

PIEDMONT



First Quarter 2026

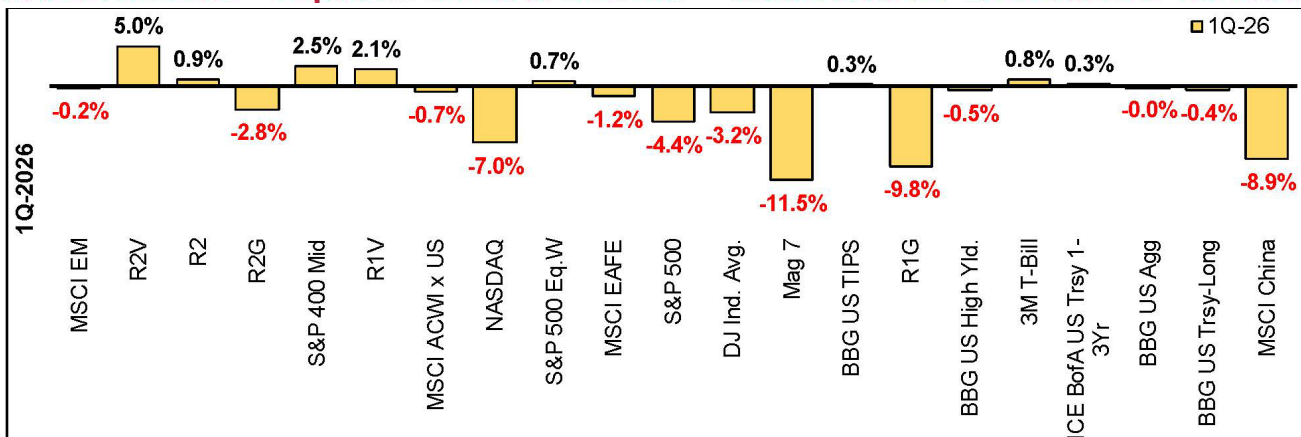
The first quarter started out with a continuation in January and February of some of the themes from 2025. As shown in the table below the U.S. market continued to broaden with smaller company stocks (Russell 2000) performing better than the S&P 500. Non-U.S. stocks (EAFE and EM) also continued to do better than U.S. stocks. In March, geopolitical events once again intervened in financial markets when the U.S. and Israel attacked Iran. Consequently, energy markets were thrown into disarray as Iran effectively closed the Strait of Hormuz through which flowed about one-fifth of the world's daily oil consumption. Along with oil, the flow of vital commodities like fertilizers, aluminum and helium was disrupted. The impact on financial markets was swift and is visible in the table in the column for March results.

Market Performance	1Q-26	Jan	Feb	Mar	YTD-26	1 Yr	2 Yrs	3 Yrs	5 Yrs	10 Yrs
S&P 500	-4.4%	1.4%	-0.8%	-5.0%	-4.4%	17.8%	12.9%	18.3%	12.0%	14.1%
Russell 2000	0.9%	5.4%	0.8%	-5.0%	0.9%	25.8%	9.9%	13.0%	3.7%	9.9%
MSCI ACWI	-3.2%	3.0%	1.3%	-7.2%	-3.2%	20.0%	13.4%	16.6%	9.5%	11.3%
MSCI EAFE	-1.2%	5.2%	4.6%	-10.3%	-1.2%	21.3%	12.8%	13.6%	7.9%	8.4%
MSCI EM	-0.2%	8.9%	5.5%	-13.1%	-0.2%	29.6%	18.3%	14.8%	3.7%	7.8%
BBG U.S. High Yld.	-0.5%	0.5%	0.2%	-1.2%	-0.5%	7.0%	7.3%	8.6%	4.2%	6.1%
BBG U.S. Agg Bd	-0.0%	0.1%	1.6%	-1.8%	-0.0%	4.3%	4.6%	3.6%	0.3%	1.7%
BBG U.S. TIPS	0.3%	0.3%	1.3%	-1.3%	0.3%	3.0%	4.6%	3.2%	1.5%	2.7%

