

Red Stone Income Fund

Quarterly Report as of March 31, 2026

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1. Market performance and asset manager commentary

a. General Market Performance

The first quarter of 2026 was marked by a pronounced dichotomy: While global equity markets remained on a solid course during the first two months of the year, a geopolitical shock beginning in late February caused all major market segments to reverse course. The U.S.-Israeli attack on Iran, codenamed “Operation Epic Fury,” on February 28 February 2026 caught the financial markets off guard and triggered a comprehensive reassessment of risks, inflation, and growth.

The consequences were immediate: The price of Brent crude oil rose to over \$110 per barrel by the end of March—an increase of more than 85% since the start of the year. On March 4, Iran closed the sea route through the Strait of Hormuz, through which approximately 25% of the world’s crude oil and 20% of globally traded liquefied natural gas (LNG) were transported prior to the conflict. The global Bloomberg Commodity Index rose by a solid 24% in the first quarter—the strongest quarterly increase in decades.

Stock markets performed correspondingly poorly. The S&P 500 ended the quarter down about 5%—its weakest quarterly performance since the third quarter of 2022. Technology stocks came under particular pressure: U.S.

software stocks lost 23% from the start of the year through the end of February, as investors simultaneously questioned the disruptive impact of new AI models on existing software business models and the return on massive AI infrastructure investments. Only the energy sector bucked the general downward trend, gaining 38% over the quarter. In the credit markets, spreads widened for both high-yield bonds (U.S. high yield –0.5%; European high yield –1.7%) and investment-grade bonds (–1.3% globally). Gold and emerging market equities came under pressure, contrary to their usual role as a safe haven in times of crisis, while the U.S. dollar gained just under 2% as measured by the DXY Index.

Central banks worldwide found themselves in a monetary policy dilemma: on the one hand, rising energy prices were pushing inflation higher; on the other hand, the growth shock weighed on the economic outlook. The U.S. Federal Reserve (Fed) left interest rates unchanged at 3.50–3.75% in January and March. The European Central Bank (ECB) also kept interest rates steady and revised its inflation forecast for 2026 upward to 2.6%. In April 2026, the International Monetary Fund (IMF) published its World Economic Outlook in April 2026 under the title “Global Economy in the Shadow of War” and emphasized the pronounced downside risks to growth alongside significant upside risks to inflation.

USA

The U.S. economy started the new year with mixed signals. GDP growth for the first quarter of 2026 was 2% on an annualized basis—a real recovery following the slump in the fourth quarter of 2025, which had been affected by a six-week government shutdown. However, this growth was overshadowed by distortions: companies had brought forward imports on a large scale to avoid tariffs, and inflation rose to 4.5%—more than double the Fed’s 2% target.

The labor market cooled noticeably: In February 2026, the number of new non-farm payrolls plummeted by 92,000, while consensus estimates had expected an increase of 60,000. The unemployment rate rose slightly to 4.4%. Despite slowing growth momentum, the Fed was unable to signal interest rate cuts due to renewed inflationary pressures; at its March meeting, the Open Market Committee (FOMC) merely confirmed a single rate cut for the current year in its projections.

On the trade policy front, there was a bombshell in February: The Supreme Court overturned the Trump administration’s IEEPA tariffs in a 6-3 decision on February 20 (IEEPA = International Emergency Economic Powers Act, a U.S. federal law that grants the president far-reaching economic intervention powers during national emergencies). The court ruled that IEEPA does not authorize the president to impose import tariffs, as these constituted a taxing power reserved for Congress. Subsequently, the Trump administration imposed a new 10% flat-rate tariff on all imports under the alternative legal basis of Section 122. The effective U.S. tariff rate thus fell below the IEEPA level but remained well above the pre-Trump level of around 3%. For global markets, this meant more legal uncertainty rather than less.

Politically, further turbulence marked the quarter: In January, U.S. special forces arrested Venezuelan President Maduro and brought him to New York to face prosecution; the Trump administration also engaged in aggressive rhetoric regarding a possible annexation of Greenland and Canada. While these developments caused short-term market volatility, they were quickly overshadowed by the outbreak of the Iran conflict.

Europe

The eurozone entered 2026 with subdued momentum. According to Eurostat’s flash estimate, real GDP grew by just 0.1% in the first quarter of 2026—a minimal increase that already reflects the uncertainty arising from the war in the Middle East. In March, ECB experts revised their growth forecast for full year 2026 downward to 0.9%, while the inflation forecast was raised to 2.6%

. Support came from a robust labor market, solid balance sheets in the private sector, and rising public spending on defense and infrastructure.

At its March meeting, the ECB left its three key interest rates unchanged—deposit rate at 2%, main refinancing rate at 2.15%, and marginal lending rate at 2.40%. ECB President Lagarde emphasized a data-dependent approach and did not commit to a future interest rate path. In light of the energy price shocks driven by the war in Iran, markets even priced in the possibility of interest rate hikes over the course of the year. European government bonds came under pressure, with Gilts (British government bonds) posting the worst performance among developed-market government bond markets at –2%.

In Germany, the historic fiscal package (special framework for defense and infrastructure) began to take effect, with stronger impacts expected starting in the second half of 2026. Europe significantly intensified its defense cooperation with Ukraine: In April, Germany and Ukraine concluded a drone agreement during the first German-Ukrainian government consultations in over 20 years—the “largest deal of its kind in Europe,” according to Ukrainian President Zelenskyy, “the largest deal of its kind in Europe.” The EU also approved a 90-billion-euro loan facility at the end of 2025 to finance Ukrainian defense in 2026 and 2027.

Losses on European stock markets were not as pronounced as in the U.S.: The U.K. even posted a slightly positive quarterly return of around 2%, driven by a rotation into value and dividend stocks. European high-yield bonds, on the other hand, lost 1.7%, more than their U.S. counterparts.

Asia

In the first quarter of 2026, the Asian region found itself caught between a solid economy in the spring months and the rapidly escalating energy price shock resulting from the Iran conflict. Proximity to the Persian Gulf and structural dependence on imported energy sources left parts of Asia particularly exposed to the closure of the Strait of Hormuz.

China: China’s economy exceeded expectations in the first quarter of 2026. The National Bureau of Statistics (NBS) reported on April 16 a GDP growth rate of 5% compared to the compared with the same quarter of the previous year—an acceleration from 4.5% in the fourth quarter of 2025. The drivers were strong industrial production (+6.1% year-over-year) and an export-led boom, particularly in the first two months of the year (+21.8% in exports), which slowed to +2.5% in March due to the Middle East conflict. China had already revised downward its annual growth target range for 2026 to 4.5–5%, the lowest target ever set, while maintaining the budget deficit target at around 4% of GDP.

China initially benefited from its relative energy resilience: large state-held oil reserves and a diversified supply base cushioned the immediate shock of the closure of the Strait of Hormuz. In addition, Beijing assumed a privileged special role: Iran initially granted Chinese ships passage rights initially, while Western ships were blocked. At the same time, the U.S.-China trade war continued to exert pressure: The U.S. goods trade balance with China has fallen by more than 30% since April 2025. China's Producer Price Index (PPI) returned to positive territory in March for the first time in 41 months—a sign of easing deflationary pressures.

