



1492 Vantage Point Quarterly Newsletter

Welcome to 1492 Capital Management’s newsletter for the first quarter of 2026. In each quarterly newsletter, we provide our perspective on the most recent quarter, preview what lies ahead, and offer a bit of market trivia.

Our corporate slogan is “Discovering Opportunity,” which is our daily focus for our clients with our small cap and wealth management portfolios. 1492’s time-tested strategies are based on a three-step process of identifying investment themes from hundreds of meetings annually with company executives, extensive tire-kicking of the business fundamentals, and a rigorous valuation methodology.

“False Narratives” Drove Volatile Market Even Before Iran War

The stock market is rarely short of narratives that drive it both up and down. However, in the first quarter, many “false narratives” contributed to a prevailing negative sentiment. The problem with narratives is that they are difficult to disprove. Once they gain steam, the “talking heads,” who repeatedly appear on CNBC or other business media outlets and espouse forecasts lacking substantive research, typically adopt them. Disproving these narratives is very hard, and until there is hard data to prove them wrong, the narratives get repeated, and Wall Street groupthink takes over. Many of the current narratives have come out of the AI craze, and others came to be following the start of the Iran war. We will spend a good chunk of this newsletter addressing several of the most popular narratives, which includes AI destroying jobs and the software industry, the oil price shock, and private credit. We will attempt to debunk them with some hard data and our own opinions as well.

The first quarter was a rare one in which the Russell 2000 Index posted both a +5% month and a -5% month in the same quarter. The Iran war and rising oil prices were the focal points late in the quarter and overshadowed what had been a very strong earnings reporting period and 2026 outlook for corporate America earlier in the quarter. As we write this letter, the market is bobbing and weaving to every post President Trump releases, which makes fundamental investing quite difficult. One of the strongest narratives ruling the market is the oil price narrative and how impactful higher oil prices will be to inflation and the global economy. The market had finally started to broaden out in January and February as investors finally began to rotate out of the “Magnificent 7” stocks and broadly into everything else, which includes small caps. As the Iran war escalated, fear of higher oil prices took over the market, and interest rates rose on inflation fears rather than dropped as is typical with the safe haven status of U.S. treasuries. On the last day of the quarter, President Trump’s willingness to end the conflict sparked a massive rally that sent the S&P 500 up over +3% and the Russell 2000 +4%. The scorecard for the quarter showed that small caps continued their recent outperformance with the Russell 2000 substantially outperforming the S&P 500, +0.89% to -4.33%, respectively.

2026 is a mid-term election year, and they are historically not great years for the stock market. The returns from the end of March through October tend to be quite muted if not negative. As we look ahead to the balance of 2026, we still expect an accelerating economy, which should ultimately drive stocks higher if the Iran war is concluded and if oil prices become back page news again. Please read on to see our unique views of what’s on tap for 2026, themes we’re investing in here at 1492, and key market drivers.

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“False Narratives” Drove Volatile Market Even Before Iran War

The stock market is rarely short of narratives that drive it both up and down. However, in the first quarter, many “false narratives” contributed to a prevailing negative sentiment. The problem with narratives is that they are difficult to disprove. Once they gain steam, the “talking heads,” who repeatedly appear on CNBC or other business media outlets and espouse forecasts lacking substantive research, typically adopt them. Disproving these narratives is very hard. Until there is hard data to prove them wrong, the narratives get repeated, and Wall Street groupthink prevails. Many of the current narratives have come out of the AI craze, and others came to be following the start of the Iran war. We will spend a good chunk of this newsletter addressing several of the most popular narratives, including AI destroying jobs and the software industry, the oil price shock, and private credit. We will attempt to debunk them with some hard data and our own opinions as well. The chart below shows the timeline of AI headline selloffs over the past six months. These selloffs were rolling AI disintermediation narratives that hit each group shown on the table. The returns in the far right column were just the one-day percentage declines for each segment. As we know, the software disintermediation narrative has continued with a downward spiral for the group.

Timeline of AI Headline Selloffs			
Date	Segment	Tickers	% Change on Day
9/30/2025	Front Office Apps Software	BRZE, DOCU, HUBS, KVVO, etc.	-11%
1/30/2026	Gaming Levered	APP, RBLX, TTWO, U	-16%
2/3/2026	Legal Tech	LZ, TRI, WKL	-16%
2/9/2026	Insurance Brokers	AON, AJG, WTW, MRSH	-10%
2/10/2026	Wealth Managers	LPL, RJF, SCHW	-8%
2/11/2026	Property Managers + Office Reits	BXP, CBRE, JLL, SLG	-10%
2/12/2026	Freight Logistics	CHRW, LSTR, JBHT, RXO	-19%

^ the above “% Change on Day” column shows the average performance of the group that day.

The first quarter was a rare one in which the Russell 2000 Index posted both a +5% month and a -5% month in the same quarter. The Iran war and rising oil prices were the focus point late in the quarter and overshadowed what had been a very strong earnings reporting period and 2026 outlook for corporate America early in the quarter. The chart below left shows the returns by style for the entire first quarter, whereas the chart below right shows the returns by style since the Iran war began. There was a clear value bias in the quarter, particularly as energy and materials stocks became the only game in town following the start of the war. The third chart below shows the returns by sector for the quarter. You’ll notice that we’ve circled the winning sectors in green, which are significantly more heavily weighted in the value indices versus the growth indices.

Total Returns by Style – 1Q26

	Value	Blend	Growth
Large	2.1	-4.3	-9.8
Mid	3.7	1.3	-6.3
Small	5.0	0.9	-2.8

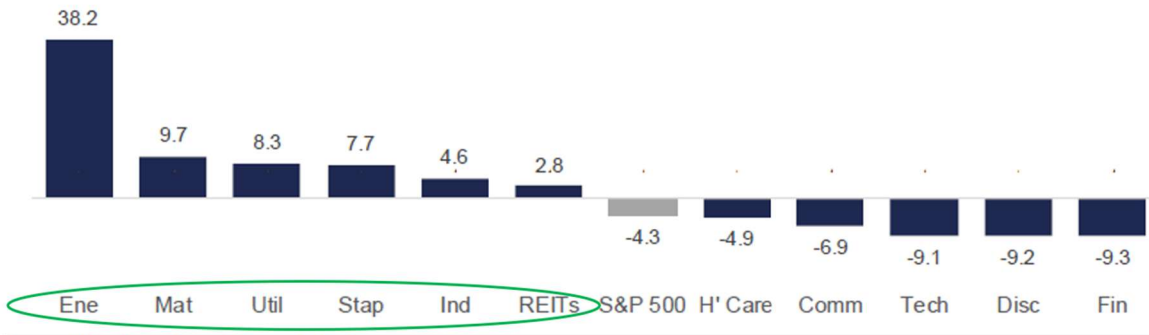
Source: Bloomberg, Seaport Research Partners

Size & Style Since Conflict Began

	Value	Core	Growth
Large	-6.4%	-7.8%	-9.1%
Mid	-7.6%	-8.2%	-8.7%
Small	-5.6%	-6.8%	-8.1%

S&P Size & Style Boxes (2/27 - 3/30)

Sector Total Returns – 1Q26



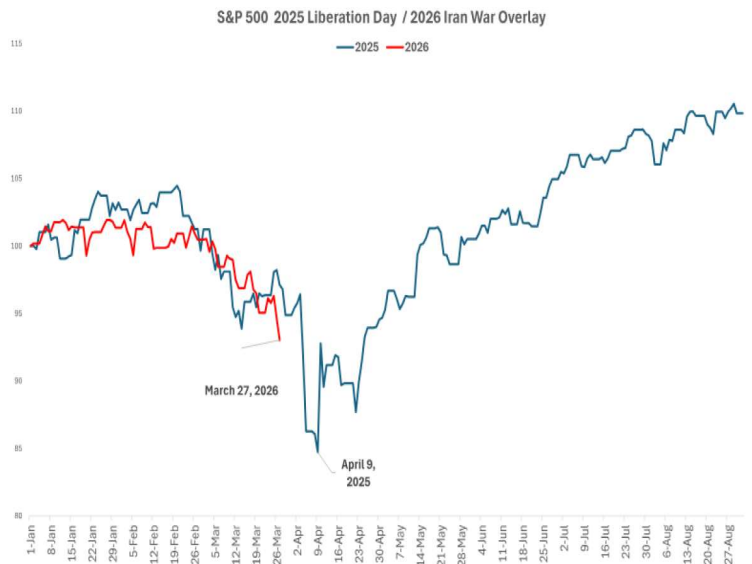
Source: Bloomberg, Seaport Research Partners

As we write this letter, the market is bobbing and weaving to every tweet President Trump releases, which makes fundamental investing quite difficult. One of the strongest narratives ruling the market is the oil price narrative and how impactful higher oil prices will be to inflation and the global economy. The market had finally started to broaden out in January and February as investors finally began to rotate out of the “Magnificent 7” stocks and broadly into everything else, which included small caps. Those who have read our newsletters over the past few years will know that we have long said that for small-cap stocks to begin working, the “Magnificent 7” would have to start underperforming, and the chart on the left shows that they did so in the quarter. The chart on the right shows the significant correlation between the start of 2026 (red line) overlaid on the 2025 return path (blue line) for the S&P 500. If you recall, in 2025, the first four months of the year were filled with tariff talk, which caused a panic selloff until liberation day in April. We don’t think a similar sell-off is in the cards unless the Iran war drags on for months on end. We believe President Trump understands what’s at stake and will likely find a way to bring the war to an end and open the Strait of Hormuz so that oil can move freely globally.

