

Equity Market Review

While investors will evaluate many risks, including potential geopolitical tensions, we didn't believe a full-scaled armed conflict involving the U.S., Israel and Iran was a high probability, but here we are. The Iran conflict has magnified fissures in the post-WWII global alignment that will surely have some long-run implications. More practically, however, the intermediate-term ramifications for the global economy and equity market will need to be sorted as the partial closure of the Strait of Hormuz impacts 20% of global oil along with other essential resources.¹

As the quarter commenced, equity markets resumed the rally that began in mid-April of last year post the deescalation of tariff policy implementation. Market sentiment was favorable, as investors anticipated an increase in economic activity driven by fiscal initiatives passed last year, including higher tax refunds for consumers and the potential pull-forward of capital and R&D spending, which also received favorable tax considerations. Early economic acceleration was initially confirmed by survey data, as the Institute for Supply Management (ISM) Purchasing Managers' Index (PMI) had a meaningful bounce driven by a surge in new orders. As a result, equity markets responded positively with the Russell 2000® Index rising ~10% over the first three weeks of the year.

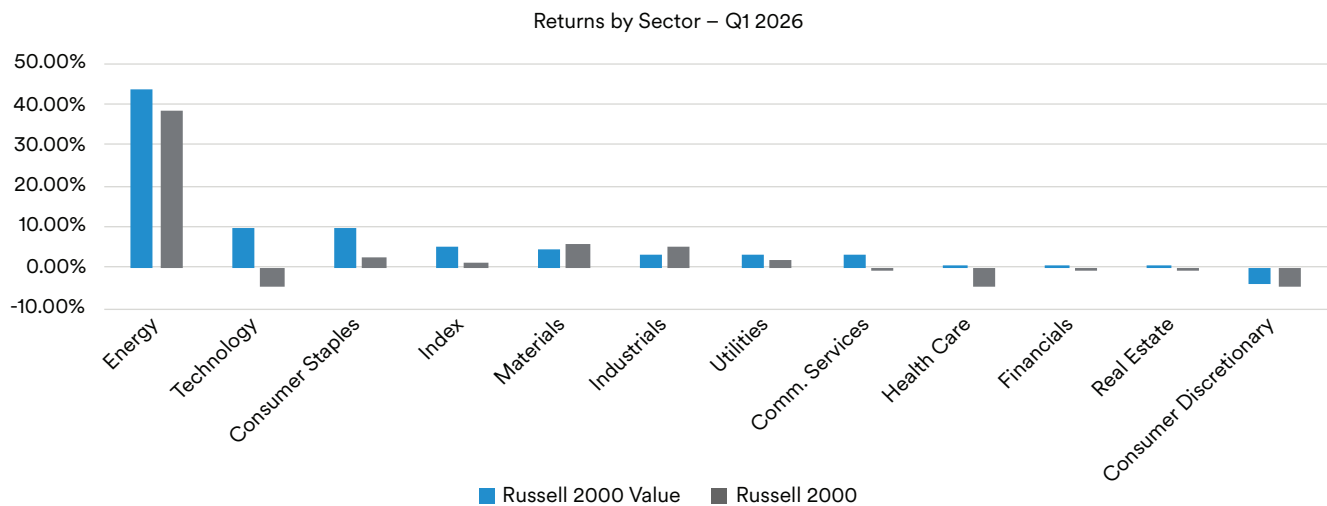
However, rising geopolitical tensions from the U.S./Israeli strike on Iran added a high degree of uncertainty to the overall market. This new development caused equity markets to retreat, as lower oil supply and higher oil prices threatened to slow perceived economic acceleration. As a result, equity markets were positive for the quarter but well off the more robust levels from earlier in the period.

Index	Q1 - 2026
Russell 2000 Value Index	5.0%
Russell 2500 Value Index	4.8%
Russell 2000 Index	0.9%

Source: MIM, Bloomberg and FTSE Russell. March 31, 2026.

Market leadership was more cyclical during the quarter, driven by the outsized impact of the Energy sector, which produced returns of ~40% during the period related mostly to higher crude prices. Individual industries and end markets helped drive outperformance for Materials and Industrials as well. Additionally, we witnessed modest outperformance from traditionally defensive sectors (Utilities and Consumer Staples) as investors sought more safety in the latter part of the quarter. The Technology, Consumer Discretionary and Healthcare sectors struggled to perform during the period and lagged the overall market. However, there were notable differences in sector leadership within the Russell 2000 Value® Index relative to the Russell 2000® Index, particularly from the Technology sector, which was a leader in the value index due to lower software exposure, which was hurt by fears of AI disruption (Figure 1).

