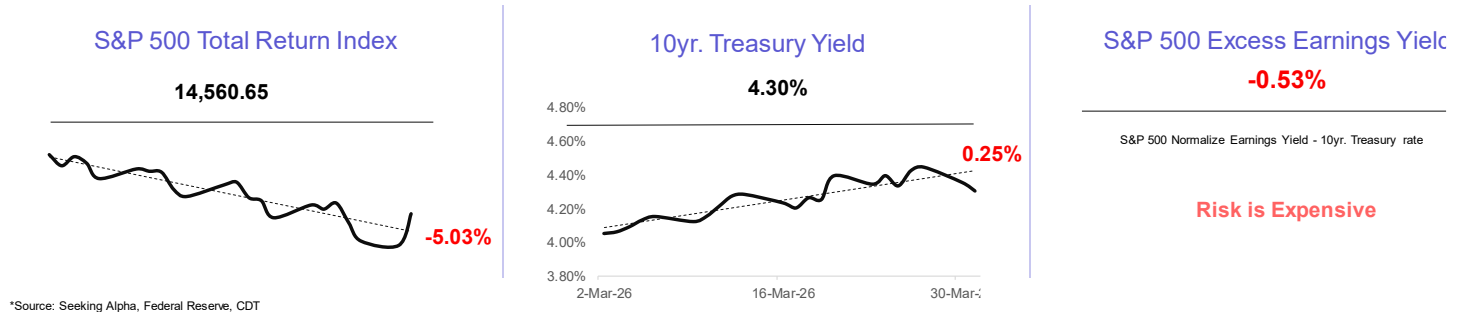


CDT March 2026 – The Probability Race & Barbell Strategies

Market Update.

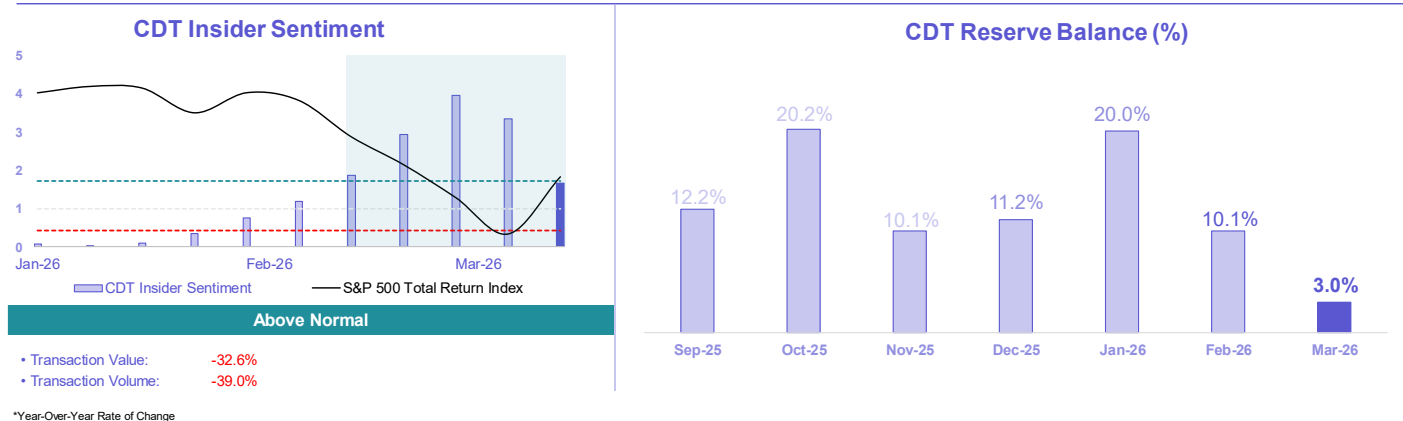


Jolted. The U.S. military campaign against the Iranian theocracy has roiled financial markets. As a result of the incursion, oil prices are surging and are up **90%+** since the beginning of the year and continuing to gain ground. The acute and sudden rise in energy prices has broken the calm of the post-Liberation Day stock market. For the month, the S&P 500 Total Return Index was down **-5%** and ranged **-8%** from high to low. From an ideological perspective, there is no question as to the merit of the mission, a world without a nuclear-armed Iran is a safer and more prosperous one, but for every action, there are consequences. For the financial world, the primary consequence is energy uncertainty.

Iran, through the explicit threat of violence has drastically decreased the traffic through the Strait of Hormuz, a narrow waterway used by Iran and neighboring Middle Eastern countries to ship a significant portion of their oil to the rest of the world. The threat is as simple as it is nefarious, traffic the strait without Iranian authority and risk being blown up by a drone. That narrow piece of the world is a significant global energy bottleneck. The [IEA estimates](#) that **20%** of the world's oil traverses that strait before reaching its final destination. In that context, it is easy to understand how the hindered flow of oil out of the strait has dire consequences for global commerce.

The Probability Race. Markets are manic discounting machines, relentlessly tabulating the probabilities of almost everything happening in the world today, tomorrow and well into the future. Today, the most important calculations boil down to a probabilistic race – what is the likelihood that oil starts flowing from the Middle East again *before* a global recession brought on by excessive energy prices ensues. For now, as suggested by the orderly declines in the stock market, financial markets are placing their bets closer to the former. Additionally, oil futures markets are suggesting a similar positive outcome. In the financial world, oil is predominantly traded on paper with what is referred to as [oil futures contracts](#). Each contract represents a specific month and a predetermined price and volume of oil. Oil contracts in August are trading around \$82.50 per barrel, a **-25%** discount to the current May contract.

