Spectra Investment Management, LLC

401 SE Osceola Street, Suite 202
Stuart, FL 34994
Tel: (772) 324-5640

501 Palm Street, Suite B-6
West Palm Beach, FL 33401
Tel: (561) 623-8305

www.spectrainvestment.com

Energy Is Life
2nd Quarter 2026

April 28, 2026

Nothing says spring like pollen, azaleas, or a fresh geopolitical shock. Last spring brought sweeping tariffs that rattled global markets; this spring brought a U.S./Israel war with Iran, sending stocks lower.

We are beginning to wonder – Does the White House hate springtime?

The quarter had three distinct acts. January was positive and upbeat. In February, markets began to soften as investors questioned heavy AI spending, its impact on certain industries, and cracks in the private credit market. By March, the U.S. and Israel jointly attacked Iran, dominating headlines and pushing global stock prices into negative territory.

"…don't think it gets more hostile than Iran…"
DJT speech to kids at the WH Easter Roll 4/6/2026

Before the war in Iran (2/13), the 10-year Treasury yield was 4.05%, and oil was $67.75 per barrel (bbl). At quarter-end, yields climbed to roughly 4.32%, and oil topped $118/bbl. Even Captain Obvious knows that higher rates and higher oil prices are a bad combo for the global economy.

War in the Middle East is high on our list of least favorite topics to write about. But energy is life, and when this oil-rich region heats up, supply tightens, causing prices to rise quickly. Expensive energy (oil, natural gas, diesel, jet fuel) touches nearly every part of the global economy, corporate profits, and markets, which is why it deserves our attention this quarter. Next quarter, we will try very hard to write about something more upbeat.

The Good News

First-quarter (Q1) earnings season is well underway, and results so far have been pretty good. Combined with the Middle East's on-off-on ceasefires, stocks have largely returned to pre-Iran war levels (as of 4/22).

While the major U.S. stock indices posted declines in Q1, several sectors performed well. Value and dividend stocks outpaced growth stocks, and international stocks outperformed U.S. stocks.

Thanks to strong positions in oil, gas, and materials companies, our Large Cap U.S. Value Strategy is having a good year – absolute and relative to the S&P 500. Our Global Equity Strategy also finished Q1 in positive territory, outpacing the S&P 500, helped by global value stocks, gold, and managed futures.

We remain optimistic about our positioning. Our current allocations are well-suited for today's expensive S&P 500 and unstable macro backdrop. Q1 was a good test, and the equity portfolio demonstrated resilience.

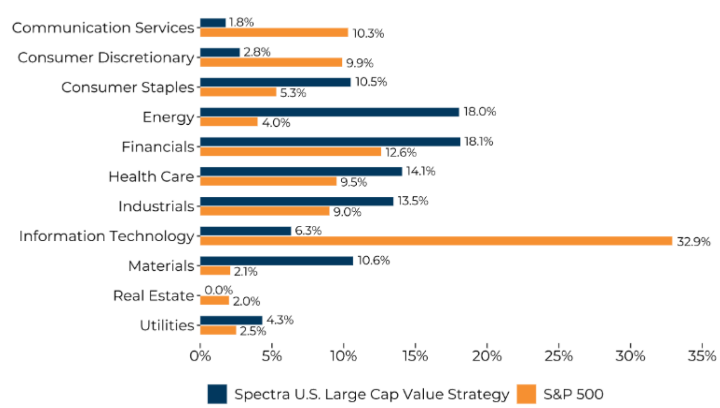
Asset Class Index Returns

Asset Class	Index	1st Quarter 2026
US Large Cap	S&P 500	−4.33%
US Large Cap	Dow Jones Industrial Average	−3.19%
US Large Cap	NASDAQ	−5.82%
US Large Cap Value	Russell 1000 Value	2.10%
US Small Cap	Russell 2000	0.89%
Foreign Stocks	MSCI World Ex USA	−0.81%
Treasury Bills	Bloomberg Short-term Treasury	0.79%
Municipal Bonds	Bloomberg Municipal Bond 3 Year	0.47%
Gold	Gold Spot USD	8.07%
REITS	MSCI US Real Estate Investment Trust	4.84%