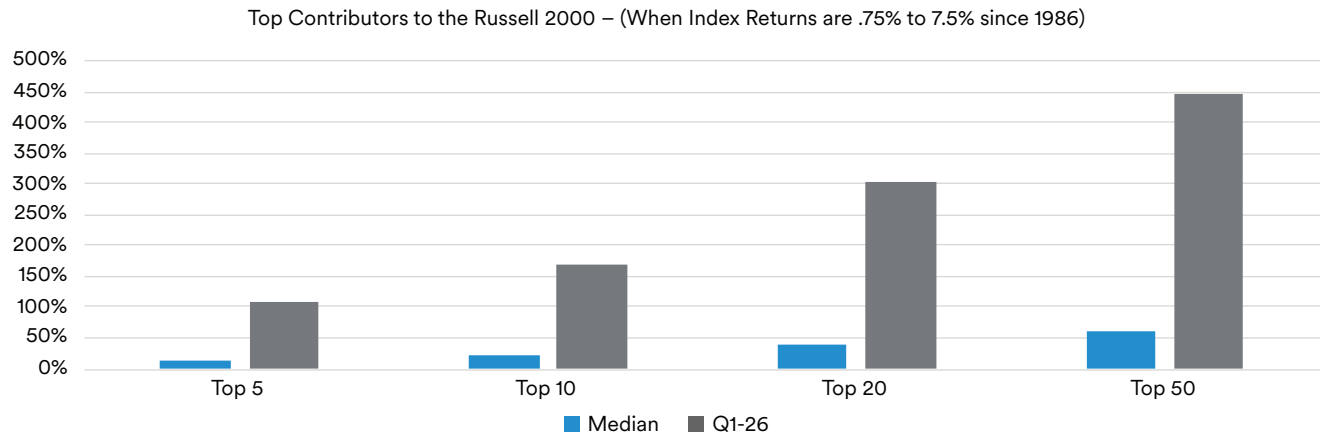
Figure 1 | Market Leadership was Mostly Cyclical



Source: MIM using data from Bloomberg, L.P. Past performance is not indicative of future results. Please see the disclosures at the end of this presentation for additional, important information and for benchmark/index definitions. As of March 31, 2026.

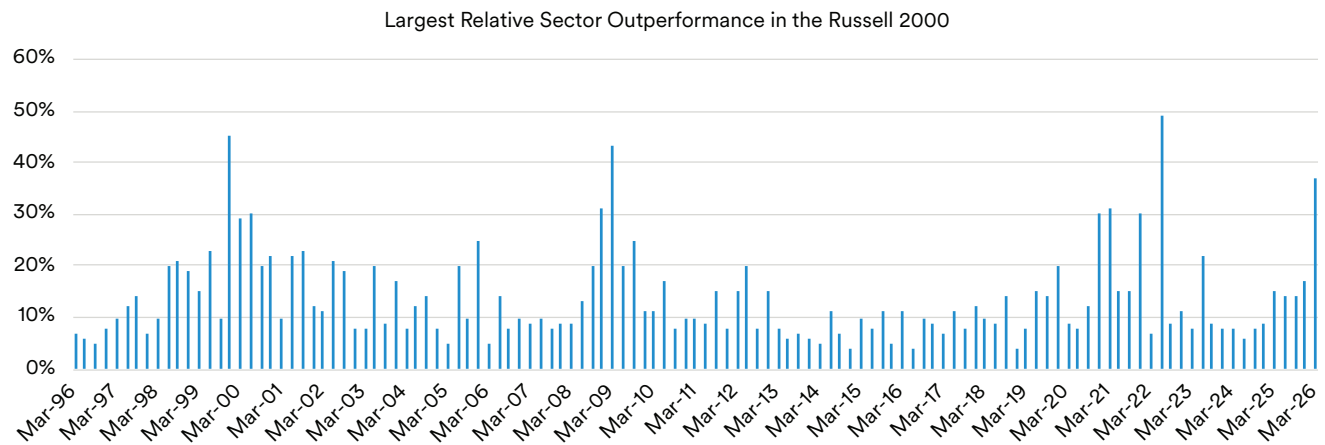
There were some interesting observations related to small-cap performance during the quarter. First, contributions to performance from the Top 5 and Top 10 contributors were much higher than historical expectations for this type of market environment and was an indication of narrow market leadership (Figure 2). Part of the narrow leadership was related to the Energy sector, which produced the fourth largest relative sector outperformance measured over the last 30 years (Figure 3).

