

Q2 2026 Market Perspectives

SERIES: FROM THE CIO'S DESK

April 2026

As we move into the second quarter of the year, ITAP (Iran, Tariffs, AI, and Private Credit) is still a factor.

The multi-year trend of stronger performance out of larger, technology-oriented U.S. stocks ceased and quickly rotated toward international and smaller companies. We had projected a broadening of the market away from large technology-oriented companies, although the swiftness of the change was quicker than we expected.

The broadening of the market came to a halt in March as a wave of uncertainty over the war with Iran swept across markets. In March, larger, U.S.-domiciled companies returned as market favorites, while smaller companies and those outside the U.S. experienced greater downside. Looking forward, the length of the conflict will significantly influence whether the transition toward broader markets persists or if higher-quality, large U.S. stocks resume as the dominant drivers of market returns.

During the first quarter, a variety of notable factors influenced specific sub-sectors of the market, helping to drive a broader range of returns across individual stocks, sectors, and geographies. The dominant drivers, which we have abbreviated under the moniker of ITAP, represent Iran, Tariffs, Artificial Intelligence, and Private Credit. These four embed some uncertainty both for specific market segments and for economic growth as a whole. Given their significant influence on economic and market trends going forward, we wanted to highlight our perceptions of the risks and how they might affect portfolio positioning.

IRAN

The U.S. and Israel began attacking Iran at the start of March. This led to a surge in oil prices, which rose 51% in March¹. Higher fossil fuel prices stoked concerns about inflation, driving yields on Treasury bonds up by approximately 0.4%, with small variations across maturities. As March played out, the Strait of Hormuz closure and concerns about the safety and stability of energy infrastructure in the Middle East heightened concerns about the prospects for global economic growth. As the conflict has persisted, we see greater risk around the timeline for energy and petrochemical products to return to normalized supply/demand conditions. This elongated timeline increases the likelihood of a slower-than-expected pace of global economic growth.

Economic Impact & Portfolio Positioning: We see Asian and, to a lesser degree, European countries facing the most significant economic impact from higher oil and natural gas prices due to the conflict in the Middle East. The U.S. economy is also facing higher oil prices, but is likely to be less sensitive to supply shortages. The longer the conflict goes on, the greater the risk to

global economic growth. Our views on portfolio positioning differ depending on whether the conflict lasts 1-2 months or drags on longer. As such, we have not made any material adjustments to positioning but are prepared to under a variety of scenarios, should they play out.

