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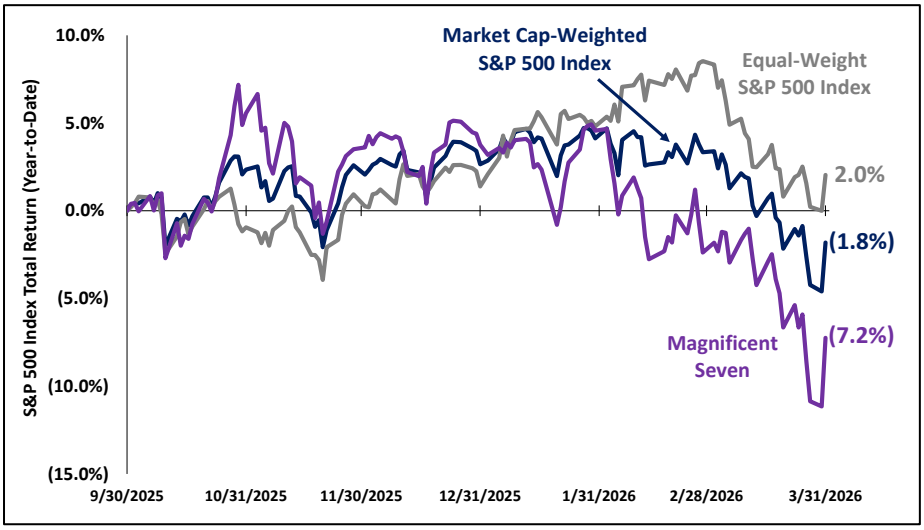
Market Update – *First Quarter Over, It's All About Oil Now*

by David A. Jaffe, M.D.

The first quarter of 2026 commenced on a broadly positive note, with the S&P 500 posting gains and in fact the Dow Jones Industrial Average logging its 10th consecutive monthly advance. Having worried about the market's recent concentration in technology and Artificial Intelligence (AI), investors found comfort in a rally that boosted businesses in diverse industries including energy, basic resources and materials, retailers (including PASI holding TJ Maxx), and consumer "defensive" sectors including food and beverages (PepsiCo), and pharmaceuticals (AstraZeneca).

We have expressed skepticism about the economics of the AI boom in recent newsletters, specifically questioning how the enormous ($ trillions) planned investment in the data center build-out can ever be recouped. Sentiment has shifted in the last six months, reflecting shared investor concern. The following chart illustrates this graphically, capturing the 6-month returns of the Market Cap-Weighted (MW) S&P 500 (biased by its heavy weighting in technology companies), the Equal-Weight (EW) S&P 500 (each component of the index granted an equal weight), and the "Magnificent 7" (six mega-cap technology companies, plus Tesla). Over the six months ending March 31, 2026 the EW S&P 500 gained 2.0%, while the MW S&P 500 slipped 1.8% and the Mag 7 stocks actually lost 7.2%.



One can judge that the year 2026 began with very rational financial market behavior. Arguably overpriced AI companies lost momentum, while investors began to accumulate shares of good quality companies which had been passed over and the market advance continued and broadened.

Then came the war. On the last day of February, the U.S. and Israel launched airstrikes on Iranian government and military targets. The outcome has been a complicated cascade of events triggering what many analysts have dubbed "the biggest energy shock in history." Described in the most concise manner possible, productive capacity in the Middle East has been damaged, and delivery of petroleum and other products has been disrupted. Among the consequences:

- Energy costs have risen broadly, details outlined by Nathan Polackwich in the following article
- Fertilizer, aluminum, and helium are among the goods facing cost jumps and supply shortages
- Elevated transportation expenses are impacting the cost of a wide range of goods
- Jet fuel supplies in Europe are currently estimated to be exhausted in six weeks
- The Consumer Price Index in the U.S. jumped to 3.3% in March from February's 2.4% level
- Rising inflation leads to rising interest rates, while hope of Federal Reserve rate cuts fades
- The U.S., a net energy exporter, has in fact felt the impact less than much of the world

The financial markets ended the first quarter on a decidedly negative note. The PASI composite portfolio declined 4.68%, while the Market Cap-Weighted S&P 500 lost 4.33%. Buoyed by strength in highly cyclical energy stocks, the Equal-Weight S&P 500 eked out a gain of 0.67%. All returns include reinvested dividends.[1]

