

HOLLOW BROOK

WEALTH MANAGEMENT

Hollow Brook Quarterly Roundup

1Q 2026

Market Overview

The S&P 500 finished the first three months of the year down -4.6%. At its low on March 30, the S&P 500 was down -9.8% from its January peak. This is the biggest correction since the tariff turmoil last April. As we write this, the index has since recovered fully and is up over 4% for the year.



Picture source: [Cartoon of the Day](#)

Understanding what drove these swings matters as much as the moves themselves. The largest market dislocations of recent quarters have had little to do with earnings or traditional economic data. Instead, they have been shaped by policy decisions and geopolitical developments – headlines, in other words, rather than fundamentals.

In 2025, tariff announcements drove volatility and subsequent reversals in roughly equal measure. In 2026, the war with Iran – and now a temporary ceasefire – has seen a similar path play out. This pattern has given rise to what some have called the Trump Always Chickens Out trade, or *TACO*. A more fitting shorthand, perhaps, is *EBITDA*: Earnings Before Iran, Tariffs, and Donald Announcements.

In this environment, our approach remains grounded in preparation rather than reaction. We position portfolios with a forward-looking lens—ensuring liquidity is available when needed, incorporating assets that can help stabilize

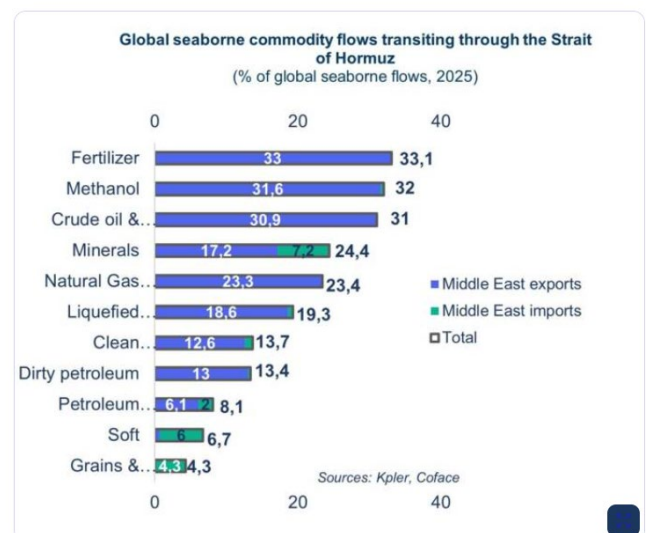
outcomes, and maintaining exposure to areas where long-term opportunities show positive asymmetry. The goal is not to predict the next development, but to build portfolios that can navigate a wide range of outcomes while continuing to compound capital over time.

More Questions than Answers:

The Iran War

We would be remiss not to begin with the conflict involving the United States and the Middle East—which may be the clearest recent instance of how unpredictable policy and geopolitical actions have become. In the near term, much of what occurs in markets will depend on what happens with crude oil and the trajectory of the conflict. The Strait of Hormuz remains a critical chokepoint, with ~20% of the world’s oil supply passing through it. However, longer term economic impact could stem well beyond energy. The Strait of Hormuz carries significant volumes of liquefied natural gas (LNG), liquefied petroleum gas (LPG), refined petroleum products, petrochemical feedstocks, helium, and fertilizers. Any disruption could impact agriculture, manufacturing, transportation, technology infrastructure, healthcare, and ultimately consumer goods.

Chart source: [Kpler, Coface - Commodity Risk](#)



Therefore, we continue to ask ourselves, will the conflict escalate further, and how constrained does the supply of energy and related commodities become?

Government Debt

While markets fixate on near-term geopolitical volatility, we remain focused on how escalating Middle East tensions could further pressure already elevated government debt levels.

The U.S. national debt hit a record \$39 trillion in March, crossing another trillion-dollar threshold in just five months.

Since President Trump is not in the camp of raising taxes to fund the war, the amount of government debt could continue to climb.

According to the Department of Defense, the conflict cost an estimated \$16.5 billion in its first 12 days. Ongoing expenditures could approach \$1 billion per day, materially increasing the fiscal impact the longer hostilities persist.

