ALTMAN
INVESTMENT MANAGEMENT

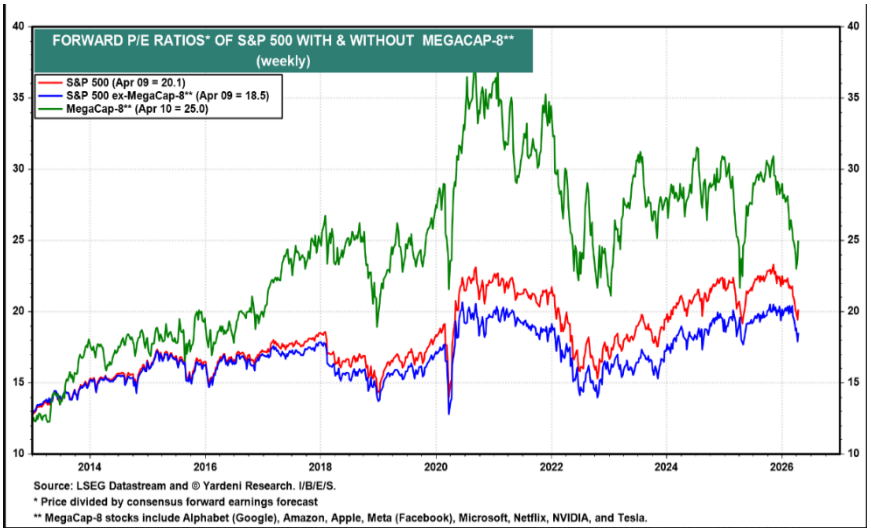
EQUITY STRATEGY FOCUS

MAY, 2026

IN VIEW: Current Snapshot

The recent market volatility of this past year highlights the importance of relative statistics such as beta, standard deviation, and price-to-earnings (p/e) multiples. The AIM composite carries a 1-year beta of 0.76 as compared to the S&P 500 index. This is the measure of systematic risk evident in a portfolio. A beta of less than 1 suggests lower relative volatility. Standard deviation, also a volatility measure, calculates a portfolio's total volatility around its own mean. The relatively lower standard deviation of the composite against the benchmark is also indicative of its lower risk strategy. The average forward p/e of 15.5x for the composite is a 25% discount to the S&P 500 benchmark.

The sell-off in the S&P 500 index in Q1 was led by the Mega-7 stocks, which lost 12% compared to the equally weighted index that was roughly flat. These stocks also appear to be highly responsive to news headlines surrounding war developments and have been retracing some of these losses into the current quarter. Daily trading in the market appears to be more about taking advantage of short-term volatility, as opposed to long-term growth. This indicates investor preference to look past this war, discounting any long-term impact the closure of the Strait of Hormuz may have on oil prices and thus inflation.

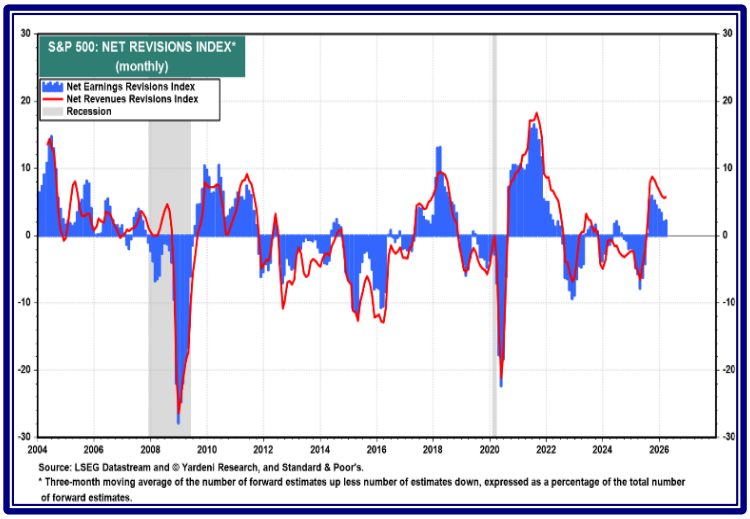


Year to date, the AIM composite (through April 29th) has outperformed its benchmarks. For reference, the S&P 500, Russell 1000 Value, and the equally weighted S&P 500 indexes are up 3.9%, 7.6% and 4.2% respectively. Composite outperformance year-to-date through mid-April is attributable to stock selection in Technology, Healthcare, Industrials and Energy. Top contributors to relative performance were Keysight Technologies, Applied Materials, Intel, Microsoft, Qnity, Northrop Grumman, Conoco Phillips, Occidental Petroleum, CSX Corporation, and Johnson & Johnson.

