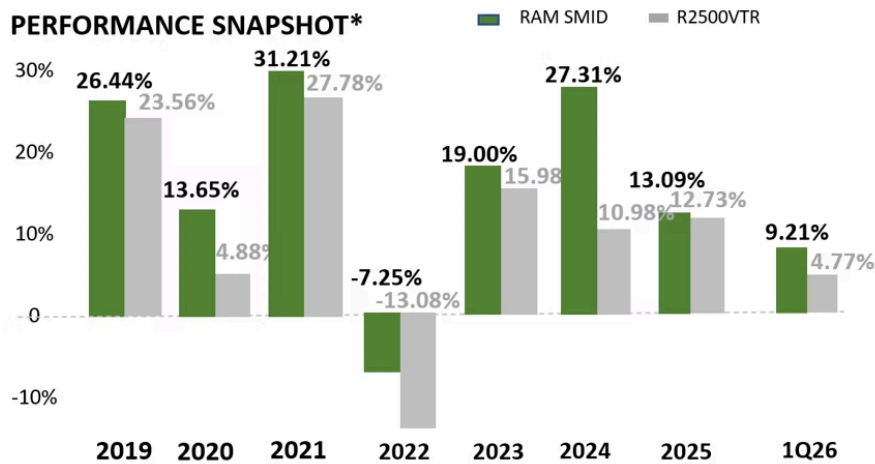




April 2026

The RAM Smid composite gained 9.21% in 1Q26, outperforming the Russell 2500 Value Total Return index which rose 4.77%. The index started the quarter strong, up 11.08% through February 26th, but market tensions from the Iran conflict and a spike in oil prices led to a pullback in March.

We view the outperformance of the Russell 2500 Value in 1Q26 as a sign that investors are rotating their portfolios away from the larger-cap tech heavy benchmarks and towards the more undervalued and neglected small and smid cap sector. If the conflict de-escalates in the near term, we expect this trend to persist. (1,2)



Source: Rewey Asset Management, Index returns sourced from Bloomberg 3/31/2026.

\*Note that there are material limitations inherent in any comparison between RAM Smid strategy and the R2500 Value Total Return Index. The R2500 Value Total Return Index is unmanaged, and you cannot invest directly in an index. The RAM portfolio is actively managed and holds concentrated investments in the equity securities of small-mid capitalized companies. Please see important disclosures at the end of this letter.

### The Unexpected Strikes

The U.S. and Israeli strikes on Iran were clearly the largest factor impacting stocks in 1Q26. The actions drove up the price of WTI oil 76.49%, ending the quarter at \$101.38 per barrel, as the Strait of Hormuz was essentially closed and counter strikes damaged oil facilities across the middle east. This spike in oil prices led to a renewed fear of inflation, and investors who generally expected one or two 25 basis point cuts to the Fed Funds rates in 2026 paired back their expectations. (3)

### Cautious Optimism Hinges on a Quick Resolution

While the markets sold off through the first 4 weeks of March, optimism towards a quick resolution to the conflict drove a significant rally into quarter end. While we have no unique insight into its duration, a prolonged conflict would increase the likelihood of inflationary pressures in the U.S. and globally.

The baseline economic outlook is still solid. While 4Q25 GDP finished at a tepid 0.7%, the 43-day government shutdown drove much of this weakness. The forecast from the Atlanta Fed GDPNow forecast is for 2% growth in 1Q26. This estimate, however, is down significantly from January estimates over 5%. If the conflict is resolved short-term, we think the economy can resume its acceleration and any inflation impacts will be muted. As tariff related impacts are annualized, core PCE inflation could begin to decline again by 2H26, bringing back the likelihood of Fed rate cuts. Conversely, a prolonged or escalating conflict could push oil prices and inflation higher, likely renewing market pressure. <sup>(4,5)</sup>

### **Our Philosophy Remains Consistent**

Our approach remains unchanged. The RAM philosophy is designed to navigate uncertainty by prioritizing financial strength. Companies with strong balance sheets, solid cash flow, and limited reliance on external funding are better positioned to stay the course during volatility, and to potentially capitalize on opportunities through M&A, buybacks, or other strategic actions. Events like the Iran conflict highlight why RAM aims to make time an ally in our investment process.

