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## Quarterly Commentary

March 2026  
First Quarter

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“It is not certain that everything is uncertain.” **Blaise Pascal**

### Uncertainty Creates Volatility

Operation Epic Fury – the military undertaking in Iran – and the prior major geopolitical conflicts we have lived through are never comfortable. Markets continually remind us that volatility results from changes in sentiment while investors collectively struggle to discount an uncertain future. For long-term business owners, these episodes feel dramatic in the moment but tend to fade into the background when you zoom out over a full cycle. Since 1980, the average intra-year decline in the S&P 500 is ~14%, and yet this index has had positive annual returns 76% of the time according to JP Morgan. Our job is not to predict every short-term fluctuation, but to remain rational, as opportunities arise from market volatility.

Enduring volatility is the toll we pay to earn equity returns, and 2026 has been a vivid reminder of that reality. In early March, crude oil prices experienced an extreme surge, with analysts at Bespoke Investment Group noting that oil was trading roughly five standard deviations above its 50-day moving average—a move that, under a “normal” distribution, would be expected roughly once every 9,500 years. From the start of 2026 through early April, crude prices roughly doubled, rising from approximately \$57 to over \$112 per barrel as the conflict in the Middle East escalated, traffic through the Strait of Hormuz was disrupted, and an estimated 10 million barrels per day of supply were effectively taken offline. Moves of this magnitude are statistical outliers and a reminder that markets are inefficient when confronted with unexpected changes.

The oil market has hardly been alone in its turmoil. Under the surface of the major indices, factor baskets and subsectors have swung with remarkable ferocity, even as the headline indexes at times

masked the true chaos beneath. The Tech/Media/Telecom momentum strategies have observed single-day, five-percent-plus moves as almost routine in 2026 after being rare in 2025. Small and micro-cap equities have seen record outflows, reversing from record inflows just months prior, as investors abandoned perceived “risk” assets en masse. Gold has experienced its own surges tied to geopolitical fears, and we have seen repeated “de-risking into the weekend” patterns, with Thursday–Friday returns sharply lagging Monday–Wednesday as investors sought to avoid over-the-weekend war headlines. All of this is consistent with a market environment in which rapid change is being repriced daily. Equity markets are currently compressing large amounts of uncertainty into prices over a very short period, overshooting intrinsic value and forcing long-term investors to accept volatility. As we (Nixon Employees + Family) are the single largest investor, we empathize with the discomfort that results from volatility but have used this in the past to identify opportunities.

### Time Dilation and Drawdowns

One of the more underappreciated challenges of investing is what investor Cliff Asness has called “time dilation” during drawdowns. Time dilation is a physics phenomenon discovered by Albert Einstein where time moves slower for an object in motion relative to an observer. For investors, when portfolios are making new highs, months fly by and it feels like only days. In contrast, a 3–6-month drawdown can feel like an eternity as days feel longer and the urge to check on stock prices and headlines intensifies. Each incremental downtick feels more consequential than it really is.

This psychological time warp matters because most of the damage done in difficult markets is not



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inflicted by prices alone, but by what investors do in response to them. Drawdowns compress emotional time: what should be evaluated in years gets judged in weeks. Our strategy was designed to be held through annual cycles as opposed to quarters, as we know the longer the time horizon, the higher the probability of positive returns. During these periods both clients and managers alike feel an urge to “do something,” but the most rational course is to endure.

The irony is that the periods that feel longest are often those that matter most. When a drawdown stretches on and discomfort compounds, the forward expected return of the portfolio usually rises, because the valuations we are underwriting improve as prices decline. Time dilation makes it harder to perceive this in real time. It makes a 12–18-month window feel like forever, even though, in the context of a multi-decade plan, it is a blip. Our task is to recognize that the emotional clock and the economic clock do not always move at the same speed—and to align our actions with the 12X30X30 mantra: a 12% compounded return over 30 years generates a 30x return on the original capital.

### Bad Sentiment Creates Opportunity

Today, sentiment is about as poor as it has been in decades. Consumer confidence currently sits at 53.3 on the University of Michigan sentiment index—a level that reflects genuine anxiety about personal finances, business and market conditions. Since 1971, the index has dipped below a reading of 55 only five times. In the subsequent 12 months following those prior episodes, the S&P 500 went on to return an average of roughly 19.5%. We are now below 55 again for the sixth time.

We do not cite this statistic to suggest that next year will look exactly like the historical average, or that there is any guarantee attached to a particular sentiment threshold. We reference this because it

helps quantify a simple but powerful idea: when people feel terrible about the future, markets are often already pricing in that fear. By the time surveys and headlines highlight extreme pessimism, many of the sellers have already sold. The price you pay, not the way you feel, determines future returns. When feelings are this bad, prices usually reflect unrealistic and negative expectations, creating opportunities for disciplined buyers.

Alongside historically sour sentiment, we are seeing a growing number of individual businesses trading at valuations that, in our view, embed very modest assumptions about the next three to five years. In some cases, we are being asked to underwrite low-double-digit or even high-single-digit earnings growth at multiples that assume little to no terminal value. In other cases, high-quality, asset-light compounders have been repriced from 20-plus times forward earnings to the mid-teens or lower on the back of macro-driven multiple compression, and we expect minimal change in their underlying earnings power. For quality franchises with durable competitive positions, conservative balance sheets, and aligned management teams, these are precisely the conditions under which we want to be steadily accumulating, not retreating.

None of this means that the near term will be easy. It rarely is. Earnings estimates may need to reset, the macro narrative may get worse before it gets better, and the path forward will almost certainly be jagged. But we invest not in the next print or the next quarter’s GDP release; we invest in the long-term cash flows of real businesses. As prices move to reflect today’s fears—from oil shock scenarios to war headlines and recession worries—the long-run relationship between what we pay and the return we can generate tilts in our favor.



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### Rational Optimism

In his book “The Rational Optimist,” Matt Ridley argues that progress is not inevitable, but it has been remarkably persistent over human history as ideas combine, trade expands, and innovation compounds on itself. The world’s problems are real, and they are always front and center, yet living standards, technologies, and the breadth of human opportunity have tended, over time, to move in the right direction. Rational optimism is not blind faith that everything will work out; it is a recognition that human ingenuity, markets, and institutions have repeatedly found ways to adapt and improve, even from starting points that felt bleak.

We approach the current environment in that spirit and are not dismissive of the challenges. But we also see a world in which entrepreneurs continue to build, in which productivity-enhancing technologies are diffusing through the economy, and in which capital can still be allocated to attractive opportunities at sensible prices. The combination of depressed sentiment, violent but ultimately finite shocks like the recent oil spike, and reasonable to attractive valuations is precisely when rational optimism is needed and, historically, when it has been most rewarded.

Our commitment is to remain disciplined on your behalf. We will lean into volatility when it increases

expected returns, endure time dilation without reacting to every emotional swing, and take advantage of the opportunities created when fear drives prices below intrinsic value. We will not get every short-term move right, but we believe that a consistent application of this philosophy through a full cycle is the surest path to growing your capital in real terms.

We are grateful for your continued trust and the long-term partnership that allows us to invest opportunistically during volatile periods. As always, please reach out if you would like to discuss our positioning, specific holdings, or the environment in more detail.

Sincerely,  
Nixon Capital

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