



Bitterroot
—CAPITAL ADVISORS—

CAPITAL MARKETS REVIEW

2026 Quarter 1

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All public market data are as of March 31, 2026 unless indicated otherwise.



Executive Summary

Executive Summary

Global equities (MSCI ACWI Index in USD) declined 3.2% during Q1 with mixed and highly volatile returns across geographies. International stocks performed strongly in January and February buoyed by expectations for global growth expansion, coupled with emerging markets exposure to picks and shovels AI themes (semiconductors in Korea and Taiwan) while US large-cap equities were flat due to technology sector weakness as investors increasingly scrutinized hyperscalers' massive capex growth plans. However, global markets declined swiftly during March due to the US-Iran conflict and the resultant Strait of Hormuz closure accompanied by surging energy prices (oil prices increased from 60/barrel to 110/barrel with bouts of extreme volatility), significant shipping disruption, and revived inflation concerns. Following the recently announced US-Iran ceasefire, global equity markets have appreciated 5.3% through April 8, 2026, and have clawed back much of the March decline.

- Global equities declined 3.2% in Q1. US large-cap stocks (S&P 500) underperformed and were down 4.4%, while international developed (MSCI EAFE) and emerging markets (MSCI EM) equities performed better at -1.2% and -0.2% respectively. Value stocks (+1.2%) significantly outperformed growth stocks (-7.7%) with the energy sector (+34%) performing best while technology stocks performed worst and declined 7.2%. In April thus far, global equities have rebounded 5.4% buoyed by the recent ceasefire driving hopes for a lasting resolution and end to the US-Iran conflict. In the US, Mag 7 stocks declined 12% driven by negative investor reaction to massive YOY growth for 2026 capex plans coupled with uncertainty regarding ultimate returns on spend. Furthermore, software stocks declined by 24% during Q1 following the release of new AI tools that investors fear may disrupt traditional software seat-based pricing business models.
- Fixed income (US Barclays Agg Index) performance was flat in Q1 with US government bonds and corporate bonds flat to down 0.5%. Coupon income was offset by price declines as bond yields increased across the Treasuries curve. Riskier credit (high yield bonds and leveraged loans) declined 0.5% with coupon income offset by widening spreads associated with macroeconomic uncertainty and in the case of leveraged loans, a selloff in software loans which declined 5% in Q1.
- Hedge funds declined 0.6% in Q1. Macro strategies (+1.6%) were the lone area of strength, while long/short equity (-1.5%) and event-driven (-0.8%) strategies underperformed.
- Private real estate has stabilized with both total returns and pricing demonstrating modest gains during Q4 (lagged reporting) and thus far in Q1. Rents remain relatively flat across most sectors with strong demand offset by rising supply in apartments and industrial properties.

- Private credit (as measured by non-traded direct lending evergreen strategies) appreciated 2.0%-2.5% during Q4 (lagged reporting) and 8%-9% in 2025. Credit quality remains solid although increasing liability management exercises and PIK income are worth monitoring as harbingers of potential credit issues down the road. However, evergreen private credit direct lending funds have suffered significant redemption requests and have implemented gating strategies as redemption requests are far outpacing fund limits. Investors in these evergreen funds are increasingly concerned about valuation marks and about outsized exposure to software loans where underlying software companies may face increased business model pressures from new AI tools and applications. Private credit strategies outside of evergreen sponsor-backed direct lending delivered low-DD to low teens returns in 2025 and continue to generate attractive yields.
- Private equity increased 2%-3% during Q4 (lagged reporting) and 8%-9% in 2025, with the bulk of returns driven by EBITDA growth rather than multiple expansion. The lag vs. large-cap public equities is due to lower exposure to AI themes and a lack of true price discovery as portfolio company exits remain below trend relative to portfolio company NAV (better assets are exiting at high valuations while the remainder of PE companies are generally not exiting). Legacy PE's outsized exposure to software (estimated at 20%-30%) remains a key wildcard which may constrain returns for legacy funds. Deal activity remains strong with 2025 levels the second highest year on record while entry valuations have remained stable. The challenging fundraising environment continues with Q1 2026 pacing at similar annualized levels relative to 2025 (which was down 27% vs. 2024). The IPO and broader exit market firmed during 2025, and investment bankers are reporting a significant surge in portfolio company sale processes although uncertainty surrounding the macroeconomic climate associated with the Iran War may dampen or delay activity. Secondary market transactions volumes reached new heights in 2025 with annual transaction volumes estimated at \$220bln-\$240bln, smashing the previous high of \$160mm in 2024.

Uncertainty regarding the outlook for the remainder of 2026 has increased with the ultimate resolute of the US-Iran conflict a key variable. However, global stock markets have already rallied 5.3% from the temporary ceasefire and hope that the conflict will come to a resolution over the next few weeks as the focus shifts from geopolitics and inflation concerns and to the underlying drivers of equity and economic growth. Assuming peace negotiations are successful, there are several reasons for optimism regarding equity market prospects including:

- Potential for accelerating global GDP growth (especially in the US and Europe) as the effects of looser fiscal policy manifest themselves, and potential for significant reconstruction activity in the Middle East.

- Booming AI capex and infrastructure spending is likely to continue which should buoy investor confidence regarding the sustainability of earnings. growth for AI picks and shovel stocks (infrastructure, certain semiconductors, and semiconductor equipment companies).
- US large-cap technology hyperscaler valuations are trading at near decade lows, and stocks may rally substantially should revenue growth accelerate.
- Increased adoption of AI by enterprises (especially in the US) leading to structurally higher profit margins.
- Improved business and consumer sentiment in the US associated with pro-growth tax legislation with lower regulations.

