
ARCUS CAPITAL PARTNERS – Q1|2026 MARKET COMMENTARY

Dear friends of Arcus Capital Partners,

Q1 2026 marked a sharp departure from the constructive tone that had defined much of the prior year. What began as a quarter rich in apparent tailwinds—expectations for multiple Fed rate cuts, ongoing asset purchases, stimulative fiscal policy, and robust earnings projections—gradually gave way to a market increasingly governed by short-term catalysts and policy signaling rather than improving fundamentals. U.S. equities moved effectively sideways for nearly five months before selling off into quarter-end on war-related weakness, with the S&P 500 finishing down 4.4% and the Nasdaq 100 down 5.9%, while small caps, equal-weighted indices, and international markets fared modestly better. Fixed income reflected the underlying tension: rate-cut expectations entered the year priced for three to four reductions, briefly flipped to pricing in hikes, and ultimately settled near no change—even as long-end yields tested levels apparently uncomfortable for policymakers. The dollar reversed an early-quarter slide to finish higher, helping tighten financial conditions, while commodities staged a decisive breakout led by an approximately 80% surge in crude oil following the closure of the Strait of Hormuz. Precious metals, despite a historic late-January silver crash and an uncharacteristic failure to behave as safe havens during the March escalation, still posted solid gains. Beneath the surface, inflation firmed, private credit showed early signs of stress, and the onset of the Iran war in March introduced a new—and far more consequential—driver of cross-asset behavior, leaving markets to defer rather than discount the economic impact of the shock by quarter-end.

Market & Economic Overview

Lenin allegedly once said, “There are decades where nothing happens and weeks where decades happen.” Q1 2026 felt like a series of weeks where decades happened. Whether it was the dollar’s freefall alongside parabolic moves in precious metals to new all-time highs—followed by a historic silver crash—meltdowns in software and AI-adjacent stocks, a run on private credit as an asset class, the closure of the Strait of Hormuz and its attendant oil shock, or the constant barrage of headlines whipsawing markets while insiders appeared to profit, the quarter will go down as anything but uneventful.

Equities entered 2026 with a seemingly constructive backdrop, but much like late Q4, the surface-level setup masked a far more fragile underlying tone. While the S&P 500 finished the quarter down moderately on late-quarter, war-related weakness, the more notable development was the market’s inability to make sustained progress earlier in the quarter, with equities effectively moving sideways for nearly five months (late October through March). What had initially appeared to be a tailwind-rich environment—characterized by expectations for multiple Fed rate cuts, ongoing Fed asset purchases, and supportive fiscal policy—gradually gave way to a market increasingly driven by short-term catalysts and policy signaling rather than improving fundamentals.

Volatility reemerged around several key inflection points throughout the quarter. Late January saw a sharp repricing in the dollar—and precious metals—following the unexpected nomination of Kevin Warsh as the next Fed chair, widely viewed as the most hawkish of the leading candidates. That shift

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was followed by escalating geopolitical tensions in February and, ultimately, the onset of the Iran war in March, which introduced a new—and far more consequential—driver of cross-asset behavior: war-driven narrative volatility. Markets repeatedly oscillated between risk-on and risk-off regimes in response to shifting headlines—rallying on even tentative signs of de-escalation while selling off on oil spikes and perceived escalatory developments—yet never established a durable trend in either direction. While policymakers continued to signal an easing bias, the market grew increasingly skeptical of that stance. Coming into the year, investors were pricing in multiple rate cuts in 2026; by mid-quarter, those expectations had been largely priced out and briefly replaced with expectations for a rate hike, before settling near a view of no meaningful policy change. This divergence between policy signaling and market pricing reflected a reemergence of inflation concerns, which had begun to firm even prior to the war, as well as unease over the Fed’s ability to respond to a potential supply-driven inflation shock. Despite repeated efforts by Jerome Powell to reinforce that, while the Fed remains on hold, its next move would likely be a cut, markets grew increasingly reluctant to take that guidance at face value.

