

the serious investor

SPRING 2026

THE SERIOUS INVESTOR: SPRING 2026

Welcome to the spring edition of LVW's *The Serious Investor*.

Overview: A Negative Quarter with Important Signals

The first quarter of 2026 served as a reminder that even constructive market environments are rarely linear. After a strong finish to 2025, U.S. equities entered the year with elevated expectations and historically rich valuations. Those conditions left markets vulnerable to disappointment, and the **S&P 500 declined 4.3% for the quarter**, its weakest quarterly performance since mid 2024.

Index level weakness, however, tells only part of the story. The quarter reflected a **recalibration of investor priorities**, as markets repriced exposure to technological disruption, geopolitical risk, and the evolving trajectory of monetary policy.

The escalation of the war in Iran represented the most important geopolitical catalyst during the quarter, and its clearest market impact was felt through energy markets. Disruptions to oil supply and heightened uncertainty around shipping routes pushed crude prices sharply higher, reigniting inflation concerns that had begun to moderate entering the year. The resulting spike in energy prices flowed quickly into financial markets, contributing to upward pressure on interest rates and prompting investors to reconsider the timing and magnitude of expected rate cuts.

Market Performance: Dispersion Beneath the Headline

The **market cap weighted S&P 500 Index fell 4.3%**, pressured by weakness in several large technology and communication services companies which had led the markets for much of the past 3 years. In contrast, the **equal weighted S&P 500 Index held up better**, reflecting broader exposure to companies with steadier cash flows, more moderate valuations, and business models less vulnerable to rapid AI driven disruption.

Small cap equities posted a modest gain of 0.9%, though leadership skewed toward lower quality and more leveraged companies—an area we continue to view with caution. **International equities declined 1.2%**, as geopolitical sensitivity, currency dynamics, and slower momentum in parts of Europe and Asia weighed on returns. Importantly, weakness abroad was driven more by macro factors than valuation compression, as non U.S. markets entered the year with more tempered expectations.

Stepping back, headline index performance obscures an important reality: **outside of U.S. large cap growth and technology, most areas of the market worked reasonably well this quarter**. Equal weighted U.S. equities, small caps, value oriented sectors, select international markets, and fixed income all held up or generated positive returns. The weakness was highly concentrated in the same mega cap growth stocks that have dominated performance in recent years, making the quarter less a story of broad deterioration and more one of narrow underperformance. For diversified portfolios, market conditions may have been more favorable than the S&P 500 headlines suggest.

Growth: Favoring Business Models That Endure Change

Economic growth remains positive but moderated during the quarter as consumer activity cooled modestly and labor markets remained stable. S&P earnings grew by approximately 5.5% during the quarter, and a higher proportion of companies issued positive forward guidance than at any point in the past five years.¹

That said, markets increasingly favored companies whose earnings streams are **less vulnerable to AI driven disruption**, rather than those dependent on optimistic long term monetization assumptions. Businesses tied to physical infrastructure, regulated end markets, essential services, and mission critical workflows demonstrated relative stability.

International markets benefited from similar dynamics, given their greater exposure to industrials, financials, energy, and infrastructure – areas where AI tends to augment rather than displace economic activity.

Software as a Case Study in the Repricing of Risk

The software sector, down almost 25% for the quarter, offered a clear illustration of how risk was repriced during the quarter.

After years of valuation expansion driven by recurring revenue and scalability narratives, investors grew more discerning. Premium multiple software companies faced increased scrutiny around pricing power, competitive intensity as AI lowers barriers to entry, and expectations for demonstrable productivity gains.

Fixed Income: Rate Cuts Less Likely

Entering 2026, investors anticipated a clearer path toward policy easing; over the quarter, that outlook moderated as the surge in energy prices raised the prospects for higher inflation and labor markets showed relative stability.

Even so, yield levels remain meaningfully higher than in most of the prior decade, supporting fixed income's role as a source of income and diversification. Credit spreads remained contained, though several high-profile private credit funds saw redemption requests increase.

Valuation: Resetting Expectations Selectively

Valuation compression was a defining feature of the quarter. The pullback reflected a **selective reset**, not a broad reassessment of fundamentals.

The dispersion within the S&P 500 underscores that many companies outside the largest index constituents entered the year with more reasonable multiples, lower capital intensity, and earnings streams less exposed to technological disruption. International markets, where valuations already reflected slower growth and geopolitical complexity, experienced less compression.

Liquidity: Functioning Markets with Important Distinctions

Liquidity conditions remained generally supportive, with funding markets functioning smoothly throughout the quarter.

Within private markets—particularly **evergreen private credit structures**—redemption activity increased and, in some cases, exceeded allowable limits. For now, this behavior reflects a repricing of risk in funds with higher exposures to software and sectors susceptible to AI disruption, but we are keeping a close eye out for any indication these concerns are spreading into other sectors.

The Bottom Line: Markets Are Repricing Risk Thoughtfully

A 4.3% decline in the S&P 500 is uncomfortable, but context matters. The first quarter of 2026 reflected a shift toward valuation normalization, a reassessment of AI related disruption risk, geopolitical uncertainty, evolving monetary policy expectations, and increased differentiation across regions and sectors.

Innovation remains powerful, but durability and execution now command a premium. Markets are not abandoning growth – they are being more discriminating as to how enduring that growth may be.

In this environment, **discipline, diversification, and selectivity matter more than momentum**, as periods of reassessment often create healthier foundations for long term returns.

¹ Factset, March 31, 2026.

All data from Bloomberg as of March 31, 2026 unless otherwise noted.

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