# ASB Investment Management
## Institutional Portfolio Management Quarterly Review

### EQUITY OVERVIEW

After three consecutive calendar years of double digit returns for the S&P 500, Wall Street forecasters came into the new year with great optimism for continued strength in 2026. Paraphrasing former Goldman Sachs CEO Lloyd Blankfein from his recently released memoir, such forecasts are more for entertainment purposes than anything else. Good times increase expectations of more good times to come.

After an uneventful start to the year, volatility spiked and equity markets tumbled when hostilities broke out in the Middle East at the end of February. Suddenly, all the macroeconomic assumptions that went into the sanguine forecasts for the year had to be reevaluated.

Expectations of multiple rate cuts by the Federal Reserve became less certain as energy prices spiked and inflation forecasts were revised higher. U.S. and Global GDP forecasts had to be adjusted downward. What was presented as what was to be a short and decisive battle by the U.S. administration became more protracted, adding to uncertainty. Long-standing geopolitical alliances were also thrown into question.

At quarter end, the total return of the S&P 500 Index had receded by 4.35%. Not a dramatic loss by any means, but not what the investing public had become used to for several years, and not what they were told to expect by the pundits.

### EQUITY OUTLOOK

Several elements of our portfolio positioning protected our equity clients from the brunt of the shocks during the quarter.

Our conservative positioning in the technology sector proved to be beneficial as the S&P 500 Information Technology index retreated 9.13% during the quarter largely over fears of advancements in artificial intelligence encroaching on legacy enterprise software companies. We not only held a smaller portion of technology stocks than the S&P 500 Index, but, in aggregate, the technology stocks we did hold performed better than those of the sector as a whole.

The partial government shutdown, which left TSA workers unpaid for several weeks resulting in long delays at security checkpoints, directly benefitted one of our portfolio companies that specializes in helping to speed the security screening process. The company added hundreds of thousands of new customers during the period.

Finally, directly related to the energy shock resulting from the Mideast conflict, our overweight position in U.S. integrated energy producers benefited from the 74.87% spike in West Texas Intermediate crude oil prices during the quarter. We also own a company that provides nitrogen products for use in fertilizers. Natural gas is one of the primary inputs into the nitrogen production process, thus

ASB INVESTMENT MANAGEMENT

our U.S. based company, with access to cheap North American gas was put into an advantageous position over international peers that saw gas prices spike as their supplies from the Middle East were disrupted.

There are always elements of skill and luck in investment results over any time period, which was certainly true this quarter. Nevertheless, as our mission is to grow and preserve client assets, we are glad to have been able to accomplish that for our clients under the unique and volatile environment we faced in the first quarter of 2026.

## FIXED INCOME OVERVIEW

In the first quarter coupon income failed to offset wider credit spreads and falling bond prices, resulting in uninspiring total returns that ranged between a slightly negative -0.05% for the Aggregate Index and a barely positive 0.11% total return for the Intermediate Aggregate.

Flattish total returns belie an eventful start to the year. Had we ventured to write in our last letter that the administration would soon be asking for Chinese support for our military operation, our dear readers would not have taken us seriously, and yet that is exactly what happened.

What may be even more amazing is that West Texas Intermediate Oil traded at $55 per barrel in mid-December and more than doubled to over $113 recently, and yet markets, albeit volatile, have not cratered. Investment grade bond spreads have widened about 10 basis points, equity markets are off by single digit percentages, and ten-year treasury yields have risen about ten basis points.

If truth is the first casualty of war, bond prices may be the second. Wars are inflationary, and typically lead to higher budget deficits, unproductive spending, and capital destruction. Nevertheless, market corrections from geopolitical events are often less destructive to asset prices than financial events and recessions. For now, investors are looking past an Iran conflict they hope will be brief and focused on potentially more impactful macro trends.

Even amidst wider credit spreads, first quarter investment grade corporate bond issuance reached a record $657 billion across 306 issuers, a 16% increase over the prior record set in 1Q ’25. Eight transactions exceeded $10 billion, including debt issues for: Amazon, Oracle, Salesforce, Alphabet, Abbott Laboratories, Honeywell, Goldman Sachs, and Novartis. March 10th marked the single largest volume day ever, at $65.8 billion.

## FIXED INCOME OUTLOOK

One event that may surprise this quarter is leadership of the Federal Reserve. Jerome Pow-ell’s term as Chair of the Fed expires May 15th, but his term as a member of the Federal Re-serve Board of Governors does not expire until January 31, 2028. Senator Thom Tillis has vowed not to vote for any Fed nominee, including Trump’s pick to replace Powell as Chair, Kevin Warsh, until the Justice Department fully resolves the criminal investigation into Pow-ell concerning renovations to the Fed’s Eccles Building.

> “Several elements of our portfolio positioning protected our equity clients from the brunt of the shocks during the quarter.”

The expiration of Powell's term without a successor creates legal uncertainty. Historically, expiring chairs typically resign rather than continue to serve on the board. If his successor has not been nominated by the time his term as Chair expires, Powell will likely claim that the Fed can choose who is chair, as occurred in 1996 and 2022. Trump will likely contend that it is the President who chooses the next Fed Chair, as occurred in 1978. Before the end of the year, depending on how events play out, investors may perceive the process as both strengthening Fed independence, and yet at the same time, weakening any new Chair's in-fluence, including Trump's pick Kevin Warsh.

One market maxim suggests, "who needs the Fed when you have the two-year?" Two-year Treasury yields have been a strong predictor of short-term overnight rates set by Fed policy. After the Iran War began on February 28th, two-year Treasury yields rose sixty basis points over the next three weeks and remain over thirty basis points higher than where they began the year. Consensus expectations for short rates have shifted from "the next move is an ease, as early as May" at the beginning of the year, to "no easing until late in the summer at best, and maybe the next move is a hike," today.

Another economic event giving investors fits is the quick withdrawal from private credit, which we have long thought is an overpriced asset class. The sector has grown too fast, at-tracting too many investors who have not experienced the illiquid and economically sensi-tive nature of the investment through an economic downturn. Private credit assets have grown at an 18% compounded annual rate over the past nine years, from less than $600 bil-lion in 2016 to over $2.5 trillion last year. This quarter, investors began to learn what the "pri-vate" in private credit means. Limited partners seeking withdrawals were cut short, as gen-eral partners exercised their ability to restrict distributions.

We are particularly concerned about risks which may lurk in life insurance annuity compa-nies owned by private equity firms. Moody's has reported that private credit constituted 18% of life insurance fixed income holdings at the end of 2024, and that as of mid-2025 pri-vate debt accounted for 23% of bonds bought that year by life insurers. As a result, we re-main especially vigilant regarding credit evaluation. We are also working hard to uncover in-vestment grade bonds that may offer a compelling opportunity to benefit from the ongoing turmoil.

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