

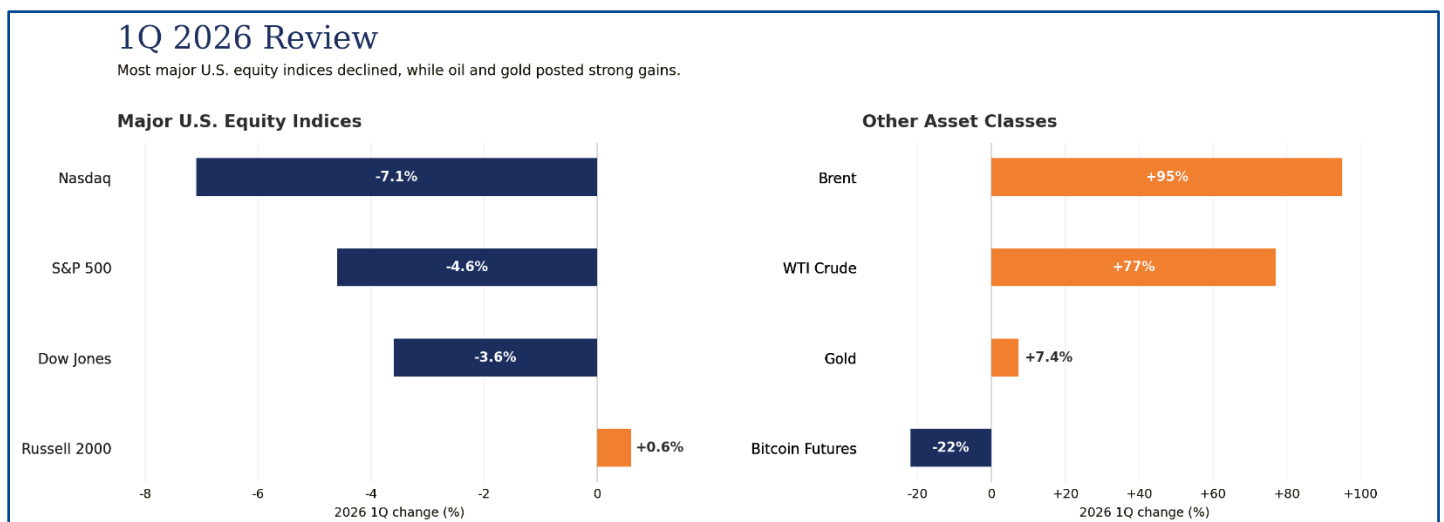
April 21, 2026

1Q 2026: Markets Relearn an Old Lesson

The first quarter of 2026 was a reminder of an old lesson: stocks rarely move higher in a straight line. When geopolitical shocks hit a market already burdened by elevated valuations and weak consumer confidence, a market decline should not come as a surprise.

Most major U.S. equity indices declined during the quarter. The S&P 500 fell 4.6%, snapping a three-quarter winning streak and posting only its third down quarter since 2022. The Dow Jones Industrial Average declined 3.6%, while the Nasdaq fell 7.1%, its steepest quarterly decline since 1Q 2025 according to StreetAccount. The Russell 2000, which tracks smaller company stocks, was a rare bright spot, advancing 0.6%.

