

CUSTODIAN

INSIDE THE CASTLE

Markets priced for war... *We priced probability.*

A look back at the month and why short-term volatility does not change the long-term story.

WHAT HAPPENED

The US vs Iran confrontation rattled markets

While the first quarter of 2026 was defined by acute short-term pressure and volatility, the market narrative has shifted markedly in April.

As the initial shock dissipates, a calmer and more rational outlook has returned. Investors are increasingly looking past the headline fluctuations and towards allowing fundamentals and earnings resilience once again.

Our view on the markets is based more around zooming out. A long economically destructive conflict is not the most likely outcome. The US has domestic political costs to manage, while Iran faces economic strain and growing isolation.

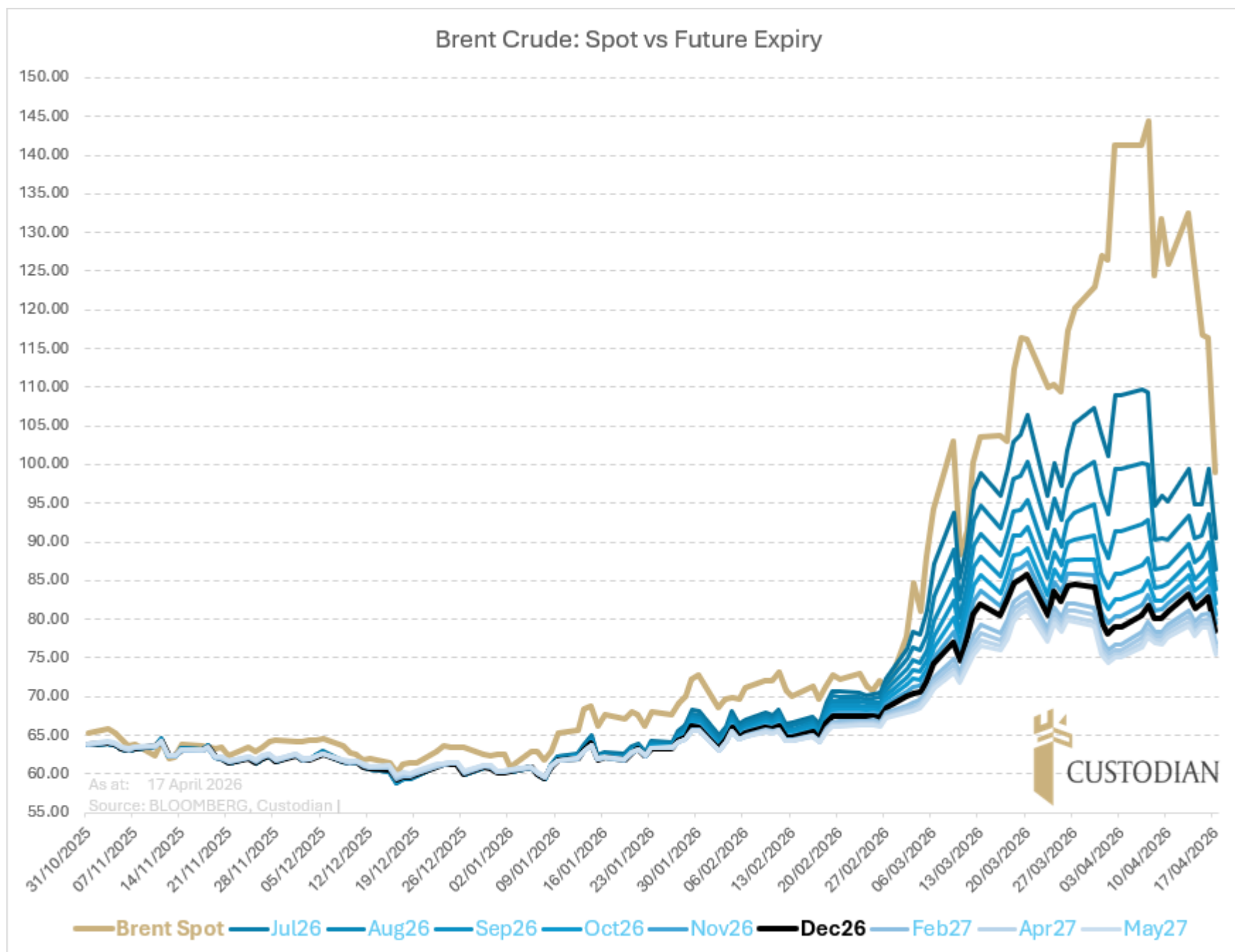
Both sides have strong reasons to de-escalate and that is exactly what is happening.

Markets are pricing the worst case. We keep it simple and focus on what is probable.

THE CLEARER SIGNAL

The oil market told the real story

The best clue that the panic was overdone came from oil prices themselves. While the short-term "spot" price spiked to over \$130 a barrel as investors feared a disruption to Strait of Hormuz shipping routes, the price of oil for delivery in December 2026 remained near \$80.



SPOT PRICE (PANIC PEAK)

\$ 130 +

Driven by headlines & fear

VS

DEC 2026 FUTURES

~\$ 80

Market's real expectation

That gap matters a lot. Oil is the most directly affected asset and it didn't believe in a long-term supply shock so the broader panic in equities was a signal to stay calm, not sell.