As of this writing (mid-April), the stock market has made a dramatic recovery, with most indexes at or near all-time highs. While it's easy to celebrate this reversal, one must wonder whether investors are now too complacent. It is widely believed, especially outside the U.S., that the consequences of the war will leave global energy markets with structural changes that raise costs and impair global economic growth. Planned pipelines to reduce dependence on the Strait of Hormuz are just one example. Even if hostilities in the Middle East cease today, repair to facilities producing and transporting oil and liquified natural gas (LNG) will require months to years before pre-war conditions are restored. Though the impact of elevated fuel and other prices (e.g. fertilizer) are felt in the U.S., as a net producer of energy we have been insulated from the worst of the cost impact as well as potential shortages. Further, the very real risks inherent in the fragile diplomatic balance in the Middle East has been spotlighted by this conflict, in particular the critical nature and vulnerability of dependence on the Strait of Hormuz. The future cost of energy produced in the region will likely carry a permanent risk premium.

While investors breathe a near-term sigh of relief, the impact of the war on U.S. and global economics, and thus financial markets, is currently unknowable. It's all about oil now.

[1] Please see performance reporting disclosure on page 10 of this newsletter.

Two Stories, One Market

by Nathan Polackwich, CFA

In considering topics for this quarter's newsletter, only two subjects seemed worthy of discussion – the war in Iran and artificial intelligence. So I thought, "Why not write about both?"

Iran: Strait to the Point

On Iran, the key question is whether the Strait of Hormuz will be fully reopened, either through U.S. military force or the upcoming negotiations in Pakistan. Despite the recent agreement for a temporary ceasefire (which already appears to be breaking down), my concern is that the massive chasm between the U.S. and Iranian conditions for peace cannot be bridged. For instance, Iran's demands include the ability to continue to enrich uranium, effective control of the Strait, the U.S. withdrawal of military forces from the entire region, and reparations for damages. Obviously, the U.S. can't agree to those terms. But given the leverage Iran now recognizes it has over the global economy through its ability to close the Strait, what incentive does it have to back down or meaningfully soften its position?

Regardless of the outcome, the U.S. is in a relatively strong position to weather the war's historic disruption to the supply of oil and liquefied natural gas (LNG), as we produce more energy than we consume.[2] Roughly 20% of global oil and LNG flows through the Strait of Hormuz with most going to Asia and, to a lesser extent, Europe. As a result, prior to the temporary ceasefire agreement, a large divergence had opened up between energy prices in the U.S. and the rest of the world.

Specifically, at one point during the conflict the spread between West Texas Intermediate (WTI), the primary North American oil benchmark, and Brent crude, the global benchmark, widened to about $25. Typically WTI is only $3-$7 less expensive, reflecting the U.S. oil surplus and transport costs to global markets.

The divergence in natural gas was even more extreme. U.S. natural gas currently trades around $3 per MMBtu (1 million British thermal units), with an additional $2-$3 needed to liquefy it for export. In contrast, LNG, which is used to generate electric power, saw prices surge to roughly $18 per MMBtu in Europe and over $25 in Asia (now down to about $14 and $16, respectively). Although coal can be substituted for some of the lost supply, if LNG prices in Europe and Asia remain at even current levels for an extended time, the likelihood of recession in those economies would be high.

Even with relatively cheaper energy costs, the U.S. might still face an economic downturn should the war with Iran last much longer. A rising dollar and weakening foreign economies increase our trade deficit (fewer exports to foreign countries). And higher energy prices may be enough to keep the Fed from lowering interest rates any further. A rising trade deficit alongside higher energy costs and interest rates would represent a stiff headwind for U.S. consumers, most businesses, and our already struggling housing market.

[2] Technically, the United States imports about 3 million barrels a day of heavy crude (roughly 15% of total consumption) while exporting slightly more light crude, since its refineries are built to run that type of oil more efficiently than the lighter oil produced domestically.

Will AI Cause Mass Unemployment?

When it comes to Artificial Intelligence, there's a growing fear among investors (and Americans more broadly) that it will lead to significant job losses that could possibly even harm the overall economy. I view these concerns as mostly unfounded.

