SUMMIT
ASSET MANAGEMENT

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"It Takes Two to TACO"

Dear Clients and Friends: April 15, 2026

It's hard to write a letter these days. Any attempt to prepare thoughts in advance leaves you at risk of quick obsolescence. The times in which we currently find ourselves are particularly challenging. Nevertheless, we will power through and hope that this information is still relevant when you read it!

When we last reported in January, we recapped a volatile but positive 2025. Looking forward, we saw accelerating economic growth, forthcoming larger-than-normal tax refunds, a Federal Reserve appearing poised to make further interest rate cuts, and markets having seemingly moved past a constantly evolving tariff situation. These positives led investors into 2026 with some confidence that additional stock market gains were to be had and expected those gains to broaden beyond just the Artificial Intelligence trade. The stars looked fairly aligned and the year started as such.

However, the quarter was defined by a sharp shift from early optimism to pronounced volatility, as geopolitical shocks and macro uncertainty took hold. Initially, we witnessed a rotation. Technology stocks and companies linked to the AI trade began to see declines. Focus suddenly shifted from the immense opportunities of the AI buildout to how disruptive AI could be and the lengthening return-on-investment schedule. Investors began looking for value elsewhere; cyclical, value-oriented and small-cap stocks broadly outperformed. Other sectors, such as energy, materials, and industrials, saw strength as the idea of an improving economy, fiscal stimulus and trending lower interest rates began to emerge. Ironically, it started to pay to be outside of the AI fray despite the promises of the new technology.

Then, conflict in Iran took over the headlines. We shifted from a market rotation to a market where almost everything went down. Most indices, having peaked near the end of February, lost about -10% from their highs. The S&P 500 ended the quarter down -4.3% while small caps finished with a +1.0% gain. International markets eked out +1.5% after being up double digits earlier in the year. Before the conflict began, the 10-year Treasury yield was as low as 3.94% but has since risen to about 4.45%. This resulted in the Aggregate Bond Index finishing flat for the quarter.

Operation Epic Fury

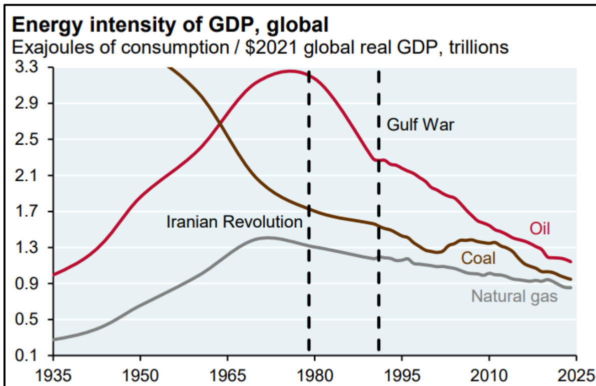
On February 28th, after a slow and grinding military buildup and months of verbal threats, the United States and Israel decided to bomb Iran. The Trump administration has been criticized for a lack of clarity on the timing and ultimate goals of the campaign. Instead of deliberating those here, we would direct you to your favorite 24/7 cable news channel where that discussion never ends. Iran's response has been to attack other Gulf States' energy infrastructure and effectively close the Strait of Hormuz. It is the closure of this small waterway that has put the world in a tizzy.

The Strait of Hormuz is a 100-mile-long, narrow waterway separating Iran from Oman, serving as the only sea passage from the Persian Gulf to the open ocean. It is the primary channel through which 20% of global oil consumption, 20% of global liquified natural gas (LNG) shipments, 33% of global fertilizer trade, and 33% of global helium (essential for semiconductor manufacturing) must pass. Before the war, ships passed freely through the Strait. By deciding which ships can travel through the passageway, and which can't, Iran has the power to disrupt global markets and inflict pain on its adversaries across the world.

Closing this waterway was always a possibility but considered a "nuclear option" because of the dire consequences to the global economy. Iran took this option much quicker than expected. Just days after the war started, they began restricting the number of ships that could travel through the channel and reportedly charging fees up to $2 million per ship for those vessels that did. As you would anticipate, oil prices leapt, immediately driving up the cost of gasoline, diesel and jet fuel. In what feels like COVID 2.0, attention raced to global supply chains and inventory levels of the thousands of products derived from the resources that were no longer freely flowing through the Strait of Hormuz.

As a result, President Trump's focus and rhetoric has swung almost entirely to reopening the Strait. Iran does not have to physically close the Strait; they can just threaten to attack ships in order to dramatically reduce traffic and wreak havoc. In what feels like Tariffs 2.0, Trump has continually laid down ultimatums and deadlines only to withdraw or move them. Markets have been held hostage and gyrated wildly to every changing development.

