been driven primarily by fears of runaway inflation. Rather, it seems more consistent with growing investor unease around fiscal sustainability, policy uncertainty, and the required compensation for holding longer-duration assets in a more unstable macro environment. Said differently, the bond market's recent weakness looks less like an inflation panic and more like a repricing of broader macro and policy risk.

That said, fixed income is beginning to look increasingly attractive again. Yields today are at levels where investors are once again being compensated for owning high-quality bonds - something that was absent for much of the prior decade. Bonds may not serve as a perfect hedge in every risk-off episode, particularly in an environment where term premium and fiscal concerns are more active variables, but they are once again capable of playing a meaningful role in portfolio construction through both income generation and diversification.

Within credit markets, the picture is more mixed. Private credit and other less transparent pools of capital have come under increasing scrutiny in recent months as investors have become more sensitive to underlying loan quality, borrower concentration, and liquidity mismatches embedded in certain structures. These concerns have been particularly acute in software-related lending, which has become a meaningful exposure area for many private credit portfolios. The result has been a notable widening in risk perception across parts of the private lending ecosystem and renewed discussion around whether stress in “shadow banking” channels could become more problematic if growth slows further.



At the same time, we would distinguish between idiosyncratic pressure and broader systemic credit deterioration. While publicly traded Business Development Companies (“BDCs”) have sold off sharply and are now trading at valuation levels not seen since the COVID period - potentially creating selective opportunities for more risk-tolerant investors - public high yield markets have not shown the same degree of stress. Credit spreads in broadly syndicated and publicly traded high yield remain relatively contained, suggesting that markets are not yet pricing a broad-based credit event.

We believe that divergence is important. It suggests that while caution is clearly warranted in parts of the private credit universe, current weakness may reflect a repricing of liquidity, transparency, and underwriting discipline rather than the early stages of a full-scale credit unwind. As always, selectivity remains critical.

Currencies, Metals and Real Assets

The first quarter of 2026 was an unusually volatile period for precious metals and real assets. Gold entered the year with significant momentum, reaching new highs in late January, before reversing sharply as the quarter progressed. As the conflict with Iran intensified and broader market volatility picked up, gold sold off meaningfully—a somewhat counterintuitive move given its traditional role as a geopolitical hedge. Silver was even more volatile, experiencing a much sharper drawdown as investors moved aggressively to reduce crowded momentum exposures and raise liquidity.

In our view, the weakness in precious metals was less about a deterioration in their longer-term investment case and more about positioning, liquidity needs, and the reassertion of the U.S. dollar as the market's preferred safe haven. In periods of acute market stress, investors do not always move first into gold; often, they move first into cash and dollars. That dynamic appeared to dominate during much of March.

At the same time, the closure of the Strait of Hormuz drove a sharp move higher in oil prices, reinforcing inflation concerns and reducing expectations for near-term Federal Reserve easing. That shift helped support a rebound in the U.S. dollar and placed additional pressure on non-yielding assets. It also created a more difficult backdrop for listed real assets such as REITs and infrastructure, which remain sensitive to both higher real yields and broader risk sentiment.

By quarter-end, markets had clearly shifted into a more defensive posture, with investors favoring liquidity, shorter-duration assets, and dry powder over more directional real asset exposure. While that positioning is understandable given the geopolitical backdrop, we continue to believe real assets and precious metals can play an important role in diversified portfolios—particularly if inflation proves more persistent or geopolitical instability remains elevated.

Fundamental Outlook and Portfolio Implications

From a fundamental standpoint, we continue to believe the U.S. economy remains on a positive, though moderating, trajectory. The conflict in Iran and resulting rise in oil prices introduce a new source of uncertainty, particularly around inflation and global growth, but at this stage we do not view these pressures as sufficient to derail the broader expansion. Inflation may move somewhat higher in the near term, though several offsetting forces - including softer demand in some areas and still-restrictive real interest rates - may help prevent a more meaningful reacceleration.

