Pavlic Investment Advisors Inc.
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1st Quarter 2026 Review & Outlook

Dear Client,

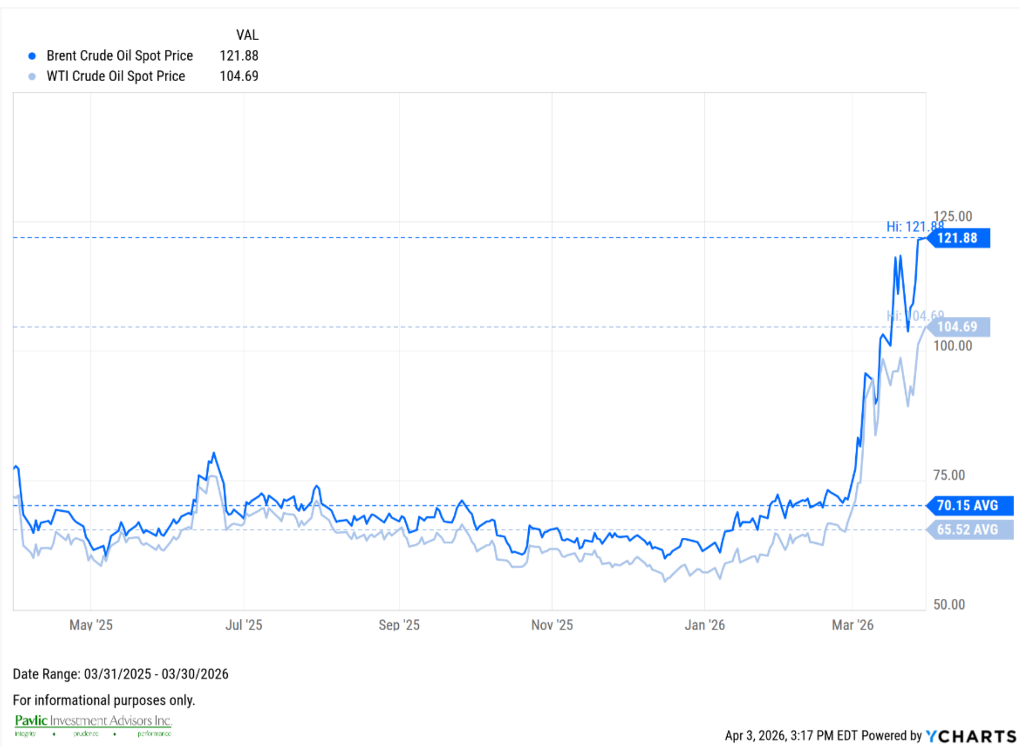
As we conclude the first quarter of 2026, markets have been influenced by several competing forces, including geopolitical conflict with the war in Iran, rapid technological change with Artificial Intelligence, and frequently shifting headlines. While day-to-day market moves can feel consequential, long-term outcomes are rarely determined in a single week or month. Our priority remains unchanged: keeping your financial plan aligned with your objectives and maintaining discipline through periods of short-term volatility.

During the first quarter, two themes were particularly influential: higher energy prices associated with the conflict in Iran, and a moderation in parts of the technology sector following a strong multi-year advance. Below, we outline how we are evaluating both developments and expounding upon how they relate to your long-term investment strategy.

Geopolitical Turmoil and the Push for Energy Independence

The quarter's most consequential macroeconomic development was the conflict in Iran. Markets rapidly incorporated the risk of supply disruption, contributing to higher oil and natural gas prices.

Given the portfolio's broad diversification, strength in our energy holdings helped offset weakness in other areas and improved overall balance. Importantly, this is not solely a single-quarter headline issue. Globally, we continue to observe a multi-year shift toward greater "self-reliance," as countries invest domestically to reduce dependence on foreign supply chains.



