



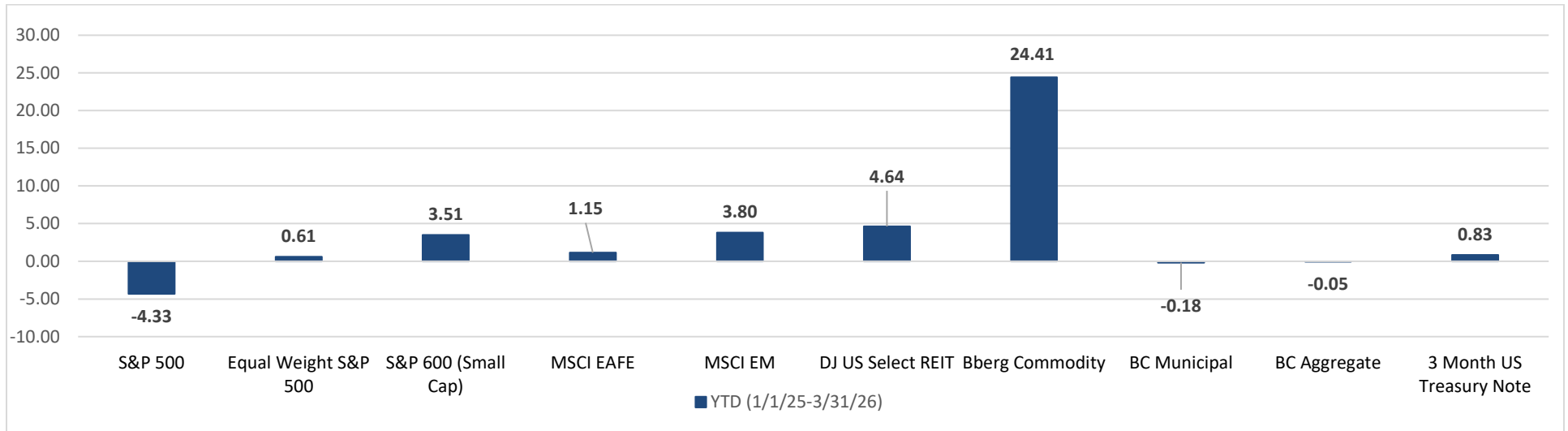
**SCHNEIDER DOWNS**

Wealth Management



Headline Volatility > Portfolio Volatility:  
A Commentary Inspired By Charlie Munger

Q1 2026 Market Commentary



As a kid growing up in Northeast Ohio, you are almost forced into loving roller coasters. Starting out at what was then Geauga Lake and making the transition into big “coasters” at Cedar Point, my friends and I were born<sup>1</sup> into loving the thrill of going up, down, sideways, and upside down at speeds that made your hair stand up. During the quarter I thought a lot about my youth spent on roller coasters, and specifically the first big roller coaster I ever rode, the Magnum XL-200. It was the first roller coaster to go 200 feet in the air and with speeds up to 72 mph while taking us up, down, and sideways, before ending in as we started, but with the feeling of a lot more adrenaline and possibly a lost sunglass case or hat.

The first quarter of 2026 was a lot like riding a big roller coaster at Cedar Point; while the middle portion of the ride was non-stop action, we ended the quarter close to where we started the year. There is an emerging crisis of confidence in private credit, an ongoing conflict in Iran, an energy/oil price spike, the possibility of rising unemployment from the advances in AI, and questions surrounding the potential return on investment for the hundreds of billions of dollars of AI CapEx. Despite all of these large and at times scary items that are hanging over investors, markets have largely ignored them. In speaking with clients, I have described this quarter in the following manner “Headline volatility > Market volatility.” CNBC, Bloomberg, and Twitter would all have you believe that markets were down greater than 10%, but at quarter end, only the S&P 500 was negative. Diversification is working and while there are legitimate reasons to have some heartburn as investors, markets are looking through those reasons and indicating that better days are ahead.

For equity markets, the first quarter, despite the aforementioned causes of investor heartburn, picked up where it left off at the end of 2025. Equity investors continued to question the valuations, growth prospects, and potential ROI from the historic capex plans of the Magnificent 7/hyperscalers.<sup>2</sup> Looking at the above chart, you see the S&P 500 had a negative return of a little over 4% while the equal weighted S&P 500 was almost 5% better at

<sup>1</sup> Unfortunately for my friends and I, we were also born into Cleveland Browns fandom. As I was reminded by one of my colleagues who is a giant Steelers fan, we have started 42 quarterbacks since my beloved franchise came back to us in 1999.

<sup>2</sup> The Magnificent 7 are Nvidia, Facebook (I can’t get myself to call them Meta), Google (can’t call them Alphabet either), Amazon, Apple, Tesla, and Microsoft.

+0.6%. The delta of over 500bps between the market cap-weighted S&P 500 and the equal weight suggests investors shifting their preferences away from large cap growth and into sectors that have lagged over the past half decade. Information technology and consumer discretionary are among the worst performing sectors to start the year, while energy, industrials, and utilities are among the best. The stock market rally, which began in October 2022, is broadening out, no longer shackled by the prospects of seven to ten technology names. If this were a Star Wars movie, it would be called “Revenge of the 493.” Moving further down the market capitalization within the US equity complex, small cap and mid cap stocks continued their outperformance over the large cap, which began late last summer. After a decade of underperformance, small caps are beginning to emerge from hibernation. Be prepared for a play on “Return of the Jedi” should small caps continue their outperformance into the spring and summer!