The main reason for my optimism is that AI technology is probabilistic, not deterministic. I've discussed this concept in previous newsletters, but it's worth repeating. Large Language Models (LLMs – Generative AIs that produce text) like ChatGPT work by predicting the next token (word or part of a word) in a sequence based on statistical probability. This is why an LLM will produce different answers to the same question and is inherently vulnerable to error (hallucinations). In contrast, traditional software programs like Microsoft Excel are deterministic and follow strict sets of rules with a predictable, repeatable, and verifiable process. Excel's calculations will be 100% accurate. We can divide work more broadly into two separate kinds of tasks[3]:

1) **100% Domains** – those requiring a definitive outcome that absolutely must be correct. Accounting is a clear example. Although there may still be some judgment involved and wiggle room as far as a range of acceptable outcomes, an accountant either calculates clients' taxes correctly or they don't.

2) **90% Domains** – those where the quality of the end product is more subjective and being directionally (say, 90%) right is typical and adequate. For instance, when I analyze a company for a potential stock investment, I'm largely operating in the 90% Domain. Financial analysis isn't an exact science like calculating taxes. The strength of a company's competitive position or whether its stock represents a good value is somewhat subjective. Being mostly rather than exactly right is the objective and sufficient for good decision-making.

The majority of white-collar employment probably falls within the 90% Domain. Within that classification, however, we can make a further distinction between tasks that are *high stakes* and *low stakes*. Investment, medical, and legal advice are all examples of high stakes jobs. Bad decisions here can have disastrous, potentially life-altering consequences. Conversely, drafting an email to coworkers about an upcoming meeting is an example of lower stakes work. Even if the message contains an error, a follow-up email can be sent with little harm done.

AI models' probabilistic error-prone nature makes them particularly unsuitable for work in the 100% Domain. So industries like accounting and deterministic software like Microsoft Excel have little to fear from AI competition. And while AIs can be useful in the 90% Domain, they absolutely cannot be trusted to operate in high-stakes situations without human oversight. In fact, using an AI at all for such tasks can sometimes be counterproductive, as having to verify its output might take longer than just doing the job correctly yourself the first time.

Even if AIs do end up dramatically improving productivity in most 90% Domains, that doesn't necessarily mean total employment will fall, as history shows that advances in technology often *increase* job growth overall. A classic example is how bank teller employment continued to modestly rise during the rapid expansion of ATMs from the 1980s to the 2000s.

[3] The '100% vs. 90% Domain' framework comes from Kyle Chan, *AI Agents and the 90% Problem*, High Capacity (Dec. 5, 2025) – https://www.highcapacity.org/p/ai-agents-and-the-90-problem

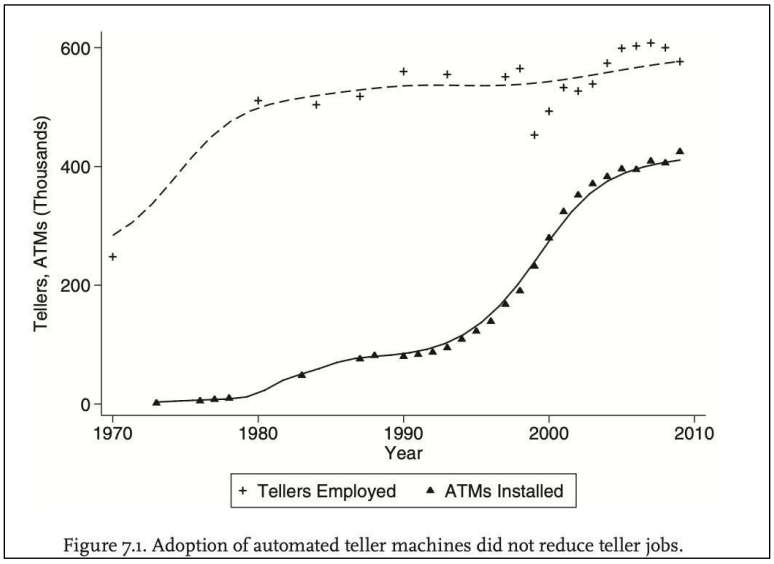


Figure 7.1. Adoption of automated teller machines did not reduce teller jobs.

Source: *Learning by Doing: The Real Connection between Innovation, Wages, and Wealth* by James Bessen

Why did this happen? ATMs made bank branches more productive and profitable. At the same time, deregulation and the rise of interstate banking allowed them to expand nationally. The result was not fewer branches, but a large expansion – branch counts rose roughly 50-60% from 1980 to 2010. While ATMs reduced the number of tellers needed per branch, they also made it economical to open more locations, so overall teller jobs still rose.