Fixed income markets reflected these tensions. Long-duration Treasury yields trended higher over the course of the quarter, with the 30-year yield repeatedly approaching the 5% level—an apparent threshold beyond which policymakers have little tolerance. On multiple occasions, rising yields and oil prices were met with conciliatory rhetoric from President Donald Trump regarding the trajectory of negotiations with Iran, which had

the effect of easing financial conditions at the margin. The persistence of these interventions suggests that while markets are nominally free to price risk, there remain implicit constraints on how far certain variables—particularly long-end rates—are allowed to move. Cross-asset behavior grew increasingly unstable as the quarter progressed. Commodities broke out decisively, led by a sharp surge in crude oil prices following disruptions to supply through the Strait of Hormuz. The U.S. dollar, which had been in a pronounced downtrend early in the quarter, reversed course and strengthened meaningfully, tightening financial conditions and weighing on risk assets. Precious metals, which entered the year in a melt-up phase, experienced extreme volatility—rallying aggressively into late January before suffering a historic crash, and then failing to behave as traditional safe havens during the March escalation. That breakdown in precious metals’ safe-haven role was the only development that appeared counterintuitive at first glance, though even that likely reflected forced selling by sovereigns needing to fund higher energy costs or ongoing operations. Unlike Q4, where the government shutdown left markets effectively flying blind, Q1 was characterized by no shortage of information—but little clarity. From an economic standpoint, growth remained relatively resilient throughout the quarter. Labor market data, across most measures—with the exception of February nonfarm payrolls—came in at or above expectations, consistent with the ongoing “no hire, no fire” regime. Consumer spending was softer, with core retail sales missing expectations in both January and February (coming in flat) before rebounding in March. The housing market

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continued to stagnate, as elevated rates and an imbalance between sellers and buyers weighed on activity.

Inflation remained the central complicating factor. While price pressures had shown tentative signs of easing late in 2025, that progress appeared to stall in early 2026, with several readings coming in firmer than expected even before the onset of the war. The subsequent surge in oil prices introduced an additional layer of uncertainty, raising the risk that inflation could reaccelerate in a more sustained fashion if energy costs remain elevated. This dynamic places the Federal Reserve in an increasingly difficult position, caught between the risks of tightening into a fragile environment and easing into a potential second wave of inflation.

Finally, early signs of strain began to emerge beneath the surface of credit markets. While public credit spreads widened only modestly, private credit markets showed more visible signs of stress, including reports of fund gating and delayed redemptions as investors sought liquidity. While some view these developments as contained, others caution that liquidity mismatches in less transparent corners of the market could allow stress to propagate more broadly under the right conditions.

By the end of Q1, markets found themselves unwilling to fully commit to the bearish view that the oil-supply shock would lead to a global growth slowdown—likely not wanting to be caught on the wrong side of a Trump-induced short squeeze. In doing so, they effectively gave President Donald Trump additional wiggle room to prosecute the war, which in turn exacerbated the cumulative loss of oil supply—making an eventual growth slowdown all the more likely. Consequently,

the market appears to have deferred, rather than discounted, the economic impact of the shock, increasing the risk that any eventual repricing—should it come—will be more abrupt and disorderly than it otherwise would have been.

Global Equities

On paper, equities had multiple tailwinds entering Q1: a Fed expected to cut rates several times in 2026, stimulative deficit spending via the One Big Beautiful Bill, ongoing asset purchases into Q2, and robust earnings growth expectations. Yet stocks never reached escape velocity. By quarter-end, equities had effectively gone sideways for five months (late October through March), with stretched valuations likely the initial constraint. At their October and February peaks, valuations were, by many measures, among the most extreme on record.

Positioning offered little support, hovering between neutral and bearish throughout the quarter. The next headwinds came via firmer inflation prints, which forced a repricing of Fed expectations, alongside a strengthening dollar—stabilized first by policymaker jawboning and later by the nomination of a more hawkish Fed chair candidate.

By March, the onset of the Iran war and the associated oil shock introduced a new layer of pressure, raising the risk of demand destruction should supply disruptions persist. Yet equities never fully sold off in line with those risks. As The Wall Street Journal's chief economics correspondent, Nick Timiraos, has noted, markets—conditioned to expect an eventual

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policy off-ramp—were reluctant to turn decisively bearish. But by not forcing that off-ramp, the cumulative impact of lost oil supply and rising prices was never fully priced, leaving equities in a kind of suspended equilibrium.

What began as a tailwind-rich setup ultimately yielded a disappointing—but not disastrous—quarter. The S&P 500 lost 4.4%, the Nasdaq 100 declined 5.9%, while the Russell 2000 and equal-weighted S&P 500 gained 0.9% and 0.6%, respectively. Non-U.S. equities outperformed, with developed markets rising 2.8% and emerging markets gaining 0.5%.

We continue to believe the long cycle of U.S. outperformance may be turning. After 15+ years, relative valuations and mean reversion argue for a more durable period of international leadership—particularly in commodity-linked emerging markets. A rotation toward small caps may also be underway, though with less conviction; stronger earnings growth expectations and years of underperformance provide a plausible setup for at least partial catch-up.

