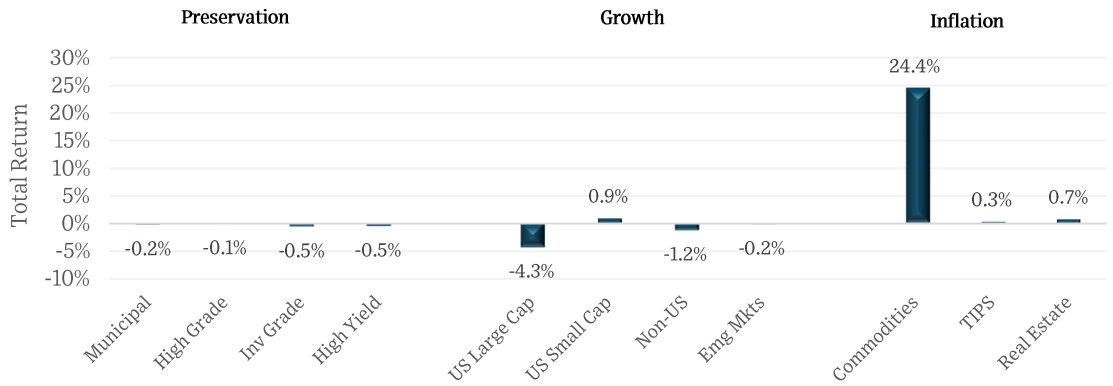


Quarterly Investment Letter

1st Quarter 2026 Summary

Markets declined during the 1st quarter as AI disruption and the US-Iran conflict muddled the 2026 vision of earnings growth with fiscal and monetary policy alignment. Oil, inflation and interest rates are the current focus of investors but US economic and earnings data appears resilient. The US is in a strong position to ride out the conflict but economies in Europe and Asia are far more exposed to the impact on energy production in the Middle East.



1st Quarter 2026 Market Index Performance

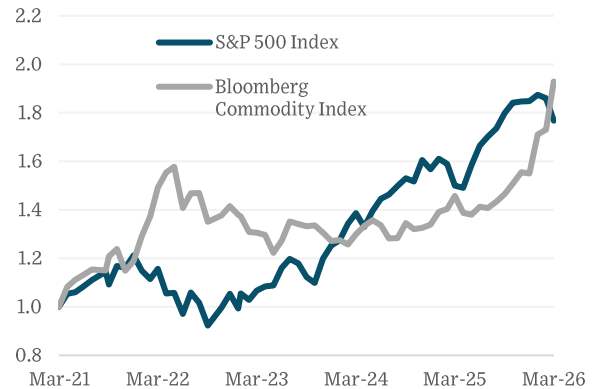
Source: Bloomberg, S&P, MSCI, NCREIF (Real Estate) data is lagged 1 quarter.

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1st Quarter 2026 Market Recap

Markets started the year on an optimistic tone and a shift in leadership to cyclical, smaller companies and additional momentum from non-US equity markets. The US-Iran conflict on February 28th changed the market’s trajectory for the remainder of the quarter as investors worried about higher oil prices and near-term inflation impact. Global Stocks (MSCI ACWI) declined 3.2% for the full quarter and the S&P 500 index was down 4.3%. Fixed income did not provide shelter to the modest decline in stock prices as interest rates moved meaningfully higher in March. Municipal Bonds (1-10 Year Index) were down 0.2% and the Bloomberg US Aggregate Bond Index was down 0.1%. Commodities were the best performing asset class in the 1st quarter, adding 24.4% for the quarter. Energy is still the largest component of broad commodity indexes and oil prices rose over 75% in the 1st quarter. Precious metals like Gold