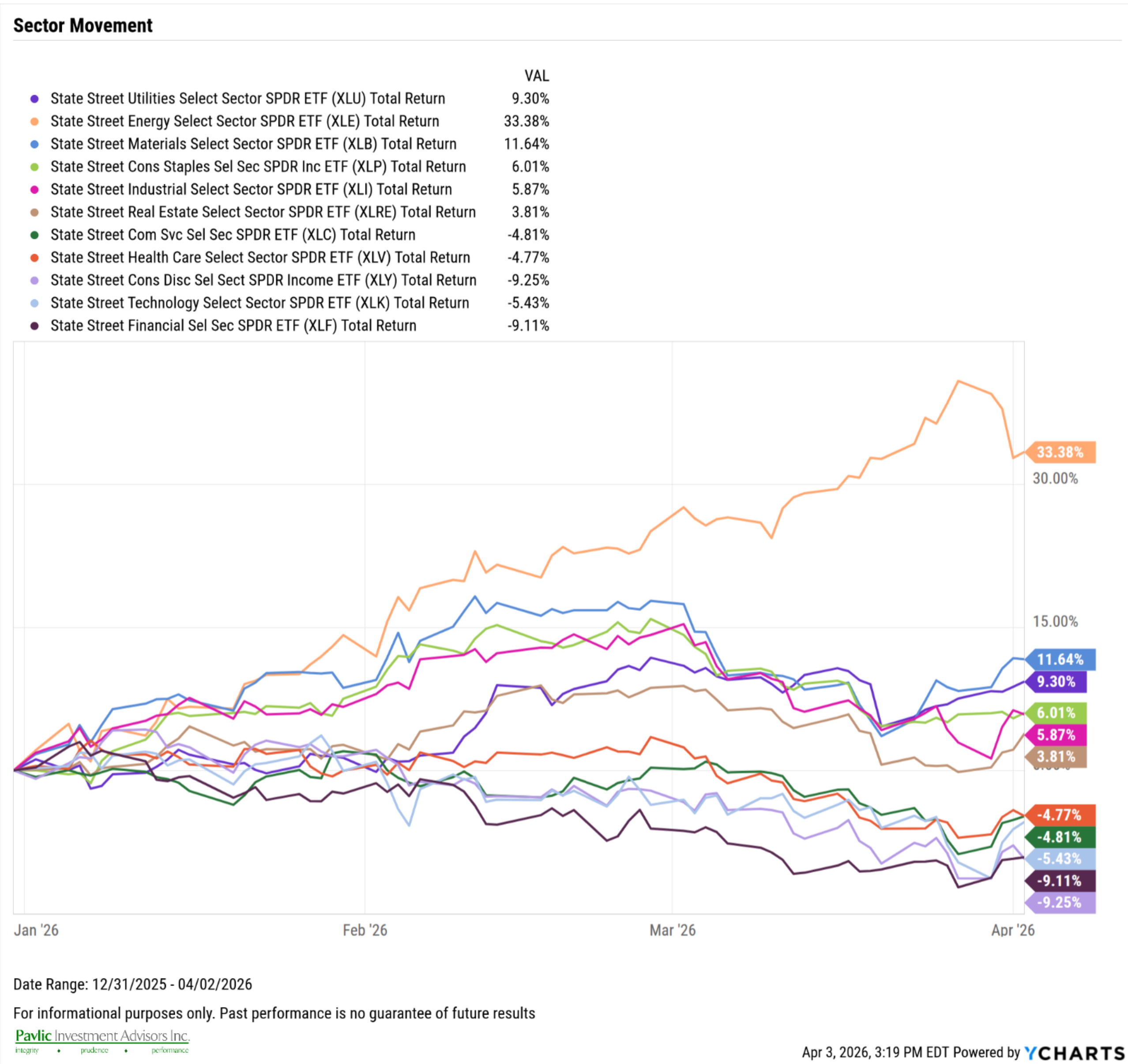
This shift can contribute to higher and more persistent inflation. Duplicating capacity, carrying larger inventories, and reshoring production may increase costs relative to the prior era of highly optimized global supply chains. This is one factor that has kept inflation above the Federal Reserve's 2% target.

At the same time, electricity demand is increasing—driven by electrification, industrial expansion, and the substantial power requirements of data centers. Meeting this demand will require a pragmatic, diversified approach, including grid modernization, additional storage, and expanded supply across multiple energy sources. When demand grows faster than supply, prices typically rise, which can support the outlook for well-positioned energy businesses.

The AI Reality Check: Transitioning from Software to Infrastructure

In contrast, technology stocks experienced a more varied quarter. Following a strong multi-year advance driven in part by AI-related enthusiasm, investors have become more selective and increasingly focused on fundamentals. In many respects, the market is moving from the "buildout" phase (chips, hardware, and data centers) to an "implementation" phase, as companies deploy AI to improve service, reduce costs, and enhance decision-making. We continue to emphasize high-quality businesses across multiple industries that are positioned to apply AI in practical, measurable ways. History suggests a high correlation between market returns and company earnings, and we believe a large part of the robust bull market since COVID is linked to both the build out of AI and what continues to be on the horizon – the implementation of AI.