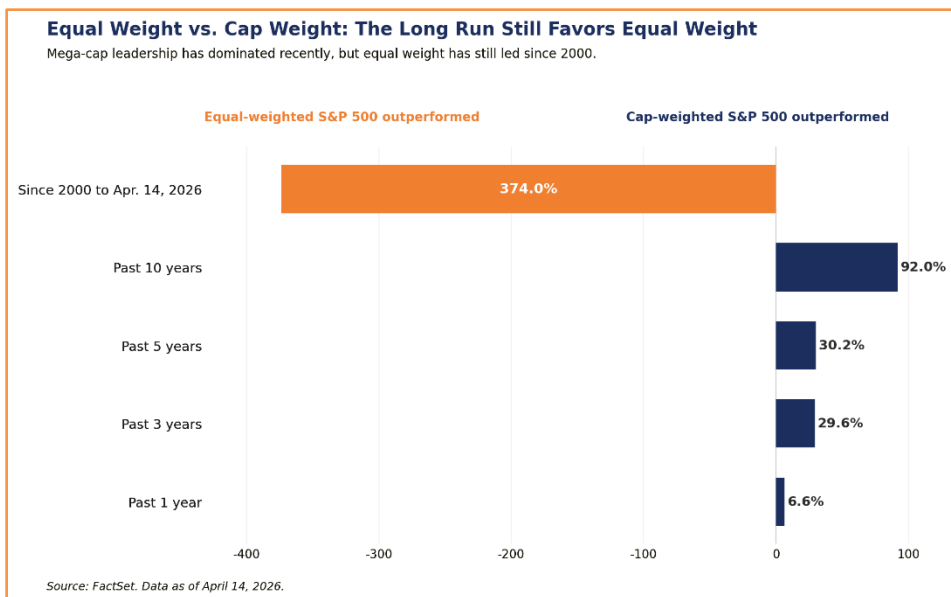
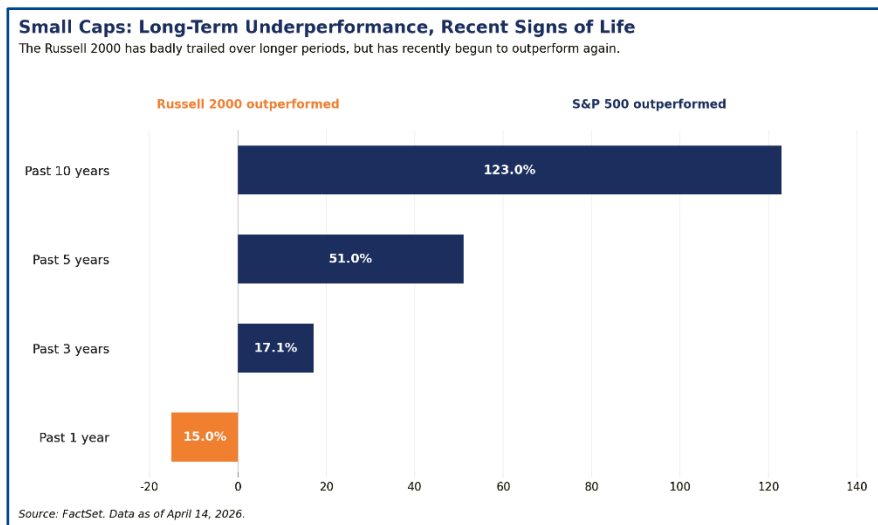
Other asset classes also saw sharp moves. Gold gained 7.4%, though it still ended the quarter at \$4,647, down 16.8% from its all-time intraday high reached on January 28, 2026. Bitcoin futures fell 22%, their first back-to-back quarterly decline since mid-2022. Oil, however, was the real headline. WTI crude rose 77% and Brent crude climbed 95%, with Brent posting its largest quarterly percentage gain since the third quarter of 1990 according to data from Morningstar.



Is Market Leadership Beginning to Broaden?

One of the more interesting developments this quarter took place beneath the surface of the major averages. While the mega-cap stocks that have driven much of the market's advance in recent years struggled, smaller companies held up better. The Russell 2000 posted a modest gain, and the equal-weighted S&P 500 outperformed the traditional cap-weighted index, rising 0.2% compared with a 4.6% decline for the S&P 500. When equal weight leads, it is often a sign that strength is broadening beyond the market's largest companies.

That would represent a meaningful change. As the accompanying chart shows, the equal-weighted S&P 500 has lagged the cap-weighted index by a considerable margin over the past decade. Yet that has not always been the case. Following the dot-com collapse, equal weight outperformed for an extended period, and since 2000 it has still come out ahead on a cumulative basis. The message is not complicated: periods of extreme concentration can eventually give way to broader leadership.



