

# IQ2026 – Ending the Quarter with a Bang

Sierra Capital Quarterly Newsletter

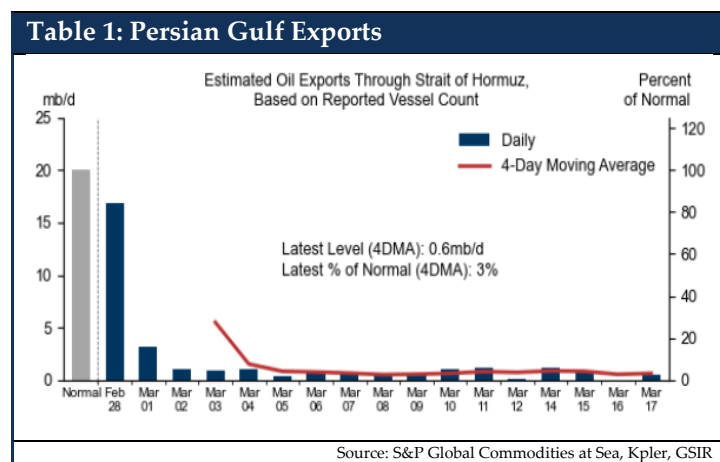
April 2026

## All Eyes on Iran, but other risks lurk.

1Q2026 looked to be another stellar quarter for the markets but ended with a bang, literally, as bombs fell on the Iranian regime through quarter close. Markets got spooked with the S&P 500 down ~4%, Nasdaq down 7%, the Dow lost 3%, Europe down 5%, Emerging Markets gave up their 6-8% gains and ended flat, and the Global and US Aggregate bond indexes are down 1% and flat, respectively, in dollar terms.

While currencies were a big topic last year, through quarter close the dollar strengthened slightly. Commodities, on the other hand, are moving with extreme volatility, largely driven by oil which is up over 70% this quarter. Gold and silver have whipsawed but are still up 8% and 1%, respectively.

The first quarter of 2026 opened with investors positioned for a continuation of the prior year's bull market: rate cuts on the horizon, AI capital expenditure accelerating, and equity allocations at historically elevated levels. The consensus was for calm waters. What arrived instead was the largest disruption to global energy flows since the 1970s, as US military strikes on Iran shuttered transit through the Strait of Hormuz and sent oil surging more than 70% over the course of the quarter. What had been a debate about whether the business cycle could sustain stretched valuations became a debate about whether it could survive a geopolitical energy shock. This edition of the Sierra Capital newsletter examines how the quarter unfolded across geopolitics, inflation, the consumer, growth, monetary policy, equities, fixed income, and alternatives. (Table 1)



## Investment Committee:

Rafa de la Sierra – Founding Partner

Carlos Pedroso – Partner

Zev Zaretsky – Director of Investments

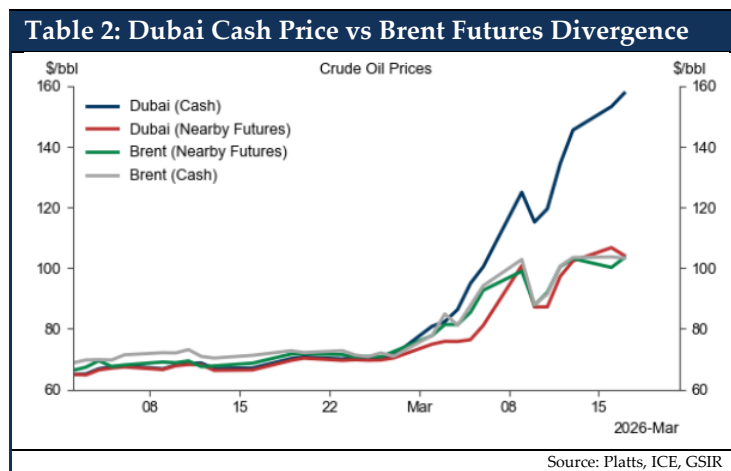


## Market Performance:

Fixed Income	Return QTD	Return 2025
Barclays US Aggregate	0.0%	4.3%
Barclays Global Agg Unhedged	-1.1%	4.3%
Barclays Global High Yield	-1.3%	8.6%
Barclays US HY Corporate	-0.5%	7.0%
Barclays EM USD Agg	-1.3%	7.1%
Equity Markets	Return QTD	Return 2025
DIJA	-3.3%	11.7%
S&P 500	-4.4%	17.4%
NASDAQ	-7.0%	25.6%
Russell 2000	0.8%	25.3%
MSCI AC World	-3.2%	20.0%
Nikkei 225	0.3%	36.7%
Euro Stoxx 50	-5.4%	15.9%
MSCI AC Europe	-2.7%	19.4%
MSCI Emerging Markets	-0.2%	29.6%
Mexico IPC	6.5%	54.2%
Hedge Funds	Return QTD	Return 2025
CS Hedge Fund Index	5.0%	12.2%
Commodities	Return QTD	Return 2025
S&P GS Commodity	40.0%	43.0%
Gold Spot	8.0%	49.4%
Silver Spot	1.0%	113.4%
WTI Crude\$/Barrel	76.6%	41.8%
Currencies	Return QTD	Return 2025
EUR/USD	-1.9%	6.7%
USD/JPY	1.5%	6.4%
GBP/USD	-2.0%	2.2%
USD/CHF	1.4%	-9.2%
USD/MXN	-1.9%	-13.5%
Bitcoin	-23.6%	-6.6%
Ethereum	-28.7%	-11.2%

## Iran / Geopolitics

The US-Iran conflict has produced the largest disruption to global energy flows since the 1970s. Goldman Sachs estimates that oil transit through the Strait of Hormuz has essentially ceased, with the total hit to Persian Gulf supply reaching 16 million barrels per day. The physical market is showing the strain: Dubai cash crude traded at \$156 per barrel in mid-March while Brent futures sat near \$103, a gap reflecting severe tightness in Middle Eastern crude that has not yet fully spread westward. Bank of America's global economics team offered a useful lens for what comes next: what matters is not how high oil spikes during the conflict, but how long prices stay elevated afterward. Israeli strikes on Iran's gas infrastructure and Iranian threats against Gulf energy facilities have pushed the disruption beyond shipping lanes into production capacity, meaning even a ceasefire may not quickly restore supply. (Table 2)



Morgan Stanley laid out a scenario framework that helps organize an unusually wide range of possible outcomes. If the conflict de-escalates and tanker traffic normalizes within a month, Brent likely settles in the \$80 to \$90 range and central banks retain flexibility to ease. If Iran maintains influence over the Strait and normalization stretches across a full quarter, oil likely holds near \$100 to \$110 and most central banks shift to a more hawkish posture. In an effective closure lasting months, oil could surge past \$150 and demand destruction becomes the primary mechanism for rebalancing. BofA's EMEA team suggested a base case of roughly four weeks for the military campaign, though Iran's strategy of prolonging the conflict introduces real timeline risk. Notably, BofA also flagged that the economic cost of the conflict, as reflected in financial markets may itself accelerate a diplomatic resolution, particularly as the 2026 midterm election cycle brings gasoline prices into political focus. (Table 3)

**Table 3: Morgan Stanley Energy Scenarios**

Scenario	De-escalation	Ongoing constraints	Effective closure
Duration, Impact	Normalized passage resumes within a month	80% of tanker passage resumes within a month, but it is up to a quarter before normalization; Iran retains influence	Effective closure remains for months, significant demand destruction necessary to rebalance the market; Iran retains control of SoH
Brent Oil	\$80-90/bbl in 2026, returning to \$75/bbl thereafter	\$100-110/bbl in 2026, returning to \$80 thereafter	\$150-180/bbl, returning to \$80/bbl eventually
JKM / TTF LNG	\$23-27/mmbtu in 2026, returning to \$10-12/mmbtu in 2027. 65-80 EUR/MWh, falling to 30-35 EUR/MWh	\$27-32/mmbtu in 2026, returning to \$15/mmbtu in 2027. 80-95 EUR/MWh falling to 45 EUR/MWh	\$32-40/mmbtu in 2026, returning to \$15-20/mmbtu in 2027. 95-120 EUR/MWh falling to 45-60 EUR/MWh
Cross-Asset	OW equities, EW government bonds, LW corporate credit, UW cash; back to pre-conflict trajectories	OW equities, LW government bonds, EW corporate credit, OW cash; but expect choppy trading	LW equities, OW government bonds, EW corporate credit, OW cash; supply shock giving way to demand shock means recession playbook the most relevant
US Equities	Cyclicals outperform led by Consumer Discretionary, Financials and Industrials. Defensives and Energy lag.	6400-6850 near-term S&P 500 range. Quality leads with some defensive participation as well - more value in Healthcare vs. Staples.	Broad-based defensive leadership with Energy also outperforming.
EU Equities	Index back to highs. Similar rotations to US (above). Europe rebound led by Semis, Banks, M&M	Gradual recovery. As in de-escalation, investors shift focus back on AI acceleration / disruption thematic.	Risks towards bear case (-16%). Energy, Defence, Telcos, Utils outperform. Degross intensifies.
Asia/EM Equities	Recovery towards Base Cases likely led by Japan, Korea & Taiwan	Further downside pressure builds on supply chain stress particularly in Asia, Brazil, Singapore & Japan somewhat resilient	Downside risks towards Bear Cases and further Asia / EM underperformance of DM equities, with China likely to outperform in North Asia
DXY	-0.40%	0.40%	1.00%
EURUSD	0.90%	-0.80%	-2.00%
CHFSEK	-2.90%	2.50%	6.20%
MXNUSD	1.00%	-0.90%	-2.40%

