

Diversify and Chill



ERIK MOSHOLT, CFP®
Chief Investment Officer

April 2026

After a very profitable 2025 for most asset classes, investors started the year with a touch of anxiety over whether the positive momentum could continue in 2026. The key source of worry was the uncertainty injected into the global economy by the sudden advancements of **The Next Big Thing – Artificial Intelligence (A.I.)**. Those concerns faded quickly to the background once the U.S. started a military campaign against Iran on February 28th.

Sizing up its impact on the global economy and the markets, the war with Iran is obviously much more significant than our 2.5-hour operation in Venezuela, our surgical strike on Iran’s nuclear capabilities last spring, and even the four+ year war between Russia and Ukraine. Why? **Trade and Oil** of course.

With Iran being a major oil producer and also able to close the Strait of Hormuz to shipping traffic, the global economy faces a lot more risk today than it did a few months ago. Higher oil prices mean higher costs for consumers and businesses, which means less money available to spend and invest in other things. With oil recently trading over \$100 per barrel, fans of the hit TV show *Landman* may be recalling this oil price commentary from Billy Bob Thornton’s character, Tommy Norris:



You want oil to live above \$60 but below \$90...When gas gets up over \$3.50 a gallon, it starts to pinch. If it’s \$100, every product in America has to readjust its price. \$78 a barrel, that’s about perfect.

Tommy’s numbers may not be perfectly accurate, but directionally they are likely in the ballpark. So, it was no surprise when **markets soured and volatility spiked** immediately following the start of the war. To us, some of this volatility was predictable while some was surprising. Thanks to a last day rally on March 31st, some quarter-end

(year-to-date) numbers masked the full extent of the volatility. Here’s how some major categories of investments fared for the quarter, and from the stock market peak on January 27th to its low on March 30th:

	1st Qtr	Peak to Trough
U.S. Stocks (S&P 500)	-4.30%	-9.06%
Non-U.S. Stocks (EAFE)	-1.10%	-8.35%
Emerging Market Stocks (EEM)	-0.10%	-10.28%
Core U.S. Bonds (AGG)	0.03%	-0.52%

There’s a lot to talk about in these numbers. For one, **U.S. Stocks and Bonds were both down** during the drawdown. Slightly higher interest rates, in response to many factors including the potential inflationary effects of the war, drove bond yields up (and prices down) slightly. This simultaneous negative performance of Stocks and Bonds is important. More on that later.

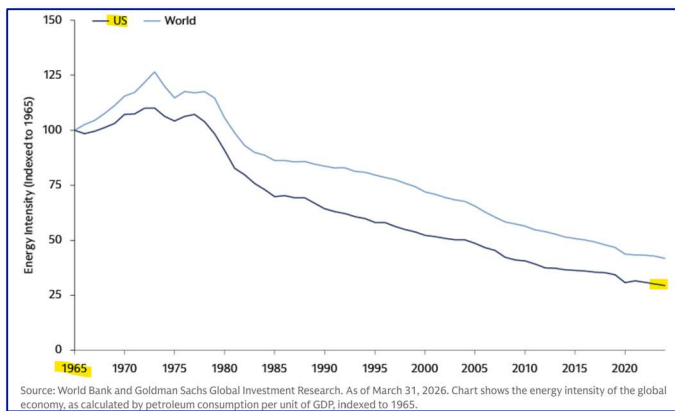
Also worth noting: **Non-U.S. stocks maintained their leadership** over U.S. stocks for the quarter. More on that later as well. While not in the table, the “Magnificent 7” basket of the largest U.S. Large Cap stocks (NVIDIA, Google, Apple, etc.) **FELL 12.1%** during the first three months.

What about Gold? Glad you asked. Considering we are in the midst of a major geopolitical event, stock market volatility is up sharply, and inflation pressures are mounting, you’d think Gold would have performed well. Yet, while positive for the quarter, **Gold declined 15.5%** during the correction. We think its performance is evidence of the unwinding of a crowded, potentially leveraged trade (after Gold was up 64% last year). And evidence of how difficult investing can be at times, when technical factors or short-term traders overwhelm seemingly obvious fundamental factors.