Despite the above listed positives, several key risks remain:

- The fragile cease fire may not hold, and the conflict may resume which may lead to further surges in oil prices potentially as high as \$150+ per barrel. If such prices are sustained for several months, the likelihood of a global recession significantly increases.
- Even if there is a successful resolution to the conflict, a return to normalization of ship traffic through the Strait of Hormuz may take longer than anticipated and with structurally higher costs leading to higher inflation and complicating central bank efforts to reduce interest rates.
- Following the swift rally thus far in April, global equity markets have already recovered most of their March losses. Investors may be too complacent with regards to the execution of a successful peace agreement and with regards to earnings growth expectations for the remainder of 2026, especially since equity valuations (especially in the US) are not cheap.
- The S&P 500 has become increasingly concentrated with returns driven by a small number of technology-related stocks with high exposure (40%+) to AI themes.
- AI planned capex investment in 2026 continues to soar with hyperscalers spending over \$600bn+ (40% higher than 2025). Overall funding in capex has shifted towards debt financing rather than from free cash flow. Vendor financing has increased as well. This recent AI capex surge has drawn several parallels to prior technology capex bubbles.
- Strong US economic growth has been largely driven by high-income consumers and buoyant AI capex spend. Lower income consumers continue to struggle, and labor markets have cooled significantly with low job creation over the past year.

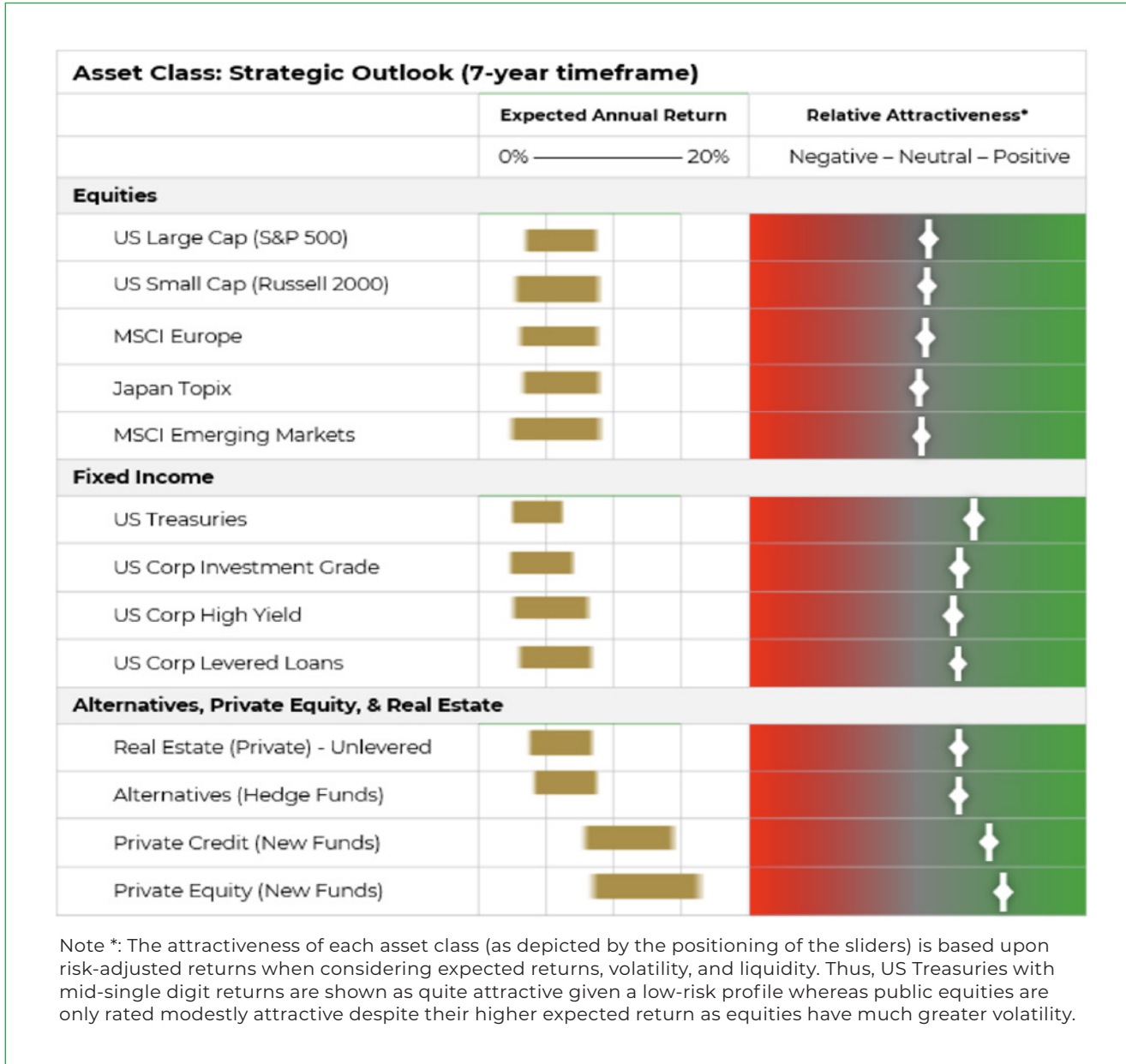


Strategic Asset Allocation (7-years)

- ✔ Public Equities
- ✔ Fixed Income
- ✔ Private Credit
- ✔ Private Equity

STRATEGIC ASSET ALLOCATION

Our 7-year forecasts consider several factors that will shape the mid-term investment landscape.



Public Equities

- Expect mid-to-upper-mid SD annualized returns with strong earnings growth offset by modest valuation multiple compression (especially in the US).
- Expect greater convergence between US and international equity returns and between value and growth stocks relative to the prior seven years.

Fixed Income

- Expect mid-single digit returns across both “safe” and riskier corporate credit.
- Returns driven by high coupons and expectations for modest future declines in base Treasury yields, with offsets from slight spread widening from historically tight levels.

Private Credit

- Expect high-SD to low DD returns across the asset class, with lower returns for sponsor-backed direct lending strategies (especially in private evergreen direct lending funds) and higher returns for niche and specialty strategies.
- Going forward, we forecast lower base rates but slightly widening spreads.

Private Equity

- We forecast high-SD to low DD returns for existing private equity NAV with returns driven by EBITDA growth, stable valuations, and a modestly improving exit environment. Potential tailwinds also include lower base rates and better operational performance at portfolio companies (having navigated through cost inflation and macro uncertainty). However, outsized exposure to software companies may present headwinds should AI disruption of traditional software business models accelerate.
- Expect low-to-mid-teens returns for new buyout and growth equity funds with significant manager dispersion.



