ACROPOLIS® INVESTMENT MANAGEMENT

PORTFOLIO INSIGHTS

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Contact us:

P | (888) 882-0072 (Toll Free)
| (636) 449-4900 (St. Louis)
F | (888) 453-1266 (Toll Free)
| (636) 778-2400 (St. Louis)
E | info@acrinv.com
A | 14567 North Outer Forty, Ste. 200, St. Louis, MO 63017

Acropolis was born from a simple idea:

In an industry where high quality, objective advice is hard to come by, we make a difference by putting the client's interests above our own.

DECADES UNFOLD IN WEEKS

It may be unusual to quote Vladimir Lenin in a market-oriented newsletter, but the first quarter brings to mind one of his observations: "There are decades where nothing happens, and weeks where decades happen."

The first two months of the year largely felt like an extension of last year, with AI-driven disruption hitting one sector after another, very strong overseas markets, a weakening dollar, and solid bond performance.

The war in Iran, which began just after markets closed out February, brought a series of sharp reversals across assets in March. The only asset class that continued its course was commodities, which had already been rising but accelerated further after oil prices spiked.

Domestically, large-, mid-, and small-cap stocks all declined in the mid-single-digit range during March. Despite that pullback, mid- and small-cap stocks remain marginally positive for the year, while large-cap stocks are modestly negative as of quarter-end.

Developed and emerging markets were up 10 to 15 percent through the end of February but finished the quarter roughly flat. While a strengthening dollar contributed to the reversal, the more important factor was the energy shock, which is likely to weigh more heavily on economies that are net importers of energy. At the same time, capital flowed back to the U.S. as a perceived safe haven.

"I don't understand this Bulls verses Bears thing, one team plays basketball and the other plays football."

U.S. bonds, however, did not behave like a traditional safe haven, as yields moved higher. The Bloomberg Aggregate Bond Index had gained 1.8 percent through the end of February (roughly 12.0 percent annualized), but March erased those gains, leaving the index slightly negative for the year.

Markets are clearly worried about the impact of higher energy prices on the overall economy. Before the conflict started, inflation had already ticked higher in December and January, and the employment picture had softened, with trend job growth hovering near zero for several months.

The key unknowns at this point are when and how the conflict may end. In the near term, markets will continue to react to each new headline, which can shift sentiment quickly.

Over time, this episode will pass. In the meantime, we believe clients are well-positioned, with balanced and diversified portfolios designed to endure what lies ahead.

"It's dangerous to be right in matters on which the established authorities are wrong."

Voltaire
French Writer & Satirist
1694 - 1778

STOCK MARKET SUMMARY

By David Ott

The first quarter saw narratives change quickly, and stocks moved just as fast in response (especially on the last day of the quarter!).

Although technology stocks have been standout performers since 2022, investors are increasingly focused on valuations and are looking for evidence that the massive investments in artificial intelligence will translate into sustainable cash flow.

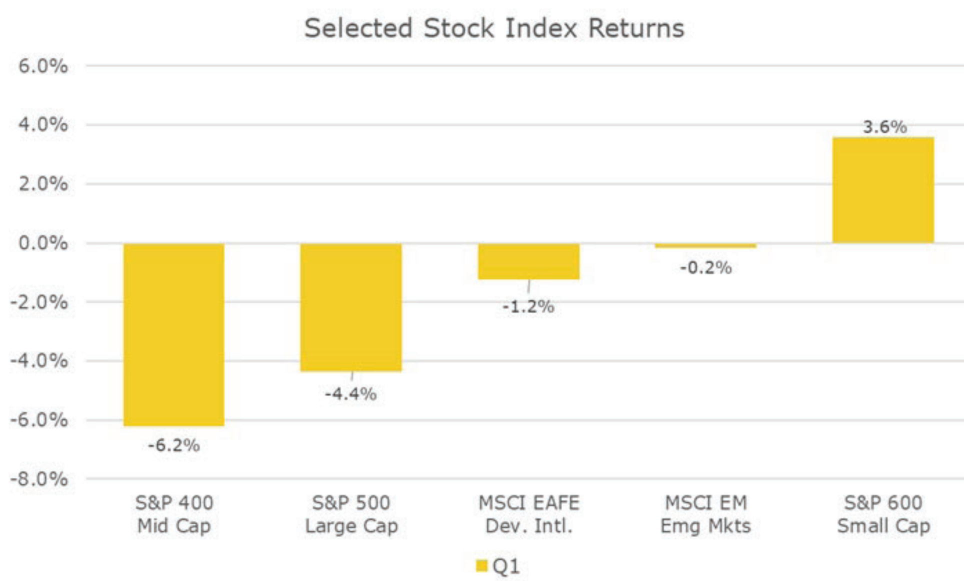
After rising 33.6 and 24.0 percent last year, communication services and information technology stocks declined 7.1 and 9.3 percent, respectively, in the first quarter.