The Mag 7 Took A Hit

Ticker	YTD
NVDA	-6.49%
AAPL	-6.65%
GOOGL	-8.13%
AMZN	-9.77%
META	-13.33%
TSLA	-17.34%
MSFT	-23.46%
S&P 500	-4.63%
Avg Mag 7	-12.16%

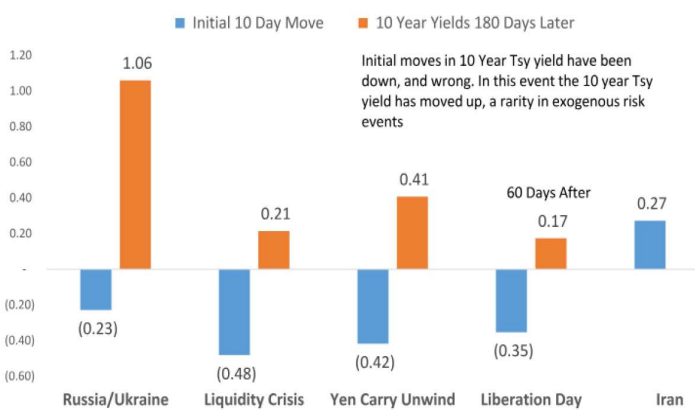
Source: PSC



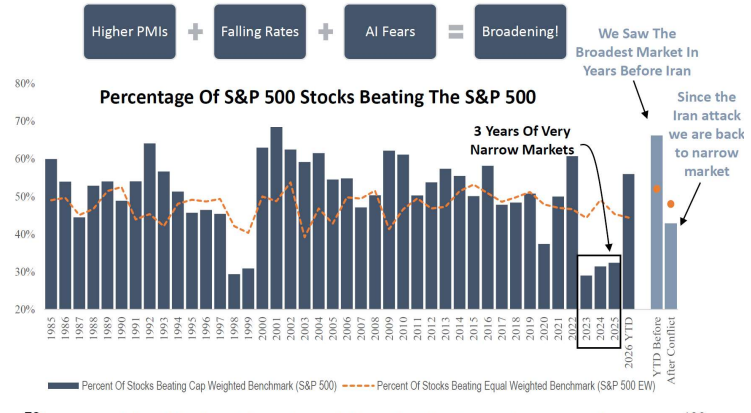
Source: Strategas Research

As the Iran war escalated, fear of higher oil prices took over the market, and interest rates rose on inflation fears rather than dropped as is typical in war times with a safe haven asset. The chart below left shows several more recent events that caused a bit of panic and the move in 10-year treasury interest rates. Note that in all other cases, the initial reaction of the bond market was a decline in rates as a “safety” trade and a subsequent move higher as the event played out. However, in the case of the Iran war, rates moved higher as the market was more concerned about the lingering impact on inflation from spiking oil prices. The chart below right shows how the market was broadening out after three consecutive years (2023-2025) of very narrow market performance, led by the “Magnificent 7”. Before the war, we saw one of the broadest markets in years, and unfortunately, once the war began, the market became very narrow again, with a few sectors like Energy and Materials favored. On the last day of the quarter, President Trump’s willingness to end the conflict sparked a massive rally that sent the S&P 500 up over +3% and the Russell 2000 +4%. The scorecard for the quarter showed that small caps continued their recent outperformance with the Russell 2000 substantially outperforming the S&P 500, +0.89% to -4.33%, respectively. Having gone largely unnoticed, the Russell 2000 has outperformed the S&P 500 quite handily over the past 12 months, +25.72% to +17.80%, respectively.

Initial 10 Year Tsy Yield Moves Since Covid During Exogenous Events



Source: PSC



The Market Broadened Out As The Data Improved

Source: Seaport Global

The table below shows that the stock market posted mixed returns in the first quarter of 2026. Value clearly outperformed growth during the quarter, and small caps significantly outpaced large caps.

Index	First Qtr / YTD 2026 Return
Russell 2000	0.89%
Russell 2000 Growth	-2.81%
Russell 2000 Value	4.96%
S&P 500	-4.33%
Dow Jones Industrials	-3.58%
NASDAQ Composite	-6.96%

Source: 1492 Capital Management, LLC and FactSet

From a style perspective, the Russell 2000 Value Index (+5.0%) posted a strong win against the Russell 2000 Growth Index (-2.8%) for the quarter. This victory for the value side of the house shows that many “left for dead” stocks were key drivers of performance in the quarter, namely energy. The best performing sector in the Russell 2000 for the quarter, unsurprisingly, was the Energy sector (+38.2%) as spiking oil prices on the heels of the Iran conflict sent energy stocks soaring. A distant second was Materials (+5.1%) as chemicals (oil derivatives) and higher metals commodity prices drove interest in the sector. The worst performing sectors were Technology (-4.9%) and Consumer Discretionary (-4.8%) as markets bet on higher energy costs taking a chunk of discretionary spending away from the average consumer. The table below highlights the performance of the Russell 2000 Index by sector for the month of March and the first quarter of 2026. The second table below shows that there was a reversal in the performance by size. For years, there has been a significant market cap skew in the numbers as the performance was significantly worse moving down the market cap spectrum. There was a reprieve of this trend late last year, but the Iran war impact sent investors scrambling for more liquidity in their portfolios, at least temporarily. The first quarter reversed that trend and pushed the smallest of the small down more in the quarter. See the red arrow below.

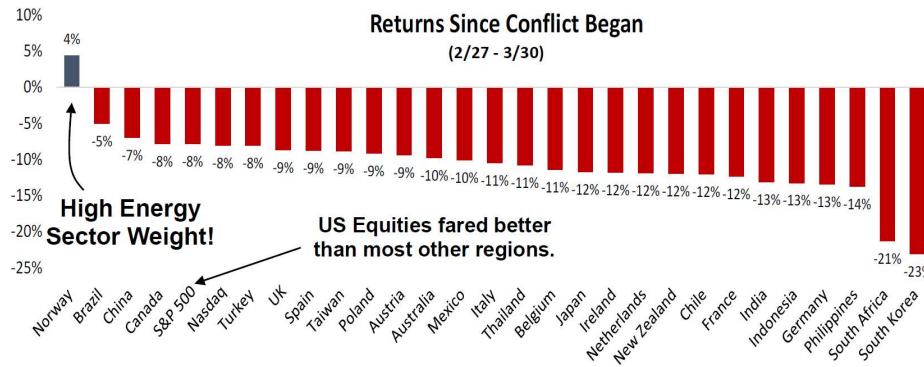
Russell 2000:

Table 5 - Russell 2000 Scorecard through March 31st

GICS Sector	March			1st Quarter			Wgt
	Absolute	Contribution	Relative	Absolute	Contribution	Relative	
Com Serv	1.75	0.04	6.76	-0.32	-0.01	-1.20	2.6
Discretionary	-8.69	-0.77	-3.67	-4.82	-0.38	-5.70	8.4
Staples	-9.25	-0.18	-4.24	2.36	0.03	1.48	1.8
Energy	7.13	0.43	12.15	38.15	1.69	37.27	6.7
Financials	-1.84	-0.29	3.18	-1.06	-0.10	-1.94	17.1
Health Care	-3.45	-0.57	1.56	-4.42	-0.73	-5.31	17.7
Industrials	-8.29	-1.58	-3.28	4.86	0.77	3.98	18.2
Info Tech	-7.10	-1.04	-2.09	-4.89	-0.65	-5.78	14.1
Materials	-11.54	-0.55	-6.52	5.93	0.23	5.05	4.9
Real Estate	-6.70	-0.38	-1.68	-0.22	-0.02	-1.10	5.3
Utilities	-3.74	-0.12	1.27	2.23	0.06	1.35	3.1
Size Quintile	Absolute	Contribution	Relative	Absolute	Contribution	Relative	Wgt
1 (Largest)	-5.82	-3.54	-0.80	0.56	0.31	-0.32	60.1
2	-3.29	-0.73	1.72	1.79	0.40	0.91	22.8
3	-3.38	-0.35	1.63	2.66	0.29	1.78	10.6
4	-5.88	-0.28	-0.86	-1.27	-0.05	-2.15	4.7
5 (Smallest)	-6.21	-0.11	-1.19	-3.97	-0.07	-4.86	1.8

Returns in the international stock markets were very mixed and highly correlated with their energy independence. Note that Norway, Brazil, Canada, and the U.S. were all in the top five performers for the period since the conflict began, as shown in the chart below, whereas countries like South Korea and South Africa are highly dependent on others for their oil needs. As a whole, they outperformed the U.S. stock market for the quarter. European markets have, for the most part, been weak as they already have energy disruptions from the Ukraine/Russia war. Brazil, which is known for its abundant natural resources, was a clear winner in the quarter.

