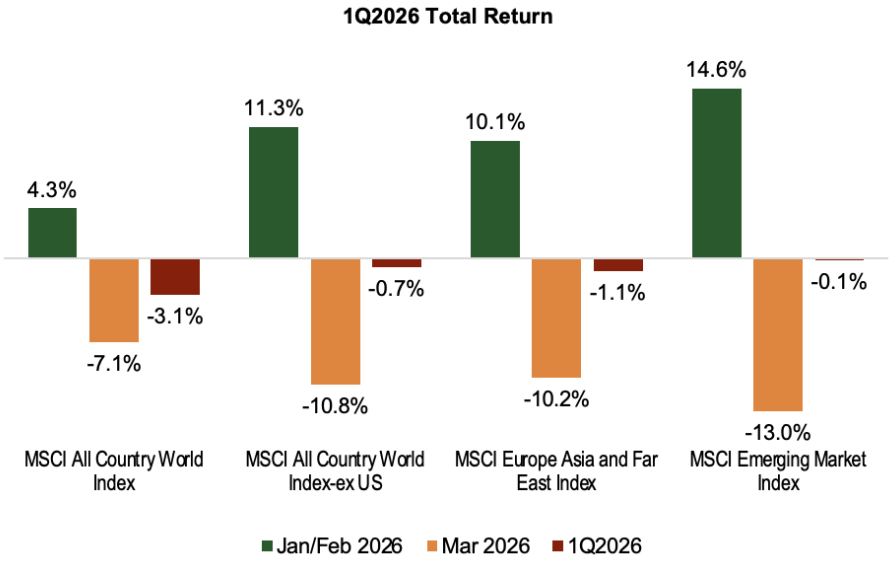
The whipsaw investors endured in the first quarter is one for the history books. The quarter began with expectations for solid economic growth, interest rate cuts, and the continuation of 2025's upward market momentum. A mere 58 days into the quarter everything changed, driven, to paraphrase Harold MacMillan's understated British manner, by "events."

1Q2026: Strong out of the gate then a stumble



Source: Bloomberg, Brooklands Partners LLC

Discerning signal from noise is a challenge during the best of times; during war it's nearly impossible. Emphasizing the point, the popular press is now talking about "headline roulette" as a means of describing the dangers of trading the news flow. Putting "events" into a larger context is helpful in avoiding the temptations of reactive trading.

Investing during periods of turmoil demands awareness of a most basic human trait: pain aversion. Uncertainty causes discomfort which is a form of psychological stress/pain. Since markets are an aggregation of humans interacting commercially, it is easy to see the origin of the oft-used refrain, "markets hate uncertainty." Investors must recognize the discomfort of global conflict, and the resulting highly changeable conditions, and avoid emotion-driven reactions, which often result in harmful decisions.

One way to counterbalance that uncertainty when making investing decisions in these times is to focus on what we do know. On the war front, it is clear the U.S. and Israel have the military superiority over Iran. But war is not won by hardware alone. I heard a Marine Corps General describe war as the naked contest of human will: the participants' strength of will figures

(cont'd.)

importantly in the outcome. As I wrote in the last note, this conflict is existential for Iran's leaders. They will endure what they must and fight with what they have to survive. Merely surviving *is* success for the regime. Assessing the American will is harder. The U.S. *military* has the will and ability to meet whatever the task they are handed by our civilian leadership. The will of the *leadership*, which reflects the views of its polity, is much harder to assess as public opinion ebbs and flows as the reality of events are revealed.

