

Time for Tactical

The Era of “Easy Beta” May be Over

AIM 1Q26 Quarterly Letter

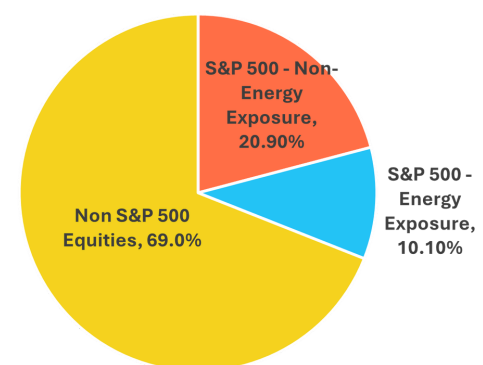
For whatever reason, the end of the first quarter has become a consistently eventful time for both markets and the broader world. So far 2026 has looked eerily similar to the start of 2025. The AI market darlings have lost momentum after finishing another strong year, international equities have outperformed domestic ones, and the quarter ended amid a massive geopolitical event likely to shape the rest of the year for investors.

We know how last year played out. The large, threatened tariffs were ultimately walked back and selectively enforced, yielding only a modest impact on the economy and allowing the AI-driven bull market to continue. This year we face the commodity-related impacts of the war in Iran. While markets have been volatile, particularly those of countries most exposed to importing oil, we believe investors may be too optimistic. Last year’s swift resolution to “Liberation Day” may have conditioned investors, leaving them expectant of, perhaps even desperate for, a short-term resolution to the current conflict. Setting aside our fundamental views on how 2026 will continue to play out, the current environment has been very conducive to a tactical strategy, and all three of our Decathlon portfolios delivered one of their strongest quarters in their history.

While most investable assets had modest negative returns to start the year, all three of the Decathlon portfolio risk levels were positive. The Growth strategy was up in the high single digits, Moderate in the mid-single-digits and Conservative in the low single digits. This was driven by a generally favorable market environment for tactical strategies and consistent exposure to energy and broad natural resources, which did well throughout the quarter and accelerated at the start of the Iranian conflict.

Over the past year, our strategies have increasingly moved away from the U.S. large-cap growth exposure which dominates market-cap-weighted indices. We believe our system has detected a regime change in markets. Many of the top-ranked ETFs represent investment exposure that is not highly represented in the typical strategic portfolio. Additionally, many of these sectors have not had particularly strong returns over most of the last five years but, on a shorter-term basis, appear to have established sustained momentum.

Moving away from the Indices: Decathlon Growth Portfolio's Equity Breakdown



Source: AIM internal files, weighted average portfolio holdings for the AIM Decathlon Growth strategy during the quarter, 12/31/2025-3/31/2026.

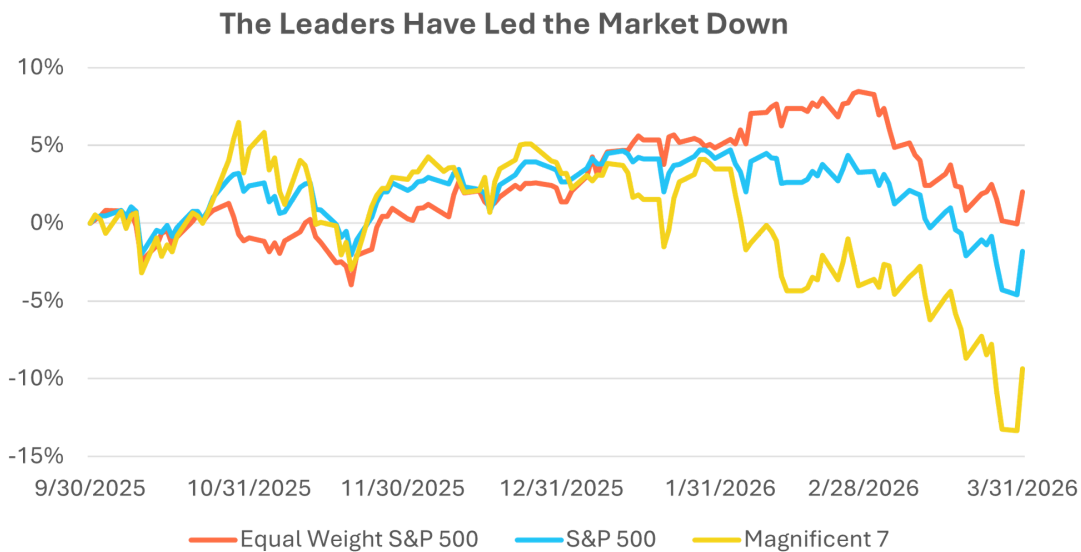
This highlights the potential value of a tactical strategy which can *selectively* seek out assets that are highly diversifying, rather than simply hold them and wait for the diversification benefits to materialize.