Above The Clouds.



Navigating Storm Clouds. Exiting the first quarter of the year with a return of **~1%** net of fees is an achievement that underscores the veracity of the CDT risk and investment framework. By leveraging the insights we garner from our work on [Insider Sentiment](#), navigating storm clouds is what we are designed to do. Amply reserved coming into the month, we initially

absorbed some of the market drawdown by means of our liquidity cushion. Later in the month, we deployed that capital when volatility got excessive and insider sentiment flipped to well-above expected levels.

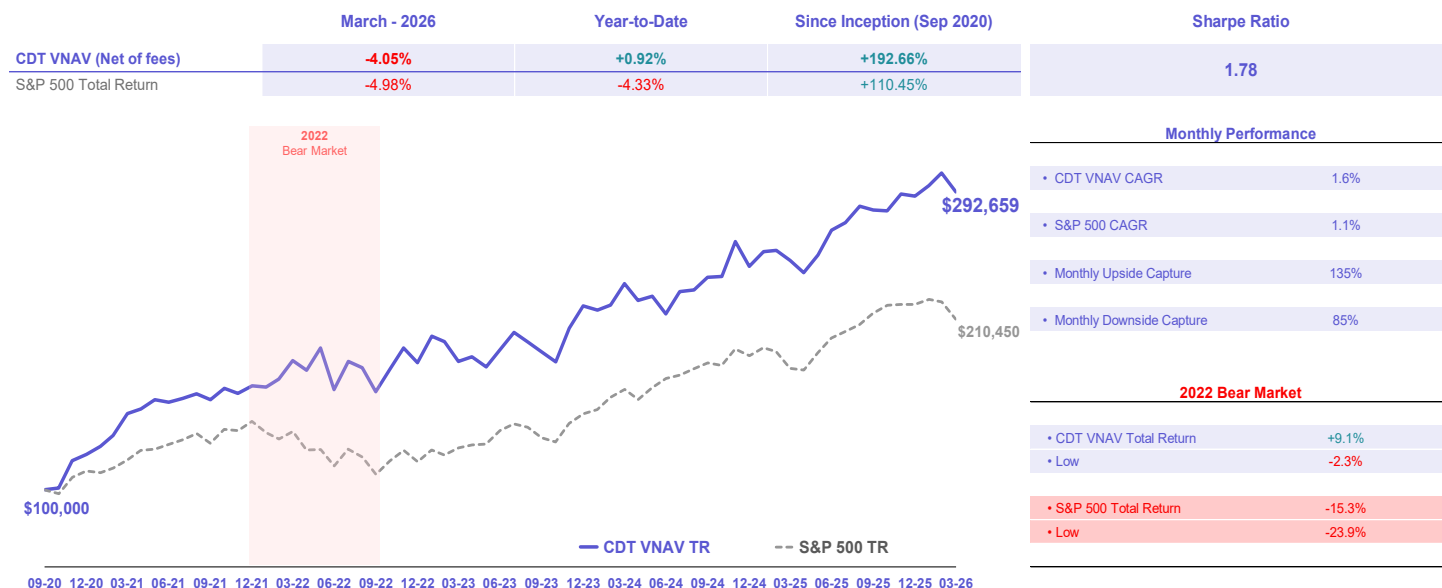
At approximately 4% of assets, we are now sitting at our lowest reserve balances since COVID in 2020. Insiders have not endorsed the doom and gloom narrative. In contrast to the market movements, throughout the month of March, insiders swooped in to purchase the discounted shares of the companies that they manage. The contrarian approach led to the elevated stair-step pattern in sentiment observed in the top left chart, prompting our quantitative model to increase portfolio risk.

There could be a myriad of reasons as to why insiders are braving the market turbulence. These executives and directors are some of the most intelligent people in the world managing some of the biggest companies in the world. That privileged position gives them a level of access to information as well as to people that other market participants simply do not have. In that light, we believe that insiders *must* be observing earnings power resilience. On a relative basis, today, oil plays a less important role in our economic progress than in decades past. For now, in combination with energy independence fostered by a vibrant oil & gas industry in the United States, insiders are willing to buy when the market sells.

For us, this powerful information arbitrage has translated into a dozen new positions across a wide variety of industries from cybersecurity software developers to peanut butter manufactures. Currently, in relation to the uncertainty posed by the oil shock, our stock allocation and weighting strategy is based on a barbell approach. On one end of the barbell is less economically sensitive sectors including healthcare, consumer staples and some parts of technology. On the other end, we have more economically sensitive sectors like financial and consumer discretionary companies. In the event of continued market turbulence, the left side of our barbell in addition to our modest reserves is expected to help stabilize our returns. Alternatively, in the event that turbulence diminishes, we expect to benefit from the entirety of the portfolio which we firmly believe is comprised of underappreciated value no matter which side of the barbell the security belongs to.

We look forward to updating you again in May.

VNAV Performance.



Best Regards,

David Papson & The CDT Team

Phone: (516) 509 - 3675

E-Mail: David.Papson@CDTCapitalManagement.com

Visit us at <https://www.cdtcapitalmanagement.com/home>



Invest Above the Clouds.

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