



Portfolio
Snapshot

Q1 2026

SHEPPARD



Sector Outlook

Q1 2026 was marked by a decline in risk sentiment, which intensified toward the end of the period as Middle East tensions escalated, impacting energy markets, inflation expectations, and market volatility. These developments occurred against a sensitive backdrop characterized by weaker growth expectations, persistent inflation, and a cooling labor market.

Equity markets weakened over the quarter, with performance becoming increasingly uneven across sectors. The sell-off was initially driven by valuation concerns in the technology sector and was later compounded by escalating geopolitical conflict, which raised macro risks and prompted a rotation away from higher-growth, rate-sensitive sectors.

As a result, cyclicals and defensives moved to the forefront, with the energy sector in particular outperforming as oil prices increased sharply amid heightened supply concerns. The rotation was further reinforced by rising yields, energy-linked inflation, and a softening growth outlook.

Sector		
Name	QTD Performance (%)	1 Year Performance (%)
Energy	37.24%	31.79%
Materials	9.30%	15.84%
Utilities	7.52%	16.37%
Consumer Staples	7.01%	3.68%
Industrials	4.30%	23.42%
Real Estate	1.94%	-1.11%
Health Care	-5.29%	0.48%
Communication Services	-7.10%	31.44%
Information Technology	-9.25%	28.31%
Consumer Discretionary	-9.34%	10.97%
Financials	-9.80%	-0.87%
S&P 500	-4.63%	16.33%

Data as at 03/31/2026

Key Themes

Broad-Based Market Drawdown: Equities, treasuries, and gold faced pressure amid elevated uncertainty and energy shocks, highlighting the challenging environment in which even traditional defensives such as gold offer limited protection.

Geopolitical & Energy Risk: Heightened tensions in the Middle East have materially lifted oil prices, reinforcing upside risk to inflation and contributing to market volatility.

Shifting Rate & Inflation Outlook: "Higher-for-longer" interest rate and inflation expectations intensified due to energy pressures, keeping central banks cautious and monetary policy restrictive.

Market Rotation: Sector performance became increasingly uneven as investor sentiment weakened and geopolitical tensions accelerated. Growth stocks, like technology and communications, lagged while defensives and cyclicals outperformed as the economic and market landscape evolved.

Sector Outlook



Growth Sectors

Growth sectors may face a more challenging environment, shaped by cautious risk appetite, elevated yields, and persistent valuation concerns. Technology and communications remain particularly sensitive to interest rate expectations, which have shifted amid heightened geopolitical tensions. Given this, investor tolerance for risk may be reduced. Although vulnerabilities exist, ongoing investment in AI, cloud infrastructure, and digital transformation is likely to support earnings and buoy momentum. Performance, may therefore remain uneven rather than broadly negative.

Risks: higher-for-longer interest rates, geopolitical risks, valuation concerns, regulatory crackdowns on tech giants, trade frictions.

Portfolio Note: Growth exposure remains selective. We will continue to tilt allocations toward the technology sector to capture upside from ongoing AI investment and cloud expansions.

Defensive Sectors

Defensives may continue to play an important role if macroeconomic uncertainty, geopolitical risks, and uneven growth dynamics persist. Consumer staples and utilities are expected to offer relative stability, with a potential slowdown in consumer spending and weaker job growth and continued AI-driven power demand providing support. However, given the sensitivity of these sectors to changes in economic conditions, an improving outlook could reduce their appeal to investors.

Risks: Interest rate risk, inflation risk, policy uncertainty, and broader economic shifts.

Portfolio Note: Exposure to defensives will be applied selectively and continue to serve as a stabilizing component within our strategies.

Cyclical Sectors

The outlook for cyclicals is mixed. Many sectors remain sensitive to global growth conditions, and with inflation elevated and growth expected to moderate alongside consumer spending, performance is likely to diverge. Energy is likely to stay responsive to geopolitical developments, however, a potential retreat in oil and gas prices may negatively impact energy names and affect those directly exposed to commodity prices. Additionally, financials may lag if conditions tighten, while consumer discretionary may remain weak if the consumer outlook fails to improve.

Risks: sharper economic slowdown, the pace of Fed easing, ongoing trade frictions, and supply-demand imbalances, a retreat in oil or metal prices.

Portfolio Note: Allocations to cyclicals will target opportunities that may arise from a potential economic soft-landing while also managing vulnerabilities.

Overall, sector performance in 2026 will be shaped by macroeconomic trends and evolving policy landscapes, among other things. Absent any further shocks, modest equity appreciation may be seen, potentially supporting our portfolios.

Strategy Recap

Equity markets deteriorated over the course of Q1 2026, initially driven by weakness in the technology sector. This softness was later compounded by escalating geopolitical tensions, which further undermined investor confidence and increased market volatility. With macroeconomic uncertainty increasing, weakness extended beyond equities.

Fixed income markets saw yields trend higher across much of the curve amid persistent inflation and a more restrictive monetary policy environment. Short-term treasuries delivered modest gains, while medium to long term bonds declined, as bond price appreciation remained limited.

Commodity markets were highly volatile, with a noted divergence emerging late in the quarter as oil prices surged amid intensifying risks and growing supply concerns. Gold, meanwhile, despite remaining positive year-to-date, experienced short-term weakness despite being a traditionally “safe asset” as higher yields and a stronger U.S. dollar dominated price movements.

Asset Classes		
Benchmark	QTD Performance	1 Year Performance
U.S. 2YR Treasury	0.22%	3.53%
U.S. 5YR Treasury	-0.04%	3.92%
U.S. 10YR Treasury	-0.19%	3.71%
Gold	8.07%	49.45%
Oil	72.56%	49.45%
S&P 500 Index	-4.63%	16.33%
Bloomberg U.S. Aggregate Index	-0.05%	4.35%
Bloomberg Commodities Index	24.41%	32.29%

Data as at 03/31/2026

Strategy Recap

The Pelagic Strategies outperformed, benefiting from exposure to a more diversified mix of equities and commodities. This resilience came despite weakness in growth and technology stocks, driven by valuation concerns, elevated yields, and rising geopolitical risk. Allocations to defensives and select cyclicals provided relative support as the sector rotation persisted, while exposure to gold and energy further helped offset meaningful weakness in key sectors, with oil prices rising and gold maintaining year-to-date gains.

The Offshore Strategies, on the other hand, recorded modest declines during the quarter, shaped by a more defensive asset allocation and higher exposure to fixed income. As a result, losses were more contained when compared to broad equity benchmarks like the S&P 500, which fell 4.63%. The lack of commodity exposure also contributed to underperformance relative to the Pelagic Strategies.

Name	QTD Performance	1 Year Performance	Risk Level
P-Blue Marlin	2.81%	20.21%	Aggressive
P-Tarpon	5.24%	17.48%	Balanced
P-Leatherback	3.04%	10.26%	Conservative
Blue Marlin	-0.21%	13.12%	Aggressive
Tarpon	-0.16%	9.19%	Balanced
Leatherback	-2.51%	4.49%	Conservative
S&P 500	-4.63%	16.33%	Benchmark

Data as at 03/31/2026

Returns shown are net returns

About Sheppard

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