



Rising Risks Testing Resilience

Quick Look

- » U.S. stocks finished modestly lower for the quarter, as the onset of a war with Iran and rising private debt concerns layered additional risk that weighed on markets in the quarter's final weeks.
- » The onset of the war with Iran sent Brent crude as high as \$115 a barrel; its 55% surge in March was a monthly record.
- » Unlike the oil shocks of 1974, 1979, and 1990 that helped precipitate recessions, the U.S. is now a net exporter of crude oil and can better withstand temporary spikes in oil prices.
- » In response to the increasing odds of rising short-term inflation, expectations for further Fed rate cuts in 2026 have fallen from two to three cuts to zero cuts over the past month.
- » This quarter, several high-profile private credit funds capped their redemptions, which will likely only fuel further pressure for exit requests in future quarters and put added pricing pressure on illiquid assets.
- » Despite the challenging quarter, one-year rolling returns for equities are still quite strong; U.S. stocks are up nearly 18%, developed international stocks have gained more than 20%, and emerging market stocks have surged 30%.
- » One primary reason for ongoing stock market resilience has been earnings growth. For the full calendar year 2026, earnings are expected to grow 17%, following 14% growth in 2025.

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We are independent and transparent in all aspects of investment management decision making and financial planning. We selectively partner with like-minded individuals and families, endowments, foundations, and 401(k) plans in over 30 states.

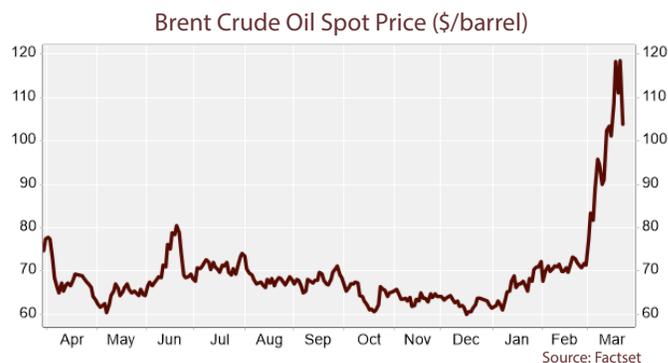
Quarterly Investment Letter, Q1 2026

There are about ten workdays a year when the weather is not too frigid, too muggy, too wet, or too windy to use our office balcony, which overlooks the eastern part of downtown Cincinnati towards Mount Adams. We took advantage of one such false spring day in early March by relocating an internal research meeting out to the balcony. The meeting was standard fare, but we could not help but be distracted by the sounds of the city – the construction drilling, sirens wailing, church bells ringing, and traffic engines buzzing. One of us noted it was an apt depiction of the current state of market headlines.

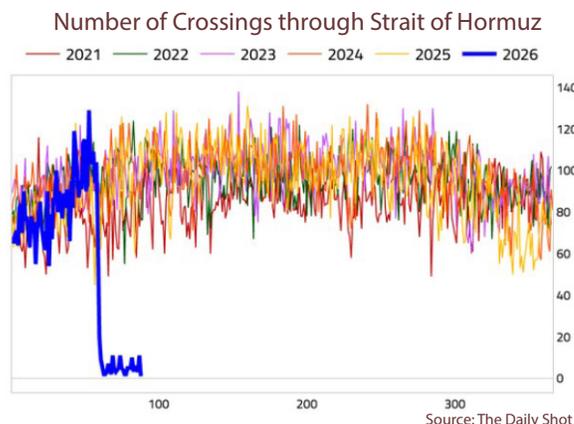
News flow is always constant, but this quarter was particularly voluminous. Geopolitics was especially noisy. January opened with the Venezuela military mission and the Greenland saga at the Davos conference, and closed with the announced nomination of Kevin Warsh as the next Federal Reserve Chair. In February, the Supreme Court struck down President Trump’s tariffs under IEPPA as unconstitutional. The tariffs were immediately rewired through a temporary measure enacted under Section 122 that is also being challenged in the courts. Consumer sentiment and nonfarm payrolls continued their struggles. Yet amid the commotion, U.S. stocks made it through the end of February in positive territory, continuing to exhibit resilience despite the numerous headlines piling up on the tracks of its uptrend.