Another positive factor was explained by the MIT economist David Autor[4]: "As the routine cash-handling tasks of bank tellers receded, information technology also enabled a broader range of bank personnel to become involved in 'relationship banking.' Increasingly, banks recognized the value of tellers enabled by information technology, not primarily as checkout clerks, but as salespersons, forging relationships with customers and introducing them to additional bank services like credit cards, loans, and investment products."

The effect of ATMs on the banking industry is an example of Jevons Paradox, first identified by William Jevons in the 1860s. Jevons observed that as the productivity of steam engines improved, *more* rather than less coal was consumed. As steam power became cheaper, it was deployed more widely and the demand for coal soared. Jevons' key insight was that when something increases in efficiency and becomes less expensive to use, we tend to spend more on it, not less.

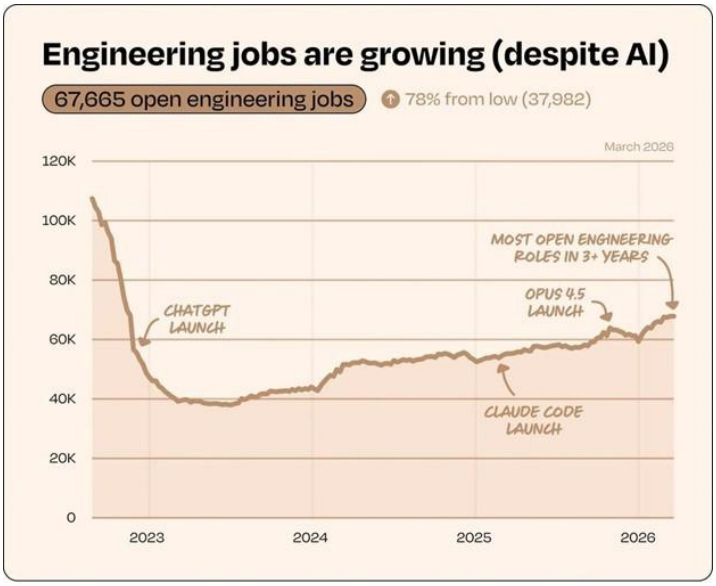
Something changed in the banking industry around 2010, however, when teller employment began falling precipitously. In fact, over the last 15 years teller jobs plummeted almost 40% while the number of branches dropped 15-20%. David Oks, a researcher and writer at Andreessen Horowitz, one of the world's largest technology venture capital firms, recently wrote how the invention of smartphones and rapid spread of mobile banking drove this shift[5]. Suddenly, almost everything you might have needed a branch for – depositing checks, moving funds, getting a loan – could be done on your phone. Rather than making bank branches more productive, smartphones made them unnecessary.

[4] David H. Autor, *"Why Are There Still So Many Jobs? The History and Future of Workplace Automation," Journal of Economic Perspectives* 29, no. 3 (Summer 2015): 3-30, https://doi.org/10.1257/jep.29.3.3

[5] David Oks, *"Why ATMs Didn't Kill Bank Teller Jobs, but the iPhone Did,"* March 10, 2026, davidoks.blog.

So the question when thinking about the impact of AI on employment in 90% Domains is whether it will make existing systems more productive like ATMs, or make them irrelevant, like the iPhone did. I think in most cases it's the former. The majority of jobs are a mix of both high and low stakes work. While AIs will be widely used for the latter, their fallibility will limit them to a supporting role in tasks where mistakes have real consequences.

It's instructive to assess the software industry through this framework. Most traditional software is deterministic (100% Domain) and, as such, is unlikely to be directly replaced by AI. AI can, however, help users interact with the underlying software, and they've proven effective at aiding programmers (and even nonprogrammers) in writing code to build new applications – with varying degrees of quality. But artificial intelligence doesn't replace the "system" of traditional software like smartphones replaced bank branches. Rather it just makes those writing the underlying code or using the software more productive – a textbook example of Jevons Paradox. Accordingly, I expect AI to drive an explosion of new software creation, and programming jobs to continue rising over time.