Small caps may be another potential comeback story. Although the Russell 2000 has badly trailed the S&P 500 over the past three, five, and ten years, it has begun to outperform over the past year, including in the most recent quarter. That alone does not signal a durable rotation, but it is consistent with the view that market leadership may finally be starting to widen.

History offers a useful reminder of how quickly that shift can occur. In the aftermath

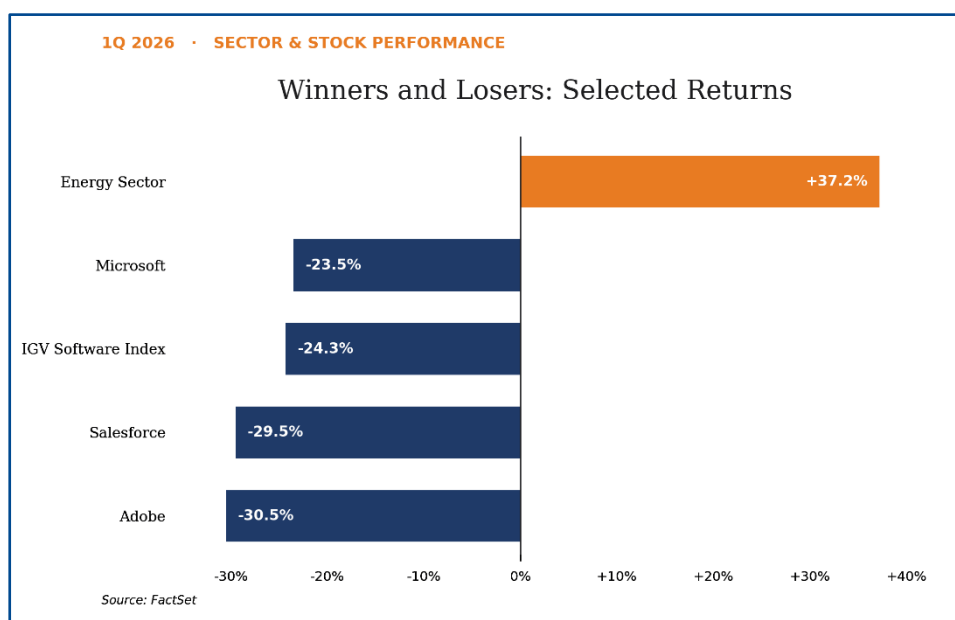
of the dot-com bust, small caps outperformed large caps by a wide margin for several years. That stretch was so powerful that, despite the S&P 500's dominance in more recent years, cumulative returns for the two indices since 2000 remain remarkably close. None of this means history must repeat, or that a durable rotation is already underway, but periods of extreme concentration rarely last forever. When leadership broadens, some of the market's biggest winners often become laggards, while areas long left behind begin to catch up. Recall that the Nasdaq Composite peaked in March 2000 at 5,048 and did not surpass that closing high until April 2015.

Of course, it is always possible to choose time periods that help make almost any argument. Even so, the broader point is not that history must repeat itself, but that investors who have only known an era of large-cap dominance should remember that markets do not always work this way.

AI Disruption

Artificial intelligence was one of the quarter's defining themes, as investors increasingly questioned whether the enormous sums being committed to AI would ultimately generate adequate returns. Microsoft was a good example of those crosscurrents. On one hand, investors began to worry that advances in artificial intelligence could weaken the value of traditional software products, including core offerings such as Office 365, as competing AI tools from companies like Anthropic and Google became more widely adopted. On the other hand, Microsoft was also being judged as one of the companies spending enormous sums to build the infrastructure for the next phase of AI growth (Microsoft's capex spending in FY 2025 [ended June 30] was \$65 billion, well up from the \$15 billion it was spending just 5 years prior).

The result was a sharp stock price decline. Microsoft, which until recently was the world's largest company by market capitalization and traded at an elevated 31x multiple of earnings (NTM), lost 23.5% of its value during the first three months of the year. It was the company's steepest quarterly share price decline since the financial crisis according to CNBC. Investors appeared to grow more skeptical not only about the return on Microsoft's AI spending, but also about the pace at which products such as Copilot would gain meaningful traction.