Portfolio Positioning

- ✓ Public Equities
- ✓ Private Markets

Portfolio Positioning

We advocate clients express a long-term view in terms of building robust investment portfolios. Hallmarks include asset class diversification, consistent vintage year exposure to private investments, where appropriate, to augment LT expected returns, and tax efficiency.

Public Equities

- Valuations appear fair-to-modestly elevated. As such, we do not recommend adding exposure unless clients are building out public equity exposure through dollar cost averaging.
- For new money additions, consider diversifying away from AI themes given AI concentration in S&P 500. This may increase tracking error relative to market benchmarks but should reduce risk if the AI theme materially unwinds.
- For US clients, consider tax-loss harvesting strategies where capital losses can offset capital gains elsewhere (private investments, concentrated stock sales, significantly appreciated equities, or operating business liquidations).

Private Markets

We recommend that clients commit to private investment funds (largely drawdown) annually in a consistent manner to ensure strategy and vintage year diversification. We highlight areas of focus:

- Lower middle market and middle market PE buyout funds: lower valuations, greater sourcing inefficiencies, and better opportunities for differentiated value creation strategies. European buyout strategies are also compelling especially for middle market and technology oriented strategies given greater scarcity and less competition relative to US funds.
- Growth equity: valuations are more compelling compared to 2021 and 2022, with better business models (mix of growth vs. profitability) that incorporate or integrate native AI features.
- Secondaries: record high transaction volume with increased opportunity set for both LP and GP transactions. GP-led transactions continue to have attractive supply-demand characteristics.
- Niche private credit: attractive opportunity set for bespoke capital solutions, asset-backed and specialty private credit strategies.
- Real estate debt: high SD to low DD returns for senior secured loans at low LTVs.
- Real estate Net REITs: modestly growing long-term contractual cash flows with potential for augmented returns through cap-rate compression. High-SD expected returns with high tax efficiency for US clients.
- Infrastructure: High SD to low DD returns with low correlation across equity markets backed by long-dated cash flows across transportation and energy (pipelines, power plants, etc.) assets.



Macroeconomic Conditions

- ✓ United States
- ✓ Canada
- ✓ Europe
- ✓ China

Macroeconomic Conditions

United States

Entering the year, the US economy slowed considerably, with Q4 Real GDP growth of only 0.5% Q/Q annualized. However, the prolonged government shutdown during Q4 distorted the data, with growth expected to snap back in Q1. However, during Q1, the economy displayed mixed signs with GDP growth estimated at 2.0%–2.2% annualized. Consumer spending has remained resilient especially when looking through the noise caused by the unusually severe US winter storms. Business investment remained strong—especially in technology and AI—but broader capital expenditures were more mixed. Manufacturing surveys have shown expansionary signs after a lengthy contractionary period while services activity remains robust. Labor market conditions have displayed mixed data with January and March recording large increases in monthly job creation while February registered large declines (the unusually severe winter storms may have distorted the monthly data). The labor market's low hire / low fire behavior is manifested in the stable unemployment rate of 4.3% to 4.4% coupled with low net monthly job creation.

Concerningly, inflation dynamics became more complicated, with March headline CPI accelerating 0.9% MOM and 3.3% YOY largely driven by sharp increases in gas prices, while core inflation remained stable at 2.5% YOY (the Fed's preferred PCE gauge has been running higher at 3.0% YOY). ISM price index surveys have also surged to recent highs indicating intensifying inflation pressures resulting from disruptions to key inputs resulting from the Iran war. Against this backdrop, the Fed held the Fed Funds target range steady at 3.5% to 3.75% in March and there is considerable uncertainty regarding future moves in upcoming meetings (most Fed officials still anticipate rate cuts vs. hikes).

Overall, the US remains in relatively better shape than most major developed economies. Consumer spending remains resilient (especially for middle and upper-income consumers), and AI capital spending and related expenditures continue to surge. However, the Iran War and its uncertain duration and resolution path have dulled economic optimism and reignited inflationary fears. Economists have lowered 2026 US Real GDP growth forecasts to 2.0%-2.2% from 2.5% to 3.0% earlier in the quarter. The longer the conflict lasts, the higher the risks of stagflation or recessionary conditions.

Canada

Canada's economy in Q1 2026 showed subdued growth with increasing downside risks, reflecting both domestic structural constraints and external shocks. Monthly GDP data indicated only modest expansion of 0.1%-0.2% in January and February, following a weak end to 2025, where output contracted in Q4. Overall, economists estimate annual real GDP growth for 2026 at 1.0%–1.3%, below historical norms and weaker than the U.S. Growth has been supported by energy production but held back by weak manufacturing, trade friction, and slowing population growth. The labor market remains relatively weak, with employment declined by 84K in February, following a decline of 25K in January. The unemployment rate rose to 6.7%, up from 6.6% a year earlier and not far below the 7.1% high reached in August and September 2025.

Prior to the Iran War, both headline (adjusted for some base effects associated with the GST / HST tax holiday in early 2025) and core inflation continued to recede and approached the central bank's 2.0% target. However, the Iran conflict is likely to arrest that progress and might lead to renewed inflationary pressures.

Canada enters Q2 with a mixed backdrop: low growth, a soft labor market, and a central bank that is more concerned about downside growth risks, but with some offset from stronger commodity prices and energy sector support.

Europe

Europe's economic performance in Q1 2026 was weak but still marginally expansionary, with growth losing momentum as the quarter progressed. High-frequency indicators suggest real GDP increased only 0.2% quarter-over-quarter, reflecting near-stagnation across major economies. Business surveys reinforced this picture: the euro area composite PMI averaged just above 50, falling to 50.7 in March from 51.9 in February, indicating only minimal expansion as demand softened and new orders declined. Manufacturing stabilized modestly, but services slowed sharply, and overall activity was increasingly weighed down by higher energy costs and geopolitical disruptions.

Euro area headline inflation increased to 2.5% YoY in March from 1.9% in February with higher energy prices largely driving the increase. The ECB kept its key policy rates unchanged in March and explicitly noted that the war in the Middle East has made the outlook significantly more uncertain, creating upside risks for inflation and downside risks for growth.