Did anything work in the first quarter? There’s an old Wall

Street saying that *“there’s always a bull market somewhere.”* That was true again in the first quarter. The war sparked 37% gains in Energy stocks. A common broad-based index of Commodities was up 40%. The Morningstar Diversified Multi-Strategy Alternative category average gained 1.8%. So yes, there were some bright spots. But these exposures were likely only found in the most sophisticated and prudently diversified portfolios.

As markets underwrite the impact and potential duration of the war, it’s worth a closer look at the impact of the price of oil on the economy and different stakeholders. A lot is made of the price of oil, less about its impact on the broader economy. Since it touches nearly every product in some way, it’s important to nearly everyone - much more so of course if you live in Texas or work in the oil industry. But compared to a few decades ago, the price (cost) of oil is now much less important to the economy than it used to be. This chart from Goldman Sachs shows, going back to 1965, the decline in the U.S. economy’s reliance on energy per unit of GDP:



The chart illustrates how the amount of oil needed to drive one unit of U.S. economic growth has **declined about 70% over the last 60 years**. Economist Paul Krugman recently pointed out that the U.S. economy has roughly tripled in size during this period while consuming close to the same amount of oil. Hard to believe, but this makes sense as not only have vehicles and all forms of transportation become more fuel efficient, but our economy has transformed into a digital and information-driven one. A few other important points regarding oil and its impact on the U.S.

- Thanks to the Shale oil revolution, the U.S. now is a major global oil producer and a **net exporter** of oil. So, higher oil prices, while detrimental to many, help the profits and wages in some sectors of the U.S. economy.
- Unfortunately, the price of oil (and gasoline) **hurts lower income Americans** more than higher income. Remember our recent note about the “K-Shaped”

economy and how things are going in different directions for different categories of Americans? Well, higher oil and gas prices only “fuel” that phenomena even more.

Not surprisingly, the combination of AI, a shaky labor market, higher gas prices, and the Iran war has Americans on edge. What may come as a surprise is how far on edge we are (or at least say we are). On April 10th, the University of Michigan released its preliminary Consumer Sentiment Survey reading for April. It was a shockingly poor number – **Consumer Confidence is at its lowest level in the history of the survey, over 70 years!**

In spite of all the uncertainty, low consumer confidence, and higher oil and gas prices, the U.S. Economy continues to do “OK”. It’s not flying high by any means, but it also appears far from recessionary levels (for now). One of our research providers (Apollo) monitors very short-term (weekly) economic variables, and they are not showing meaningful spending declines in many categories.

We’ve noted before that the jobs market appears in an awkward state where firms are not eager to hire or fire, and both job seekers and current workers have low confidence. Nothing has changed materially in that regard in the past few months. The threat of A.I. to white collar jobs, and robots to blue collar jobs, has taken a bit of backseat this year, but the uncertainty, disruption, risks and opportunities of those trends seem likely to dominate the economy for many years to come.



On the plus side, in the weeks and months ahead, thanks to last Summer’s OBBBA tax changes, the economy should benefit from consumers receiving significantly **higher tax refund checks** than in the past. (So far, IRS tax refunds are running 14% higher than last year.) With the Administration focused on the war, new tariff policies have been put on the back burner. Between that, and with last Spring’s tariff-related inflation spike falling off the trailing twelve-month figures, reported inflation figures have some catalysts for declining. In total, the combination of an economy that’s neither very strong nor alarmingly weak with the inflationary impact of higher energy prices has many market commentators dusting off the “Stagflation” label to describe the most likely outcome for the U.S. economy this year. If that turns out to be a fair label, it’s not ideal, but still better than a recession.

Investors remain focused as usual on interest rates and the

Federal Reserve. For good reason – interest rates impact nearly everyone – savers and debtors – and they affect the value of stocks, bonds, and alternative investments. The Fed has paused its interest rate cutting cycle due to somewhat stubborn inflation last year and oil-price-related spikes this year. A new Fed Chairman will likely take the helm in the 2nd or 3rd quarter in 2026. And while the Fed should be able to maintain its independence, it's also no secret that the President wants lower rates. While the war means the Fed will likely have to pause their rate cuts, unless the conflict results in elevated oil prices for an extended period of time, we **expect the Fed to be able to resume lowering rates later this year** and into 2027, as higher oil prices and low consumer confidence are likely to weigh on the economy somewhat. Lower rates would benefit stocks, bonds, and real estate.