The broader software sector was hit in similar fashion. The iShares Expanded Tech-Software Sector ETF (IGV) declined 24.3% during the quarter, with once-market darlings such as Salesforce (-29.5%) and Adobe (-30.5%) falling even more. The market began to worry that artificial intelligence might not just be a tool for software companies, but also a threat to their own businesses. Still, a sharp selloff alone does not tell investors where the real value lies.

Not All Selloffs Create Opportunity

We have long considered Microsoft to be one of the world's best businesses. Its Azure cloud business sales grew 39% in the December quarter and likely could have grown even faster had the company devoted all of its AI computing capacity to Azure rather than directing part of it toward internal initiatives such as improving Microsoft 365 Copilot. In our view, that choice reflects well on management's long-term thinking. At current prices, Microsoft is trading at 21.3x NTM earnings, its lowest earnings multiple since December 2018. Could the stock fall further? Absolutely. But at today's valuation, we believe it is becoming increasingly compelling for long-term, patient investors.

That said, not all software stocks are created equal. A decline of 30%, 50%, or even more, does not automatically make a stock cheap. Some companies may never regain their previous highs because the underlying business economics or competitive position have changed or they were simply overvalued to begin with. In periods like this, investors need to be especially careful in distinguishing between temporary dislocations and permanent impairment.

Private Credit Bears Watching

Those concerns were not confined to public equities. They also began to surface in private credit, the large and rapidly growing market in which non-bank lenders provide financing outside the traditional banking system. Several borrowers, including First Brands Group and Tricolor Holdings, filed for bankruptcy, and some of the private credit funds that had lent to them suffered meaningful losses.

The software selloff added to those concerns. As software valuations came under pressure, investors began to focus on the concentrated exposure some private credit funds had to the sector. That, in turn, led some investors to seek withdrawals. In response, certain funds limited redemptions to avoid being forced sellers at distressed prices. Predictably, those limits only heightened investor anxiety and contributed to a self-reinforcing cycle.

The financial media then added to the unease by drawing comparisons to the period leading up to the 2008 financial crisis, including the collapse of a Bear Stearns hedge fund before the firm itself came under severe pressure and was forced to sell itself to JPMorgan Chase at a fire sale price. Jamie Dimon, Chairman and CEO of JPMorgan Chase and one of Wall Street’s most respected voices, did little to calm nerves when in October 2025 he warned that lending standards had become too lax and added that, “when you see one cockroach, there are probably more,” a comment many investors interpreted as a warning that additional problems may still be lurking beneath the surface.

Our view is that more problems in private credit are likely to emerge. That said, we believe this remains very different from the subprime crisis: the assets are different, leverage appears lower, and the risk of broad contagion seems more limited. Even so, it is an area we are monitoring closely.

War, Oil, and the Strait of Hormuz

The most dramatic development of the quarter came on February 28th, when President Trump launched Operation Epic Fury, a joint military offensive with Israel against Iran. The strikes were extensive, targeting both military infrastructure and senior Iranian leadership. For purposes of this letter, we are focused on the economic consequences of the conflict, though the humanitarian toll is obviously significant.



Those economic consequences were immediate, particularly in the energy markets. In response to the U.S. attack, Iran moved to assert control over the Strait of Hormuz, the narrow waterway through which a meaningful portion of the world’s oil supply passes. The resulting disruption in tanker traffic sent energy prices sharply higher.

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Unsurprisingly, energy stocks were the quarter’s standout performers, gaining 37.2%. Materials, Utilities, and Consumer Staples also held up relatively well. On the other side of the ledger, Financials, Consumer Discretionary, and Technology were among the weakest areas of the market.

The geopolitical picture has shifted somewhat since quarter-end. A ceasefire has been announced, and markets have responded positively, with the S&P 500 reaching a new record, even as many individual companies remain dramatically below their all-time highs. At the same time, after failed peace talks held in Pakistan, the U.S. has blockaded Iranian ports, while traffic through the Strait remains severely disrupted, underscoring just how fragile the situation remains. Whether this ceasefire holds, and for how long, is impossible to know. We would caution against reading too much into the market’s short-term reaction in either direction.