Japan: Japan experienced a turbulent first quarter of 2026, heavily influenced by domestic political developments and the Middle East shock. Prime Minister Sanae Takaichi dissolved the lower house in January and called for new elections on February 8. The driving force was her populist campaign promise to suspend the 8% consumption tax on food for two years—an announcement that triggered a historic sell-off in the Japanese government bond (JGB) market. The yield on the 40-year government bond exceeded the 4% mark for the first time since 2007; the 30-year yield rose to a record high. The LDP under Takaichi won the election in a landslide (316 seats), the largest majority for a single party since World War II.

The Bank of Japan (BoJ) kept its key interest rate at 0.75% at its January meeting and revised its growth forecast for fiscal year 2026 upward to 1%. However, following the outbreak of the Iran war, the BoJ drastically lowered its growth forecast to 0.5%, while core inflation forecast more than doubled to 2.8%. Headline inflation fell to 1.5% in January—falling below the BoJ's 2% target for the first time since March 2022—but quickly rebounded due to the energy price shock. Analysts warned of a “mild stagflation” scenario for Japan. The yen weakened by over 1.5% quarter-on-quarter and traded at times around 159 yen per U.S. dollar.

India: In the first quarter of 2026, India emerged as one of the most resilient economies globally. The first preliminary estimate from the Ministry of Statistics and Population (MoSPI) for fiscal year 2025/26 showed GDP growth of 7.4%—thereby confirming India's position as the world's fastest-growing major economy for the fourth consecutive year. Goldman Sachs forecast growth of 6.9% for the calendar year 2026—above the consensus estimate. The drivers were robust private consumption (share of GDP: 61.5%), a buoyant industrial sector (+6.2%), and strong service exports (+11% year-over-year), particularly in IT and business services.

In the area of foreign trade, India achieved a landmark breakthrough in January 2026: After 20 years of negotiations, India and the EU agreed on a free trade agreement (“Mother of All Deals”) that is intended to reduce or eliminate tariffs on over 90% of goods and is set to take effect no earlier than early 2027. A bilateral trade deal was agreed with the U.S.

was agreed with the US, reducing reciprocal US tariffs on Indian goods from 25% to 18%. The Reserve Bank of India (RBI) had previously lowered the key interest rate (repo rate) to 5.25%, signaling a growth-oriented stance alongside a manageable inflation environment.

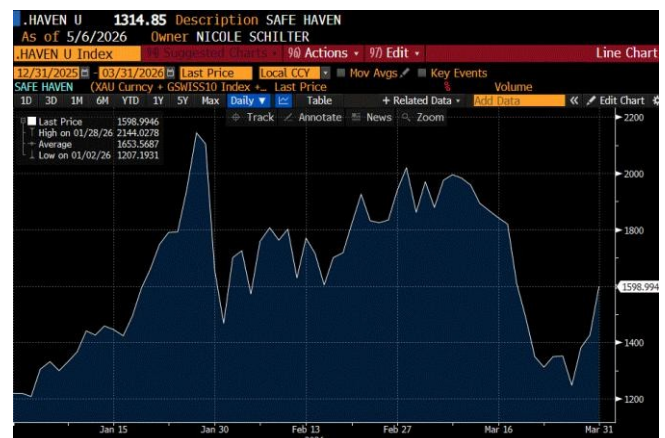
Geopolitical Developments in the First Quarter of 2026

The following two charts visually illustrate how the geopolitical environment changed over the course of the first quarter of 2026.

Bloomberg Economics Global Trade Policy Uncertainty Index



Safe Haven Basket



USA

The U.S. shaped the geopolitical agenda of the first quarter of 2026 like no other nation. As early as the first days of January, the Trump administration demonstrated that the aggressive foreign policy of the previous year was no exception: On January 3, the U.S. military carried out a commando operation in Venezuela and arrested President Nicolás Maduro to bring him to trial in New York on charges of drug trafficking and supporting terrorism.

At the same time, rhetoric surrounding Greenland escalated: Trump threatened several European countries (including Denmark, Norway, Sweden, France, Germany, the United Kingdom, the Netherlands, and Finland) with 10% tariffs starting February 1—rising to 25% starting

June 1—unless a deal for the “complete and total purchase of Greenland” were reached. Denmark responded by reinforcing its troops in Greenland; the EU discussed countermeasures.

The dominant geopolitical event of the quarter, however, was the U.S.-Israeli attack on Iran on February 28, 2026 (Operation Epic Fury). With nearly 900 airstrikes in 12 hours, U.S. and Israeli forces destroyed Iranian command and control centers,

missile bases, and air defense installations, and killed Supreme Leader Ali Khamenei. On February 20, the Supreme Court had overturned the IEEPA tariffs, prompting Trump to immediately impose a new 10% or 15% flat-rate tariff under Section 122—a sign that the U.S. would continue its protectionist trade policy regardless of legal obstacles.

Europe

Europe navigated difficult geopolitical waters between the ongoing Russian-Ukrainian war and transatlantic turbulence under the Trump administration. The Ukraine conflict remained without a discernible military resolution in the first quarter of 2026: The front line remained largely static, although Russia had gained approximately 4,500 to 4,800 square kilometers of Ukrainian territory in 2025 using 350,000 soldiers. The EU pledged a loan facility of 90 billion euros to Ukraine for 2026/27.

Germany intensified its strategic partnership with Ukraine during the quarter: In April, President Zelenskyy visited Berlin for the first German-Ukrainian intergovernmental consultations in more than 20 years. A drone agreement on the joint production of AI-supported drones was concluded. Europe's defense market continued to suffer from capacity bottlenecks: ammunition prices had doubled since the start of the war, and artillery shells had multiplied. The EU's SAFE (Security Action for Europe) program provided 150 billion euros in long-term loans for joint defense procurement. Trump's threats against European allies in connection with the Greenland claim further strained transatlantic relations.

In trade policy, Europe began gradually diversifying its dependence on U.S. markets. The conclusion of the EU-India Free Trade Agreement in early 2026 was a first concrete step in this direction. Brussels also discussed possible countermeasures to US tariff threats and activated the Anti-Coercion Instrument (ACI), which allows for retaliatory tariffs in the event of economic coercion by third countries.

Asia

The Asian geopolitical landscape in the first quarter of 2026 was shaped primarily by two developments: the war in the Middle East and its impact on energy supplies and supply chains, as well as the ongoing US-China trade tensions.

China positioned itself in the Iran conflict as a mediator and counterweight to the U.S.-Israeli alliance. Beijing condemned the attacks and called for an immediate ceasefire; Foreign Minister Wang Yi held telephone conversations with Iranian and Israeli representatives. China initially benefited from the special access Iran granted to Chinese ships in the Strait of Hormuz, thereby securing energy supply advantages over

Western competitors. In the UN Security Council, China voted alongside Russia for a resolution to open the Strait of Hormuz. Japan was

: The country imports the majority of its crude oil from the Persian Gulf. The BoJ drastically lowered its growth forecast. India fared better thanks to swift

Diversification of its oil imports and bilateral negotiations with Iran have improved somewhat.

