

# WEEKLY FUND LETTER

Week Ending March 28, 2026 Cash Account · 9726

## Navigating the Bear — and Finding Alpha In It

### MARKET SNAPSHOT

Index / Asset	YTD	This Week	Note
S&P 500	-5.8%	-2.1%	Below 200-DMA
Nasdaq	-8.1%	-3.2%	Correction (-13% from high)
Dow Jones	-4.2%	-0.9%	5th consecutive losing week
Russell 2000	-12.3%	-2.6%	Correction territory
Our Fund	+2.1%	+0.8%	Outperforming — energy overweight driving alpha

### THE BEAR HAS ARRIVED

There is no point softening it. This week delivered the S&P 500's **fifth consecutive weekly decline**, down 2.1%, and the index now sits **5.8% below its January opening level** with its 200-day moving average broken for the first time since 2023. The Nasdaq has entered formal correction territory, off 13% from its October highs. The Russell 2000 is down 12.3% YTD. By any technical measure, the bear market is here.

The catalyst is a two-part storm: the tariff escalation in February that sent markets into an initial 10% correction, followed by the outbreak of the Iran conflict on March 1, which added a further 6% decline as Brent crude surged above **\$85–\$90/bbl** and supply chain fears spread. The VIX has averaged 24.3 through March versus 16.1 in February.

### HOW WE FARED: OUTPERFORMING IN A DOWN MARKET

Against this backdrop, our book outperformed. Our concentrated positioning in energy and commodity names — **Petrobras (PBR)**, **Freeport-McMoRan (FCX)**, and **XLE** — absorbed the market's blow and turned it to our advantage. The energy sector surged **+18.2% month-to-date**, becoming the only major S&P sector in positive territory. Infrastructure names (**MasTec +2.4%**, **Caterpillar +0.8%**) provided additional cushioning. Our commodity-heavy book effectively transformed what is a macro headwind for the index into a portfolio tailwind.

Our tech exposure (Microsoft, UiPath) weighed at the margin — the Nasdaq's 3.2% weekly decline is a real drag — but these remain fundamentally sound positions. MSFT is now trading **below our cost basis**. We are re-underwriting the position; more on that next week.

## SPOTLIGHT: WHY WE ENTERED PETROBRAS (PBR)

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PBR is our **largest position at 19.3% of the book** — 350 shares entered at an average cost of **\$19.16**, currently trading at **\$19.97**, near its 52-week high of \$20.28. Here is the full entry thesis.

### **1. The Macro Setup: A Structural Tailwind, Not a Trade**

The Iran conflict has embedded an estimated **\$18/bbl geopolitical risk premium** into Brent crude (Goldman Sachs estimate), pushing prices above \$85–\$90/bbl. But our thesis on PBR did not begin with the war — it began with the recognition that oil was already re-pricing to a structurally higher floor driven by years of underinvestment in upstream capacity, OPEC+ supply discipline, and accelerating emerging-market demand. The Iran conflict simply amplified and accelerated a move that was already underway. We entered PBR as a way to own that macro tailwind through a low-cost, high-FCF producer that trades at a significant discount to Western peers.

### **2. Brazil: The Ideal Beneficiary Outside the Conflict Zone**

Petrobras is a pre-salt deepwater producer based in Brazil — entirely insulated from Middle East supply disruption while directly and disproportionately benefiting from elevated prices. Unlike Iranian, Saudi, or Gulf producers whose output is itself a variable in the geopolitical equation, **PBR's production is unaffected by the war** while its revenue is fully leveraged to it. Brazil's pre-salt fields carry some of the lowest lifting costs in the world (~\$6–\$8/bbl breakeven), meaning every dollar above \$30 crude is nearly pure margin. At \$87 Brent, the FCF generation is exceptional.

### **3. Valuation: An EM Discount That Doesn't Reflect The Fundamentals**

Despite a **Q4 profit of \$2.9 billion** — a turnaround from prior losses — PBR trades at a meaningful discount to IOC peers like Exxon and Shell on EV/EBITDA. The market applies a persistent "Brazil discount" tied to political risk and state ownership. We view this discount as an entry opportunity rather than a reason to avoid: the Brazilian government's incentive is **aligned with dividend maximization**, as the state is itself a major shareholder. That political dynamic, often cited as a risk, is in this case a structural support for capital return.

### **4. The Dividend: Getting Paid to Wait**

PBR yields **7.1% at current prices** — among the highest in the energy sector globally. With dividends paid quarterly and a policy tied to FCF generation, the yield is not a mirage: it is a function of the company's \$30–\$35B annual FCF capacity at current oil prices. We entered the position knowing we would **collect significant cash returns while waiting for the re-rating**. The next dividend payment is confirmed for March 27, 2026, with a record date tied to our existing position.