U.S. Equities Held Up Better Than Most



Source: Seaport Global

Bond market returns were modestly negative once again as longer-term rates rose on concerns over oil-induced inflation. From a commodity perspective, nearly all commodities were stronger in the quarter outside of natural gas, which is primarily a U.S. market. Oil was an obvious winner (+75%) as nearly 20% of the world's oil supply was previously transported through the Strait of Hormuz. Lastly, volatility spiked (+53%) on broader concerns over the Iran war.

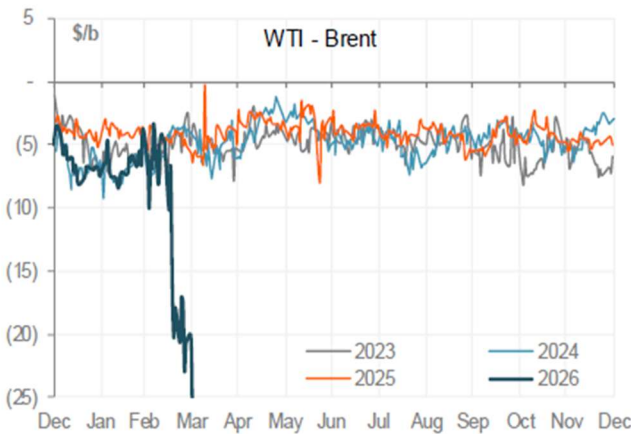
Index	1st Qtr / YTD 2026 Return
France	-4.00%
Germany	-6.70%
Brazil	16.30%
India	-16.70%
China- A Shares	-3.40%
China- Shenzhen A Shares	-0.10%

Index	1st Qtr / YTD 2026 Return
Japan	2.20%
Long-Term Treasuries (TLO)	-1.30%
Investment Grade Corp Bonds	-0.60%
Gold	6.70%
Volatility- VIX Index	52.80%
Oil	74.90%
Natural Gas	-13.90%
Lumber	12.70%

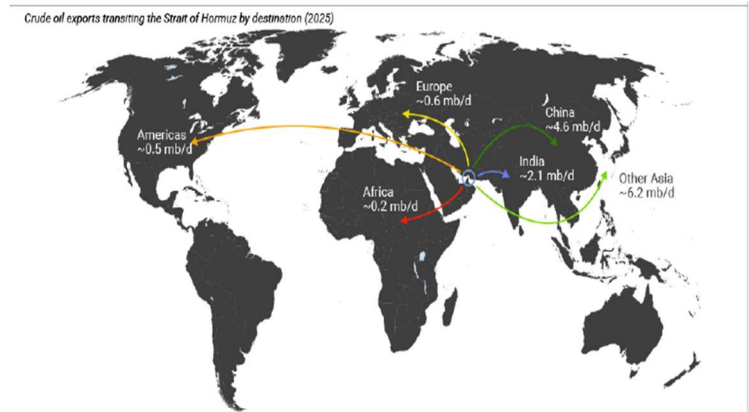
Source: 1492 Capital Management, LLC

Thematic Investing Update: Iran War and Its Impact on Investment Themes in 1492 Capital Strategies

With a firehose of information coming at us daily on the Iran War and its investment implications, we thought that it might be helpful to tie its impact, the best that we or anyone else can estimate, to our 1492 Capital Management investment strategies. To begin with, crude oil comes in about as many different specifications as ice cream. The U.S. oil benchmark is West Texas Intermediate (WTI), while the European oil benchmark is Brent crude oil and is one of the key world benchmarks. As seen in the chart below left, the WTI-Brent price spread has historically run about -\$5 per barrel during 2023-2025. However, notice the massive blowout in the spread to -\$25 per barrel recently (dark blue line) because of the conflict in Iran. This large increase reflects the war premium on seaborne oil, as very little oil can move from the Middle East with the Strait of Hormuz under Iranian control.



Source: PSC Research



Source: Goldman Sachs

Roughly 15 million barrels per day of oil or about 14% of 2025 global oil supply based on the International Energy Agency’s forecast and another five million barrels per day of refined products (gasoline, diesel, etc.) transit the strait, and this flow has slowed to a trickle with only a few options of significance like Saudi Arabia sending oil across its country to export via the Red Sea. The chart above right depicts which regions/countries import the most oil from the Persian Gulf. China and other Asian countries are really feeling the pain with 4.6 and 6.2 million barrels per day, respectively. While the Chinese have been relatively quiet during the past month, roughly 40% of their crude oil imports are being impacted, according to the International Energy Agency. They can survive in the short term on the oil stored in the country, but this situation is not sustainable and is a key driver, in our opinion, this war will not be a long one. We also believe that the Republican Party probably wants to get a solution, which, even if temporary, gets gasoline prices down before mid-term voting begins. As this conflict concludes in some near-term form that will likely be unsatisfactory to both sides, the inflation scare should dissipate, particularly as the world is much more energy efficient than in previous oil price spikes, according to Goldman Sachs research.

There will be many learnings from this war, but one of the most important will be the diversification and domestication of vital commodities. We have three themes in the 1492 Capital Management strategies that stress this idea. Our conventional energy recovery theme contains oil and gas exploration and production companies that produce solely in the U.S., as the international oil business for smaller companies is very difficult to execute and obviously carries geopolitical risk. Even after the war ends, there will likely be a higher geopolitical risk premium in oil, which should lead to more domestic drilling, more U.S. production, and more exports to countries that were too heavily dependent on the Middle East. We are positioned with this theme and our

LNG infrastructure theme to benefit from the diversification of LNG supply, as roughly 20% of the world's LNG flows through the Strait of Hormuz. One of the world's most important LNG facilities is the Ras Laffan complex in Qatar, which has sustained significant damage to 17% of its supply, along with the export product flow issue. According to Reuters, the Philippines is in a state of emergency due to a more than doubling of LNG prices and a lack of supply that powers the country. It refers to an increase in coal usage as well. We believe that coal will no longer be a dirty four-letter word in energy circles, as coal does not come through the Strait, and the U.S. is a large coal producer that is poised to benefit. Late last year, we deployed a holding that is an Appalachian coal producer that is well-positioned for this global rethinking on energy sources. U.S.-sourced LNG should also be a hot commodity going forward, which generates strong domestic demand for natural gas. As new U.S. LNG plants ramp up production over the next few years, a byproduct of that LNG processing is an abundance of propane, ethane, and butane that is stripped out to isolate methane for liquification. Exports of these byproducts from the U.S. should continue to surge, and we continue to hold a shipping company that transports these commodities to Asia and Europe in our LNG infrastructure theme.

Another long-running 1492 Capital Management investment theme that should have tailwinds from this conflict and its aftermath is our specialty metal's theme. Across the strategies, we own a variety of specialty metal alloy companies that should benefit from an expected higher defense budget in fiscal 2027 and a rebuild of munitions stockpiles spent on Iran. In addition, we are likely to continue to see a greater attention to critical minerals that are sourced primarily from China and Russia. Tungsten is a critical mineral and is used heavily in a variety of defense applications, and our specialty metal's theme holding here has ramping production in South Korea and existing production in Portugal. In a two-for-one scenario, the previously mentioned coal producer is also actively developing a large, rare earths deposit in the western United States to diversify away from the Chinese stranglehold on these minerals. As seen in the table below, supply chain diversification is also likely to be seen in chemicals, where exports through the Strait of Hormuz comprise 10% or more of global exports. Fertilizer in the form of ammonia, phosphate, urea, and sulfur leads the list of supply concerns.

Regional exports by chemical chain as a share of global exports

Chemical product	Iran	UAE/Kuwait/Qatar	Eastern Saudi Arabia
Ammonia	~5% of global exports	~4% of global exports	>10% of global exports
Urea	>5% of global exports	>10% of global exports	>5% of global exports
Phosphate	N/A	N/A	>10% of global exports
Sulfur	<5% of global exports	>20% of global exports	>10% of global exports
Polyethylene	>5% of global exports	>5% of global exports	>5% of global exports

Source: Goldman Sachs

The World Economic Forum also lists aluminum as having heavy Strait of Hormuz exposure, with roughly 7% of global supply in jeopardy. In our specialty metal's theme, we have deployed an aluminum products producer with aluminum sourcing largely from the U.S and Canada. We believe that our conventional energy recovery, LNG infrastructure, and specialty metals theme continue to provide investment tailwinds. At 1492 Capital Management, we remain interested in expanding into other commodity producers that should benefit from the hard lessons that have been learned from the Iran War about developing domestic sourcing and friendly supply chain diversification.