Data from Bloomberg

Spectra U.S. Large Cap Value Strategy vs. S&P 500 Sector Weights

As of March 31, 2026



The Spectra U.S. Large Cap Value Strategy is a composite of client accounts.
Spectra Investment Management, LLC
Data from S&P Dow Jones Indices

The Less Good News

The two-month U.S./Israel war with Iran is loaded with confusing history, intense propaganda, and unclear motives. We are not geopolitical analysts. Our work is portfolio construction, risk management, and implementation. But we still need a view on this conflict because prolonged high oil prices can damage many aspects of the global economy.

To help understand and frame these events, we follow the views of international relations scholar John Mearsheimer at the University of Chicago and economist and public policy professor Jeffrey Sachs at Columbia University. There are many experts, but we find "realist" geopolitical scholars most helpful. The **"realist" framework** focuses on great-power politics, national interest, and what investors should care about: oil chokepoints, sanctions, wars, trade routes, leverage, and competition.

Oil shocks spread well beyond the gas pump. Oil and gas by-products raise fertilizer costs, which can lift food prices. Helium shortages tied to natural gas processing can disrupt semiconductors and medical equipment production. It is a reminder that energy prices ripple through nearly every part of the economy and can trigger recessions (Exhibit A).

Petro Politics

"Oil doesn't have a supply problem; oil has a political problem."
Doomberg - a top-ranked finance/energy subscription on Substack

For most of our adult lives, we have heard the same warning: Iran is weeks away from nuclear capability and must be stopped. Is that true? Estimates of Iran's breakout time have varied for years, but urgent narratives around Iran have never been in short supply.

The key risk is a prolonged disruption to the flow of oil and other critical materials through the 30-mile shipping chokepoint of the Strait of Hormuz (SoH). In mid-February, roughly 120 to 140 vessels passed through daily. Since March 2, daily traffic has **dropped to a range of 0 and 20 vessels** (Exhibit B). Our big takeaway is that normal shipping flows are more likely to take six months to recover than to normalize quickly.

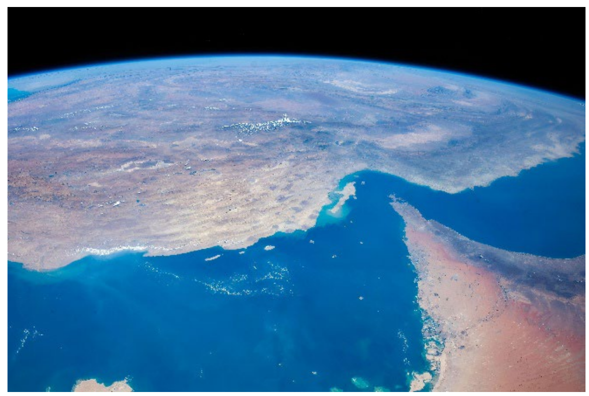


Photo: Almay

We see three major theories that could shape how long this conflict lasts. We hesitated to go into them, but each theory matters to how long oil stays trapped in the Persian Gulf.

The Big Three Theories

<u>The First</u> is the popular theory that Iran posed an immediate threat to both the U.S. and Israel, and military action was necessary now rather than later. Even if the threat was not immediate, supporters argue that future generations will benefit from limiting Iran's nuclear ambitions today.

Former National Counterterrorism Center Director Joe Kent's March 16, 2026, resignation letter disputed the claim of an imminent threat. At a minimum, there was an internal debate within the administration.

"I cannot in good conscience support the ongoing war in Iran. Iran posed no imminent threat to our nation, and it is clear that we started this war due to pressure from Israel and its powerful American Lobby." Joe Kent 3/16/2026

Joe Kent's letter drew backlash, but in mid-April, a U.S. Department of State memo (Exhibit C) stated that the U.S. entered the conflict at the request of, and in the collective self-defense of, its Israeli ally. This suggests Israel's security interests were a central factor. Furthermore, this official government memo gives credibility to the next theory.