CUSTODIAN

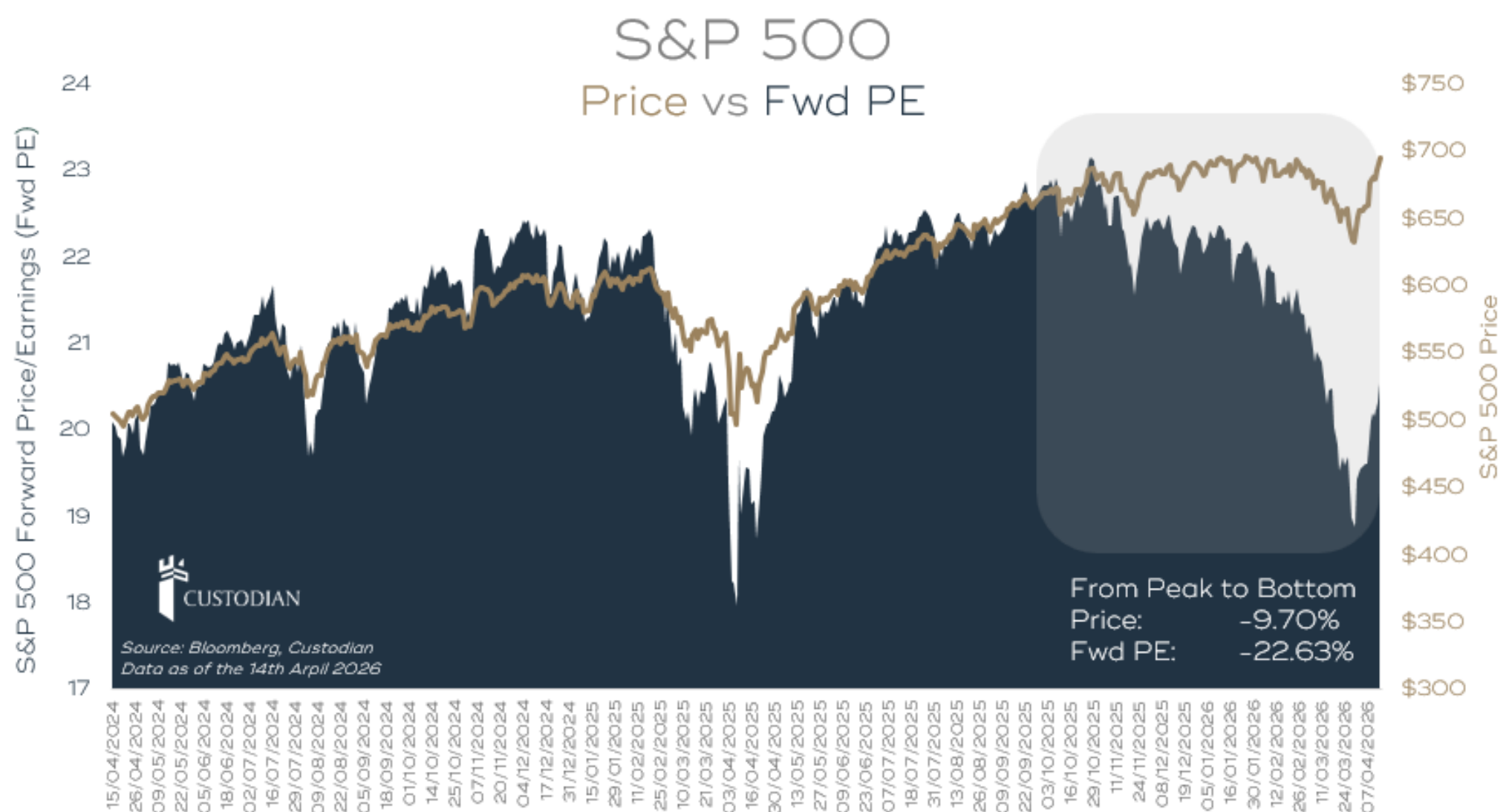
INSIDE THE CASTLE

PRICES VS FUNDAMENTALS

Stocks fell but Earnings did not.

We are seeing a rare “tale of two markets”. Falling prices coupled with rising earnings. This is an unprecedented in data since 1985 according to Bloomberg.

This has created a rare disconnect where prices are declining even as company fundamentals remain strong. As a result, valuations have become more attractive, with high-quality businesses now trading at levels typically associated with weaker companies. Historically, periods like this have tended to reward investors who remain patient and disciplined. We believe this is most evident in software vs staples, where companies selling cutting edge technology are trading at lower valuations than the store selling you milk and biscuits, like Microsoft at a 21 fwd PE is half Walmart at a fwd PE of 42. This disparity leaves us to believe adding to selective technology is an opportunity for medium term growth.



LOOKING AHEAD

What matters over time

As the fear narrative fades, attention returns to what has always driven long-term investment returns: the earnings growth of quality businesses. In the peripheral we see interest rates gradually realigning with softer economic conditions and the discipline to “buy well”, rather than simply “buy”.

Many institutions entered the new quarter cautiously positioned. Indicated by how pension funds and hedge funds are carrying below normal risk asset exposure. As fears ease, that underweight in Risk Assets becomes potential buying pressure as they redeploy cash into markets. We are well positioned to benefit for a return to the norm.

Don't let the all-time highs intimidate you. Although the S&P 500 is trading at record levels, it is technically 15% cheaper on a Forward PE basis than it was at previous valuation summits. This disconnect between price and multiple indicates that earnings are finally doing the heavy lifting, providing a much more sustainable backdrop for medium-term growth.

We believe that the market has had a difficult time and priced in the worst case, but we believe that the market is creating opportunities to include good holdings at attractive valuations for growth. We continue to tirelessly search for these opportunities.

At Custodian, we believe simplicity matters most when fear overwhelms probability