Source: MS

The March Global Fund Manager Survey captured the sharpest sentiment reversal since Liberation Day. Cash levels surged from a record low of 3.2% in January to 4.3%, the largest monthly jump since COVID, while growth expectations collapsed from 39% to just 7%. Geopolitical conflict replaced AI bubble fears as the top tail risk almost overnight, with a majority of managers now describing the outlook as stagflationary. Yet positioning has not reached the deeply defensive levels seen at prior major lows, and equity allocations remain meaningfully overweight. For historical context: policy uncertainty has reached levels matched only by a handful of episodes in the past two decades, and equity markets have historically delivered well above average returns in the six months following comparable extremes. The conflict warrants near-term caution, but the scale of the sentiment reset suggests that a credible de-escalation could unlock a sharp recovery. (Table 4)

**Table 4: Fund Manager Survey Bearish but not Extreme**

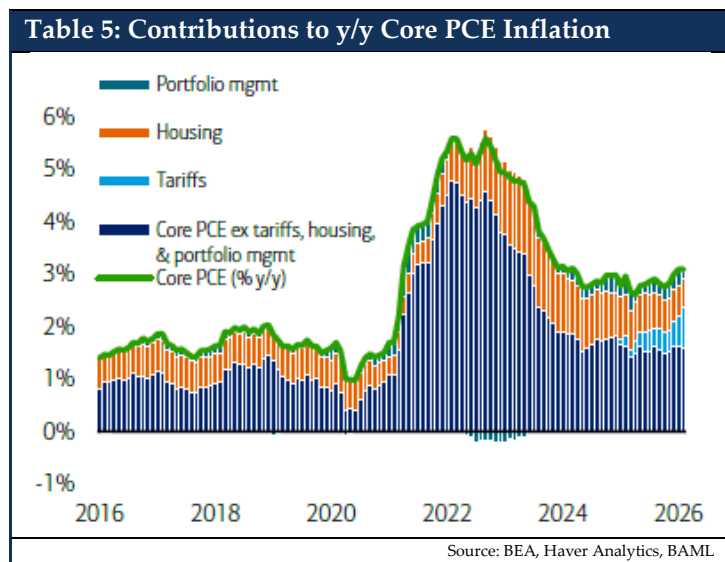
	Today	Liberation Day Apr'25	Russia-Ukraine Feb/Mar'22	COVID Mar'20	US debt downgrade Aug'11
BoFA Global FMS Cash Rule	4.3%	4.8%	5.9%	5.9%	5.2%
BoFA FMS Equity Allocation	37%	-17%	4%	-27%	-7%
BoFA Global Flow Trading Rule	-0.1%	-1.7%	-1.4%	-4.2%	-3.0%
BoFA Global Breadth Rule	7%	-77%	-71%	-100%	-100%
BoFA Bull & Bear Indicator	8.5	3.4	1.8	0.0	0.0

Source: BAML

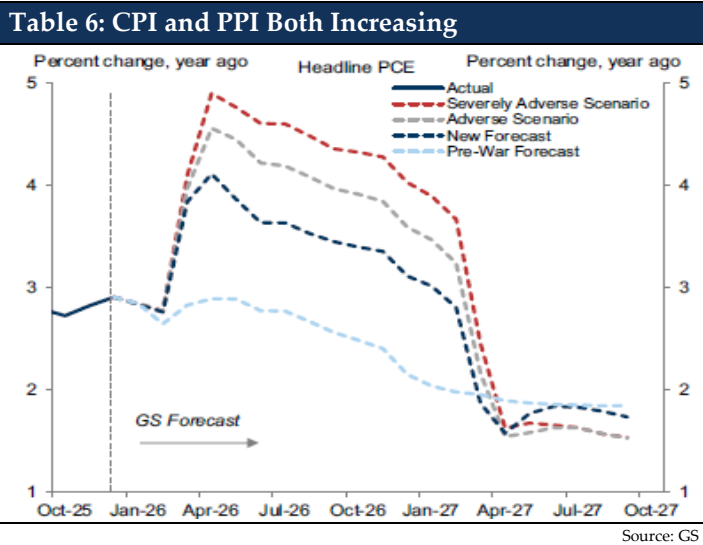
## Inflation

Even before the Iran conflict introduced a fresh energy shock, the underlying US inflation picture has proven more stubborn than expected. Bank of America's economics team noted that disinflation outside of housing has largely stalled, with core PCE running above levels consistent with the Fed's 2% target. Upside surprises in January and February data, along with the increase in energy prices prompted the Fed to revise both its 2026 headline and core PCE forecasts to 2.7% in their March meeting, up from 2.4% and 2.5%

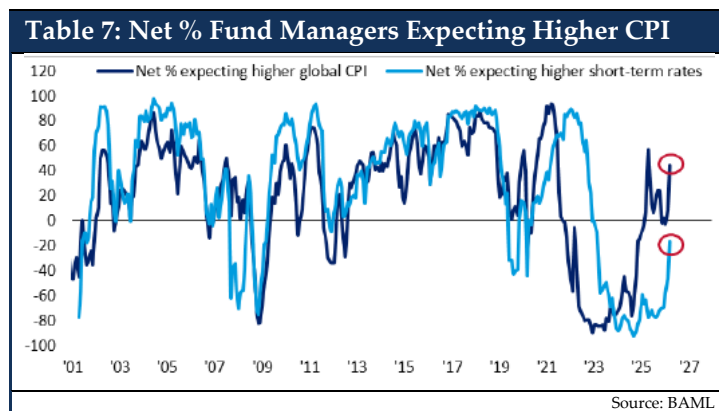
respectively in December. Particularly telling is that these revisions reflect domestic momentum, not just oil. Tariff effects, sticky services inflation, and resilient wage growth have combined to keep underlying price pressures elevated even as shelter costs gradually moderate. For investors focused on purchasing power preservation across multi-generational portfolios, the message is clear: the disinflationary trend that defined much of 2024 and early 2025 has lost momentum. (Table 5)



The Iran conflict has layered a significant energy price shock on top of an already sticky inflation backdrop, and the range of outcomes across strategists reflects genuine uncertainty about both the duration of the disruption and how quickly it passes through to consumer prices. Goldman Sachs estimated that a severe and persistent scenario involving sustained infrastructure damage could push headline PCE inflation to a peak of 4.9%, while their rates team offered a useful rule of thumb: every \$10 sustained increase in oil implies roughly 0.1% higher inflation. As mentioned earlier, Morgan Stanley's framework ties the inflation path directly to conflict duration, noting that at \$100 to \$110 oil most central banks lean hawkish and growth slows, while above \$125 the balance shifts as demand destruction limits the persistence of price pressures. The key variable across all these frameworks is persistence, and strategists are broadly aligned that a short-lived spike is manageable while a sustained elevation would materially change the outlook. (Table 6)



