LOUDON
INVESTMENT MANAGEMENT

April 17, 2026

Dear Clients and Friends:

As we mentioned in our last letter, big tech and the Magnificent 7 dominated investment performance last year. But in the first quarter of this year, there was a major turnaround. Basically, most of last year's big winners have been this year's losers. Companies with good (but not spectacular) fundamentals and more reasonable valuations and growth prospects that had lagged the market for several years took charge. This shows up in the performance numbers below as the now tech laden S&P 500 stock index significantly lagged the two other more conservative equity indexes.

Benchmark Index Total Returns	Quarter Ending 3/31/2026
Lipper Balanced Fund Index	-1.07%
S&P Dividend Aristocrats	2.42%
S&P 500 Stock Index	-4.33%
Russell 1000 Value Index	2.10%
3 month US Treas. Bill Index	0.86%
S&P U.S. Aggregate Bond Index	0.04%

From Mag 7 to Lag 7

It's no secret that a handful of technology stocks have vastly outperformed the overall stock market in recent years. Often referred to as the "Magnificent 7", these stocks have dominated stock returns over the last ten years, and over that time frame they collectively grew to make up over 35% of the value of the S&P 500. The underlying stocks are all names we know well – Alphabet (Google), Amazon, Apple, Meta Platforms (formerly Facebook), Microsoft, Nvidia and Tesla.

In previous letters we have talked about our concerns that the S&P 500 had become top-heavy, with too much of the overall value concentrated in just a handful of stocks. While this small list of companies helped to pull the market up in 2025, the tide has begun to turn for the start of 2026. The S&P 500 performed poorly in the first quarter, down 4.3%. However, the Magnificent 7 performed worse, down around 12%. All seven stocks were down for the first three months of the year, with Microsoft (-23%) and Tesla (-17%) faring the worst. Rather than helping to lift the market in Q1, the Mag 7 stocks were

laggards that pulled overall returns down. As a result, many analysts and financial writers have been referring to the Mag 7 as the Lag 7 recently.

> "The easiest way to describe 2026 so far is this: the market stays on its feet, but big tech looks like it is taking an exam it forgot was today."
> Ruben Dalfovo, Investment Strategist, Feb '26

Not surprisingly, the flip side of this equation is that several sectors that had previously underperformed had an outstanding quarter relative to the market. The energy sector, which has lagged for years, led the way with a total return of over 35%. Our own largest energy holdings, Enterprise Products Partners and Enbridge, are mainly storage and pipeline businesses that are not particularly sensitive to the price of oil. Nevertheless, both were solid performers for the quarter, up about 20% and 15% respectively. Other sectors including Materials, Utilities, Consumer Staples, Industrials, and Real Estate were all positive for the first quarter as well.

It's difficult to say where the Mag 7 and technology stocks in general will go from here, although we continue to like Microsoft which remains one of our core holdings in portfolios, and we are adding it to some portfolios where appropriate. In general, we believe that the AI craze got a little ahead of itself, and at the very least a moderate correction seems warranted. In the short to medium term the expansion into AI will require some substantial capital investment (cash) and energy. It takes an incredible amount of resources to power the large data centers that are responsible for using AI. These are problems that have not yet been worked out. The state of Maine is even considering a moratorium on building data centers due partly to power concerns.

As always, over the long term the market will begin to figure out the real-world implications of companies implementing AI on a wider basis. But for now many unknowns remain. The Mag 7 as well as other big tech companies remain mostly on a solid financial footing, with some having great growth prospects. We can't say whether this downturn will end quickly or continue for a while, but it is likely to ultimately provide us with some buying opportunities as we look ahead to the rest of 2026.

Meanwhile, as the market has turned away from the Mag 7 and big tech, it has begun to favor value and many of the higher dividend paying stocks that we own. Value and dividend stocks were largely the winners of the first quarter - defense contractor Lockheed Martin, Caterpillar, NextEra Energy, Merck, Fastenal and Realty Income are just a few companies we own which finished the quarter well ahead of the market. When times are uncertain, investors flock to safety. These are all companies that pay a reasonable dividend and are able to grow at a reasonable pace year in and year out. While definitely not as exciting as the Mag 7, we believe that the stocks of all of these companies are well positioned to provide strong returns over the long run.