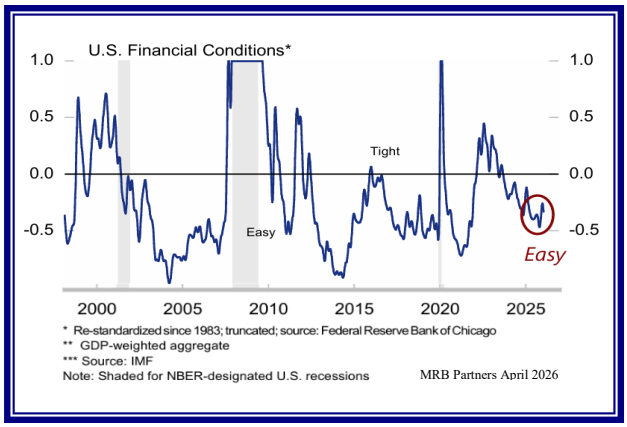
Earnings Revisions:

Overall industry analysts have been revising earnings estimates higher for 2026 and 2027. This is unusual so early in the year, resulting in an earnings-led melt up in the U.S. stock market as the second quarter earnings season winds down. The 20% plus expectations for earnings this year and 15%+ gains in 2027 are sustaining price-to-earnings multiples at the 18-22 multiples. The assumption is the U.S. economy doesn't falter with the current geopolitical headwinds, remaining resilient and delivering on these robust earnings forecasts. Absent a "tech wreck", the odds of a recession have certainly diminished. This optimism has been reflected in stronger than expected earnings reported in the first quarter, with forward earnings rising at an accelerated pace. This optimism has been coupled with a widening breadth in earnings growth expectation in the broader market as well. This has resulted in more compelling investment opportunities offshore on a relative valuation basis, especially in emerging market economies.

According to Yardeni Research, net earnings revisions ratios are up sharply off Q2 2025 lows. Although revision ratios have gradually weakened since October, they still remain above long-term averages. In April, all of the 11 sectors improved over the prior month estimates. Improvement was mostly within industries outside the Mega-7 universe. Technology, however, is still significantly above its historical averages. The other sectors that include Mega-7 stocks (Communications Services and Consumer Discretionary) have reached multi-year highs. Improvement was notable in Industrials which turned positive from the prior month. Financials, although weakening, remain well above trend. Although the road has been rocky, revision ratios for Utilities has been positive for nearly two years.



MRB Partners points out that the markets are in an extended phase, fueled by financially accommodative monetary and fiscal policies. This is similar to what occurred following the Financial Crisis and it was successful in extending the market cycle. The main difference this time, however, is that growing inflationary pressures and policy uncertainty may limit the extent to which policy makers can continue to prop up the cycle. Interestingly enough, bond yields are not fully appreciating the upside risk to inflation. Some areas to monitor that could impact the longevity of the current cycle include rising bond yields, escalating geopolitical tensions, intensifying trade wars, significantly weaker dollar, or a redirection of enthusiasm for AI.



The Federal Reserve left interest rates unchanged at its April meeting, leaving in place its easing bias towards future rates. The Fed continues to view tariff policies as a one-time uptick inflation which should begin to fade thereafter. Beyond this, the Fed chairman admitted the economic outlook is unclear, inflation is elevated and energy prices have not yet peaked. The added economic uncertainty from the war in Iran will test the Fed's confidence that inflation will eventually begin to trend back towards it stated goal of 2%. The positive surprise is that oil markets currently remain at the $100 per barrel level, but could rise in the foreseeable future as the war in the Mideast remains at a stalemate and the knock-on effects on global stagflation materialize as oil reserves diminish. This could certainly result in higher bond yields and pressure on stock market price-earnings ratios.

CLOSE-UP: Equity Sector Overview

➢ *Banking*

There has been continued growth in private credit, despite growing concerns over liquidity and rising loan default rates. Private credit markets center around loans provided by non-bank lenders. Credit quality, overall company size, and leverage exposure are elements that make private credit relatively risky for borrowers. Additionally, concerns are also growing in the segment over exposure to AI software stocks.

Bank of America (BAC) reported earnings that beat expectations, raising their net income target for the year to 6-8%. BAC posted strong results in equity trading, as volatility in the markets increased revenues through higher trading volumes. Investment banking also contributed largely to a solid quarter as growth and AI investment fueled consolidations and IPOs. Net interest income loan-making continues to grow, while loan losses decelerated. The chief financial officer addressed the markets generalized concerns over private credit exposure. Basically, BAC feels somewhat insulated from potential losses, due to the hierarchy of the bank's lenders over sponsors and fund investors. They also re-underwrite collateral, not relying solely on the loan's initial value. Should they detect swelling weakness in a company, BAC adjusts its borrowing base early thereby derisking its exposure. Currently, BAC holds $22 billion in private credit or 10.6% of its Global Market loans.