More broadly, economic and labor market data began to show signs of cooling, even as core inflation ticked up above three percent.

Cracks also emerged in the so-called "shadow banking" sector, as some private credit funds imposed gates to limit investor redemptions. Financials declined 9.8 percent, a sharp reversal from their 15.0 percent gain in 2025. All of these dynamics were in place before the war in Iran added another layer of uncertainty, as higher oil prices can simultaneously push inflation higher and weigh on economic growth.

Energy stocks rose 38.3 percent as oil prices increased from $57.4 to $101.4 per barrel. Because energy companies have relatively fixed costs, higher realized prices translate into disproportionately higher profits, creating significant operating leverage.

Foreign stocks ran into a tougher mix of slower growth, higher inflation, and currency dynamics that caused both developed and emerging markets to lose some ground. The MSCI EAFE index of developed markets index declined -1.2 percent, while emerging markets fell -0.2 percent. Europe and parts of Asia are more exposed to energy shocks, and the dollar strengthened, tightening financial conditions globally and reinforcing the divergence between U.S. and international markets.



BOND MARKET REVIEW

By Ryan Craft, CFA

The Bloomberg Aggregate Bond Index posted a total return of 0.05 percent for the first quarter of 2026. While that is largely flat, there was plenty of price movement throughout the quarter.

January and February were good for bonds. Yields continued to decline as inflation fell, but bonds underwent a massive reversal once the conflict with Iran began in March. Oil prices jumped, which boosted inflation expectations. Because inflation is the primary risk for bonds, yields rose and bond prices fell.

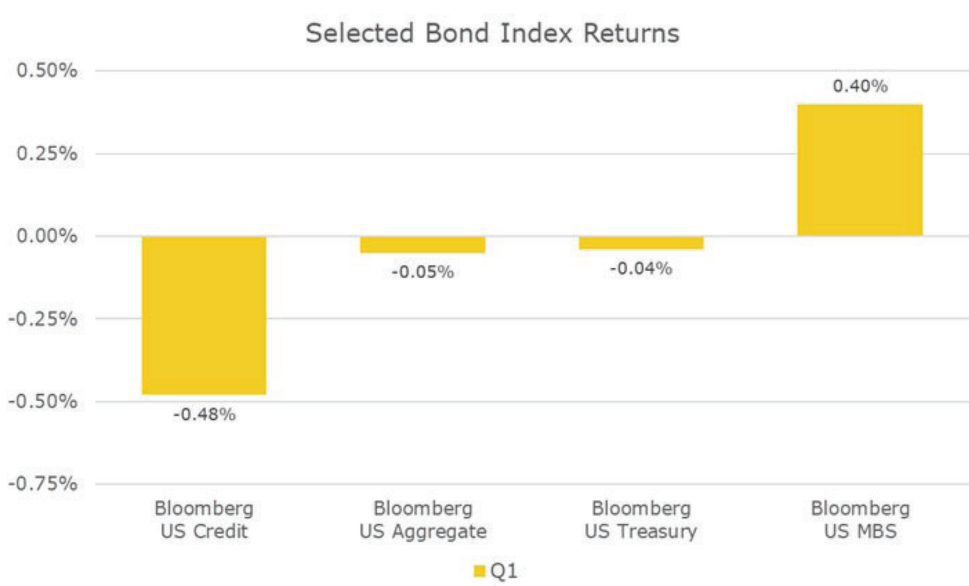
The market had priced in two cuts to the Federal Reserve's overnight rate at the start of the year, but this changed quickly, and the market now expects the Fed to hold rates steady for 2026. This change in outlook has had the greatest impact on short-term yields, driving 2-yr Treasury yields up by 30 basis points, The effect on longer bonds was more muted, with the 10yr Treasury yield rising by 15 basis points.