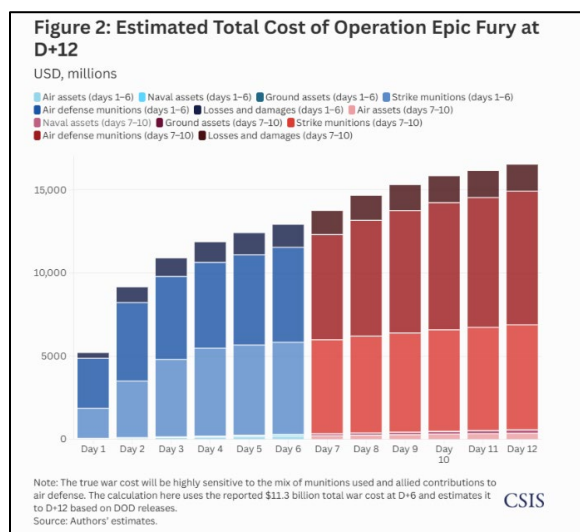


Chart source: [Iran War Cost Estimate Update: \\$11.3 Billion at Day 6, \\$16.5 Billion at Day 12](#)

The ultimate cost of war is inherently uncertain and often far exceeds initial estimates. For example, a 2003 Harvard study noted that the Bush administration projected the Iraq War would cost approximately \$200 billion; with an actual cost of over \$5 trillion.

Tariff Variables

Investors also had to contend with more tariff headlines.

In a 6-3 decision, the US Supreme Court ruled that most of President Trump's broad global tariffs were unlawful because he lacked the authority under the International Emergency Economic Powers Act (IEEPA). The justices emphasized that the power to tax, including tariffs, resides exclusively with Congress, and IEEPA does not empower the president to levy broad import duties.

As geopolitical tensions continue to escalate, the key question is: what are the consequences if policy remains unpredictable? Two scenarios now warrant close monitoring: the U.S. dollar slowly losing its crown as the world's reserve currency, and investors demanding higher returns on U.S. debt as confidence in its fiscal position wavers.



Chart source: [Strategas Research](#)

The Federal Reserve and Interest Rates

The Federal Reserve held interest rates steady in March. While nothing has changed on the surface, underlying inflation expectations have.

At the start of the year, markets were pricing in rate cuts. Today, that has shifted toward the possibility of rate hikes. The main driver is inflation, and the growing realization that it may not come down as easily as expected.

A big reason for this is the disruption in the Strait of Hormuz, which, as we mentioned earlier, impacts not just oil, but a range of critical commodities that feed into the broader economy. These are key inputs into what Strategas Research calls the “Common Man Consumer Price Index (CPI)” – a measure of everyday expenses like food, energy, housing, insurance, and clothing.

Put simply, it reflects how the end consumer actually feels inflation—and by that measure, prices continue to outpace wages. One of the clearest examples is energy. Brent crude oil has risen from ~\$60 per barrel at the start of the year to around ~\$100 today. Economists at Goldman Sachs estimate that for every \$10 increase in oil prices, U.S. inflation could rise by approximately 0.3%.

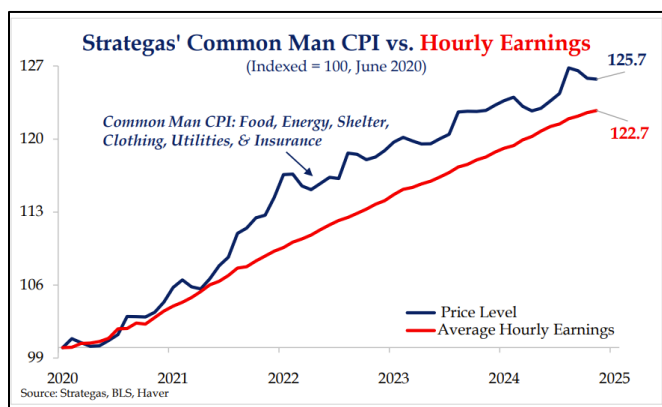
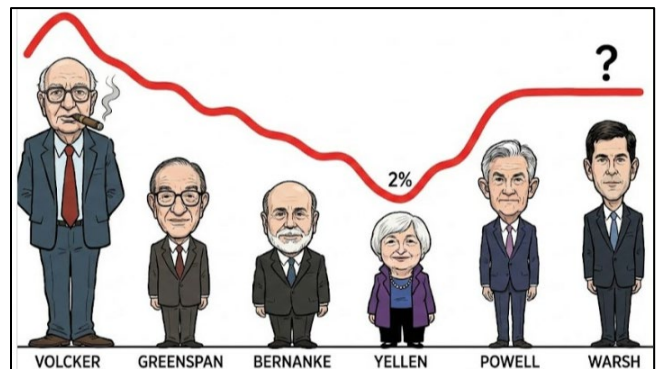


Chart source: [Strategas Research](#)

At the same time that oil prices are pushing inflation higher, the Fed—the group responsible for keeping prices stable—is getting a new chair, Kevin Warsh. He is expected to focus less on lowering interest rates and more on reducing how much money the Fed is putting into the system. In simple terms, that means less support keeping borrowing costs low. When there’s less money available, interest rates are more likely to stay higher.