2026 Updated Outlook: Our Attempt at Disproving Some of the Prevailing “False” Narratives

Disproving “false” narratives is difficult because they are just that, narratives. However, we will attempt to bring some facts and supporting data that will disprove some of the more popular narratives that are floating around the market currently.

Narrative #1- The macro economic outlook is terrible.

At 1492 Capital Management, we meet with hundreds of companies throughout the year, and we find it incredibly frustrating when we hear from CEO's or CFO's that say “*outside of the macro environment, we'd be doing better*”. Exactly what macro are we talking about?? I ask that question many times to management teams so that I understand what it is about the macro that has them concerned. Yes, the Iran war is a macro concern currently, but well before this conflict began, we'd hear this narrative repeatedly. Our best guess is that many are just listening to the negative drumbeat of the media outlets or social media. If one steps back and objectively looks at the economy globally, the worldwide economy has seen accelerated growth, stock markets are broadly at new highs (absent the recent modest retreat from the Iran war concerns), and interest rates are historically low

and falling. The chart below left shows that after a three year period of low but stagnant growth, the manufacturing and service PMI's (Purchasing Manager Index), which are surveys of purchasing managers that have components of new orders, production, and job growth, are accelerating so far in 2026 despite the war impact. The second chart on the right shows consumer confidence readings for six month averages when inflation is below 2.5%, unemployment is below 4.5%, and the S&P 500 is up 15% over the past year. The data set that makes up these readings is very small, but the chart goes back to 1952. The current environment meets these criteria, yet the consumer confidence readings are nearly three standard deviations below the mean for other periods that have met these criteria. Is this the "social media" effect, where everyone is sharing their opinions on how bad everything is?

ISM Composite (ISM Mfg & ISM Svcs)

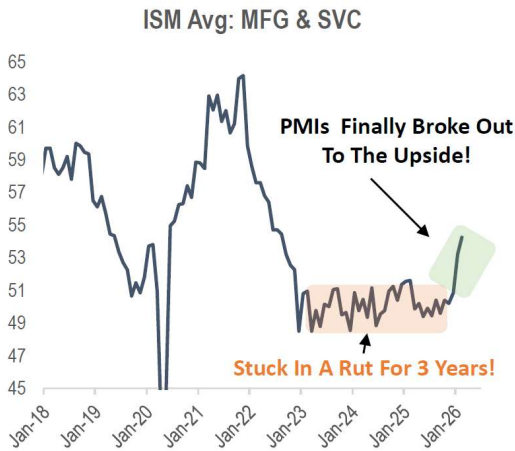
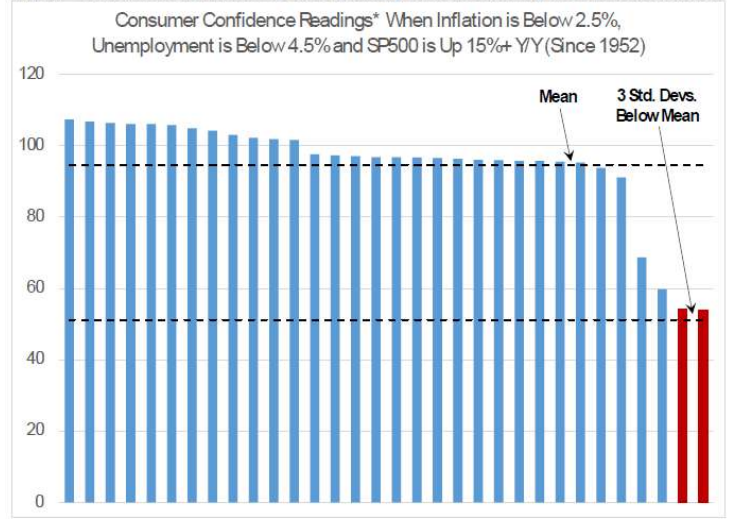


Fig 33. Consumer confidence is exceptionally low considering the current backdrop

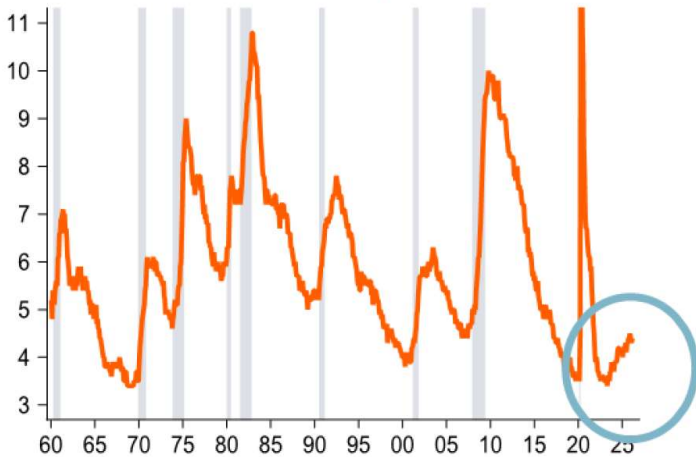


Source: FRP, FactSet; as of 3/31/26; *Readings are 6-month averages; Red bars are February 2026 and March 2026

Narrative #2- AI is going to eliminate millions of jobs, and unemployment is going to spike uncontrollably.

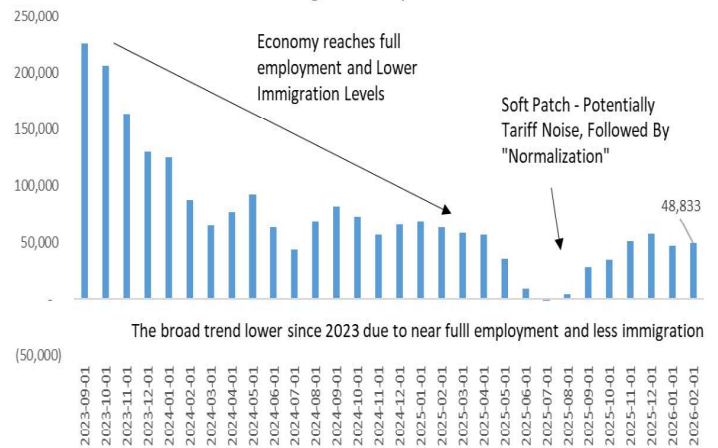
This narrative is a tough one, but we'll give it our best shot with the help of AI along the way. The pervasive narrative surrounding AI and jobs is that AI will eliminate many jobs, and unemployment is going to spike. We've gone through several major technological and industrial revolutions since the 1850's, and yet, not in any one of those did the economy collapse nor employment spike. The Industrial Revolution is a great reference as it led to motors and cars that displaced the horse and buggy. Yes, the horse and buggy drivers were displaced, but new jobs were created out of necessity to meet the demand for cars. Many times, it's a matter of retooling the workforce, and this time it is likely no different. To set the stage, the current unemployment rate is historically very low as shown in the chart on the left. Better than 90% of historical observations going back to 1960 are above the current unemployment rate. The jobs being added are down from the post Covid hiring binge but have leveled back out so far in 2026 after a temporary drop in 2025, which is likely attributable to tariff concerns.

**U.S. Unemployment Rate
Feb: 4.4%**



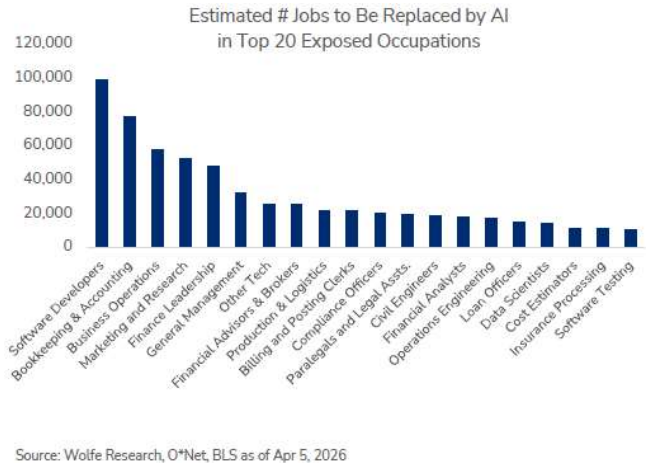
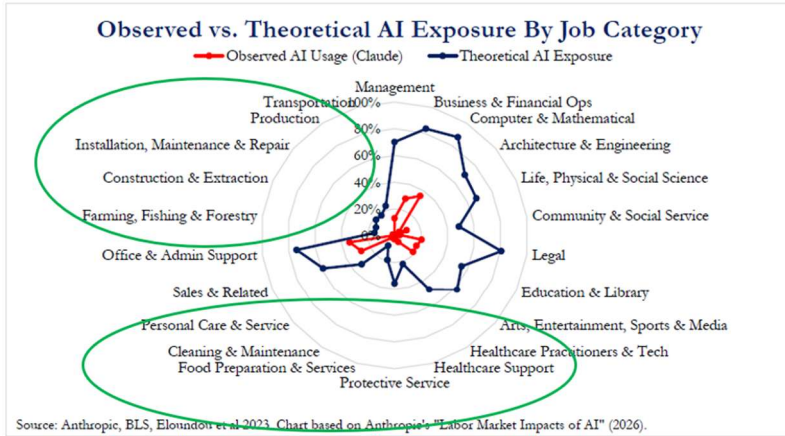
Source: PSC

