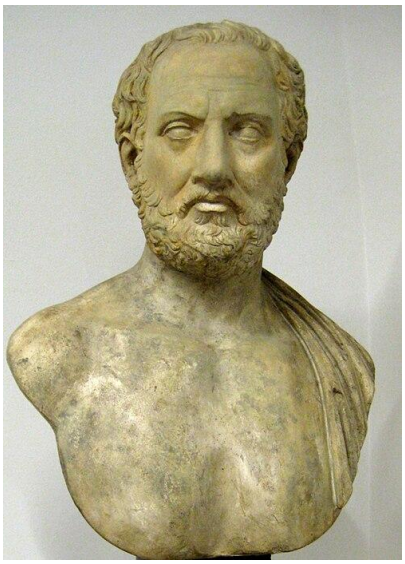
Knightsbridge
WEALTH MANAGEMENT

April 13th, 2026

Spring Quarterly Commentary



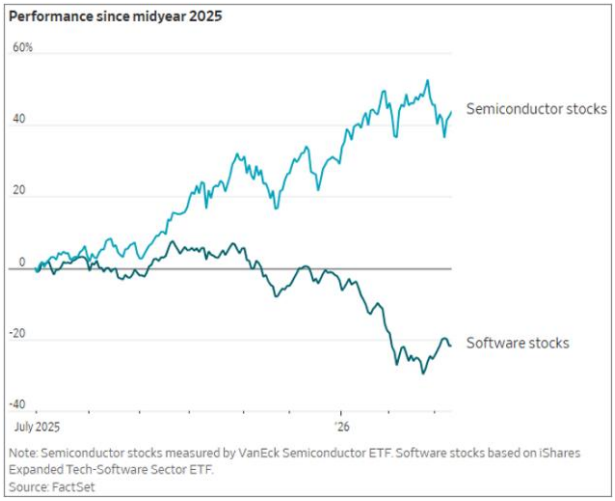
"The strong do what they can and the weak suffer what they must."

Founding statement of political realism
Thucydides
Athenian historian and general, 460-400 BC
History of the Peloponnesian War

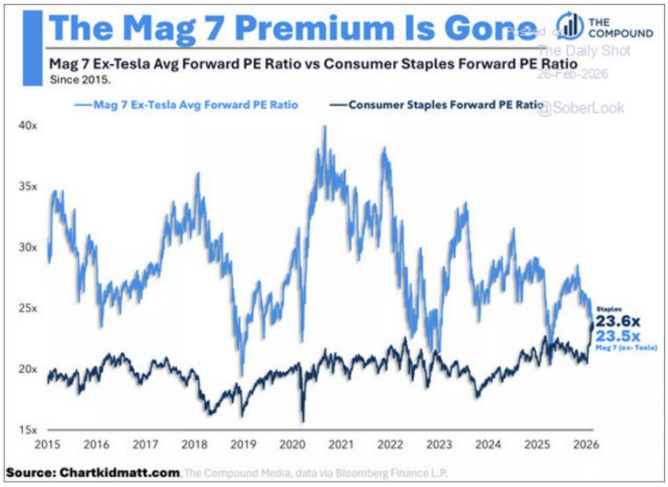
This year's first quarter proved to be volatile but not disastrous. The market is being driven by two dominant themes: the continued impact of AI and the war in Iran, which took nearly everyone by surprise. The S&P 500 Index declined 4.4% in the first quarter. While it was the biggest quarterly decline by the index since 2022, the pullback so far has been relatively modest by market standards.