The bond market is looking through the initial impact of higher oil prices and forecasting what comes next.

Oil has a massive impact on CPI, both directly and indirectly. Energy accounts for more than six percent of the CPI. However, the larger impact is indirect as companies eventually raise prices to pass along higher input costs. Therefore, the oil spike is certainly going to result in higher CPI readings in the coming months.

What is less certain is what impact it will have on inflation in the long run. Oil spikes have traditionally been short-lived, with minimal long-term impact on inflation. Rather, higher oil prices tend to act as a tax on the economy, hurting growth the longer they remain high. This is what Treasury yields are telling us at the moment. Shorter bonds are rising because they are more affected by a rise in inflation this year. However, long-term bonds are more closely tied to long-term inflation expectations, which have remained relatively unchanged throughout this period.

With volatility in oil and equity markets, rising CPI, and a new Fed chair taking office, expect rates to remain volatile for a while.



"The further backward you can look, the farther forward you are likely to see."

Winston Churchill
British Politician & Soldier
1874-1965

> **"What I have been taught, I have forgotten; what I know, I have guessed."**
>
> *Charles Maurice de Talleyrand*
> *French Diplomat*
> *1754-1838*

ASSESSING THE OIL SHOCK IMPACT

By Chris Lissner, President

It may feel like markets have shifted quickly in recent weeks, but the underlying driver is straightforward: a sharp rise in oil prices.

Since late February, oil has increased by roughly $30 to $40 per barrel, or about 50 percent. That kind of move tends to get attention, and for good reason. Energy is one of the few inputs that touches nearly every part of the economy.

The natural question is whether this changes the inflation outlook in a meaningful way. The short answer is yes—but not in the way many assume.

There is a well-established rule of thumb in economics: for every $10 increase in oil prices, headline inflation tends to rise by roughly 0.2 to 0.3 percentage points. Applying that to the recent move suggests that inflation could increase by approximately 0.7 to 1.4 percentage points over the next several months.

With the Consumer Price Index (CPI) headline inflation rate recently running near 2.4 percent, that would imply a temporary move into the 3-4 percent range.

That sounds significant, but it is important to understand what is actually happening. This is not a broad-based inflation surge driven by wages or demand. It is a price level shock coming from one specific input: energy.

Inflation is measured on a year-over-year basis. When oil prices jump, gasoline and energy-related costs rise quickly, and inflation increases as those higher prices are compared to lower prices from a year ago. But if oil prices simply stabilize at these higher levels, that comparison effect fades over time. In other words, inflation can fall back down even if prices remain elevated.

This leads to an important conclusion: even if this shock pushes inflation higher in the near term, it does not necessarily create a persistent inflation problem. What it does create is a permanent increase in the level of prices, not an ongoing increase in the rate of change.

For households and businesses, however, that distinction may not feel particularly comforting. Higher energy prices function much like a tax. Consumers spend more on gasoline and utilities, leaving less available for discretionary purchases. Businesses face higher input and transportation costs, which can compress margins if those costs cannot be fully passed through.

This is why the more important impact of an oil shock is not inflation, it's growth.

Historically, energy shocks have slowed economic activity by reducing purchasing power and dampening demand. The burden falls unevenly. Lower-income households, which spend a higher proportion of income on energy, are affected more quickly.

