KELLEHER FINANCIAL ADVISORS

Newsletter

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"Life is ten percent what happens to you and 90 percent how you respond to it." – Lou Holtz

MEANIINGFUL SHIFT

Analysis and Review by ***Thomas Burnett, CFA****, Vice Chairman & Director of Research and* ***Neil Cataldi****, Chief Investment Officer, Starboard Advisors, a Division of KFA*

The first quarter of 2026 was defined by a meaningful shift in market leadership, rising geopolitical uncertainty, and the early stages of a valuation reset that many observers had anticipated for some time. After two years of extraordinary concentration, where a handful of mega-cap technology companies, the so-called "Magnificent 7," drove the vast majority of market returns, investors began 2026 confronting a more complicated reality.

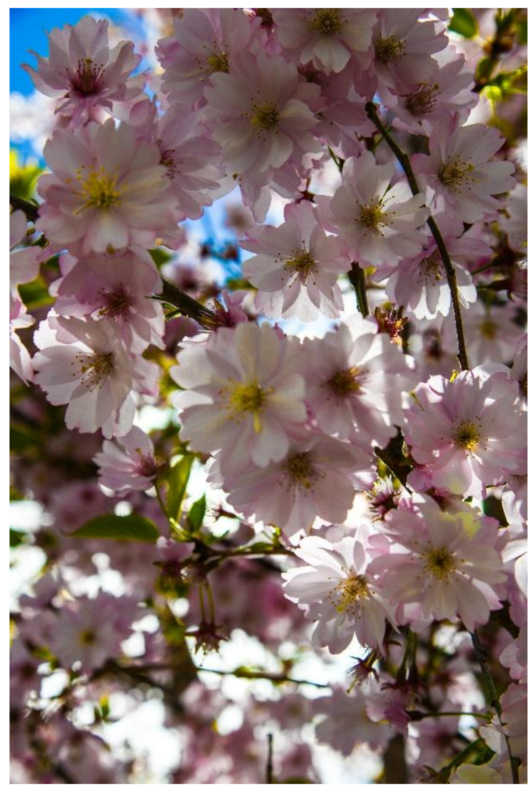

Photo by: Laura Sunderland

The rotation away from the Magnificent 7 accelerated meaningfully during the first quarter. Several of these companies, which had been priced to near perfection, began to show signs of earnings deceleration and increased capital expenditure requirements. More broadly, the AI narrative that had fueled extraordinary multiple expansion began to fracture.

The market's original thesis, that AI would be an unambiguous tailwind for virtually every large technology company, gave way to a more nuanced and, at times, unsettling question: which companies are truly positioned to benefit from AI, and which are at risk of being disrupted by it?

Software companies felt this shift acutely. For several years, software businesses benefited from the assumption that AI would augment their products and accelerate growth. That assumption is now being tested. A growing number of analysts and investors are beginning to ask whether AI agents and large language models represent a threat to the business models of traditional SaaS companies, automating workflows that software licenses were once needed to manage, and compressing the value proposition of point solutions in favor of broader, more integrated AI platforms. The stocks reflected this uncertainty, with software broadly underperforming as sentiment shifted from "everyone wins" to "who survives."

INDEX	% Change YTD as of 03/31/2026
Dow Jones Industrial AVG. (TR)	-3.5%
S/P 500 Index (TR)*	-4.6%
NASDAQ	-7.1%
STOXX Euro 600	-1.5%
Nikkei 225 (Japan)	1.4%
China (Shanghai)	-1.9%
GOLD ($ per oz.)	8.2%
Crude Oil ($ per bbl.)	28.2%
Rate on Ten-Year UST Note	4.31%
VIX Volatility Index	67.6%

Source: WSJ.com April 1 2026

**(TR) indicates an index return that includes dividends.*

Geopolitical conditions added another layer of complexity. Escalating tensions in the Middle East, centered on Iran and the growing risk of broader regional conflict, reintroduced a geopolitical risk premium that markets had largely set aside in recent years. The prospect of supply disruptions, particularly in energy markets, contributed to renewed inflationary pressure at a time when the Federal Reserve was already navigating a difficult path. Inflation, which many had declared largely resolved heading into 2026, has proved stickier than expected, and the combination of persistent price pressures and geopolitical uncertainty effectively closed the door on near-term rate cuts. Investors who had priced in a more accommodative Fed were forced to recalibrate, and higher-for-longer rates have become the dominant narrative once again. The first quarter also saw meaningful valuation compression not driven by any change to earnings expectations, rather the risk environment increasing, fears of AI disruption as mentioned, and the possibility of higher inflation with higher interest rates. For long term, fundamental investors like us who have maintained discipline on valuation throughout, the beginning of this normalization process is an environment we have been prepared for and, in many respects, have been waiting for.

Commodities were much higher during the first quarter as gold and oil rose dramatically due to the conflict in Iran. It is worth noting that since quarter-end, equities have recovered meaningfully, tensions in the region, particularly around the Strait of Hormuz, remain elevated and continue to weigh on sentiment but April proved to be a strong start for the second quarter. Corporate earnings have been a relatively bright spot: first quarter S&P 500 results are tracking approximately 13% year-over-year growth, which would mark the sixth consecutive quarter of double-digit earnings growth. FactSet's full-year 2026 consensus has moved higher since quarter-end and now stands at approximately 13–15% growth, consistent with our view that the underlying earnings picture remains constructive even as the macro backdrop grows more complex.

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Our very best regards,
Neil & Tom

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ABOUT US

Since 1995, our firm has provided clients with thoughtful and personalized solutions in many areas of financial planning. At KFA, we place our clients at the center of everything we do. And while situations and experiences differ, our belief is that every client deserves the very best of what we have to offer. Our firm acts as both an adviser, formulating long-term strategies, and as a manager, making specific recommendations and implementing decisions in areas such as portfolio construction, estate planning and investment management.

KFA educates our clients, communicating with them and sharing our rationale and analysis about issues that should be considered on an ongoing basis and ensuring that appropriate actions are taken. We do not sell proprietary financial products and are paid solely by our clients. In this way, KFA is able to recommend and incorporate independent investment vehicles and managers into a portfolio as needed.

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