

ProCap

Q1 | 2026 Commentary

The first quarter of 2026 was shaped by a dynamic macroeconomic environment, with inflation trends, labor market resilience, and geopolitical developments driving market behavior. Inflation eased early in the quarter, but rising energy prices tied to the Iran conflict renewed pressure and reinforced a higher for longer rate outlook. The U.S. labor market provided a key source of stability. Non-farm payroll growth was uneven but trended higher, and unemployment remained relatively low, signaling ongoing economic resilience despite tighter financial conditions. These trends were central to the evolution of the strategy's positioning during the quarter.

The strategy, which is grounded in a disciplined and objective economic model focused on U.S. non-farm payrolls, shifted from a more contractionary stance to a slightly expansionary posture as labor market data stabilized and forward expectations improved.

This transition drove a number of portfolio adjustments. Total fixed income exposure increased from 40% to 50%. The portfolio functions counterintuitively to behavioral investment tendencies, and this shift reflects a more balanced allocation in light of persistent inflation uncertainty and elevated interest rates, with fixed income continuing to offer attractive yields and diversification benefits.

Within equities, sector exposures were reallocated to better align with the model's evolving signals. Exposure was reduced in more defensive and rate-sensitive sectors, including real estate, consumer staples, healthcare, materials, and utilities. At the same time, allocations were increased in more cyclical and growth-oriented sectors such as consumer discretionary, financials, industrials, technology, and communication services.

Overall, the portfolio repositioning reflects the strategy's systematic approach to incorporating labor market dynamics into asset allocation decisions. The continued resilience of the U.S. jobs market supports a more balanced outlook, while ongoing inflation pressures and geopolitical risks remain important considerations.

The strategy remains focused on adapting to changing economic conditions through a disciplined, data-driven framework, with the objective of managing risk while seeking to participate in evolving market opportunities.

Should you wish to speak with one of our portfolio managers, please email investments@kingsview.com.

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