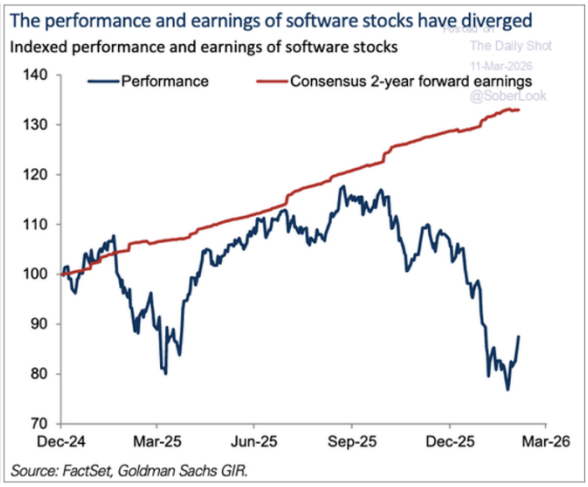
Stock market leadership has been shifting, especially within the technology sector, where AI trends are favoring hardware over software companies. Beneath the surface, the gap between the 50 best and worst performing stocks over the first two months of the year was the largest in more than two decades. Investors are concerned that software business models will be disrupted, as AI directly performs software tasks or by

making coding so much easier that upstart software companies will begin to challenge and undercut incumbents. Meanwhile, the absolutely massive buildout of physical AI infrastructure, in the form of datacenters filled with expensive AI chips, has sent hardware and semiconductor stocks rocketing upward.



The damage to software stocks has been so extensive, that when paired with increased demand for safe "consumer staples" stocks (due to worries about the economic consequences of the Iran War) the relative valuations of these two groups have flipped. For the first time in over a decade, the Magnificent Seven (excluding Tesla) now trade at a lower multiple of forward earnings than consumer staples. While fears of AI disruption have caused many software stocks to slump, actual software earnings have held in there. We think in some cases the market may have overreacted and have scooped up a few software stocks at prices which hopefully will prove to be bargains.[1]

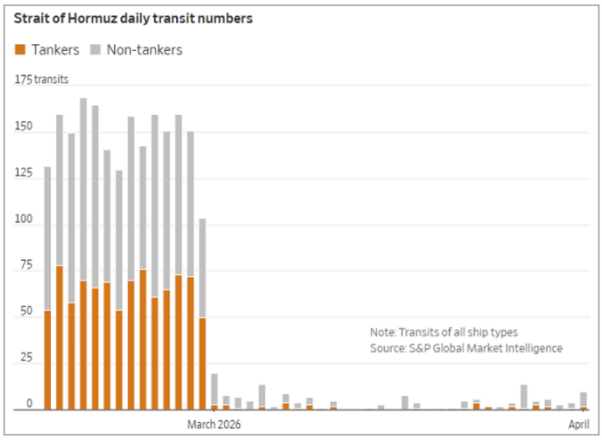




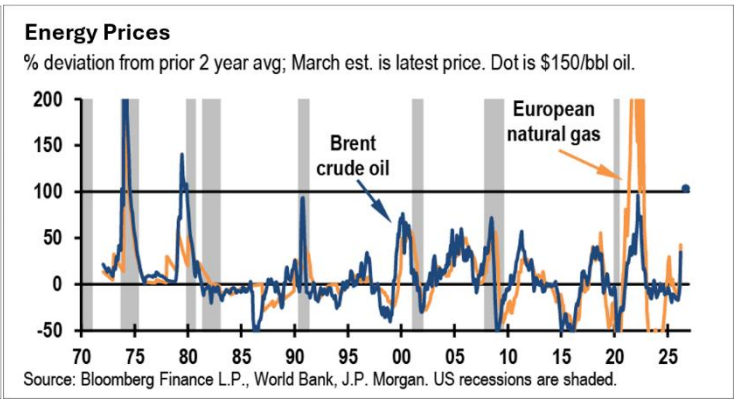
Another change in market leadership is the recent and rapid ascendency of the energy sector. Energy stocks have surged, with the price of oil skyrocketing due to the Iran War arresting traffic through the Strait of Hormuz, probably the world's most energy-significant waterway. However, this has had less of a market impact than it would have years ago. During the 1980 Iranian Revolution, energy stocks represented nearly

