

Alexis Investment Partners

Practical | Tactical



Summary

March was a difficult month as domestic and foreign stocks fell alongside bonds and gold. **Our portfolios also declined but generally outperformed benchmarks for the month and year-to-date.** Considering the war in Iran and that we are coming off a great year with high valuations, the current correction feels worse than it actually has been, at least thus far.

Quarterly performance reports will be circulated this month. Overall, we expect you to be pleased, especially noting gains over the trailing 12-months are largely intact despite the current correction.

Key Market and Economic Data *(source: Clearnomics)*

- The S&P 500 experienced a total return of **-4.3%** in Q1, the Nasdaq **-7.0%**, and the Dow Jones Industrial Average **-3.2%**.
- The Bloomberg U.S. Aggregate Bond Index was flat for the first quarter of 2026. The 10-year Treasury yield ended the quarter at 4.3% after falling as low as 3.9% at the end of February.
- Developed market international stocks (MSCI EAFE) were down **-1.1%** and emerging market stocks (MSCI EM) declined **-0.1%** over the quarter, both on a total return basis in U.S. dollar terms.
- Oil prices spiked with Brent crude reaching \$118 per barrel at the end of March after beginning the year under \$61. WTI ended the quarter at \$101 per barrel.
- Gold ended the quarter at \$4,668 per ounce after climbing as high as \$5,417 in January.
- February inflation showed headline CPI rising 2.4% year-over-year and core CPI climbing 2.5%.
- The Federal Reserve kept rates unchanged within a range of 3.50% to 3.75% at both meetings during the first quarter.

What to Expect in Portfolios

Last month we said, “markets have shown remarkable resilience in the face of events unfolding in Iran and the middle east and associated bouts of volatility. This may change, but such resilience is encouraging.”

March was challenging as several prominent indexes entered a correction but damage has been limited.

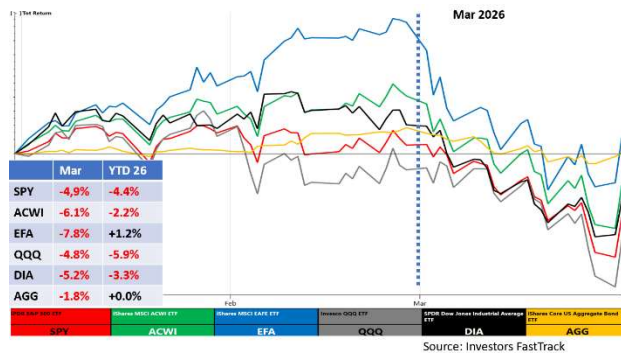
April is typically a good month for stocks and investor sentiment suggests the potential for a rebound. **The sustainability of a potential rally is questionable and we are alert to deterioration in some of our indicators** that may prompt a more cautious outlook. That said, **we have selectively bought the dip and so far, that has been fruitful.**

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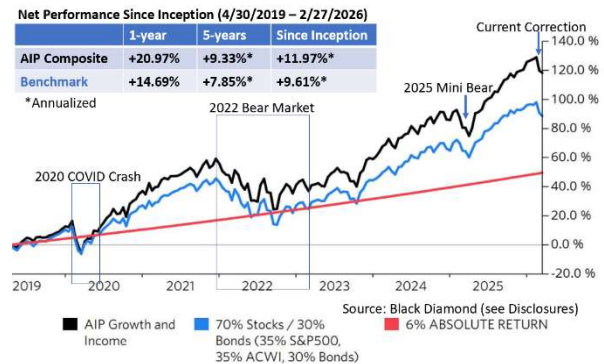
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The chart below shows **year-to-date** performance for US and foreign stock indexes and US bonds. **March shows a sea of red as stocks and bonds fell in tandem.**

Year to date, foreign stocks continue to lead despite a weak March. Overall damage is less than many might expect based on news / headlines.

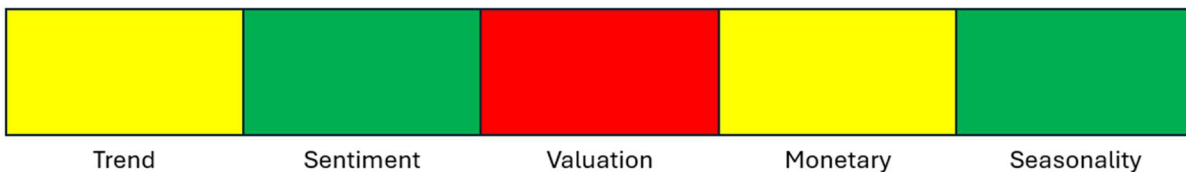


The chart below shows the **net performance of our most popular composite** since inception (120 accounts – see disclosures on page 4). The 6+ years shown have been volatile including COVID and the 2022 Bear market. **Our strategy and discipline led to greater participation in gains than declines, allowing us to add value through this volatile time.**



Insights and Commentary

Investing can be an emotional roller coaster, leading to costly mistakes. To navigate effectively as we seek greater participation in advances than declines, we have found it helpful to monitor a series of indicators and models based on 3 key tenants, (Don't Fight the Fed, Don't Fight the Trend, Follow Sentiment Except at Extremes) The tiles below summarize current conditions:



Our indicators are more mixed this month (downgraded trend and monetary conditions from positive to neutral), as happens when stocks are in a correction.