Figure 2 | Significant Concentration Among Top Contributors to Returns



Source: Furey Research, MIM using data from Bloomberg, L.P. Past performance is not indicative of future results. Please see the disclosures at the end of this presentation for additional, important information and for benchmark/index definitions. As of March 31, 2026.

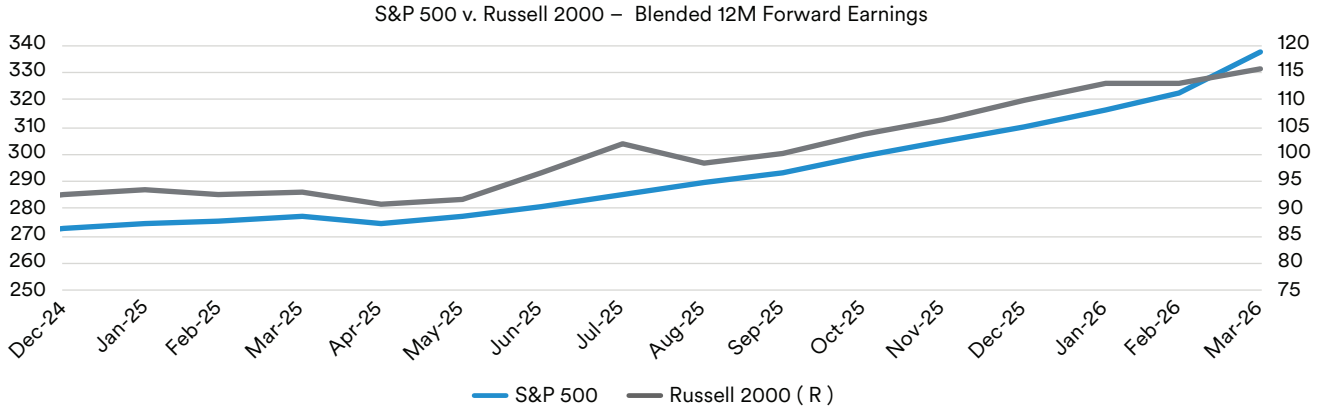
Figure 3 | Energy had 4th Largest Relative Sector Performance Since 1996



Source: MIM using data from Bloomberg, L.P. Past performance is not indicative of future results. Please see the disclosures at the end of this presentation for additional, important information and for benchmark/index definitions. As of March 31, 2026.

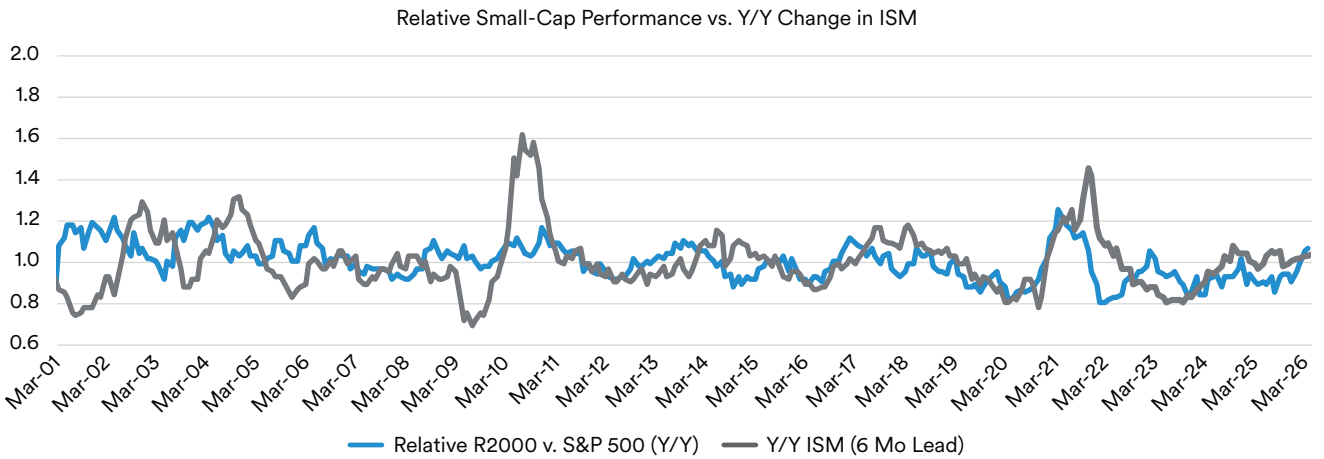
Equity markets marched higher, despite weaker and inconsistent employment data, as consumer spending, retail sales and income growth remained solid. In addition, inflation expectations continued to trend lower, which helped to support the early bounce in equity prices, as the potential for rate cuts from the Fed would help sustain economic activity. Small-cap equities have outperformed over the last quarter and year. We believe part of the outperformance is related to improving earnings trends for small-cap equities over the year (Figure 4). While employment data have been inconsistent, the early surge in ISM data may be evidence of broadening economic activity, which has benefited relative small-cap returns historically (Figure 5). In addition, forecasted earnings growth still favors small-cap equities over the next year (Figure 6).