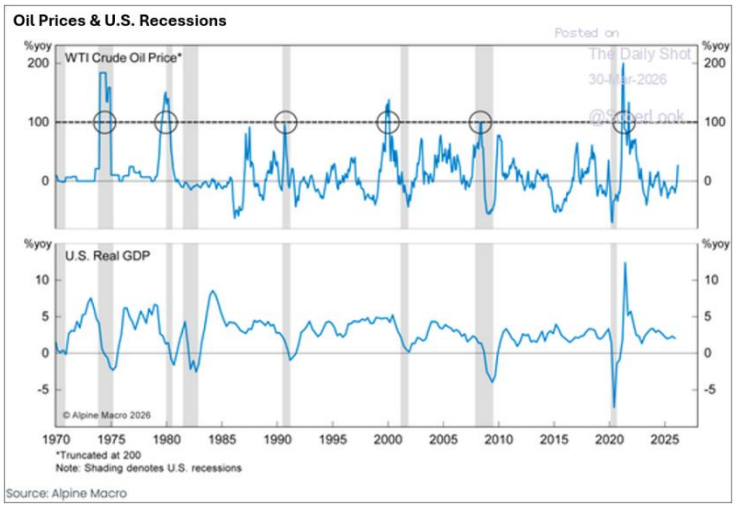
[1] In addition to the equity implications of AI on software, later we will discuss the implications for software-related debt.

30% of the S&P 500 Index and accounted for eight of its ten largest constituents. Today, the sector makes up just 4% of the U.S. market, about half the weight of Nvidia, the largest stock in the index.



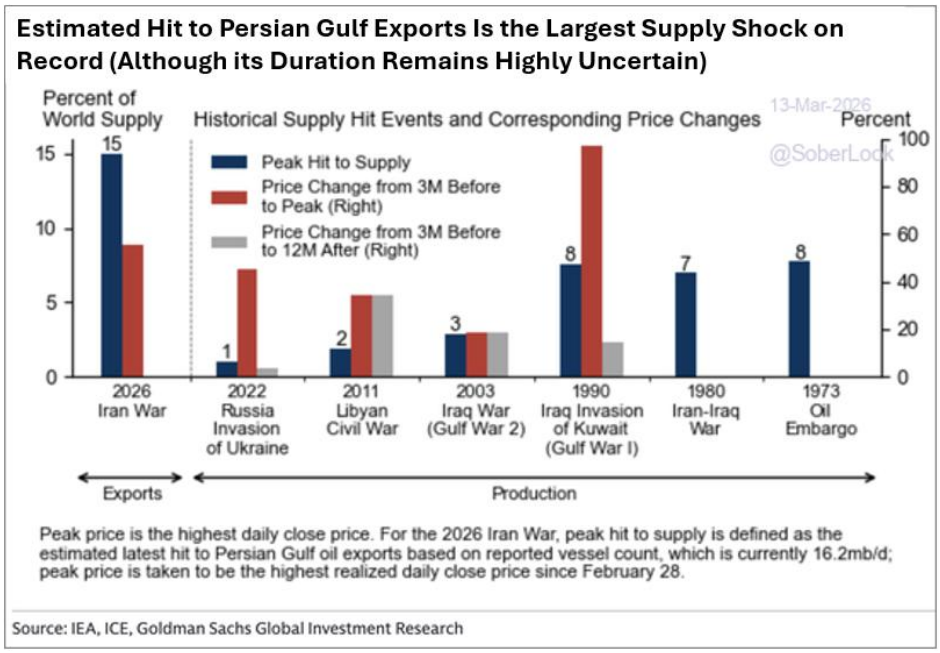
In terms of the economic and market implications of the war in Iran, the current spike in oil prices is not unique. The chart below (left) shows that *inflation-adjusted* oil prices are not at an all-time peak. The below right chart shows that since 1970, we've lived through five previous episodes of oil trading 50% higher than prior two-year average prices, most recently during Russia's 2022 invasion of Ukraine and during Middle East crises before that. The bottom chart will surprise few in showing that oil price spikes are often associated with recessions.