Picture source: [All You Need To Know About Warsh](#)

If inflation stays elevated and so too do interest rates, how does this impact mortgages, business borrowing, and financial conditions?

Borrowing to Fund AI Infrastructure

If interest rates remain higher for longer, the impact extends beyond consumers –it raises the cost of funding the AI buildout.

Companies like Meta, Amazon, Microsoft, Google, Oracle, and OpenAI are investing heavily in data centers and compute, increasingly funded through debt. Hyperscalers already added over \$120 billion in new debt in 2025.

Estimates suggest a funding gap of roughly \$1.5 trillion between projected spending and what these companies can fund internally through 2028, leaving the broader financial system to absorb the difference through investment-grade debt, private credit, and hybrid structures.

To paraphrase famed value investor and bubble identifier, Jermy Grantham, *Only in hindsight do the signs—overinvestment, rising debt, and optimistic assumptions—appear obvious.*

Therefore, we must continue to assess the environment, if the cost of capital remains higher for longer, what level of returns is required to justify this spending?

Silver Linings

For all the uncertainty dominating the headlines, the underlying data tells a more resilient story.

| Theme | Support |
|-------------------|---|
| Earnings Strength | Double-digit growth continues into 2026 |
| Energy Resilience | Less reliance on foreign energy; more efficient economy |
| AI & Productivity | Short-term disruption, long-term job creation, and efficiency gains |
| Midterm Elections | Volatility near-term, strong returns historically after |

Earnings remain a key source of support. Fourth quarter 2025 earnings grew +14.0% year over year, with expectations of +14.3% growth in the first quarter of 2026 and +14.1% for the full year. These are not the numbers of a system under pressure, they reflect companies that continue to grow despite an uncertain backdrop.

That strength is reinforced by healthier balance sheets. According to our partners at GaveKal Research, following the pandemic, elevated cash levels have left companies in a stronger position, with interest coverage ratios now at their highest levels since 1960. Even in a higher-rate environment, many companies are offsetting borrowing costs by earning more on their cash,

making conditions less restrictive than they may appear on the surface.

From a macro standpoint, U.S. companies are better insulated from energy shocks than in prior cycles. The U.S. is now a net exporter of energy, reducing reliance on foreign supply. At the same time, businesses have become more efficient, requiring less energy per unit of output across both goods and services, helping to cushion the impact of higher input costs.

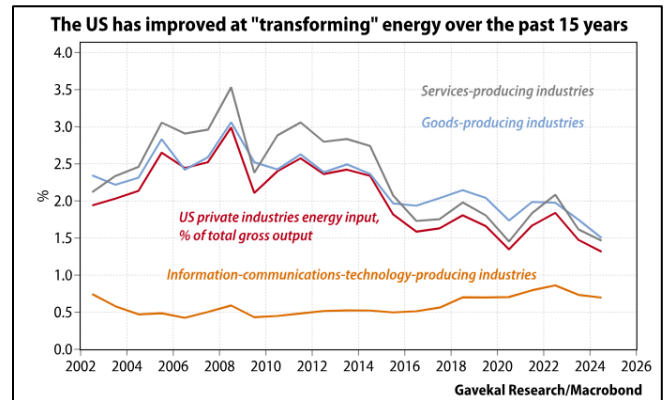


Chart source: [GaveKal Research](#)

AI introduces a separate set of considerations. The scale of investment and rising debt levels are valid concerns, particularly with hyperscalers continuing to fund large buildouts. However, history suggests that while new technologies disrupt existing industries, they also drive productivity gains and create entirely new categories of jobs that were not previously imaginable.