Figure 4 | Small-Cap Earnings Trends Keeping Pace with Large-Cap



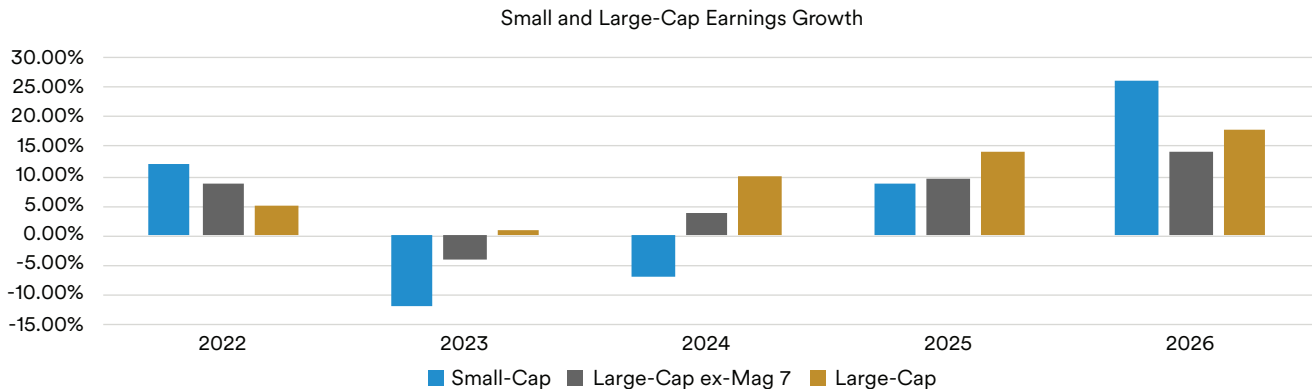
Source: MIM using data from Bloomberg, L.P. Past performance is not indicative of future results. Please see the disclosures at the end of this presentation for additional, important information and for benchmark/index definitions. As of March 31, 2026.

Figure 5 | Recent Small-Cap Performance Reflects Positive Change in ISM



Source: MIM using data from Bloomberg, L.P. Past performance is not indicative of future results. Please see the disclosures at the end of this presentation for additional, important information and for benchmark/index definitions. As of March 31, 2026.