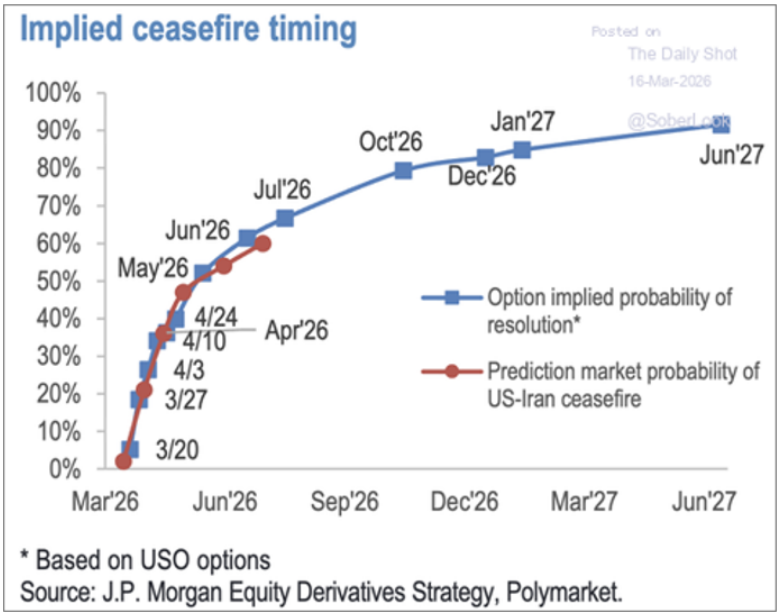


Despite recent market turmoil and the spike in energy prices shown above, markets are probably *underreacting* to how serious the current supply disruption is.

Roughly 20% of the world's energy flows through the Strait of Hormuz, and with that traffic now almost completely stopped, it is a *huge* deal... a gigantic supply shock. This 20% disruption is actually much larger in terms of percentage of supply than what occurred in the 1970s.



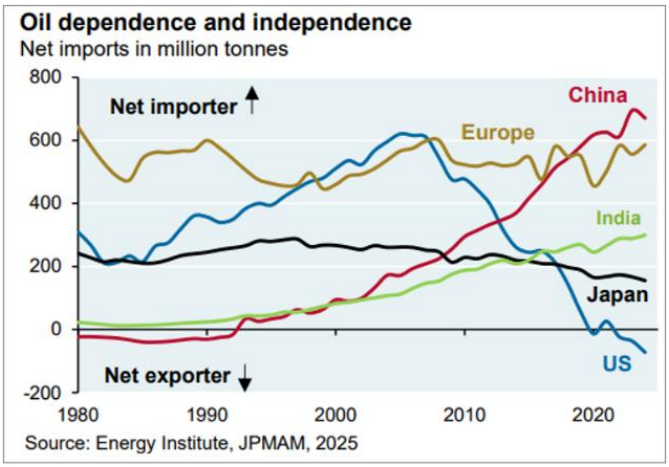
While the recent $100 Brent crude oil price is 35% above average prices the past two years...Brent crude would need to remain at $150 per barrel for multiple months to be consistent with major energy crisis conditions of past years. Why hasn't this happened despite the very large supply disruptions? Because the market expects current energy supply disruptions to be temporary. Both the prediction markets and oil futures have been pricing in a better than 50% chance energy flows are restored in the next few months. The market is probably right, but if it is wrong, and that *doesn't* happen, the stock market is likely to slowly bleed lower, as the true magnitude of a sustained 20% energy shock begins to be considered and felt.

