



April 2026

"The investor's chief problem, and even his worst enemy, is likely to be himself."
– Benjamin Graham

INVESTMENT PERSPECTIVES

Energy, the Hidden Cost of Illiquidity, and Why Patience Compounds

As we move through 2026, markets are navigating a confluence of disruptions that would have seemed implausible even a year ago. An active military conflict has closed the Strait of Hormuz to normal commerce, pushing energy prices to levels that challenge the narrative of American energy independence. Equity markets have oscillated sharply with each new development. And after a decade of relentless growth, private credit and alternative investment vehicles are drawing more attention from both financial media and individual investors than at any point in the asset class's history.

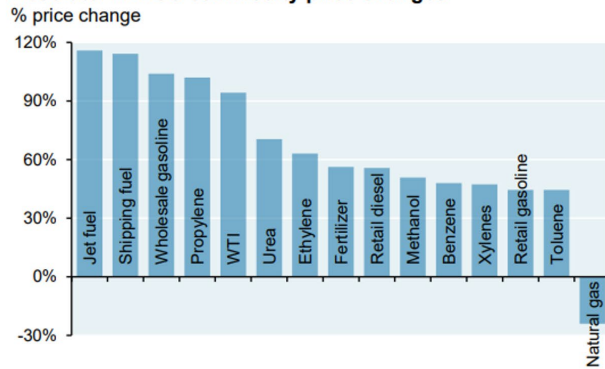
Against this backdrop, this quarter's *Investment Perspectives* explores three themes. First, how the Gulf conflict has exposed the practical limits of US energy independence and what it means for portfolios. Second, what the rapid growth of private credit and alternatives means for investors who may be wondering whether they are missing something, and why we believe liquidity and quality remain more valuable today than they may appear. And third, why the historical evidence argues so consistently for staying invested through volatility, and what behavioral finance tells us about why that remains so hard in practice. Though distinct in subject, these themes share a common thread: each rewards investors who can separate narrative from evidence, and who possess the temperament to act on that distinction over a full market cycle.

The Hormuz Premium: When Energy Independence Meets Market Reality

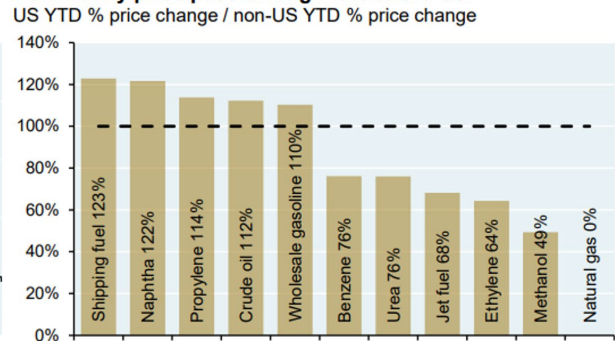
The Strait of Hormuz carries roughly 20 percent of the world's oil supply. Since March 11, Iran has effectively controlled it, and the investment implications have arrived faster and more broadly than most observers anticipated. The conventional wisdom holds that the US, now a net energy exporter, is largely insulated from disruptions in distant waterways. It is a reasonable assumption. It is also wrong.

The data says otherwise, and it makes the case concisely. Year-to-date US shipping fuel prices are up 123 percent. Naphtha is up 122 percent. Crude oil is up 112 percent. Wholesale gasoline is up 110 percent. In several categories, US price increases have actually exceeded those in Europe and Asia. Even jet fuel, where the United States runs a net export surplus, has seen domestic prices rise at roughly two-thirds the rate of international prices. The "US doesn't need Gulf oil" argument mistakes physical supply flows for market pricing mechanisms. Oil trades globally in dollars. When a chokepoint controlling a fifth of global supply is disrupted, prices reprice everywhere, regardless of whether American barrels physically transit that strait. American energy independence is a meaningful buffer against supply disruption. It is not a firewall against price disruption.

Absolute YTD US commodity price changes



Commodity price pass-through rate to the US



Source: J.P. Morgan

The economic transmission mechanism matters here. When a major chokepoint is disrupted, it is not just crude oil that reprices. Petrochemical feedstocks move with it, which flows into plastics, fertilizers, and packaging. Shipping fuel costs rise, which flows into the price of everything that moves by sea. Refinery margins shift, which flows into diesel and jet fuel regardless of where the underlying crude was pumped. The Strait of Hormuz disruption is functioning less like an oil shock and more like a broad input cost shock across the industrial economy, arriving at a moment when supply chains were already operating with limited slack.

The duration of the disruption matters as much as its severity. Short-lived supply shocks are absorbed by inventory drawdowns and rerouting. A prolonged closure forces more permanent adjustments: long-term contracts repriced, infrastructure rerouted around the Cape of Good Hope adding weeks to transit times, and industrial buyers locking in supply at elevated prices to reduce exposure to further uncertainty. The longer this persists, the more these elevated costs become embedded in the cost structure of businesses that appeared largely insulated just months ago.

