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Quarterly Investor Letter

## A Wild Start to the Year

At year-end 2025, we published our inaugural [10 Surprises for 2026](#) list. The thought exercise attempted to list outlier events that were underpriced by the market but that we believed had a better than 50% probability of occurring in 2026.

One quarter into 2026, we feel encouraged by our analysis as nearly half of the list seems to be playing out as expected. This, in large part, explains our strong start to the year as multiple theses have begun to unfold.

Thus far, we have correctly stated that there is [No AI Bubble](#) (#2), that [The Fed is Not Captured](#) (#4) and that [Higher Structural Volatility](#) would arrive (#7). We expected an [Oil Renaissance](#) (#9), though not in this form. Two additional themes are too early to call but appear increasingly likely: (#6) [Blue Wave at the Midterms](#) and (#3) a [Private Market Bubble](#), as private credit continues to see massive redemptions.

## No One Knows

What happens next with the Iran War? No one knows. Even after a temporary two-week pause in hostilities announced on April 7, the range of potential outcomes remains wide.

What is more striking is the level of certainty expressed by pundits about a conflict that is only weeks old. The rhetorical extremism surrounding geopolitical analysis continues to be unhelpful. Defeatists occupy one corner, Pollyannas the other. Partisans declare operational victory or strategic defeat largely to affirm prior ideological views. Regardless of the eventual outcome, all sides will claim victory, and the tribal warfare will continue uninterrupted.

## If We Were to Guess

War is inherently unpredictable and uncontrollable, yet the current conflict still appears well calibrated at this point. Iran has constructed a [Deterrence Equation](#), broadly mirroring Israeli and U.S. actions. When Israel hits an industrial target, Iranian responses tend to follow in kind. Critically, core energy infrastructure – oil, gas, and desalination plants – have largely remained off limits, suggesting that Mutually Assured Destruction continues to act as a constraint.

The recent pause reinforces this dynamic. It does not signal resolution, but rather an acknowledgment by all parties that escalation risks quickly exceed strategic benefit. To date, Iran has largely avoided material escalation beyond proportional responses, which we interpret as a preference for a face-saving off-ramp that preserves the regime.

We continue to estimate roughly 2:1 odds of a diplomatic (or non-military) outcome versus a sustained military resolution. We do not believe the Strait of Hormuz will be closed on a lasting basis. We doubt that the Iranians are actually in control of the Strait. In practice, traffic has continued – imperfectly – and it is difficult to envision a scenario where global powers (including the West, Gulf states, China, or Russia) tolerate prolonged disruption of such a critical waterway. We also doubt that the Iranians have the capability to close the Strait militarily for any length of time (if at all). We believe that all parties know this which points towards a diplomatic or non-military solution.

Even if diplomatic channels falter, we believe the U.S. and its allies retain the capability to ensure passage. Recent precedent in the Red Sea ([Operation Prosperity Guardian](#)) provides a partial template, though the scale and risk profile in Hormuz would be meaningfully higher.

We don't know how the war ends other than that it will be entirely unpredictable (ex: joint US-Iranian Hormuz tolls?!). The introduction of a temporary pause may shorten escalation, but these conflicts tend to persist until political realities converge more clearly across all parties.

## **Fear Always Sells**

The Iran war likely matters less to markets than the prevailing narrative would suggest. Even with an estimated ~20mbpd of supply disruption, Brent crude near \$100 (as of early April) implies a shock that is meaningful but still within historically tolerable bounds.

Markets have already begun adjusting. Reduced oil intensity, significant strategic and floating inventories, and rerouting of supply have cushioned the impact. Saudi Arabia (~7mbpd), Oman (~1.5mbpd), and Iraq (~1.5mbpd) have redirected flows via pipeline where possible. Iran itself continues to export crude (~2–3mbpd), while exemptions and informal shipping activity further blur the effective supply picture.

The recent reopening signals around Hormuz reinforce the idea that worst-case supply outcomes are unlikely to persist.

## **What Does This Mean For the Markets?**

The Iran war represents a mild stagflation shock. Sustained ~\$100 oil would likely add 50–100bps to inflation, compressing consumer purchasing power, particularly in Europe and Asia due to higher natural gas prices. Central banks have reintroduced a hawkish bias, and rate cuts are effectively on hold pending greater clarity. Bond markets are likely to incorporate a higher term premium, while commodity markets will continue to churn on every war update and Truth Social post.