The month of March was a different story, however, as the onset of a war with Iran and rising private debt concerns layered additional risk that weighed on markets in the quarter’s final weeks. U.S. stocks (as measured by the S&P 500 Index) were down 5% on the month, and the Dow and NASDAQ both fell into 10% correction territory. International stocks dropped 10% during March, and rising bond yields contributed to negative returns for bonds. Let’s discuss both new risks in a bit more detail.

Oil Supply Shock: Oil closed year 2025 at \$60 a barrel, its lowest price since the pandemic. The onset of the war with Iran sent Brent crude as high as \$115 a barrel; its 55% surge in March was a monthly record since trading began in 1988.



The Strait of Hormuz is the world’s busiest oil-tanker route, and 20 million barrels of crude typically pass through the strait daily. Iran was able to effectively close the strait, interrupting 20% of global oil supply. The International Energy Agency declared this “the largest supply disruption in the history of the global oil market,” and released 400 million barrels of oil reserves to mitigate the shock. The Brent Crude futures curve is in steep backwardation, with a massive premium for immediate delivery. However, December contracts are trading around \$80 per barrel, indicating that investors are betting that the conflict will be resolved in short order and that the strait will soon be back open for business.



Unlike the oil shocks of 1974, 1979, and 1990 that helped precipitate recessions, the U.S. is now a net exporter of crude oil

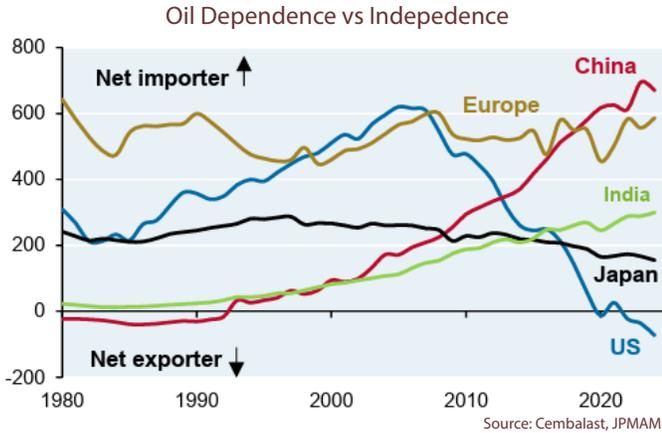
U.S. EQUITY RETURNS (%)

As of 3/31/2026	Q1 2026	1-Year	3-Year	5-Year	10-Year
S&P 500	-4.3	17.8	18.3	12.1	14.2
Russell 1000 (Large Cap) Growth	-9.8	18.8	21.2	12.8	16.8
Russell 1000 (Large Cap) Value	2.1	15.9	14.3	9.4	10.6
Russell 2000	0.9	25.7	13.1	3.8	9.9
Russell 2000 (Small Cap) Growth	-2.8	23.6	12.3	1.6	9.8
Russell 2000 (Small Cap) Value	5.0	28.1	13.8	5.8	9.6

Source: Morningstar

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and can better withstand temporary spikes in oil prices. Goldman Sachs estimates that each \$10 increase in oil prices would reduce GDP growth by 0.1%. So, if crude oil were to remain at \$100 a barrel throughout the year, its impact would likely only erode growth by around 0.4%, not accounting for potential second- or third-order effects. The global economy would likely not fare as well, as many developed countries in Europe and Asia-Pacific are far more energy-dependent.