The Second – As we all know, Iran is a long-term adversary of Israel and has supported groups hostile to Israeli interests. We do not buy the narrative that Iran was an imminent threat to the U.S., but perhaps it was viewed as an imminent threat to Israel. That raises the possibility that the U.S. entered the conflict largely in support of Israel's interests.

It seems plausible that Israel has broader ambitions to be the dominant power in the region—sometimes described as a "Greater Israel" vision. Recent strikes on Lebanon fit such a strategy of weakening nearby rivals.

Consistent with that view, Israel's Finance Minister Bezalel Smotrich recently described a vision: *"There will be expansion in Gaza that will extend our borders. In Lebanon, to the Litani, in Syria, Mount Hermon, parts of the north, south, and east."* (Exhibit D)

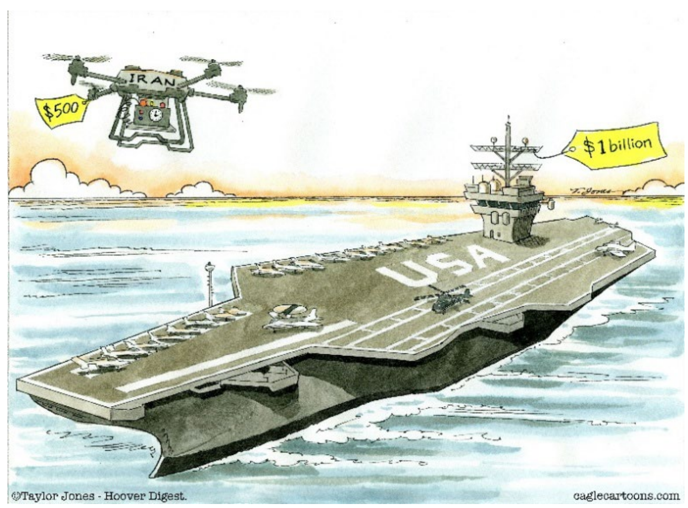
The Third (credit to Daniel Oliver of Myrmikan Capital) is the theory that the U.S. is using the conflict to weaken Iran's leadership, infrastructure, and military to advance its oil interests. A diminished capacity of Iran to export its oil or a prolonged closure of the SoH hurts America's oil rivals, while higher energy prices benefit U.S. producers.

This alternative motivation could also increase Europe and Asia's dependence on American energy. In this scenario, DJT would gain leverage over allies and adversaries alike. With oil leverage and a weakened Iran, DJT could then impose export controls on U.S. energy – one price for friends and another price for foes.

Strait Talk

Iran holds powerful economic cards. It can easily block the SoH, thereby disrupting roughly 20% of global oil supply. If Iran coordinates with the Houthis in Yemen to also disrupt Red Sea traffic, about 30% of global oil flows are affected.

Couldn't the U.S. simply escort ships through the SoH? Yes, but that is extremely risky. No country comes close to the power of the United States Navy, but warfare has changed. Iran can threaten the SoH with sea mines, inexpensive drones, cruise missiles, and small attack craft aimed at U.S. sailors and their billion-dollar ships. The U.S. is protecting its warships by keeping a safe distance while using aircraft and unmanned systems closer to the SoH.



Politicalcartoons

Worth noting: the big defense company stocks have fallen during this conflict—a very unusual signal that **modern warfare may be changing**.

A ground invasion of Iran looks like political suicide for DJT. This war isn't popular; Congress did not authorize it; midterm elections are in the fall; and allies are keeping their distance from this conflict. Iran is a large, sophisticated country of 93 million people, with rugged mountains, vast distances, and terrain that favors defenders. It would be difficult to imagine a small Special Forces footprint achieving lasting control in Iran. **And history suggests** large occupations in similar complex terrains are expensive, unpopular, and hard to end.