During times of such heightened uncertainty, we find it useful to try to focus on what we know, what we don't know, and separate it from what we think (or worse, hope). **Speculation and prediction can be dangerous.** Clearly, nobody "knows" how or when the war will end. Iran's government, driven by theology, is not a logical actor. Our current Administration is obviously willing to take big risks and actions. While known for "chickening out" when policy collides too much with the stock market, the off ramp for this war is not as obvious as other confrontations. With that said, while not sure, we're reasonably confident that one way or another, the war will end soon, likely by June. And we remain optimistic that the end of the war will be a net positive for the U.S. and most of the world.

However, **a positive outcome is not guaranteed** as a wide range of options remain possible. Unfortunately, there's a non-trivial chance of a very bad outcome - attacks on oil infrastructure both in Iran and across the Middle East would almost certainly trigger a global recession, leading to sharply lower stock prices.

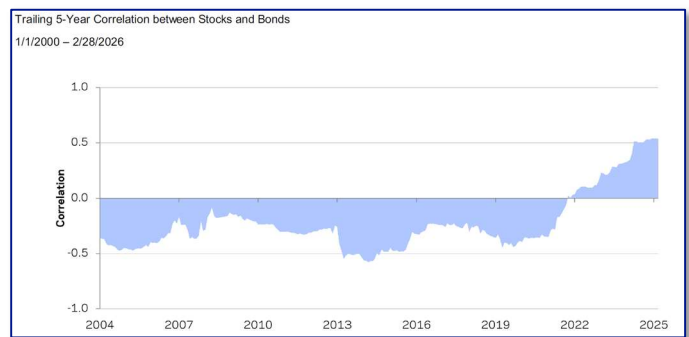
During periods like today, as investors, we think it's helpful to think in terms of the "next 20% move in stocks." Most of the time (maybe 90%), we're confident saying that the next 20% move in stocks is almost certain to be up. We don't think anybody can say that today. While not a 50/50-coin toss, there's certainly an elevated chance that the war does not reach an acceptable and prompt conclusion, things worsen, and the next 20% move is downward. A global recession would likely mean stock market downside much more than 20%. Larry Fink, the CEO of Blackrock, recently said this about the range of outcomes:

"I would argue that we could have years of above-\$100 (per

barrel), closer to \$150, oil, which has profound implications in the economy. The \$40 oil implication is one of abundance and growth; the other is an outcome of probably stark and deep recession."

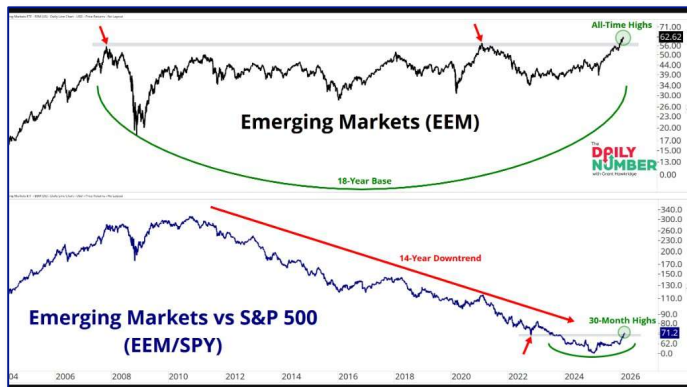
So, investors find themselves in **a position of elevated uncertainty**. Even without the war, the factors driving markets in 2026 were markedly different from the years prior. The advent of A.I. is unsettling and the consequences unknown. Income and wealth disparity have been rising and seem destined to widen. Now the war, higher oil prices, and a tailwind to inflation exacerbate the challenge.

We have long advocated for the use of Alternative Investments – both asset categories (like Private Equity, Private Real Estate) and active strategies. We've liked them for several reasons, including the potential for strong risk-adjusted returns, but equally so for their diversification benefits. The simultaneous negative performance of both stocks and bonds during this year's decline, along with the positive performance of a diversified basket of Alternatives, reminds us again of this importance. This chart, of the trailing 5-year performance correlation between stocks and bonds illustrates clearly how the two asset classes, reliable diversifiers of each other for decades, have **failed to diversify each other** in recent years. Inflationary pressures will do nothing to return that relationship to its previously complementary nature.