Bloomberg Commodity vs. S&P 500 Index as of 3/31/26

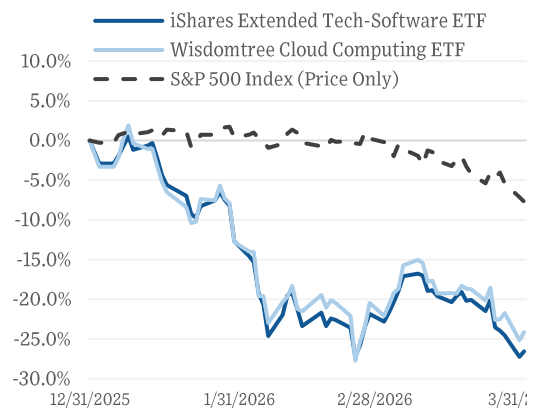
Source: Ycharts!, 5 Year Growth of \$1 Calculation

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also performed well for the quarter despite not acting like safe havens in March. Given an attractive entry point given the post-Covid lows in early 2021, the strength of precious metals, industrial metals and now energy has pushed the 5-year return for the Bloomberg Commodity Index to 14% annually, outpacing the annual return for S&P 500 Index (12%) over the same period as of March 31st, 2026. Not many investors would have predicted commodities over stocks for a 5-year period in the age of tech domination, hyperscalers, AI, and climate goals.

For the 1st quarter, the Energy sector was not surprisingly the best-performing sector within the S&P 500 index as investors tend to bid up energy companies as oil prices rise. Material stocks also performed well as did defensive areas like Utilities and Consumer Staples. Investors moved out of Mag8 names in the 1st quarter, hurting sectors like Technology, Consumer, and Communications. The average Mag8 stock return for the quarter was down 11.0%, while the average stock return for the “other 492¹” was positive 2.0%. Microsoft was the worst performer of the Mag8, down 23% with its software exposure (more on that below) but each of the Mag8 names had their own issues during the quarter. Questions on spending and development of AI led to poor performance from the hyperscalers and NVDA. While Meta was embroiled in lawsuits related to social media usage and TSLA continues to show weak sales on their car business while trying have investors focus elsewhere. The other 492 stocks benefited from higher margins and optimism on an improving earnings backdrop, and less exceptionalism from the largest names in the S&P 500 Index.

Prior to February 28th, the main topic in markets in the 1st quarter was the “SAAS-pocalypse²” and the software industry’s survival in a world with AI. Software stocks were down about 25% in the 1st quarter, starting in early February when Anthropic released updated versions of their Claude model that increasingly allows for coding and software creation. Markets sold software companies, and then also moved through other areas deemed to be “AI losers” in terms of logistics, legal services, and private equity and credit managers with big bets on software. Software concerns then rolled over into private credit funds given large allocations to the software sector in many popular private credit portfolios like Blackstone and Blue Owl. Tender-offer funds in the form of Private Business Development Companies (BDCs) or Interval funds started to see increased redemptions from



Software ETF performance vs. Broad Market: 1q26
Source: Ycharts!

¹ Mag8 are NVDA, AAPL, MSFT, GOOG, META, AVGO, META, and TSLA. The “other 492” are desperately in need of better marketing and represent the other 492 constituents in the S&P 500 index.

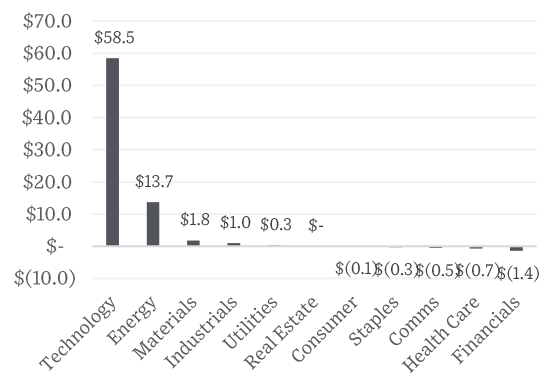
² “SAAS” is software-as-a-service referring to recurring revenue software company models. Apparently a trader at Jefferies deserves credit for combining SAAS and apocalypse to describe the 1q26 trading environment.

underlying investors for the March 31st deadline. The financial media, never one to let a perceived crisis go to waste, released story after story on the opaque nature of private credit funds and issues in the space. It is accurate that private credit funds, especially those designed for retail investors, have seen strong inflows. A MSCI analysis shows \$300 billion in assets flowing into open-end private credit funds since 2021. The combination of a strong market theme, product innovation and strong relative performance to traditional fixed income can be a powerful fund-raising backdrop for asset managers. Despite a lack of actual portfolio defaults to date, webinars from private credit managers trying to calm investors, and reasonable earnings’ outlooks from the software industry, investors in private credit products with quarterly liquidity redeemed to the point that many of these funds had to use gates to manage redemptions. Even without credit issues, it will likely take multiple quarters for these funds to find equilibrium between market liquidity for their loans at an acceptable price and investors looking to redeem.