> *"That men do not learn very much from the lessons of history is the most important of all the lessons of history." Aldous Huxley*

Best Case – The Victorious Off Ramp

The Trump Administration (and Iran) understands that prolonged high oil prices will hurt the global economy. The U.S. also appears to have a limited appetite for further escalation. Our best-case outcome is a frozen conflict, a declaration of success, and a gradual military drawdown. Iran needs the oil revenue, so over time it would have a strong incentive to resume oil exports through the SoH.

Lastly, it's incredibly hard to know how this plays out. As the world knows, Trump is purposefully thuggish and prone to empty rhetoric in his negotiation style. One thing is for certain: DJT consistently ties his economic success to the U.S. stock market going up and to the right. It's worked so far, but the market isn't moving up at the same velocity on DJT's Truth Social posts.

Key Takeaways

1. The best-case scenario is the victorious off-ramp. We believe the most likely outcome is a frozen conflict, a declaration of success, and gradual de-escalation rather than a long, widening war.

2. Oil may stay elevated for 4–6 months. Even in a best-case scenario, flows through the SoH are likely to remain uneven, keeping energy supplies tight and prices firm.

3. Our positioning is built for this environment. We are overweight oil, gas, and materials stocks – areas that should benefit if the conflict lasts longer.

4. Diversification is the best defense. No one knows exactly how this ends. That is why we continue to pair global value/dividend stocks with gold and managed futures.

Finishing on a positive note, companies with immediate cash flow led the market in Q1. This multi-quarter (Q4 2025 and Q1 2026) rotation toward value and dividend stocks continues to favor our equity strategies. We are encouraged by this shift and are increasingly confident that our investment style has room to run. Thank you for your trust and partnership. Let's connect soon.