Labor conditions remain healthy with unemployment rates near historic lows of 6%. Fiscal policy continued to provide support, with ongoing public investment and defense spending—particularly in countries like Germany—helping to cushion demand.

Looking ahead, the outlook for the rest of 2026 is for modest but below-trend growth, with most forecasts clustering around 0.9%–1.1% real GDP expansion for the year. Overall, risks to the European outlook are tilted to the downside. The Iran war–driven energy shock, ongoing trade frictions, and fragile business confidence could further weigh on activity, while inflation pressures limit the ability of the European Central Bank to ease policy aggressively.

China

China's economy showed signs of stabilization in Q1, particularly in manufacturing and industrial production, but domestic demand remains uneven and the property sector is still under significant pressure. China set a 2026 real GDP growth target of 4.5% to 5.0%. Hard data for the first two months of the year generally improved versus late 2025. Industrial production increased 6.3% YoY in January-February, while fixed asset investment rose 1.8%. Retail sales increased a more modest 2.8%, suggesting that household consumption remains weaker than industrial activity. Export growth was quite strong, with total exports up 19.2% YoY.

The property market remains China's largest weak spot. Real estate investment declined 11.1% YoY in January-February, newly started floor space fell 23.1%, and floor space sold declined 13.5%. Despite policy support, the property sector continues to drag on domestic demand and confidence.

China remains in a low inflation environment with CPI increasing by 1.1% YOY over the first two months after flattish increases the past few years. The produce price index rose 0.5% MOM in March, the first positive reading since 2022 as cost pressures rose in the wake of the Middle East conflict. Industrial profits may suffer as factories are unlikely to be able to push price increases given tepid domestic demand.

Short-Term View: Key Issues

In the following, we examine vital issues affecting markets over the next 12–18 months.

- ✔ Iran War, Crude Oil, and Shipping Distribution
- ✔ AI Adoption, Capital Spending, and Potential Threat to Software
- ✔ Corporate Earnings
- ✔ Inflation Trajectory and Fed Policy

Issue #1: Iran War, Crude Oil, and Shipping Disruption

The outbreak of conflict between the US and Iran on February 28 quickly forced global energy markets to reprice geopolitical risk, particularly around the strategically critical Strait of Hormuz, through which roughly 20% of global petroleum liquids consumption flows. With Iran having close the Strait, ships are not able to pass through given safety threats. Shipping disruptions have created both immediate supply concerns and a meaningful risk premium in oil prices, given the limited capacity of alternative pipelines. Through a combination of the Strait's closure coupled with damage to Gulf energy infrastructure, the IEA estimates a supply loss of roughly 10mm oil barrels per day, the largest oil supply disruption in modern history. Beyond crude itself, the shock propagated through freight rates, marine insurance, refining margins, and natural gas markets, amplifying inflationary pressures across regions. In the US, the most visible effect was a rapid rise in gasoline prices above \$4 per gallon for the first time since 2022, posing a headwind to consumer spending, while Europe and Asia—more dependent on imported energy and Gulf flows—faced broader pressure on industrial costs, trade balances, and inflation.

For central banks such as the Federal Reserve, the conflict complicated an already delicate policy backdrop by reintroducing energy-driven inflation just as labor markets were softening, raising the risk of stagflation and constraining the scope for near-term easing. Even if the ceasefire holds and flows normalize, a residual geopolitical premium is likely to persist in oil markets, with baseline projections already pointing to elevated prices; a prolonged or escalating conflict would significantly deepen the macroeconomic and market impact.

Issue #2: AI Adoption, Capital Spending, and Potential Threat to Software

AI capital spending surged into 2026, led by hyperscale cloud providers racing to build out compute capacity for training and inference. Companies like Microsoft, Amazon, Alphabet, and Meta collectively committed hundreds of billions of dollars in capex (roughly 60% higher than 2025 levels), much of it directed toward data centers, advanced chips, and energy infrastructure. Spending growth has significantly outpaced revenue growth in cloud segments, reflecting both urgency (to secure AI leadership) and uncertainty (about the eventual scale and monetization of demand). This has created one of the most aggressive investment cycles in tech history, comparable to early cloud buildouts but far more capital intensive.

Investors have become increasingly discerning regarding perceptions surrounding AI winners and losers. The best performing stocks are those benefitting from the hardware and infrastructure buildup (memory semiconductors, data storage companies, and certain industrials). However, investor perception of hyperscalers has become more divided. On one hand, markets continue to reward these firms for their dominant positioning in AI infrastructure and platforms, assuming long-term pricing power and ecosystem lock-in. On the other, skepticism is growing about returns on invested capital (ROIC), as near-term margins are pressured by depreciation, energy costs, and underutilized capacity. Key questions include how quickly AI workloads will translate into sustainable revenue, whether pricing will commoditize, and how much incremental demand is truly additive versus cannibalistic to existing cloud services. As a result, valuations increasingly hinge on management credibility around AI monetization timelines rather than purely on growth narratives.

At the same time, AI is emerging as a structural threat to parts of the software industry. Generative AI tools—often embedded directly into cloud platforms—are beginning to replicate or displace features traditionally offered by standalone software vendors, particularly in areas like coding, customer support, search, and content generation. This raises the risk of margin compression and disintermediation, as large language model providers bundle AI capabilities into existing offerings, reducing the need for third-party applications. Software companies that rely on seat-based pricing, focus on narrow feature sets, or that provide horizontal applications appear especially vulnerable.

Looking ahead, the key tension is between massive upfront investment and uncertain payoff timing. If AI adoption scales rapidly and enterprises are willing to pay for productivity gains, hyperscalers could justify current spending and consolidate their dominance. However, if demand evolves more slowly or pricing power erodes, the industry could face a period of overcapacity, lower returns, and heightened competition, with ripple effects across both infrastructure and application layers of the tech ecosystem.

Issue #3: Corporate Earnings

US corporate earnings have continued surprising to the upside. Analysts are forecasting robust earnings growth in 2026 and 2027, although heightened risks are developing.