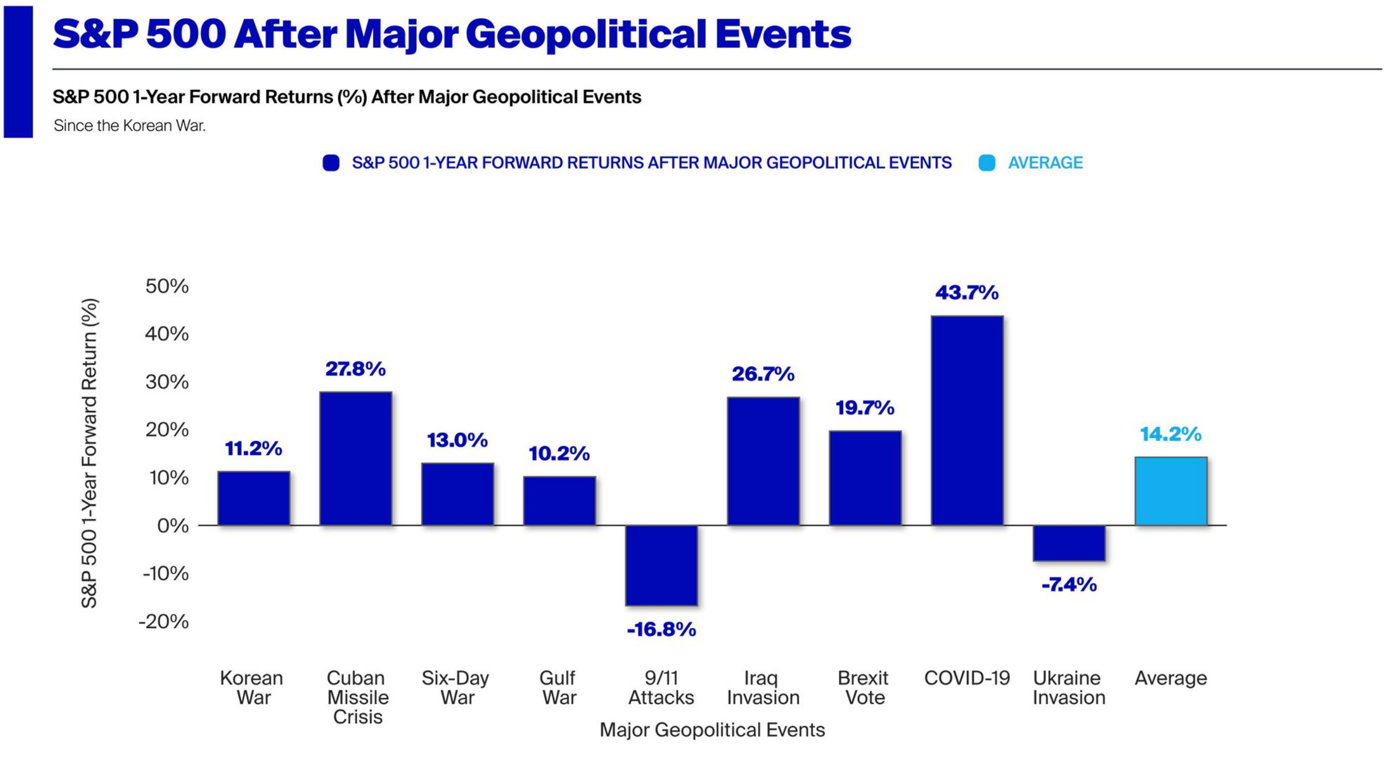
More broadly, the market is placing greater emphasis on companies that can translate innovation into durable return on investment (ROI). As expectations normalize, we believe the environment may become more constructive for long-term investors—one in which leadership, execution, and financial strength are rewarded. Over time, this shift may create attractive opportunities among the businesses most likely to benefit as AI adoption expands across the broader economy. The chart below shows performance in the first quarter by sector, with Energy leading the way and Technology and Financials as the laggards.



The "Civic Miracle" of Long-Term Investing

In an environment dominated by challenging headlines, it is understandable to feel unsettled. However, history suggests that frequent attempts to time the market can be counterproductive: missing a limited number of the market's strongest days can materially reduce long-term results, and many of those days occur during periods of elevated uncertainty. Remaining invested and maintaining alignment with your target allocation typically matters far more than short-term tactical shifts.

At its core, long-term investing can be viewed as a "civic miracle." Your investment capital helps finance businesses, infrastructure, and job creation, supporting economic growth over time. In return, your portfolio growth helps support your retirement readiness and long-term family security.



Historically, investors who remained committed through recessions, wars, inflationary periods, and financial crises have been positioned to benefit from long-term compounding. We remain constructive on long-term outcomes—not because the path is always smooth, but because markets have rewarded patience and discipline.

We are currently monitoring two themes closely: developments with the war in Iran and the evolving, real-world impact of AI. Where appropriate, we will make measured adjustments at the margins—while keeping your long-term goals, risk tolerance, and target allocation at the center of every decision.

In the coming weeks, we will reach out to schedule portfolio reviews and discuss your plan, current asset allocations, and recent results. As always, please contact us at any time if your goals, circumstances, or timelines have changed.

Thank you for your continued trust and partnership.

"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves." - Peter Lynch