

# Q1 2026 Investment Letter

with Kevin Arenson, Akshay Krishnan & Tim Beck

## Markets Overview<sup>1</sup>

Equities	Q1	2025	Fixed Income	Q1	2025	Currencies	Q1	2025	Commodities	Q1	2025
Global Equities	-3.1%	19.5%	Global Gov't Bonds	-1.1%	7.5%	USD (DXY)	1.7%	-9.4%	Gold	7.3%	64.7%
EM Equities	3.8%	30.8%	Investment Grade	-0.6%	8.0%	EUR (vs USD)	-1.7%	13.4%	Oil (WTI)	76.6%	-19.9%
US Equities	-4.6%	16.4%	High Yield	-0.4%	8.8%	JPY (vs USD)	-1.3%	0.3%	Natural Gas	-21.8%	1.5%
European Equities	-3.2%	32.3%	Global Agg Bonds	-1.1%	8.2%	GBP (vs USD)	-1.8%	7.5%	Commodities	23.3%	11.1%

## Economic Performance

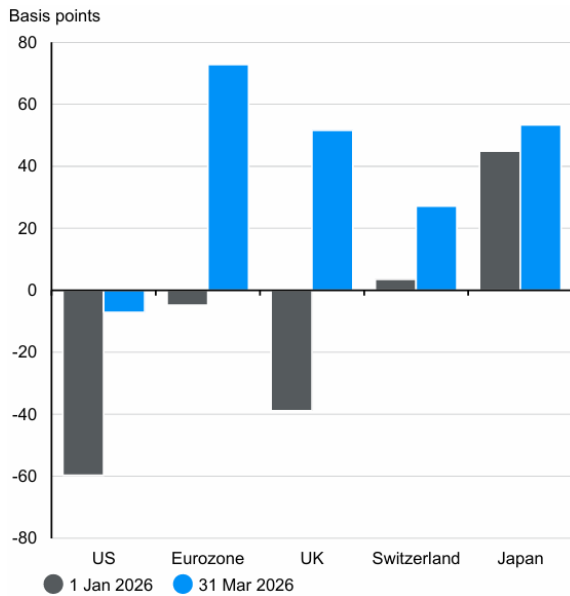
Risk assets fell in Q1 2026 with the strong start to the quarter reversing in March following the Middle East conflict. The S&P 500 fell 4.3%, its largest quarterly decline since 2022, whilst the Russell 2000 was up 0.9%, reflecting a rotation into asset-heavy names. Software and technology stocks were particularly hard hit, not just due to the fall in overall valuations in March but because of obsolescence risk following strong progress made in AI. This also impacted credit and, in particular, private credit markets. The Magnificent 7 cohort finished down 12.0%, with many more software heavyweights down further. Credit markets were modestly negative; the high yield bond index returned -0.4% and the leveraged loan index -0.6%. Higher-rated bonds and loans outperformed, while CCC-rated segments saw significant declines (HY CCC: -2.2%, Loan CCC: -4.9%).

Economic growth and data was relatively resilient at the start of the quarter, helped in the US by fiscal stimulus coming through from lower taxes. AI infrastructure spend also remained high and dominated credit markets with a record level of investment grade issuance as the hyperscalers continued their investments.

The oil price rose above \$100 in March for the first time since 2022, due to the Middle East conflict and closure of the Strait of Hormuz. This has reignited inflation fears and led to a sell-off in government bonds as future anticipated interest rate cuts were perceived to be less likely with the expected pick-up in inflation. This happened across all developed market economies, though the UK and Europe were hit harder than the US given their greater dependence on imported energy.

<sup>1</sup>Source: Bloomberg as of 31 Mar 2026.

### Market expectations for cumulative interest rate changes in 2026<sup>1</sup>



The impact of the increase in oil prices will differ geographically, most clearly the US against the UK and Europe. The US is both a net exporter of oil and the centre of AI advancements, the key area of economic growth in recent years and likely to continue to be so. Whilst inflation will rise in the US, this will be to a much lesser degree. Economic growth is also much stronger (stimulated also by fiscal stimulus from the One Big Beautiful Bill Act). Europe and the UK are much more exposed, as shown by the greater movement in government bond yields. Economic growth forecasts have come down and much of Europe is likely to be teetering on recession.