U.S. corporate earnings delivered strong upside in Q4 2025, extending the ongoing profit cycle. S&P 500 earnings grew roughly 13% in Q4 2025, marking the fifth consecutive quarter of double-digit growth and beating earlier expectations closer to 8%–9%. Growth was increasingly broad-based across sectors, with technology leading—posting mid-to-high teens earnings growth—while cyclicals like industrials and financials also improved, signaling a healthier underlying profit backdrop.

Looking ahead, the outlook for 2026 remains constructive but more uncertain. Consensus forecasts call for 12%–14% earnings growth in 2026. However, risks are rising. Geopolitical tensions and resultant cost pressures could depress demand while weighing on margins.

Issue #4: Inflation Trajectory and Fed Policy

U.S. inflation over the past few months has shown a mixed pattern of stabilization followed by renewed upward pressure. Headline CPI cooled into early 2026, falling from 2.7% YOY in December 2025 to 2.4% in January and February 2026, before spiking 0.9% MOM and over 9% YOY in March largely due to surging gasoline prices. Core inflation has remained more stable running at 2.5% YOY in January and February, the lowest levels since 2021. However, underlying momentum is firmer than headline numbers suggest. On a three-month annualized basis, core inflation has been closer to 3%, reflecting persistent price pressures in services, especially healthcare, and insurance. This divergence highlights that while goods' disinflation has largely played out, services inflation remains sticky, preventing a full return to target.

More recently, inflation dynamics have begun to re-accelerate at the margin, largely due to rising energy prices and geopolitical factors. Supply disruptions arising from the Iran war have driven oil and gasoline prices sharply higher, feeding into headline inflation and lifting near-term expectations. High-frequency estimates suggest US headline CPI could move back towards 3.5%–3.7% in coming months, even as core inflation remains better contained around the mid-2% to 3% range. Inflation risks are clearly rising as sustained energy shocks, resilient services inflation, and ongoing supply disruptions could keep inflation higher for longer, limiting the Federal Reserve's ability to ease policy. As in the US, inflation across major international economies has moderated from 2023–2024 highs but remains uneven and vulnerable to renewed pressures, especially in Europe.



Short-Term View: S&P 500 Scenarios

Given macro uncertainty coupled with high levels of scrutiny regarding AI (bubble or no bubble), we discuss a range of scenarios below, with return percentages relative to the S&P 500's \$6,783 April 8, 2026, levels.

- ✔ Scenario A: Base Case
- ✔ Scenario B: Optimistic Case
- ✔ Scenario C: Pessimistic Case

Scenario A: Base Case

We assume that the Iran war concludes within the next month or so, and that shipping transit flow through the Straits of Hormuz normalizes over the next few months. Oil prices are likely to steadily decline but settle at levels above the \$60 / barrel range seen prior to the start of the war. While we lower our projection for 2026 US and global economic growth due to the Iran war effects, we expect that investors will look through shorter-term softness as transitory. We assume that consumer spending remains resilient and that AI capex spend remains robust and that the low hire / low fire labor market backdrop largely persists. We also assume that the Fed cuts interest rates by 50bps later in the year as inflation continues its disinflation path after initially rising due to lagged War effects.

We forecast S&P 500 earnings of \$300-\$315 in 2026 and \$330-\$360 in 2027. Applying a 20x-22x forward earnings multiple to 2027 earnings results in a target of \$6,800-\$7,700 range for the S&P 500, a total return of +1.5% to 14.5% through year-end.

Scenario B: Optimistic Case

The Iran war is resolved quickly with energy prices dropping rapidly. Businesses and consumers display pent-up growth in 2026 and beyond. AI adoption accelerates while rapid AI capex growth continues. However, hyperscalers show increasing monetization potential through accelerating revenue growth while maintaining operating margins. We assume that inflation does not materially accelerate and the Fed cuts rates by 50 bps+ in 2026. Continued slow dollar weakness also adds to S&P 500 earnings growth. We anticipate that analysts' 2026 earnings accelerating to \$310-\$325 and 2027 earnings potential of \$345-\$370. If multiples remain elevated or slightly expand to 21x-23x EPS, we forecast the S&P climbs to \$7,500-\$8,400 by year-end 2026 (+14.5% to 25.0% total return from current levels).

Scenario C: Pessimistic Case

We assume that the Iran War continues well into the summer and that higher energy prices lead to demand destruction. We further assume that the AI capex plans once again face scrutiny and hyperscaler earnings fail to live up to expectations. As a result, multiples continue derate across the technology sector. Headline inflation accelerates in the near term with some flow through to core inflation as well. Labor weakness continues with job growth turning negative with increasing white-collar job loss. High-income consumers pull back on purchases as the macroeconomic climate becomes increasingly negative. Analysts slash earnings estimates for 2026 and 2027. While accelerating rate cuts may mitigate the severity of market declines, we anticipate the S&P 500 declining by 15%-25% under this scenario.

Given the uncertainties surrounding the Iran War, and the massive influence of AI exposure within the S&P 500, it is difficult to confidently place probabilities with regards to any of the scenarios unfolding, although we believe the base case has the highest probability especially post the recent ceasefire announcement.

The Magnificent Eight (largely tech hyperscalers or semiconductor companies) now comprise 33% of the S&P 500 index. Including other AI bellwethers, the AI theme accounts for at least 40% of index exposure. While valuations for large cap technology companies have declined to low levels vs. recent history, investors may still wish to increase equities diversification by adding to other US sectors or to international markets.