On the Korean Peninsula, the situation remained tense; North and South Korea closely monitored global developments without any direct escalation. In light of the demonstrations of U.S. strength toward Iran, Taiwan found itself in a complex balancing act between renewed U.S. security guarantees and its own geopolitical exposure.

Middle East

The Middle East was the focus of global attention in the first quarter of 2026. On February 28, 2026, the U.S. and Israel launched Operation Epic Fury—with nearly 900 airstrikes in twelve hours against Iranian military infrastructure, nuclear facilities, and leadership structures.

Supreme Leader Ali Khamenei was killed in the attacks; his son Mojtaba Khamenei was appointed as his successor. Iran responded with missile and drone attacks on Israeli cities as well as U.S. bases in the Gulf states (United Arab Emirates, Qatar, Bahrain) and closed the Strait of Hormuz to Western ships on March 4.

The humanitarian and economic consequences were severe: thousands of people were killed in Iran and Lebanon, and over a million were displaced in Lebanon (more than one-sixth of the population). Shipping traffic through the Strait of Hormuz fell to about 5% of pre-war levels. On April 7, the U.S. and Iran agreed to a ceasefire—the conflict then shifted to negotiations over the reopening of the sea route. On April 13, the U.S. announced a counter-blockade of Iranian ports; the Strait remained de facto closed until the end of the quarter.

The 32 member states of the International Energy Agency (IEA) released 400 million barrels of strategic oil reserves to ease market pressures. Pakistan mediated between the conflicting parties; Iran presented a 14-point peace plan. Saudi Arabia distanced itself from Iranian attacks on the Gulf states without actively participating in the conflict. The entire region faced a fundamental realignment—with an uncertain outcome.

Conclusion

The first quarter of 2026 will go down in financial market history as a turning point: The U.S. Israeli attack on Iran on February 28 triggered a global energy price shock that blocked the Strait of Hormuz, drove up inflation, and forced central banks worldwide into a stagflationary dilemma. Stocks weakened, commodity prices surged,

and geopolitical uncertainties on multiple fronts—trade policy, Ukraine, Greenland—dominated the picture.

b. Commentary from the asset manager

Equity markets

The first quarter of 2026 marked a significant turning point in global stock markets. After a strong start to the year with record highs in several regions, two forces dominated market activity from the end of February onward: a fundamental shift in investor behavior toward technology stocks—triggered by growing skepticism regarding AI’s earnings potential—as well as a sudden geopolitical shock caused by the outbreak of a U.S.-Israeli military conflict with Iran on February 28, 2026. Technology and growth stocks came under pressure, while investors rotated into value stocks, small caps, and high-dividend stocks. Energy, utility, and consumer goods stocks took the lead—sectors that had barely been in the spotlight in previous years.

U.S. Stock Markets

The U.S. market closed the first quarter clearly in the red. The S&P 500 lost 4.6% for the quarter. Technology stocks had a difficult start to the year as investors increasingly feared that new AI capabilities could threaten the established SaaS model (Software-as-a-Service – subscription-based software services). US software stocks fell 24% from the start of the year through February 27.

The tech-heavy Nasdaq Composite was hit even harder: It lost 7% over the quarter—its worst quarterly performance since early 2025. Investors grew skeptical of the valuation gap between stock prices and actual business results.

Software companies whose valuations had doubled in 2025 on the back of AI promises were punished when Q1 results showed that tangible AI-driven revenue growth was materializing more slowly than expected.

In contrast, the Russell 2000 (U.S. small-cap index) benefited from relative resilience. Energy, utilities, and consumer staples outperformed the market, while consumer discretionary, information technology, and communication services lagged behind. The energy sector was boosted by the sharp rise in oil prices resulting from the escalating Iran conflict and disruptions in the Strait of Hormuz, through which approximately 25% of the world’s crude oil and 20% of globally traded liquefied natural gas (LNG) were transported.

The peak-to-trough drawdown was around 9%—well below the historical intra-year average of 14%. Inflation (as measured by the Consumer Price Index, CPI) remained at 2.4% through February but then rose to 3.3% in March, driven almost exclusively by the energy component.

Corporate earnings, however, remained structurally intact: S&P 500 companies were expected to report earnings growth of around 13.2% year-over-year for Q1—the sixth consecutive quarter of double-digit growth—with projected full-year growth of around 17% for 2026.

European stock markets

Europe got off to a strong start in the new year. On the first trading day of the year, the STOXX 50 rose 1.1% to a new all-time high of 5,850 points, while the broader STOXX 600 gained 0.5% to a record high of 596 points. This strong performance followed a robust 2025, in which the STOXX 50 gained around 18% and the STOXX 600 around 17%—the best year since 2021.

However, the momentum did not last. While British stocks performed well in the first two months—rising 3% in January and posting a solid gain of just under 7% in February—March saw a sharp decline of 6.7% due to global market weakness. On a quarterly basis, however, the UK market still closed with a positive return of just over 2%.

For the eurozone, the results were more modest: The STOXX Europe 600 lost just under 2% for the quarter, with significant price declines also seen in the German DAX (over 7%) and the French CAC 40 of over 4%. As a net energy importer, Europe was particularly exposed to the oil price shock. Germany halved its growth forecast for 2026 to 0.5%, citing the conflict in the Middle East and the de facto closure of the Strait of Hormuz, which it said had increased costs for households and businesses.

Asian stock markets

Asia had still benefited from the previous year's trends at the start of the year. Asia and several emerging markets led the performance in 2025, with South Korea, Brazil, and Hong Kong topping the annual performance, while the U.S. only outperformed when considering the period starting from the trend reversal in April 2025.

In March, the picture changed abruptly. Emerging markets, as measured by the MSCI Emerging Markets Index, posted a strong start to the year in January and February before a sharp correction of around 13% set in during March. The weak March performance was mainly attributable to a global “risk-off” environment—that is, pronounced risk aversion among investors—which disproportionately affects emerging markets due to their higher betas and dependence on foreign capital flows.

A stronger U.S. dollar, combined with heightened geopolitical risks, proved to be a headwind for emerging market bonds, which declined by 1.1% in the first quarter.

Japanese Stock Market

Japan was a special case in the first quarter—marked by a significant domestic political event. Prime Minister Sanae Takaichi, who had been elected in October 2025 as the first woman to hold Japan’s highest office, called for new elections on February 8, 2026, and won a historic landslide victory. The Japanese stock market reacted positively: The Nikkei 225 rose by more than 5% the following day to a new intraday high, driven by expectations of tax cuts and higher government spending.

The so-called “Takaichi Trade” took hold as a market theme: a stronger Nikkei, a steeper yield curve for Japanese government bonds (JGBs), and a weaker yen. The victory reduced political uncertainty and reinforced the “Japan is Back” narrative—with structurally higher yields, a competitive yen, and improved corporate governance, which bolstered global investor confidence in Japanese assets.