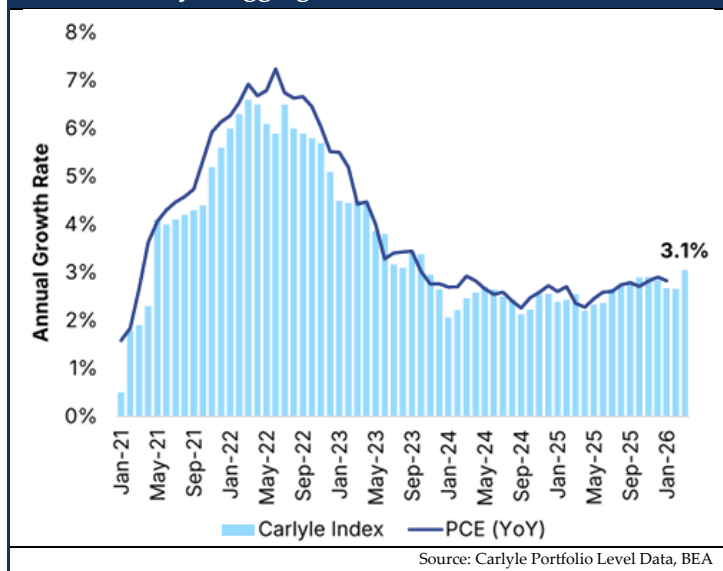
The shift in investor inflation expectations has been swift and decisive. BofA's March Fund Manager Survey showed a net 45% of global managers now expect higher CPI over the next twelve months, up from just 9% in February, the sharpest monthly jump in years. Simultaneously, rate cut expectations have collapsed, falling to their lowest level since February 2023, and year-end Fed funds pricing has moved from 60 basis points of cuts at the end of February to roughly 20 basis points by mid-March. The question facing policymakers is whether higher oil prices are unambiguously hawkish or whether a sustained energy shock eventually becomes self-correcting through weaker demand. BofA's economics team framed the risk as distinctly bimodal: a moderate or short-lived oil shock keeps inflation sticky and the Fed on hold, while a sustained move above \$100 could ultimately prove dovish if demand buckles and any inflation impulse fades. Sophisticated investors should note that this uncertainty itself has implications for portfolio construction, favoring real asset diversification and shorter duration positioning until the path becomes clearer. (Table 7)



Carlyle's portfolio company data, which tracks actual prices paid and received across nearly 300 companies, adds another dimension to the sell-side inflation debate. The firm's aggregate inflation index registered 3.1% in March, running modestly above the official PCE

reading and confirming that the disinflationary trend of late 2024 has stalled out. More striking is the energy component: Carlyle's portfolio-wide energy prices paid surged at a 20% annualized rate in March, with U.S. diesel prices finishing the month 50% above year-ago levels. This is especially problematic because energy had been the expenditure category doing the most to restrain headline inflation through the first half of 2025. With core services inflation already sticky at 3.3% and the meteoric rise in AI-related component prices now adding a new and persistent input cost channel, the sell-side consensus of a comfortable return to 2% looks increasingly detached from what businesses are experiencing on the ground. (Table 8)

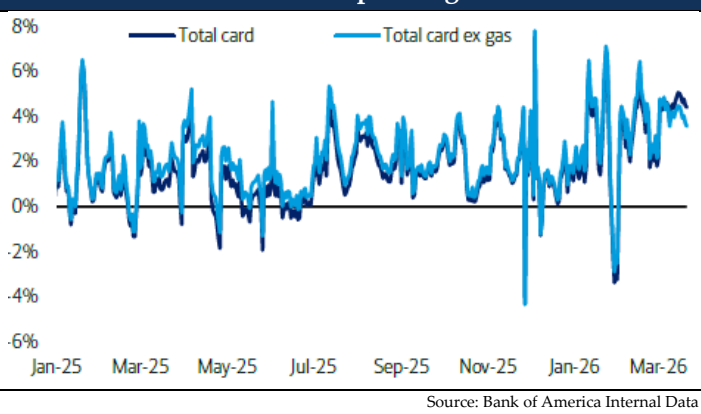
**Table 8: Carlyle Aggregate Inflation Index**



**Consumer**

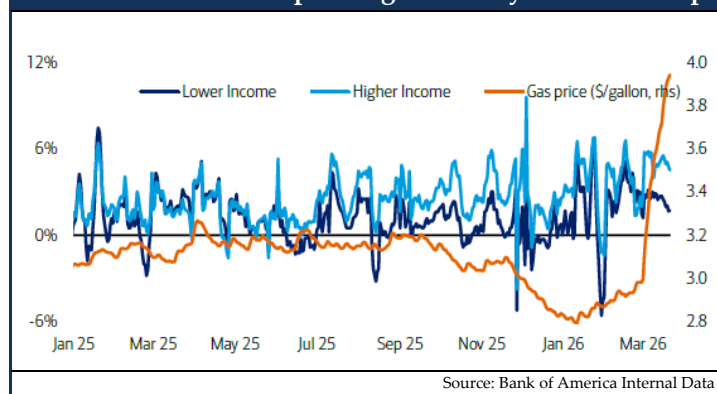
The US consumer enters the Iran conflict on surprisingly solid footing. Bank of America's aggregated credit and debit card data through March 21 showed total card spending up 4.4% year over year and even stripping out the surge in gas station purchases, underlying spending held at a healthy 3.6% pace. Categories like electronics, airlines, and general merchandise all posted firm gains, while fiscal support from the One Big Beautiful Bill Act is flowing through via tax refunds, providing an additional cushion. The picture is not uniformly positive, however, as spending on furniture and home improvement contracted, and restaurants have decelerated modestly. But the broader message from real-time transaction data suggests that household spending momentum carried into the first quarter, giving the economy a meaningful buffer heading into what could be a more challenging stretch if energy prices remain elevated. (Table 9)

**Table 9: Total Card Ex-Gas Spending Per Household**



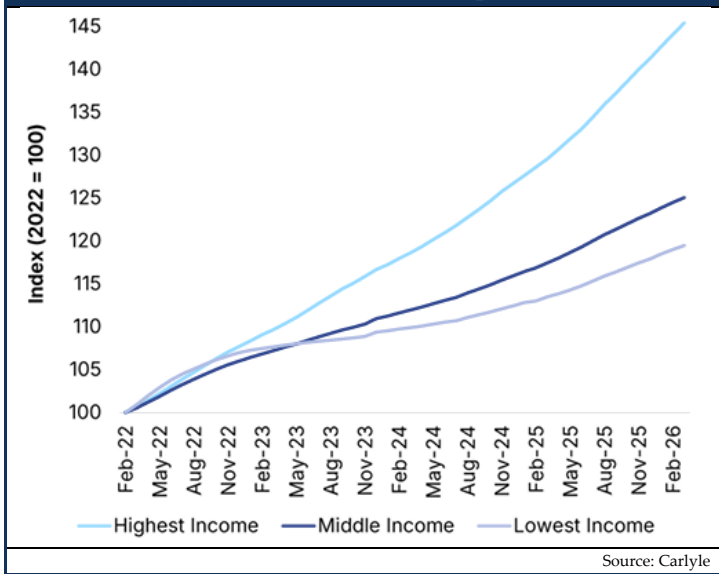
Beneath the headline resilience, however, the strain is not being shared equally. As we have discussed in prior commentaries, BofA's card data revealed that lower income households are driving the slowdown in ex-gas spending, while higher income households have remained largely stable. JPMorgan's economics team echoed this, cutting their second quarter real consumer spending forecast to 1.5% on the view that elevated gas prices are functioning as a tax on purchasing power, though they noted that the saving rate could act as a shock absorber as it did during the 2022 energy spike. Michigan consumer sentiment has already weakened since the conflict began, and daily tracking surveys point to further deterioration. Fund managers appear to be positioning for a more cautious consumer: BofA's March survey showed discretionary stocks at their most underweight level since December 2022, with a clear rotation into defensive staples. (Table 10)

**Table 10: Total Card Spending ex-Gas by Income Group**



Carlyle's household-level portfolio data offers an unusually granular view of how the energy shock is filtering through different income tiers. The firm's Household Consumption Index shows that highest-income households continue to drive overall spending growth, with their consumption now roughly 42% above the 2022 baseline compared to approximately 20% for the lowest-income cohort. We have shown this in our past economic commentaries, and the theme seems to not be changing. (Table 11)

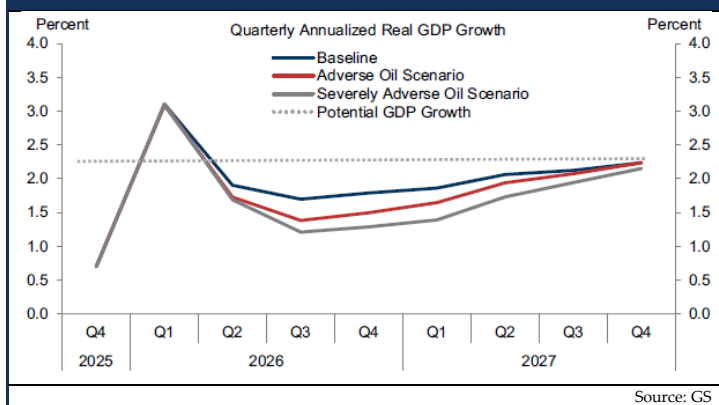
**Table 11: Carlyle Household Consumption Index**