Asset Class Reviews

- ✔ Public Equities
- ✔ Fixed Income
- ✔ Alternatives & Private Investments

Public Equities

Performance

	% Return		Total Returns (%) - USD			
	YTD	Qrt	Annualized Returns		3/31/26	
	4/8/26	3/31/26	1Y	3Y	5Y	7Y
US Large Cap (S&P 500)	-0.7%	-4.4%	17.4%	17.8%	11.6%	13.9%
US Small Cap (Russell 2000)	5.9%	0.9%	25.7%	13.0%	3.8%	8.6%
MSCI EAFE	5.9%	-1.2%	21.3%	13.6%	7.9%	8.8%
MSCI Emerging Markets	10.1%	-0.2%	29.6%	14.8%	3.7%	6.6%
MSCI ACWI	2.0%	-3.2%	20.0%	16.6%	9.5%	11.6%
S&P 500 - Equal Weight	3.7%	0.5%	12.2%	11.3%	7.6%	10.5%
MSCI ACWI - Equal Weight	4.8%	-0.9%	19.7%	10.3%	4.2%	6.4%
<u>US Style Factors</u>						
MSCI US Quality	0.4%	-3.7%	15.0%	19.2%	12.0%	15.0%
Russell 1000 Growth	-6.3%	-9.8%	18.6%	20.9%	12.5%	16.7%
Russell 1000 Value	5.8%	2.0%	15.2%	13.6%	8.7%	9.9%

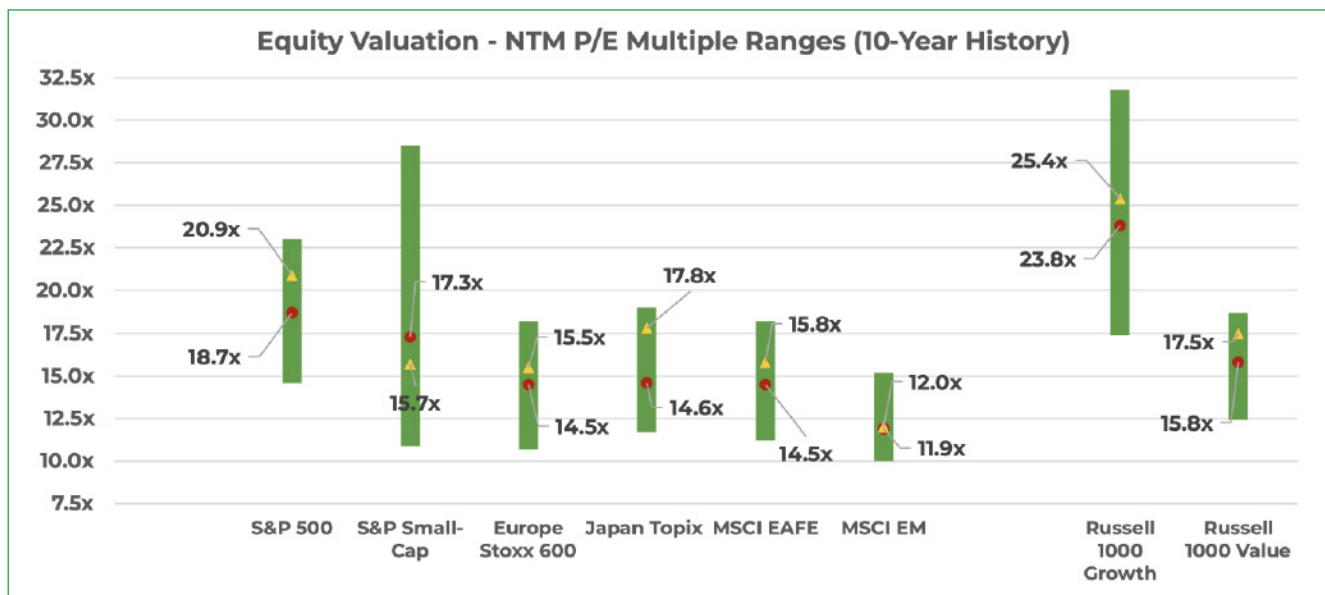
Performance Observations

- The quarter unfolded in two phases. Through the end of February, global equities (ACWI) were up 4.2%, with the S&P 500 up 0.6% and international stocks up 10% to 14%. US underperformance was driven by Mag 8 weakness due to heightened capex scrutiny while international equities continued their relative outperformance as they benefitted from the rebounding economic global growth theme (especially for European equities) and from substantial exposure to AI “picks and shovels plays”, mainly memory semiconductor companies in emerging markets. During March, global equities declined 6.1% due to the Iran war and surging energy prices, with macro sensitive international markets falling more than US large cap equities.
- Style factor dispersion was extreme during the quarter. In the US, growth stocks (Russell 1000 Growth Index) declined 9.8% while value stocks (Russell 1000 Value Index) appreciated

2.0%. Within the S&P 500, technology, financials and communications services sectors performed worst (down 7% to 10%) while energy was the star performer (+38%), with industrials, consumer staples, and materials sectors also performing well (+5% to +9%).

- US and Global equal-weighted benchmarks materially outperformed cap-weighted benchmarks. The cap-weighted indexes suffered from oversized exposure to the Magnificent Eight which declined 13% during the quarter.
- Global equity markets (especially international markets) rallied substantially since quarter end as prospects for ending the Iran War increased, especially after the 14-day ceasefire announced on April 7th. It remains to be seen whether the ceasefire holds and when or if a permanent solution is reached.

Valuation



Key Observations

- US Large Cap equity valuations (S&P 500) are modestly higher than the average over the past 10 years, with both growth and value stock valuations are trading at slight premiums to recent historical averages. Large cap technology company valuations are trading near their lowest levels in a decade as investors are grappling with the rapid growth in near-term capex spend vs. potential moats and future monetization opportunities.

- Developed international markets are also valued at modest premiums to recent historical averages. Investors have bid up stocks with expectations of future earnings growth materializing from increased fiscal spending, potentially looser monetary policy, and a general pickup in global growth.
- Emerging markets valuations appear fair on the surface. However, EM equities have significant exposure to cyclical memory companies heavily levered to the AI capex buildout. These companies are experiencing record-high earnings and while prospects for continued robust earnings growth appear strong over the next 12-18 months, commodity-like semiconductor sector earnings (i.e. memory or storage) may fall swiftly if the supply / demand and capacity backdrop changes as has often been the case in the past.