Equities should remain relatively resilient. Moderate, controlled inflation has historically been supportive of nominal earnings growth – a key driver for Equities. That said, dispersion will matter. Companies with significant commodity exposure will likely face growing margin pressures, while energy producers and select marine insurance companies benefit from elevated pricing and risk premia.

This mild inflation shock is not a repeat of the 1970s nor 2022. Energy intensity today is significantly less today than in the 1970s. The number of barrels needed to generate one unit of GDP has declined by a factor of 15-20

since the 1970s for most developed economies. The US was a significant oil importer in the 1970s and is now the world's largest oil and LNG exporter. Markets are more dynamic with fewer long-term contracts and more spot delivery. All of this means that we expect resilient markets – using the power of the price signal - will solve a supply shock and prove doomsday predictions premature.

### **Back to Square One**

In many ways, we find ourselves close to where we began the year. Entering 2026, we expected resilient growth supported by productivity gains and continued fiscal stimulus. That view proved largely true over the first two months of the year as real GDP expectations were revised modestly higher across different regions.

The Iran conflict has (hopefully) temporarily disrupted that trajectory by lifting inflation expectations. A sustained 1.0% increase in inflation is estimated to reduce real GDP by ~0.3%, effectively offsetting earlier positive revisions.

If the current pause evolves into a more durable de-escalation, the economic impact should prove limited, and the broader reacceleration narrative may resume. A longer or more fragmented conflict would delay that process. Markets will continue to adjust, and it is likely that, within a few quarters, this period will be viewed as another episode of volatility rather than a lasting regime shift.

### **2026 Look Ahead**

The "chattering class" spent much of the month of March becoming experts in energy supply chains, missile defense and naval mine clearing.

We remained focused on our disciplined investment process – objectivity and breadth, cash flows over earnings, accretive over destructive capital deployment – to build high conviction portfolios.

And the results were strong relative to each strategy's benchmark. For 1Q2026, our flagship Global Select Dividend strategy was up +3.9% (-2.2% vs. the benchmark iShares MSCI ACWI ETF), while our U.S. Select Dividend strategy was up +1.6% (-4.3% vs. the benchmark iShares Russell 1000 ETF).

The outperformance was broad based and the result of concentrated, high conviction positions – the only way we think a manager can outperform in today's markets. The combination of quantitative factor modeling with bottom-up fundamental analysis provided a durable edge again in the first quarter of 2026 that we expect to remain in the future.

**Performance Update**

Trailing Returns (%) as of 3/31/2026							
Strategy	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
<b>Global Select Dividend (gross)</b>	<b>4.1</b>	<b>33.3</b>	<b>20.5</b>	<b>12.9</b>	<b>11.5</b>	<b>10.7</b>	<b>12/31/10</b>
<b>Global Select Dividend (net)</b>	<b>3.9</b>	<b>32.4</b>	<b>19.7</b>	<b>12.1</b>	<b>10.7</b>	<b>9.9</b>	<b>12/31/10</b>
<i>iShares MSCI ACWI ETF</i>	-2.2	20.9	17.0	9.7	11.6	9.5	
<b>U.S. Select Dividend (gross)</b>	<b>1.8</b>	<b>30.1</b>	<b>21.0</b>	<b>14.6</b>	<b>13.5</b>	<b>13.8</b>	<b>12/31/10</b>
<b>U.S. Select Dividend (net)</b>	<b>1.6</b>	<b>29.2</b>	<b>20.1</b>	<b>13.8</b>	<b>12.7</b>	<b>13.0</b>	<b>12/31/10</b>
<i>iShares Russell 1000 ETF</i>	-4.3	17.5	18.0	11.2	13.8	13.2	
<b>Small Cap Core (gross)</b>	<b>-2.3</b>	<b>10.9</b>	<b>13.8</b>	<b>6.4</b>	<b>10.6</b>	<b>10.9</b>	<b>9/30/12</b>
<b>Small Cap Core (net)</b>	<b>-2.5</b>	<b>10.1</b>	<b>13.0</b>	<b>5.7</b>	<b>9.8</b>	<b>10.1</b>	<b>9/30/12</b>
<i>iShares Russell 2000 ETF</i>	0.9	25.6	12.9	3.6	9.8	9.9	

**Disclosures**

*Our '10 Surprises for 2026' are not intended as statements of fact. They are predictions that may or may not occur based on a variety of circumstances.*

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