Source: Lenny Rachitsky

Despite my optimism on software programmer employment, it would be a mistake to assume that Jevons Paradox will hold across all industries. In 1800 roughly 75% of Americans were farmers. In the last 225 years there's been an incredible increase in farming productivity thanks largely to machines replacing human and animal labor as well as advances in chemistry, particularly synthetic fertilizers and pesticides. This productivity growth did not, however, increase agricultural employment, as today only 1-2% of the population works in the industry.

What differentiates agriculture from industries more likely to benefit from Jevons Paradox such as software or, say, financial services? Why did tractors, synthetic fertilizers, and pesticides reduce agricultural jobs while, for instance, the invention of spreadsheets and calculators dramatically *increased* the number of financial analysts like me? The reason is that some industries have a natural limit to demand. People can only eat so much food (or wear so many clothes, drive so many cars, etc.). But there's practically no limit to the range of problems where software can be applied or the amount of analysis that can be directed toward areas of human activity. Thus, industries where productivity might improve dramatically but that have fewer natural limits on use cases should see steady growth as AIs are deployed thanks to Jevons Paradox.

One place we might see job losses, however, is in the middle management or bureaucratic layers within large, complex organizations – roles like administration, coordination, and compliance. In these areas, AIs could dramatically increase productivity, and once these needs are met there isn't an obvious reason for demand to expand much further.

That said, there are many industries where the technology will have little impact – AIs won't cut your hair faster or renovate your kitchen more efficiently. So jobs that require physical labor should remain largely unaffected. And since most white-collar roles are either in the 100% Domain or involve high stakes responsibilities, they're more likely to be supported than replaced by AI. Employment should grow in industries that benefit from Jevons Paradox, offset to some degree by job losses in industries with more limits to natural demand. But taken together, over the long term I expect AI to drive changes in the composition of employment rather than a decline in overall jobs.

So I'm broadly optimistic about the impact of Artificial Intelligence on the economy, but less so about the war in Iran where a positive resolution seems unlikely to come quickly or easily. Of course, as the (ironically, Persian in origin) ancient proverb goes, "This too shall pass", and we'll soon look back on this war as just another bump in the road for the U.S. economy, which has proven the most resilient and dynamic in history.

What Actually Matters in Financial Planning

by Jeremy Goldberg, CFA, CFP ®, MSF

Most financial plans don't fail because of market volatility. They fail because of a handful of flawed decisions that compound over time. How taxes are managed, how income is created, and how assets are structured tend to have a larger impact than most people realize. That matters because these are areas we can actually control. After reviewing many financial plans and real-world scenarios with clients, it is clear that a few key decisions tend to drive the outcome:

Social Security and Portfolio Withdrawals

Social Security is one of the few sources of income in retirement that is reliable and adjusted for inflation. The key decision is when to start benefits, but that decision does not exist in isolation. It directly affects how much income is required from your investment portfolio and how those withdrawals are structured.

If you begin taking Social Security early, as soon as age 62, your benefit is permanently reduced. For most people, that reduction is roughly 25-30% compared to what they would receive at full retirement age. If you delay beyond full retirement age, your benefit increases by approximately 8% annually until age 70.[6] That higher benefit continues for life and, for married couples, the larger benefit typically continues for the surviving spouse.

The decision to start early or delay is not one-size-fits-all. Starting early can make sense if income is needed, if it helps preserve investment assets during a market decline, or when health considerations point to a shorter life expectancy. Delaying may be more appropriate if the goal is to increase income later in life or provide a larger benefit for a surviving spouse.

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[6] Social Security Benefits: Early or Late Retirement. https://www.ssa.gov/oact/quickcalc/early_late.html

That decision also determines how withdrawals are taken from the portfolio. A lower Social Security benefit typically means higher withdrawals early in retirement, often from taxable or pre-tax accounts. A higher benefit can reduce reliance on the portfolio later, allowing for more flexibility in how income is taken. Reviewing distributions from pre-tax and tax-free assets, along with strategic tax planning, becomes particularly important, as each account type creates different tax outcomes.

There is understandable concern about whether Social Security will "run out of money." As it stands today, trust fund reserves are projected to be depleted around 2033. At that point, benefits would be reduced to roughly 77% of scheduled levels if no changes are made.[7] That does not mean the system disappears entirely. It means Congress will likely act beforehand, through adjustments to payroll or corporate taxes, the retirement age, or benefits for higher earners. Planning as if Social Security goes to zero is not a reasonable assumption and can lead to overly conservative decisions elsewhere.