| INNOVATION & NEW JOBS | | |
|-----------------------|---------------------------|-----------------------------------|
| <u>New Technology</u> | <u>Displaced Jobs In:</u> | <u>Creating Jobs In:</u> |
| Industrial Machinery | Textiles | Factories, Engineering |
| Steam Engine | Horse Carriages | Railroads, Manufacturing |
| Automobile | Railroads | Auto manufacturing, Energy |
| ATMs | Banks | More Bank Branches (More Tellers) |
| Internet | Retail, Publishing | e-commerce, Cloud, Social Media |

Chart source: [Strategas Research](#)

Finally, while midterm election years have historically produced lower returns – averaging 4.7% compared to 9.5% in non-election years, and come with higher volatility, the pattern that follows has been consistent. Since 1950, the S&P 500 has not experienced a single negative one-year return following a midterm election, with average gains of 15.4% in the year after as uncertainty clears.

Portfolio Positioning

Our strategy has not shifted, and our long-term outlook remains intact. We continue to invest through the lens of asymmetry: positioning portfolios to participate in long-term innovation and growth, while being prepared and remaining resilient if the path ahead proves sub-optimal.

- **Asset Allocation & Diversification:** Equities remain foundational; however, we believe true diversification means more than owning the index – which has become increasingly concentrated in a few large-cap tech names. We continue to remain largely underweight the Mag 7 names and focus on differentiated high-conviction ideas designed to deliver durable returns over time. For larger portfolios, we complement them with assets like opportunistic credit, farmland, real assets, and unique, asymmetric investments.
- **Focus on Quality:** We favor businesses with strong balance sheets, healthy free cash flows, growing dividends, pricing power, and durable models built to weather inflation. We remain mindful of valuations, and with global trade/geopolitical frictions still present, growth expectations carry a degree of negative asymmetry.

- **Focus on Liquidity:** Liquidity in financial markets is a given until it is suddenly nowhere to be seen. We believe that a cornerstone of prudent portfolio management and risk control is to continually monitor liquidity and position portfolios so a client’s life is not disrupted should there be a change in market liquidity.
- **Drawdown Protection:** We focus on preparing portfolios for environments where traditional assumptions may not hold. We do not rely on long-term government bonds as our primary downside hedge. Instead, gold and cash have played that role more effectively. Gold continues to function as a hedge against inflation and volatility. Given the evolving geopolitical, fiscal and monetary challenges, we believe gold continues to serve that purpose in 2026.

Strengthening Our Team

We are pleased to share a few team updates as we continue to invest in the people and infrastructure that support you. Since December, we have welcomed three new team members who have already made an immediate impact, bringing us to an important milestone—our 20th employee.

Katie Carpano joins us focused on accounting services for clients, bringing valuable experience from Ernst & Young, where she worked in Private Client Services preparing and reviewing individual tax returns. She earned her BBA in Accounting from Pace University.

We also welcomed Robert Patrissi, CPA as our Controller and Director of Compliance, where he oversees financial reporting, accounting operations, and regulatory compliance. Rob brings over two



decades of experience from Morgan Stanley, spanning both Wealth Management and Institutional Securities, along with earlier experience at Ernst & Young as an auditor. He is a Certified Public Accountant and holds a Bachelor of Science in Accountancy from Villanova University.

Brett St. John, CAIA joins the investment team with a strong foundation in portfolio construction, asset allocation, and investment due diligence. Prior to joining the firm, he held roles at Coastal Bridge Advisors, Bloomberg, Voya Financial, and Fiduciant Advisors. He earned a degree in Economics from University of Connecticut and a Master's in Investment Management and Financial Analysis from Creighton University and is a CAIA® charter holder with a Certificate in ESG Investing from the CFA Institute.

In addition to expanding our team, we are pleased and honored to announce the appointment of Robert D. Hormats and James “Jim” Robinson to our Advisory Board. As always, we remain focused on expanding our knowledge base and resources. Two areas of increasing importance are:

- (1.) The intersection of geopolitical events and the global economy.
- (2.) The growth of digital assets.

Robert D. Hormats is a former Vice Chairman of Goldman Sachs (International) and Managing Director of Goldman, Sachs & Co., having joined the firm in 1982. He previously held senior U.S. government roles including Ambassador and Deputy U.S. Trade Representative, Assistant Secretary of State for Economic and Business Affairs, and served on the National Security Council as a senior economic advisor to Henry Kissinger. Hormats has received honors such as the French Legion of Honor and the Arthur Fleming Award and remains active in academia and global

policy circles through roles at Council on Foreign Relations.