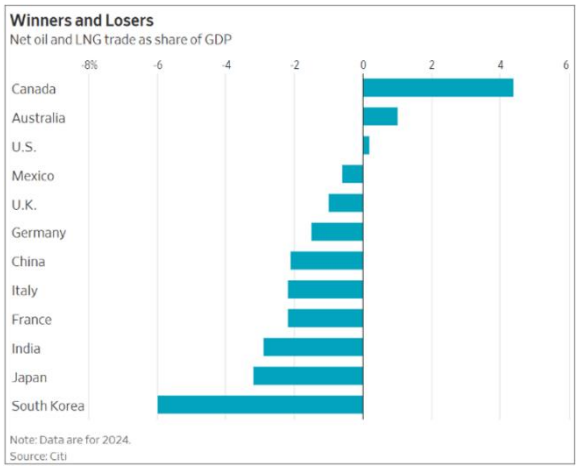


No one needs to be told how significant oil is to modern economic life. It is necessary for the vast majority of the movement of both people and goods around the globe. In rich western countries, while we feel the sting of higher prices, most people and businesses can simply bear the pain, paying more for oil but largely continuing on with their lives. However, with 20% less usable oil in the world, 20% of the gallons used in January were not used in March. Those with the least ability to pay are the ones who must go without, with the effect worst in poor Asian countries. In countries like Pakistan and Indonesia, there are energy emergencies, reduced workweeks, rationing... and soon probably riots and revolutions if the situation doesn't abate.

And the effect isn't just limited to energy. Oil and hydrocarbons are also used in the production of both fertilizers and plastics. The supply of these critical materials has also been cut by 20% and prices have risen accordingly. Shortages will follow. Even helium, which is produced largely as a byproduct of energy production, is used in the making of semiconductors and is in short supply with higher prices.

Yes, in the United States, we are indeed net energy exporters (for which we can largely thank the fracking industry). This is a good thing. However, as anyone who has been to a gas station recently can report, this does not necessarily insulate American consumers from economic pain. Oil is a global marketplace; American producers can sell oil to anyone in the world. Thus, American consumers have to pay American producers more to prevent that same oil from being shipped overseas. Oil *consumers* are going to be hurt while American oil *producers* are going to make a killing. We predict a lot of F-150 Raptor sales in West Texas.

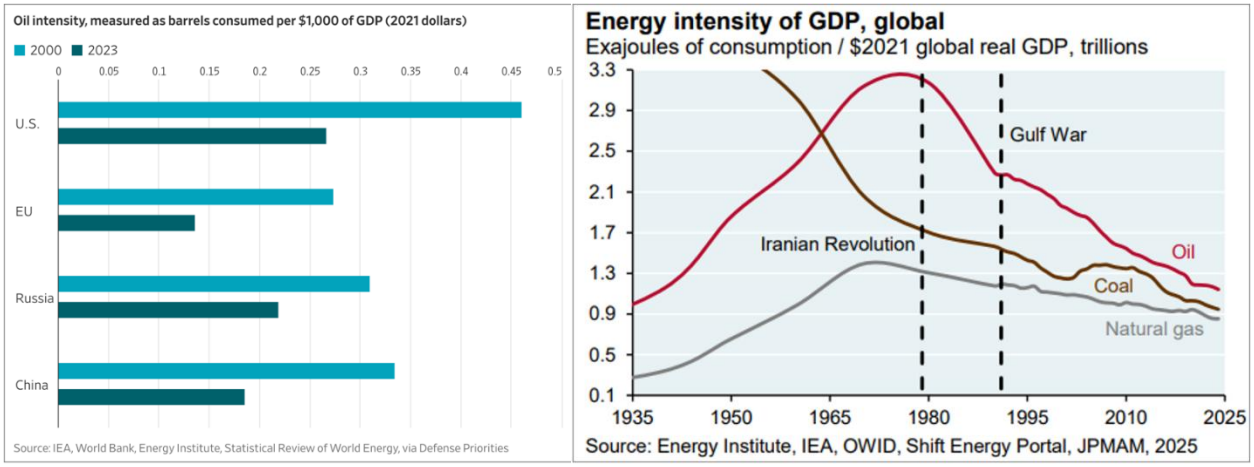




Let's get to the good stuff... how does this all play out? With the usual caveats that Trump is hard to predict, that we don't really know, and that we could easily be wrong... we think the market is probably right. One way or another, the most likely scenario is that the Strait will get reopened and supply issues will mostly be resolved within the

next few months.[2] Most likely, we'll simply declare victory and leave (though escalation and victory is also a possibility). Once the bombs stop falling, Iran is going to have a very hard time damaging the rest of the world by completely cutting off oil flows. Whether or not they can charge a large or small toll is another matter. The rest of the world (e.g. China, Pakistan, Gulf states etc.) simply would not stand for a long term-closure, though they might tolerate a toll.