As you all should know, we generally look for top quality companies with income yields above the S&P 500 when they are out of favor and depressed in price.

Oil and Iran

Trouble in Iran dominates the headlines these days. While we viewed the recent ceasefire as the start of a calming down period, we believe that the problems in the Middle East are probably not over yet. In terms of the repercussions on the stock market, energy prices and access to oil are the biggest concerns. Shutting down the Strait of Hormuz blocks the transport of oil and impacts prices around the world.

Even though we are now largely self-sufficient in oil and gas, the price implications are obvious at the gas pump every time we go to fill up our cars.

Beyond that, oil and gas fuel literally everything that make businesses run. Trucks on the road need fuel to deliver goods and parts around the country. Factories need fuel to keep the lights on and churn out goods. And as mentioned above, our expanding network of data centers needs more and more energy to fuel the servers and computers that make AI and continued technological gains possible.

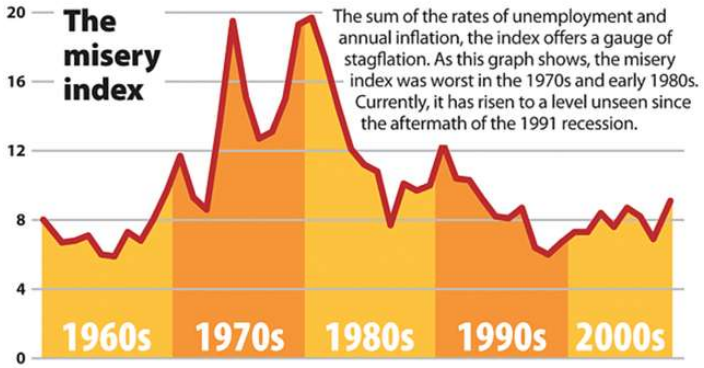
Renewables do help to plug the gap and their importance is growing, but most are subject to the whims of the weather so we still require a large "base load" capacity that can run 24 hours a day. We are also seeing a renewed interest in nuclear power, particularly for "small modular reactors" which are more flexible and potentially safer. The way we see it, the market for renewables and especially nuclear is still young, with small-scale nuclear still in its infancy. The importance of these alternative sources of energy will undoubtedly grow in the coming decades.

But whether we like it or not, for now, and for a long time into the future, we remain economically dependent on oil and gas. And their prices eventually flow through to nearly everything we buy. Current higher costs mean that companies don't make as much money and people don't buy as many goods, which isn't good for the economy. The real question in the short term is whether energy prices will come down quickly if the conflict in Iran continues to de-escalate, or are higher prices here to stay for a while? At least this time around (unlike the oil embargoed 70's and 80's) there is no real shortage.

The Misery Index

Originally created by an economist, Arthur Okun, in the 1970's, the Misery Index is a simple economic indicator calculated by adding the unemployment rate to the inflation rate. The idea behind the Misery Index is that it represents the economic distress felt by everyday people. As you can see from the chart below, while the current Misery Index is higher than it has been since the 1990's, it remains well below levels seen in the 1970's and 1980' when gas was both high priced and sometimes unavailable.

'Misery Index' Still Less Than Half the 70s and 80s Peaks



Bureau of Labor Statistics, via CSMonitor.com

The world may seem very uncertain right now, but we would argue that things are perhaps not as bad as they seem. Our 24-hour news cycle tends to emphasize negative headlines because that is what gets the attention of more eyes. But the truth of the matter is that unemployment remains quite low, an

indication that people are working and that there are generally jobs available to those who want them. Meanwhile inflation is about 2.5% at last reading (before the energy price rise). Our Federal Reserve prefers a rate of inflation closer to 2%, but we seem to have gotten away from the inflation rates seen a few years ago which were several times higher.

We will need to stay tuned. If gas prices remain higher over a longer period, this will certainly continue to filter through in our inflation numbers and would likely help to push the Misery Index up. But for the time being we see no reason to panic. The recent churn in the market in the first quarter has provided us with some great buying opportunities, and we look forward to taking advantage as 2026 continues.