Energy equities have had brief periods of extreme and uncorrelated performance but, for most of the last five years, have not kept up with tech-led market-cap-weighted indices. Foreign equities, which lack significant tech and internet exposure, have consistently underperformed US equities for the greater part of a decade but just recently came off their best relative year since 2008. As market performance continues to broaden and a variety of themes

outperform relative to market-cap-weighted indices, our opportunity set becomes increasingly fertile, and the potential value-add of tactically moving between different investments increases. Until the latter part of 2025, it was difficult to move outside of the large market leaders for extended periods of time and drive outperformance. We believe over the next few years we will see the opposite, with many different securities offering opportunities for performance.

The “Lag 7”

Momentum for the “Magnificents” faded in the later part of 2025 and these market leaders have led the market lower as volatility has re-emerged in 2026. If this trend continues, it will have a disproportionate impact on market cap equity indices just as it did when they were driving them higher.



Source: Bloomberg 9/30/2025 – 3/31/2026. Equal weight S&P 500 is the ETF RSP, Invesco equal-weight S&P 500. S&P 500 is represented by SPY the State Street S&P 500 ETF. Magnificent 7 is represents by MAGS the Roundhill Magnificent 7 ETF.

The fate of these securities appears inextricably tied to the AI investment cycle. We’ve shared our views on this topic extensively, but I’ll summarize them again here:

1. We believe the current environment is reminiscent of the Tech/Telecom bubble of the late 90s.
2. The Magnificent 7 became “magnificent” competing against the incumbents they disrupted. Going forward, they are increasingly competing with one another in a race they view as existential. The gravity of capitalism should make them worse businesses than they were in the past.
3. If these conditions are generally true, there should be substantial opportunity outside of market cap indices. This was the case after the Tech Bubble when the average company substantially outperformed the headline indices and would be in stark contrast to the mega cap driven environment we have seen in recent years.

While we have seen some modest indications of weakness in the general AI buildout thus far, all the largest players appear to be “full steam ahead.” There isn’t much evidence of an impending decline in spending. What has changed is the market is no longer cheering the massive spending. Notable planned spending increases were announced by Alphabet, Amazon, Meta and memory chip maker, Micron, and all were met with stock weakness after otherwise strong quarterly results.

Select Large Capital Investment Plans Announced in the Quarter

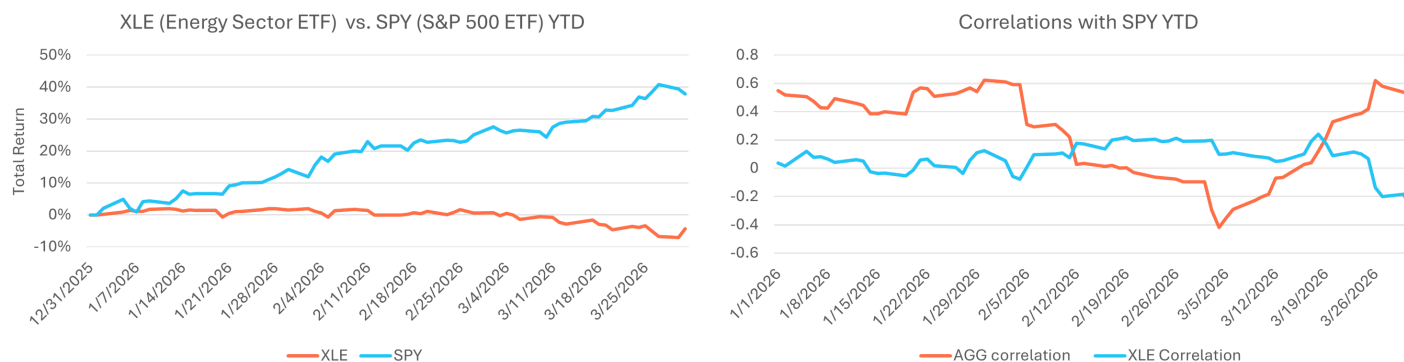
	2025 Cap-ex	Announced plan	% increase	Stock on day of announcement
GOOGL	\$91,447	\$180,000	96.8%	-0.54%
META	\$69,691	\$125,000	79.4%	-2.95%
AMZN	\$131,819	\$200,000	51.7%	-5.55%
MU	\$15,857	\$25,000	57.7%	-3.78%

Source: Bloomberg, company filings and press releases from Q4 2025.

Earlier in the cycle this spending might have been rewarded under the guise of driving more future revenue, but now the weakness signals the market is beginning to worry about “too much” AI. Amazingly, this has occurred even as the perceived usefulness of AI tools increased sharply, to the point that the market began to view AI as an existential threat to nearly every software business. We continue to believe, as many others do, that AI will change the world, but that doesn't mean all investment in the space will turn out well.