We often note that **most corrections don't develop into bear markets**, but every bear market starts out as a correction, so we take these warnings seriously. Currently, this implies alert monitoring and contingency planning, even as we selectively buy the dip.

Stocks have stabilized into month-end. If this proves durable, we expect our trend indicators to recover quickly. That said, we are also alert to the possibility that a further breakdown (or loss of upside momentum) could prompt a more negative outlook that we would consider actionable. That said, **it is counterproductive to overreact.**

Sentiment has soured and is in a zone we associate with bear market lows. This is a positive sign as worried **investors tend to be more defensively positioned – reducing their need to sell disappointing news and providing firepower to sustain rallies as fear abates.**

Valuations have improved but remain a headwind for long-term investors. There are pockets of value where individual stocks sold off despite continued good earnings growth. That said, high valuations tend to be associated with higher volatility and below average long-term performance.

Rising oil prices have fueled inflation fears. Interest rates have drifted higher resulting in tighter monetary conditions. The Fed has also been reluctant to reduce interest rates despite most expressing that they believe current rates are higher than "neutral". Relatively tight monetary conditions slow economic growth, which is one reason we are hearing concerns about potential stagflation (slow growth + inflation that can be a very difficult environment for consumers and investors).

We must emphasize that markets are reacting to known events and even our indicators that flag legitimate concerns are not currently in a zone we find actionable. Like using radar to watch a storm pass, these indicators give us the confidence to stay on course even as we plan potential diversions or the need to seek cover.



Update, Observations, Indicators and Outlook:

Our **Market Pulse** shows stocks in a **Correction**. We kept the box around Bull Market to show that although we downgraded trend indicators to neutral, **trend direction is still consistent with a Bull Market. This is important because it impacts our actions.**

In a bull market, pullbacks and corrections tend to be relatively shallow and short lived, presenting opportunities to add to our favorite stocks as they sell off in sympathy with the correction.

We understand the temptation to retrench when faced with uncertainty and unsettling news. Ironically, **such actions rarely prove productive.**

Although stocks are in a correction, we continue to see resilience and our portfolios have held up well. We have seen strong rallies on hopes that the Iran war will settle soon that remind us to respect the potential for a powerful snapback should a durable truce emerge. In fact, **history suggests that even news that might have been disappointing prior to a crisis event may be a positive catalyst for investors so long as it is better than their worst fears.**

As we finish this month's letter, **stocks are surging on news of a pause in the war (2 week cease-fire) – and holding those gains** even as compliance with the cease-fire appears questionable and **a durable agreement to end the war remains elusive.** We also note potential catalysts for further volatility are easy to find including:

- Will the recent oil shock have a lasting impact on global growth that was already showing signs of slowing?
- When will the Fed resume cuts considering that inflation numbers are likely to remain elevated relative to their 2% target for the foreseeable future?
- Will the cease-fire hold and what will a durable agreement to end the war look like?
- After the war, will Iran continue to leverage their influence over the Strait of Hormuz and how will that impact global growth?
- How contentious will the Mid-term elections be and how might that impact investor confidence and policy predictability?

We appreciate your confidence and welcome questions, comments and concerns.

Market Pulse:

We try to avoid jargon, but a few terms are helpful when describing financial conditions.

Bull Market: markets trending up (making higher highs on rallies and higher lows in periods of decline). **We can expect periodic pullbacks and corrections, but these should be relatively short and shallow – followed by resumption of the up-trend.**

Consolidation: after a period of strong gains or steep declines sometimes markets become range bound, moving up and down by 3-5% over several weeks. After consolidation, the prior trend resumes.

Pullback: a decline of 3-5% that generally happens at least twice per year. Pullbacks often resolve within a few weeks.

Correction: a decline of 5% to 10% that typically happens once per year. Like pullbacks, markets recover quickly after corrections, generally within 3- 6 months.

Bear Market: a decline of 20% or more. Many bear markets are fully recovered within 18- 24 months, but severe bear markets like 2000-2003 and 2007-2009 can take 5-7 years or longer to recover from.

Bottoming Process: After a correction or bear market, stocks often bounce and re-test lows multiple times before recovery.

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Closing Comments:

Several clients have recently been speaking with friends who are looking to make a change either because they are nearing a life transition or have been unhappy with their current advisor.

We appreciate your referrals and are pleased that our company continues to enjoy steady growth. Our focus is always on providing exceptional service and performance and we are very grateful for your confidence and support!

Please call and/or email us personally for most of your account servicing needs and especially when you have questions or concerns.

Disclosures

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