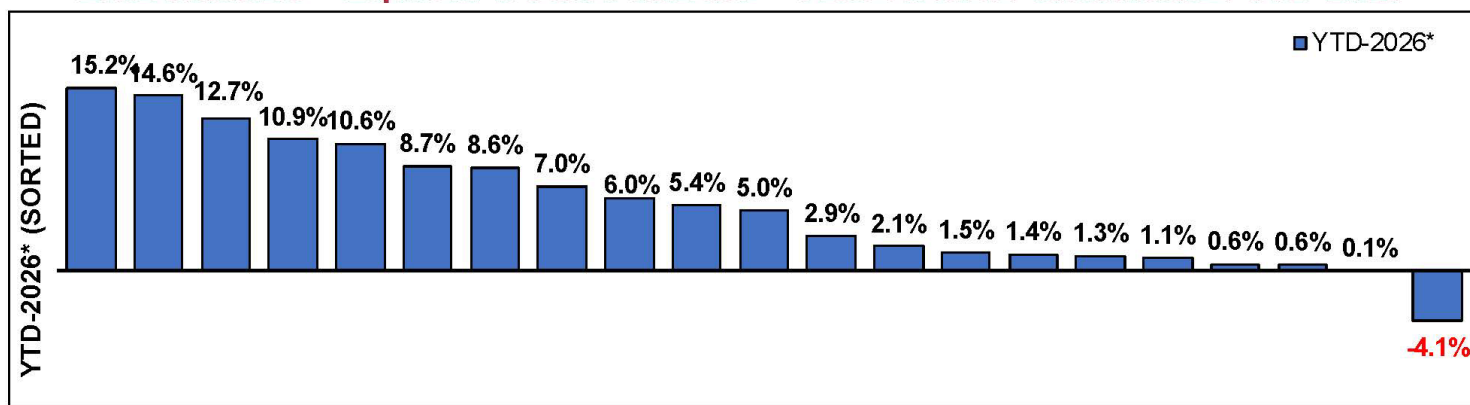
Source: Bloomberg and Monticello Associates

Stocks ended the first quarter flat to slightly lower. But the volatility was jarring; on an intra-day basis the S&P 500 touched down 10%, the common definition of a "correction." Frankly, on March 31, it was easy to see more downside ahead. But, in April, the mood shifted due to cessation of major hostilities and a turn to a focus on corporate earnings. We get a better picture by looking into Q2 a bit. The first chart below shows various index returns for Q1 while the second shows year-to-date through April 24. Equities ripped higher in April, primarily because earnings reports were much better than expected.

Select Indices – Equities & Fixed Income – Total Return Performance: 1Q-2026



Select Indices – Equities & Fixed Income – Total Return Performance: YTD-2026*



*Data as of 4/24/26. All calculations are presented in USD and include reinvestment of dividends. Source: Bloomberg and Monticello Associates

We do detect one significant fly in the ointment, however. The market narrowed again quite significantly. The April returns were driven by a very small number of AI-related companies. In fact, four chipmakers plus Alphabet, Nvidia and Amazon accounted for 80% of the S&P 500's year-to-date gain for the year. The earnings results show a similar concentration among just a couple of handfuls of stocks that are benefiting from the AI and data center build out. One commentator called it a rally standing on "narrow shoulders." The proportion of stocks above their 200-day moving average is among the lowest in history. Given this dependence on a narrow segment of the market, it would not surprise us to see more volatility during the remainder of the year as confidence in the durability of this dominance ebbs and flows.

Portfolio Positioning

We have written often about the challenges facing active stock portfolio managers. When the indexes are driven by so few stocks, it is virtually impossible for active managers to "keep up." Almost all active managers have risk controls that limit the concentration of their portfolios, which precludes them from mirroring the concentration of the indexes. This is a double-edged sword. On one hand, it is prudent risk management, but it can result in an active manager remaining out of sync with market dynamics, which is what we have seen as of late.

In addition, it appears to us that investors have become increasingly thematic and headline driven in their thinking and actions. This has led to companies with growing revenue and earnings seemingly ignored unless those companies operate within a certain theme. Plenty of companies that have strong balance sheets and top positions in their markets get no love from investors, even when they beat analysts' estimates for sales and earnings. As a result of these trends, we have seen increased volatility in the difference in returns between active management and indexes. We aim to address this issue in client portfolios. Over the next few quarters, we intend to reduce the number of active managers in portfolios while increasing somewhat our allocation to passive, index-tracking ETFs. This should also reduce costs and result in more tax efficiency. We remain steadfast in our belief that thoughtful, fundamental analysis of companies will result in long-term outperformance, and we are not abandoning active management. Rather, we are intentionally becoming more selective with our active management exposure, further concentrating on ideas and managers we believe are best positioned to outperform.

We know full well that we sound a little "whiny" when we discuss the active manager issues. It has been very frustrating. We are weighing whether the investing world has changed permanently or

just for the duration of the AI mania currently gripping the market. It wouldn't be the first time: Railroads in the late-1800s; automobiles in the early-1900s; and the internet in the late-1900s. Each sector-specific investment mania resulted in great benefit to the economy, but much malinvestment occurred that incinerated a lot of capital due to over-building the object of the mania. At the same time, the advent of index funds over the last 20 years has changed the way people invest, and markets respond to positives and negatives. We continue to research, monitor and adapt.

