

GREETINGS FROM THE NORTHWEST!

Well... if ever there was a reminder that our personal sphere of control is smaller than we might like, these past few weeks have demonstrated it as clearly as ever.

While Spring is finally poking through here – temps are warmer, days stretching out, and the tulips are making their reappearance – the headlines aren't so gentle. The war in Iran has everyone on edge, with oil prices rising sharply, shipping routes disrupted, and markets jolted awake. Brent crude has hovered near one hundred dollars a barrel recently, pushing prices at the pump noticeably higher. Many are wondering how bad things will get, and where we will go from here.

I can say with great confidence that I do not know.

That said, I believe our robust energy infrastructure and geographic distance from the conflict zone will help limit the immediate impacts here at home. The higher prices largely reflect global pricing dynamics for U.S. crude oil, rather than any domestic supply shortage.

The overall health of the economy and the direction of the stock market will likely be shaped by a far more complex set of factors than by any single event. Our approach to managing your money fully recognizes this reality, and the current situation doesn't prompt any change in our overall method. It may introduce new opportunities and risks, but I'm confident our disciplined process – centered on careful analysis, value focus, and prudent risk management – can handle them effectively as they arise.

We're making good progress on the shift to Cairn Wealth Management, new branding, fresh website, all coming soon. But for now, we're still Cairn Investment Group, with the same team and the same core promise: protecting your wealth while pursuing reasonable growth. The rebrand is just polish; the foundation stays rock-solid.



OF NOTE:

- :: Estimated taxes, IRA contributions, and tax returns due April 15.
- :: ADV Firm Brochure and Annual Privacy Notice are attached.

HOLIDAYS :: MARKETS AND CAIRN CLOSED:

- :: Monday, May 25 Memorial Day
- :: Friday, June 19 Juneteenth



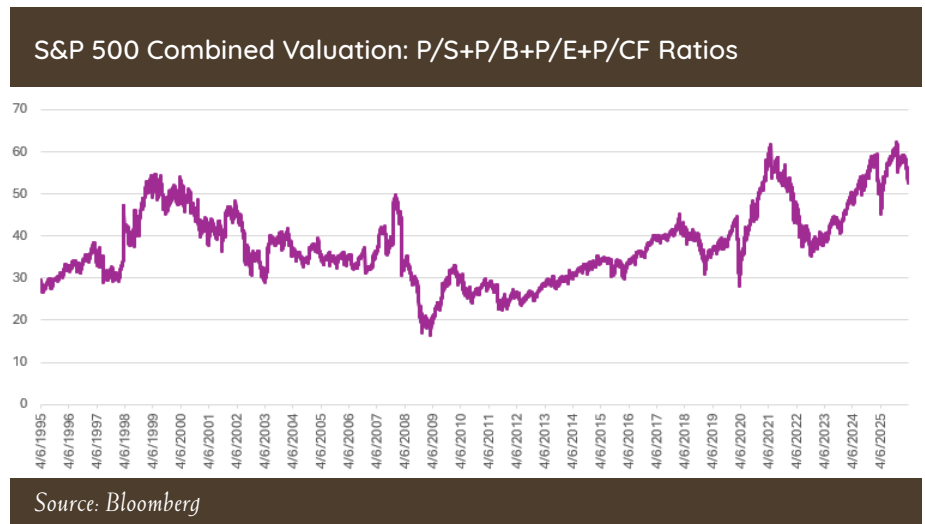
...I'm confident our disciplined process – centered on careful analysis, value focus, and prudent risk management – can handle (new opportunities and risks) effectively as they arise.” —Tim Mosier

Capital markets during the first quarter of the year resembled a roller coaster. Over the first two months, markets continued to grind higher before reaching a peak and pulling back sharply as the quarter came to a close. When all was said and done, U.S. stocks, as measured by the S&P 500, declined 4.3%. International stocks fared somewhat better, finishing down 1.1% for the quarter. Bonds were not spared, posting a flat return as interest rates rose on the back of higher inflation expectations.