**GDP**

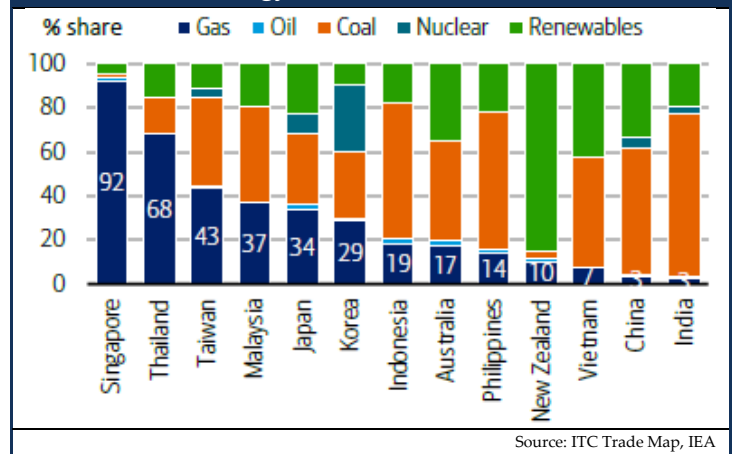
The global economy entered the Iran conflict with more momentum than many expected. JPMorgan raised its first quarter global GDP estimate to 3.4% annualized on the back of upward revisions to both the US and China, noting that their capex tracker was running at a 7.2% annualized pace driven by sustained technology investment. But the oil shock is now working its way into the forecasts. Goldman Sachs has cut its 2026 US GDP growth estimate to 2.1% on a Q4/Q4 basis after cumulative downward revisions of 0.4 percentage points, with their adverse oil scenario dropping growth to 1.9% and the severely adverse case to 1.8%. Goldman also raised its 12-month recession probability to 30%. JPMorgan was somewhat more optimistic, estimating that oil sustained near \$100 through midyear would drag global GDP lower by about 0.6 percentage points but noting that strong fiscal easing across the US, China, and Germany provides a meaningful cushion. The dispersion across these forecasts underscores the unusually wide the range of potential growth outcomes. (Table 12)

**Table 12: GS GDP Forecast Across Difference Scenarios**



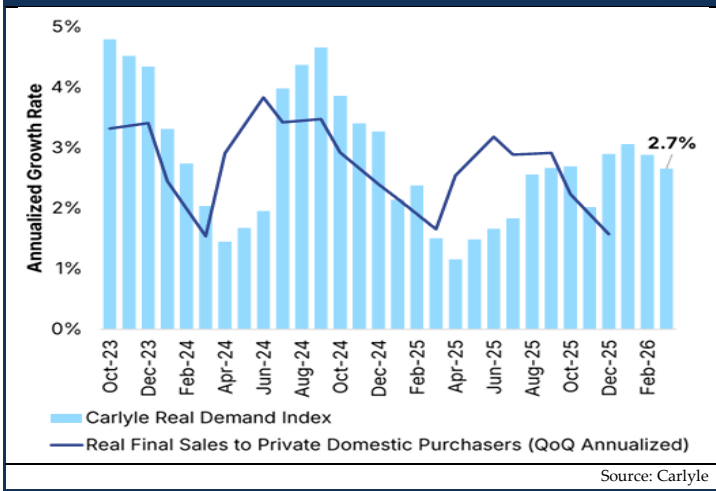
The growth impact of the conflict will not be felt evenly across the world. Bank of America's global letter emphasized that Europe and Asia, as net energy importers, face a substantially larger drag than the United States, which is now far less dependent on foreign energy than in prior shock episodes. The vulnerability is particularly acute in the tech supply chain economies of North Asia: BofA's Asia team warned that Japan, Korea, and Taiwan face meaningful risks from LNG shortages given their near-total dependence on imported natural gas, limited reserves covering only weeks of demand, and heavy reliance on gas for electricity generation. In the US, the transmission channel runs primarily through wealth effects and tighter financial conditions, which could slow the AI related investment boom that has been supporting growth. (Table 13)

**Table 13: Asia Energy Sources**



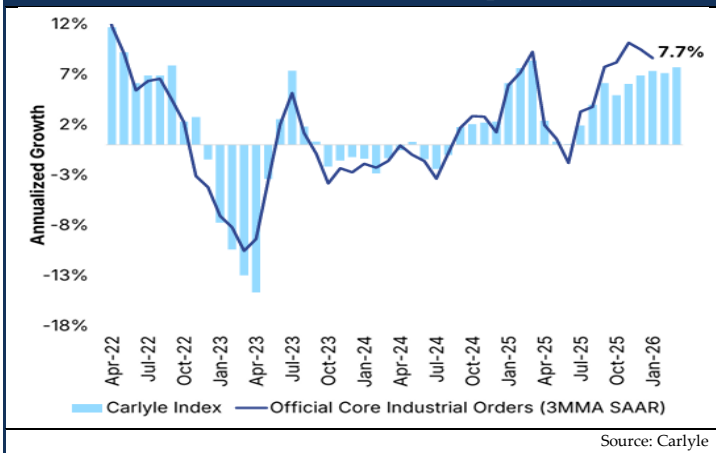
Carlyle's proprietary real demand index, built from monthly revenue and volume data across its U.S. portfolio companies, pointed to 2.7% annualized growth in March, consistent with the Wall Street consensus that the economy entered the Hormuz disruption from a position of strength. What stands out in the portfolio data is the growing divergence between business investment and household consumption. Corporate IT budgets expanded at a 29% annualized rate, driving overall business spending to a nearly 8% pace, while consumer consumption growth moderated to 2.4%. Notably, experiences spending, which had rebounded sharply in January and February after weather-related disruptions in late 2025, decelerated meaningfully in March, with over 60% of the consumer and retail items Carlyle tracks coming in below prior trend. For portfolios positioned around the consumer resilience thesis, this is the first tangible evidence from operating data that household spending may be losing momentum just as the energy shock intensifies. (Table 14,15)

**Table 14: Portfolio Derived Real Demand (GDP Proxy)**



Source: Carlyle

**Table 15: Portfolio Derived Business Spending Growth**

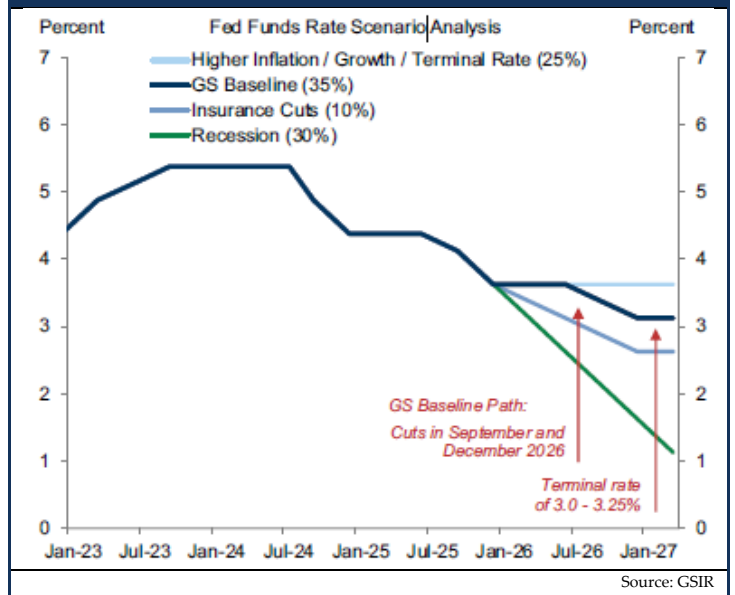


Source: Carlyle

**Monetary Policy**

The March FOMC meeting captured the central tension now facing the Federal Reserve: an economy still generating enough momentum to keep inflation sticky, colliding with a geopolitical energy shock that threatens to weaken growth. The Fed held rates at 3.50 to 3.75% with only one dissent, and the dot plot continued to project one cut this year. Goldman Sachs characterized the meeting as somewhat hawkish, noting that Powell placed the risks to employment and inflation on equal footing and described current policy as "mildly restrictive," signaling comfort with staying put. JPMorgan highlighted a subtle but important shift in the projections: the median estimate for longer-run GDP growth rose to 2.0% for the first time since 2020, implying a higher neutral interest rate. Goldman still expects two cuts later this year as unemployment rises, but the number of FOMC participants projecting no cuts at all this year rose to seven out of nineteen. (Table 16)