S&P 500 Sector Performance 1Q 2026

	Energy	Materials	Financials	Industrials	Cons. Disc.	Tech.	Comm. Services*	Real Estate	Health Care	Cons. Staples	Utilities
YTD	38.2	9.7	-9.3	4.6	-9.2	-9.1	-6.9	4.9	-4.9	7.7	8.3
Forward P/E ratio	20.1x	18.5x	14.0x	23.5x	24.7x	20.0x	19.1x	16.9x	16.9x	22.0x	18.7x
20yr avg.	13.8x	15.7x	12.9x	16.9x	20.6x	18.7x	18.6x	17.3x	15.1x	17.9x	16.0x
Dividend yield	2.6%	1.7%	2.1%	1.5%	2.1%	0.7%	0.9%	3.8%	2.2%	2.6%	2.8%
20yr avg.	3.0%	2.3%	2.3%	2.2%	1.7%	1.2%	1.6%	3.7%	2.0%	2.9%	3.8%

Source: JP Morgan Guide to the Markets

Even so, history argues for keeping the current selloff in perspective. In moments like this, it is easy to assume that a geopolitical shock must mean something fundamental has changed for the stock market. History suggests a more measured view. While wars and military conflicts can certainly unsettle markets, the great bear markets of the past century were not caused by war alone, but by deeper economic and financial problems.

As James Mackintosh of *The Wall Street Journal* recently noted, military conflicts generally have not had a lasting impact on U.S. equities. That broader point fits with history. The Great Depression was a collapse of leverage, the banking system, and the economy. The 2000–02 bear market was the bursting of the dot-com bubble. The 2007–09 financial crisis was the unwinding of housing excess, leverage, and a deeply fragile financial system.

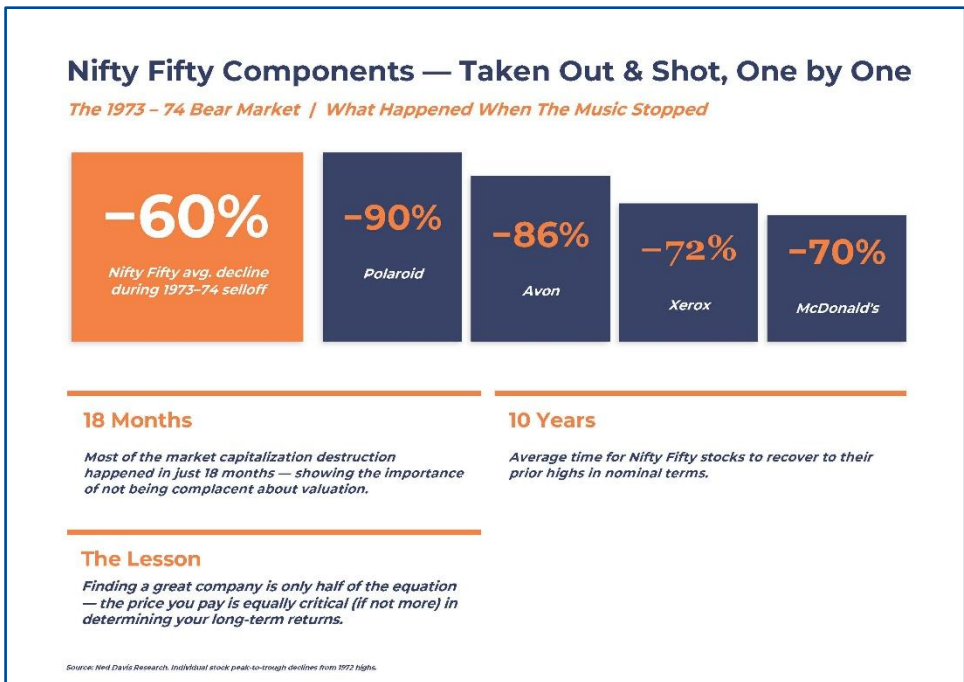
The 1973–74 bear market is worth treating with a bit more nuance. It is often associated with the oil embargo, and geopolitics clearly played an important role. But even that decline was not caused by war alone. It became a true bear market because the oil shock fed inflation, weakened the economy, and created a much more difficult backdrop for stocks.