Dire Straits: Energy Becomes a Powerful Portfolio Asset

As the Iranian conflict has unfolded, Oil has become a key driver of markets.



Source: Bloomberg data from 12/31/2025 through 3/31/2025.

While the outcome of the conflict remains uncertain, the value of energy within a portfolio context remains extremely compelling. With inflation concerns front and center, fixed income has done little to offset increased equity volatility, dampening its defensive characteristics within typical asset allocated portfolios. Energy, despite being an equity, has had negative correlations to markets since the war began, and even before that, exhibited very little equity market correlation. These attributes are likely what drew our systems' attention.

Securities with strong momentum and minimal correlation are “beating to their own drum,” a situation that likely coincides with a positive fundamental backdrop and a pattern that our models have increasingly detected as attractive. Contrast this behavior with the fundamentals for energy entering the year: OPEC was increasing production, U.S. production was at all-time highs, and Chinese demand remained weak. Not a positive set of conditions for higher oil prices.

A big part of our thesis for using price-based variables within our models is that we believe the market is generally efficient, but imperfectly so. Energy may be a great example of this. The fundamentals looked poor for oil prices in 2026, but gradually the market began to price in greater geopolitical uncertainty leaving a detectable signature for a quantitative model.

Changes in Latitudes, Changes in Attitudes: Investors Continue to Embrace Foreign Equities

The U.S. is a relatively unique developed market economy, as it is one of the few that is largely energy independent. Due to this, many foreign markets have been disproportionately punished since the beginning of the Iranian conflict. Despite recent weakness, it was another quarter of outperformance for international markets relative to the U.S., a trend that looks increasingly durable.¹

If last year does ultimately represent the beginning of a new market regime with international stocks outperforming the U.S., what might we look back on in hindsight as the catalyst for that change? Despite our knowledge of the recent past, there is not a simple answer to this question, highlighting just how hard it can be to predict large market leadership changes. So far, the strength could be attributed to a combination of renewed economic growth and a

weaker U.S. Dollar paired with historical “cheapness” on most valuation metrics. The U.S. administration has worked to move away from globalization and seems to want a weaker Dollar (to boost exports presumably) which could aid the trend and might be viewed as some sort of turning point should it last. It has been somewhat unexpected (and welcome) that strong relative international outperformance hasn’t come on the back of weak U.S. market performance thus far, but that may be a driver in the future. While the U.S. is more insulated from oil price increases than most other investment markets, many of the emerging economic risks we outline below are more concentrated domestically. If they materialize, we expect that international equities may be more likely to be spared.

Other Emergent Risks

Our models continue to signal for at or above “neutral” equity exposure, albeit within a highly diversified portfolio creating far less market exposure or “beta” than our equity percentage alone might indicate. Because we aren’t seeing model signals indicating fear of a large risk-off event or an impending recession, perhaps you could say we are positioned for more of the same. We often find our own views align with the rankings (it’s possible they influence us!), and while that generally holds today, I think we may be personally a bit more risk-averse than our own system. We continue to see a number of risks to both the market and economy that could materialize in the coming year:

- 1. Wealth effects.** Any deterioration in the AI capital cycle or continued market weakness is likely to be transmitted into the broad economy due to the historic “wealth effects” within the U.S.
- 2. Interest rates.** Housing markets within post pandemic boom regions have seen consistently declining prices. Overall housing turnover sits at multi-year lows. Mortgage rates were set to decline in 2026, but so far, they have increased. This could further contribute to negative wealth effects if the massive home equity that has been built post covid takes a hit.
- 3. Inflationary pressures.** While the immediate effects of the Iranian conflict are being felt at the pump, the longer the conflict continues the more they could spread to general inflation via commodity related input costs.
- 4. Private credit.** Private equity exits have been suspiciously low despite generally strong equity markets. Many private credit funds have seen investors redeeming at historically large rates, which can create a negative feedback loop or may be an indication of perceived weakness within the funds. This comes after a period of historic growth for the industry as they expanded accessibility towards high-net-worth individuals.

Despite this backdrop, the economy continues to chug along and markets, while stressed, are certainly not signaling “fear”. In fact, they appear to us as if they are looking for a reason to go up.

Opportunities Ahead

We believe the era of “easy beta” has come to an end. Recent history has been an anomalously strong period for passive U.S.-based investors. If current market dynamics continue, our ability to allocate to some of the dustier corners of the market should be advantageous. We’re excited that this may be the time to shine for active strategies, particularly those that can move quickly across sectors and asset classes to capitalize on the new regime. We hope to deliver on that and thank you all for your continued trust in us.

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Sources and Disclosures:

¹ Since the end of 2024 International stocks, represented by the MSCI ACWI ex US index, have outperformed the S&P 500 27.95% to 10.66% through March 31st 2026. Of the 5 quarters since International has outperformed in all but one. Source Bloomberg 12/31/2024-3/31/2026.

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