ADP 6 Month Average Monthly Private Sector Job Gains

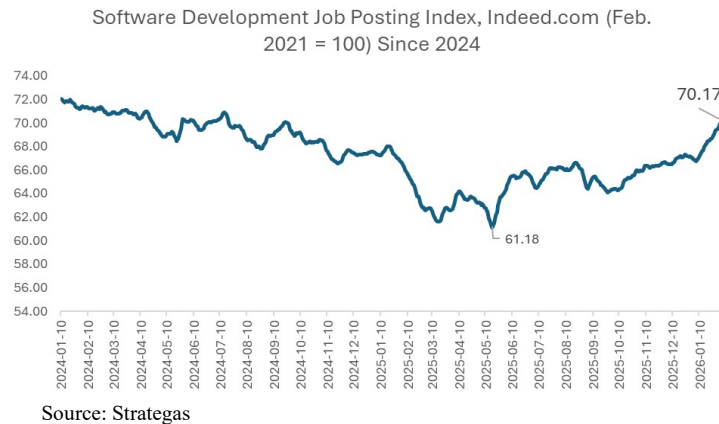


Source: Seaport Global

A recent focus in the markets has been to invest in HALO stocks (Hard assets, low obsolescence), which means that it will be difficult to displace people who build or make things relative to those who perform administrative tasks that AI tools can easily replicate. The chart below left shows the theoretical vs. observed AI exposure by job category. It's interesting to note the haves and have-nots in the chart. We've highlighted in green those job categories that are more defensible from AI takeover. The chart on the right is an estimate of the number of jobs to be replaced by AI in the top 20 exposed occupations. A Wall Street firm prepared this chart, but it is a narrative unto itself because nobody knows exactly what jobs will be eliminated. It's a guess at this point. Note that the job that is most exposed according to this firm is "software developers".



It's interesting to note that according to Indeed.com, the job posting index for software developers has actually been on an increase over the past year, which completely goes against the narrative from the above chart. This chart is hard data, whereas the previous chart was based on a hypothesis. The chart on the right shows the actual new job postings related to the AI field. Note that the blue line, which incorporates technology, finance, and business services jobs, is on a steep ramp and is indicating new jobs are being created within the AI field that are supposedly eating up many other, less technical jobs.



We decided to look at the very large companies that are responsible for much of the AI revolution that is currently taking place and see what they're doing with their headcount. It's interesting that not any one of them is drastically reducing headcount beyond the annual culling of the least productive 5-10% of their staff. Note that during and shortly after Covid, their employment cuts were nearly zero.

Company	2020	2021	2022	2023	2024	2025	2026 YTD
Microsoft	~1,000	~1,000	~1,000	10,000	~2,550	~15,000	~10,000
Amazon	~1,500	0	~10,000	~17,000	~1,000	~14,000	16,000
Alphabet (Google)	0	0	0	12,000	~1,000	~200	0
Meta Platforms	0	0	11,000	10,000	~1,000	~3,600	~1,000–1,500
Tesla	0	0	0	0	~2,700	~500	0
Nvidia	0	0	0	0	0	0	0

Source: 1492 Capital Management and ChatGPT

Lastly, we decided to invoke AI to give us its best estimate of what job gains and losses are likely to be over the next ten years. The chart below was produced using Claude from Anthropic, which is one of the leading LLM's in the AI landscape. The bottom line is that Claude predicts that a net of four million new jobs will be created over the next decade associated with the AI transition. Interestingly, an AI platform predicts gains when all anyone ever talks about is job losses - go figure.

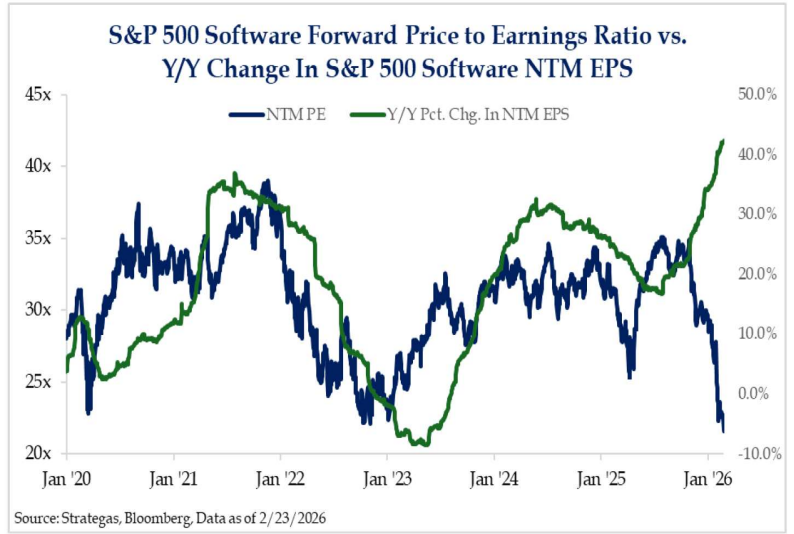
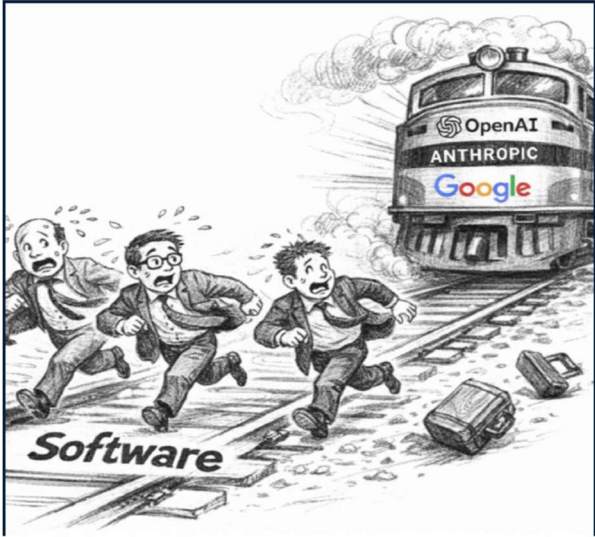
U.S. Workforce Impact: AI Transition (2026–2035)

Category	Jobs Created (New Roles)	Jobs Displaced (Losses)	Primary Impact Area
Infrastructure & R&D	+1.2 Million	-0.1 Million	HW design, Data Centers, Power Grid.
Data & Cybersecurity	+3.0 Million	-0.4 Million	Security Analysts vs. Legacy IT.
Ethics & Governance	+0.5 Million	Negligible	Compliance, Legal, Bias Auditing.
Augmented Services	+10.0 Million	-8.5 Million	Healthcare/Finance vs. Admin/Entry-level.
Retail & Logistics	+0.8 Million	-2.5 Million	Drone/Robot Ops vs. Drivers/Cashiers.
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TOTALS	+15.5 Million	-11.5 Million	
NET GAIN		+4.0 Million	U.S. Net New Jobs by 2035

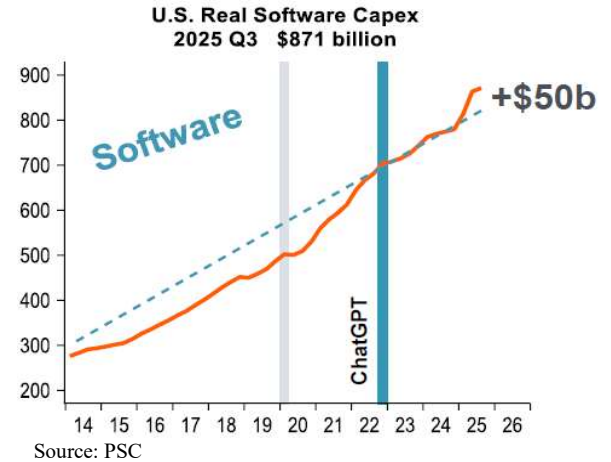
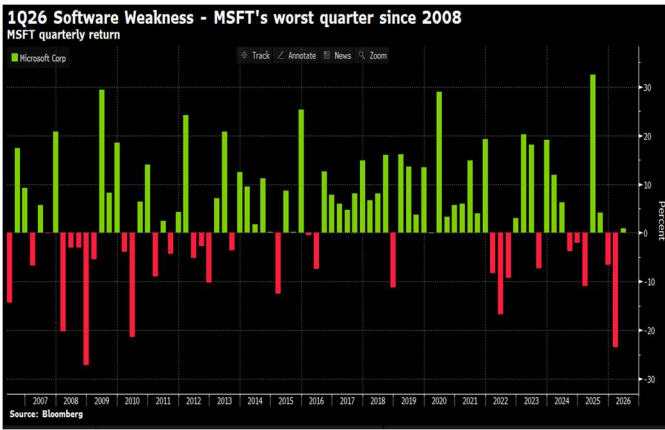
Source: 1492 Capital Management and Claude

Narrative #3- AI is going to disintermediate all software companies.