One of our highest conviction allocations has been to international stocks. A combination of attractive valuations, high dividend yields (on a relative and absolute basis), better than expected growth prospects, and strengthening currencies, have boosted non-US equities over the past 18 months. Both international developed and emerging market stocks raced off to double digit returns early in the quarter, only to give back some of their gains due to the conflict in Iran (most countries outside of the US are net energy importers, and as such, were affected by the closing of the Strait of Hormuz and the oil that is shipped through the waterway). Despite the pullback, non-US equities are outperforming US equities yet again, building off the strong performance in 2025. Non-US equities continue to look attractive, and we are looking to increase allocations on pullbacks as many structural tailwinds continue to strengthen for the asset class.

Within fixed income, quality and liquidity, once again shined for investors. While boring, high quality fixed income generated modest returns while kicking off income for investors. The lack of excitement within high grade fixed income markets is exactly what we want as investors and allocators; be the ballast of the portfolio while generating income for our clients. The relative lack of excitement in the investment grade market is in stark contrast to what we observe happening in private credit. Private credit, a once small part of the fixed income universe, has risen to prominence over the past 5-6 years, only to see it turn into a pumpkin this year as the proverbial clock on the asset class has struck midnight.<sup>3</sup> There are twin crises emerging in private credit; the first is a crisis of confidence, which in turn is leading to a crisis in liquidity.

CNBC, Bloomberg, the Wall Street Journal, and the Financial Times have spent thousands of words and prominent space in their papers and on their website covering the problems private credit managers are having. At its most basic, private credit is lending to companies that are mostly non-investment grade, and often time backed by private equity. Prior to the Great Financial Crisis (GFC), private credit was but a non-descript line item on the balance sheets of banks like JP Morgan, Citi, and Bank of America. After the GFC, where stronger restrictions were placed on the types of investments that banks could hold on their balance sheets, private credit shifted from the “public” view and into the arms of large non-regulated financial firms (e.g. Ares, Blue Owl, Cliffwater, and Appollo, among others) and into relative obscurity for most investors. After years of low interest policy, private credit was a way for investors to earn significantly more yield than traditional fixed income like investment grade corporate bonds. Investors and asset managers dove headfirst into allocating to private credit, driving AUM in the space north of \$100 billion in less than a decade. The rush to invest capital, it appears, came at the expense of comprehensive due diligence. Several instances of fraud are emerging, which in and of themselves are problematic. Private equity firms tapped the private credit market to facilitate many of their buyouts of software businesses since 2017. The allure of low interest rates and significant debt capital available created the environment where PE firms bought software businesses at elevated multiples. With interest rates moving higher and the perceived “moats” of these software businesses eroding due to the challenge from AI, the value of the loans to these companies are coming under pressure. Investors are taking note and have requested 40% of their capital back in one

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<sup>3</sup> My daughter Claire, affectionately known in our home and in my market commentaries as “Claire Bear,” favorite movie is Cinderella. Watching the movie last week it struck me as the perfect metaphor for private credit, which is no longer the Belle of the Ball.

specific vehicle run by Blue Owl. Investors in many private credit funds only received 5% of the capital they requested despite asking for anywhere between 20% to 40% of the overall funds back, according to an article by the Financial Times<sup>4</sup>. The yield on these private credit vehicles is going down, and the liquidity is quickly evaporating. SDWMA has always believed that fixed income has an important role to play in portfolios; to be the ballast during tumultuous times and be able to provide liquidity at a moment's notice. Many investors are learning the difference between private credit and traditional fixed income; we remain convicted with our decision to avoid the former and stay committed to the latter.

As almost any long-time reader or colleague of mine knows, I am quite fond of Warren Buffet, Charlie Munger, and the conglomerate of Berkshire Hathaway that they built together. When times get tough in markets and it feels like I am the 12-year-old kid again in the middle of a roller coaster ride at Cedar Point, I find myself going back to two of my investing heroes, Warren and Charlie, for advice. Charlie Munger once wrote “if you're not willing to reach with equanimity to a market price decline of 50% two or three times a century, you are not fit to be a common shareholder – and you deserve the mediocre result you are going to get.” Another, and probably softer way of saying this said by another investment professional I admire, Ryan Detrick, where he said, “volatility is the toll we pay to invest.” There is nothing comfortable about any war but given the recent scar tissue from the War on Terrorism, conflicts in the Middle East cause particular concern, rightfully so, for most Americans. However, our job as advisors and investors is to do our best to zoom out and see the forest through the trees. Moving portfolios and investments around at breakneck speed, reacting to every piece of news out there, is the exact opposite of how successful investors have compounded capital over the years. At SDWMA, we strive to live out Charlie's advice: to react with equanimity, which is defined as an even-minded, non-reactive state of mental balance and calmness maintained during stress, conflict, or emotional upheaval<sup>5</sup>.

We find ourselves in uncertain times, confronted with changing alliances, and under threat from something that is equal parts ubiquitous, ominous, and transformational (AI). Our goal is to react to these uncertain times in a manner that would make Mr. Munger proud. The team at SDWMA is grateful for the trust you have placed in our team and we look forward to meeting with you soon to discuss portfolios, our views on the opportunities in markets, and most importantly catch up on all the fun and exciting things going on in your lives as we put winter in the rear view mirror and look ahead toward spring and summer.

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<sup>4</sup> <https://www.ft.com/content/f4320148-3d81-4bd0-9ab6-053a5bade188?syn-25a6b1a6=1>

<sup>5</sup> Source: google/gemini, word equanimity