Sector performance was notably bifurcated. Energy led decisively, rising 38% after breaking out of a multi-year consolidation, while materials (+10.7%), utilities (+8.2%), consumer staples (+6.1%), and industrials (+4.6%) also performed well. In contrast, financials (-9.4%), consumer discretionary (-8.6%), technology (-7.6%), and healthcare (-4.9%) lagged materially.

Ultimately, the next major move in equities likely hinges on institutional positioning, which has remained broadly neutral since December. Until that changes—either more decisively bullish or bearish—markets may continue to

meander. A favorable resolution to the war would likely spark a rally, but with valuations already stretched and scrutiny of AI economics increasing, the durability of any upside may depend less on the news itself and more on whether institutions choose to buy it—or sell into it.

Fixed Income

Entering 2026, markets were pricing in 3–4 Fed rate cuts. By quarter-end, those expectations had briefly flipped to pricing in hikes. Early in the quarter, yields were caught in a tug-of-war between moderating—but still elevated—inflation and a gradually softening labor market. The Fed leaned dovish—prioritizing labor market stability—even while remaining on hold.

As geopolitical tensions escalated in February, yields initially declined alongside a classic risk-off move in the dollar and precious metals (both higher). But once the war began, that dynamic reversed sharply. Long-duration bonds sold off—mirroring the reaction during the April 2025 tariff episode—as oil surged roughly 100%. The inflationary implications of that shock, combined with forced selling of Treasuries to fund higher-cost energy imports, likely drove the move.

Despite elevated intra-quarter volatility, bonds ultimately went nowhere over the course of the quarter. The 10-year yield rose just 12 basis points (from 4.18% to 4.30%), while the 30-year increased a mere 4 basis points (from 4.84% to 4.88%).

The oil shock pushed the Fed toward a more hawkish posture in March, prompting markets to price out cuts and briefly price in hikes, despite Jerome Powell emphasizing that the

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committee still viewed the next move as a cut. His late-March reiteration of that stance nudged expectations back toward neutral, with markets ultimately pricing little to no change in policy for 2026.

Notably, as in April 2025, the 5% level on the 30-year yield appeared to act as a policy trigger. On multiple occasions in March, when yields approached that threshold, President Donald Trump jawboned markets—highlighting progress in negotiations—to push yields and oil lower and equities higher. This suggests a clear line in the sand beyond which policymakers are unwilling to let long rates rise.

In our view, nominal bonds remain unattractive in the current inflationary regime. Ultimately, the Fed may be forced to cap long-end yields to ensure debt sustainability—likely fueling further inflation. A durable bull market in bonds likely requires a shift to a disinflationary regime, driven by commodity overcapacity and productivity gains from AI and robotics—developments that still appear years away. Until then, long-duration bonds remain structurally challenged.

Credit spreads were largely range-bound in Q1 but showed a clear pattern of gradual deterioration. Conditions were benign in January, softened in February, and by March spreads widened modestly—particularly in lower-quality credit—as higher oil prices, rising borrowing costs, and geopolitical uncertainty weighed on the outlook. Private credit showed more visible strain, with reports of fund gating and delayed redemptions as investors sought liquidity. While some view these stresses as contained—given the market’s sub-\$2 trillion size—others warn that liquidity mismatches could allow pressure to spill into broader markets if conditions

worsen. For now, spreads reflect pressure without panic, but that balance may prove fragile.

Dollar, Commodities, and Precious Metals

The dollar began the quarter under heavy pressure, driven by expectations for multiple Fed cuts alongside deficit spending and continued asset purchases. By late January, the move had become extreme enough to prompt Treasury Secretary Scott Bessent to reiterate the U.S.’s commitment to a “strong dollar” policy, helping stabilize the decline. Shortly thereafter, President Trump’s nomination of Kevin Warsh—the most hawkish candidate—for Fed chair effectively closed the door on further downside.

As the quarter progressed, stronger inflation data, rising long-end yields, and the oil shock drove further dollar strength. The dollar finished up roughly 2% for the quarter, rallying about 5% from its late-January low. That strength tightened financial conditions and likely contributed to the sideways, fragile tone in equities.

Q1 marked a decisive breakout for commodities, with the broad index rising roughly 40%, driven primarily by an ~80% surge in crude oil following the closure of the Strait of Hormuz, which removed an estimated 11–13 million barrels per day from global supply.

That said, the war was an accelerant—not the origin. Commodities have likely been in a secular bull market since April 2020, when crude briefly traded negative. After a 250%

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rally into mid-2022, the complex spent 3.5 years consolidating before breaking higher again in early 2026—well before the war began.