This narrative is very difficult to refute, but let's start with the fact that both OpenAI (ChatGPT) and Anthropic (Claude LLM) use CRM and workflow software tools like Salesforce and ServiceNow. Both of these stocks have been penalized tremendously as the market is assuming that AI-created software will disintermediate them. If the two largest LLM's in the world are using established software to run their operations, it will likely be a long time before they are disintermediated. Yes, AI tools can do software coding to a very high degree, but there is so much more to software than the code itself. There are domain expertise, distribution, accuracy that approaches 99.99%, and cybersecurity. They generally deal in sensitive client data. On the last point, AI is a probabilistic algorithm, which is not always specifically accurate. For example, an AI tool could tell you that $2+2=4$, which we know is true, but it could also tell you that $2+2=4.1$, which is pretty close but not accurate. Therefore, AI can't be relied upon where 100% accuracy is expected, and hallucinations can't be tolerated. Yet the stock market has determined that software companies are the most exposed to AI elimination. The graphic below is how Wall Street analysts currently perceive software companies. This narrative has taken its toll on software company valuations, as the chart below right shows. Despite accelerating earnings, the PE ratio has collapsed with little support in sight. We aren't turning a blind eye to the threat of AI, as there will be many software companies whose business model is seat-based, which means that they charge their customers a fixed fee per employee using the software. These models are at risk because many of the users could be displaced as AI performs administrative roles that humans once did. However, you can bet that no software company is standing still, and they are all figuring out ways to add AI tools/agents inside of their software packages.



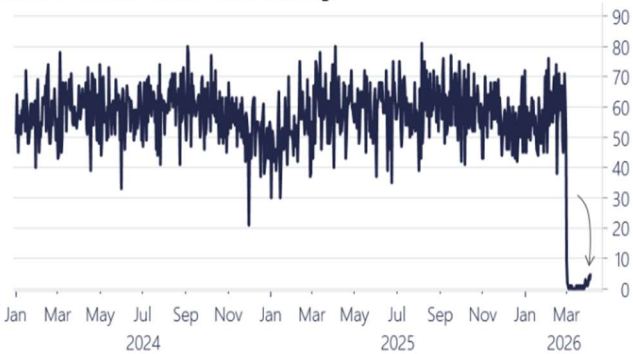
Microsoft is the largest software company in the world, and many of its tools are seat-based licenses for tools like Windows, Word, and Excel. However, they are embedding AI tools like Co-pilot and Claude Co-work in their software to provide AI functionality in tools that are familiar to the users. While the first generation of Co-pilot wasn't met with a lot of enthusiasm, Microsoft rarely gets it right the first time but generally gets it right over time. However, the stock market isn't so sure and has punished one of the world's largest companies. Microsoft was down -23% in the first quarter, which is the worst quarterly performance for the stock since 2008 as shown in the chart below left. Despite all of the negativity around software, the amount of spending on software continues to grow on a massive scale, as shown in the chart below right.



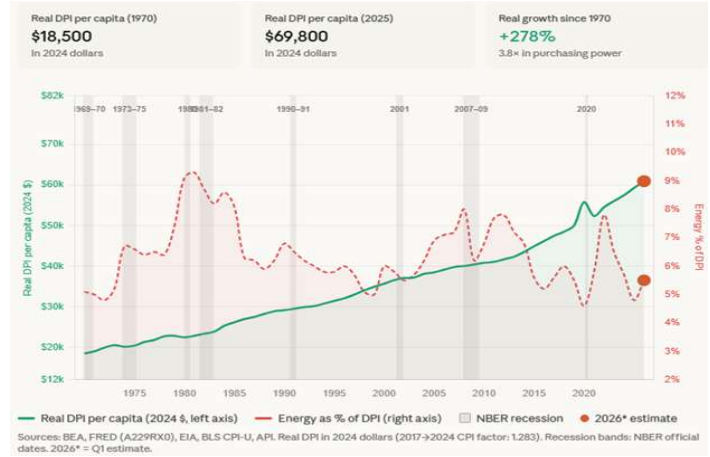
Narrative #4- Oil price increase is going to reaccelerate inflation and hurt consumer spending.

The Iran war has brought out the inflation fear mongers in droves as oil has doubled from \$56/barrel where it was in January to over \$110/barrel where it reached at the height of the Iran war. As we mentioned earlier, just under 20% of the world's oil supply previously came through the Strait of Hormuz, which is the core reason behind the recent spike in oil. The chart below left shows the current oil tanker traffic through the Strait relative to historical crossings. About a quarter of this shortfall is now being shipped across Saudi Arabia in a pipeline to the Red Sea. To be clear, if the Iran war were to continue for many more months, we too would be concerned about the price of oil as it would likely rise above \$150/barrel. We've all been bombarded by media outlets that harp on the spiking price of gas at the pump, which has moved from \$3 per gallon to around \$4 on a national average. While a 33% increase in gasoline never feels great, the reality of the situation for both crude oil and gasoline is that on an inflation-adjusted basis, these energy commodities are near one of the lowest levels in history even after the recent spike post the start of the Iran war. The chart below right shows that energy costs as a percentage of disposable personal income are still near an all-time low at about 5.5%. Keep in mind that about 50% of energy costs include utility expenses, which is mostly natural gas-based, and that commodity has actually dropped about 12% so far this year.

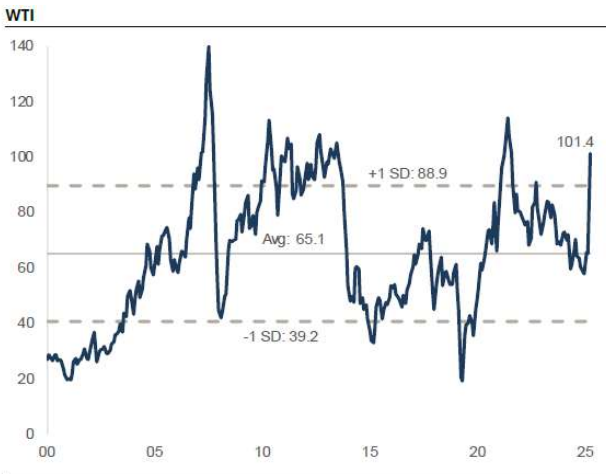
Strait of Hormuz Tanker Vessel Crossings



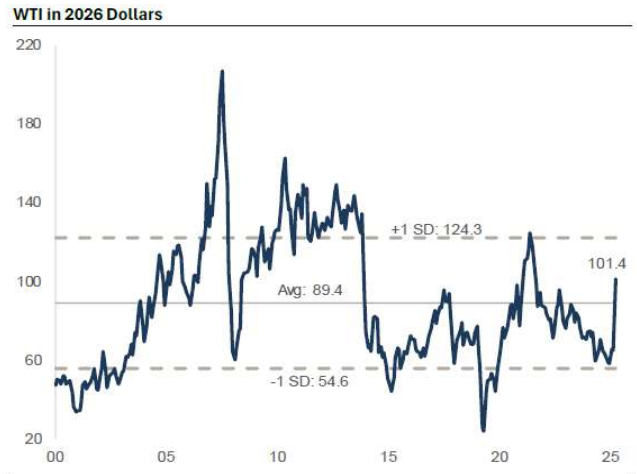
Source: Steno Research, Bloomberg and Macrobond



As we mentioned earlier, the media likes to focus on despair. However, if they were to dig a little further into the truth, you might hear the following explanation about oil prices relative to historical levels. The chart below left shows the historical price of a barrel of oil. On a nominal basis, the price of oil has moved into the top 1/3 of observations going back 25 years. Of note is that for much of the period between 2010 and 2013, oil was in excess of \$100 per barrel. Now, if we change the narrative to inflation-adjusted prices, as shown in the chart below right, the price of oil is slightly above average and doesn't look at all scary.



Source: Bloomberg, Seaport Research Partners



Source: Bloomberg, Seaport Research Partners

Narrative #5- Private Capital market defaults could lead to a financial crisis similar to 2008.