Very truly yours,

Scott A. Roads
Founding Principal

Julia E. Zaino
Principal

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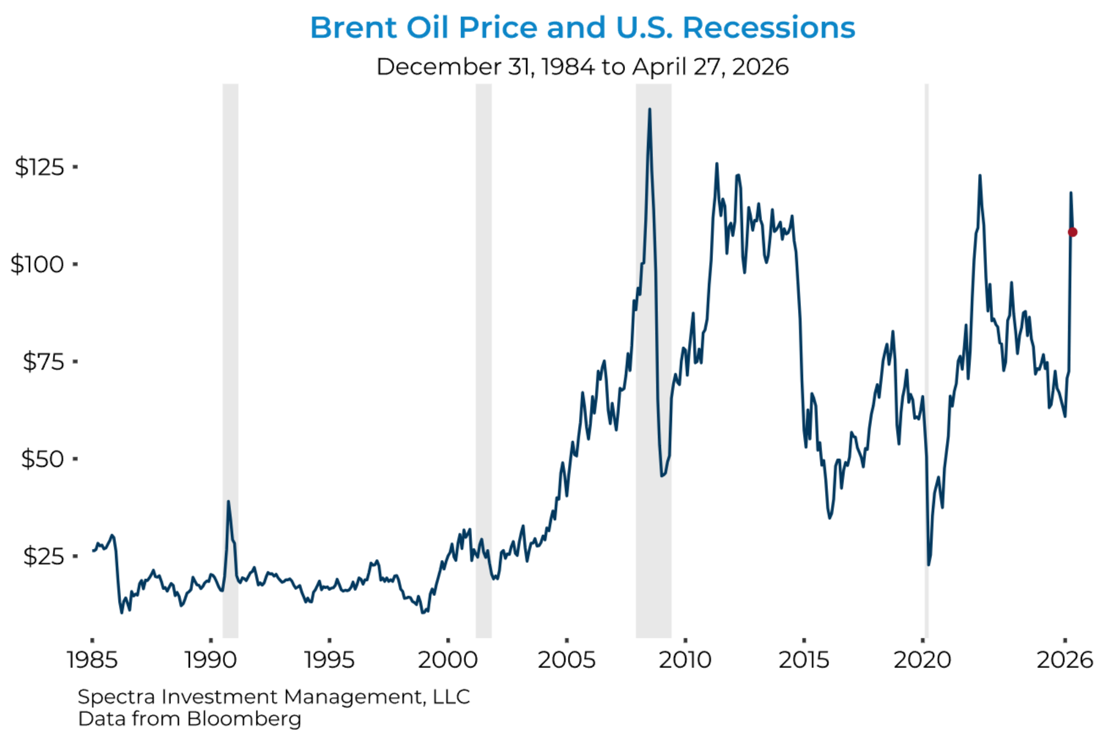
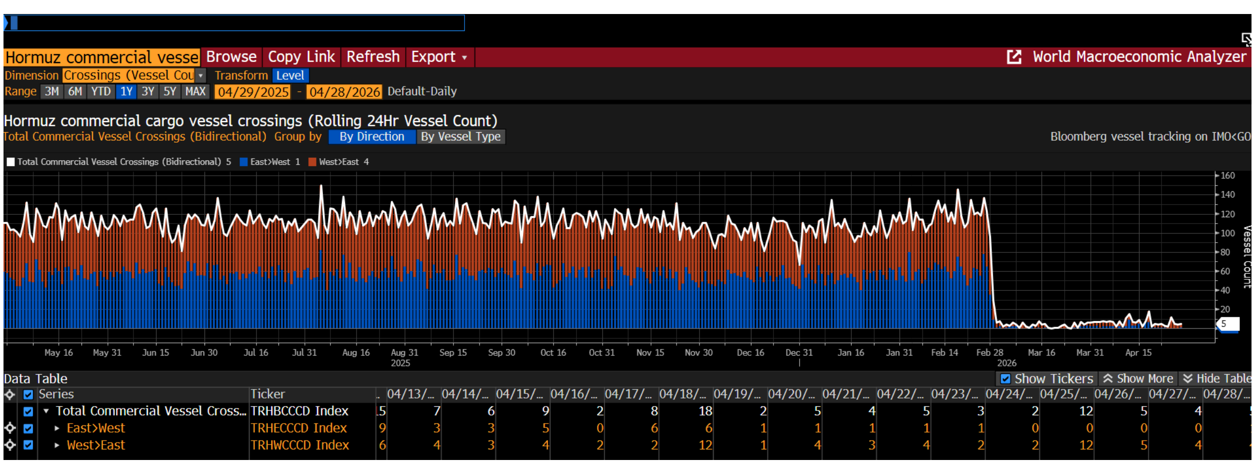
We may use AI language tools such as Grammarly, Hemingway Editor, and OpenAI's ChatGPT to aid with brainstorming and readability. We do not use these AI tools for investment analysis, portfolio decisions, or conclusions.

Exhibits

A. Significant oil price spikes from the trend can trigger recessions.



B. East-to-West and West-to-East Vessel Count Through the Strait of Hormuz



C. U.S. Department of State Memo 4/21/2026

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Operation Epic Fury and International Law

OTHER RELEASE

REED D. RUBINSTEIN, LEGAL ADVISER
OFFICE OF THE LEGAL ADVISER

APRIL 21, 2026

On February 28, the United States Armed Forces launched Operation Epic Fury with a set of clear objectives: to "[d]estroy Iranian offensive missiles, destroy Iranian missile production, destroy [Iran's] navy and other security infrastructure," and, finally, ensure that Iran "will never have nuclear weapons."

Epic Fury is only the latest round of an ongoing international armed conflict with Iran. As the United States has explained in multiple letters to the U.N. Security Council, including most recently on March 10, the United States is engaged in this conflict at the request of and in the collective self-defense of its Israeli ally, as well as in the exercise of the United States' own inherent right of self-defense.

D. [The Times of Israel - Finance Minister Smotrich Comments]

Spectra

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Spectra Investment Management, LLC
401 SE Osceola Street, Ste 202, Stuart, Florida 772-324-5640
501 Palm Street, Ste B-6, West Palm Beach, Florida 561-623-8305