Amid the constant noise across the news media, many have asked how we are navigating the current investment landscape. A strong appreciation for history, combined with a disciplined, data-driven approach, is critical in all market environments – particularly during periods of heightened volatility and shifting sentiment. In our March 19th communication, we highlighted current risks and confirmed our higher-than-normal cash allocation. Below, I will expand on what we are seeing and provide additional context around potential actions within portfolios. As always, we will let facts and data guide our decisions – and when the facts change, we will change our mind.

EQUITIES

Over the past several years, we have discussed at length the elevated valuations across much of the U.S. equity market. Regardless of the metric used, even after a roughly 6% pullback in the S&P 500, valuations have not meaningfully improved.



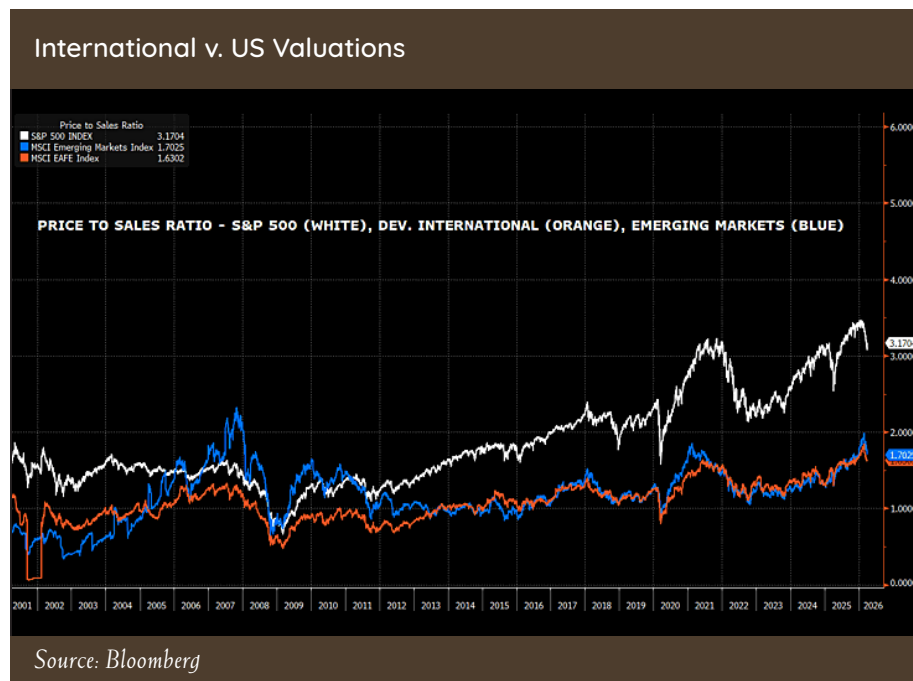
A condition that emerged in March – one that had not been present previously – is a rapid deterioration in price trends and investor sentiment. Looking back over the past 82 years, when the S&P 500 has exhibited both elevated valuations and a negative price trend (as measured by its 10-month moving average), forward 12-month returns have declined from approximately 10% to just over 2%, with a higher probability of loss. Notably, this environment has occurred only about 9% of the time.

Average Price Return – All Years	9.50%
Average Price Return	
Cyclically Adjusted P/E > 20 and Negative Trend.....	2.52%
Frequency	9.10%
Largest Drawdown	-45.00%
Probability of Negative Return	39.00%
	v. 28.00% all years (1944-present)
Average Return When Negative	-21.00%
	v. -11.00% all years (1944-present)
	<i>monthly data</i>

Needless to say, the combination of elevated valuations and weakening sentiment creates an environment where a more defensive posture is warranted for US stocks.

While opportunities within U.S. equities remain limited, we are finding more compelling investment opportunities abroad, where valuations are significantly more attractive. Investor interest in international markets has also increased, supported by stronger relative performance over the past 12 months compared to U.S. stocks. Additionally, recent weakness in the U.S. dollar – driven by persistently elevated inflation and a growing debt burden – has provided a meaningful tailwind for many international markets.

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All things being equal, I would expect our international allocation to increase as these opportunities continue to develop.

Consistent with our valuation disciplined approach, when companies or asset classes do not offer an adequate margin of safety at current prices, we are comfortable holding cash. Our cash allocation provides two primary benefits.