### **The Rotation Continues: A Stock-Picking Market Emerging**

Throughout 2025, we highlighted a rotation away from large-cap, tech-dominated stocks and ETFs toward the more diversified and neglected small- and SMID-cap sectors. Even a modest 1% shift in capital from the S&P 500 at year-end would have equated to roughly 10% of the Russell 2500 Value Index and nearly 30% of the Russell 2000 Value Index. <sup>(6)</sup>

We believe this rotation continued in 1Q26, independent of conflict-driven volatility. The S&P 500 declined 4.35% for the quarter, weighed down by the “Magnificent 7,” which fell 12.04% as a group. In contrast, smaller-cap indices posted gains, with the Russell 2500 Value up 4.77% and the Russell 2000 Value up 4.96%. We expect this trend to persist, driven by elevated valuations and expectations in mega-cap tech, while smaller-cap stocks remain relatively cheaper and underfollowed. <sup>(7)</sup>

While we continue to see thematic opportunities in the markets, particularly defense, commercial aerospace, semi-cap equipment and regional banks, we are seeing more individual and eclectic situations, i.e. opportunities for stock picking. Notably, all three of our new positions in 1Q26 reflect this shift toward a more eclectic stock-picking environment.

### **Thoughts on the Regional Banks**

We continue to see neglect and undervaluation in the regional bank sector. While three of our banks sold off modestly in the quarter, Webster Bank rose 10.9% as Banco Santander announced a cash and stock acquisition of the company for \$75 per share on February 3rd.

Our positive view on regional banks remains unchanged. We see a group characterized by attractive valuations, solid credit quality, excess capital, active share repurchases, healthy dividends, and steady loan growth. Investor concerns have surfaced repeatedly in recent years, first with the Silicon Valley Bank crisis, which turned out to be mostly contained to only a few banks that did not properly manage their asset vs. liability durations. Then, the fears of weakened commercial real estate hurt the group, when in reality most regional banks maintained conservative loan-to-value ratios and strong borrower equity cushions, with the most notable losses concentrated in downtown office assets typically financed by REITs rather than banks.

In 1Q26, concerns have shifted to private credit and BDCs. We have previously noted risks in these structures, including limited regulation, aggressive competition for loan share, and elevated leverage. While we understand investor caution around credit quality and valuation transparency in this space, we believe the negative read-through to regional banks is misplaced. The regionals, and particularly the RAM portfolio banks, continue to post solid credit results and now stand to regain some loan growth market share as these BDCs pull back from the market. The public

regionals disclose detailed loan statistics quarterly and these metrics remain healthy. We believe this current fear too, like the SIVB scare and the CRE scare, will prove to be a point of opportunity.

There was also a major announcement from the Fed in the quarter on capital relief for the banks that, in our view, was generally overlooked by the market. The rule proposed March 19th, and now in a 90-day comment period, would ease capital requirements on lower-risk assets such as mortgages. Industry estimates suggest this potential capital relief at 4.8% for the largest banks, 5.2% for \$100 billion to \$250 billion in assets and perhaps as high as 7.8% for banks under \$100 billion. This capital relief, in a group that is already over capitalized, in our view would be a major catalyst, driving increased share repurchases, higher loan growth and even more bank M&A. <sup>(8)</sup>

## **Portfolio Highlights**

We added three new positions in 1Q26 and sold six positions. We note that Huntington Bankshares (HBAN) completed its stock merger with CADE in the quarter, and we retained and added to our position in the merged company. We hold thirty positions, in line with our expectations over the long term.

At quarter end, the combined weight of our top ten holdings was 44.7%. Cash was 5.85 % of the portfolio. While we continue to search for, and find, stocks that fit our investment philosophy, we also very much like the composition of our current portfolio and are believers in the benefits of long-term compounding with modest portfolio turnover.

Nine of our composite holdings had net cash on the balance sheet and only our two utility stocks had a debt to EBITDA ratio over 3x. Twelve holdings were trading at or less than 1.5x book value. <sup>(9)</sup>

## **Ultra Clean Holdings, Inc. (UCTT)**

UCTT, highlighted in our 3Q25 letter, was our top performer in 1Q26, delivering a 141.5% return. The stock surged on strong quarterly results and a sharp inflection in the outlook for semi-conductor capital spending. Memory chips are now in short supply, as it has become apparent that artificial intelligence will be a massive consumer of memory. In response, major chipmakers have announced significant increases in capex, and we believe this upcycle is still in its early stages. <sup>(10)</sup>

## **Kyndryl Holdings (KD)**

KD was our weakest performer in 4Q25, as it initiated a disappointing 2026 revenue growth forecast down 2 to 3%, vs. expectations of turning the corner to revenue growth, albeit a modest 1%. Additionally, the company unexpectedly replaced its CFO and General Counsel and noted it would report a financial reporting control deficiency in its 10K. Despite these setbacks, we think the KD transformation story remains in-tact, and that post IBM-spin revenue will accelerate in 2026 at higher margins. Notably, management reaffirmed its target of generating over \$1 billion in free cash flow in fiscal 2028 (March 2028), which implies a potential a 34.2% FCF yield at the quarter-end stock price. <sup>(11)</sup>

## **DNOW Inc. (DNOW)**

We initiated a position in DNOW, Inc. (DNOW), a distributor of energy and industrial products. Spun off from National Oilwell Varco in 2014, DNOW has grown revenue and improved profitability over the past five years despite a weak upstream E&P environment. In November 2025, DNOW merged with its largest competitor, MRC Global, forming a \$2.22 billion company with a diversified revenue mix: approximately 41% upstream energy, 21% midstream, 21% gas utilities, and 17% downstream and industrial.