Fixed Income

Performance

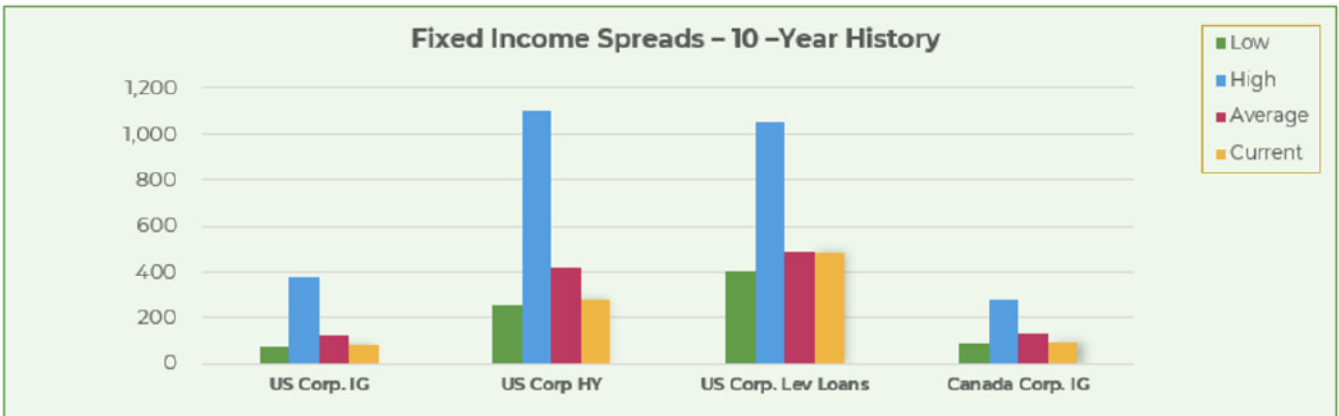
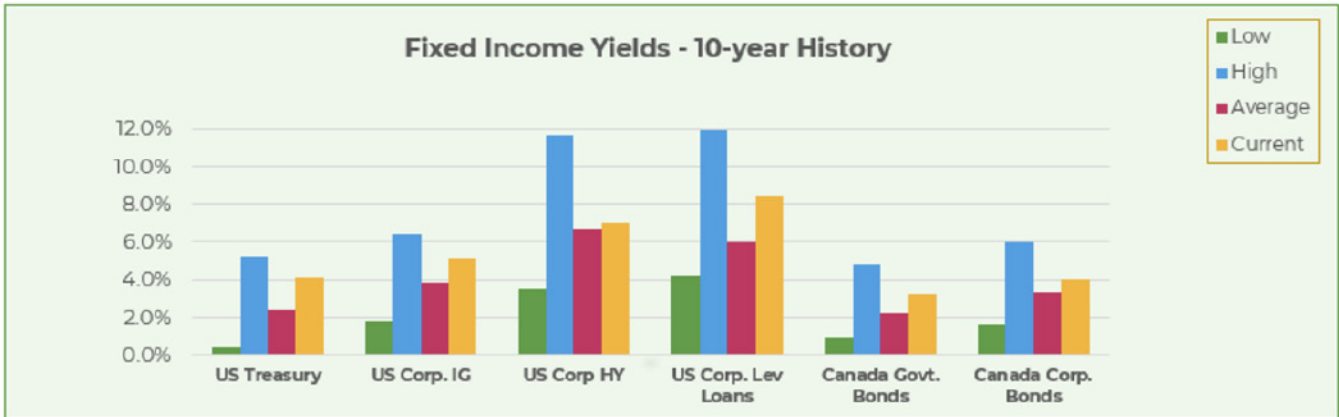
	% Ret	% Ret	Annualized % Returns				Duration (yrs)
	YTD	Qrt	3/31/26				
	4/8/26	3/31/26	1Y	3Y	5Y	7Y	
US Treasury	0.2%	0.0%	3.3%	2.6%	-0.1%	1.0%	6.0
US Corp. IG	0.2%	-0.5%	4.8%	4.7%	0.8%	2.5%	7.0
US Corp HY	0.8%	-0.5%	7.0%	8.6%	4.2%	5.1%	3.1
US Corp Lev. Loans	-0.1%	-0.6%	4.8%	8.0%	5.9%	5.6%	NA
Barclays US Aggregate	0.4%	0.0%	4.3%	3.6%	0.3%	1.6%	5.9
Barclays Canada Agg. *	0.5%	0.2%	0.6%	3.3%	0.7%	1.3%	7.2

* Barclays Canada Aggregate Index returns in CAD

Key Observations

- The Barclays US Aggregate Index was flat in Q1, with government bonds flat and IG corporate bonds down modestly. The Index's flat return masks much higher underlying volatility. Government bond markets sold off sharply at points during the quarter as higher energy prices and the Iran war caused markets to shift abruptly from pricing rate cuts to considering the possibility of a pause or renewed rate hikes.
- Investment-grade corporate bonds declined 0.5% in Q1 as spreads widened. Credit spreads widened across both investment-grade and high-yield markets as investors demanded more compensation for geopolitical risk, higher energy costs, and the possibility that central banks may remain tighter for longer than previously expected.
- High-yield bonds and leveraged loans also declined modestly. Coupon income continued to support riskier credit, but spreads widened given the more uncertain macro outlook.
- Post quarter-end, the AGG index has rallied modestly while high yield bonds are up 0.8% as spreads narrowed considerably.

Valuation



Key Observations

- US Government bond yields climbed by 15-30bps during the quarter with shorter term maturities (2-years) rising by 30bps whereas intermediate (5-10 years) rose 15-20bps.
- Yield movements were volatile during Q1 with the 10-Year Treasury yields falling from 4.17% at the start of the year to 3.94% as of February end, before rising to 4.32% as of March end in response to inflationary concerns arising from the Iran War. We still project 50bps+ of Fed funds rate cuts over the next 12-18 months as the labor market has continued to cool.
- Investment grade and high yield credit spreads are near all-time tight levels. While credit quality has remained strong, these spreads are far below those experienced during recessions.
- Leveraged loan pricing declined during the quarter as spreads rose. Software loans (roughly 13% of the index) exhibited the greatest weakness with total returns down 5%.

Alternatives & Private Investments

Hedge Funds

Hedge funds (as measured by the HFRX Global Hedge Fund Index) were down 0.6% in Q1. Macro strategies (+1.6%) performed best while long/short equity (-1.5%) and event driven strategies (-0.8%) performed the worst.

Commercial Real Estate

US Commercial real estate delivered modestly positive performance during Q4 2025 (lagged reporting). On a YOY basis, pricing was flat-to-up low SD across most property types. Operating fundamentals remain mixed with apartment rents slightly up YOY with still high supply offsetting strong demand although rental growth varies substantially by region, industrial market rents flat to down YOY with small property types faring better than larger properties, and office rents flat with stabilizing vacancies although significant variances remain across property types and geographies.