**Table 16: Fed Funds Rate Scenario Forecast**



Source: GSIR

The Fed is not alone in navigating this dilemma, and the divergence across global central banks is becoming a theme. BofA expects the ECB to hold rates steady but with a decidedly hawkish shift in communication, and if energy prices remain elevated through June without a clear path lower, a short hiking cycle of 50 to 75 basis points become likely. The Bank of England has already shifted from a planned cut to a hold in March, with further easing now delayed to June at the earliest and contingent on energy prices reversing. The Bank of Japan is moving in the opposite direction entirely, with rate hikes expected throughout the year. Across strategists, the common thread is that central banks have lost the flexibility they had just two months ago, and the path of monetary policy is now almost entirely dependent on how long the energy shock persists. (Table 17)

**Table 17: Central Bank Policy Views as of March 23<sup>rd</sup> 2026**

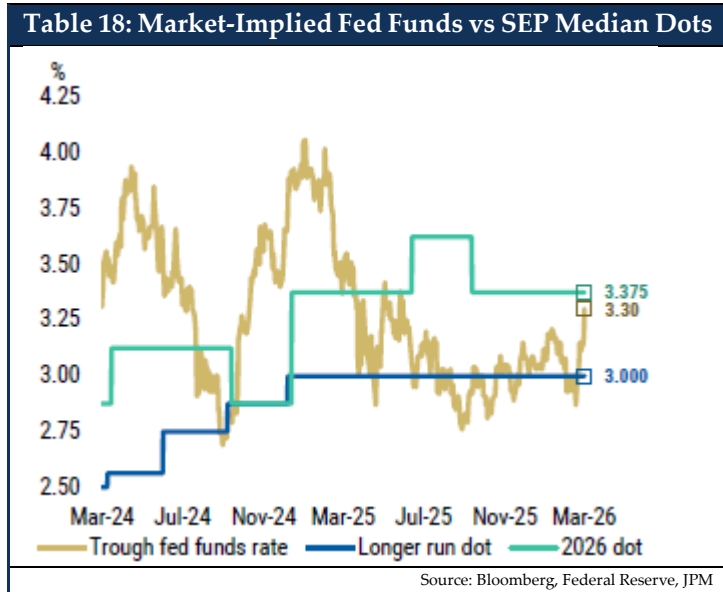
Economy	Current Policy Rate (Change at Last Meeting)	Next Meeting Date	End of Quarter Policy Rate Forecast (1Q23 to 4Q27E)	Next Expected Move	Timing of Next Expected Move
<b>G3</b>					
US	3.625% (No Change)	29-Apr-26	3.375 3.625 3.125 3.125	-25 bp	16-Sep-26
Euro Area	2.00% (No Change)	30-Apr-26	2.25 2.00 2.50 2.00	+25 bp	11-Jun-26
Japan	0.75% (No Change)	28-Apr-26	1.00 0.75 1.00 1.25	+25 bp	16-Jun-26

◆ Historical Quarterly ◆ MS Quarterly Forecasts ◆ Current Rate ◆ Quarter with Next Cut ◆ Quarter with Next Hike

Source: Fed, ECB, BoJ, Haver, MS

The bond market has repriced aggressively. Morgan Stanley's rates team noted that the market-implied trough for the fed funds rate has risen 43 basis points since the conflict began, and the probability of the Fed remaining on hold for the rest of 2026 has climbed to 43% from 17% just weeks earlier. Citi's rates team argued that this repricing is overextended, noting that markets are mispricing the probability of outright rate hikes when in reality the Fed would

likely be preparing to cut if not for the oil shock. BofA framed the risk as two pronged: a moderate or short-lived energy shock keeps the Fed hawkish and on hold, while a sustained move in crude above \$100 could eventually become dovish as demand weakens and the inflation impulse fades. For investors managing duration exposure, the message from the street is that conviction in any single rate path is unusually low, and positioning for a range of outcomes is more prudent than making a directional bet. (Table 18)



**Equities**

Moving over to markets, the S&P 500 has pulled back meaningfully from its highs, but the range of year-end price targets across major strategists reflects genuine disagreement about what comes next. Morgan Stanley holds a base case of 7,800 with a bull case of 9,000, while Citi's target of 7,700 is predicated on \$320 in earnings per share. The more telling data point sits beneath the headline numbers: the S&P 500 forward price-to-earnings ratio has contracted roughly 15% from its October peak, a valuation drawdown that matches the severity of the 2015 manufacturing slowdown and the 2023 growth scare. Morgan Stanley's equity team argued that this correction looks very different from prior episodes where oil shocks ended the business cycle, because earnings growth is running at 14% and accelerating rather than decelerating. Citi echoed a similar theme, noting that upward earnings revision breadth remains above historical averages even as prices fall, creating what they described as an "information void" where price action is running ahead of fundamentals. (Table 17)

**Table 19: S&P 500 Price Target Scenarios**

	Current Price	2026YE Price Target	MS 2026YE Price Target % to Current	Current P/E	MS 2026YE P/E Target
<b>Bear</b>					
Growth	6,506	5,600	-14%	20.6x	20.0x
<b>Base</b>					
Growth	6,506	7,800	20%	20.6x	22.0x
<b>Bull</b>					
Growth	6,506	9,000	38%	20.6x	23.0x

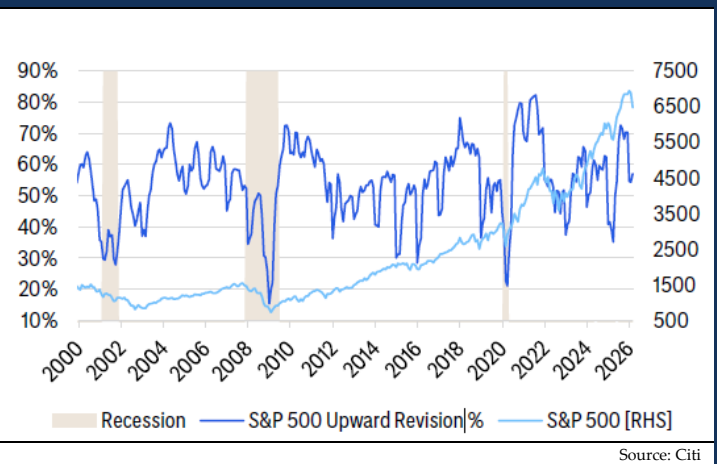
  

MS Top Down EPS Estimates			
	2025	2026	2027
<b>Bear</b>	\$268	\$281	\$280
Growth	-2%	5%	0%
<b>Base</b>	\$272	\$317	\$356
Growth	-1%	17%	12%
<b>Bull</b>	\$274	\$338	\$393
Growth	0%	23%	16%

Source: Morgan Stanley

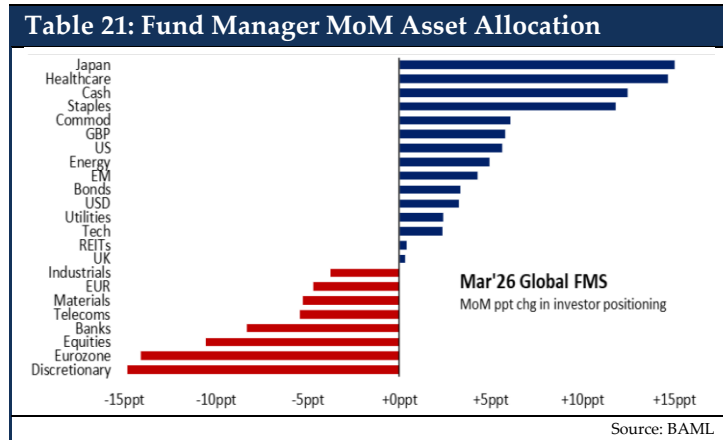
The question of whether this oil shock is likely to end the earnings cycle is the central debate in equity strategy right now. Morgan Stanley made the case that it will not, pointing out that prior oil spikes that tipped the economy into recession involved crude rising roughly 100% year over year, while the current move is closer to 50%. The economy also enters this episode with fiscal tailwinds from the OBBBA (One Big Beautiful Bill Act), strong business cycle momentum with the ISM Composite PMI at its best level since 2022, and an ongoing capex boom led by AI investment. Citi's bottom-up data supports this view, showing 2026 consensus EPS still holding near \$321 with upward revision breadth at 57%, well above the historical March average of 47%. The risk, as both teams acknowledged, is that the conflict persists long enough for conservatism in corporate guidance and sell-side estimate cuts to begin showing up in the data starting with first quarter earnings reports. (Table 20)