Overzealous lending in the mortgage market that ultimately collapsed as borrowers defaulted en masse brought about the financial crisis of 2008. The current angst in the markets over private credit leading to a 2008-like financial meltdown is overstated as many don't understand the structure of the private credit market. The private credit market is a \$17 trillion market that has loans across many different segments, which includes mortgages, distressed debt, bank loans, asset-based lending, specialty finance, and direct lending, to name a few. It's the direct lending segment that the market is concerned about and their exposure to software companies in their portfolios. We shared our thoughts on the software industry above and, therefore, believe that some of the concerns over software company defaults are part of the false narrative that we probed above. The direct lending segment is about a \$1.7 trillion market, and 20% of this amount is loaned to software companies. The problem that the industry is having is that an effective "run on the banks" is taking place. Individual investors, who were encouraged to participate in private credit as a way to participate in a strong growth segment of the financial industry, are all trying to pull their funds out well in excess of the quarterly liquidity that private credit funds like Blue Owl, Apollo, Blackstone, KKR, etc. promised. All these publicly traded entities have been pummeled recently as each of them has put a 5% quarterly limit on withdrawals from these funds. Capping the amount that can be withdrawn sends people into panic mode, which is like a run on a bank when everyone wants their deposits at the same time, and it forces the bank to collapse. We don't believe that default rates are going to be nearly as high as some commentary suggests as private credit lenders generally have more collateral than a bank. For example, on average, these loans are generally backed over 65% by collateral that the creditors pledge. This compares to a traditional bank loan that only has 10% equity to back up any loans that default. Only time will tell how big an issue this becomes, but we will take the under from current market expectations.

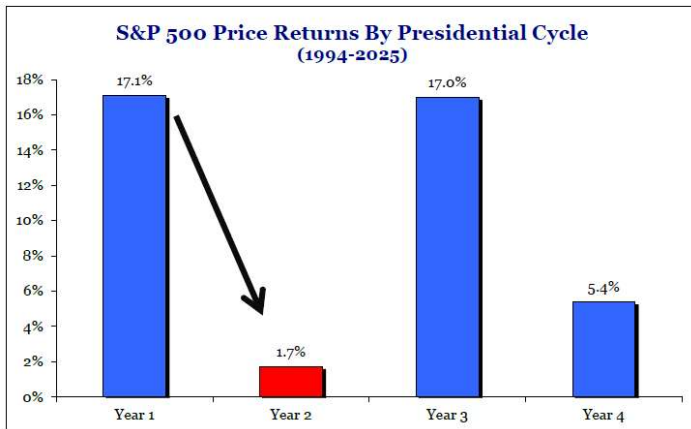
Private credit is a ~\$17T* market, including ~\$2T in corporate direct lending, software exposure is ~\$400B, a relatively small share as seen below.



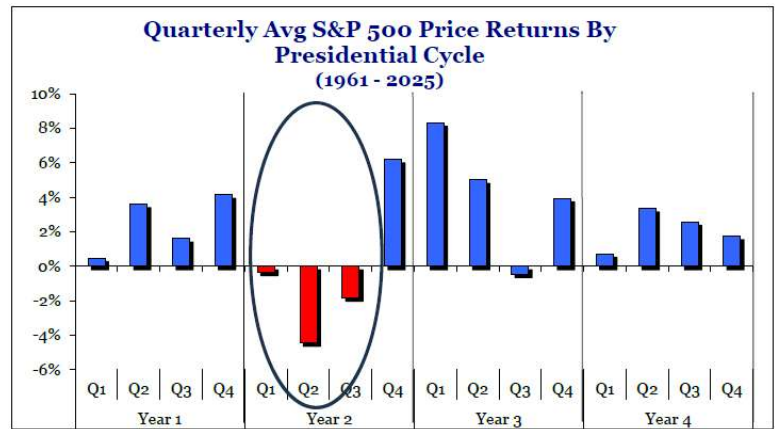
Source: Nomura Securities

2026 Updated Outlook: If War Ends, the Economy and Small Caps Should be in Good Shape

Our base assumption is that the Iran war ends, and oil retreats to a price below \$80/barrel. With that as the starting point, mid-term election years are notoriously poor for the stock market as shown in the two charts below.



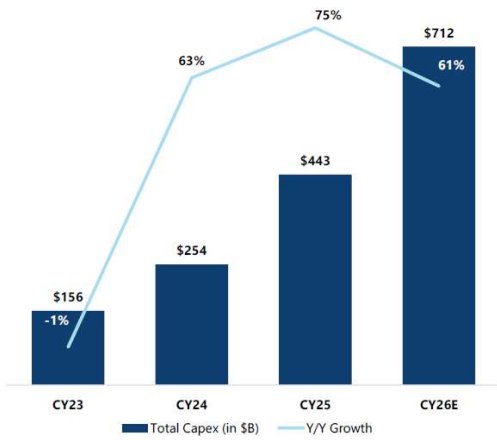
Source: PSC



Source: PSC

As we mentioned earlier, the oil price narrative lingers over the market. However, there are multiple stimulus measures in place that should buffer any impact from higher oil prices. Tax refunds that are expected to be higher by at least 10% on average are a clear offset to the gas price spike for consumers. Additionally, corporate capital expenditures should be quite robust over the next couple of years. Recent tax legislation allows companies to write off 100% of their capital expenditures upfront, which is a huge tax break that they need to take advantage of before it is potentially repealed. Capex is already seeing strong trends from the buildout of the AI datacenters by hyperscalers around the globe as shown below left. The numbers are absolutely staggering. The consumer should also be feeling pretty good as wages continue to grow in excess of inflation. The high price of goods has been a constant drumbeat on the consumer front. However much of the increase in current pricing came to be during Covid, and year-over-year prices are now increasing at a much slower rate as shown in the chart below right.

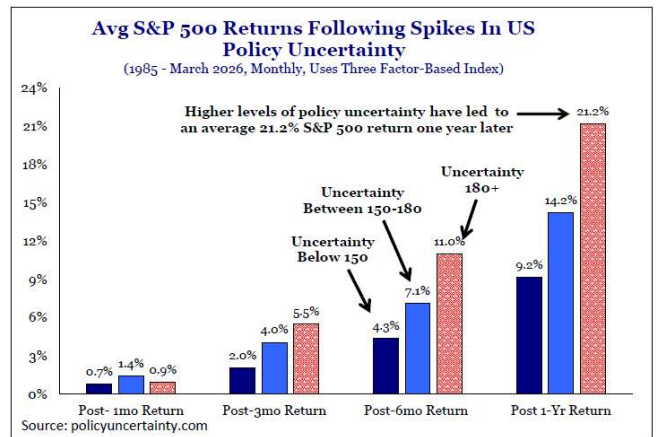
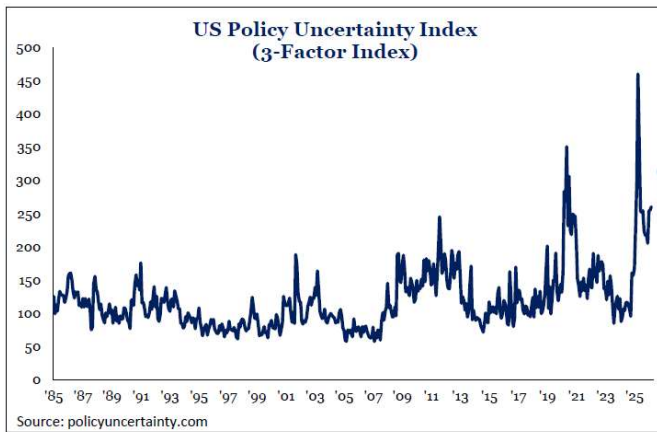
Total Annual Capex Spend (\$B) & Y/Y Capex Growth (%) for Hyperscalers + META



Core CPI vs. Wages (Atlanta Fed)

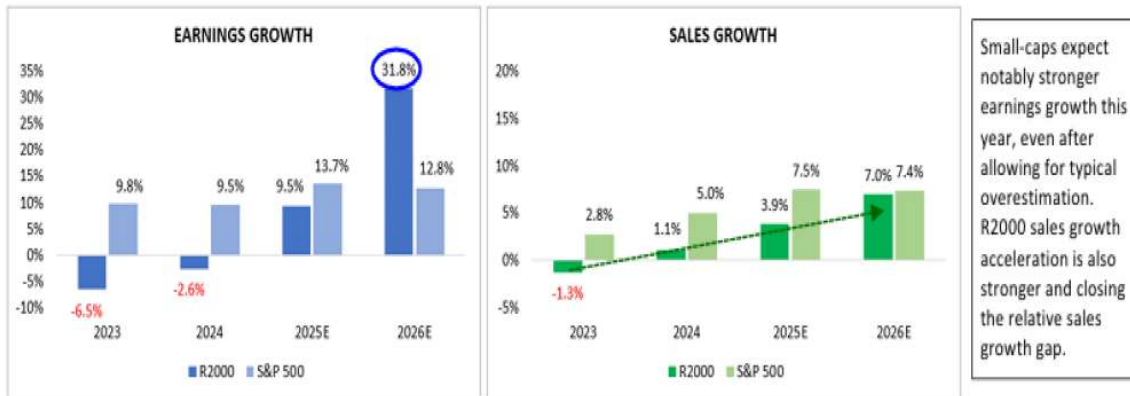


The Iran war has brought about a great deal of uncertainty in the short run. However, as you can see from the chart below left, the uncertainty embedded in the markets was much worse last year around the tariff negotiations. The good news is that following these spikes in uncertainty, the stock market tends to do quite well for the period of six months and beyond the spike in uncertainty, as shown in the chart below right.