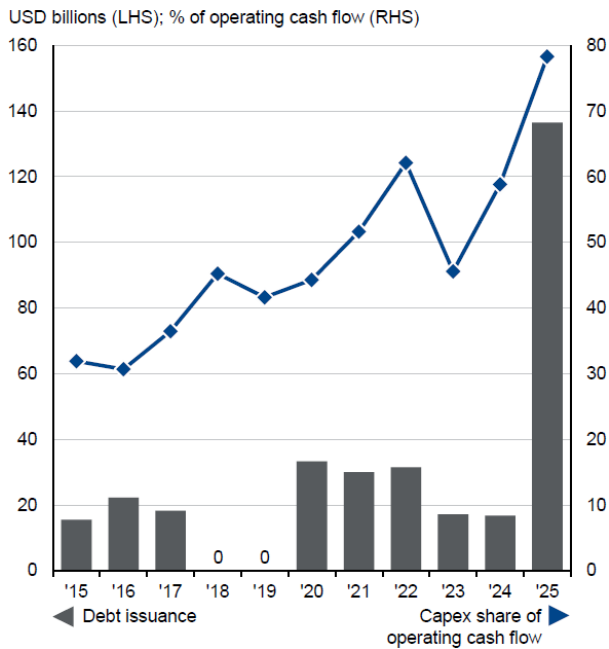
This puts increasing pressure on government finances. Even if the conflict is resolved in short order, though we doubt there will be a full resolution given the strategic resilience Iran has shown through being able to effectively close the Strait of Hormuz with relatively-low-cost drones, the rebuild of the damaged infrastructure across the Gulf countries, not just Iran, will take months and years to achieve. It seems likely that inflation will be structurally higher at least in the medium term.

This occurs when there is increasing concern over government budget deficits and spending. The war in the Middle East and continued war in Ukraine has led to the realisation that many countries in Europe are not equipped to fight a war and that defence spending, which in Europe and the UK at least has declined massively since the end of the Cold War, will have to rise. It is not clear how that will be achieved – further tax rises from levels which are generally the highest that they been, or cuts in spending which will be welfare state spending; something which has proved very difficult to achieve politically.

Prior to the Iranian war, markets were dominated by the growth and advances in AI. The hyperscalers have continued their huge level of investment and buildout, stimulating the economy in the short and medium term with questions over the return on capital to come later.

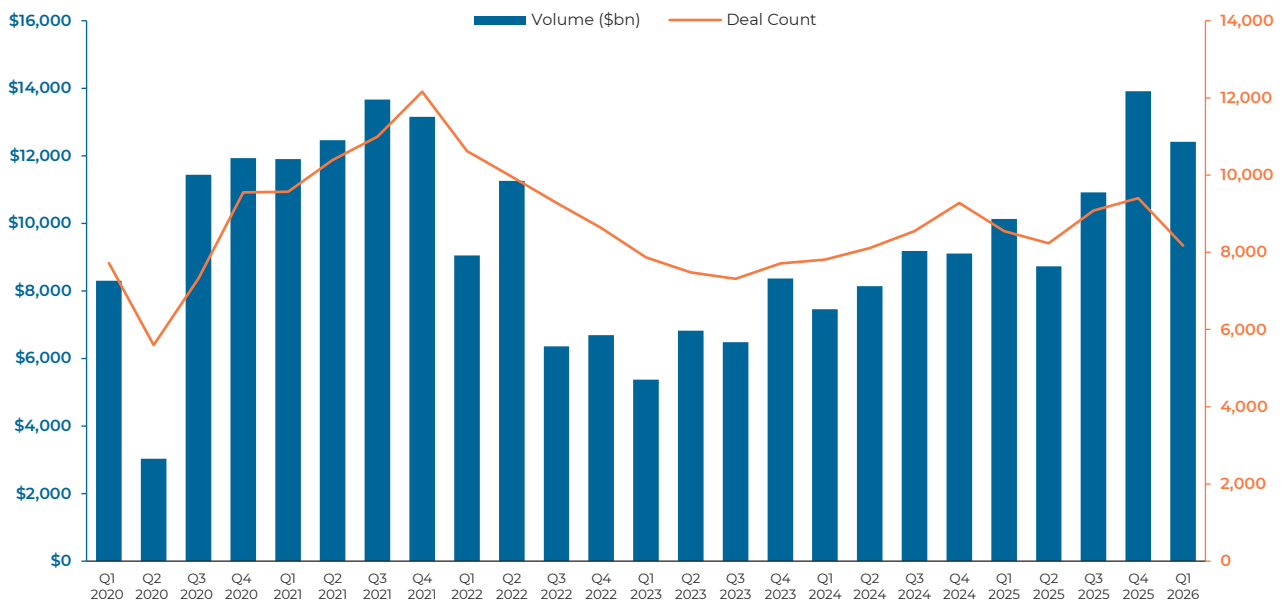
<sup>1</sup> Data as of 31 Mar 2026. Interest rate expectations are calculated using OIS forwards. Source: Bloomberg, J.P. Morgan Asset Management.