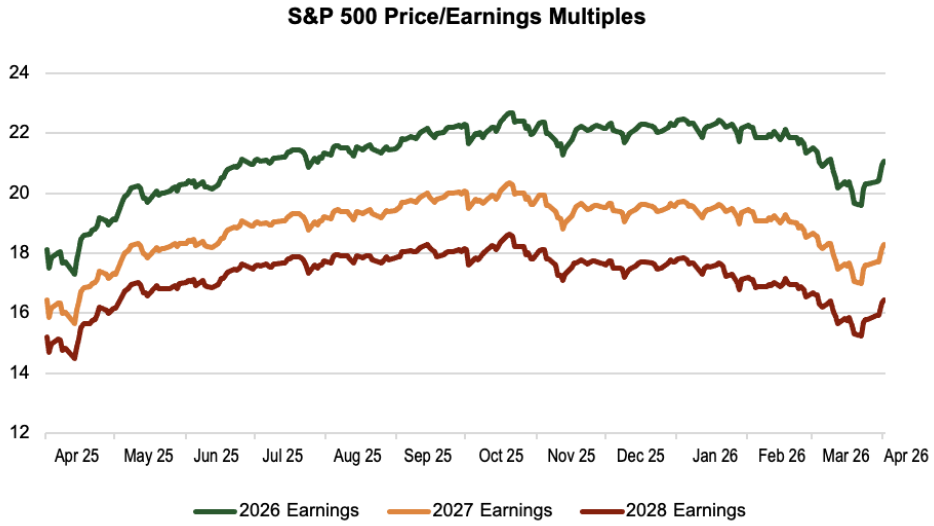
As I write this, the recent two-week cease fire appears to be crumbling. Whether this is yet another bump on a circuitous path to the war's resolution or truly a return to full hostilities is difficult to gauge. However, given facts on the ground and the atmospherics coming from both sides, the probabilities are on the side of the former not the latter.

Focusing on the Knowns

Beyond the war, several developments are worth watching. Most importantly, profits for the S&P 500 Index remain in rude health. If Bloomberg's tally of earnings for the next three years is on the beam, then the outlook remains positively giddy. Earnings for 2026 are slated for $323.96/share, a roughly 17% rise from last year. Moreover, profits are expected to rise another 16.5% in 2027 and 11.2% in 2028. Certainly, the risk is to the downside, given the hostilities with Iran and the battle for the Strait of Hormuz, but at least the starting point for adjustment is from a high level.

While profit expectations are holding up, the willingness to pay for them is not. The price/earnings multiple for the market based on 2026 earnings has fallen 10% since the start of the year. market multiples for 2027 and 2028 have rerated lower, as confidence in profit forecasts and the future operating environment wanes.

S&P 500 P/E multiple has come down



Source: Bloomberg, Brooklands Partners LLC

(cont'd.)

Overall economic growth in the U.S. is still expected to rise 2.3% this year and 2.0% in 2027, according to Bloomberg surveys. It also places the odds of recession at 30%. Comforting numbers if they materialize. Understandably, consumer confidence has taken a notable hit of late which is worrisome. High energy prices exacerbate the cost-of-living crunch which could have knock-on effects that imperil consumption. This will likely impact profits. The rise in the cost of money recently is also worth watching. Public and private demand for money to finance government and private spending combined with higher inflation than the Federal Reserve targets have caused interest rates to rise. The most recent market-based measures of expected future interest rates reveal that no cuts are expected this year, a stark change versus the three expected when 2026 began.

Portfolio Considerations

The strength the economy enjoys is not unconditional. Prolonged war will bring inflationary pressure. While the U.S. is a net exporter of energy, as a nation we are not immune to global energy prices, as petrol prices on the east and west coasts demonstrate. Furthermore, energy is the raw feedstock of a developed economy. The higher the input cost, the lower the margins of companies operating in the economy—if the higher costs are not passed along to the end customer. It doesn't take much imagination to see how these could create the conditions for an adversity loop causing volatility to ripple across asset classes.

We need to brace ourselves for bouts of extreme volatility in stock and bond markets in the months ahead. Gold and other precious metals should benefit from inflationary pulses and the attendant concerns that war inevitably spawns. It is reasonable to expect the tertiary effects of this conflict will lead to continued reserve diversification among our trading partners and allies as we are viewed more warily going forward. Indeed, this is a continuation of a trend providing a tailwind to non-US markets such as Japan and Europe.

So where does of this leave us? Frustratingly, in the short term, we are at the mercy of "events." Longer term, history shows that one of our country's enduring strengths is the ability to adapt and self-correct when needed. It is a signature trait of both successful companies and public policies. Our portfolio construction has prefigured, to some measure, recent events through our holdings in defense stocks, precious metals, non-dollar currencies, and high-quality global companies. I continue to scour for opportunities created by roiling events.

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