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### **Perturbing days**

Recent news is troubling. It often is. Historian David McCullough cautioned against filtering current events through a nostalgia for “simpler times”; when 1919’s Spanish Flu was racing through every town in the world, ultimately killing 50 million, people didn’t read the evening paper and sigh, “How nice to live in simpler times!” My grandmother rued the passing of Edwardian high culture, but life then was mostly pretty gritty and I wouldn’t trade their medical care for today’s. We do, however, esteem bygone decorum in high office.

### **We have been here before**

After months of strong markets, memory blurs the unease of past corrections. Last year, the S&P 500 index declined 19% from February to April. Nasdaq fell 27% including a single-day drop of 6%, the worst since Covid.

The cause then was geopolitics. It is again. The tariff war then threatened would have been as destructive as higher oil prices augur today. With relief in the disputes of last April, Nasdaq rebounded a strong 33% into December.

When stocks are rising, TV news radiates sunshine. It rarely cautions. Optimism sells. When markets decline, news turn alarmist. Fear also sells. Reality is at some remove from headlines.

Corrections are part of investing and require patience. Still, when one’s stocks rise for a day or two only then to dip recalls Winston Churchill’s description of forbearance as “swallowing a porcupine one quill at a time.”

### **It’s not just Iran**

War news is roiling sentiment. Less noted is a corrective drift already underway since autumn, an inkling of sea changes that occur when market leadership shifts. In the present case that would be a departure from the exceptionally narrow lead of Magnificent 7 and AI-themes.

A correction in the minority of richly valued stocks was to be expected, although one can never know exactly when. Gravity defying hype must one day pause and expectations return to levels more realistic, a wholesome function of free markets, uncomfortable as it might be when we forget that rocket rides are short-lived.

Iran only exacerbated what was already underway.

## Improved valuation and earnings

Share price declines cured some excesses. Valuations are well off highs, valuations skewed in certain cases by manic leveraged trading.

October 2025 S&P 500 P/E	23.1x
Current forward P/E	19.8x
5-year average	19.9x
10-year average	18.8x

*Source Factset, John Butters, 2 April 2025*

A cheaper P/E is certainly welcome. We remain above the post-WWII 16x-18x median. Some assert that an asset-light economy based on transmitting weightless electrons merits a higher P/E than was the norm when leadership meant bricks and big iron; we shouldn't apply 1950s measures to a post-industrial age. Huge borrowing to build AI data centers does call into question "asset light". Whatever may be, today's P/E doesn't strike us as low enough indiscriminately to fill the shopping basket. More companies are reasonably valued, but selectivity still matters.

One prefers P/E to cheapen by corporate earnings rising. Based on guidance by companies, first quarter 2026 growth estimates have indeed increased. Top line revenues that were expected to rise 8.2% now look like rising 9.7%, the highest in nearly 4 years. Companies are on track for a net profit margin of 13.9%, the highest in over 15 years. Full year earnings for the aggregate of S&P companies were estimated at \$297 last summer; as of March, they were marked up to \$313, and this is accounting for some impact of the Iran war.

### New leadership

We had expected money to move into underexploited sectors.

When an inflated sector does correct, the overall market inflects downward before recovery and leadership fully emerging elsewhere. Defensive stocks can weaken, less than highflyers but enough to irk.

It can take some months of churning, money moving back and forth between industry sectors (referred to as rotation), before new leadership asserts itself.

## HALO

Opportunities were emerging in the industrial sector. Institutional money was moving into HALO—Heavy Assets, Low Obsolescence, companies less subject to their business being impinged upon by AI.

There is potential future relative performance in "more of the same": lasting franchises in not overly complex businesses with consistent demand year in, year out. Even if Musk lands on Mars, humans will still crave chocolate, mop floors and need to repair their cars. Our clients own Hershey's and we are researching purveyors of necessities for consumers and businesses.

### Positioning

The Magnificent 7 started correcting, mildly at first, in August 2025.

As often mentioned, just 7 stocks representing over 30% of the S&P 500 seemed untenable. Again, the old dictum is that if something seems like it can't go on forever, it won't. Last summer we began trimming high-cost lots in tech and communication services. By the time bombs fell, clients following our Thematic Equity strategy had only half the S&P weighting in technology. This helped mitigate volatility in March.

In a November letter, we shared rather striking numbers on the burdens of data centers. Speculators seemed oblivious. Then, in February, they suddenly fixed upon capital expenditure, flipping from unbridled enthusiasm to dismay; they were also aghast at what we referred to as technology eating its own, AI-charged internecine competition. Techs formerly ripping higher experienced dramatic reversions to pre-ascent prices in this year's first 12 weeks:

- Atlassian (TEAM): -57.96%
- Figma (FIG): -41.48%
- HubSpot (HUBS): -40.71%
- MongoDB (MDB): -39.54%
- Zscaler (ZS): -38.02%
- AppLovin (APP): -35.31%
- Adobe (ADBE): -31.75%
- Salesforce (CRM): -30.91%
- Credo (CRDO): -30.29%

- Accenture (ACN): -27.86%
- Cognizant (CTSH): -27.42%
- Snowflake (SNOW): -26.45%

*Investor's Business Daily, 25 March 2026*

Such environments warrant a loss-cutting discipline. Yes, long run stock returns surpass other liquid assets and buy-and-hold is a wise course. But when speculators stampede, taking an early loss in high beta, high P/E stocks beats awaiting worse. Speculators pay scant attention to fundamentals, selling companies as aggressively as they bought. Cutting a loss early reduces pain, but risks missing a possible quick rebound. Our clients mostly wish to moderate drawdowns in falling markets. Our Thematic Equity investors experienced a measurably better than market drawdown in the first quarter.