Long-term Japanese government bonds (JGBs) declined in the run-up to the snap election (=) as investors anticipated looser fiscal policy under Takaichi’s leadership. At its March meeting, the Bank of Japan (BoJ) left the door open for imminent interest rate hikes and signaled that, on balance, it was more concerned about upside inflation risks than about growth risks stemming from the energy shock. However, the Iran conflict also weighed on the market here starting in March, as Japan, a net energy importer, was among the economies that came under the most pressure due to their heavy reliance on imported energy.

Key macroeconomic factors **Monetary policy:**

- **Federal Reserve:** At its meeting on March 17–18, 2026, the FOMC (Federal Open Market Committee—the Fed’s monetary policy decision-making body) assessed the macroeconomic outlook for the U.S. as largely unchanged, even though the conflict in the Middle East had led to a noticeable revaluation of several asset classes. The Fed kept its benchmark interest rate at 3.50%–3.75%. The median outlook of the members signaled one more rate cut of 0.25 percentage points for 2026, after inflation forecasts had been raised.
- **Bank of Japan:** At its March meeting, the BoJ left the door open for imminent interest rate hikes and signaled that it weighs the upside risks to inflation more heavily than the growth risks posed by the energy shock.
- **European Central Bank:** At its meeting on March 19, 2026, the ECB decided to leave the three key interest rates unchanged. The war in the Middle East has made the outlook significantly

and created upside risks to inflation as well as downside risks to economic growth. In its updated projections, the ECB expects core inflation (i.e., excluding energy and food) to average 2.3% for 2026. The ECB had cut interest rates a total of eight times between June 2024 and June 2025. The deposit rate (the ECB's key policy rate) stood at 2.0%.

- **People's Bank of China:** At the start of the year, the PBoC reaffirmed its commitment to pursuing a “moderately accommodative” monetary policy in 2026 as well, utilizing tools such as cuts to the minimum reserve requirement (RRR—Reserve Requirement Ratio, i.e., the portion of deposits that banks must hold as reserves) as well as interest rate cuts to ensure sufficient liquidity. In January, the PBoC cut the interest rates of structural monetary policy instruments by 0.25 percentage points each—bringing the one-year refinancing rate down from 1.5% to 1.25%. The one-year Loan Prime Rate (LPR—the key reference rate for most corporate and household loans) remained unchanged at 3.0% throughout the quarter, while the five-year LPR (the benchmark for mortgage loans) stayed at 3.5%. China's economy grew by 5% in the first quarter of 2026—an acceleration from 4.5% in the previous quarter and thus at the upper end of the official growth target of 4.5–5.0%. The robust economic performance at the start of the year reduced the pressure for additional stimulus measures.

Inflation

U.S. consumer price inflation (CPI) remained at 2.4% through February and then rose to 3.3% in March, driven almost exclusively by the energy component. Core prices (excluding energy and food), which are more indicative of the long-term inflation outlook, rose moderately by 0.2% in March.

For the eurozone, the ECB projected in its baseline scenario an average headline inflation rate of 2.6% for 2026—an upward revision from the December projections, driven by the rise in energy prices following the Middle East war.

In the UK, CPI inflation in March 2026 was also 3.3%—above the Bank of England's 2% target. Before the outbreak of the Middle East conflict, the Bank had expected inflation to fall to around 2% starting in April.

Trade Policy

A significant trade policy event marked the first quarter: On February 20, 2026, the U.S. Supreme Court ruled that the International Emergency Economic Powers Act (IEEPA—a U.S. federal law granting the president broad economic powers during national emergencies) does not give the president the authority to impose tariffs. The court thus confirmed that tariff authority rests with the U.S. Congress.

Undeterred, President Trump then turned to a different legal basis: Section 122 of the Trade Act of 1974, which allows for temporary across-the-board tariffs. Just hours after the ruling, Trump announced a global tariff of 10%, which he raised to 15% the following day—the legally permissible maximum.

Treasury Secretary Bessent stated that the combination of Section 122, Section 232, and Section 301 tariffs would “result in virtually unchanged tariff revenue in 2026”—a signal that the administration is determined to maintain the current tariff level through alternative legal bases.

Notable Market Movements and Trends

Oil price shock and the Strait of Hormuz: The dominant market event of the quarter was Iran’s effective closure of the Strait of Hormuz in response to the U.S.

Israeli attack on February 28. Approximately 20%–25% of the world’s energy supply flows through the Strait of Hormuz. The closure triggered the largest global energy disruption since World War II. The price of the benchmark Brent crude rose by 63% in March alone, fundamentally reshaping growth and inflation expectations. The broad Bloomberg Commodity Index was the top-performing asset class in the first quarter, rising 23%.

Tech Correction and AI Disillusionment: After two years of AI-driven market euphoria, investor sentiment toward large-cap technology and software stocks from widespread enthusiasm to more cautious deliberation. Two main concerns came to the fore: first, that massive investments in AI infrastructure by the major tech giants might ultimately yield lower returns than expected; second, that AI advancements could disrupt entire industries, particularly the software sector.

Rotation into value, dividend, and defensive stocks: In March, a clear shift in investor sentiment, with a rotation into cheaper, high-yield, and high-quality stocks. Despite the March decline, UK stocks outperformed other developed markets on a quarterly basis, posting a positive return of around +2% for Q1 2026.

Gold: Gold experienced significant volatility during the quarter. The precious metal rose to a record high of over \$5,500 per ounce in late January due to dollar weakness and a flight from government bonds, only to fall sharply in March and give up all of its 2026 gains as the Iran conflict escalated.

Conclusion

The first quarter of 2026 was marked by two defining shifts: the end of technology-dominated market leadership and the geopolitical shock caused by the U.S.-Iran military conflict beginning in late February. The MSCI World Index fell by just under 4% during the quarter. In the U.S., the S&P 500 lost around 5%, and the Nasdaq 7%. Europe closed mixed, with a slight decline in the STOXX 600, while Japan initially gained momentum thanks to the “Takaichi Trade” but also came under pressure. Emerging markets suffered particularly hard from investors’ risk-off mode.

On a structural positive note, corporate earnings are growing solidly and market breadth is increasing: energy, value stocks, and dividend-paying stocks are taking the lead. The early April truce—even if it is fragile—is an encouraging sign that the disruption may be temporary. If energy supply chains normalize, March’s inflation could prove to be an outlier, which would give the Fed room to maneuver in monetary policy again. The most important variable for the second quarter remains the duration of the disruption in the Strait of Hormuz as well as the further development of trade policy following the IEEPA ruling by the Supreme Court.