Small caps should continue their outperformance as GDP is expected to accelerate, and interest rates are likely to drop after the recent war-induced spike. Valuation continues to dramatically favor small caps over large caps as the P/E ratio for profitable small caps remains around 14 times versus 21 times for the S&P 500. The chart below shows that current consensus expectations for small cap earnings growth should see massive acceleration as revenue growth accelerates and closes the gap with large caps. The current environment bears resemblance to the late 1990s divergence between large and small cap valuations. The valuation gap between the two is near its widest level in decades, which is a setup that has historically preceded sustained periods of small cap outperformance.

Fig 7. R2000 expects stronger '26E earnings growth and stronger sales growth acceleration



Source: Furey Research Partners and FactSet. Based upon our Capitalized Loss Earnings model using historical constituents. Data as of 2/26/26.

Small-caps expect notably stronger earnings growth this year, even after allowing for typical overestimation. R2000 sales growth acceleration is also stronger and closing the relative sales growth gap.

Key Risks and Opportunities for 2026

Risks:

- Escalation of trade tensions leads to broader economic disruption.
- Unintended consequences of tariff policies on domestic industries and consumers.
- Midterm election volatility: Historically, midterm years see a “wait and see” approach in the first half followed by a relief rally in the second half, and uncertainty likely peaks in October.
- Slower-than-expected economic growth due to trade policy impacts.
- Labor market cools more than expected as AI job shifting impacts near-term hiring.
- AI capex spending slows more rapidly than expected as AI hyperscalers pause to digest escalating spend.

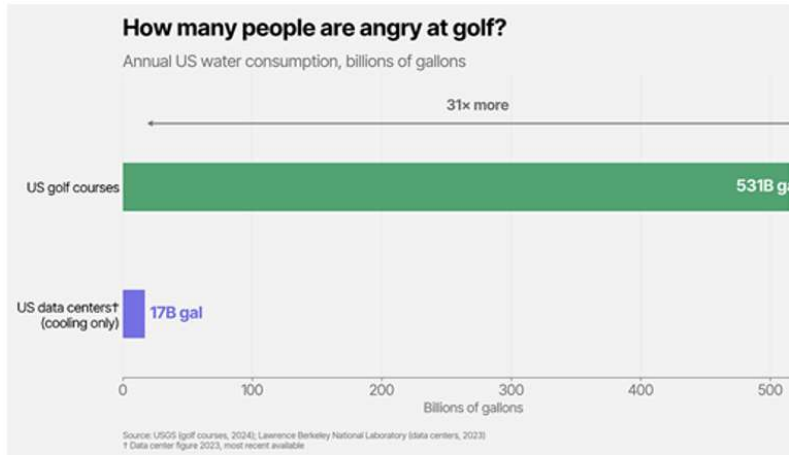
Opportunities:

- Continued technology sector innovation and AI commercialization.
- Potential for trade policy modifications that remove market uncertainty.
- Stimulus measures like tax incentives spur much stronger growth than anticipated.
- Attractive valuations in certain market segments, particularly small cap stocks.
- Benefits to domestic industries from reduced international competition.
- Reshoring of businesses following the imposition of tariffs and incentives to move domestically.

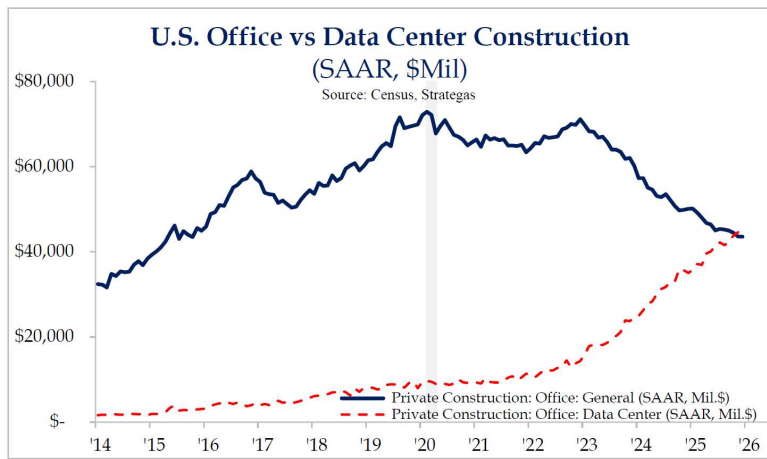
2026 Outlook: A Picture is Worth a Thousand Words

We articulated our 2026 outlook above and the key issues and drivers for the stock market. Yet, we believe there are other topics that we haven't spent much time on that deserve some mention. We decided to express it in pictures to provide you with a shorter read, as everyone's time is valuable. As they say, a picture is worth a thousand words, and we'll let you interpret what we view as some compelling charts. We've provided a bullet point or two of explanation as to why we think the chart or graphics are important.

Datacenter companies have faced scrutiny by nearly every town or municipality that they are trying to enter. One of the key arguments is water use. Do the municipalities have all the facts??



Datacenter construction is offsetting the dramatic fall-off in office building construction, which keeps overall construction spending at a strong level.



Source: Strategas Research

Non-earning companies' weight across all the major indices is well above the long-term average, particularly in the small cap indices.

Percent Of Non-Earning Companies			
	Current Reading	Long-Term Average	Highest Reading Since 1990
Russell 1000 Growth	13.7%	11.2%	33.5%
Russell 1000	14.0%	11.9%	28.4%
Russell 1000 Value	13.9%	12.8%	37.0%
Russell 2000 Growth	49.1%	30.5%	54.8%
Russell 2000	44.7%	28.4%	48.6%
Russell 2000 Value	42.4%	26.0%	46.2%

Source: Strategas Research

Stock Market Trivia

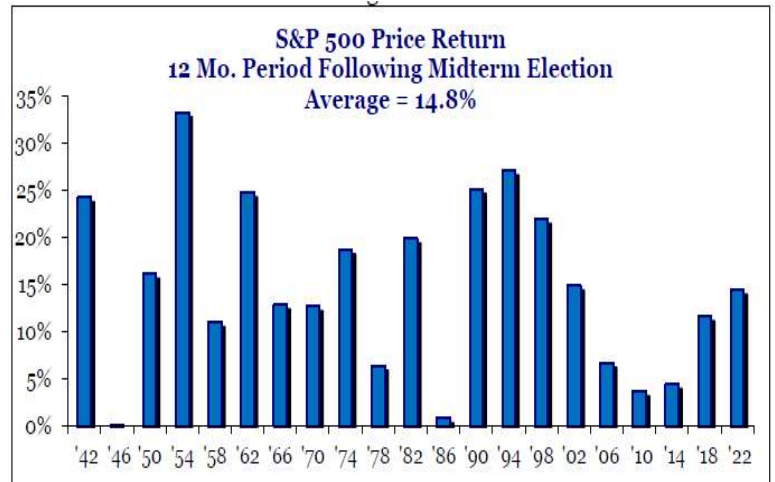
Each quarter, we offer a piece of stock market trivia that we believe is interesting or timely, or both. We are focusing this quarter on stock market returns in midterm election years. The chart on the left shows that every midterm election year has a drawdown that has averaged -16%. The good news is that following these drawdowns, the rebound tends to be quite robust with the average one-year forward return of +36.4%. As we showed earlier in the newsletter, returns in the period between March and October in midterm election years tend to be quite muted or negative. The good news is that the returns in the twelve months following an election average +14.8%. Not too bad.

S&P 500 Midterm Election Year Declines & Recoveries

Every midterm year since 1950 — drawdown and 12-month forward return

YEAR	MAX DRAWDOWN	1 YR. FORWARD RETURN
1950	-12.0%	+41.7%
1954	-4.4%	+51.1%
1958	-4.4%	+41.0%
1962	-26.4%	+37.5%
1966	-20.2%	+37.3%
1970	-25.0%	+48.9%
1974	-35.9%	+44.4%
1978	-12.8%	+18.1%
1982	-13.5%	+66.1%
1986	-9.4%	+44.3%
1990	-19.2%	+33.5%
1994	-8.5%	+18.5%
1998	-19.2%	+39.8%
2002	-33.0%	+36.1%
2006	-7.5%	+26.2%
2010	-15.6%	+33.6%
2014	-7.3%	+10.9%
2018	-19.4%	+39.9%
2022	-24.5%	+23.6%
Average	-16.1%	+36.4%
Median	-15.6%	+39.8%

Source: Mizuho Securities



Source: Strategas Research

We hope you found our first quarter 2026 review and updated 2026 outlook newsletter insightful and interesting. If you have any questions about anything discussed herein or would like more information about 1492 Capital Management, please call us at 414-276-1492.

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