Energy-intensive industries, such as airlines, transportation, and certain manufacturing sectors, all experience immediate pressure. At the same time, energy producers benefit from higher prices, but they represent a relatively small portion of the overall economy.

The net effect is a redistribution of income combined with a drag on growth.

Financial markets tend to reflect this dynamic predictably. Equity markets do not respond solely to changes in earnings expectations. They also respond to changes in interest rates and inflation expectations, which influence valuation multiples.

When oil prices rise and inflation moves higher, central banks face a more complicated environment. If they respond by tightening policy or maintaining higher rates, equity valuations often compress.

This is why periods of rising energy prices have historically been associated with market volatility and, in some cases, declines. It is not just that earnings may weaken—it is that the discount rate applied to those earnings may increase.

So far, the market reaction has been relatively modest. Broad equity indices have declined, but not dramatically.

This suggests that investors are treating the current situation as a temporary disruption rather than a structural shift.

In other words, markets appear to be assuming that oil prices will stabilize and that the economic impact will be contained. That assumption is reasonable, but it is also the key risk.

At current levels, the likely outcome is manageable. Inflation rises temporarily, growth slows somewhat, and markets experience some volatility. Over time, as the initial shock passes through the system and year-over-year comparisons normalize, inflation should move back toward prior levels. The economy adjusts, and the impact becomes part of the background.

However, if oil prices continue to rise materially from here, the situation changes. At higher levels—particularly if prices approach or exceed prior extremes—the effects become nonlinear. Demand destruction accelerates, margins compress more significantly, and the probability of a recession increases. In that environment, the conversation shifts from inflation to economic contraction.

It is also worth noting that the U.S. economy is somewhat better positioned to absorb an energy shock than in past decades. Domestic energy production has increased significantly, which provides a degree of insulation. However, oil is a global market, and prices are set internationally. As a result, U.S. consumers are still exposed to higher prices even if domestic production is strong.

Over a longer horizon, higher energy prices can also lead to adjustment. Businesses and consumers respond by improving efficiency, reducing consumption, or shifting toward alternative energy sources. These responses tend to moderate the impact over time. But they do not eliminate the near-term effects.

For investors, the key takeaway is not to overreact to the initial inflation data that will likely emerge in the coming months. A temporary increase in inflation driven by energy does not necessarily imply a sustained inflationary cycle. The more important question is whether the shock persists and whether it begins to affect broader economic behavior.

As is often the case, the path forward will depend less on what has already happened and more on what happens next.

Editor's note: This article is excerpted from a white paper dated March 30, 2025, and is available upon request. The full report includes policy considerations, sector-level earnings impacts, longer-term inflation dynamics, and key risks..

"I believe in two principles: Your attitude is more important than your capabilities. Similarly, your decision is more important than your capabilities!"

Jack Ma
Chinese Businessman
1964 -

INSIDE THE ECONOMY: OIL PASSAGES

By: David Ott

It is easy to think of the global economy in the abstract: growth rates, inflation prints, and central bank decisions. But world events reveal just how physical it really is, like the Strait of Hormuz today.

Roughly 20 percent of the world's oil moves through this narrow waterway each day, making it one of the most important economic chokepoints in the world. When flows are steady, it fades into the background. When they are disrupted, it quickly becomes central to the global economic conversation.