03/31/2026 Top Holdings

ABBV	AbbVie, Inc.	LOW	Lowe's Companies, Inc.
CAT	Caterpillar, Inc.	MSFT	Microsoft Corp.
CSCO	Cisco Systems, Inc.	NEE	NextEra Energy, Inc.
DLR	Digital Realty Trust, Inc.	O	Realty Income Corp.
EPD	Enterprise Products Partners LP	QCOM	QUALCOMM, Inc.
FAST	Fastenal Co.	TFC	Truist Financial Corp.
G	Genpact Ltd.	TMUS	T-Mobile US, Inc.
ITW	Illinois Tool Works Inc.	TSM	Taiwan Semiconductor Manufacturing Co., Ltd.
JPM	JPMorgan Chase & Co.	USB	U.S. Bancorp
LNC	Lincoln National Corp.	XLK	State Street Technology Select Sector SPDR ETF

During the first quarter, we had two holdings depart from our top 20. Accenture PLC and Domino's Pizza moved down the list due to both lower stock prices and temporary selling for tax purposes. The odds are high that these will be repurchased in the future as we continue to like the long-term fundamentals of each.

Active purchases pushed T-Mobil into the list while US Bancorp moved higher on strong stock performance that nearly eclipsed its all-time high price.

T-Mobile is one of the big three (along with AT&T and Verizon) in the mobile phone business. But unlike the other two, it is considered a high quality "pure play" on mobile activity as it has no significant and expensive landlines. This has allowed it to grow revenues and earnings far more rapidly than the other two.

Most recently the company has expanded its footprint via purchases and partnerships. U.S. Cellular is a recent acquisition, and they have partnered with Motorola and Starlink to now offer a low-priced internet/wireless bundle under the Mint Mobile brand that is being actively marketed. This has similar cell coverage to T-Mobile but potentially lower data priority and therefore slower speeds during network congestion. This allows them to offer this product at $45/month, less than many mobile phone plans along. We are optimistic that T-Mobile can continue executing at a high level, increasing their customer base with various products and partnerships. Meaningful increases in free cash flow have allowed for continued share buybacks and a 15% dividend increase this year with more anticipated in the future.

US Bancorp last appeared in our top twenty in September 2024. Since that time, it has experienced

strong performance with a 16.4% return in 2025, and it also held up relatively well through the first quarter of this year.

USB is a high-quality bank and custodian known for its steady hand. It is among the most efficient banks in the country and has a strong reputation for controlling costs. USB is headquartered in the mid-west, but unlike some regional banks, it has a highly diversified revenue stream. A significant portion of its income comes from fee-based services, such as payment processing and wealth management, which provides more stability than lending alone. The bank has recently expanded its lending program through a new partnership to manage Amazon's small-business credit card program.

The bank has also been an early and active user of artificial intelligence. USB has integrated advanced AI to streamline consumer lending and commercial banking. The company is an active user of "Agentic AI" which is the use of autonomous AI agents that independently complete multi-step financial tasks. These agents act on a customer's behalf without waiting for human instructions. Some think of them as digital employees that, if asked, work around the clock.

AI in general is being heralded as the key to implementing more efficient processes in many areas of the economy, and US Bancorp is a good example. We are always on the lookout for the users of AI as a less risky way to take advantage of this major innovation. One factor we are watching, however, is that the Federal Reserve and the Treasury Dept. are watching the banks over concerns about the potential misuse of AI, making bank customers' identities and information more vulnerable to hacking.

Conclusion

While both the stock market and the economy (not to mention politics) may seem confused now, most of this is the result of today's headline oriented rapid news cycle. In fact, under the headlines and considering the impact of the war in Iran, the financial markets are going through their normal sorting out process to decide who the future winners will be. During periods like this, it is always good to remember that you can't buy the past (performance) because someone else already owns it. Yesterday's winners may not be tomorrow's.

In contrast to four years ago, inflation seems to be coming under control though the numbers have yet to fully reflect higher energy prices while the economy has been making steady forward progress. We do not believe that we are on the verge of either a recession or an inflationary blowoff, though the current stock correction could take us temporarily lower.

The "wall of worry" that bull markets are said to climb seems firmly in place. Importantly, stock valuations seem to be returning to a more rational level with more attention being paid to the many good companies that were left behind during the tech bull market. Though many pundits have a different view, we believe when we look back at 2026 we will be reasonably happy with what has unfolded both economically and in the financial markets.

Sincerely yours,

Loudon Investment Management LLC

ELS,JSS,DML,LRO