

As the year began, global investment markets continued a rotation that had commenced in 2025, with investors shifting into international stocks. There was also a broadening of performance within U.S. equity markets, as small- and mid-cap companies outperformed large-cap companies and value stocks outperformed growth stocks, driven by expectations of economic stability and growth.

The technology sector experienced weakness as investors grappled with the implications of the artificial intelligence boom, and investment flows followed the trend toward broader opportunities. The bond market also rallied as expectations grew that the Federal Reserve would begin easing rates during 2026.

Then came the last week of February, when the onset of the Iran war led to surging oil prices and injected a new level of uncertainty into global financial markets. The net result was falling stock markets and rising bond yields. As the quarter came to a close, diversification proved to be a key attribute for portfolio returns. However, all major indices—other than energy—saw their earlier gains erode.

Index	1 <sup>st</sup> Q 2026	YTD 2026	One-Year	Three-Year
S&P 500	-4.3%	-4.3%	17.8%	18.3%
Russell 1000	-4.2%	-4.2%	17.7%	18.1%
ACWI	-3.2%	-3.2%	20.0%	16.6%
ACWI-Ex US	-0.6%	-0.6%	25.6%	15.1%
US Agg Bond	-0.0%	-0.0%	4.4%	3.6%
US Muni Bond	-0.2%	-0.2%	4.3%	2.9%

Returns in the U.S. equity market and, more broadly, the All Country World Index (ACWI) were impacted by negative returns in large-cap technology. U.S. small-cap stocks managed to end the quarter with a slight positive return, and global equities ended up down less than one percent. However, keeping first-quarter 2026 performance in perspective, the level of negative returns was a relatively small pullback following the strong returns realized over the previous several years. In fact, the first quarter of 2026 demonstrated a high level of

resiliency, given the real concerns around higher energy years. In fact, the first quarter of 2026 demonstrated a high level of resiliency, given the real concerns around higher energy prices, higher expected inflation, higher interest rates, and valuation levels still above longer-term historical averages.

In the near term, a key determinant of markets will be the Iran conflict and the impact on energy prices. The longer the price of oil remains elevated, the greater the impact will be on higher inflation, slower economic growth, and higher interest rates. The risk factor around oil prices will likely lead to more market volatility. While the U.S. will be impacted by sustained higher oil prices, international markets are likely to be even more sensitive to the inflationary and growth risks.

Another factor to be closely watched will be the rapid evolution of AI technology. The demand for infrastructure required for AI has been a major driver of capital investment, directly favoring technology companies (semiconductor equipment and chips), industrial and engineering suppliers, and electric generation. High levels of investment are expected to continue, with key suppliers reporting sold-out backlogs stretching through 2027 and beyond, but concerns exist as to whether this is the peak of a cycle.

AI is also having a major impact on the potential for business model disruption or displacement. Software companies have been the primary target of this concern, resulting in major derating of their stock valuations. This, in turn, has driven concerns over loans made to the software sector, which has driven almost paranoia within the private credit sector.

The overall impact is that technology stocks and other growth stocks saw valuations pull back in the first quarter, while defensive and value stocks saw their valuations expand. The net effect is that growth stocks have become relatively more attractive on a valuation level, on an absolute and relative basis, but will likely have to demonstrate strong growth in the quarters ahead to overcome fears.

Other considerations as we enter the second quarter and look forward to the rest of 2026 include stimulus from OBBB and tax refunds, a new Federal Reserve Chair, ongoing trade and tariff negotiations, impending midterm elections, and low but increasing risk for a meaningful economic slowdown as we move through 2026 into 2027.

## Actions:

A diversified portfolio has performed well so far in 2026, and we continue to believe a diversified approach is well positioned going forward in 2026. Incrementally, within equities, we are more positive on technology and growth and less favorable on energy and defensives, given valuation considerations.

Incrementally, we are more cautious on international equity exposure, primarily driven by the potential impact of higher oil prices, but also due to the relatively greater pullback in U.S.

We believe fixed income with a moderate duration provides an attractive return and lean towards investment-grade credit, securitized assets, and municipals for tax-sensitive accounts.

Within alternatives, we believe the potential for deteriorating credit is not outside of historical norms and within the underwriting expectations of proven managers. However, high redemption requests will likely continue to make headlines.

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