Mr. Mackintosh has, thus far, proven prescient. As of the April 15 close, the S&P 500 had recovered above its pre-conflict level and reached a new all-time high. That does not mean the risks have disappeared, nor does it guarantee the market will continue to shrug them off. It does, however, reinforce the broader point that geopolitical shocks often feel more decisive in the moment than they prove to be over time. Whether this ultimately proves to be the start of something more serious or simply another routine setback remains to be seen. For now, we believe investors are best served by staying the course.

While caution is still warranted, not everything in the current backdrop is negative. If some of the recent inflation pressures continue to ease, that could provide a modest tailwind for the economy and markets, as could a definitive end to the war in Iran, stronger spending driven by elevated tax refunds, or a pickup in merger and acquisition activity. Even so, we continue to believe that the more important issue for investors is not the next macro data point, but valuation.

Is There Currently a Quality Bubble?

Even if some of those near-term pressures ease, one issue remains especially important: valuation. The recent weakness in many of the market's largest and most admired companies has also reminded us of a lesson investors periodically forget: a great business and a great investment are not always the same thing. History is filled with examples of investors paying such high prices for "quality" that even excellent companies produced disappointing returns. The Nifty Fifty era of the early 1970s was one example. The late 1990s provided another, when investors crowded into beloved blue-chip companies at valuations that assumed years of perfection. In both cases, the businesses often remained strong, but the stocks proved poor investments because the starting prices were simply too high.



We see signs of a similar dynamic today in certain parts of the market. Some of the most respected businesses in America continue to trade at valuations that leave little room for error. Costco, Walmart, and Cintas are all outstanding businesses, but history has shown that even outstanding businesses can become mediocre investments when bought at overly optimistic valuations. That does not mean these are bad companies. It simply means that when investors become too comfortable paying almost any price for perceived safety and quality, future returns can suffer. For long-term investors, that is an important distinction.

One of the ironies of markets is that periods of enthusiasm for perceived safety often create neglect elsewhere. When too much capital crowds into a relatively small group of widely admired companies, other businesses, even very good ones, can be left behind. That is often where the more interesting opportunities emerge. We believe that may be occurring today.

Are Investors Partying Again Like It's 1999?

Current P/E Multiples & Future Returns

Company	P/E Current	P/E 2030	Multiple Compression	5-Yr Cumulative Total Return?	5-Yr Ann. Total Return?
Costco Wholesale	48.7x	?	?	?	?
Walmart Inc.	42.0x	?	?	?	?
Cintas Corporation	33.0x	?	?	?	?
GE Aerospace	37.9x	?	?	?	?
Ecolab Inc.	31.0x	?	?	?	?

