April 7, 2026

Dear Fellow Investor,

The salient feature of the performance of the stock market in the first quarter of 2026 was an unexpected seismic event, and not a pleasant one.

I refer, of course, to the surprise attack on Iran by the armed forces of the United States and Israel. The stock market spent most of 2025 recovering from a previous seismic event, the upending of the global trading system, the system that had prevailed since the end of the Second World War, on "Liberation Day" in early April of last year, and the resultant disarray in market expectations. Like the "Liberation Day" collapse, this event emanated from Washington DC.

After a brief but precipitous disintegration beginning February 28, the stock market spent the rest of the quarter trying to fight its way back. The Standard & Poor's 500 Index was down 4.63% from its December 31 close by the end of the quarter. NASDAQ fared worse. Other, more speculative, corners of the market—crypto currencies, for instance—fared worse yet.

So, I am gratified to report to you, Fellow Investor, that the accounts for which we at Weybosset Research and Management are responsible turned in POSITIVE results for the first quarter. Our accounts were up mid- to high-single digits—a good start to any year, in my opinion.

The attack on Iran, though certainly a headline-grabber, was not the only drama playing out in the stock market in early 2026. Internal market dynamics, which Justin explains in his portion of this communication, dynamics that awaited resolution for years, accounted significantly for market behavior and for our relative outperformance.

We were fortunate in avoiding the worst pitfalls of Quarter One 2026, and the businesses we own remain robustly profitable. We seek to offer products or services that people need, war in the Middle East or not; things like food, shelter, transportation, protection, news, and health care. Staying out of trouble is AT LEAST 70% of successful long-term investing. So far, I am pleased to report, we seem to be doing that part of the job.

Justin gives you more detail on internal market matters below. But before handing it over to Justin, I would like to take the opportunity to thank you for your support of Weybosset

Research & Management LLC. We profoundly appreciate the confidence you have placed in us,

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“Never count on making a good sale. Have the purchase price be so attractive that even a mediocre sale gives good results." — *Warren Buffett*

Dear Fellow Investor:

We would like to touch base with you on our view of the current investment landscape as we close out a remarkably volatile first quarter. The start of 2026 has been a "tale of two markets," and we are pleased to report that our disciplined approach has served your capital well during this period of significant stress.

For the first quarter of 2026, the accounts for which we are responsible were **up on average 6.5%** (performance may vary depending on your time invested with us).

This stands in stark contrast to the broader market averages: the S&P 500 finished the quarter **down 4.63%**, and the tech-heavy Nasdaq Composite **declined 7.10%**.

We are very pleased with the performance of our accounts during this stretch, and we hope you are too; it is always gratifying when your returns stay positive while the broader market falls.

The Accelerating Start

The year began with a sense of optimism that now feels like a distant memory. During the January earnings season, it became clear that both our portfolio companies and the broader economy were accelerating.

Coming into the geopolitical tensions that would later define the quarter, our holdings were in excellent shape—a fact that was reflected in their rising share prices before the "outside forces" of war and market panic took place.

The Three Themes of Q1

1. **The "SaaS-pocalypse" and the Claude Code Factor**

We are witnessing what many are calling the 'SaaS-pocalypse'—a massive re-rating of Software-as-a-Service companies. Industry leaders such as Microsoft, Salesforce, and ServiceNow have seen their valuations reset, with share prices plunging 35% to 50% from their previous highs.

For years, these stocks traded at nosebleed valuations because investors believed their subscription models guaranteed that cash flows would be there forever. That certainty has evaporated (!!)

The primary catalyst for this shift is the rise of advanced AI coding agents, most notably **Claude Code**. This technology allows developers to automate complex programming tasks that previously required expensive, specialized software suites.

When a company can use an AI agent to build its own custom solutions for a fraction of the cost, the "guaranteed" high-margin revenue of legacy software firms starts to look very vulnerable.

Because of this, the market is aggressively selling and revaluing software companies while moving toward companies where there is high confidence that earnings per share (EPS) and cash flow will be there in 5,10, and 20 years. **We own such companies**.

Unlike software, which can be disrupted by a new line of code by a single individual in their basement, the businesses we own—producing jet engines, power sources, construction materials, natural gas, and insurance to name a few—provide essential physical services and infrastructure that AI cannot simply code away. In fact, these companies are using AI as a productivity enhancer to widen their already formidable moats.

2. **The Private Credit Crack-Up**

The software downturn also sent shockwaves through the private credit market. For the past fifteen years, fueled by suppressed interest rates and a prolonged era of "easy money," private credit firms loaded up on software companies.