Jim Robinson is a Co-Founder and General Partner at RRE Ventures. Over the last thirty years he has invested in over sixty companies and served on the boards of nearly fifty. Jim has been recognized on the Forbes Midas List as one of the top one hundred venture capitalists, as well as by Institutional Investors' list of Top Fintech Investors. Jim was an early believer in crypto and blockchain well before these became mainstream among traditional venture investors.

Every addition to our team and Advisory Board is made with a singular purpose in mind: continuous improvement in service of our clients.

Thank you for your continued trust and partnership.

Sincerely,

The HBWM Team

Alan Bazaar

CEO & Partner

Philip E. Richter

President & Partner

| Equity Indices | Price | MTD | QTD | YTD |
|----------------------------|--------------|------------|------------|------------|
| S&P 500 | 6528.52 | -4.98% | -4.35% | -4.35% |
| Nasdaq | 23740.19 | -4.81% | -5.82% | -5.82% |
| Dow Jones Industrials | 46341.51 | -5.20% | -3.19% | -3.19% |
| Russell 2000 | 2496.374 | -5.01% | 0.92% | 0.92% |
| Russell 3000 | 3717.555 | -4.98% | -3.97% | -3.97% |
| S&P 500 Sectors | | | | |
| Utilities | 466.42 | -3.21% | 8.26% | 8.26% |
| Consumer Disc. | 1748.224 | -5.64% | -9.19% | -9.19% |
| Telco | 420.28 | -7.28% | -6.94% | -6.94% |
| Consumer Staples | 925.56 | -7.39% | 7.68% | 7.68% |
| Industrials | 1369.67 | -8.44% | 4.61% | 4.61% |
| Technology | 5158.06 | -3.83% | -9.13% | -9.13% |
| HealthCare | 1710.39 | -8.11% | -4.88% | -4.88% |
| Materials | 627.82 | -6.86% | 9.73% | 9.73% |
| Financials | 822.22 | -3.56% | -9.47% | -9.47% |
| Energy | 943.299 | 10.40% | 38.25% | 38.25% |
| Real Estate | 259.98 | -6.05% | 2.76% | 2.76% |
| US Interest Rates | | | | |
| 3 Month | 3.67 | 0.43% | 1.25% | 1.25% |
| 2-Year Note | 3.79 | 12.39% | 9.21% | 9.21% |
| 5-Year Note | 3.94 | 12.60% | 5.84% | 5.84% |
| 10-Year Bond | 4.32 | 9.63% | 3.59% | 3.59% |
| 30-Year Bond | 4.91 | 6.50% | 1.37% | 1.37% |
| Commodities | | | | |
| Crude (WTI) | 101.38 | 51.56% | 77.86% | 77.86% |
| Brent | 103.97 | 43.82% | 72.56% | 72.56% |
| N. Gas | 2.88 | 0.10% | -10.71% | -10.71% |
| Gold | 4668.06 | -11.57% | 8.07% | 8.07% |
| Silver | 75.17 | -19.85% | 4.90% | 4.90% |
| Currencies | | | | |
| DXY | 99.96 | 2.41% | 1.67% | 1.67% |
| EUR | 1.16 | -2.19% | -1.64% | -1.64% |
| CAD | 0.72 | -1.98% | -1.43% | -1.43% |
| GBP | 1.32 | -1.89% | -1.69% | -1.69% |
| JPY | 0.01 | -1.69% | -1.25% | -1.25% |

Source: Bloomberg as of 3/31/2026

Quotes of the Quarter

“

Think progress, not perfection.

Ryan Holiday

“

This chain is likely to be a recurring theme in 2026. The US economy is dependent on the stock market, the stock market is dependent on the bond market, and the bond market is dependent on the tug of war between the commodity market vs. productivity.

Don Rissmiller

“

The danger is that we focus so much on the noise that we forget what actually matters.

Larry Fink

“

Technology investment, fiscal and monetary support, accommodative financial conditions, and private sector adaptability offset trade policy shifts.

International Monetary Fund

“

Peace exists; it wants to dwell within us. It has the gentle power to enlighten and expand our understanding; it resists and overcomes violence.