We bought shares following the sharp sell-off after DNOW Inc. reported 4Q25 earnings. In our view, the release led to investor neglect due to numerous merger-related accounting charges and news that legacy MRC Global was experiencing significant issues with its Oracle ERP conversion. We believe this disruption has obscured the merger's substantial revenue and cost synergies, as well as a potential cyclical recovery in upstream and chemical spending.

We also think investors are overly pessimistic about DNOW's ability to resolve the ERP issues by transitioning sales to its fully functional SAP system, as management has successfully integrated more than two dozen acquisitions since its spin-off.

DNOW Inc.'s strong balance sheet supports both integration efforts and shareholder returns. Net debt to EBITDA was just 1.2x at year-end. While management has conservatively guided to \$100–\$200 million in free cash flow, it still targets a net debt-free position by year-end, implying roughly \$264 million in debt reduction. Post-merger working capital remains elevated, with inventories and receivables high and days sales outstanding at 83 versus a historical ~63 days. Management expects to generate cash as it normalizes these levels through 2026. DNOW has also been opportunistic with share repurchases. At current valuations, buybacks could be prioritized over debt repayment, given its ample liquidity, including a revolver with over \$430 million of unused capacity. The company also retains flexibility to pursue additional M&A opportunities.

We see meaningful catalysts for DNOW Inc.'s growth over 2026 and beyond. Its merger with MRC Global has significantly diversified the revenue mix, strengthening its midstream and international exposure. DNOW initially targeted \$70 million in cost synergies over three years (about 20% of 2026E EBITDA) but has already raised its year-one target from \$17 million to \$23 million. Much of this increase reflects accelerated efforts to resolve MRC's ERP issues by shifting revenue onto DNOW's platform, in our view adopting the mantra "never waste a crisis". Management has indicated there could be upside to this \$70 million, and we think this strong start supports this contention. Additionally, DNOW Inc. sees significant cross-selling opportunities driven by expanded geographic coverage and complementary customer bases, with legacy DNOW stronger among smaller private companies and MRC Global better penetrated with large corporates.

DNOW Inc. expects strong growth in its midstream and gas utility markets in 2026 and beyond. In midstream, the company sees continued expansion in natural gas processing, produced water management, and emerging opportunities tied to data center infrastructure, where it grew its customer base to 11 by year-end from none in 2024. Gas utilities are also increasing capacity to meet rising energy demand, driven by data center development and broader economic growth.

Finally, although we initiated our position before the Iran conflict, we think the resulting spike in oil and chemical prices could be the catalyst to break U.S. upstream and chemical downstream spending out of its roughly 3-years of stagnant growth.

At the end of 1Q26, shares of DNOW were priced at \$11.91, significantly under its February 11, 2026, high of \$17.26. With a broader, more diversified revenue base, DNOW expects a more stable free cash flow profile and is targeting an 8% EBITDA margin by 2028, above its standalone performance in recent years. As margins improve and cash flows stabilize, we believe the stock can re-rate closer to industrial distributor peers, where valuation multiples are 50%–100% higher than current levels. We have set our price target at \$17, up over 42% from current levels and still under February 2026 highs. Key catalysts include delivery of cost synergies, realization of cross-selling opportunities, continued bolt-on M&A, debt reduction, and potential share repurchases. <sup>(12)</sup>

## Looking Forward

As we entered 2026, a major military conflict with Iran was not on our list of items that we were monitoring as potential future concerns, including a second government shutdown, election-year political headlines, a change in the Fed Chair, and ongoing geopolitical tensions involving Russia, Ukraine, Taiwan, China and Venezuela.

One constant over our 36 years of investing is that the market will inevitably face uncertainty and unexpected shocks. Our investment philosophy reflects this reality: we focus on financially strong companies that can withstand periods of volatility and execute on clear value-creation plans over a 2–3 year horizon. A disciplined, long-term approach allows time to become an ally and creates opportunities to invest at attractive valuations.