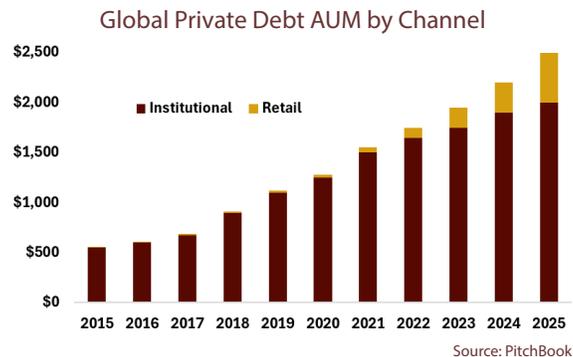
The sooner the Strait is reopened, the better. Even when that occurs, it will likely take months to rebuild daily flows through the Strait, as confidence of safe passage will not return overnight. The surge in oil prices feels strikingly similar to the onset of the Ukraine War in 2022, which coincidentally, also was initiated at the end of February. In 2022, oil opened the year at \$77 and jumped to \$118 the week Russia invaded Ukraine. Oil prices receded that year not because of a peaceful resolution but because of mounting recession fears and corresponding demand destruction. Oil was not the only commodity affected; fertilizer shortages that year led to lower crop yields and food price inflation. Additionally, the pandemic taught us that supply shocks are exacerbated by hoarding and speculation. Just as we saw with PPE in 2020, countries with the means to do so will stockpile supply above demand needs. Meanwhile, net flows into crude oil ETFs reached record levels in March, with the leveraged UCO ETF becoming a favorite of meme-stock speculative traders, as the number of shares traded daily is 7x the level it was prior to the war.

Should the crisis be short-lived, consumers can reluctantly absorb the temporary 40% spike in gas prices through savings or short-term credit, and businesses can manage the surge without raising prices. If oil disruptions are longer lasting, JP Morgan estimates that a \$10 increase in oil boosts headline inflation by 0.35% the following month, according to the Federal Reserve’s inflation model. In response to the increasing odds of rising short-term inflation, expectations for further Fed rate cuts in 2026 have fallen from two to three cuts to zero cuts.

Energy stocks finished the quarter up nearly 40%, but their significance to the S&P 500 Index is a far cry from the 1970s, when they were 25% of the Index. Today the energy sector represents 3% of the S&P 500 Index, or less than half the weight of Nvidia.

Private Debt Concerns: While energy stocks are surging, the Financials sector has been the worst-performing sector year-to-date, down nearly 10%. Some of this weakness in the sector can be attributed to higher oil prices and the resulting headwinds for economic growth. However, publicly-traded stocks of private credit managers have taken a particularly sharp hit this quarter, with several major players reaching a 30% drawdown. Despite this, their underlying private credit funds (which have stoked their drawdowns) generally remain near all-time highs.

As an asset class, private credit has been on a growth trajectory since the Great Financial Crisis. As lending became more stringent, private credit helped to fill the gap for less-credit-worthy corporate borrowers. Over the past decade, private credit has expanded by nearly 15% a year, while traditional banking has grown just 3%. Private credit now finances 80% of private equity, two asset classes that became favorites of institutional portfolios during the zero-rate era that ended in 2022. Recently, these asset classes have become marketed towards individual investors. Anecdotally, we estimate that roughly eight out of ten incoming sales calls to Opus over the last couple of years have been from managers of private debt products. Last August, President Trump made headlines by signing an executive order to include both asset classes, along with private real estate and digital assets, into 401(k) plans.



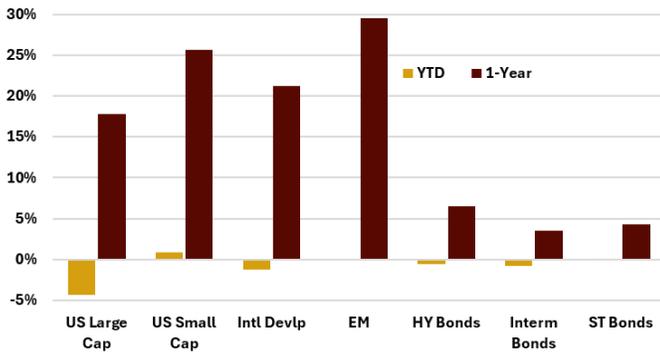
Unlike traditional mutual funds or ETFs, the underlying investments in these products are often not publicly traded, and therefore, are not ‘marked to market.’ Instead, investment values are often determined by internal manager estimates. Because these investments are not marked daily, private debt can provide the appearance of highly-stable return streams.

This can be a mirage, as these are typically sub-investment grade loans to leveraged companies. The premium yields paid by private debt do not come without associated risks, and their valuations may not always be entirely accurate and timely.