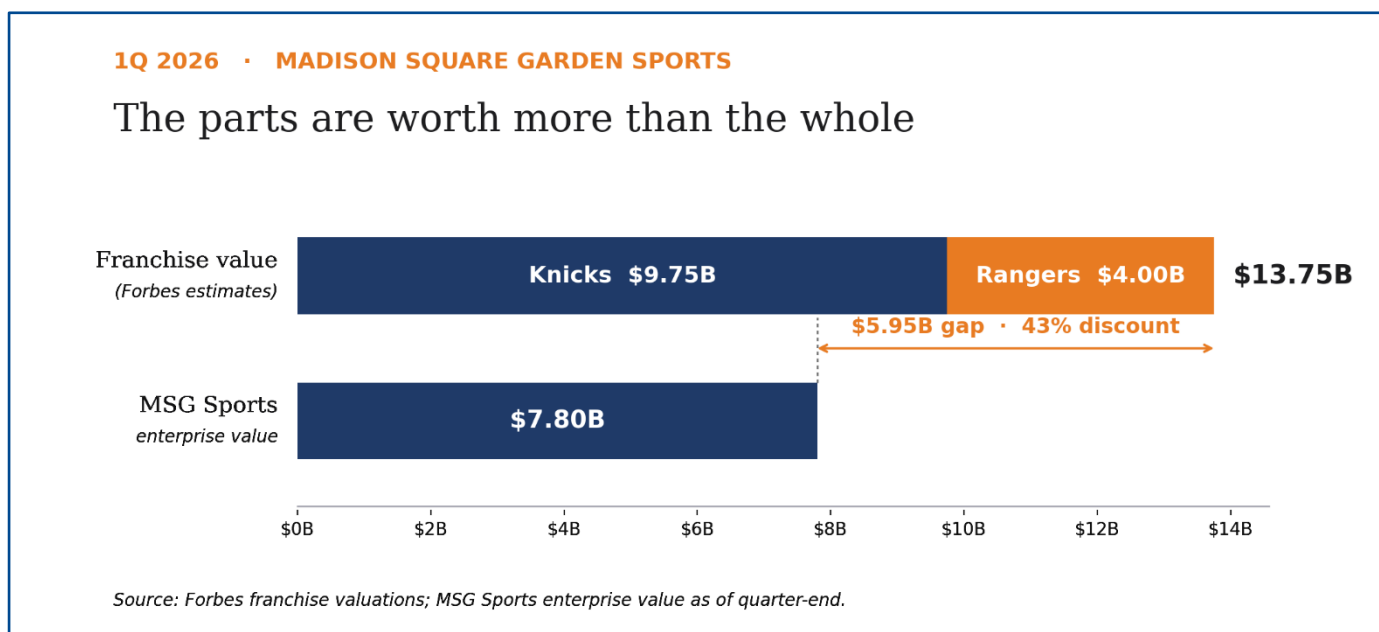
We'll let the next few years fill in those blanks

Source: FactSet P/E ratios reflect NTM earnings at period end.

Madison Square Garden Sports & Uber

That disconnect between price and value is one reason we continue to find compelling opportunities outside the market's most crowded trades. Madison Square Garden Sports is one example. The company owns the New York Knicks and the New York Rangers, two of the most valuable sports franchises in the world, yet we believe the public market continues to value those assets far below what they would command in a private market transaction.

Uber is another. While many investors remain focused on long-term fears surrounding autonomous vehicles, we believe the market is underappreciating the strength of the company's current business, its growing cash flow generation, and the potentially valuable role it could play in a future dominated by autonomous vehicles.



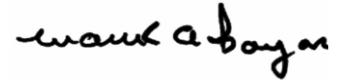
Importantly, our argument is not that the market's most popular "quality" companies are poor businesses, nor that their stocks cannot continue to perform well for a period of time. Rather, it is that valuation still matters. It always has. Paying too much for even an exceptional business can lead to years of disappointing returns, while buying a strong business at a sensible price can produce the opposite outcome. That basic principle is easy to forget when momentum is strong, but it has not stopped being true.

In our view, today's environment once again favors investors willing to look where others are not. Much of the market's enthusiasm remains concentrated in a relatively small group of familiar winners trading at robust valuations. We are more interested in strong businesses where expectations are lower, valuations are more reasonable, and the gap between price and intrinsic value is meaningful. That has long been our approach, and periods like this often provide some of the best opportunities to put it to work.

Quarters like this one are a reminder of why discipline matters most when it is hardest to maintain. The headlines were loud, the crosscurrents were real, and the temptation to act was understandable. Our approach remains what it has always been: patient, focused on value, and indifferent to the noise. We believe that is precisely the right posture for the environment ahead.

Best regards,

Mark A. Boyar

A handwritten signature in black ink that reads "Mark A. Boyar". The signature is written in a cursive style with a prominent initial "M".

Jonathan I. Boyar

A handwritten signature in black ink that reads "Jonathan I. Boyar". The signature is written in a cursive style with a prominent initial "J".

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