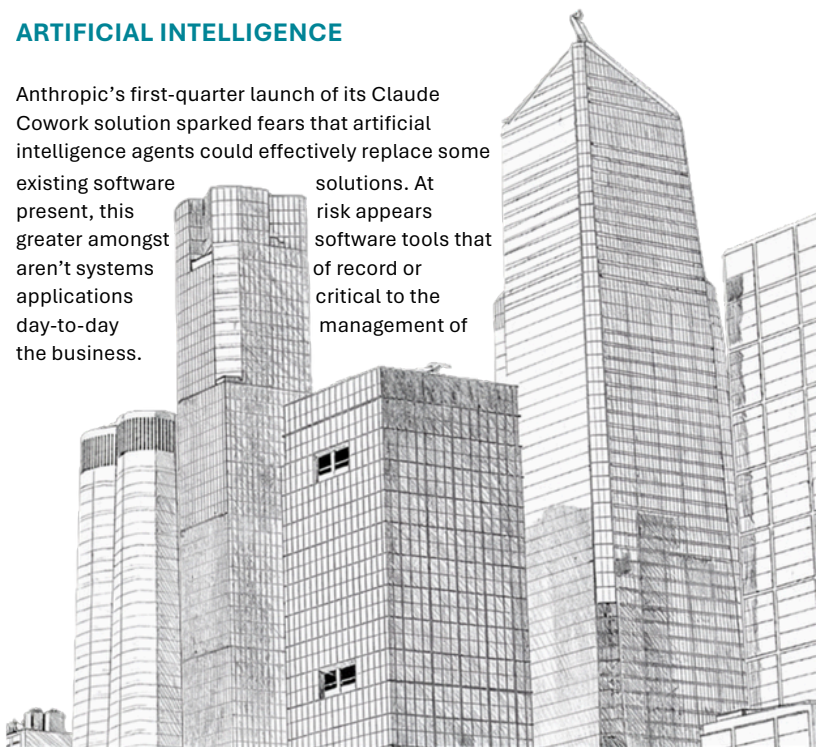
TARIFFS

In February, the Supreme Court ruled that the Trump Administration's use of IEEPA as grounds for imposing tariffs was unlawful. This action will limit the ability to use tariffs as a political or negotiating tool going forward. From a market perspective, this is positive as it reduces uncertainty. The administration has utilized its authority to enact Section 122 tariffs, which impose a broad based 10% tariff, a level that is not all that dissimilar to the average tariff rate used under the IEEPA provision. The use of Section 122 tariffs carries a time limit that extends into July. At that time, the administration will have to enact tariff policies under alternative sections of the tariff act, many of which carry limitations or require justification. We expect tariffs to remain; however, their levels and the way they are applied will evolve. This could lead to greater near-term tariff variability, but ultimately, tariffs are here to stay.

Economic Impact & Portfolio Positioning: We view tariffs as a negative for the U.S. dollar. International and Emerging Market investments are likely to benefit from a weaker dollar. As tariff policies adjust, we view them as a multi-year tailwind for international equities.

ARTIFICIAL INTELLIGENCE

Anthropic's first-quarter launch of its Claude Cowork solution sparked fears that artificial intelligence agents could effectively replace some existing software solutions. At present, this greater amongst aren't systems applications day-to-day the business. At risk appears software tools that of record or critical to the management of



Concerns and fears about the viability of AI-coded software solutions sparked a significant reversal in the valuation of publicly traded software stocks and raised questions about the long-term viability of existing software companies.

Economic Impact & Portfolio Positioning: The market's reaction was rational and reasonable. We don't believe AI agents will displace all software solutions and believe the broad-based selloff may provide an opportunity to derive added returns through proactive stock selection. In the near term, concerns around the long-term direction of software are likely to keep these stocks range-bound. Alternatively, we don't believe the market is giving enough consideration to businesses outside of technology whose operations and margins can materially benefit from AI solutions. Long-term, we believe these businesses and industries have attractive upside potential.

PRIVATE CREDIT

Private credit funds, which raise capital to deploy loans to private companies, were initially affected by concerns about AI's impact on software companies. About 20% of the private credit universe comprises software companies. Private credit funds faced additional scrutiny later in the first quarter due to mischaracterizations of their liquidity. We recognize risks do exist in software, but believe the outcome will vary drastically by manager, with the quality of underwriting and portfolio management practices proving to be differentiators in investment outcomes.

Economic Impact & Portfolio Positioning: We continue to view private credit as a viable long-term asset class for investors who are comfortable with some portfolio illiquidity. We expect default rates to eventually tick higher, coming off what are currently ultra-low levels of delinquency. Manager selection is likely to have a more notable impact on returns. Longer-term, we believe the near-term anxiety will lead to less available capital, resulting in more attractive yields and loan structures for private credit lenders.

LOOKING FORWARD

The first few months of 2026 have ushered in a number of uncertainties under the ITAP themes for investors to contend with. Markets dislike uncertainty because it's hard to forecast. Not only outcomes, such as how the Iran war plays out or how AI

innovation evolves, but also behavioral uncertainties associated with how other investors may respond.

In such environments, we prefer to be patient and act on facts and probabilities. Sometimes this may mean taking time to gather information and not immediately reacting. Human behavior drives us to want to react. Especially when things are out of our control, such as government policy or how others may elect to handle a specific circumstance.

We know that over a market cycle, there will be moments of excess enthusiasm and intense pessimism. We build portfolios to encounter both and still achieve our client's objectives.

The conflict in Iran will influence the direction of the economy and markets. As the conflict plays out and the direction and magnitude become clearer, we will not only consider ways to protect capital, if needed, but also to identify attractive opportunities that may be created through the overreactions of other investors.

It's the latter, the opportunities that may transpire, that are garnering more of our attention at the moment. During 2026, we began to see a greater divergence in security prices. Some assets remain priced for perfection, while others are starting to show opportunities for lower risk and greater upside potential. We believe being more active, when appropriate, can be additive, although we aim to do so while also considering evolving economic conditions and ITAP uncertainties.

CONCLUSION

The first quarter of 2026 was marked by broader market trends alongside a growing array of ITAP (Iran, Tariffs, Artificial Intelligence, Private Credit) uncertainties. Markets generally weathered this environment well, with modest declines in stock and bond prices during the quarter. Going forward, we believe it's important to consider the uncertainties around ITAP while being willing to adjust portfolios to take advantage of opportunistic investments that arise from this period of elevated concern and uncertainty.

[1] Source: Bloomberg. Based on West Texas Intermediate Crude.



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