If the current conflict is resolved in the near term, we see several potential catalysts for small- and SMID-cap stocks in 2026, including steady GDP growth, moderating inflation, the possibility of additional Fed rate cuts, and continued investor underexposure to the space. A prolonged conflict, however, would likely sustain higher oil prices and inflation, increasing market volatility and pressuring growth. However, in either scenario, our philosophy and process will remain unchanged and focused on the long-term.

We appreciate your trust and support. As always, please feel free to contact us to discuss our commentary or to share your thoughts.

## Chip

1. Past performance is no guarantee of future results. The RAM SMID Value Composite schedule of net investment performance of Rewey Investment Management LLC (the "Schedule") represents the activity of separate customer trading accounts managed collectively (collectively the "Accounts") for the annual and cumulative periods from January 1, 2019 through Mar. 31, 2026. 2022-1Q26 performance unaudited. Please see full Marcum footnotes for RAM Smid composite 2019-2021 at [Microsoft Word - {A44BB912-3141-4B59-AE8E-3D695C6B8BD4} \(reweyassetmanagement.com\)](#). Performance graphic not to scale. The performance results for the period of 1/1/19-11/8/2021 are from accounts managed by Chip Rewey while affiliated with Advisory Services Network.

2,7 Data regarding the Russell 2500 Value Total Return Index, Russell 2000 Value Total Return Index, the S&P 500 Index, and the Bloomberg Magnificent 7 Total Return Index are sourced from Bloomberg. Each of these indices are an unmanaged group of securities considered to be representative of the small and mid-cap stock market, and the large-cap stock market in general, respectively. Indexes are unmanaged and do not incur management fees, costs, or expenses.

- The Russell 2500 Value -Dynamic Index® measures the performance of the small to mid-cap value-dynamic segment of the US equity universe. It includes Russell 2500 Index companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium term (2 year) growth and lower sales per share historical growth (5 years) and relatively less stable business conditions that are more sensitive to economic cycles, credit cycles, and market volatility based on their stability variables.
- It is not possible to invest directly in an index. There are material differences between the RAM SMID Value Composite portfolio and the indexes used for comparison purposes. The RAM portfolio is actively managed and holds concentrated investments in the equity securities of small-mid capitalized companies. An index is generally designed to illustrate the performance of a specific asset class (i.e., small cap) but is not actively managed and the index performance does not reflect the impact of advisory fees and other investment costs.

3. WTI (West Texas Intermediate Crude) prices sourced from Bloomberg.

4. 2025 Quarterly U.S. GDP statistics are sourced from the Bureau of Economic Analysis and Bloomberg.

5. Atlanta Fed GDPNow GDP forecast data sourced from Bloomberg.

6. Liquidity estimates for R2500 Value and R2000 Value were detailed in RAM 4Q45 letter, available on [www.reweyassetmanagement.com](http://www.reweyassetmanagement.com)

8. March 19th proposed Fed rule available here: [Federal Reserve Board - Agencies request comment on proposals to modernize the regulatory capital framework and maintain the strength of the banking system](#)

9. All portfolio discussions are based off our model RAM Smid portfolio of separately managed accounts. Company financial estimates sourced from Rewey Asset Management proprietary analysis, and Bloomberg BEST company estimates. Historical pricing and company financial data sourced from company 10Q and 10K filings, and Bloomberg. Individual portfolios may hold slight deviations in position sizes, cash levels and positions held. Portfolio statistics discussed are from December 31, 2025. These statistics will likely change over time. Debt/EBITDA ratio comments exclude financial companies due to non-comparability.

10. All financial ratios, statistics, and projections discussed in the Ultra Clean Holdings (UCTT) commentary are sourced from UCTT 10K, Proxy, 10Q filings, company press releases, company public conference calls and webcasts, company slide presentations, RAM discussions with management, Bloomberg, UCTT company webpage and Rewey Asset Management proprietary financial analysis and Rewey Asset Management industry due diligence. Historical share price information sourced from Bloomberg.

10. All financial ratios, statistics, and projections discussed in the Kyndryl (KD) commentary are sourced from KD 10K, Proxy, 10Q filings, company press releases, company public conference calls and webcasts, company slide presentations, RAM discussions with management, Bloomberg, KD company webpage and Rewey Asset Management proprietary financial analysis and Rewey Asset Management industry due diligence. Historical share price information sourced from Bloomberg.

11. All financial ratios, statistics, and projections discussed in the DNOW (DNOW) commentary are sourced from DNOW 10K, Proxy, 10Q filings, company press releases, company public conference calls and webcasts, company slide presentations, RAM discussions with management, Bloomberg, DNOW company webpage and Rewey Asset Management proprietary financial analysis and Rewey Asset Management industry due diligence. Historical share price information sourced from Bloomberg.

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