There are other reasons that even a large oil shock today wouldn't do as much damage as it would have in the past. As shown in the below charts, the U.S. and world economies have become far less energy intensive over the past twenty-five years. Our economies still depend on oil, but less so.



Switching gears, another big focus of the market today is the current spate of redemptions from private credit funds. We're going to talk about what's going on, discuss the issues caused by perverse incentives, and relate what we're doing in response.

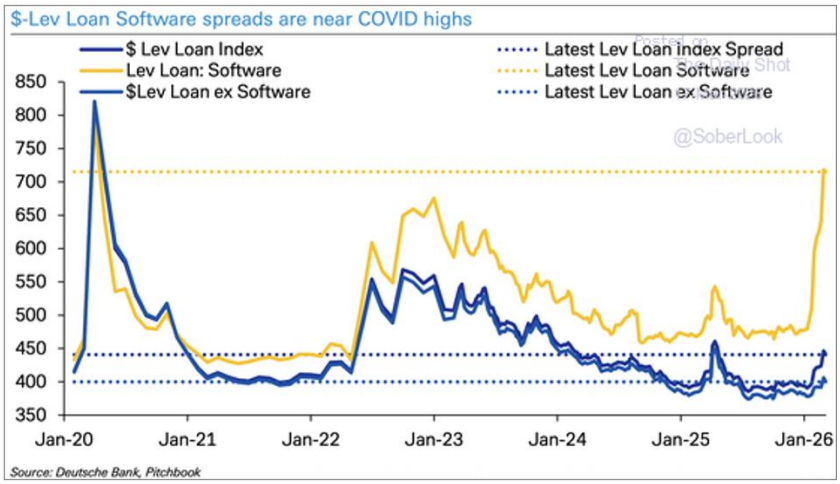
In general, private credit means the direct lending of funds to private companies by private funds. This is an area that has absolutely exploded in terms of popularity and size over the last few years. However, popularity and size alone aren't necessarily cause for concern. Private credit funds have stepped into a vacuum caused by banks retreating after post-Global Financial Crisis regulation made this lending less appealing. Massive expansion of credit to a new area is usually a sign for concern, but that's not what this is; the credit is going to the same businesses, it's just coming from a different place (private funds versus banks).