This brings us to a development that connects the energy story directly to one of the most significant capital allocation trends of the past several years. Artificial intelligence is the most electricity-intensive workload ever deployed at commercial scale: a single AI query consumes roughly ten times the energy of a standard web search. US data centers are projected by the International Energy Agency to grow from roughly three percent of national electricity demand today to as much as twelve percent by 2030. That build-out was already straining power infrastructure and long-term energy contracts before this year. Now the cost and availability of reliable power has become materially more uncertain. The companies that secured long-term power purchase agreements early are in a structurally different position than those that did not, and the energy disruption has made the power infrastructure layer of the AI build-out, transformers, grid equipment, cooling systems, considerably more strategically valuable than markets had priced it eighteen months ago.

Commodity price shocks of this magnitude function as a tax on economic activity, passing through to transportation, manufacturing inputs, and ultimately consumer prices while simultaneously compressing demand. Energy disruptions have historically resolved. The 1973 OPEC embargo, the 1990 Gulf War, and the 2022 European gas crisis each normalized in time. The question for investors is not whether resolution comes, but the path through it. We are not chasing commodity plays at peak uncertainty, where prices already embed a substantial risk premium. We are focused on businesses with genuine pricing power and the financial strength to absorb input cost volatility without structural damage.

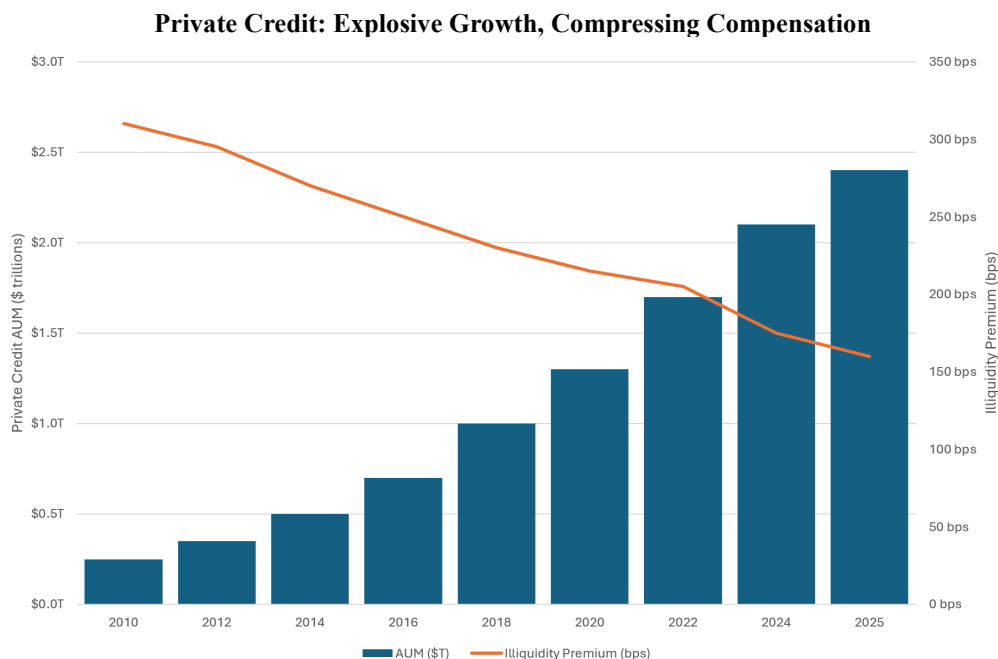
Liquidity, Quality, and the Private Credit Question

Private credit refers to loans made directly by investment funds to companies, bypassing traditional banks and public bond markets entirely. Investors in these funds earn interest income in exchange for two things

they cannot easily get back: their capital, typically locked up for three to seven years, and the ability to sell if circumstances change. Private credit and alternative investments have become a fixture of financial media coverage. The growth of the asset class has been extraordinary: global private credit AUM has expanded from roughly \$250 billion in 2010 to approximately \$2.4 trillion today. In its early years, the returns were genuinely attractive and the argument was sound. The narrative of steady income, low volatility, and diversification from public markets resonated for good reasons.

The more important question is what the asset class offers today, and what it actually costs. On both counts, the picture has changed.

The chart below captures the central issue. As capital has flooded into private credit, the illiquidity premium (the additional spread you are supposed to earn in exchange for giving up the ability to sell) has compressed substantially. Where investors once earned 300 or more basis points over equivalent liquid credit for accepting that constraint, the premium has narrowed to closer to 150 to 175 basis points in many direct lending strategies today. Put simply, more money chasing the same deals has driven down what you get paid for accepting the risk: the asset class has grown roughly tenfold while the compensation for owning it has roughly halved.