This reduced diversification benefit between stocks and bonds argues for keeping a **meaningful allocation to diversifying alternative assets and strategies**, especially those that do well in inflationary environments. We are similarly confident in the increased importance of diversifying beyond the U.S. stock market. Last year, and again this year, Emerging Market stocks showed leadership characteristics. The war is unlikely to help the U.S. Dollar, and a weaker Dollar is usually a strong tailwind for non-U.S. investments. Importantly, today's Emerging Market stock markets are not like those of 20-30 years ago. The largest sector in the Emerging Market stock index is Technology stocks (30%) with some of the most important Tech companies in the world based in Taiwan and South Korea.

In aggregate, Emerging Market stocks are exhibiting strong profit growth and are available at reasonable valuations. Beyond the fundamental attractiveness, the following two charts of Emerging Market stock market index performance tell two different stories, both **potentially bullish for Emerging Market stocks**. The top (black) line shows Emerging Market stock performance since 2004. The two red arrows on top point out how the index spent decades going sideways and did not make a new all-time high until recently (2025). From a technical standpoint, this is considered a long-term “breakout”. Emerging Market stocks are now “free” to make new all-time highs, unencumbered from “resistance” (that horizontal grey line) of previous highs.



The bottom chart, the blue line, shows the **relative performance** of Emerging Market vs. U.S. Stocks. The line declined for 14 years as U.S. stocks outperformed them repeatedly, but looks to have bottomed and reversed up. We can't be certain that a new trend is in place, but it sure looks possible. These two charts argue that an extended period of strong Emerging Market stock market performance may have only just begun last year.

Sometimes assessing the investing landscape is straightforward. Other times not so much. It's even more challenging when the **ground beneath your feet is shifting so quickly**. As you may know, thus far in April stocks have staged a violent rally on the back of hopes that the war is nearing a conclusion. This month, the S&P 500 gained

almost 10% in only ten days – a level of 10-day performance only achieved 0.03% of the time since 1950.

These strong returns say a lot to us. It shows how the stock market “wants to” go up – and IF the war ends without any or much more violence, the market expects the bulls to regain control. Yet, it's important for investors to remember that historically, extreme short-term upside volatility (like we are experiencing this month) is more likely to occur in a bear market than a bull market (which are typically calmer.) With that said, on balance, without guaranteeing anything about the next few weeks or months, the powerful performance in April is **more of a positive for the future than a negative.**



So, in the face of low confidence and high uncertainty, some investors may be wondering if they should buy, sell, or hold? This is likely misguided. For one, the speed and magnitude of recent drawdowns and rallies remind us all how difficult and risky market timing can be. The bottom line is that if **your portfolio is aligned with your risk tolerance, time horizon until meaningful withdrawals, and your financial plan**, then this episode of geopolitical and market upheaval should not affect your portfolio choices in a meaningful way.

We are not sitting on our hands, however. On the margins, we are slightly increasing our Emerging Market exposure and striving to make volatility our friend by rebalancing portfolios from short-term winners to strategies that we think have been unfairly punished during the selloff. And our continued healthy weighting to Alternative investments is an important part of our approach to getting through this period of elevated uncertainty, which can best be described as – **diversify and chill.**

This report was prepared by 46 Peaks LLC, a U.S. SEC registered investment advisor, and reflects the current opinion of the firm, which may change without further notice. This report is for informational purposes only and nothing contained herein should be considered as investment advice or a recommendation or solicitation for the purchase or sale of any security or other investment. Opinions contained herein should not be interpreted as a forecast of future events or a guarantee of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will be either suitable or profitable for a client's portfolio. Economic factors, market conditions, and investment strategies will affect the performance of any portfolio and there are no assurances that it will match or outperform any benchmark. Diversification does not ensure a profit or protect against loss in a declining market. Registration as an investment advisor does not constitute an endorsement of the firm by securities regulators nor does it indicate that the adviser has attained a particular level of skill or ability. Commentary regarding the returns for investment indices and categories do not reflect the performance of 46 Peaks LLC, or its clients. Historical performance results for investment indices and/or categories generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results. Figures contained herein are obtained from sources deemed reliable, but we do not guarantee its accuracy or completeness. Past performance is no guarantee of future results. Investments fluctuate in value. 46 Peaks is independently owned and operated. Except where otherwise noted, index performance and economic statistical information sourced from JP Morgan Asset Management, NDR, Apollo, or Morningstar. ©2026 46 Peaks LLC.