**Table 20: S&P Revision Breadth**

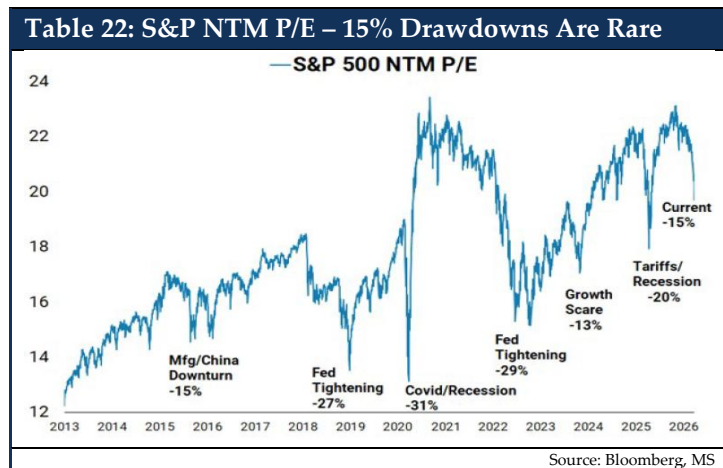


Beneath the surface of the major indexes, the rotation has been pronounced. BofA's March Fund Manager Survey showed investors pulling back from US equities, now net 17% underweight, while emerging markets reached the highest overweight since February

2021 and Japan positioning climbed to its strongest since May 2024. The sector rotation tells a similar story: fund managers moved decisively out of consumer discretionary, banks, and European equities and into healthcare, staples, and cash. Citi's global asset allocation team went further, cutting their overall equity exposure to neutral and triggering their "Generals Are Failing" framework, which flags risk when the majority of the market's largest names trade below their 200-day moving averages. The broadening theme that had defined earlier months has reversed under the pressure of the conflict. (Table 21)

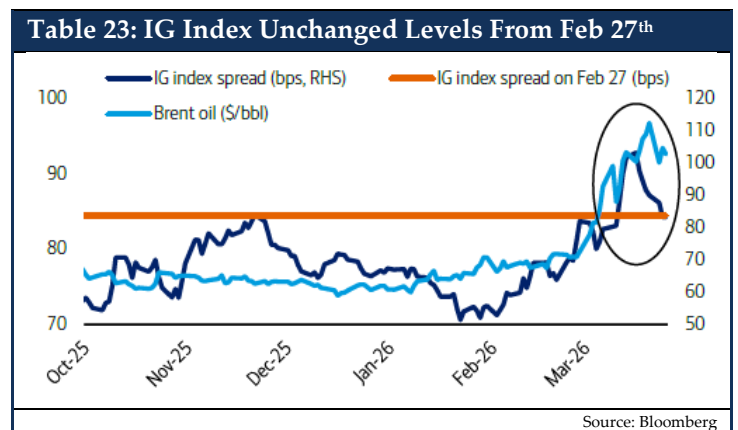


For investors looking beyond near-term volatility, the valuation landscape is worth examining carefully. Defensive sectors like consumer staples, utilities, and healthcare are trading in the top decile of their 20-year valuation ranges, meaning the traditional safe havens are no longer cheap. On the other end, financials at roughly 14 times forward earnings and real estate offer more attractive entry points historically. Internationally, Latin America screens more favorably than Europe on forward multiples. Morgan Stanley reinforced the case for patience, observing that half the stocks in the Russell 3000 are already down 20% or more from their 52-week highs, suggesting the correction is well advanced for the average stock even if the headline index does not fully reflect it. For long-term portfolios, the dispersion across sectors and regions presents selective opportunities, though adding broad risk remains premature until the conflict trajectory becomes clearer. (Table 22)



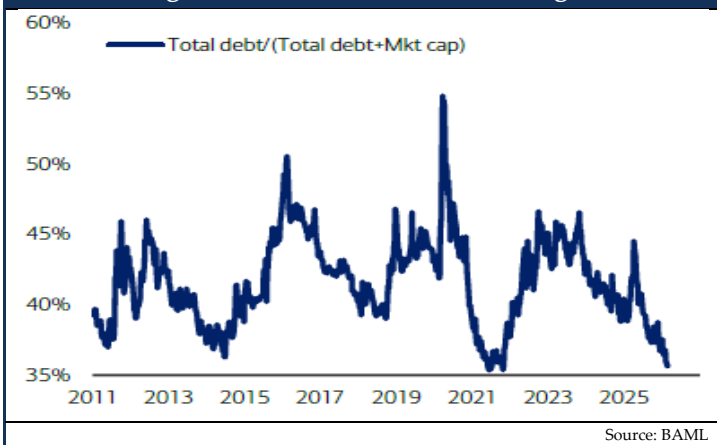
## Fixed Income

The credit market's response to the Iran conflict has been surprisingly bifurcated. BofA's credit strategy team noted that investment grade spreads, at 84 basis points, have largely retraced their post-conflict widening, essentially returning to levels seen on February 27, even as the S&P 500 remains lower, high yield spreads have widened meaningfully, and Brent crude is up over 40%. Goldman Sachs' fund flow data helps explain the disconnect. Year-to-date flows into Investment Grade (IG) corporate bonds and government bonds have remained solidly positive, providing a technical backstop that may be masking some deterioration in fundamentals. Morgan Stanley's credit scenario framework maps where spreads could go from here: in a de-escalation, IG settles near 85 and high yield around 290; under ongoing constraints, IG widens to 115 while high yield reaches 375; in an effective closure, spreads approach recessionary levels. Strategists also flagged that \$2.25 trillion in gross IG issuance is expected this year driven by AI infrastructure financing, suggesting that supply may not self-correct even if conditions worsen. (Table 23)



Across the credit spectrum, the relative value picture increasingly favors public markets over private lending. BofA's head of US credit strategy flagged what she described as a "perfect storm" in private credit, where defaults have risen to 4.7% compared to 3.5% for senior loans and just 1.4% for high yield. Private credit funds also carry meaningfully higher exposure to software and other industries facing AI disruption risk, at 18% of portfolios versus just 2% in public high yield. BofA's March fund manager survey reinforced this concern, with a record 63% of respondents identifying private equity and private credit as the most likely source of a systemic credit event, a reading that has held for eight consecutive months. For investors seeking yield in a volatile environment, the transparency, liquidity, and improving credit quality of public high yield and senior loans offer a more compelling risk-adjusted profile than many private alternatives. (Table 24)

**Table 24: High Yield Issues Have De-Leveraged**



For duration positioning specifically, Citi’s fixed income team offered a practical framework. They noted that emerging market (EM) debt spreads remain in the tightest decile of the past 15 years and may not adequately reflect the risk of a sustained energy shock, pointing out that during the early stages of the Russia-Ukraine conflict, EM spreads widened by more than 300 basis points from comparable levels. Their recommendation was to rotate from EM debt into high-quality, short-duration US Treasuries, capturing attractive front-end yields without taking on excess duration or credit risk. This aligns with the broader theme across strategists that longer-term yields may face continued upward pressure from fiscal deficits and inflation uncertainty, making the short end of the curve a more natural home for conservative capital until the path forward becomes more clear. (Table 25)

**Table 25: Citi March 27<sup>th</sup> Sharpe / Return Targets**

Rank	Asset	Sharpe Ratio to End-2026	Forecast Return to End-2026
1	US TIPS	2.7	10.1%
2	US Gov Bonds	1.7	7.3%
3	China Equities	1.6	29.7%
4	EM Local	1.6	9.1%
5	US HY	1.6	3.7%
6	US Equities	1.2	18.7%
7	DM Equities	1.1	14.6%
8	Japan Equities	1.1	22.2%
9	Europe Ex-UK Equities	0.7	11.4%
10	EM CEEMEA Equities	0.6	9.7%
11	Japan Gov Bonds	0.5	6.1%
12	EU HY	0.4	2.6%
13	Precious	0.4	10.7%
14	EM Asia Ex-China Equities*	0.4	9.6%
15	EM USD Debt	0.4	1.4%
16	EM LATAM Equities	0.3	7.2%
17	EM Equities	0.3	6.6%
18	UK Equities	0.2	4.8%
19	US IG	0.2	0.6%
20	China Gov Bonds	0.1	2.6%
21	Periphery Europe	0.0	2.5%
22	UK Gov Bonds	0.0	2.3%
23	China USD Debt	0.0	0.0%
24	Base	-0.1	-1.3%
25	EU IG	-0.1	-0.5%
26	Core Europe	-0.2	0.9%
27	Energy	-1.1	-30.7%