Country	Index	ID	Change in % in local currencies
South Korea	KOSPI	KOSPI	19.89
England	FTSE 100	UKX	2.47
Japan	Nikkei 225	NKY	1.44
Australia	SCP ASX 200	AS51	-2.67
Switzerland	Swiss Market Index	SMI	-3.70
China	CSI 300	SHSZ300	-3.89
France	CAC 40	CAC	-4.08
USA	S&P 500	SPX	-4.63
Germany	DAX	DAX	-7.39

Bond markets

The first quarter of 2026 was heavily influenced by the geopolitical shock following the outbreak of war in the Middle East and the temporary disruption of shipping routes through the Strait of Hormuz. The resulting rise in energy prices, resurgent inflation concerns, and the significant deterioration in global risk sentiment led to a clear reversal of the risk appetite that had characterized the latter part of 2025. Due to renewed inflation concerns, investors adjusted their expectations for interest rate developments and, overall, priced in a more cautious monetary policy stance by central banks for the coming year. This led to rising government bond yields. European government bonds underperformed U.S. Treasuries, as the market anticipated that the ECB might have to raise interest rates this year given the region's greater dependence on energy imports and concerns about more persistent inflation —although the ECB, like the Fed, left key interest rates unchanged in March.

Against this backdrop of rising government bond yields (and falling prices), corporate bonds also posted a negative total return in the first quarter. The high-yield bond market (bonds rated BB+ or lower) underperformed weaker than the investment-grade segment (BBB- or higher), reflecting the pronounced risk-off market sentiment. Credit spreads in the global high-yield index widened significantly as investors reduced their exposure to low-rated issuers, particularly those with high refinancing needs or cyclical business models. Spreads in the global investment-grade index also widened, though to a lesser extent. Demand for high-quality corporate bonds remained relatively robust, supported by solid balance sheets and the view that investment-grade companies are better positioned to withstand higher financing costs and geopolitical uncertainty.

Index	Currency	ID	Total Return	Credit Spreads +/- bps
Bloomberg Global Aggregate IG Bond Index Hedged	CHF	LGCPTRCH	-1.56%	+13
Bloomberg Global High Yield Bond Index Hedged	CHF	H00039CH	-1.92%	+52

Commodity Markets

Summary

The first quarter of 2026 ranks among the most turbulent periods in global commodity markets in years. The trigger was a military shock: On February 28, 2026, U.S. and Israeli forces carried out airstrikes on Iran, effectively closing the Strait of Hormuz—one of the world’s most important transit routes for crude oil and liquefied natural gas (LNG). Geopolitical risks and supply disruptions drove the Bloomberg Commodity Index (BCOM) up by 23% in the first quarter of 2026, with energy posting the strongest gains due to the massive oil supply shock.

Commodity prices were extremely volatile in the first quarter of 2026, driven by concerns over supply disruptions resulting from geopolitical tensions in the Middle East. Before the outbreak of the conflict, major energy agencies still expected a clearly oversupplied oil market. This situation changed fundamentally within a few weeks.

According to the World Bank, overall commodity prices are expected to rise by 16% in 2026—the first annual increase since 2022—with energy prices projected to rise by 24% and fertilizer prices by 31%. Metal and mineral prices will rise by 17% due to strong demand, while precious metal prices are expected to climb by 42% to record highs.

Crude Oil Supply

Side

The quarter began with a fundamentally changed supply landscape. At the start of the year, the dominant narrative was: too much oil, too little demand growth. The IEA (International Energy Agency) forecast a supply surplus of 3.7 million barrels per day. The U.S. contributed its share: U.S. crude oil production, according to the EIA (U.S. Energy Information Administration) averaged 13.6 million barrels per day—a new record high.

On the OPEC+ side, the cartel initially held back: OPEC+ entered 2026 with a clear strategy but without a fixed course. After the group had brought forward production in 2025, it paused further increases throughout the first quarter of 2026, citing the seasonal oversupply typical for the period.

With the outbreak of the conflict, the picture changed dramatically. The Strait of Hormuz has been effectively closed to shipping since the start of military operations on February 28. Nearly 20–25% of the world’s oil supply flows through this strait. The EIA estimates that production losses in March averaged 7.5 million barrels per day

and will rise to a peak of 9.1 million barrels per day by April before gradually declining over the following months.

Demand Side

Before the outbreak of the conflict, global oil demand was moderate but stable. The global oil supply was on track to outpace demand—global oil demand was projected to grow by 0.9 million barrels per day in 2026, while supply was increasing at a significantly faster rate. With the outbreak of the conflict, the dynamics shifted.

The EIA revised its assumptions regarding global oil demand based on government initiatives to reduce fuel consumption, fuel shortages, and restricted exports of refined products. Declines were particularly pronounced in Asia, which is more heavily reliant on crude oil from the Middle East. The EIA now projects global oil demand growth of 0.6 million barrels per day for 2026, compared to the previously forecast 1.2 million barrels per day.

Inventories

Inventory trends were mixed during the quarter. At the start of the year, a supply surplus gradually took shape in the market as China's stockpiling—which absorbed a large portion of the surplus—began to taper off. The Brent price briefly fell below \$60 per barrel. With the Hormuz crisis, this trend reversed: Global oil stocks have dwindled sharply as a result of the conflict, as production losses in the region have risen significantly.

In the U.S., inventories were robust at the end of the quarter: At 461.6 million barrels, U.S. crude oil inventories at the start of the quarter were about 0.1% above the five-year average for this time of year. Distillate inventories (heating oil, diesel), on the other hand, were about 3% below that level. As for the impact on prices: The Brent price rose sharply—from \$72 per barrel at the end of February to \$118 per barrel at the end of March—the largest monthly increase ever recorded. The Brent price reached nearly \$120 per barrel at the end of the quarter.

Copper

The copper market started the first quarter of 2026 with strong momentum but was increasingly under pressure from geopolitical uncertainty. The standard three-month contract on the LME (London Metal Exchange) opened the year at \$12,469.50 per metric ton; at the same time, continuous contracts on the Comex opened at \$5.69 per pounds. On January 29, prices on both exchanges reached new record highs: \$13,952 on the LME and \$6.20 on the Comex.

The rally was driven by several factors: supply disruptions in mining sector, anticipated U.S. import tariffs on copper, and structurally growing demand

from the energy transition and the development of AI infrastructure. Copper had a strong start to 2026, driven by supply disruptions—mine production in 2025 was severely disrupted—the threat of U.S. tariffs, and demand infrastructure required for AI.

However, sentiment cooled as the quarter progressed. In the second half of March, prices came under pressure. LME prices fell to \$11,925 per metric ton, and Comex prices to \$5.38—their respective quarterly lows. The Chinese PMI (Purchasing Managers' Index, a leading economic indicator) stood at 50.8 in March 2026—below expectations—signaling continued caution regarding the Chinese industrial recovery.

By the end of the quarter, copper had recouped some of its losses. On April 1, 2026, copper was trading at \$5.64 per pound on the Comex, which corresponds to approximately \$12,434 per metric ton on an LME basis. The price thus recovered by about 3.7% from its March low.

On the supply side, the situation remains structurally tight. China has announced that it will no longer export sulfuric acid starting in May—a key intermediate input for certain copper smelting processes. This could lead to further strain on the copper market, as around 15% of global copper production relies directly on sulfuric acid. At the same time global visible copper inventories have risen to just under 1.5 million tons—an increase of 540,000 tons since the start of the year.

