M I D D L E T O N & C O M P A N Y, I N C.

Investment Update

April, 2026

2026 First Quarter Update

Review: The S&P 500 started the year with a modestly positive return in January, before selling off in March after the start of the conflict in Iran. International markets have had a more negative reaction in March but outperformed the S&P 500 for the full quarter. Bonds were not immune to the selloff, with the US Aggregate Bond Index down 0.05%, as the market has revised its expectations around rate cuts in 2026 from ~2-3 at the beginning of the year to now expecting none.

	1Q26	4Q25	2025
S&P 500	-4.4%	2.7%	17.9%
MSCI EAFE[1,2]	-1.1%	4.9%	31.9%
MSCI Emerging Markets[2]	-0.1%	4.8%	34.4%
Bloomberg U.S. Aggregate Bond	-0.1%	1.1%	7.3%
Bloomberg Municipal Bond	-0.2%	1.6%	4.2%

[1]Europe, Australasia, Far East

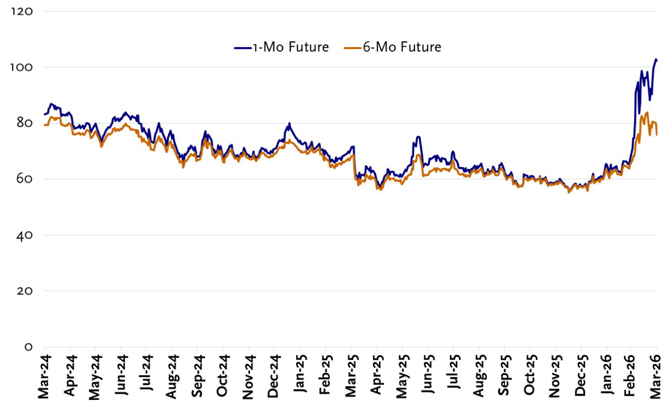
[2]MSCI returns are in U.S. Dollars

Time is of the essence

The situation in Iran is very fluid, and we obviously cannot predict what the exact outcome will be and when it will occur. However, it is worth examining where consensus expectations appear to be so that we can think through potential implications for portfolios and risk management.

Geopolitical events are typically not key drivers of investment returns in the longer term, despite the short-term volatility that they can introduce into markets. That said, we believe it is also valuable to think through what might cause that short-term volatility to persist longer than expected. The most obvious risk is an extended closure of the Strait of Hormuz. Prior to the start of the conflict, tanker traffic through the strait represented ~20% of global exports of crude oil. However, it is also critically important for products like liquified natural gas (LNG), helium, fertilizer, sulfur, and plastics. Supply-demand dynamics differ for all of the impacted products, but generally speaking, the longer the strait is closed beyond the initial 4-6 week timeline, the more supply chain disruptions we will see across multiple industries. Some disruptions could have an immediate impact on prices, but others might not show up in prices for months (e.g. fertilizer impact on crop yields during harvest season). Using oil price futures as a proxy, it appears that the current market expectation is that the strait will not be closed for an extended period of time. The following chart shows the 1-month and 6-month West Texas Intermediate (WTI) oil price futures for the past 2 years. Both increased significantly in early March at the beginning of the conflict. However, the 6-month futures price of ~$80/barrel is ~20% lower than the 1-month price, implying that the market expects the price spike to be relatively short-lived. The obvious risk is that if the strait is closed for much longer, price expectations will drift higher, which could lead to higher bond yields and pressure on stock valuation multiples (and potentially corporate earnings).

WTI Oil Price Futures, 1-Month and 6-Months, 2-Yr History



Source: Bloomberg

Outlook: Another sign that the market is not expecting an extended closure of the Strait of Hormuz can be seen in the 2026 GDP estimate for the United States, which now stands at 2.3%, down only modestly from the 2.5% estimate as of the end of February. As a net energy exporter, the overall US economy is more insulated from oil supply shocks than it was during past disruptions. However, price spikes in other commodities could lead to even weaker consumer spending in the event of an extended closure. AI data center investments could also be negatively impacted if semiconductor manufacturing in South Korea and Taiwan cannot run at full capacity due to power shortages resulting from constrained LNG supplies or due to helium shortages (needed for chip manufacturing). If an extended closure is avoided, corporate earnings are expected to deliver double-digit growth this year, which would likely support positive stock returns.

Many international economies are in a more vulnerable position than the US in the current environment. A number of countries have already started to ration energy supplies. This change in relative growth expectations and the higher-for-longer interest rate outlook in the US has led to a strengthening in the US dollar, which could be a headwind for international equities in addition to potentially weaker earnings growth.

Strategy: At just under 20x, the S&P 500 price-to-earnings (P/E) multiple is still elevated relative to its 30-year average of 17.2x but lower than the recent peak of ~23x. If earnings growth comes in at the consensus expectation of ~17%, the current valuation is reasonable. However, the next few weeks will provide a number of important indicators whether growth expectations need to be adjusted lower. As a result, we think it is prudent to maintain some level of defensive positioning through asset allocation and stock selection, while also looking to opportunistically add positions that may have sold off too much. Bond yields are relatively attractive, so despite some recent volatility, we continue to like the risk-reward, particularly in higher quality issuers.