**US hyperscaler net debt issuance and capex<sup>1</sup>**



At the same time, M&A volumes have been strong, with \$1.3tn of deals announced, an increase of 20% from Q1 2025. With firms looking to take advantage of a looser anti-trust environment under the Trump presidency; this trend could well continue.

**Global M&A Transactions<sup>2</sup>**



<sup>1</sup> Debt issuance includes net new long-term debt issued by Alphabet, Amazon, Meta, Microsoft and Oracle, as well as \$30bn of debt issued by Meta and Blue Owl Capital. Capex is by Alphabet, Meta, Microsoft and Oracle, as well as an estimate of Amazon's AWS spend. Operating cash flow represents cash flow before capital expenditures. Source: Bloomberg, LSEG, JP Morgan Asset Management.

<sup>2</sup> Source: Bloomberg as of 31 Mar 2026.

There was also focus on the impact on existing technology, particularly software companies, from the advances made in AI, with both the terminal value and credit worthiness of existing companies brought into question. This was emphasised in the private credit space, which as a sector typically has 20-25% exposure to technology companies, with the level higher if including adjacent exposures to tech companies in other industries.

There are high levels of volatility and uncertainty in markets, over intrinsic valuations (record-tight credit spreads, high equity valuations), with an unravelling of geopolitical alliances and otherwise economic stimulus from both fiscal and monetary measures. We think it makes sense to have a balanced approach, looking to protect capital at times of stress but taking risk to have a strong expected return. We cannot help but feel that markets are being somewhat complacent regarding the continued geopolitical risks and the longer- and medium-term impact from the Iranian war both in rebuilding crucial supply chains but also future geopolitical implications.

## Strategy Allocations

Stenham portfolios varied between being moderately negative and slightly positive for the quarter, generally +/-1%. The credit, event driven and quant strategies were positive, whilst there were losses from macro strategies. Equity long/short was mixed with the lower net managers moderately positive and the higher net managers negative, as would be expected. That macro strategies were negative at a time of geopolitical uncertainty may be unexpected, driven by manager positioning at that time rather than any imbedded beta. We maintain our overall strategy allocations within portfolios. At the time of writing, April looks to be a strong month with multi-strategy portfolios making more than they lost in March (typically 2x). Of note, we have taken advantage of some opportunities to add to capacity-constrained managers for 1 April and 1 May.

### Discretionary and Systematic Global Macro

#### Global Macro

After a strong start to the year, global macro strategies struggled in March as discretionary macro managers were caught wrong-footed by the events in the Middle East. In general, managers entered the month with a long bias to front-end rates, especially in Europe and Asia, expecting central banks to maintain a more accommodative monetary policy stance. However, geopolitical events in the Middle East triggered a sharp rally in front-end yields as energy prices surged and inflation fears returned, resulting in losses that erased gains from earlier in the year.

There was above-average dispersion in manager performance during the quarter (+7% to -13%) with the top three performers benefitting from long exposure to AI-related themes via equity markets in the US and Asia. We also saw strong performance from a dedicated emerging markets specialist with positions in Latam and CEEMEA performing well. The main laggards were classic thematic discretionary macro managers who follow a more concentrated approach. These managers suffered losses from targeted long exposure to front-end rates in Europe and the UK during March. Long positions in energy markets helped partially offset overall losses. One of our dedicated commodity managers generated good outperformance over the quarter as they were well positioned for the events in the Middle East.

Despite March's challenges for discretionary macro, our managers remain optimistic on the opportunity set, noting that such dislocations in the past have often created attractive trading opportunities. We have seen signs of recovery so far in April.

### **Quantitative Strategies**

Quant had a positive quarter overall with some dispersion in performance. We saw outperformance from managers with greater exposure to non-US equity markets. We also saw outperformance from managers who had greater exposure to futures strategies, with those dedicated to equity statistical arbitrage underperforming.

After a strong finish to 2025, January was a particularly difficult month for US-focused mid-frequency statistical arbitrage and some of our managers suffered as a result. Managers were able to claw back some losses as the quarter wore on and it was encouraging to see them all post positive returns during the market volatility in March. The opportunity set for the strategy looks promising with increased market volatility and stock dispersion providing tailwinds. We remain focused on staying invested with the strongest players with a history of innovation, as there is some evidence of increasing competition from high-frequency trading firms, which could potentially compress returns.