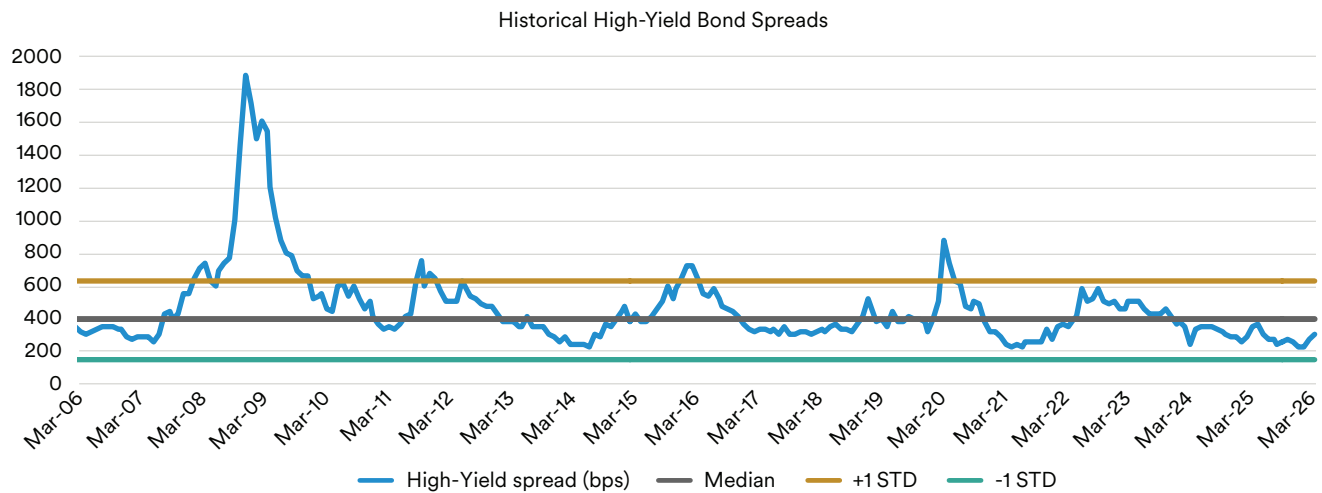
Figure 6 | Small-Cap Earnings Growth to Outpace Large-Cap



Source: MIM using data from Furey Research Partners, Bloomberg LLC, JPM Asset Management, Jefferies Research. Past performance is not indicative of future results. The “Mag 7” are Nvidia, Apple, Amazon, Microsoft, Tesla, Meta, and Google. Please see the disclosures at the end of this presentation for additional, important information and for benchmark/index definitions. As of March 31, 2026.

The Iran conflict will potentially disrupt some of the broader pricing trends as headline inflation will spike, while trends in core inflation could be at risk if energy prices are passed through to other goods and services. Treasury yields rose immediately after the initial strike on Iran, reflecting higher inflationary fears as opposed to the typical flight to safety observed during most conflicts. Though risk factors in the market have moved higher, they are still well below stress levels if we use high-yield spreads as an example of risk (Figure 7). Expectations for the fed funds rate have moved from two cuts to the possibility of a rate increase, given higher inflation expectations. Additionally, higher energy prices, interest rates and potential inflation have negatively impacted housing-related and transportation industries.

Figure 7 | High-Yield Spreads Up Slightly but Still Below Average

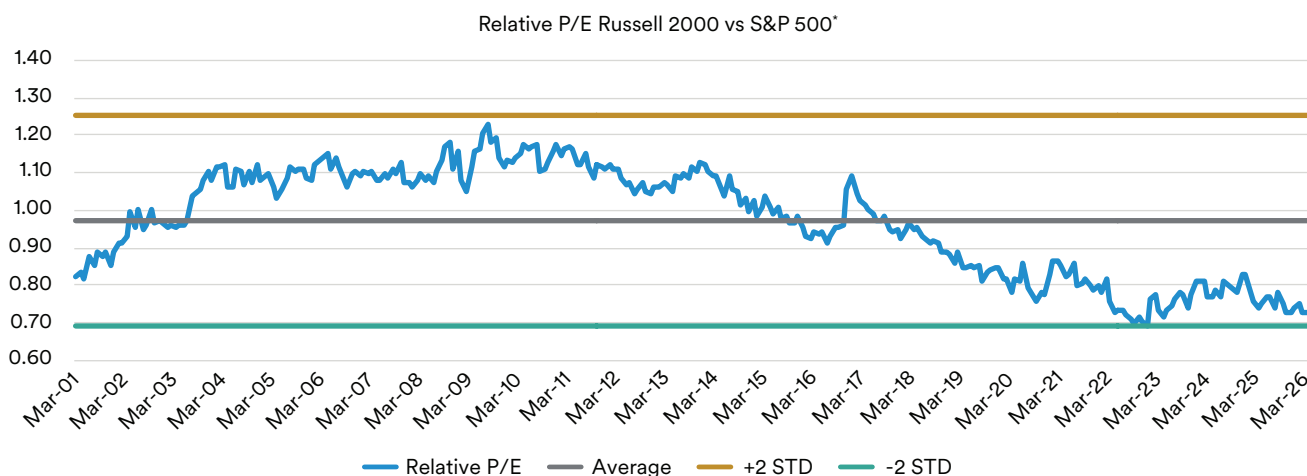


Source: Furey Research Partners, Ibbotson, MIM using data from Bloomberg LLC and FactSet. Small cap returns use Ibbotson monthly returns up until Dec 1978; Large cap returns based upon the S&P 500. S&P 500®: The S&P500® is widely regarded as the best single gauge of large cap US equities. The index includes 500 leading companies and cover approximately 80% of available market capitalization. Past performance is not indicative of future results. Please see the disclosures at the end of this presentation for additional, important information and for benchmark/index definitions.