Source: Prequin, BlackRock, HCM analysis. Illiquidity premium is approximate spread of direct lending vs. equivalent-duration liquid credit. For illustrative purposes.

The quality of what you are lending against has also shifted. As private credit grew, it expanded into borrower profiles and deal structures that would not have cleared the public high-yield market. Covenant-lite structures, payment-in-kind provisions, and complex priority arrangements are now commonplace. Defaults in private credit are harder to observe in real time than in public markets: NAVs (Net Asset Values) are marked infrequently, and distressed situations are often quietly restructured rather than reported. The low volatility that makes private credit appear attractive is partly a feature of how it is measured, not purely how it performs.

But the most practical concern, and the one most relevant to many of our clients, is what illiquidity actually means for your financial life. For clients who are drawing on their portfolios, whether through required minimum distributions, scheduled withdrawals to cover living expenses, or distributions from retirement accounts, liquidity is not an abstract virtue. It is a concrete operational requirement. A locked-

up private credit vehicle cannot fund your RMD. It cannot cover an unexpected expense. It cannot be rebalanced when your equity allocation drifts. It cannot be repositioned when a genuine opportunity arises. You are committing today to a constraint that will bind you across market environments you cannot predict, and you are being paid less for that commitment than investors were a few years ago.

Our approach to the fixed income portion of client portfolios reflects a deliberate alternative to yield-chasing. We construct bond ladders: portfolios of individual investment-grade bonds with staggered maturities, held to maturity. The logic is straightforward: when you hold a bond to maturity, interim price volatility is irrelevant. You know exactly what you will receive and when. Each rung of the ladder matures on a schedule that can be calibrated to your anticipated cash needs (RMDs, distributions, planned expenditures), providing predictable income without the need to sell anything at an inopportune time. As each bond matures, the proceeds can be reinvested at prevailing rates or deployed elsewhere depending on your circumstances at that moment.

This approach does not maximize yield in any given year. That is intentional. Maximizing yield in fixed income means taking on more credit risk, more duration risk, or more illiquidity, and in a market environment where credit quality has been stretched and illiquidity is inadequately compensated, those are not risks we think are worth accepting. What the bond ladder provides instead is certainty, simplicity, and genuine liquidity at every point in time. You always know what you own, when it matures, and what it will pay. That transparency and predictability has real value, particularly in periods like this one when market conditions are shifting rapidly and the ability to respond without being forced matters a great deal.

For clients who have read about private credit and are curious: we understand the appeal. The brochures are polished, the return history in calm markets looks clean, and the framing as “alternative income” sounds like a solution to a genuine problem. Our view is that the problem is real but the current solution is poorly priced. You deserve to be paid meaningfully for the liquidity you give up. At current spreads and with current credit quality, the market is not offering that. We would rather hold high-quality bonds to maturity and own high-quality businesses at reasonable valuations, with full liquidity at every step, than accept compressed compensation for constraints that have real consequences for your financial flexibility.

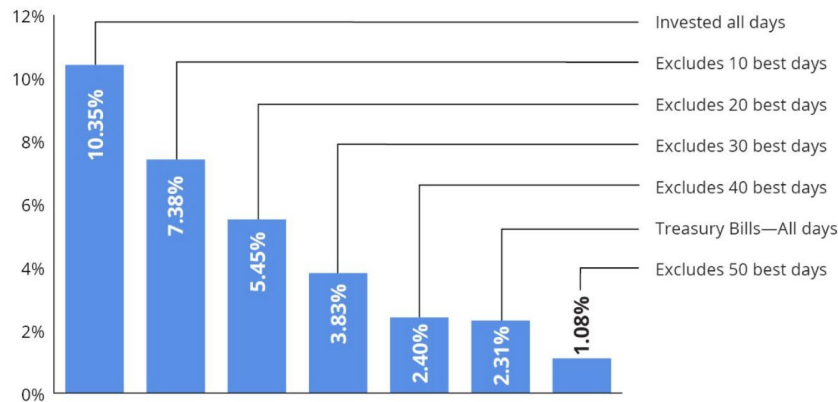
Why Patience Compounds: The Psychology of Staying Invested

We want to close with the theme that ties everything in this letter together. Energy disruptions, credit market dislocations, geopolitical uncertainty: each of these generates a version of the same question. Should we do something? Reduce exposure, move to safety, wait for the picture to clarify? The impulse is entirely understandable. Acting feels like control. But the historical record on market timing is unambiguous, and we think it is worth being direct about why we do not practice it and do not recommend it.