We continue to view the current environment as a secular bear market for equities (in real terms) and a secular bull market for commodities and other real assets. Over this cycle—likely extending through the decade—commodities should outperform equities in preserving purchasing power, particularly given elevated starting valuations. Q1’s divergence between commodity strength and U.S. equity stagnation reinforces that view.

Precious metals began the year in a melt-up. Silver surged from \$72 to \$120 by late January amid dollar weakness and supply concerns—particularly in China, where premiums reached 10–15% above U.S. prices. That frenzy culminated in a historic reversal on January 30 following news that Kevin Warsh would be nominated as Fed chair. Silver fell as much as 38% intraday, with gold and miners also experiencing sharp declines.

The remainder of the quarter saw choppy recovery attempts. Gold and miners retested highs, but silver failed to fully recover. Notably, precious metals did not behave as safe havens during the March escalation, likely due to forced selling by sovereigns needing to finance higher energy costs or offset lost revenues amid disrupted exports.

Amazingly, despite the historic selloffs and war-related turbulence, precious metals still finished the quarter solidly higher. Gold rose 7.2%, silver gained 6.1%, and miners added 7.0%.

More structurally, gold’s relationship with real rates appears to have shifted. Rather than acting as a countercyclical hedge, gold has become more cyclical—rising alongside global growth and trade flows as central banks accumulate reserves, and softening when liquidity is needed. As long as the war persists, that dynamic may cap upside.

That said, the longer-term case remains intact. Gold continues to evolve as a neutral reserve asset in a more fragmented global system, while silver benefits from structural demand tied to energy transition and industrial use. Higher oil prices, by incentivizing renewable investment, may ultimately reinforce that demand.

One notable development from Q4 earnings: several miners reported realized silver prices materially above COMEX averages, suggesting increased direct sales to industrial buyers. As a result, little new supply is entering exchange inventories. At current depletion rates, COMEX silver stocks could face meaningful constraints in the coming months—an important dynamic to watch if physical scarcity intensifies.

Looking Ahead

While markets—even the oil market—have been pricing in a relatively quick and favorable resolution to the war in Iran (some might say “whistling past the graveyard”), the longer the conflict persists, the more barrels of oil are taken offline, the longer it will take to restart fields shut down due to storage constraints, and even once restarted, a meaningful portion of lost production is unlikely to return quickly. Strategic reserves globally have already been

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drawn down to a significant degree, limiting their ability to offset further disruptions. As a result, if the war does not conclude in relatively short order (i.e., within weeks), WTI crude oil prices north of \$150 per barrel move from tail risk to a more tangible possibility.

In that scenario, corporate margins would likely compress and consumer spending would soften. Equities would be hard-pressed to sustain current valuations in the face of declining earnings and a slowing growth backdrop. Inflation would reaccelerate, placing the Federal Reserve in a difficult position—reluctant to ease into elevated inflation, yet wary of tightening into a weakening economy. This does not even account for potential second- and third-order effects, such as agricultural pressures stemming from reduced fertilizer availability, which could emerge later in the year.

That said, this represents a plausible downside path—not a foregone conclusion.

If the war resolves more quickly and transit through the Strait of Hormuz returns to something closer to pre-war levels, oil prices would likely remain elevated relative to where they began the year, but at levels the global economy could more readily absorb. In that environment, Fed rate cuts could come back into view, and, when combined with ongoing asset purchases (should they extend beyond Q2) and continued fiscal support, could provide a more constructive backdrop for risk assets in the second half of the year.

Even so, it's worth noting that many of these tailwinds were already in place coming into 2026, yet equities struggled to gain meaningful traction as elevated valuations and increasing

scrutiny around AI-related business models acted as a counterweight. Institutional positioning has also remained notably unenthusiastic since mid-December. Without more decisive participation from the so-called Smart Money, sustained upside in U.S. equities may prove difficult to achieve—even if short-term rallies materialize.

Stepping back, the broader backdrop continues to point toward a secular environment shaped by persistently elevated inflation—one that likely began in late 2021 or early 2022 and may persist for years. In such a regime, real assets—including commodities, precious metals, energy-linked equities, and other inflation-sensitive exposures—are likely to play a more central role in preserving purchasing power, while long-duration nominal bonds remain challenged in delivering positive real returns.

None of this precludes periods of strong equity performance, nor does it imply a straight-line path for inflation or asset prices. But it does suggest that the distribution of outcomes may look different than what investors have grown accustomed to over the past decade. If anything, the more notable surprise would be a seamless continuation of the prior regime—one in which U.S. equities compound at elevated rates with minimal interruption—rather than a more varied and, at times, uneven market environment.

As always, we welcome your questions and thank you for the trust you place in our firm.

Sincerely,

Arcus Capital Partners

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