Consolidation and Organization

It is common for clients to accumulate multiple accounts over time, including old 401(k) plans from previous employers, as well as IRAs and taxable accounts held at different custodians. When accounts are spread out, it becomes more difficult to manage the portfolio as a whole and see how everything fits together. You may have similar investments in multiple accounts without realizing it, creating more concentration than intended. You may also have cash sitting in one account while taking taxable distributions from another unnecessarily. Coordinating withdrawals, rebalancing, and executing tax strategies becomes more complicated when everything is disconnected.

Consolidating accounts makes it easier to manage risk, align decisions, and maintain a clear view of the overall plan. More importantly, it allows decisions to be made intentionally rather than simply reacting to where assets happen to be.

Beneficiaries and Estate Coordination

Many people assume their will or trust controls how all assets are distributed. In reality, several types of accounts pass based on the beneficiary designation, including retirement accounts like IRAs and 401(k)s, as well as accounts with Transfer on Death (TOD) provisions, and life insurance policies.

Even if the beneficiary designation is outdated or inconsistent with the estate plan, it may override what is written in the will or trust. For example, a 401(k) that still lists an ex-spouse as beneficiary will typically pass to that individual, regardless of what other documents say. IRA assets, governed by state law, may face the same risk depending on state of residence. If only a primary beneficiary is listed without a contingent and both the account owner and primary beneficiary pass away, the account can end up in probate.

These are not complex planning issues. They are administrative decisions that are easy to overlook and often persist for years without being revisited. As a result, they can have a significant impact at exactly the moment they matter most.

[7] Status of the Social Security and Medicare Programs. https://www.ssa.gov/oact/trsum/

Involving Both Spouses and the Next Generation

In many households, one person takes the lead on financial decisions while the other is less involved. That approach works until there is a transition, such as the loss of a spouse or when the lead can no longer manage the finances. At that point, the surviving spouse is often forced to quickly get up to speed on account structures, income sources, and decisions they were not previously involved in. Even when the plan itself is sound, that change can be difficult.

We have found that involving both spouses in meetings, even at a high level, makes a meaningful difference. When appropriate, we also encourage clients to have their children sit in on meetings. This gives them a basic understanding of how things are structured, where assets are held, and who to contact if something happens. It does not shift responsibility, but it can make the transition more manageable.

Pre-Tax vs Roth: A Deeper Discussion

One of the most important decisions happens before retirement: whether to contribute to retirement accounts on a pre-tax or Roth basis. This is a nuanced topic that affects non-retirement savings, Roth conversions, and estate planning. We will address it in detail in a future newsletter. Stay tuned!

Where Financial Planning Adds Value

Over time, these decisions do not operate independently. They build on each other. How assets are accumulated affects how income is generated, which in turn affects taxes, and ultimately what gets passed on to heirs. Individually, each decision may seem small. Taken together, they determine how a plan behaves in practice, especially when markets are not cooperating.

Financial planning is not about finding a perfect set of assumptions. It is about making sure the plan holds up when conditions are not ideal. If you'd like to discuss how this applies to your situation, please reach out to your Portfolio Manager.

Disclosure

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The **PASI Stock Portfolio** includes the reinvestment of dividends; and is reduced by brokerage commissions but is gross of Professional Advisory Services, Inc. fee, which is described in Part II of form ADV, available upon request. Our fee is a maximum of 1% and decreases based on assets under management. As an example of fee impact, over a ten-year period, $100,000 invested in stocks growing at 8% per year would increase at the end of ten years to $205,419 net of 1% fee versus $220,804 gross return.

PASI Stock Portfolio Benchmark: The ***S&P 500 Index (Market-Cap Weighted)*** is an unmanaged index of the 500 leading publicly traded common stocks in the U.S., including reinvestment of dividends. This index is weighted according to the market capitalization of each participating company. As a result, companies with larger market capitalizations exert greater influence on the index's overall return, reflecting their proportionate size to the overall market.

Other Indices

The ***S&P 500 Equal Weight Index (Equal-Weighted)*** is an unmanaged index of the 500 leading publicly traded common stocks in the U.S., including reinvestment of dividends. Designed to be size-neutral, it assigns equal weight to each participating company, irrespective of their market capitalization. This approach equally captures the influence of each company on the index's overall return relative to its individual performance, providing a balanced reflection of the collective market activity.