Source: Citi

**Alternatives**

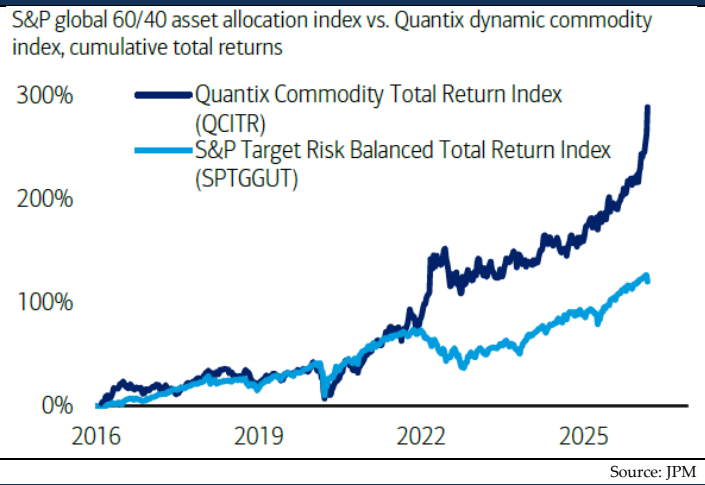
The current geopolitical backdrop has accelerated the structural case for real asset exposure across portfolios. Within energy, midstream infrastructure stands out as a compelling opportunity in the current environment: if oil prices remain elevated, production volumes increase and pipeline operators benefit directly. While a resolution improves the economics for new pipeline capacity in gas-heavy regions. MLPs currently trade at approximately 15 times forward earnings, below their long-term average of 18 times, while offering yields near 3%. Strategists broadly echo the theme, maintaining an overweight to real assets on the basis that higher stock-bond correlations place a premium on genuine diversification, with a particular focus on energy infrastructure, industrial metals, and residential housing-related opportunities. Gold remains a structural holding for similar reasons, though near-term positioning risk is elevated: the March Fund Manager Survey identified it as the most crowded trade globally, and ETF outflows suggest some investors are taking profits even as the medium-term case for fiscal deficit and central bank demand support remains intact. (Table 26)

**Table 26: MLPs Cheap on Forward Earnings**



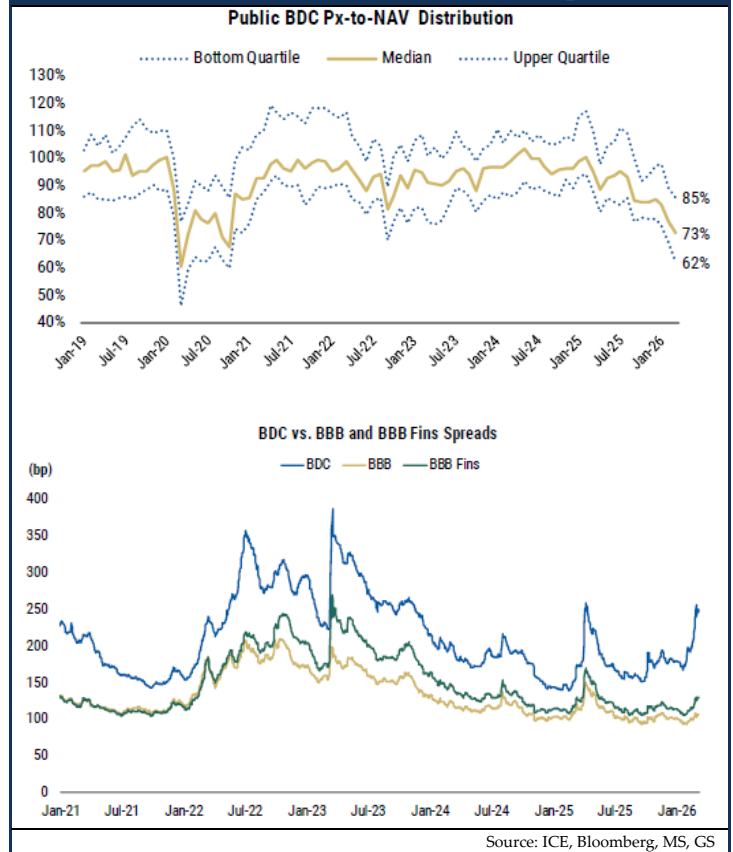
The broader portfolio construction message across strategists this quarter is that conventional allocations are under strain. A traditional 60/40 portfolio has delivered negative returns year-to-date after adjusting for inflation, while dynamic commodity strategies have outperformed meaningfully. The bond-equity correlation remains positive, meaning fixed income is not reliably hedging equity drawdowns as it did during the era of low inflation. For multi-generational wealth portfolios, the convergence of these themes points toward a structural increase in exposure to alternatives, with an emphasis on real assets, inflation-linked strategies, and liquid alternatives that can provide genuine diversification when traditional asset classes move in tandem. (Table 27)

**Table 27: Dynamic Commodities Outperforming 60/40**



The private credit market has come under increasing scrutiny as the energy shock compounds preexisting concerns about portfolio quality. Sell-side estimates project that direct lending default rates will reach 8%, approaching COVID peak levels, with defaults concentrated in software and AI-adjacent sectors that represent roughly 26% of business development company portfolios. Public BDC stocks have already priced in meaningful stress, with the median price-to-NAV ratio falling to 73% as of mid-March, a new post-COVID low, while BDC bond spreads have widened past their Liberation Day peaks. The March Fund Manager Survey reinforced the anxiety, with a record 63% of respondents identifying private equity and private credit as the most likely source of a systemic credit event for the eighth consecutive month. There is a useful counterpoint, however: total non-investment grade corporate lending as a share of GDP remains broadly unchanged from a decade ago, suggesting the stress is idiosyncratic rather than systemic. For allocators with meaningful private credit exposure, the message is to scrutinize sector concentration and redemption terms rather than reduce the asset class wholesale as we remain constructive at these levels. (Table 28)

**Table 28: BDC Discount to NAV and Bond Spreads**



Q1 presented an unusually wide range of outcomes, and we recognize that navigating it raised more questions than answers. The conflict in the Middle East remains fluid, and we are watching developments closely. What we can say with confidence is that well-diversified portfolios built around long-term objectives have weathered more turbulent quarters than this one, and the fundamental case for patient, disciplined investing remains as sound as ever. Please do not hesitate to reach out to your Sierra Capital advisor with any questions.

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**Disclaimers:**

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The simulated historical performance, if any, assumes that the asset allocations were in place and remained fixed over the periods indicated. Simulated historical performances are calculated by assigning a relevant index to each asset class in the allocation, blending the performance of those indices according to the allocation percentages, and assuming quarterly balancing over the time period shown. The performance shown reflects realized and unrealized appreciation and the re-investment of capital gains, dividends, and interest income. The performance shown is based on index returns and thus does not reflect the deduction of transactions costs, taxes, custodian costs or management fees that would lower the performance of an actual account. It also does not reflect factors that would affect the management of actual accounts, such as the timing of trades, liquidity constraints, cash balances, the timing of depositing and withdrawals, and other factors that impact decision making. The performance does not represent the performance of any actual accounts. Although certain of your accounts as of a specified date may have been used to construct the percentages for a current allocation, if shown, the performance was constructed using the performance of representative indices, not using the actual performance of your accounts for any time period. In addition, your asset allocation likely varied over the time period shown, unlike the simulated historical performance which assumes a fixed asset allocation, rebalanced quarterly. Because the asset allocations and the time periods used were selected with the benefit of hindsight, the performance does not reflect the results of recommendations that Sierra Capital made to clients during the time periods shown. The recommendations made by Sierra Capital and the performance of our clients over the time periods shown deviated, sometimes substantially, from the simulated historical performance. 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Securities may be less liquid and more volatile than U.S. and longer-established non-U.S. markets. Bond investors should consider risks such as interest rate, credit, repurchase and reverse repurchase transaction risks. Greater risk, such as increased volatility, limited liquidity, prepayment, non-payment and increased default risk, is inherent in portfolios that invest in high yield ("junk") bonds or mortgage-backed securities, especially mortgage-backed securities with exposure to sub-prime mortgages. Investment in non-U.S. and emerging market securities is subject to the risk of currency fluctuations and to economic and political risks associated with such foreign countries. Small capitalization (small cap) investments involve stocks of companies with smaller levels of market capitalization (generally less than \$2 billion). Small cap investments are subject to considerable price fluctuations and are more volatile than large company stocks. Investors should consider the additional risks involved in small cap investments. Large capitalization (large cap) investments involve stocks of companies generally having a market capitalization between \$10 billion and \$200 billion. The value of securities will rise and fall in response to the activities of the company that issued them, general market conditions and/or economic conditions.

#### Disclaimers - Definitions:

**Dow Jones Industrial Average (DJIA):** is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities. The DJIA was designed to serve as a proxy for the health of the broader U.S. economy.

**EURO STOXX 50:** Index composed of 50 stocks from countries in the Eurozone. EURO STOXX 50 represents Eurozone blue-chip companies considered as leaders in their respective sectors. The index represents the performance of the 50 largest companies among 20 sectors in terms of free-float market cap in Eurozone countries. The index captures about 60% of the free-float market cap of the EURO STOXX Total Market Index (TMI).