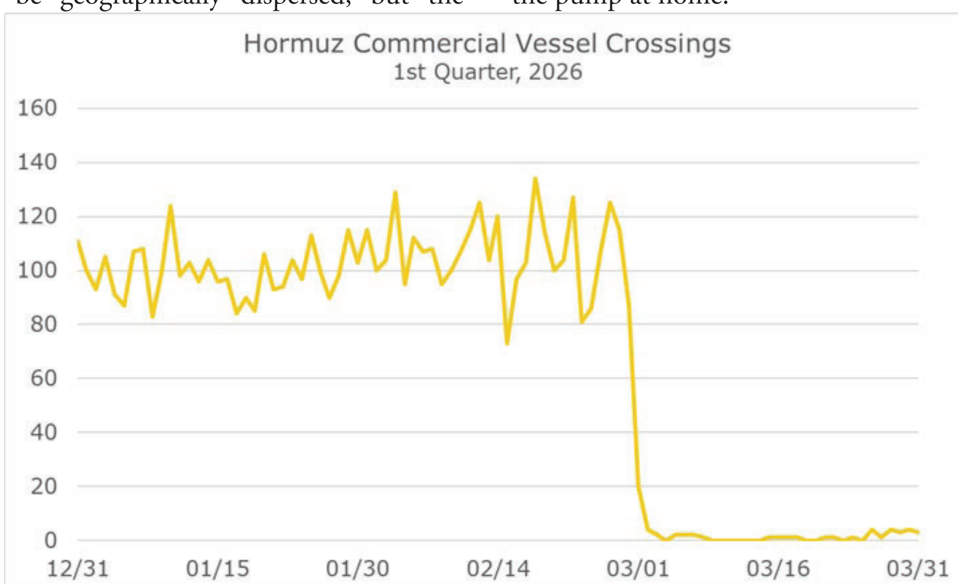
At first glance, it is not obvious why this should matter as much as it does, particularly for the United States. Much of the oil moving through the Strait is headed to Asia, not North America, and the U.S. is far less dependent on imported crude than it once was. If those barrels are not coming here, why should a disruption matter to prices here?

The answer is that oil is a global commodity priced in a global market. Production and consumption may be geographically dispersed, but the market clears at a single marginal price. When shipments through the Strait fall, as they are now, the immediate effect is a tighter supply picture for Asia. In the Philippines, for example, the disruption is already showing up in fuel shortages.

But the secondary effect matters just as much: buyers who would have relied on Middle Eastern barrels begin competing for cargoes from West Africa, the North Sea, Latin America, and the United States. That competition does not stay local. It pushes against the entire pool of available supply and lifts prices globally.

Domestic producers sell into that same global market, and U.S. gasoline and diesel prices are linked more closely to global benchmarks than to the physical origin of any given barrel. Energy independence reduces vulnerability to a literal shortage of oil at home, but it does not insulate consumers from the global price set by shortages abroad.

Energy independence does not mean independence from global prices, and what happens far away still shows up at the pump at home.



Data Source: Bloomberg

"Well done is better than well said."

Benjamin Franklin
American Founding Father
1706 - 1790

SAFEGUARDING THE MISSION

By: Michael Lissner, CFP®, CEPA, & Rebecca Buell, MBA

Serving on the board of a nonprofit is an extraordinary way to shape lives and communities. But with that privilege comes a weighty fiduciary responsibility: stewarding the organization's financial resources to ensure its mission endures. One of the most powerful tools a board can adopt is a well-crafted Investment Policy Statement (IPS).

An IPS is more than an administrative formality—it is the board's blueprint for aligning investment decisions with mission priorities, spending needs, and legal obligations. A strong IPS begins with purpose: Why is the organization investing? Is the goal to generate income for operations, preserve an endowment, or grow reserves for future initiatives? Clear answers to these questions guide all other decisions.

Equally important is defining governance and oversight. The IPS should specify roles for the board (including authorized signers), any investment committee, staff, and external managers. Under laws such as the Uniform Prudent Management of Institutional Funds Act (UPMIFA), nonprofit fiduciaries must act with loyalty, care, and obedience to the organization's mission and principles; the IPS helps translate this into practice.

Boards must also articulate risk tolerance, return objectives, and spending policies. A perpetual endowment may have a higher equity allocation than short-term reserve funds, but in either case, the IPS should set clear asset allocation targets, ranges, and rebalancing procedures. Restrictions—such as avoiding certain industries or adopting ESG (Environmental, Social, and Governance) criteria—should be documented so that they are applied consistently and transparently.

Performance monitoring is another essential element. The IPS should require regular reporting, compare results to relevant benchmarks, and outline the process for addressing underperformance. Liquidity needs, donor-imposed restrictions, and prohibited investments should also be specified.