Not the 1970s again?
The current situation has many concerned for a 1970's repeat where a war in the Middle East and surging oil prices led to stagflation – a toxic mix of higher prices and slower growth that made economic life miserable. Here, we have some good news. The oil intensity of global GDP has plummeted over the last 50 years and is only half the level it was at the time of the Gulf War in 1990. The same can be said of natural gas, despite tripling of consumption. In plain terms, oil is still important, but not nearly as it has been in the past. The charts below show how innovation in things like refrigerators and HVAC systems combined with alternative energy sources have made the world a much more energy efficient place.



Source: Energy Institute, IEA, OWID, Shift Energy Portal, JPMAM, 2025

Energy efficiency measures	1990	Latest
Aviation MJ per passenger-km	2.9	1.1
Light duty vehicle miles per gallon	21.2	28.0
Oil and gas furnace fuel efficiency	65%-70%	80%-95%
Combined cycle gas turbine max efficiency	0.5	0.6
Refrigerator energy, kWh per year	960.0	400.0
Air conditioner Seasonal Energy Efficiency	8.0	15.0
Window air leakage, cu feet per minute per sf	0.3 - 0.5	0.1 - 0.3
Standard lighting, lumens per watt	8 - 10	80 - 100
Limited progress: Class 8 trucks and containerships		

Energy mix shifts, World ex-China	1990	Latest
Renewable share of useful final energy	5%	10%
Nuclear share of useful final energy	4%	3%
Oil share of useful final energy	36%	30%
Coal share of useful final energy	25%	18%
Nat gas share of useful final energy	30%	38%

Source: JPMAM, 2025

While higher prices are a drag on growth, the reduced oil intensity means oil shocks have smaller impacts on GDP and corporate profits than before. The U.S. is also capable of exporting tremendous amounts of natural gas to help fill the gap created by lack of supply.

Because of the shale oil revolution and the ongoing adaptations of supply chains from COVID and tariffs, the U.S. is about as insulated from the Middle East turmoil as we could hope to be. Having said that, the administration keeps stating that the U.S. is energy independent and a net oil exporter. They say we don't need oil from the Middle East, and we are only doing this to help everyone else. While it is true that the U.S. has become a net exporter of oil and natural gas, the statement is a bit misleading. As we have covered in the past, oil is not just oil; it comes in many "flavors."

Most of our refining industry was built when the oil we used was of the imported Middle Eastern flavor. Only later did fracking turn us into a production juggernaut and create an abundance of domestic oil… in a flavor that we can't fully process. Today, just 60% of the oil running through U.S. refineries is **our** oil. We literally export the extra oil that we can't refine and then import oil that we can. It is a giant trade that very much depends on oil production in the rest of the world. Hence, the prices we pay at the pump are still heavily dependent on global prices and the free flow of oil.

Outlook

We don't know how this conflict will evolve and ultimately be resolved. War headlines come out fast and furious and are often contradictory. Every day we're one Truth Social post away from an actual cease-fire… or boots on the ground. What we do know is that Trump likely does not want a protracted war, having mused about the ill-advised wars in Iraq and Afghanistan. Additionally, elevated gasoline prices will offset much of the benefit of his Big Beautiful Bill. Economic disruptions and renewed inflation are going to make already difficult mid-term elections even more so.

One could argue, Trump has a tendency of manufacturing moments that feel like a crisis. He has always been in control though, walking back that moment and giving the impression of winning. This time might be different. Trump is not in control. Unlike a unilateral tariff, a peace deal requires both sides to agree. While no one is questioning the U.S. and Israel's military might, it does appear that the speed and ease of accomplishing their goals might have been miscalculated. Iran has been able to absorb all the blows, keep their regime intact, continue retaliatory fire, and play the long game. Trump wants an off-ramp.

In the meantime, look at the resiliency of the market over the past few years. Since early 2022, we've witnessed Russia's invasion of Ukraine, 9% inflation, +5.50% increase in the Fed Funds rate, multiple bank failures, historic increases in tariff rates, and now, another war in the Middle East. Equity resilience has been generated by strong earnings, AI capex, and elevated levels of fiscal stimulus. We are less energy dependent than ever before. Earnings for the S&P 500 are still predicted to grow +15% in 2026 and the recent pull back in stocks has brought the forward price-to-earnings ratio back below 20. There are plenty of reasons to be optimistic. It's a great reminder that it pays more to be patient than clever.

Thank you again for your continued confidence and trust as we work through these extraordinary times. We welcome your comments, questions, and referrals. Please don't hesitate to contact us. Stay safe and well.

Summit Asset Management LLC