### **Relative Value**

Relative value strategies were positive for the quarter overall with modest returns. Our managers with exposure to fixed income relative value saw gains from bond-basis strategies and bond relative value trading in the US and Japan. Some managers saw modest losses from swap spreads during the month of March.

### **Long Volatility**

Our managers had a strong quarter and were well positioned for the market volatility during March, as implied volatility rose across various assets and credit spreads widened. We saw good performance across a range of styles. One manager focused on short credit exposure delivered the strongest gains, followed by a manager with a primary focus on equity volatility strategies. At the time of writing, many measures of market stress have receded sharply from the highs of March and offer our managers the opportunity to add to highly convex asymmetric positions which would pay off significantly in the event of a market crisis. We continue to utilise these strategies as a portfolio hedge and maintain them at an appropriate weighting, cognisant that such strategies could bleed in a benign market environment.

### **Equity Long/Short**

Equity markets began the quarter on a positive footing, before being whipsawed by the escalating conflict in the Middle East in March and ultimately ending the period lower. The MSCI World declined by 3.9%, while the HFRI Equity Hedge was down 0.2%.

AI remained one of the central themes driving equity markets, and fundamental developments across the space were almost uniformly positive over the quarter. While this supported broad areas of the market in January and February, sentiment reversed sharply in March as the war in the Middle East triggered an equity market correction.

Against this backdrop, Stenham's equity long/short allocations made a marginally positive contribution to performance, albeit with meaningful dispersion across managers. This was evident in two core allocations to

large global multi-manager platform strategies, which delivered contrasting outcomes, with one navigating the quarter relatively well and the other struggling. More directional managers were similarly mixed. Broadly, performance was stronger among managers with greater exposure to areas benefiting from the AI theme, including semiconductors and memory, technology hardware and power infrastructure. Conversely, managers with larger exposures to parts of healthcare, mega-cap technology, software and financials viewed as more vulnerable to AI disruption faced a tougher backdrop.

Most managers moved quickly to de-risk portfolios during the March sell-off, helping to mitigate losses. While markets have rebounded strongly in April, managers have generally added back risk cautiously and continue to maintain a relatively defensive stance given the ongoing uncertainty stemming from the war in the Middle East.

Of note, we have seen strong performance in our Asian long/short investing and have increased the allocation to this area across portfolios.

### Event Driven

Event driven had a strong quarter, in aggregate positive in every month. The main drivers were core positions within the merger arbitrage portfolios, though one manager also benefited from strong performance in March from a special situation. Levels of investment remain close to historic high levels for the funds; a result of the pick-up in M&A activity seen in Q4 2025 and continuing into Q1 2026. We remain optimistic on the outlook for activity given the favourable anti-trust environment under the Trump administration. A feature has been that a number of the deals announced have been with larger companies, often with more complex, larger capital structures which can allow more dynamic positioning.

### Credit

Our credit allocation also had a strong quarter, in aggregate positive in every month. Notably, our convertible bond manager performed well, with a high level of issuance allowing strong capital markets trading. Additionally, the volatility of stocks, particularly in technology, enabled strong gamma trading. These bonds are now trading with a higher equity delta - our manager is typically fully hedged at the single-stock level which means that these are increasingly “synthetic put” trades and long volatility against high multiple equities.

Our other credit managers also performed well. Longs have generally outperformed broader markets and proven resilient. Our managers have been running relatively low net exposures, with shorts protecting well.

Spreads widened in March, overall, in line with the expected beta with equities but never reached “panic” levels given the tight levels they started from. Spreads have since rallied back to where they were before the start of the Iranian conflict. Under the surface of tight spreads, there is relatively high dispersion, with weaker ‘CCC’ debt trading at wide spreads and higher quality at very tight levels. There are significant refinancing requirements in 2026 and 2027 (often refinancing the debt raised in 2020/2) which should enable interesting trades both long and short in determining which of these companies will be able to refinance successfully.

## Summary

Our funds protected capital in March and have seen strong performance following that in April. Net performance over a number of years has now been in the high single digits with minimal beta to broader

markets. We are encouraged by this, and the outlook remains strong across all strategies. We continue to see an increase in institutional client interest in hedge funds and our AuM has grown by 22% in the last 12 months as of 31 March 2026. We have been focused on securing capacity with the highest quality hedge funds and are very excited by our research pipeline in the coming months.

Thank you for your ongoing confidence. Please get in touch if you would like to hear more about our strategies or funds. Further information can also be found on our [website](#).

### The Executive Advisory Committee



Kevin Arenson



Akshay Krishnan



Tim Beck

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