Gold

Apart from crude oil, gold was the most notable winner among commodities in the first quarter of 2026. The LBMA gold price (London Bullion Market Association, the authoritative global benchmark price) set a new record with a quarterly average of \$4,873 per ounce. The all-time high of \$5,405 per ounce was reached in January, followed by a significant correction. Over the entire first quarter, the gold price rose by 8%.

Total demand for gold also reached record levels. Total gold demand, including OTC (over-the-counter) trading, rose by 2% year-over-year to 1,231 tons in the first quarter of 2026. Combined with the exceptional price increase, this moderate volume growth generated a 74% jump in the value of demand to a record \$193 billion.

On the demand side, demand for bars, coins, and central bank purchases stood out in particular. Demand for bars and coins surged by 42% to 474 tons—the second-highest recorded. Central bank demand got off to a strong start in 2026 with estimated net purchases of 244 tons in the first quarter, surpassing both the previous quarter and the five-year average. The largest buyer was the National Bank of Poland, which increased its gold reserves by 31 tons to 582 tons—on track to reach its target of 700

tons. The People's Bank of China also made purchases, increasing its gold reserves by 7 tons in the first quarter to a total of 2,313 tons.

Jewelry demand took a different turn: it plummeted by 23% year-over-year to 300 tons—the lowest quarterly level since the second quarter of 2020. High prices weighed on volumes in all major markets. At the same time, spending on gold jewelry rose by 31% in value terms to a record \$47 billion—consumers bought less gold but were willing to spend more overall.

On the supply side, growth kept pace: gold supply rose by 2% year-over-year in the first quarter to 1,231 tons. Moderate growth in mine production, which reached a new quarterly record, and a 5% increase in recycling drove this growth.

Conclusion

The first quarter of 2026 was dominated by a historic supply shock: The closure of the Strait of Hormuz as a result of the U.S.-Iran conflict drove Brent crude oil to decade-highs and destabilized broad commodity markets. Gold benefited as a safe haven with record prices and record demand levels. Copper initially showed strength but came under pressure due to growth concerns. The geopolitical risk premium remains the dominant price driver.

Outlook and strategic implications for Q2 2026 and beyond

- **Energy sector:** The key variable for the oil market in the second quarter of 2026 remains the same as at the end of the first: the Strait of Hormuz. The Brent price is expected to peak at around \$115 per barrel in the second quarter of 2026 before easing as production disruptions gradually ease. The forecasts of the major banks diverge significantly on this point. Morgan Stanley is keeping its Brent forecast unchanged at \$110 per barrel for the second quarter and \$100 for the third quarter, as the bank expects that crude oil supply chains will take months to recover even after the Strait of Hormuz reopens. normalize. In its base-case scenario, Citigroup projects an average Brent price of \$95 for the second quarter of 2026; in the bullish scenario, \$130 is possible.
- The analysts' base case assumes a partial de-escalation in U.S.-Iran negotiations by mid-May, with shipping and exports through the Strait of Hormuz not returning to normal until the end of June—later than previously expected. The analysts forecast a year-over-year decline in global oil demand of 1.7 million barrels per day in the second quarter of 2026.
- Three price scenarios for the rest of the year

- In the base case (central scenario), Brent will gradually decline after peaking in the second quarter—to around \$82 in the second, \$72 in the third, and \$68 in the fourth quarter—once passage through the Strait of Hormuz is restored and the structural supply surplus of 3.7 million barrels per day takes effect again. In the bullish scenario, if the Hormuz restrictions persist into the second half of the year, Brent will remain above \$100 in the second quarter, at around \$90 in the third and \$85 in the fourth quarter. In the bearish scenario—rapid resolution of the conflict—Brent could fall toward \$70 as early as the second as the pre-existing oversupply quickly returns.
All six major banks identify the normalization of Hormuz flows as the single most important variable for the rest of the year.
- The interplay of three forces is decisive for the medium-term price path: the pace of Hormuz normalization, the OPEC+ strategy, and the U.S. production levels. U.S. crude oil production is projected to average 13.6 million barrels per day in 2026—a record high—which will once again put downward pressure on prices once the geopolitical shock subsides. Furthermore, the UAE has announced its intention to leave OPEC+ in May 2026, which would allow Emirati production to increase from around 3 million to nearly 4 million barrels per day once the situation in the Strait of Hormuz.
- The risk of inflation remains relevant even beyond the oil price itself. The current oil shock is not operating in isolation: the escalation in March 2026 has triggered a multi-stage supply shock that affects not only energy markets but also fertilizer supply chains, agricultural production, as well as shipping, freight, and insurance costs. The inclusion of fertilizers transforms this shock from an energy shock into a broader commodity chain reaction with prolonged inflationary pressure.
- **Precious Metals:** Gold enters the second quarter of 2026 with structural tailwinds that extend far beyond the geopolitical shock. J.P. Morgan Global Research forecasts that gold demand will drive prices to \$5,000 per ounce by the end of 2026—with a forecast of \$5,055 per ounce in the fourth quarter of 2026 and a further rise to \$5,400 by the end of 2027. The range of institutional price targets is unusually wide: Wells Fargo has raised its 2026 target to \$6,100 to \$6,300, Deutsche Bank reaffirmed a price target of \$6,000, and BNP Paribas sees \$5,620 as the average price for 2026, with potential highs above \$6,250.
- The pillars underpinning these expectations are structural in nature. Global central bank purchases remain above 1,000 tons annually, and the diversification of reserves away from fiat currencies is far from complete. The G7's decision to freeze Russian dollar reserves in 2022 accelerated a strategic shift

that has since intensified. Potential new investors such as insurance companies in China or pension funds in India could further support gold's positive trend, even if the economic environment remains relatively benign

- The risks to the gold price are clearly identifiable. Four scenarios could reverse the rally : a hawkish Fed pivot (i.e., unexpectedly restrictive monetary policy by the U.S. Federal Reserve) with rising real interest rates, sustained dollar strength, a credible de-escalation of the U.S.-Iran conflict, and serious U.S. fiscal consolidation. For institutional investors, gold has long since outgrown its role as a tactical hedge and has become a core component of strategic reserve allocation.
- Silver is developing its own momentum and, as a so-called “hybrid metal” —combining monetary hedging characteristics with strong industrial fundamental demand—is gaining strategic relevance. Goldman Sachs expects silver to trade at an average of between \$85 and \$100 per ounce in 2026 and views the metal as the primary strategic commodity of the green transition. Citigroup has set a price target of \$110 for the second half of 2026 and points to an acute shortage of physical silver for immediate industrial delivery.
- These forecasts are underpinned by a structural deficit: silver has been in a supply deficit for six consecutive years. Industrial demand—driven by solar energy, 5G infrastructure, and AI data centers—now accounts for more than half of total consumption. Bank of America has raised its silver price forecast for 2026 to an annual average of \$85.93—a 32 percent increase from the previous estimate—citing supply constraints and long-term industrial demand. Silver may achieve stronger percentage gains than gold in this cycle, confirming that the entire metals complex is driven by real macroeconomic demand rather than one-off speculative inflows.
- **Industrial metals:** Copper faces conflicting forces in the second quarter of 2026. In the short term, the oil price shock dampens industrial demand; structurally, however, the situation remains decidedly bullish. J.P. Morgan estimates that every 10 percent increase in oil prices resulting from a supply shock reduces global GDP by 0.16 percentage points. Since copper demand has a beta of 1.2 relative to global GDP, a sustained Brent price of around \$110 per barrel could reduce copper demand growth for 2026 by 1.4 percentage points.
- For the second quarter itself, the institutions expect slightly higher prices: Deutsche Bank forecasts average copper prices of \$12,125 per ton for 2026, with

a quarterly high of \$13,000 in the second quarter. J.P. Morgan Global Research expects a refined copper deficit of around 330,000 tons in 2026, with an annual average price of \$12,075 and a quarterly high of around \$12,500 in the second quarter.