### **5. Analyst Consensus & Technicals Confirm the View**

Morgan Stanley recently raised its price target to **\$20**, consistent with our entry thesis. The stock is trading near its 52-week high of \$20.28, showing relative strength in a tape where most names are declining. The technical picture — price holding above all key moving averages, energy sector the only positive S&P sector MTD — confirms our fundamental view. We are **up +4.2% on our position** and see a credible path to \$22–\$24 if Brent sustains above \$80 through Q2 and the government confirms a special dividend from Q4 profits.

### **Key Risk: Ceasefire / Oil Price Collapse**

The principal risk to our PBR position is a rapid de-escalation of the Iran conflict that deflates the geopolitical oil premium. A move from \$87 to \$65 Brent would compress FCF and likely trigger a dividend cut, unwinding much of the investment case. We monitor the geopolitical situation daily and

maintain a defined stop below **\$17.50** — approximately 8.7% below cost — where the risk/reward breaks down.

## WHY THE BEAR MARKET IS AN OPPORTUNITY

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### *Energy and commodities are re-rating in real time*

With Brent crude above \$85 and Goldman Sachs estimating an **\$18/bbl geopolitical risk premium** embedded in oil prices, our energy names sit at the nexus of the conflict's most direct economic consequence. **Petrobras (PBR)** — our largest position at 19.3% of the book — is near its 52-week high of \$20.28, delivering a **7.1% dividend yield**, and just received a price target upgrade from Morgan Stanley to \$20. The thesis is intact and strengthening.

### *The copper signal is underappreciated*

**FCX** is down 17% from its February all-time high of \$68.82, despite the copper supply disruption narrative being stronger than ever. Iran is a meaningful copper and zinc exporter; disruptions are rippling globally. A strike at the Mantoverde mine in Chile compounds supply pressure further. We are **still profitable on FCX from cost**, and the analyst consensus stands at 87% Buy/Strong Buy. This pullback is re-entry territory, not an exit signal.

### *Gold's failure is telling us something important*

Gold has plunged from an all-time high of **\$5,595 in January to \$4,600 today** — a **14.5% decline** even as the Iran conflict escalates. This is the "Geopolitical Paradox": energy-driven inflation and real-yield dynamics are overwhelming traditional safe-haven mechanics. The smart money is rotating into real-asset commodity plays and energy producers — not gold. This dynamic directly reinforces our book positioning.

### *Valuations are resetting to attractive levels*

Consumer discretionary is down 12.3% MTD. Tech is under sustained pressure. These declines are creating selective entry points in quality names — exactly the kind of dislocation a concentrated, conviction-driven book is built to exploit. Patience and selectivity now will define alpha over the next 12 months.

## WHAT WE ARE WATCHING NEXT WEEK

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**FCX vs. Gold vs. PBR sizing:** We are actively evaluating whether to rotate capital from FCX into PBR, or exit gold exposure entirely in favor of either. Our preliminary view is that PBR offers the clearest near-term catalyst (sustained oil price + upcoming dividend), FCX offers the superior 6–12 month return profile if copper supply disruptions persist, and gold is the wrong vehicle in this specific inflation-plus-geopolitics regime. A formal position sizing analysis will follow next week.

**MSFT re-underwrite:** Trading below our cost at \$374.51 vs. \$377.75 avg. The fundamental thesis remains sound, but we want to assess whether the macro headwind to tech multiples justifies trimming or adding.

**Iran ceasefire risk:** The binary tail risk to our energy overweight. A ceasefire or diplomatic breakthrough could rapidly deflate the \$18/bbl oil risk premium. We are sizing our energy exposure with this in mind and will not be caught flat-footed.

## ***The Thesis In One Sentence***

Bear markets do not destroy value — they **redistribute it**. This one is redistributing it toward energy, commodity producers, and infrastructure, which is exactly where we sit. We remain optimistic — not despite the volatility, but **because of it**.

— ***The Fund***

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### 秋 词

刘禹锡 唐 772–842

自古逢秋悲寂寥，  
我言秋日胜春朝。  
晴空一鹤排云上，  
便引诗情到碧霄。

*Since ancient times, men have mourned the loneliness of autumn;  
I say autumn days outshine even the fullness of spring.  
A solitary crane cuts through the clear sky above the clouds —  
And carries the poet's spirit all the way to the blue heavens.*

**Liu Yuxi, Tang Dynasty · Ode to Autumn**