

FORTITUDE CAPITAL MANAGEMENT

Independence • Integrity • Insight

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"This time it's different." – noted as the four most dangerous words in investing by Sir John Templeton

"This too shall pass." – originally attributed to medieval Persian Sufi literature

"This world is mere change, and this life, opinion." – Marcus Aurelius from his Meditations

Fellow Investors:

There is nothing like war to get one's attention and the first quarter of 2026 grabbed our attention. The financial effect has not been significant as of this writing, but the unknown can be nerve-racking and unpredictable. As with all wars, things may go in an unexpected direction, and the current one is having a direct effect on oil and gas given it is centered in the Middle East and involves a shipping choke point. A cease fire has been implemented, and a first round of talks have been held. We can hope for a resolution soon. Before we summarize the first quarter's performance, it is good to remind everyone that financial markets are volatile by nature, but that volatility is a short-term phenomenon for the most part, taking our attention away from the benefits of being a long-term investor. We do not in any way dismiss the valid concerns of investors that come with higher volatility, but we always want to couch those concerns within the proper perspective.

For the first quarter of the year, the S&P 500 was down 4.63% with the entirety of the decline coming after the military action against Iran began. For the trailing 12-month period, this index was up 17.09%. The Nasdaq Composite was down 6.03% in the first quarter, but up 26.21% for the trailing 12 months. Along with the effect of the war, these indices show the continuing influence of the large tech firms on results, both up and down. The performance of smaller and non-US stocks did better in the quarter. The equally weighted S&P 500 was flat (up 0.19%) for the quarter, and the Russell 2000 was up 0.58%. Outside of the US market, the MSCI EAFE was down 1.87% for the first three months of the year, while being up 18.23% for the prior 12 months. These declines are indeed modest, but typically geopolitical events do not bring about the largest declines. According to a study by Deutsche Bank, in the 30 major geopolitical events in the last 86 years, the average decline in US stocks has been 4%. As a contrast, the largest declines historically occur during major economic crises, for example the dot com crash and the great financial crisis of 2007-09. We remain optimistic toward equities going forward as earnings forecasts for the S&P 500 remain strong.

The low point for the S&P 500 year-to-date was a decline of 7.33% from the beginning of the year. During the quarter the high point to the low point in the S&P 500 was a decline of 9.10%, not quite the 10% decline referred to as a "correction". For perspective, a correction is not unusual occurring on average every two years with a median recovery period of 95 days. No decline in our investment accounts is pleasant, but they occur and will continue to occur periodically. That is the nature of our financial markets and why we focus on our clients' goals, needs, and risk tolerance. The volatility measure, the VIX index, started the year at a low 14.95, peaked intraday at 33.36 on March 9th

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and ended the quarter at 25.25. For perspective, this index hit 60.13 intraday a year ago following the tariff announcements.

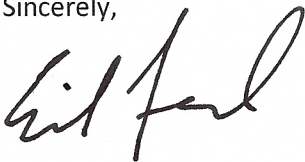
Interest rates rose over the quarter as the two-year treasury went from 3.47% to 3.82%. The ten-year treasury began the quarter at 4.18% and rose to 4.35% by quarter's end. It is notable that the quarter end highs are well below highs reached last May. The ten-year treasury serves as a base rate for many other debt instruments, most notably home mortgages, so rising rates may have a negative effect on the housing market. We shall see as we are still off the highs of last year.

The war in Iran is expected to be short-lived, but war is unpredictable by definition. As this is being written there is a cease-fire that may or may not hold. The current conflict is having an outsized effect on the world oil markets as it is centered on one of the major oil producing regions of the world and involves near closure of a shipping lane through which a fifth of the world's production normally flows. This has raised world oil prices from a low at the beginning of the year of \$57 a barrel to over \$100 a barrel, peaking at \$117.63 a barrel just before the announcement of the cease-fire. The price fell to the mid-90s overnight, but has since bounced back up to over \$100. The price of oil touches just about every corner of the economy. While the US is self-sufficient in energy production, the price of oil is determined in a world market. The futures market indicates a significant decline in the price of oil later in the year, but perhaps not back to the level at the beginning of the year. We were in a much worse position not long ago as oil reached \$124 a barrel in March of 2022. This is temporarily painful as it ripples through economy and affects prices across the economy. The inflation reading through February was 2.4%, above the Fed's target of 2.0%. This does not yet include the more recent rise in energy costs, which we will see in future readings. The Fed's target of 2.0% is much lower than the long-term US average inflation rate of 3.27%.

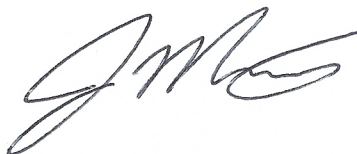
Putting the war aside, as mentioned above, earnings forecasts for the S&P 500 are strong and rising. Stock prices are ultimately driven by earnings, so we remain positive for equities. Spending on AI infrastructure and productivity gains therefrom are driving economic growth. The influence of the top seven to ten companies in the S&P 500 has declined recently but is still outsized. The weight of the top ten companies in the S&P 500 was as high as 42% but now has fallen to 38%. Still dominant, but off the peak. The forward P/E ratio for the S&P 500 is also off its peak, sitting at 19.7 times at quarter end.

We all wish for a quick end to the conflict in the Middle East. It presents uncertainty in the markets which is uncomfortable for investors. It will pass and fundamentals will eventually drive results and that is what we bank on as long-term investors. We can then sit back and wait for the next disruptive event, because it will come.

Sincerely,



Erik Ford



Jason Marrs

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The Magnificent 7 is comprised of Nvidia, Apple, Meta, Amazon, Alphabet, Microsoft, and Tesla.

The S&P 500 Index, or the Standard & Poor's 500 Index, is a market-capitalization-weighted index of the 500 largest publicly traded companies in the U.S. It is not an exact list of the top 500 U.S. companies by market capitalization because there are other criteria to be included in the index.

The S&P 500 Equal Weight Index (EWI) is an equal-weight version of the popular S&P 500 Index. Although both indexes are comprised of the same stocks, the different weighting schemes result in two indexes with different properties and different benefits for investors.

The term Russell 2000 Index refers to a stock market index that measures the performance of the 2,000 smaller companies included in the Russell 3000 Index. The Russell 3000 is a capitalization weighted index representing approximately 96% of the investable U.S. equity market.

The MSCI EAFE Index tracks large cap and mid-cap companies in developed countries around the world. The index primarily covers the Europe, Australasia, and the Far East regions.

The NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market. Along with the Dow Jones Average and S&P 500 it is one of the three most followed indices in US stock markets. The composition of the NASDAQ Composite is heavily weighted towards information technology companies.

The US Inflation Rate is the percentage in which a chosen basket of goods and services purchased in the US increases in price over a year. It is prepared by the Bureau of Labor Statistics.

The price-to-earnings (P/E) ratio measures a company's share price relative to its earnings per share (EPS). Often called the price or earnings multiple, the P/E ratio helps assess the relative value of a company's stock. The forward (or leading) P/E uses future earnings guidance rather than trailing figures. Sometimes called "estimated price to earnings," this forward-looking indicator helps compare current earnings to future earnings and can clarify what earnings will look like without changes and other accounting adjustments.

The VIX Index is a calculation designed to produce a measure of constant, 30-day expected volatility of the U.S. stock market, derived from real-time, mid-quote prices of S&P 500® Index (SPXSM) call and put options.