Private Credit

Private Credit (measured by non-traded evergreen direct lending fund performance) increased by 2.0%-2.5% during Q4 2025 (lagged reporting) and 8%-9% for full-year 2025, lower than 11%-13% achieved in 2023 and 2024 mainly due to a combination of lower base rates and slight mark-to-market downward moves in loan carrying values. Several drawdown fund strategies that are more opportunistic or specialty-focused (bespoke capital solutions, preferred equity, asset-backed, or consumer lending) generated low DD+ to low-teens returns during 2025.

In recent months, there have been significant redemptions from the retail investor-focused evergreen private direct lending funds. A key source of concern is these funds' outsized exposure to software loans (estimated at 20%-30% exposure) where software business models and fundamentals may face substantial pressure from new AI tools. Other sources of concern include an increase in paid-in-kind (PIK) rather than cash income and scrutiny regarding valuation marks of illiquid loans with multiple instances of varying marks used by different lenders holding the same loan. As a proxy, several publicly traded BDCs are trading

at discounts to wider than normal discounts to NAV which indicates that shareholders are concerned regarding credit quality and potential for future losses relative to current marks. While credit quality at portfolio companies remains strong, retail investors are exiting these funds in droves, forcing the funds to apply redemption gates where investors can only partially redeem funds during a given quarter.

In the sponsor-backed lending space, spreads range between SOFR+450 (large end of the market) to SOFR + 525-550 (lower middle market), down 125-175bps from peak spreads seen in mid-2023. Spreads are beginning to widen as fundraising for the retail evergreen funds slow. Additionally, spreads remain wider for non-sponsor backed transactions. Yields remain higher for bespoke capital lending solutions and for asset-backed and specialty lending transactions (all-in-yields in the 10%-13% range).

Private Equity

Preliminary data indicates that private equity returns rose 2%-3% in Q4 (latest data due to lagged reporting) and 8%-9% YTD. Portfolio company EBITDA growth drove returns as holding multiples have remained flat or modestly declined. Given that the bulk of PE companies are in service-oriented sectors that are more “real economy” in nature and do not have high AI exposure, PE returns have lagged market-cap weighted public equity indexes. PE returns are more in line with equally weighted or smaller capitalization public equity indexes where index composition is representative of private equity portfolio companies. We expect similar-to-slightly higher CY 2026 returns for the broader PE industry, although potential markdowns of legacy software investments could serve as a headwind and is a key wildcard.

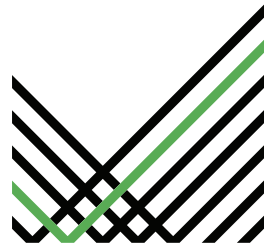
Global deal and exit activity improved throughout 2025 with last year representing the second highest activity period following 2021. In Q1, global deal activity remained strong at \$480bln although pacing below the strong \$2.2 trillion FY 2025 level. Q1 global exit activity of \$307bln declined significantly from the elevated Q4 2025 levels of \$485bln but remained relatively close to Q1 2025 levels of \$339bln. Exit activity actually improved YOY on a deal count basis with 975 deal exits in Q1 2026 versus 804 in Q1 2025. Although recent geopolitical events may slow exits in Q2 (similar to last year with the tariff uncertainty), overall conditions appear healthy for exit activity to display continued improved momentum. Despite this improved exit activity in 2025, the inventory of unsold PE companies remains high, with over 11,000 PE portfolio companies that have been held by sponsors for more than 5 years. The fundraising environment remains challenging with 2025 fundraising 27% lower than the 2024 levels, and Q1 2026 fundraising is pacing at similar levels to 2025.

The PE secondaries market represents a bright spot for deal activity with FY 2025 transaction volume estimated at \$220bIn-\$240bIn+, well higher than the previous record year of \$160bIn in 2024. Both the LP-led and GP-led segments of the secondary market are experiencing healthy demand. Pricing has recovered across LP-led deals, with younger, higher-quality portfolio interests trading in the low-to-mid-90s (discounts of 5%-10%). This recovery in pricing has led to a significant increase in secondaries brought to market, which enables smaller funds to hive off select LP fund interests where they see significant opportunities for continued value appreciation. Secondary transaction volume continues to accelerate with several investment banks forecasting 2026 transaction volumes approaching \$300bIn, bolstered by an expanding universe of investors, increased liquidity needs amid longer holding periods, and greater acceptance by LPs and GPs of secondaries as portfolio management tools.

Venture Capital

Presently, the VC market is dominated by its concentration where a handful of companies, investors, and funds are capturing an overwhelming share of capital, exits, and returns, respectively. OpenAI closed its \$122 billion round at the end of the quarter, the largest VC round of the quarter and all time. Anthropic's \$30.6 billion round was a distant second, although it was the third-largest VC financing ever.

- Venture capital delivered a strong 6.2% return in Q4 (lagged reporting) according to the State Street Private Capital Index and was up 20.3% YTD, with strong performance largely driven by sharply increased valuations of later stage large AI companies such as OpenAI and Anthropic.
- Venture capital deal activity surged to \$330bIn globally in Q1 2026 (on pace to far outpace the \$510bIn levels seen in full year 2025). However, activity was highly concentrated with AI related deals accounting for over 80% of deal value, and the US accounting for the vast majority of deal activity.
- The exit environment also shows stark disparity between a few mega exits and everybody else. In Q1 2026, exit value surged to \$414bIn, far outpacing full-year 2025's \$558bIn level. However, xAI's \$250bIn merger with SpaceX and Wiz's \$32bIn sale drove a significant portion of exit value. Exit value stripping out those two transactions was a paltry \$130bIn, the lowest since Q2 2025, and just 30% of the quarterly highwater mark reached in 2021.
- The remainder of 2026 likely exhibits a similar reality for exits. SpaceX, OpenAI and Anthropic are all signaling public market intentions and could clear \$2.5 trillion in market value upon their listings (which would exceed total cumulative global VC exit value since 2022!). However, the rest of VC is likely to experience liquidity challenges similar to 2025.



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