Citigroup (C) beat analyst estimates on both revenues and earnings in Q1. According to the CEO, the bank is in its final stages of its divestiture and transformation initiatives. This quarter marked the highest in quarterly revenues in over a decade from its markets, wealth and U.S. consumer cards segments. Expenses trended higher with FX, costs associated with higher revenues and volumes, as well as higher severance from targeted efficiencies. These higher costs were partially offset by lower legal fees. At $22 billion in private credit loans (18% of its non-bank financial institution loans) of which 98% are investment grade, Citigroup's CEO feels pretty good about its exposure. Citigroup stress tests its exposure regularly across multiple economic conditions and events.

U.S. Bancorp (USB) exceeded analyst expectations on both earnings and revenues citing strong loan, fee based and consumer deposit growth. More specifically, the President and CEO highlighted momentum in Business Banking, Payments, Capital Markets, and Union Bank synergies, as drivers of future revenues. Net interest margins were flat as elevated mortgage prepayments and tight credit spreads offset loan growth and deposit pricing. Private credit which includes Business Development Corporation, Corporate Debt Facilities, and Collateralized Loan Obligations, account for just under 3% of U.S. Bancorp's total loans, most of which are first lien and highly diversified according to the CFO.

Banking in general is positioned to benefit from reduced oversight, momentum in investment banking and trading activity, and consumer and business spending. However, some challenges exist, such as concerns over private credit, disruptions from developing AI models, geopolitical tensions, oil prices, rising deficits and mounting inflation.

➢ *Oil*

In addition to supply disruptions from the closure of the Strait of Hormuz, the war in Iran has also led to billions of dollars in lost revenue to major oil companies stemming from damage to oil and gas infrastructure. According to the Wall Street Journal, Exxon for example, says its production took a 6% hit since the war began and it expects to lose ~$5 billion in revenues from damage to its natural gas facilities in Qatar. The damage is estimated to take up to 5 years to repair. Refiners, feeling the pinch from higher oil prices, are also beginning to wind down, rationing refined products to the highest bidders.

Supply disruptions, however, have also caused Brent crude to surge to over $120 before retracing some of the gain. The current futures price of crude at $108 is ~60% higher than where it began prior to U.S. and Israel strikes. Rising prices from supply disruptions are incentivizing oil E&P companies to shift exploration efforts away from the Persian Gulf. Big oil companies are said to be pursuing exploration in South America, Africa, and the eastern Mediterranean. Chevron is making moves in Venezuela, where they already have a significant presence. At the same time, it is interesting to note that U.S. and global rig counts have declined since the war began.

Should the strait remain closed or travel is kept restricted to some degree within the strait as it is today, a large number of vessels will continue to head towards the United States. These ships seek not only oil but also diesel and jet fuel. Yet, the U.S. does not have enough capacity to make up for the tens of millions of barrels per day lost from the strait closure and could run low on supply quickly. Traveling times on the sea are also extended as ships re-route to different ports around the globe.

At this juncture, a quick deal with Iran seems unlikely. The issues at hand are not only extremely political but also highly technical and sensitive. There does not appear to be support for a surrender at this juncture, especially as Iran interprets current terms of a deal as mostly favoring the United States. New leadership is still consolidating after many of its top officials were assassinated. There is also extreme pressure from hardliners within the new regime to not make a deal. There is also pressure from many of the Iranian people to end the hostilities and have sanctions lifted.

Let's for the moment take an optimistic view and consider that some sort of deal is reached soon and at least part, or all of the Strait of Hormuz is reopened. Operability within and through the strait would likely remain in flux for some undetermined period. All the ships that had previously been re-routed to other ports would all head back to the strait and be subjected to long queues to fill up vessels. As a result of backlogs and supply shortages, this has the potential to last at least a few months and maybe even years to fully rationalize itself. Additionally, the risk remains that Iran could always choke off the strait again at any point.

It is impossible to know at this juncture what a deal would look like, but any resolution would take week/months to reconcile supply disruptions followed by months/years of infrastructure repair and rebuilding. Oil futures, having experienced significant volatility this year, are extremely responsive to headline news. But the market's level of optimism based upon a quick conclusion of hostilities may be getting ahead of itself. The timeline for full restoration will likely continue to drag on, the longer negotiations take. Recent announcements of a potential deal are indeed a good sign, but an immediate resumption in activity to pre-war levels may prove to be an overestimation. Although energy prices present a headwind for the global economy, they are unlikely, in our opinion, to offset current G7 policy stimulus and derail the current global economic momentum - unless there is a major "overshoot". The duration and magnitude are the larger questions. In any event elevated energy prices are likely to result in a greater inflationary impulse than would normally be the case. This is problematic for government bonds and potentially more speculative equity markets - which just reinforces our existing investment strategy.