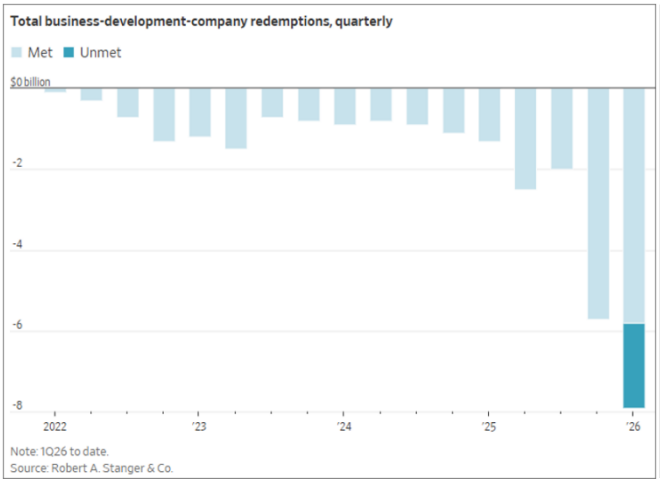
---

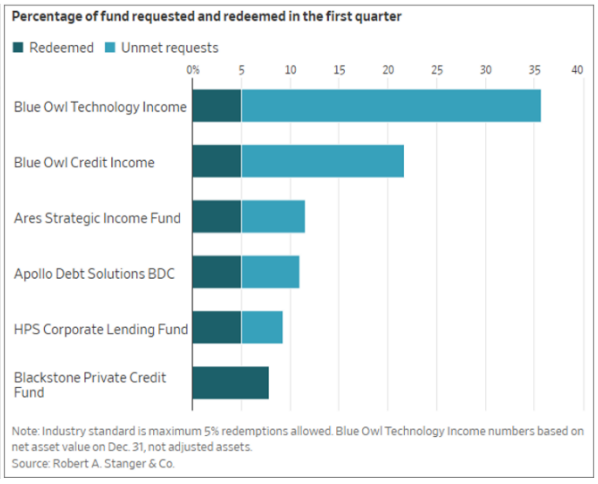
[2] Even so, restoring energy supplies can't be done immediately. Even if the Strait of Hormuz were opened tomorrow, oil and gas flows wouldn't be restored to February levels because key facilities have been damaged. Oil pumps had to be stopped because there was nowhere for the oil to go. These fields and facilities may take years to be fully restored.

Many private credit funds are structured as so-called interval funds, which generally allow investors the opportunity to get their money back only at regular "intervals", typically agreeing to redeem at least 5% of investor money four times a year.[3] It makes sense that the liquidity of these funds is limited, because the private loans they hold can't easily be sold, and thus are also illiquid.

We talked earlier about how AI worries are crushing software sector stocks. But the concern isn't just limited to equities. The chart below shows "spreads" on leveraged loans (read: private credit) in software and other areas. The higher the spread, the higher the concern. Private credit funds own a lot of software loans, and investors are getting nervous and asking for their money back. The result is interval funds, which are relatively new in their popularity, are getting one of their first major tests as to what happens and how markets will react when investors want more than 5% of their money back in a quarter.







[3] We have invested in a few interval funds... ones we judge to have much higher quality than average.

And that's exactly what's been happening. Sometimes the funds have granted exceptions and redeemed, say, 6 or 7% of investor money. Some have stuck with 5%. Either way, not all investors are getting the redemptions they asked for. Some in the financial press have cited this as a failure of the interval fund structure. We would argue that these funds are working exactly as intended. Limiting redemptions protects all remaining investors by preventing a situation where the fund must fire sale an illiquid asset (which hurts all fund investors) just to satisfy exiting investors. However, even if these vehicles are working as intended, this development can spell trouble for both funds and investors as we shall seek to explain. The problem arises with incentives.

To understand the perverse incentives that come with private credit funds, we first must explain pricing differences between public and private markets. Public markets offer total price transparency, because investors place trades everyone sees. Prices go up and down and no one can hide. Private assets don't trade often, and so private funds get to make up their own prices. Surprise, surprise... the prices they quote to their investors rarely go up or down... and so it always seems smooth sailing to investors. In fact, this is often one of their selling points. To be fair, private investment funds don't have publicly available prices they can easily point to, and they do hire third parties to value their assets. However, they have a huge incentive to mark their loans at 100% of whatever they paid for them. And why not? They simply ask themselves whether the loan will be paid back... answer yes... and mark the loan at 100%. Contrast this with public bond markets, where prices move around a lot even though most investors will be paid in full. In adverse economic scenarios, public bond prices decline because there is a greater chance (even if it's still small) they might not pay off.

This public-private pricing dichotomy is evident with Business Development Companies or BDCs, which are basically private credit funds, some of which are publicly traded. BDCs value their assets like all private credit funds: according to their whims and mostly at 100% of par (i.e. what they lent out). However, with publicly traded BDCs, as we can see on the below chart, investors believe the real value of these funds are far below stated "Net Asset Value" or NAV; i.e. the market believes the loans are worth less than BDCs say they are. Investors who want out of these publicly traded BDCs must take a loss by selling at the discounted prices determined by the market. They have no option to sell at the "100% of NAV" prices that the BDCs are quoting.