In contrast, one does not seek to trade core holdings. Microsoft is an example. Clients have owned it for years, long predating Magnificent 7 days. When it grew overly large (it approached 10% of some portfolios) prudence suggested trimming; we slightly reduced Microsoft last year. It reached ~\$520 before returning to ~\$370. A still large position is valued at 21x P/E, cheap compared to its history and reasonable for a company so central to technology. It has over 400 million commercial users; is the world's second-largest cloud provider—a business growing 34%, amazing for a huge enterprise; is a leader in AI; and has share in online gaming.

Gold, precious metals

Mounting deficits in old industrial economies (UK, Europe, USA, Japan) and China should concern everyone. We initiated a position in Newmont Mining early last year as a currency debasement hedge and as we monitored global central bank gold buying, then invested in other producers too. The materials sector, which includes these companies, represents 3-4% of the S&P. Gold and silver producers appreciated for our clients, reaching portfolio weightings of ~14%, a significant overweight that boosted performance when tech stocks wallowed.

Precious metals then got frothy, as the steepening in the

silver chart below shows. We reduced positions along the way. We try to avoid short-term capital gains, but the downslope risked turning as precipitous as the climb. Our clients retain Newmont, and we are monitoring the sector for stabilization. The longer-term is supported by worldwide fiscal profligacy.



*Source: TradingEconomics.com public domain*

### Daily news is not necessarily a guide

Markets don't always act as intuition tells us they "should." Precious metals are thought a haven in crisis. Yet the GLD gold ETF declined 14% after war started, with silver/SLV off 25%.

Other traditional havens that did not perform as expected included Consumer Staples and Healthcare. And...

Shares of the largest weapons makers have been flat to slightly down since fighting began...

*The Wall Street Journal, March 17, 2026*

Slack war stocks show investors hopeful about a swift end to conflict. Let us hope they are right.

While some defensive sectors lagged, other unflashy stocks did perform. Clients in our Dividend Income strategy not only enjoyed income but also saw upside in a down market as money flowed into utilities and old economy sectors.

### Oil prices

We have taken an incremental approach to our clients'

energy allocation. The destruction of capacity in places like Qatar suggests protracted high prices. However, with geopolitics prone to wild card reversals, one must take care in extrapolating.

Keep in mind that Trump's negotiating style is to create uncertainty—a fear of what he might do—to get his opponent to agree to something less, which was what he wanted in the first place.

*StoneX morning commentary 1 April 2026*

A pattern has emerged that when things look dire, we see abrupt positive reversals. Last year's Nasdaq fall followed in short order by the 33% rebound makes one wary of short bets.

We are long Norway's Equinor, nicely distant from the troubles and with three new finds this year; Apache has resources in Africa and the Americas; FlexLNG ships liquid natural gas from the USA to Europe. We replaced France's Total, wary of its Persian Gulf exposure.

With energy prices elevated, the USA's competitive position improved as it is an oil and gas exporter. China, India, Japan, and Europe are challenged by reliance on Gulf-sourced energy. That lessens our enthusiasm for some non-US stocks we favored last year.

Oil is on all our minds because the 1970s oil price shock produced stagflation in the USA and dismal days in Britain. Bonds returns suffered and the 1960s' trending hot stocks fizzled (that decade's Nifty Fifty were the precursors of FAANG stocks and the Magnificent 7). From 1970-1978, energy stocks appreciated at 5.6% per annum while throwing off rising dividends for a decent total return. Also...

If we look back to the 1970s, annual returns for growth stocks were 4.1%. In comparison, value stocks returned 12%.

*Nasdaq, 15 November 2022*

The decade also marked the beginning of the Tokyo stock market's amazing ascent. While we might be set for a bounce in AI-related stocks, we should search more widely for future returns.

Today's greatly expanded global oil and gas sources argue against a 1970s scenario. Adjusted for inflation, \$110 oil is not as high as it has been in the past.

## **Private credit**

Troubles have been brewing in private credit. It is a discrete part of fixed income markets, but with potential ramifications. At the first whiff of trouble, we reexamined our allocations in Business Development Companies (BDCs). Our Dividend Income clients owned these for double-digit yields. Preferring safety to potential sorrow, we began liquidating these after the bankruptcy of subprime lender Tricolor in September. Wall Street research was sanguine, but our early exit spared our clients lower prices that obtain today. We also sold positions in regional banks and reduced exposure to insurance companies.

## **Corrections and bear markets**

We are correcting, but a bear isn't yet apparent.

Corporate earnings have been on the rise and central bank policies are benign, key supports for stock prices. Since 1928, the US stock market has experienced 60 corrections, drops of 10% or more from highs. 56% of those did not signal recessions. Only 17 evolved into bear markets.

While corrections give rise to doubt 100% of the time, much less frequently do they signal a lasting downturn.

Keeping a cool head and a measured approach is, as ever, the best path forward:

1. Keep some cash on hand
2. But don't yield to stress and raise too much from things you'll later wish you held onto
3. Don't leap in with both feet at the first bounce
4. Watch for long term opportunities to arise in new sectors
5. Start with small initial position sizes

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