**MSCI (Morgan Stanley Capital International) Europe (USD):** Index captures large and mid-cap representation across 15 Developed Markets countries in Europe: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the UK. The index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

**MSCI AC (All Country) Europe:** Index that captures large and mid-cap representation across 15 Developed Markets countries and 5 Emerging Markets countries in Europe. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

**MSCI AC Asia ex Japan:** Index that captures large and mid-cap representation across Developed Markets (Hong Kong and Singapore) countries (excluding Japan) and Emerging Markets (China, India, Indonesia, Korea, Malaysia, the Philippines, Taiwan, and Thailand) countries in Asia. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

**MSCI AC World:** Broad global equity index that represents large and mid-cap equity performance across 23 developed and 24 emerging markets. The index covers approximately 85% of the global investable equity opportunity set.

**MSCI Emerging Markets (USD):** Index designed to track the financial performance of key companies in fast-growing nations. The index tracks mid-cap and large-cap stocks in Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

**MSCI Emerging Markets:** Index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

**MSCI Japan (USD):** Index designed to measure the performance of the large and mid-cap segments of the Japanese market. The index covers approximately 85% of the free float-adjusted market capitalization in Japan.

**MSCI World:** Cap-weighted stock market index of companies throughout the world. It is used as a common benchmark for 'world' or 'global' stock funds intended to represent a broad cross-section of global markets. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

**NASDAQ (National Association of Securities Dealers Automated Quotations):** Index of more than 3,700 stocks listed on the Nasdaq stock exchange, weighted by market capitalization. The technology sector accounts for just over half the index, more than three times the index weight of any other market sector.

**Nikkei 225:** a price-weighted equity index for the Tokyo Stock Exchange. The Nikkei measures the performance of 225 large, publicly owned companies in Japan from a wide array of industry sectors.

**Russell 2000 Growth:** index composed of small-capitalization U.S. equities of the Russell 2000 Growth Index that exhibit growth characteristics.

**Russell 2000 Value:** index composed of small-capitalization U.S. equities of the Russell 2000 Growth Index that exhibit value characteristics.

**Russell 2000:** Small-cap stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index, a capitalization-weighted stock market index that seeks to be a benchmark of the entire U.S. stock market. The Russell 2000 is commonly used as a small-cap proxy.

**S&P 500 Growth:** is a market-cap-weighted index comprised of growth stocks within the S&P 500 Index based on three factors: sales growth, the ratio of earnings change to price, and momentum.

**S&P 500 Index:** The S&P 500 is a stock market index tracking the performance of 500 large companies listed on stock exchanges in the United States. It is market-capitalization weighted and is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 U.S. leading companies and captures approximately 80% coverage of available market capitalization.

**S&P 500 Value:** is a market-cap-weighted index comprised of value stocks within the S&P 500 Index based on three factors: book/price ratio, earnings/price ratio, and sales/price ratio.

**S&P/BMV Indice de Precios y Cotizaciones (Mexico IPC):** Index seeks to measure the performance of the largest and most liquid stocks listed on the Bolsa Mexicana de Valores (BMV). The constituents are weighted by modified market cap subject to diversification requirements.

**Shanghai Composite:** Market capitalization-weighted index that reflects the performance of the whole Shanghai securities market, including all listed A shares and B shares stocks on the Shanghai Stock Exchange (SSE).

**Bloomberg Emerging Markets USD Aggregate - High Yield:** Index that measures the USD-denominated, high yield, fixed-rate corporate bond market of key companies in fast-growing nations (EM issuers).

**Bloomberg Emerging Markets USD Aggregate:** Flagship hard currency Emerging Markets debt benchmark that includes fixed and floating-rate US dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate EM issuers.

**Bloomberg Global Aggregate Index:** The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt in local currency. This multi-currency benchmark includes treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers.

**Bloomberg Global High Yield:** Multi-currency flagship measure of the global high-yield debt market. The index represents the union of the US High Yield, the Pan-European High Yield, and Emerging Markets (EM) Hard Currency High Yield Indices.

**Bloomberg US Aggregate Bond Index:** The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market in the United States. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency)

**Bloomberg US High Yield - Corporate:** Index that measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

**Bloomberg US Treasury Bills 1-3 Month Index:** The Bloomberg US Treasury Bills 1-3 Month Index is designed to measure the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to 1 month and less than 3 months.

**JPM EMBI Global Diversified:** Unmanaged, market-capitalization weighted, total-return index tracking the traded market for U.S.-dollar-denominated Brady bonds, Eurobonds, traded loans, and local market debt instruments issued by sovereign and quasi-sovereign entities.

**S&P U.S. TIPS (TIPS):** Treasury Inflation-Protected Securities (TIPS) Index seeks to measure the performance of the U.S. TIPS Market. TIPS are treasury bonds that are indexed to an inflationary gauge to protect investors from the decline in the purchasing power of their money.

**Credit Suisse Hedge Fund Index – Event Driven:** Asset-weighted index composed of hedge funds with an event-driven strategy. Event-driven is a hedge fund investment strategy that seeks to exploit pricing inefficiencies that may occur before or after a corporate event, such as an earnings call, bankruptcy, merger, acquisition, or spinoff.

**Credit Suisse Hedge Fund Index – Global Macro:** Asset-weighted index composed of hedge funds with global macro strategy. A global macro strategy is a hedge fund strategy that bases its holdings primarily on the overall economic and political views of various countries or their macroeconomic principles. Holdings may include long and short positions in various equity, fixed-income, currency, commodities, and futures markets.

**Credit Suisse Hedge Fund Index – Long/Short Equity:** Asset-weighted index composed of hedge funds with a long/short strategy. Long/short funds use an investment strategy that seeks to take a long position in underpriced stocks while selling short, overpriced shares. Long/short seeks to augment traditional long-only investing by taking advantage of profit opportunities from securities identified as both under-valued and over-valued.

**Credit Suisse Hedge Fund Index – Multi/ Strategy:** Asset-weighted index composed of hedge funds with a multi-strategy. Multi-strategy hedge funds are the most diverse portfolios in the hedge fund universe. Multi-strategies combine different single hedge fund strategies in one portfolio and differentiate considerably from each other. Most often, such portfolios include a variety of long-short, relative value, and event-driven strategies.

**Credit Suisse Hedge Fund Index:** Asset-weighted hedge fund index that includes open and closed funds. Seeks to measure hedge fund performance and provide the most accurate representation of the hedge fund universe.

**HFRI Fund of Funds Composite:** The Hedge Fund Research Indices Fund of Funds is an index comprised of funds that invest with multiple managers through funds or managed accounts. The strategy designs a diversified portfolio of managers with the objective of significantly lowering the risk (volatility) of investing with an individual manager. The Fund of Funds manager has discretion in choosing which strategies to invest in for the portfolio.

**S&P Goldman Sachs Commodity Index:** Commodities index that tracks the performance of the global commodities market. It is made up of exchange-traded futures contracts that cover physical commodities spanning five sectors: energy products, industrial metals, agricultural products, livestock products and precious metals.

**West Texas Intermediate (WTI) Crude Oil NYMEX Near Term (\$/bbl) (WTI Crude):** Price of light, sweet, landlocked crude oil that serves as one of the main global oil benchmarks. It is sourced primarily from inland Texas and is useful for pricing any oil produce in the United States, primarily from the Permian Basin.

**Crude Oil Brent Global Spot ICE (\$/bbl) (Brent Crude):** Price of waterborne crude oil based on a basket of North Sea crudes. The Brent crude oil blend extracted from the North Sea, comprises Brent Blend, Forties Blend, Oseberg, Ekofisk, and Troll crudes, commonly referred to as BFOET.

**Gold Spot:** The purchase price of a single troy ounce of the metal (gold) for immediate delivery, as opposed to a date in the future.

**Silver Spot:** The purchase price of a single troy ounce of the metal (silver) for immediate delivery, as opposed to a date in the future.

**British pound (GBP) /Dollar (USD):** Current exchange rate of the British Pound (GBP) to US Dollar (USD)

**Dollar (USD)/ Mexican Pesos (MXN):** Current exchange rate of US Dollar (USD) to Mexican Pesos

**Dollar (USD)/Japanese Yen (JPY):** Current exchange rate of Dollar (USD) to Japanese Yen (JPY)

**Dollar (USD)/Swiss Franc (CHF):** Current exchange rate Dollar (USD) to Swiss Franc (CHF)

**Euro (EUR)/Dollar (USD):** Current exchange rate of Euro (EUR) to US Dollar (USD)

**Earnings per share (EPS):** Monetary value of earnings per outstanding share of common stock for a company. It is a key measure of corporate profitability and is commonly used to price stocks.