- The structural outlook remains intact in the longer term. The average time from exploration to production for a copper mine is around 15 years—even projects starting today will not have a material impact on supply until the next decade. An additional bottleneck looms in the refining sector: China’s announcement that it will no longer export sulfuric acid starting in May could create further strain, as around 15 percent of global copper production relies directly on this intermediate input.
- A positive factor for medium-term demand: According to Goldman Sachs, power and other infrastructure projects will drive more than 60 percent of copper demand growth through 2030—equivalent to adding a second United States in terms of copper consumption. At the same time, China, which accounts for around 60 percent of global copper consumption, poses the greatest single risk. Chinese buyers are currently actively using lower copper prices to restock, replenishing inventories after a prolonged period of higher prices . This so-called “buy the dip” mechanism (buying during price declines) acts as a price floor and limits downside potential.
- **Strategic implications:** The second quarter of 2026 and the remainder of the year will be characterized by an unusual tension: short-term geopolitical risk premiums collide with structural supply issues and a slowing global economy. For institutional portfolios, this gives rise to concrete positioning considerations.
- Crude oil: The market is in a binary situation. A swift normalization of the Strait of Hormuz would quickly restore the structural surplus and push Brent toward \$60 to \$70; an escalation could for a time. For energy-exposed portfolios, a differentiated hedging strategy that accounts for both scenarios. In the long term, the picture remains clear: as soon as the geopolitical risk premium subsides, the fundamental supply surplus will dominate. A return to Brent prices in the \$60 to \$70 range in the second half of the year is the base-case scenario for most major firms.
- Gold: The consensus among institutional forecasts points to further price increases, though not in a linear fashion. The correction from \$5,405 to around \$4,500 at the start of the second quarter illustrates that, even with an intact upward trend, significant fluctuations . For pension funds and institutional investors holding gold as a strategic reserve, data from the World Gold Council confirms the rationale: Central banks, operating on similar considerations, have continued their net acquisitions

even at record prices. Gold remains a suitable portfolio diversifier in an environment of rising government debt, fragmented alliances, and potential dollar devaluation.

- **Silver:** Silver combines monetary hedging characteristics with fundamental industrial demand and benefits from both trends simultaneously. For portfolios with commodity exposure, silver offers an attractive combination of growth and hedging characteristics. Given a structural deficit, rising industrial demand, and a narrowing gold-silver ratio, the asset class offers an asymmetric risk-return profile.
- **Copper:** Short-term macroeconomic headwinds are weighing on copper—high energy prices are dampening industrial growth. In the medium term, however, the structural supply story is compelling. Given a global deficit, a 15-year lead time for new mines, and a tripling of demand driven by the energy transition and AI infrastructure by 2045, copper is the industrial metal with the clearest long-term investment thesis. For institutional investors with a horizon of five years or more, the current price weakness offers an attractive entry opportunity into mining producers and physical holdings.
- **Overall Assessment:** By 2026, commodity markets will be decoupled from purely cyclical price drivers and will increasingly be shaped by geopolitical structural shifts: resource nationalism, de-dollarization (i.e., the strategic shift away from the U.S. dollar as the reserve currency), rising defense spending, and the global energy transition are defining new demand patterns. Portfolios that do not yet reflect this reality carry a growing structural exposure risk.

Commodity	Currency	ID	Change in % in US dollars
Crude Oil ICE Brent	USD	CO1	94.49
Gold	USD	XAU	8.07
Silver	USD	XAG	4.89
Copper LME	USD	LP1	-1.47

Currency 1	Currency 2	ID	Change in %
USD	EUR	USDEUR	1.68
USD	JPY	USDJPY	1.37
USD	CHF	USDCHF	0.85
EUR	CHF	EURCHF	-0.83

Changes in currency pairs are always viewed from the perspective of the first currency in a currency pair. For example: USD versus EUR -5%, i.e., the US dollar has weakened by 5% against the EUR.

2. Performance

a. Net performance in %

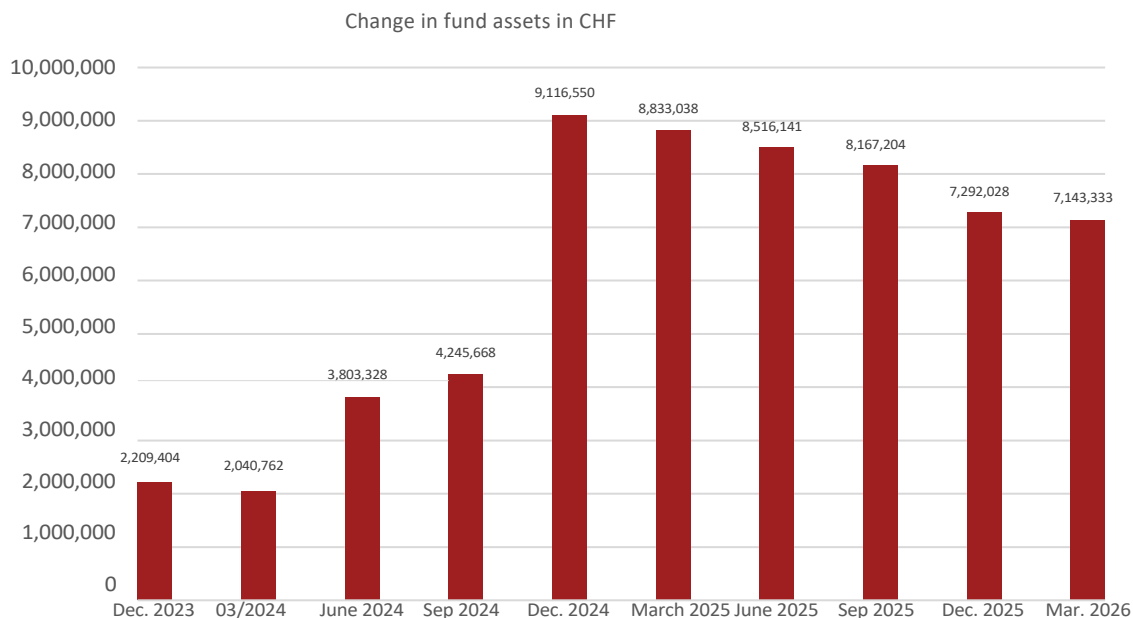
Share class	Quarter	Current Year	since inception	Record date
Red Stone Income CHF*	0.01	0.01	3.41	March 31
Red Stone Income EUR	0.25	0.25	8.86	March 31
Red Stone Income USD**	0.57	0.57	8.31	March 31

*The CHF share class was launched on May 30, 2024.