Despite software’s struggles, stock markets through February 28th performed quite well with leadership from smaller companies, cyclical industries like Materials and Industrials, and non-US markets in Asia. AI may be disrupting industries like software, but it is also fueling a revolution in demand for hardware. Memory chip stocks like Samsung, SK Hynix, and Sandisk leapt on bullish earnings reports for 4th quarter results. Smaller company stocks rose 6% the first two months of 2026 versus just 0.7% for the S&P 500 index as markets anticipated improved results on lower interest rates and US fiscal policy. Japan and the broad Emerging Markets index were up just under 15% in just the first 2 months of the year. Momentum, and investor flows into these leaders ceased on February 28th, when the US began Operation Epic Fury.

We entered 2026 with optimism around the alignment of strong S&P 500 earnings growth, US fiscal policy and US monetary policy. Despite strong market returns the past 3 calendar years, earnings growth was accelerating (and broadening) into 2026. Valuations were elevated, but not obscene, and markets typically perform well in periods of positive (and increasing) earnings growth. US foreign policy, and specifically the Iran conflict will challenge the “3 legs” of the 2026 market story. While geopolitical events historically have had limited enduring market impact, clearly the fiscal and monetary picture in the US has changed for the time being with elevated interest rates, oil and gas prices, and inflation measures.

Earnings growth in the US, whether it’s the S&P 500 or broader indexes remains very strong and has improved on the strength of Technology and Energy since the start of the



Change in 2026 Net Income from Start of Iran Conflict
Source: Refinitiv, Strategas

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Iran conflict. The bar is high for earnings growth in 2026, with markets expecting 15% growth for the calendar year versus 2025 results. Operating margins are improving and now at all-time highs for the S&P 500 index above 19% according to FactSet. Companies are seeing strong top-line growth and in many cases productivity gains. The last five quarterly reporting seasons since the 4th quarter of 2024 have seen an increase of greater than 5% in the expected growth of earnings from expectations entering reporting season to when it ended. As strong as the market has been, analysts still seem to be catching up to the earnings story in the US, which bodes well for stocks. Clearly higher input prices for areas like oil could slow momentum, but the key drivers of earnings in the S&P 500 index today are far less sensitive to oil as an input than in past periods.

US fiscal policy was expected to add to economic growth with higher tax refunds for most taxpayers from the One Big Beautiful Bill (OBBB). Estimates believed tax refunds could be as much as \$1k higher per employed person. Actual numbers have come in at about half of those estimates, which is still meaningful given the average tax refund per employed person was just over \$2k. In addition to tax benefits, tariff policy and impact has receded in 2026. The Supreme Court ruled in mid-February that President Trump’s usage of the International Emergency Economic Powers Act (IEEPA) for broad tariffs was unconstitutional. The administration is now far more limited in their ability to implement tariff policy without Congressional approval which means overall tariffs as a percentage of imports and tariff revenues are declining relative to 2025. The Supreme Court decision also left open the question of whether businesses or consumers can receive refunds of prior tariffs, and lower courts are moving to impose refund requirements on the Trump administration. Annualized monthly tariff revenue late in the 1st quarter is already down over 25% from peak levels in October of 2025. The combination of tax and tariff (another form of tax) relief is a powerful positive fiscal catalyst for the US economy here in 2026, unfortunately it appears that extra cash may go right into the price at the pump for consumers.