In such periods of excess, investor standards invariably become lax; history shows that people often do "dumb things" with their money when they believe the good times will never end.

However, the true exposure here is much deeper than most realize. Because many private companies used this debt specifically to acquire the software required to run their daily operations and other portfolio companies, their fundamental health is now inextricably tied to the very sector currently under fire.

These funds grew by using individual investor money, often locking it up for 3 to 5 years in exchange for a target return of maybe 12%. I have never understood the appeal for the individual investor.

In his book *The Psychology of Money*—which we sent to you—Morgan Housel talks about the importance of flexibility and the hidden risks of complexity. Is a perceived extra 2% worth losing all liquidity?

Now that those "steady" returns have turned into a disaster, with some assets quickly being marked to zero, investors are clamoring for their money back- with some private credit vehicles down 30% to 50%, the risks of these lockups are painfully clear.

It strikes me as disingenuous to sell such products to individuals, as most people or their advisors did not read the fine print. We are particularly concerned with how these products have permeated retirement funds and 401(k) plans.

It is troubling to see individual pension funds being shifted into these illiquid private credit vehicles. In this arrangement, the "winners" are the pension plans receiving large fees for the allocation and the private credit firms collecting their management fees—it is certainly not the individual investor who is left holding the bag. Wall Street always takes a good thing too far. We own none of them.

Applying "second-order thinking" is vital here; everything in the financial ecosystem is interconnected, and one must be aware of the knock-on effects.

The Amazon Opportunity

The market turmoil in software and the cascading fears of private credit provided us with a remarkable opportunity to acquire shares in Amazon, one of the premier assets in the world and the undisputed leader in online retail.

Amazon was trading at its cheapest valuation since 2010 during the quarter’s height of panic. You only have to look out your front window to see the strength of their moat—delivery trucks lining up at all hours, fulfilling orders in a single day, and of course the lowest priced goods.

When the market panics, it often discards world-class businesses along with the speculative ones, the preverbal baby with the bathwater, and we were happy to step in when the price became too attractive to ignore.

3. **War, the Strait, and the Panic Cycle**

Then came the war. The effective closure of the Strait of Hormuz blocked nearly 20 million barrels of oil per day. It is important to remember that although the U.S. is energy independent, we are still deeply affected by the world price of oil.

Oil is a global commodity; when supply is choked off in the Middle East, the global price spikes, and our domestic prices follow suit.

Markets hate uncertainty, the fog of war has produced mass uncertainty. The blocking of the Strait causes momentary inflation for everything from gasoline and jet fuel to semiconductors and sneakers—the daily use products that define our modern lives.

We have now seen five weeks of war, placing us squarely in the time frame where markets and investors tend to panic and price in the absolute "worst-case scenario".

Though corrections never feel good, they are an inherent part of the market's metabolic process. This volatility is exactly what grants us the opportunity to do what we believe are "smart things" with your capital.

Historically, when sentiment indicators are flashing maximum panic, the table is being set for forward returns often north of 20% one year later. Price and news rarely move in tandem- markets tend to bottom and rise long before the worrisome headlines stop.

Market participants are currently grappling with a level of pessimism and trepidation that exceeds even the dark days of 2022, a year when the major indices were mired in a formal bear market declining more than 20%.

While the average equity has retreated some 15% to 50% from its peak in January, we must view this through the lens of historical cyclicity. A 10% correction is not a systemic failure; it is a natural, recurring feature of a healthy market, occurring on average every one to two years. We find solace in mathematical reality that the market rises 84% of the time.

The American economic engine remains remarkably durable, fueled by the collective ambition of 300 million individuals striving to improve their circumstances by tomorrow morning.

Experience suggests that when a portfolio demonstrates this degree of relative strength during a period of acute exogenous shock, it is often a coiled spring, poised to offer superior performance as the clouds of uncertainty dissipate and the recovery takes hold.

We look forward to the upcoming earnings season to observe how our management teams are navigating this climate.

For a quarter-century, our investment philosophy has remained steadfast—guiding us through wars, global pandemics, structural recessions, and shifting monetary regimes.

We continue to seek out exceptional enterprises at prices that afford a significant margin of safety. This disciplined approach has served us well for 25 years, and in moments like these, we see every reason to remain patient and maintain our course.

Thank you for your continued trust in us, we look forward to preserving and growing your capital for decades to come.

Yours very truly,

Justin E. Deutsch

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