Finally, the IPS must be a living document. Annual reviews ensure it remains relevant in changing markets and evolving organizational circumstances. Board education on investment principles and fiduciary responsibilities reinforces the IPS as a guide for wise stewardship.

A well-designed IPS doesn't just protect assets—it sustains a nonprofit's ability to serve for generations. At Acropolis Investment Management, we specialize in helping nonprofit boards translate their mission and values into disciplined investment strategies. We work alongside trustees to craft, implement, and monitor IPS frameworks that balance growth, risk management, and alignment with purpose.

Two other documents that the non-profit should have documented are a Spending Policy and a Gift Acceptance Policy. We will cover those next quarter. If you serve on a nonprofit board—or are considering joining one—now is the time to ensure the organization's investments are positioned for long-term impact. Acropolis Investment Management would be honored to partner with your board to manage and grow its funds, safeguarding both the financial foundation and the legacy of service for years to come.

"A feather will weigh down a scale when there is nothing in the opposite one."

Thomas Malthus
British Political Economist
1766 - 1834

Major Indexes	2026 YTD
Dow Jones	-3.2%
S&P 500	-4.4%
S&P 400 Mid-Cap	-6.2%
S&P 600 Small-Cap	3.6%
MSCI EAFE (Intl)	-1.2%
MSCI Emerging Mkt	-0.2%

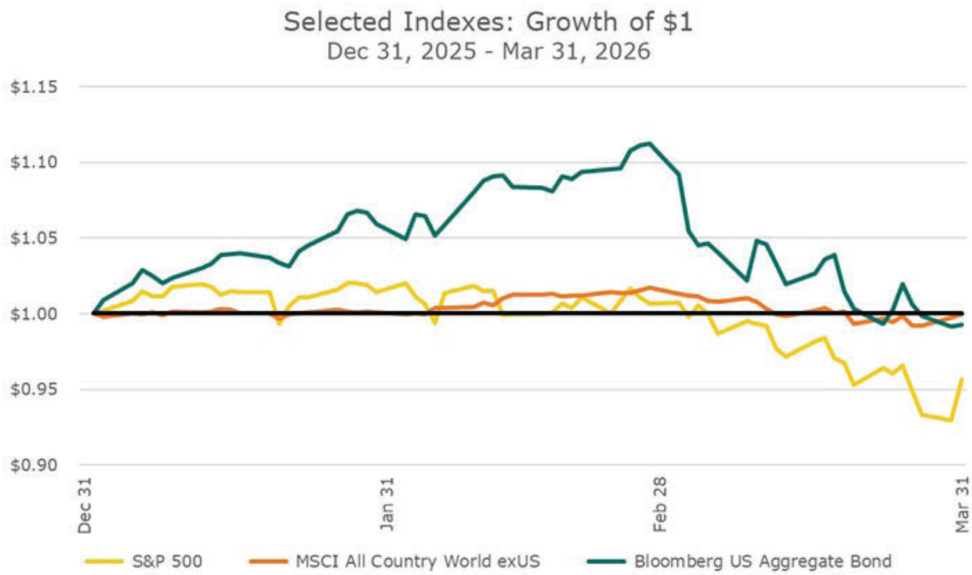
Equity Styles	2026 YTD
S&P 500 Growth	-8.1%
S&P 500 Value	0.0%
S&P 500 Quality	0.5%
S&P 500 Momentum	-5.7%

S&P Sectors	2026 YTD
Basic Materials	9.7%
Communications	-7.0%
Consumer Discretion.	-9.2%
Consumer Staples	7.7%
Energy	38.3%
Financials	-9.5%
Healthcare	-4.9%
Industrials	4.6%
REITs	2.8%
Technology	-9.1%
Utilities	8.3%

Interest Rates	2026 Q1
Fed Funds	3.75%
Prime Rate	6.75%
3-mo. Treasuries	3.68%
2-yr. Treasuries	3.80%
5-yr. Treasuries	3.94%
10-yr. Treasuries	4.32%

All Data as of 03/31/26

THE BIG PICTURE



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