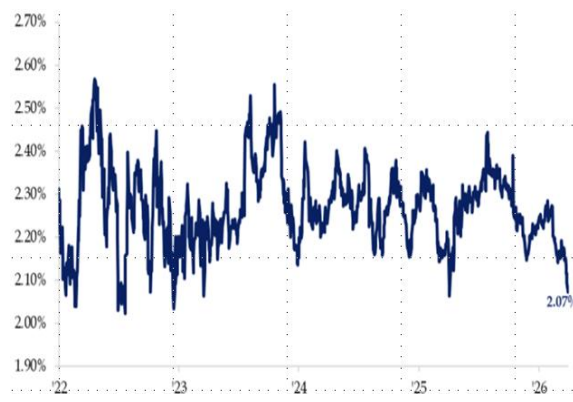
US Weekly Retail Gas Prices
 Source: Ycharts! Energy Information Administration

The average price of oil (West Texas Intermediate) in 2025 was \$65/barrel and to date in mid-April has averaged \$77/barrel for 2026, an 18% increase. One could argue that oil (and gasoline as a result) prices have acted reasonably well given what has happened to Middle East production and infrastructure. Oil and gas prices elevated much higher during the Russia/Ukraine crisis with far less production in the crosshairs of the conflict. Prices in 2022 receded quickly despite the conflict continuing, however we would expect the elevated price impact to be stickier in 2026. The benefits of OBBB and tariffs are likely to help soften consumer impact to higher gas prices in the 1st half of 2026, and to date data in March and April has supported that view. But if

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higher oil prices or the conflict remain in the 2nd half of 2026, the fiscal outlook for the average consumer gets more challenging.

The outlook for monetary policy has been most impacted by the Iran conflict and increase in oil prices. Investors entered 2026 believing that the Fed, especially under a new Fed Chair, would be likely to cut rates 2-3 times and bring the Fed Funds rate to 3% or even lower. Inflation numbers were showing promise at the end of 2025 to support a more accommodative Fed. Average monthly changes in the headline inflation rate in the 2nd half of 2025 averaged less than 0.1%, versus almost 0.3% the prior 18 months³. Core inflation was also trending lower. Oil prices have changed the inflation outlook for the near-term, with monthly inflation popping over 1% in March alone (although core CPI behaved better at 0.2%). Successive months of meaningful monthly inflation will make it impossible for the Fed to consider lowering rates. Markets have already adjusted their assumptions on the direction of the Fed Funds rate with no cuts expected for the remainder of 2026. The Fed did cut interest rates 3 times towards the end of 2025. Rate cuts typically take time to work their way through the economy and that benefit will be there later in 2026. But certain areas of the economy, namely housing and other interest-rate sensitive sectors like Manufacturing would benefit from lower rates and now appear to be in wait-and-see mode. Markets in March even began briefly pricing in the chance the Fed would need to hike rates later this year. We think that is very unlikely, not only because the President might break his all-caps button, but because markets see this inflation uptick as temporary as evidenced by the movement in 5-year forward inflation expectations. While near-term inflation expectations have risen, and rightfully so given the higher cost of energy, long-term inflation expectations have decreased in 2026. The Fed (under any Fed Chair) can focus on long-term expectations to hold policy tight even in the face of some uncomfortable energy-driven CPI numbers. AI, and the productivity benefits we are seeing, should more than offset the near-term impact of Energy over longer-term periods.



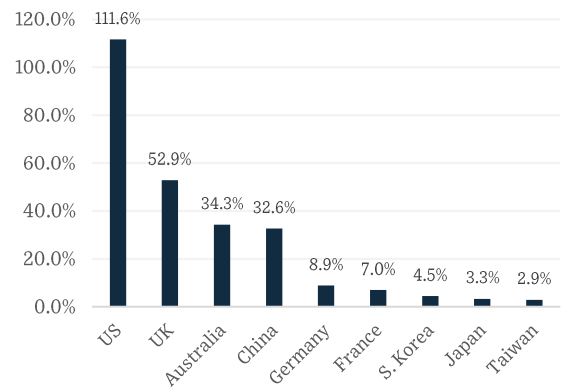
5 Year Forward Breakeven Inflation Expectations
 Source: Strategas, Bloomberg as of 3/31/26

Markets have fully recovered since the end of the quarter. The S&P 500 Index hit a new all-time high closing value on April 17th. The 2-week ceasefire in the US/Iran conflict and Trump administration messaging has soothed markets despite traffic in the Strait of Hormuz remaining at a standstill. US markets likely have reason to be more confident. Early earnings reports for the 1st quarter are in-

³ The 2nd half of 2025 does include the government shutdown and no report for October as well as some questionable assumptions for the November calculation.