In February, our CFA Society of Cincinnati was fortunate enough to host famed distressed-debt investor Howard Marks as a featured speaker. At the luncheon, Mr. Marks estimated that private debt was offering yields of approximately 1.5% above high-yield bonds. Is that enough to compensate for the lack of liquidity? Perhaps for institutions, but most individual investors do not have the multi-decade time horizon, nor the stomach, required to invest in private asset classes. As worries have risen, individual investors have attempted to exit. Unfortunately, private assets can be a Hotel California in that you can “check out any time you like, but you can never leave.” Because the assets are illiquid, managers limit redemption requests. This quarter, several high-profile funds capped redemptions, which will likely only fuel further pressure for exit requests in future quarters and put added pricing pressure on illiquid assets.

In summary, two rather large risk logs have been added to the fire of uncertainty. In both cases, the outcomes are not knowable with any level of confidence. To their credit, markets have held up about as well as can be expected. Year-to-date returns across asset classes are flat to modestly negative, yet one-year rolling returns are still quite strong; U.S. stocks are up nearly 18%, developed international stocks have gained more than 20%, and emerging market stocks have surged 30%.

YTD and 1-Year Returns



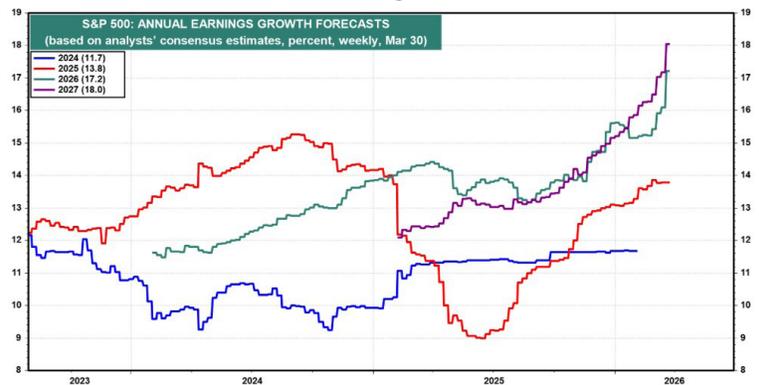
INTERNATIONAL RETURNS (%)

As of 3/31/2026	Q1 2026	1-Year	3-Year	5-Year	10-Year
Int'l Developed ex US	-1.2	21.3	13.6	7.9	8.4
Emerging Markets	-0.2	29.6	14.8	3.7	7.8

Source: Morningstar

One primary reason for ongoing stock market resilience has been earnings growth, which has continued to deliver. When earnings season begins in April, the S&P 500 Index should report its sixth straight quarter of double-digit earnings growth. The risks noted above have not eroded confidence in these numbers; in fact, earnings estimates - which are almost always lowered - were reduced by a smaller margin than average for the first quarter. Additionally, the number of companies issuing negative EPS guidance remains below average. For the full calendar year 2026, earnings are expected to grow 17%, following 14% growth in 2025. Early expectations for 2027 are calling for 18% EPS growth. The Magificent-7 stocks remain the growth engine and are expected to see 30% earnings growth this year.

S&P 500 Annual Earnings Growth Forecasts



Source: Yardini Research

Threats to bull markets are always present, and recessions are never predictable. That is why a risk premium exists to compensate investors for the uncertainty inherent in investing in long-duration assets like stocks. Geopolitical risks, in particular, are rarely a time for conviction, as markets and market participants may not always act rationally. Diversification among asset classes helps to mitigate risks, and quantitative, rules-based investment management helps to mitigate emotion from the process. This strategy has been particularly effective for Opus clients during Q1’s increased volatility. We appreciate your partnership with Opus, and with spring upon us, here is to many more good-weather days on the balcony.

FIXED INCOME RETURNS (%)

As of 3/31/2026	Q1 2026	1-Year	3-Year	5-Year	10-Year
Aggregate Bond	-0.1	4.4	3.6	0.3	1.7
Muni	-0.2	4.3	3.1	0.9	1.9
Int'l Bonds	-1.4	5.1	3.6	-0.5	1.1
High-Yield	-0.6	6.5	7.9	3.9	5.3
Short-Term	0.1	4.3	5.0	2.3	2.4
90-Day T-Bill	0.9	4.1	4.9	3.6	2.4

Source: Morningstar