

Market Commentary First Quarter 2026

There is a biblical story in which seven years of feast are followed by seven years of famine in Egypt. Pharaoh's advisor Joseph foresaw the crisis and stored grain during the period of abundance, so Egypt was prepared for the predicted famine when it hit. I see some parallels between ancient Egypt and today's financial markets. The comparison extends to how we're managing clients' money in the quest to help you weather leaner times for the broader markets.

The U.S. stock market has enjoyed a long period of prosperity, but it may be past a turning point due to the U.S.-Israeli war with Iran. Historical data points to geopolitical events being short lived and often buying opportunities for stocks. However, I do not believe the adage "buy with the sounds of the cannons..." applies in this instance. Oil prices have risen dramatically and do not appear to be a short-term, transient shock. It is true that our economy is somewhat insulated from oil price hikes because the U.S. is a net exporter of oil, evidenced by the spread between West Texas Intermediate (WTI) and Brent Crude. U.S. energy supplies do not depend on shipments through the Strait of Hormuz, so we're not experiencing shortages of oil or natural gas. Still, consumers are seeing big price hikes at the gas pump.

Furthermore, food insecurity is a secondary consequence of increasing oil prices. Fertilizer is produced using natural gas, which is rising in cost alongside oil. Approximately 30% of global fertilizer is constrained, even if farmers secured this year's fertilizer price last year! Farmers are also finding their distributor might not have the fertilizer they ordered for the specific inputs their equipment requires.² Additionally, the costs for operating tractors, food-related trucking, and refrigeration will rise, further worsening food insecurity.

Food insecurity creates political instability and even revolution. Food shortages were a big contributor to the 2010 Arab Spring, which affected six countries and deposed the leaders of countries including Tunisia, Libya, Egypt, and Yemen.³

We may see some political instability because the current war's effects on oil and gas production can't be undone quickly even if the U.S. and Iran were able to bridge the chasm for a ceasefire.⁴ Even once the Strait of Hormuz reopens, it will take time to re-pressurize and resume production from oil wells and fix damaged LNG facilities.⁵ The constraints are financial as well as physical. Due to the war, insurers canceled their contracts on tankers, and insurance companies will need to re-underwrite the insurance to reflect the riskier environment.⁶ The lengthy process

of restoring energy production contrasts sharply with how quickly the recent U.S. tariffs could be undone almost immediately.

Energy and food price inflation that persists will affect U.S. midterm elections in November, because people tend to “vote with their pocketbooks.” All 435 seats in the U.S. House of Representatives and for 35 of 100 Senate seats will be contested.⁷ Prediction markets suggest an increased probability that Democrats could regain both chambers.⁸ At the same time, some Republicans express growing dissatisfaction with President Trump, who had campaigned on keeping us out of senseless wars in the Middle East.

I’m also thinking about how the attacks on Iran are affecting financial markets. During the recent prosperity, a small number of stocks, especially the Magnificent Seven tech stocks, have commanded investors’ attention almost to the exclusion of other high-quality businesses. Going forward, these stocks might come under pressure for two reasons. First, building out AI infrastructure can be a costly combination of issuing new debt and spending a large percentage of free cash flow, thus reducing stock buyback programs.⁹ Secondly, Gulf sovereign wealth funds (SWFs) may become net sellers of investments as they address emerging fiscal pressures.¹⁰

Against this backdrop, broad-based index investment may prove less effective if the market enters a new regime. In such environments, I believe that manager skill and bespoke portfolio management will show its long-term strengths. The wisdom of preparing for the years of famine during years of prosperity will become clear, as it did in ancient Egypt.

As part of the next phase of our firm’s evolution, we have added a composite of private markets and hedge fund strategies with the objective of enhancing risk-adjusted returns and generating alpha. Where appropriate, we are adding investments that are not expected to move in tandem with traditional public markets and that may also offer higher income potential.

When investing with managers of investments in private markets and hedge funds, it’s important to invest with the best of the best. This is because “The range [of investment outcomes] is much wider for private assets than for public assets.”¹¹ When the macroeconomic environment turns tough, discerning managers are likelier to avoid tripping in investment “potholes.” Currently, defaults in private credit—making loans directly to companies—are expected to rise to 8% from 5.6%.¹² We believe we’ve identified a disciplined approach to accessing outstanding managers in this segment of the market.

Finally, we continue to maintain cash and cash-like instruments to mitigate portfolio volatility and preserve optionality. Liquidity enables us to act decisively when market dislocations create compelling opportunities, which often arise amid rising inflation, slowing growth or geopolitical uncertainty. We believe the current environment may present such opportunities over time.

As always, thank you for the trust you have placed in me and in 7Summit Advisors. We work hard to earn that trust every day.

Sincerely yours,

Li Chang

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⁸ Potlitical Polls. (2026, March 15). [Post on X]. X.
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¹¹ Nielsen, A. and Conway, C. (April 25, 2024). "Manager Selection is Key in Private Markets," Market Views. Blackstone.
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¹² Agostino, S. "When it comes to private credit, 'some caution is reasonable,' advisor says. What to know," CNBC Financial Advisor Playbook. <https://www.cnbc.com/2026/03/22/private-credit.html>