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line with expectations and consumer data around spending has been steady. US energy independence has insulated the US economy from some of the headlines starting to appear on challenges in oil and jet fuel for Europe and Asia. Major economies like China, Japan, India, France and Germany will have far more challenges in the coming months if oil production from the Middle East or shipping through the Strait of Hormuz does not return to pre-war levels, and soon. How these possible shortages play out is more difficult to determine but the obvious impacts are negative for those economies or specific areas of the economy like travel and leisure. Non-US markets took over leadership from the US to the surprise of many in early 2025, we would be cautious about that continuing in the face of the energy challenges they appear likely to face.



Domestic Petroleum Production vs. Consumption
 Source: Energy Information Administration (Year 2024 data)

The US is in a far better position, even with poor consumer sentiment numbers and the political mood in the country heading into mid-terms. If the US-Iran conflict is resolved in some manner over the coming weeks, US markets will likely look past the residual damage in energy production as not critical to the drivers of US earnings (and markets). AI monetization is a much more important factor to US markets, as well as major initial public offerings from the likes of SpaceX, OpenAI, and Anthropic later this year. Year 2026 looks unlikely now to bring the total policy alignment markets anticipated at the start of the year, but the market’s earnings and productivity story appears intact.

Summit Trail Investment Team

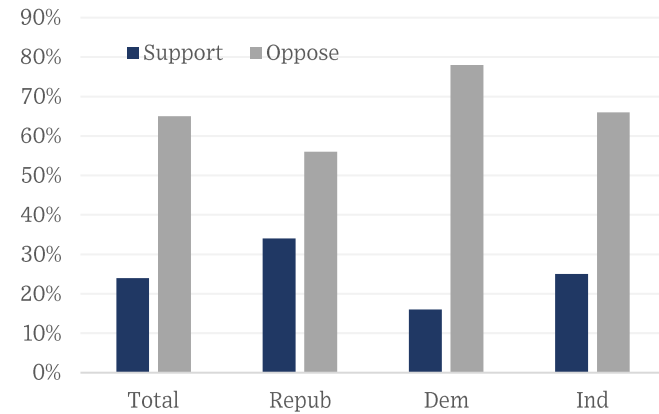
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Chart of the Quarter:

Would you Support the Building of Data Centers in your Community?

Data centers are quickly becoming the new solar panels, windmills, or fracking sites of days past.

Increasingly, data centers are necessary to power the massive demands coming from AI and Technology



companies and data and energy needs. But the question is where to locate data centers with proximity to tech hubs and needs. Currently areas of Texas, Ohio, and Virginia have seen the highest concentration in new builds. Voters are starting to take notice and while certain segments of the population welcome the job opportunities, most voters are more attune to the issues data centers may bring to their communities. Thus the “NIMBY” response in this recent poll that voters broadly do not want data centers in their town. The biggest

drivers of the negative opinions are concerns on electricity costs, water usage, and noise. The minority in favor cite job creation and the additional tax revenue.

Source: Quinnipiac Poll as of 3/30/26

Term of the Quarter:

“HALO”

We are not typically looking to give more oxygen to CNBC’s Power Lunch but we are always jealous of a good acronym. “HALO” from a market perspective stands for “Heavy Asset, Low Obsolescence” and was coined by commentator Josh Brown as a term for how to protect portfolios from AI disruption that ripped through markets in the 1st quarter. The idea is that companies with heavy assets, machinery, or other goods are far less likely to be disrupted by AI than services, software, or technology platforms. The HALO trade played out in January and February as Software declined 23% while Energy (+25%), Industrials (+14%), and Materials (+23%) all gained ground. By March 27th, Brown was quoted that the software sell-off was overdone and he had gotten long the space. It does not appear “HOLA” became as popular with the financial media.

Source: Google

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