First, in the short term, it offers stability and serves as a hedge against unexpected price shocks in both equities and fixed income, most recently demonstrated in 2022, while still earning a competitive yield through money market funds and Treasury bills.

Price Return S&P 500, US Aggregate Bond Index, 1-3 Month Tbills 2022



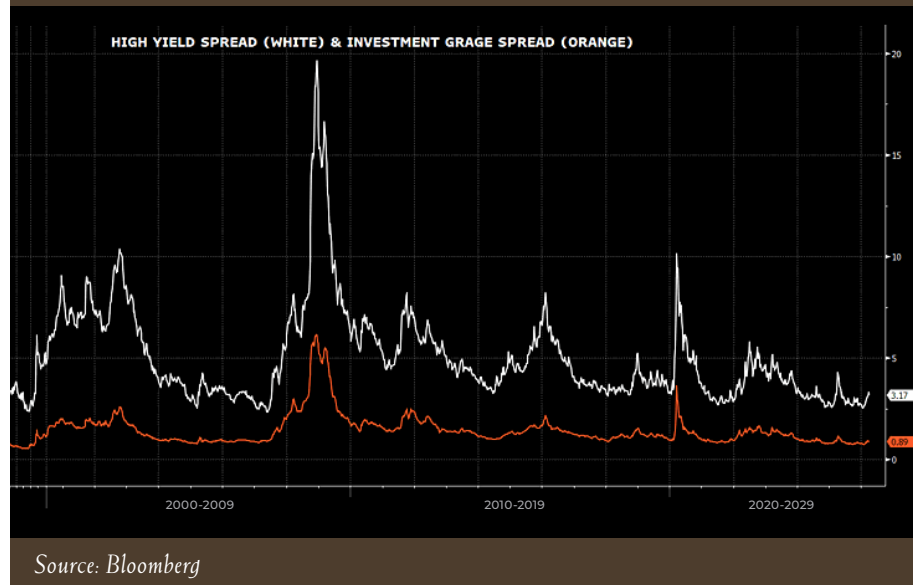
Second, it provides flexibility. Maintaining liquidity allows us to take advantage of market volatility and emerging investment opportunities without being forced to sell assets we continue to view favorably.

FIXED INCOME

We continue to view fixed income markets as offering both opportunity and risk, depending on the segment. In certain areas, current yields provide a meaningful level of safety, while others appear more vulnerable.

For tax-sensitive investors, municipal bonds remain attractive, with spreads offering compelling after-tax yields alongside a relatively strong safety profile. In contrast, within taxable fixed income, we see greater risk in corporate bonds. Credit spreads over Treasuries remain historically low, which, in our view, offers insufficient compensation for the underlying credit risk and limited downside protection.

Credit Spreads Remain Low



CLOSING THOUGHTS

In our [last letter](#), I noted that as we entered 2026, return expectations should be tempered following three consecutive years of strong market gains. Over this period, business fundamentals have not kept pace with rising asset prices, creating a notable disconnect in capital markets. Over the past three years, S&P 500 revenues have grown approximately 16%, while stock prices have increased by roughly 65%.

There are ultimately two ways for this imbalance to resolve: either fundamentals accelerate and catch up to current valuations, or prices adjust downward to better reflect underlying business performance. While we don't know the exact path, the conditions discussed above suggest the potential for a period of below-average returns. For clients who take advantage of our comprehensive financial planning, we already incorporate below-average return assumptions to further stress test plans and provide an additional margin of safety against uncertain outcomes.

We will continue to adjust portfolios based on incoming data, thoughtfully increasing or decreasing exposure to risk assets as warranted by evidence with demonstrated relationships to future returns, rather than reacting to short-term news flow.

Thank you, as always, for your continued trust and support. We've had many valuable conversations with clients recently and encourage you to reach out with any questions or concerns. —Patrick Mason

Thank you, Patrick!

Thanks, as always, for your trust – we don't take it lightly. Drop me a line if anything's on your mind.

Happy Trails,

Tim Mosier, President,
Cairn Investment Group, Inc.

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