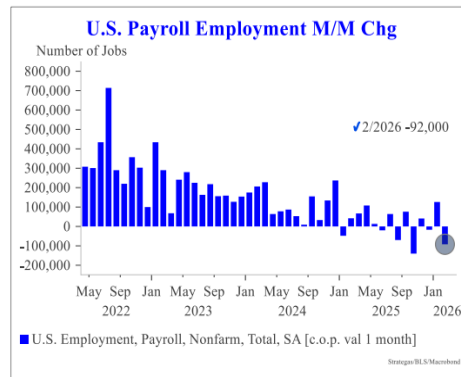
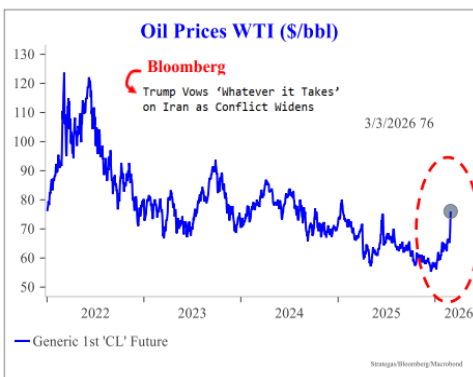


**First Quarter 2026 – Quarterly Commentary**

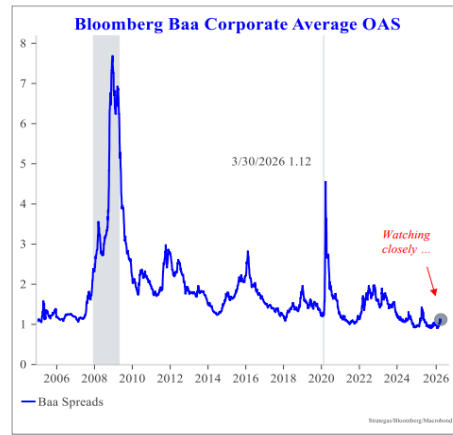
As we highlighted in our previous commentary, economic growth in 2026 is poised to benefit from the convergence of fiscal support (new tax code), the hosting of the World Cup and the events to be held across the country celebrating the 250<sup>th</sup> anniversary of the nation. The War in Iran however has clearly overshadowed this positive outlook as energy prices have risen sharply, increasing the risk of a material economic slowdown driven by worsening affordability. Some economists are now forecasting that the risk of recession in the U.S. has risen to 35%.

While a quick resolution to the conflict, which the Trump administration is currently signaling as a possibility, would certainly settle volatile markets, this outcome remains highly uncertain. There are also considerable questions as to the lasting damage the War has inflicted on critical energy infrastructure in the region and what this may mean for energy prices going forward, not just here in the United States but for Asian and European economies as well. The War in Iran and the impact it will have on energy supplies for years to come will impact growth globally.

The bond market reaction has been pronounced since the onset of the war. Interest rates, which typically decline during periods of heightened economic risk, have instead risen sharply following the spike in energy prices. The price of oil, if sustained at current levels, would increase the risk of a second inflation wave occurring at the same time there is growing evidence of an economic slowdown. Most notable has been the recent deceleration in the labor market which could portend further weakness brewing in the economy while inflation risks are increasing. A stagflation scenario would force policymakers to choose between two less than ideal options - reduce interest rates to support the economy and risk stoking inflation further or raise interest rates to combat inflation and in turn exacerbate an economic slowdown. Bond market pricing has now removed previously anticipated rate cuts for the remainder of the year. The Fed will likely adopt an extended pause with respect to monetary policy given the high degree of uncertainty.



Despite the heightened volatility seen during the quarter, relative portfolio performance has been favorable. Portfolio results for the period benefited from the two key themes that have been driving our recent investment strategy, a cautious approach to corporate bond valuations and positioning for higher long-term interest rates. The War in Iran has served to validate these views as corporate bonds underperformed safe haven U.S. Treasury securities for the quarter and long-term bond yields have moved sharply higher.



Portfolio performance during the quarter also benefited from an above average U.S. Treasury allocation which we established as part of our approach to reduce risk in the corporate bond allocation. This positioning in highly liquid U.S. Treasury securities will allow us to respond quickly to changing market conditions. Our disciplined approach to increasing portfolio U.S. Treasury allocations at times when valuations for higher risk segments of the market become expensive remains a key facet of our approach which continues to serve our clients well during unexpected episodes of market volatility.

Birch Run Investments, LLC  
April 2026