Pope Leo XIV

“

Over the last couple of years, we kept thinking the economy is going to slow down, and the economy has proven to be far more resilient than I had expected. That tells me, well, monetary policy must not be putting that much downward pressure on the economy.

Neel Kashkari

“

To be ignorant of what occurred before you were born is to remain always a child. For what is the worth of human life, unless it is woven into the life of our ancestors by the records of history?

Marcus Tullius Cicero

Headline Highlights

Indiana completes one of the most astonishing turnarounds in all sports with first national title

From audacious upstart to unbeaten national champion, Curt Cignetti and the No. 1 Indiana Hoosiers completed their meteoric rise to the top of college football Monday night.

After fatal ICE shooting, DHS and Minnesota officials share contrasting accounts

An Immigration and Customs Enforcement agent shot and killed a woman Wednesday during an immigration-related operation in Minneapolis in which she did not appear to be the target, local and federal officials said.

Team USA wins first men's hockey gold since 'Miracle on Ice'

For the first time in 46 years, Team USA won Olympic gold in men's ice hockey, defeating Canada in the gold-medal game of the 2026 Milan Cortina Winter Olympics. The last U.S. team to win gold was the 1980 "Miracle on Ice" group.

US prosecutors argue Maduro 'plundered' Venezuelan wealth in court battle over legal fees

A judge appeared sympathetic on Thursday to legal arguments that ex-Venezuelan leader Nicolás Maduro and his wife Cilia Flores should be allowed to use Venezuelan government money to fund their defense.

Takeaways from the millions of newly released Epstein files

Millions of new files relating to the late sex offender Jeffrey Epstein have been released by the US Department of Justice (DOJ), the largest number of documents shared by the government since a law mandated their release last year.

Savannah Guthrie's mother, Nancy Guthrie, missing in Arizona; "I believe she was abducted," sheriff says

"Today" show host Savannah Guthrie's mother, Nancy, is missing in Arizona in what police believe was an abduction from her home while she slept, Pima County Sheriff Chris Nanos told CBS News on Monday.

How the US-Israeli strikes on Iran unfolded and the aftermath, moment by moment

Tehran launched fresh retaliatory attacks as it confirmed the death of decades-long leader Ayatollah Ali Khamenei in US-Israeli strikes.

Michigan defeats UConn 69-63 to win first men's NCAA basketball title since 1989

Michigan won its second national championship in men's college basketball Monday, defeating Connecticut 69-63 in the title game in Indianapolis.

Anthropic vows to sue Pentagon over supply chain risk label

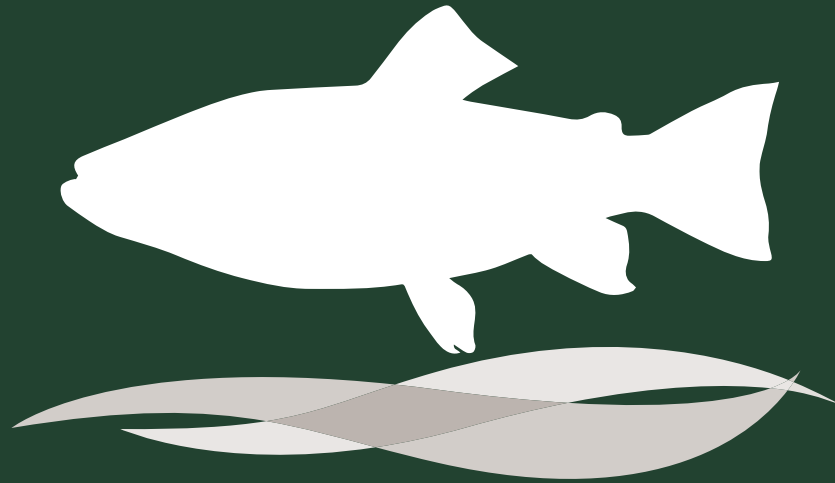
The Pentagon's designation is the first time a US company has been labelled a supply chain risk, which means the government considers Anthropic not secure enough for it to use.

'Sinners' Gets Most Oscar Nominations Ever

Ryan Coogler's genre-busting drama amassed 16 Oscar nominations this morning, the most for any movie in history.

Seahawks stifle Drake Maye, Patriots to capture Super Bowl LX

"Loose and focused" was the mantra for the Seahawks, and they lived those words right up to and through Sunday night, as they smothered the New England Patriots 29-13 to win the second Super Bowl title in franchise history.



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