

April 7, 2026

Dear clients and friends,

The S&P 500 Index posted a total return of -4.3% during the quarter first quarter of 2026, snapping a remarkable run during which the index gained 17.9% in 2025 and 25.0% in 2024. The recent decline was not broad-based. The largest companies, particularly those in the technology sector (more on that in a moment), accounted for virtually all of the index-level loss. International equities continued their surprising resilience, with the MSCI ACWI ex-US Index eking out a total return of 1.1% during the quarter. An escalating war and a significant leap in agentic artificial intelligence dominated the news. The Bloomberg U.S. Aggregate Bond Index declined 0.05% during the quarter, reflecting a tug-of-war between concerns about inflation and demand for high-quality bonds as a safe haven.

### Technology

At Nvidia's recent conference, CEO Jensen Huang publicly described OpenClaw as one of the most significant open-source projects of all time. OpenClaw is a platform that enables AI agents to execute real-world tasks independently, without a human operator directing each step. In addition to browsing the web, managing files, sending emails, and interacting with third-party software, OpenClaw autonomously writes and runs code.

This capability raises fundamental questions about the future economics of the software industry. Software-as-a-service (SaaS) companies have historically earned exceptional profit margins by charging customers on a per-seat basis for access to their applications. If autonomous agents begin to replace human users and legacy software at scale, that per-seat pricing model will face pressure. Reflecting these concerns, the iShares Expanded Tech-Software Sector ETF (IGV), which holds concentrated positions in many SaaS companies, declined

nearly 24% during the first quarter of 2026. Only time will tell if this is a buying opportunity or if is the end of an era for certain software companies.

### Valuation

Against this backdrop, valuation and the methods used to measure it deserve careful attention. Barron's recently wrote an article entitled, *The Stock Market Is More Expensive Than It Looks. Tread Carefully*. The concern is not only how much companies earn, but also how those earnings are measured.

Net income under generally accepted accounting principles (GAAP) deducts non-cash expenses such as depreciation and amortization, but it does not fully capture the cash that must be reinvested in the business to sustain and grow operations. Capital expenditures, such as property, plant, and equipment, are recorded on the balance sheet and then recognized on the income statement over time through depreciation expense, so their impact on reported earnings is spread over their theoretical, useful life. Free cash flow, by contrast, measures the cash that remains after a company has paid its suppliers, funded ongoing operations, and made the capital investment necessary to maintain and expand its business.

For companies building infrastructure for artificial intelligence, this distinction is especially important. Recent investments in data centers, networking equipment, and related digital infrastructure have caused net income and free cash flow to diverge materially. The spending reduces free cash flow immediately, yet it reduces reported earnings only gradually as the assets are depreciated over years or even decades. As a result, GAAP earnings can appear robust while free cash flow tells a more cautious story. When these businesses are evaluated on a price-to-free-cash-flow basis rather than on the more familiar price-to-earnings multiple, valuations look considerably less attractive. Because they represent a large share of major equity indices, this has implications for the broader market as well.



In our view, the combination of technological disruption, heavy capital spending, and elevated headline valuations makes the discipline of focusing on underlying cash generation more important than ever. By concentrating on businesses with competitive advantages that produce durable free cash flow, investors can mitigate the risk of permanent loss of capital.

We welcome the opportunity to discuss these observations and your portfolio with you. Please email [info@sapphirefiduciary.com](mailto:info@sapphirefiduciary.com), call (502) 509-2568, or visit [sapphirefiduciary.com/contact](http://sapphirefiduciary.com/contact) if you would like to schedule time with us to review your investments or to learn more about what Sapphire does for clients.

Sincerely,

A handwritten signature in black ink that reads "Paul Stropkay". The signature is written in a cursive, flowing style.

Paul Stropkay, CFA

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#### Sources

- Lex Fridman Podcast #491 - *OpenClaw: The Viral AI Agent that Broke the Internet* - Peter Steinberger, February 11, 2026
- J.P. Morgan Asset Management *Guide to the Markets*® U.S. 2Q 2026 as of March 31, 2026
- Baird Advisors *Fixed Income Market Commentary*, March 2026
- Morningstar Investor *iShares Expanded Tech-Software Sector ETF*, March 31, 2026
- Barron's, *The Stock Market Is More Expensive Than It Looks. Tread Carefully.*, April 6, 2026



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