**The USD share class was launched on September 5, 2024.

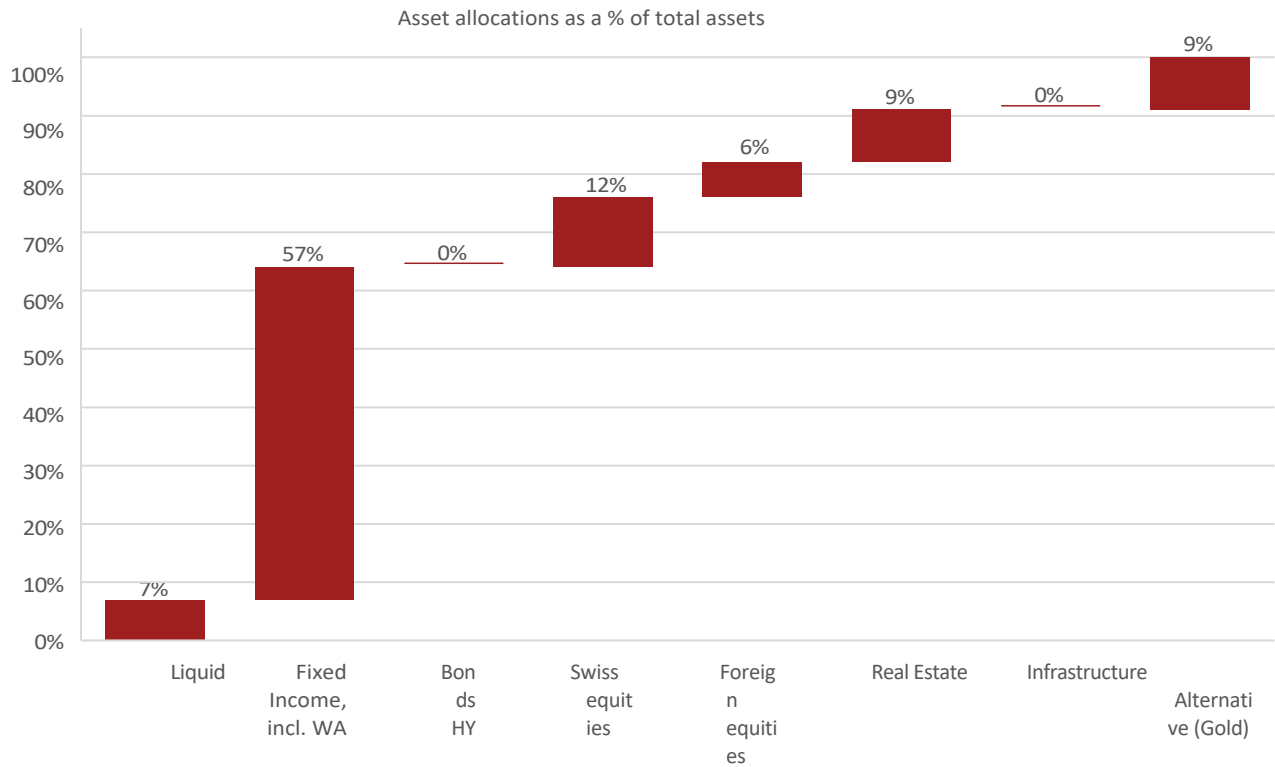
b. Fund Asset Performance

Taking into account performance, as well as subscriptions and redemptions of units, the fund's assets changed from CHF 7,292,028 to CHF 7,143,333 during the reporting period, representing a decrease of 2%.



c. Asset Allocation

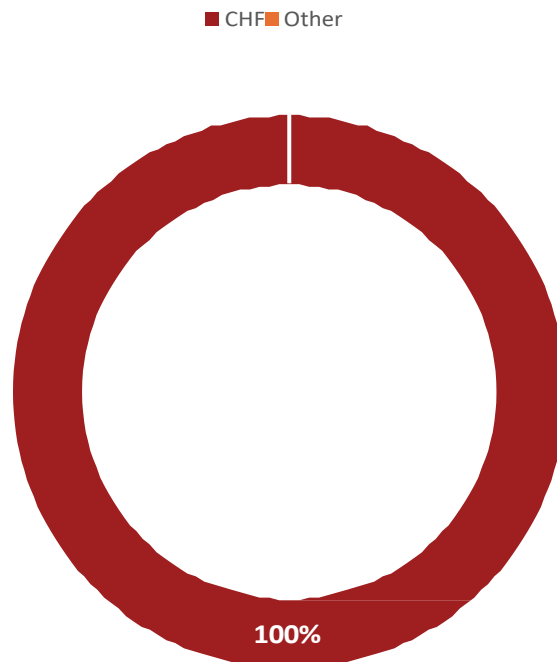
As of the reporting date, the asset allocations are as follows:



d. Overview of the 10 largest positions

	Description	Asset class	As % of total assets
1	Fundamenta Real Estate	Real Estate	9.2
2	iShares Physical Gold ETC	Alternative (Gold)	8.8
3	iShares MSCI World CHF Hedged	Foreign Equities	5.8
4	CHF	Liquidity	6.7
5	0.423 Bank of America 2029	Bonds Fw	1.2
6	0.25 Citigroup 2029	Bonds Fw	1.2
7	0.20 Munich Hypobank 2031	Bonds Fw	1.2
8	1.375 Siemens 2030	Bonds Fw	1.2
9	1,565 EdF 2029	Bonds Fw	1.2
10	1,625 Volkswagen 2030	Bonds Fw	1.2

e. Currency Allocations



3. Compliance

a. Target allocation monitoring in %

Asset class	of Total assets	Target allocation	Delta Allocation target ratio
Liquidity	7	1	6
Foreign bonds (incl. WA)	57	55	2
High-yield bonds	0	9	-9
Swiss Equities	12	10	2
Foreign stocks	6	5	4
Real estate	9	10	-1
Infrastructure	0	5	-5
Alternative Investments (Gold)	9	5	4

b. Range control in %

Asset class	Lower Range as % of total votes	Upper Range as a % of total assets	Comment
Liquidity	0	45	Range maintained
Foreign currency bonds (incl. WA)	0	65	Range maintained
High-yield bonds	0	19	Range maintained
Swiss equities	5	20	Range maintained
Foreign stocks	0	15	Range maintained
Real estate	0	15	Within range
Infrastructure	0	10	Range maintained
Alternative Investments (Gold)	0	10	Range maintained

c. Compliance with investment guidelines

As of the reporting date, all investment guidelines have been adhered to.

May 6, 2026, Valex Capital AG