

Colvin Quarterly

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Self Inflicted Damage

Points of Interest:

- * Iran
- * The Fed
- * Warsh nominee
- * Private Credit
- * Employment
- * Oil
- * Valuations & Earnings

The equity markets started 2026 a lot like 2025, a nice upswing followed by a fast fall in stock prices. This time, instead of lofty tariff announcements to bring down markets, we entered a joint war with Israel against Iran. The implications of war are widespread, loss of lives, a spike in oil prices and damaged relationships with our allies. These have all weighed heavily on all aspects of our economy and equity markets. As I write this, a two-week cease fire has gone into effect, and we are hopeful it is the beginning of deescalation. The most recent employment report had a robust bounce from the previous few months' negative numbers. The Fed's path to lower rates has been paused at best. Private credit has become a hot topic. Earnings and stock

valuations remain high, one of those is better than the other.

The joint invasion of Iran by the US and Israel was ill-advised at best. Our administration advised us the reason for the war was to prevent Iran from achieving the ability to construct a nuclear weapon. The US joined Israel last summer in targeting key nuclear development sights in Iran and we were told that their nuclear program was 'obliterated'. If this was the case, Iran likely did not represent any credible threat to the US. What has happened since the invasion has been large casualties, a nearly doubling of the price of oil due to Iran's closure

of the Strait of Hormuz & hundreds of billions of dollars of military assets spent. The price of oil has had a dramatic impact on all, including our allies, leaving us further isolated.

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Financial Planning

I have had several clients transition into retirement in the past year. It has been great seeing how they are enjoying taking daily activities like workouts and reading more leisurely. I am grateful to have been an integral part of the process of preparing financially for this moment. My son is now a junior in high school and has been busy keeping up with his challenging course work, preparing for the ACT and visiting potential colleges. As his dad, I cannot believe how quickly we got to this point. As the custodian of his college planning

assets, I am grateful we planned for the expenses we are about to face. Over the years, I have helped clients to make large gifts to their children and charitable donations. It is rewarding to see future generations and charities benefit from the growth of my clients assets over these years. My clients are all at different places in their financial planning process. As a Certified Financial planner, I am happy to assist with anything you want to accomplish with your financial assets.

Self Inflicted Damage

The price of oil makes its impact on all of the goods and services we consume and if it stays elevated it will lead to inflation and possibly a recession. This war has not been popular with anyone, including most of Trump's base. Due to this, I am hopeful that the recent 2-week cease fire is the beginning of the end of this war, time will tell.

At the start of the year, the Fed was expected to lower interest rates two times in 2026. Since oil prices have spiked due to the Iran conflict, this has been revised to one, and some economists are not sure this will happen. The European Central Bank has indicated a likelihood of raising their benchmark rate 1 to 2 times due to a rise in their inflation due to higher oil prices. Their benchmark rate is at 2 percent compared to the Fed's rate of 3.5 to 3.75 percent. Powell is guiding that the shock from higher oil prices does not warrant any rash decisions on their part. President Trump announced Kevin Warsh as his pick to replace Fed Chairman Jerome Powell. Warsh was a Fed governor from 2006-2011, so he comes with experience. I find his nomination a little surprising due to his preference that the Fed operate a smaller balance sheet. The best tool the Fed has to target longer term interest rates that impact things like car loans and mortgages has been to target purchase longer term bonds to reduce those yields. Using this tool would not fit with Warsh's preference to reduce the Fed's bond holdings. His nomination process has been delayed due to some members of Congress being unwilling conduct his hearing until the lawsuit the administration brought onto Powell is resolved. Powell has the ability to stay on as a voting member of the Fed until January 2028. It is unheard of for a Fed Chairman to stay on after they finish as chairman, it was also unprecedented for a Fed Chairman to be sued by a President.

The March employment report was a big surprise and the best job creation in over a year. The economy netted 178,000 jobs in March, which was well above the 21,000 per month average since January of 2025. The data shows that private sector and federal government jobs have declined on average per month around 45,000, while healthcare and social assistance have been the bright spot for job creation, adding about 57,000 per month since the start of 2025. The participation rate is the percentage of people working or seeking work declined to 61.9 percent. This was the lowest level since 1977, outside of the pandemic. A declining participation rate can lead to slower long-term economic growth. The overall decline is less concerning when you look at workers age 25 to 54, which has held near

multi-decade highs. Given this, it is likely that older workers are choosing to exit the workforce. With virtually no immigration occurring right now, economic growth may be challenging with no one to replace retired workers. Perhaps AI will step in for some of these roles.

Private credit usually refers to a loan by a non-bank lender to a private business that does not list on a stock exchange. This business has grown significantly since the 'Great Recession' of 2007-09. Investors were drawn to higher returns offered from funds issued by private credit lenders. All was cruising smoothly until there were a few defaults on some large loans. Many holders have asked to redeem their shares and have been limited due to the lack of liquidity of the loans being held. The fear is that this could grow to be a larger liquidity issue. Banks have been large lenders to private credit firms, though exposure overall is small relative to total bank assets. Life insurance companies are big investors in private credit, and many have borrowed to finance their purchases. Since insurance companies are regulated at a state level, the fear is that there is not a comprehensive oversight to see the risk nationally. For now, the issues seem to be working out orderly.

Earnings per share growth for Q4 2025 was stellar, up 14.1 percent. When the earnings reports were analyzed, companies plan to spend more than they have ever spent, mostly on AI initiatives. The S&P 500 is trading at around 23 times future earnings, which is elevated to say the least. This is concerning due to the lack of revisions to estimates due to the impact of the current situation in Iran and the possibility that it lingers on. Nearly half of all retail spending comes from the top 10 percent of income earners. A drop in the stock market could have a real impact on consumption by these high earners, leading to earnings declines.

The situation with Iran is hopefully winding down. If so, the economy should have an opportunity to continue its strength. Tax returns for 2025 are showing much higher than in recent years, which should be invested or stimulus for the economy. AI spending is expected to increase, producing large capital spending to push up GDP. I look forward to meeting with each of you to discuss how these and other economic events can impact your investments.

If you need additional copies of this newsletter for friends, family or neighbors please let me know. I am grateful for any opportunity to get in front of other investors like yourselves. Please keep me in mind to help others you know that may need financial advisory assistance.