The core problem with market timing is that it requires you to be right twice. Getting out is only half the decision. You also have to decide when to get back in, and that second decision is made in a completely different emotional environment than the first. When you exit, fear is driving the analysis. When you consider re-entering, you are waiting for certainty that never quite arrives, because markets recover before the headlines turn positive. The investor who moved to cash in March 2020 felt vindicated briefly. The one who waited for conditions to stabilize before returning missed most of a 100% rally in twelve months. The exit felt logical. The re-entry never felt safe enough.

The data puts a number on this. A study of S&P 500 returns from 1996 through 2025 illustrates the problem. A fully invested strategy returned approximately 10.35% annualized over the period. Miss the ten best days and that figure falls to 7.38%. Miss the twenty best days and it drops to 5.45%. The critical detail is that the best and worst days cluster together during periods of peak volatility, precisely when the temptation to reduce exposure is strongest. An investor who exits to avoid further losses almost invariably misses the sharpest recovery days. Last April’s tariff-driven selloff offered a vivid recent illustration: those who acted on their fear near the bottom missed the 34% rally that followed.

S&P 500 Index Average Annual Total Returns (1996-2025)



Source: Ned Davis and Hartford Funds

The geopolitical record reinforces this. Markets tend to bottom during an event or shortly after it, well before the outcome becomes clear. When Iraq invaded Kuwait in August 1990, markets sold off sharply. They bottomed in January 1991 as air operations began, while the ground war was still weeks away and the result still uncertain. Investors who reduced exposure at the point of maximum uncertainty sold near the bottom and faced a difficult re-entry decision as prices recovered without them. The pattern holds across enough episodes to be worth taking seriously: uncertainty is priced in before resolution arrives, and the recovery begins while the news is still bad.

Daniel Kahneman and Amos Tversky's research on loss aversion explains why this is so hard. We experience losses roughly twice as intensely as equivalent gains, which means the pain of a declining portfolio weighs on decision-making in a way that is disproportionate to the actual financial impact. Morningstar's annual Mind the Gap study captures the consequence: investors in mutual funds have consistently earned one to two percentage points less per year than the funds themselves returned, purely because of poorly timed entries and exits. Compounded over decades, that gap is a very large number. It is not the result of bad fund selection. It is the result of being human.

Our average holding period of over five years, against a market average of less than ten months, reflects a deliberate choice to let business fundamentals rather than market sentiment drive returns. The businesses we own have the balance sheet strength and competitive durability to navigate periods like this one. When the instinct to act is strongest, we think the most productive question is not what the market will do next, but whether anything has changed about the underlying businesses we own. In most cases, the answer is no. The news has changed. The businesses have not.

In Conclusion

Energy disruptions, the appeal of yield-chasing in a low-return world share a common feature, and behavioral biases: they all test the investor's ability to distinguish between what matters and what merely feels urgent or compelling in the moment. Understanding why commodity shocks transmit through pricing regardless of physical supply independence makes it easier to position thoughtfully rather than reactively. Examining what private credit actually offers today, rather than what it offered at inception, makes it possible to decline it without feeling like you are missing something. And recognizing the documented cost of market timing makes it easier to hold through volatility that feels exceptional but is historically normal.

We remain constructive on the long-term prospects for patient, disciplined investors. The Gulf conflict will resolve, as such conflicts have always resolved. Markets will continue to reward those who stay

invested through the periods when staying invested is hardest. And the qualities that have always mattered most: strong businesses at reasonable valuations, investment-grade bonds held to maturity on a schedule matched to your needs, and the liquidity to act when it counts, are as relevant today as they have ever been.

Our commitment to you is unchanged: we will continue to focus on businesses that can compound value across a range of economic scenarios, maintain the discipline to buy quality at reasonable prices, and hold through the inevitable periods of volatility that test every investor's resolve. These principles have served our clients well through prior cycles, and we believe they will continue to do so.

Thank you for your continued trust and partnership. As always, we welcome your questions about current market dynamics, portfolio positioning, or your specific financial objectives.

DISCLOSURES:

As of March 31, 2026, the following were the ten largest holdings of HCM:

Name of Issuer	% of Equity Portfolio	03/31/2026 Closing Price
Berkshire Hathaway Inc Class B	6.79%	\$479.20
Alphabet Inc Class A	6.23%	\$287.56
Apple Inc	6.22%	\$253.79
Microsoft Corp	5.13%	\$370.17
Exxon Mobil Corporation	4.31%	\$169.66
Bank of America Corp	4.13%	\$48.75
Progressive Corp	3.98%	\$198.24
Jacobs Solutions Inc	3.47%	\$127.28
Markel Corp	3.25%	\$1,914.07
WR Berkley Corp	3.09%	\$66.28

HCM's investment decision making process involves a number of different factors, not just those discussed in this document. The views expressed in this material are subject to ongoing evaluation and could change at any time.

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