At the same time, real interest rates have risen meaningfully during this period of geopolitical stress, and in our view there remains room for rates to move lower if economic conditions normalize and the Federal Reserve is ultimately able to ease policy. The U.S. dollar has also reasserted itself as a relative safe haven, reflecting both global uncertainty and the resilience of the domestic economy. While fiscal policy is becoming more mixed

and geopolitical developments may continue to drive periodic volatility, the broader macro backdrop remains one of slower but still constructive growth rather than outright deterioration.

2026 2Q Key Economic and Investment Drivers

Real Economic Growth	Rising Stable Falling	Despite the uncertainty the Iran conflict causes, we believe the economic growth trajectory in the US will remain positive throughout 2026 but at a slower rate than initially expected.
Inflation	Rising Stable Falling	U.S. inflation will be impacted by the Iran conflict and the resulting spike in oil prices. Yet other factors are at hand which may prevent a meaningful inflation increase.
Real Interest Rates	Rising Stable Falling	Real interest rates have increased throughout the Iran conflict and now are 1-year highs. Assuming normalization of the economy and possible easing by the Fed, rates have room to fall.
US Dollar F/X Value	Rising Stable Falling	During this period of geopolitical stress, the dollar has rebounded sharply as economic alignments are subject to change and the greenback offers relative stability.
Taxes and Regulations	Rising Stable Falling	The fiscal policy outlook in the U.S. is increasingly mixed as calls for higher spending, particularly in defense, offset other cuts in Washington and otherwise constructive tax policy.
P/E Ratios	Rising Stable Falling	S&P 500 earnings growth continues its rapid ascent meanwhile valuations have fallen during this market correction as the S&P 500 now trades below 20x forward earnings, which leaves room for a revaluation higher
Fixed Income Risk Premiums	Rising Stable Falling	Despite concerns over private credit, high yield spreads have remained near secular tight reflecting a stable economic backdrop. Either an economic disruption or further deterioration in private credit could stress publicly traded risk premiums.
Volatility	Rising Stable Falling	Although higher, volatility has remained remarkably muted over the past several months again showing the resilience of investors and the U.S. stock market. Periodic spikes are always a risk.

Source: TPCM

Bullish Neutral Bearish

Against that backdrop, the market environment remains uneven, but still investable. Earnings growth continues to provide an important anchor for equities, and the recent market correction has modestly improved the valuation backdrop, particularly if earnings continue to broaden beyond a narrow group of large-cap leaders. At the same time, fixed income risk premiums remain relatively tight, suggesting that credit markets continue to reflect a stable base case, though with less margin for error should economic or private credit conditions worsen.

Thus, we believe the environment will continue to reward diversification, valuation discipline, and a focus on durable business models rather than reactive positioning around headlines. Markets are likely to remain sensitive to developments in the Middle East, energy prices, and policy expectations, while longer-term secular themes such as AI continue to create both opportunity and dispersion beneath the surface. Looking ahead, we believe the most effective approach remains a balanced one: staying invested, remaining selective, and focusing on the underlying fundamental drivers that are most likely to shape long-term returns.

2026 2Q Asset Class and Sector Probabilities

Major Market Asset Class	Likelihood of Outperformance
Bonds outperform Cash	59.4
Equities outperform Bonds	51.5
Non-Traditional outperforms Equities	57.0
Non-Traditional outperforms Bonds	52.0
Europe outperforms the US	47.5
Asia outperforms the US	45.5
EM outperforms the US	52.5
Small Cap outperforms Large Cap	54.0
Mid Cap outperforms Large cap	52.5
Value outperforms Growth	53.5
Credit outperforms Government bonds	49.0

Sectors v Market	Likelihood of Outperformance
Discretionary	42.6
Energy	44.4
Financials	65.6
Health Care	55.7
Industrials	43.9
Info Tech	54.3
Materials	49.3
Real Estate	53.9
Staples	45.3
Communications	49.8
Utilities	45.3

Source: TPCM

Bullish Neutral Bearish

In sum, the investment backdrop remains constructive, though clearly more complex than it appeared just a few months ago. While geopolitical developments and energy market volatility may continue to create near-term uncertainty, we believe long-term outcomes will still be driven primarily by fundamentals, earnings, valuations, and thoughtful portfolio construction. In this environment, maintaining diversification, staying selective, and avoiding emotionally driven decisions remain the most effective tools for navigating an increasingly uneven market landscape.

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