➢ *Semiconductors*

Since late last year, investors have come to realize that the massive capex spending of the AI hyperscalers would no doubt boost demand for semiconductors and related AI components which resulted in soaring stock prices for these beneficiaries. In fact, high-tech now accounts for a record 55% of U.S. capital spending. The melt-up in semiconductor stocks has helped fuel the rebound in U.S. equities from the late-March lows, but the move is also exposing the overall U.S. market to growing risks.

Semiconductor stocks comprise an unprecedented 17% of the U.S. market cap and 16% of the 12-month forward earnings. The sub-group is very overbought following its recent parabolic rally. This leaves chips stocks vulnerable to a correction that could have negative ripple effects on the performance of the Technology sector and the broad equity market. In addition, a downturn in the semiconductor industry, when it occurs, will create a significant drag on tech earnings and weigh on the profits of the overall equity market. In that vein, we again reduced the portfolio's semiconductor exposure and overall tech exposure in the current quarter to a significant underweight versus the Standard and Poor's weighting this month.

IN CONCLUSION:

As May unfolds, there have been sharp swings in market sentiment concerning the war in the Middle East and oil prices. The latter has been driving up asset prices since the war started. Leading the pack has been so far the A.I. /tech stocks, especially semiconductors. Investor sentiment is now once again hopeful of a deal to re-open the Strait of Hormuz before economic damage ensues, which has certainly reinvigorated a significant risk-on sentiment in markets.

Much higher energy prices than pre-war levels, higher developed market interest policy rate expectations and bond yields, as well as an increase in overall economic uncertainty, have all created an economic headwind. For the time being this headwind has developed at a time when the global economy is gaining momentum aided by historically very accommodative monetary and fiscal policy. Despite these headwinds, the overall hard economic data has been resilient.

The markets prefer to look through the crosscurrents that exist today and consider them more as short-term obstacles that can be overcome. Our cautious optimism comes from the economic resiliency shown thus far, coupled with a strategy that includes strong valuation parameters. Lower multiple stocks have already begun to outperform this year as the market broadens into the more underappreciated industries. A disciplined and unemotional investment style is particularly important during uncertain times when stocks can experience wild swings of +/- 5 to10% in either direction in one day. Investing in stocks that carry relatively lower price-to-earnings or price-to-sales ratios, combined with other value metrics, can produce strong consistent long-term results.

The opinions expressed in this commentary are those of Altman Investment Management, LLC as of the date appearing on this material only and are subject to change. The material is based upon information we consider reliable, but we do not represent that it is accurate or complete and should be relied upon as such. This document is intended for informational purposes, and the material presented does not take into account the particular investment objectives, financial situation or needs of the individual client, and should not be viewed as an offer or endorsement of any particular investment. Certain investments give rise to substantial risk and are not suitable for all investors. There is no guarantee that these views will come to pass. Any tax information contained herein is general and for informational purposes only. Altman Investment Management, LLC does not provide legal or tax advice, and the information contained herein should only be used in consultation with your legal, accounting and tax advisers.

Any performance reference represents a hypothetical composite compiled from actual equity, fixed income or balanced client portfolios and includes cash. These three composites reflect aggregated returns that address differing objectives. As such, the performance of each composite does not reflect the actual total portfolio returns earned by our clients. The investment performance records are compiled from a capital weighted average of the equity, bond and cash components of a broadly representative group of discretionary accounts that meet certain minimum size thresholds.

No gross performance returns that are referenced that are calculated after brokerage commissions but before investment counsel fees are presented without the comparable net performance figures after both commissions, investment counseling fees and other custodial charges. The net counseling fees are the actual average counseling fee calculated across all the portfolios included in the composite. All performance figures are presented on a time-weighted total return basis and assume all income is reinvested. The investment advisory fees are disclosed in Part II-A of the Investment Form ADV. Some clients may benefit from available discounting in the management fee schedule associated with the overall size of the portfolio. Management fees will reduce overall returns to the client.

The composites were created in 2001 and the inception dates start on August 17th, 2001.The composites include only discretionary fee-paying accounts managed in the strategies, and additional information associated with the composites are available such as: dispersion in individual portfolio results as well as the % of the firms AUM in the strategy. All performance calculations are presented within the GIPS® guidelines of the CFA Institute. The CFA institute does not endorse or promote this organization nor does it warrant the accuracy of the content herein.

Investing entails inherent risks and results may be altered by material market or economic conditions. Investment returns and principal values may fluctuate, and losses are possible. Past results are not a guarantee of future comparable results or trends. Our process benchmark is the S&P 500 Index with dividend reinvestment, and our performance benchmark is the Russell 1000 Value Index with dividends reinvestment.