We continue to believe the economy will avoid recession though the probability increases proportionally with the length of the conflict with Iran and whether a solution involves reopening the Strait of Hormuz. We expect the Fed will respond to potentially weaker data, but its efforts may be impeded if any inflationary impacts are viewed as more than transitory. Nevertheless, growth offsets from accelerated CapEx, higher fiscal spending and tax refunds, along with a more self-sufficient energy infrastructure in the U.S., will act as a relative buffer to energy supply shocks. In addition, small-cap valuations, despite recent outperformance, remain extremely discounted to large-cap equities (Figure 8), which will hopefully continue to provide some margin of safety if equity markets remain turbulent.

Figure 8 | Small-Cap Equities are Historically Attractive Relative to Large-Cap



Source: MIM using data from JPMorgan Asset Management. As of March 31, 2026.

* Source: MIM using data from FTSE Russell, Bloomberg and CSFB. The S&P 500 is a stock market index that tracks the stocks of 500 large cap US companies. Past performance is not indicative of future results. Please see the disclosures at the end of this presentation for additional, important information. As of March 31, 2026.

In the meantime, we continue to monitor several factors that may influence our tactical portfolio positioning:

- Changes in high-frequency economic data surveys to gauge the impact of the Iran conflict.
- Confirmation of a continued recovery displayed by early-quarter economic trends.
- AI disruptions and potential winners/losers.
- Potential negative impacts from changes in private debt credit quality.
- The fiscal budget's impact on income and healthcare support programs to lower-income consumers.
- The prospect of a muted Fed easing cycle driven by higher debt, deficits and inflation.
- A change in the Fed's policy approach driven by pressure from the administration.
- An expansion of current debt and deficits due to budget policy and its impact on long-term interest rates.
- Earnings revisions and changes in the cadence of growth for 2026-27.
- Changes in market-embedded risk and sentiment through bond spreads and volatility.

While markets have continued to move higher, there appears to be a higher level of event risks to monitor and navigate. Considering the recent rally and potential pressure on market multiples from higher inflation, interest rates and volatility, contributions from underlying economic growth and earnings must continue to expand to support equity market prices. We will continue to examine both risks and opportunities associated with future growth prospects and endeavor to position accordingly.

Endote:

¹ International Energy Agency, U.S. Energy Information Administration, Bloomberg. Data as of December 31, 2025.

Benchmark definitions:

The Russell 2000 Index offers investors access to the small-cap segment of the US equity universe. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set. The Russell 2000 includes the smallest 2000 securities in the Russell 3000.

The Russell 2000 Value Index offers investors access to the small-cap value segment of the US equity universe. The Russell 2000 Value is constructed to provide a comprehensive and unbiased barometer of the small-cap value market. Based on ongoing empirical research of investment manager behavior, the methodology used to determine value probability approximates the aggregate small-cap value manager's opportunity set.

The Russell 2500 Index measures the performance of the small to mid-cap segment of the US equity universe, commonly referred to as "smid" cap. The Russell 2500 Index is a subset of the Russell 3000[®] Index. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership.

The Russell 2500 Value Index measures the performance of the small to mid-cap value segment of the US equity universe. It includes those Russell 2500 companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2500 Index is constructed to provide a comprehensive and unbiased barometer for the small to mid-cap segment. Both indices are completely reconstituted annually to ensure large stocks do not distort the performance and characteristics of the true small to mid-cap opportunity set and that the represented companies continue to reflect value characteristics. (Source: Russell).

The S&P 500 is widely regarded as the best single gauge of large-cap US equities. There is over USD 9.9 trillion indexed or benchmarked to the index, with indexed assets comprising approximately USD 3.4 trillion of this total. The index includes 500 leading companies and covers approximately 80% of available market.

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