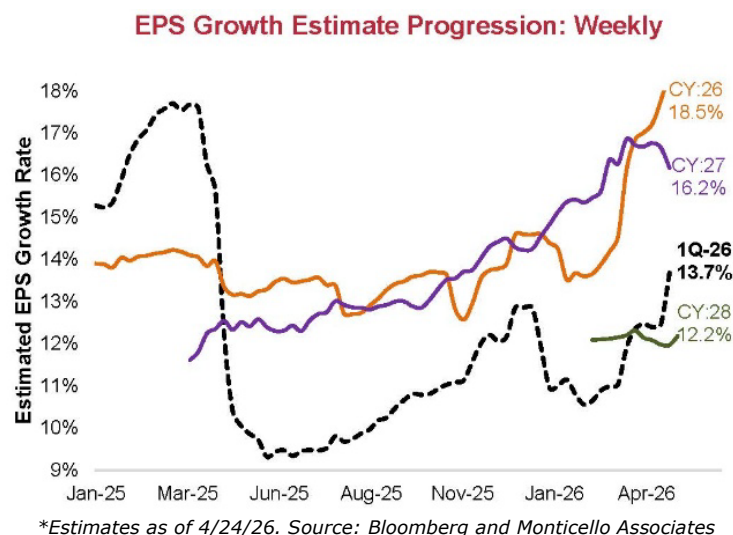
Market Environment and Outlook

We continue to expect volatility but want to focus on what causes that volatility so we can look for any substantial change drivers in the market. What will drive market behavior going forward? Here's our list: geopolitical events, fiscal policy, monetary policy, and corporate earnings. On the geopolitical front, investors should be humble if they believe they know what will happen and how whatever happens will impact economic activity. We foresee a wide range of possible outcomes and impacts. It's going to be important to stay focused.

As for fiscal policy, we despair. No one in Washington seems to have any desire to tackle our deteriorating fiscal situation. At some point, investors, both at home and abroad, will demand higher yields to roll over our accumulated debt plus fund ongoing annual deficit spending. Higher interest rates will eventually force our policy makers into very hard choices. Most of those choices will tilt toward slower growth (higher taxes, lower spending, etc.).

Monetary policy will likely be conducted differently under the leadership of a new Fed chair, Kevin Warsh. Mr. Warsh has been at times very hawkish about inflation and the size of the Fed's balance sheet. More recently, he has sounded more dovish, believing that AI will enhance productivity and reduce inflationary pressure. Which Warsh we get will have an outsized impact on rates and markets.

Corporate earnings estimates look for strong growth this year and next. See the graph below. Eighteen percent this year and 16% in 2027 are very strong forecasts and highly dependent on continued earnings growth from that narrow cohort of AI-related companies referenced above. The future of market returns will be driven by whether those estimates become reality.



Two things tie together all four of the above: inflation and interest rates. Inflation has been running above the Fed's 2% target for over five years. The cumulative rise in prices is starting to pinch many consumers. Unfortunately, the impact of disruptions to energy and other commodity markets due to the conflict with Iran are mainly in our future. Prices for gas and fertilizer have risen, but there will likely be real shortages of energy and fertilizer that will have knock-on effects in agriculture, especially in the Southern Hemisphere, which will enter its planting season in our fall time. The pressure on governments to subsidize food and gas will be intense in these less wealthy nations. Those same pressures are likely to impact the U.S. and Europe later this year and into 2027.

The disruption of supply chains for things like aluminum and helium (which you need to make semiconductors) are only just beginning to ripple through those industries. It's too early to be confident that we know how and where those impacts will fall. If inflation stays elevated, much less if it rises, interest rates will respond. Longer-term interest rates have risen since the Fed first cut short-term rates back in late-2024. The Treasury needs to refinance about \$10 trillion in the next year, plus finance the ongoing annual deficit. The math is daunting. We don't expect lower long-term interest rates. The course rates take will determine much of the market volatility we expect. As we said above, we will monitor and adapt.

Conclusion

Our focus remains on positioning client portfolios for the future by asking hard questions of our managers and ourselves about our allocations. That's how we'll pursue the results we all desire. We remain confident in our firm's process and prospects and are squarely focused on delivering the results necessary to achieve each client's portfolio objectives. Thank you for the opportunity to work on your behalf.



Daniel F. Smith



John M. Simms, Jr.

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