Wealth Enhancement®

4/2/2026 Brian Regan, Sr. Portfolio Manager

Investment Insights

War is Inflationary

Before the bombing in Iran started on February 28th, the global stock index (ACWI) was up over 4% and the S&P 500 was positive. The fixed income markets (+1.85%) and precious metals were also doing well (GLD +22.06%) as interest rates fell with a more positive outlook for inflation.

Unfortunately, all that positive momentum fell apart as the bombs fell. The Strait of Hormuz which carries 20% of the world's oil primarily to Asian markets has been taken hostage by Iranian forces pushing Brent crude oil prices up 45% in a matter of weeks and gasoline prices in the US near $4/gallon.

The rapid increase in energy prices has increased inflation expectations, made the Federal Reserve more hawkish, and raised long term yields. Additionally, we have had a bank run in private assets as investors in the illiquid assets determined that risks were greater.

The combined issues of increased treasury rates, lowered consumption power, and genuine threats to credit markets that have put pressure on risk assets.

A Lookback to January 2025

In the Q1 2025 Investor insights, I wrote about out-of-consensus possible risks that could derail the stock market. Each of these risks have come to the forefront.

Private Credit

Private credit has stormed the financial scene. Private credit provides funding where conventional banks cannot or will not lend. The loans are often expensive and linked to short-term funding rates. The loans are inherently risky and defaults could slow the flow of credit.

The bank run has caused a lot of redemptions from very large funds. Right now, this is mostly a liquidity issue where the loans cannot easily be sold to payout the investors. Fear of direct lending to software companies being impacted by AI started the concerns. Certain credits likely need to be refinanced at less favorable

terms putting their quality at risk. We have avoided the private markets so there is not an immediate actionable concern.

Construction Jobs

As the yield curve steepens, mortgage applications and refinancings will slow. We have seen an increase in mortgage delinquencies, a decline in median home prices and a decrease in homebuilder optimism. Construction jobs are large enough to impact aggregate demand.

There is a historic gap between buyers and sellers and certain local markets are seeing declines. This situation has led to a low hire, low fire, situation in construction jobs which is indicative of the situation across the total job market.

Crypto

Cryptocurrencies are bought with a lot of leverage. The poster child is MicroStrategy which basically borrows cash in the debt markets to buy bitcoin . Regardless of how you feel about crypto, it has experienced some wild swings in recent times…. Today, the market is nearly $1T larger than it was at the heights of 2021.

Crypto has seen a sizeable drawdown with Bitcoin down 45% from the high and the broader Crypto index down nearly 54%. Microstrategy, mentioned in 2025, is down more than 74% from the high. Our clients have never, and likely never will, have a position in a non-stable coin based network. I suspect the “crypto winter” has had a negative impact on the wealth effect, where people are more likely to spend more if they feel wealthier.

These issues have contributed to a slowdown in economic growth. Today, Q1 GDP is tracking at 1.3% while unemployment is above the 5-year average at 4.3%. Importantly, initial claims and unemployment claims are steady. We’re seeing an economy that is stagnating, but not declining, which indicates continually staying away from smaller and private issues.

On a more positive note, and more important for our clients’ assets, the S&P 500 earnings expectations continue to be robust, and the stock market is less expensive after the war-related sell-off. The growth is primarily coming from the

technology and communications sectors which have large dominant companies that are less subject to the changes in the underlying overall economy.

Portfolio Positioning

Currently, we've had the position to underweight international equity and interest rate risk. With rising yields and trouble in the Strait of Hormuz this has worked out well. Our sector selections in the Nasdaq type names have lagged, but with earnings growth expected to come from these areas we want to continue to hold these positions and rebalance. We will continue to have oil and gas representation in the portfolio, most notably with LNG in the individual stock portfolio which has been a great diversifier.

Steepening Yield Curve Expectations

Our expectation of a steepening yield curve has less conviction with war and the nomination of Kevin Warsh for Fed chair. We held regional banks and Gold with steepening expectations. We've experienced solid gains in these over the last two quarters and it makes sense to move on now.

Credit

Strains in private credit and the slowing economy have hurt credit oriented fixed income so we will increase quality even beyond the very high-quality level we have now.

Long Term Assets and Short-Term Disruptions

The war has made things uncomfortable and more volatile. It is good to remind ourselves that stocks are long term assets and the war is likely to be short lived (Edit April 8: Expect a 2 week cease fire). The AI economy is likely to continue moving forward. Wealthier people are likely to continue to spend uninterrupted even if the crypto winter and stock sell off gives them a little more angst. Ultimately, in time, I think this recent sell-off only means that the future returns look a little brighter (Edit April 8: Market screamed higher following the cease fire announcement). Private assets are more concerning for the long term, and we will continue to keep a keen eye on that ongoing situation for more spillover into the assets we are invested in.

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