BDC / Ticker	Recent Price	YTD Change	Dividend Yield	Discount to NAV
Ares Capital / ARCC	$18.28	-9.6%	10.5%	-8.3%
Blue Owl Capital / OBDC	11.40	-8.3	13.0	-20.3
Blackstone Secured Lending / BXSL	24.33	-7.6	12.7	-9.6
FS KKR Capital / FSK	10.10	-31.8	19.1	-51.6
MidCap Financial Investment / MFIC	10.75	-6.0	11.5	-24.2
Morgan Stanley Direct Lending / MSDL	14.63	-11.2	12.3	-27.8
VanEck BDC Income ETF / BIZD	12.90	-9.0	12.9	N/A

Note: BDC=business development company; NAV=net asset value; N/A=not applicable
Sources: Bloomberg, company reports

Posted on The Daily Shot 24-Mar-2026 @SoberLook

The situation is different when private credit funds aren't publicly traded (and indeed many private credit funds *are* non-public BDCs). If investors want to get out, they get out at 100% of NAV... that is, *if* their redemption is honored. Here is where we get to the incentives. Even for investors who don't think there are major problems (say, they believe the true value of a private credit fund is 95% of quoted NAV) they have an incentive to sell. They can sell something for $1.00 they believe is worth $0.95. Why wouldn't they do that? If all is well, they can always get back in later. Additionally, if the true value is $0.95, and *other* investors get to redeem at $1.00... that means remaining investors will be left with something like $0.92 of true value.

Thus, there is a large incentive for holders of interval credit funds to sell at the first sign of trouble. If they're worried about not getting back all the money they requested, they have an even greater incentive to try and get back as much of their money as fast as possible. This is obviously bad for fund companies who are losing assets under management, but also bad for remaining investors who can really get stuck holding the bag if everyone else is bailing out at unfairly high prices. It's not hard to imagine a situation that gains momentum with more and more investors requesting redemptions. The 5% cap on quarterly redemptions was meant to stem a run on the fund... but the marking of assets too high at 100% can encourage one.[4]

We have invested in a handful of private funds and are subject to these same incentives. In most cases, we believe our funds are truly superior

[4] This is a totally solvable problem by the way. The perverse incentive to redeem at the first sign of trouble could be solved by funds simply marking their loans down to what is fair, maybe 90 or 95% in our example. Investors would then have no incentive to redeem early. However, most private funds won't want to do this, as it would hurt fundraising to admit their loans, like all investments, can lose value. Thus, most funds will continue to mark their books at 100%, hoping the storm will pass and they can get back to showing steady performance, gathering assets, and earning fees. For some this will work. For a few, this strategy may turn into a reputation-destroying death spiral.

and we won't be redeeming. We expect no meaningful impairment in value and don't care if other investors get scared and want 100% of their money back. However, in limited cases, we are being cautious and requesting full redemptions while we can still get your and our money back at 100% of NAV.

We hope you enjoyed this discussion of the dynamics behind the recent rise in private credit redemptions so you can understand more behind the headlines you might see. However, in general, we worry about these things so you don't have to. Rest assured, we are always invested alongside you and remain ever watchful for these and other financial hazards.

Sincerely,

John G. Prichard

Kurt Beimfohr

Miles E. Yourman

Knightsbridge Wealth Management reviews and updates Form ADV at least annually to confirm that it remains current. Our complete Form ADV Part 2A & 2B may be requested by contacting our firm at (949) 644-4444 or by email at knightsbridge@knightsb.com. Please remember to contact us if there are any changes in your financial situation or investment objectives.

Past performance is not indicative of future results. The above information is based on internal research derived from various sources and does not purport to be a statement of all material facts relating to the information and markets mentioned. It should not be construed that the information in this commentary is a recommendation to purchase or sell any securities. Opinions expressed herein are subject to change without notice.