Valara
Capital Management, LLC

April 12, 2026

Dear Friend of Valara Capital Management,

For the first quarter, ended March 31, 2026, Valara Partners, LP. produced returns, net of fees, of 14.25%, versus -4.33% for the S&P 500.

QUARTERLY REVIEW

I think it is fair to say that the market "weather" has taken a decided turn for the worse in 2026. And it's not just the wars and political upheaval – even though it is primarily that. President Trump and his team, euphoric from the quick and superficially painless "win" in Venezuela, jumped at what they thought was a compelling opportunity for a similar outcome in Iran. Everyone is a backseat driver in these cases, but it hasn't been trouble-free – quite the opposite. The intelligence community in the US and Israel do not appear to understand the social dynamic of Iran because they did not get the popular response, in support of regime change, they were counting on. Unfortunately, regime change would appear to be a must. Walking away now with no change in control would almost assure that Iran becomes a more dedicated enemy and China ally. As I write this today, the US and Iran are meeting face to face in Pakistan. I hope they find a mutually workable solution, but as of late last week that did not seem likely.

The second most noteworthy development has not yet made much of a splash in the headlines. Unless you are paying attention to the comments of Jamie Dimon, CEO of JPMorgan Chase, you may have missed it. Private Credit (PC), one of the hottest sellers in the wealth management channel over the last few years, is in turmoil, as credit concerns have spiked. Unrealistically, the PC pitch typically included assurances that the investment would have sufficient liquidity should an investor wish to reallocate elsewhere. Anyone who believed that should not be advising clients. After nascent signs of credit trouble last year, fear has taken over and the queue to withdraw money has become overwhelming. In essence, there has been a run on the bank. Jamie Dimon (an experienced and respected banker) has appropriately referred to private credit as a warning and pointed out that, like cockroaches, when you see one (credit excess) there are likely to be others. I have highlighted this story in the last several letters and things continue to get worse.

The dark side of artificial intelligence grabbed attention, with the realization that tools from Anthropic were severely undermining the software as a service (SaaS) business model. As we note below, software was by far the worst performing industry in the market, down 24.26% for the period (iShares Software ETF - price only). For the first time since AI became a dominant theme, the worry over related mass job destruction was front of mind.

There were plenty of other issues including rising inflation concerns and interest rates, a dollar that really should have rallied more, extreme volatility in commodity prices (particularly oil and precious metals), Federal Reserve credibility, weak Treasury auctions, Trump's tariffs being rejected by the Supreme Court, more talk about Greenland and Cuba, Japan and China issues (economic)... it's a long list. There is an increasing sense, in markets, that the chickens are gradually coming home to roost, but you would never know it from the indices. Individual stock price volatility was unusually elevated in the period, but markets in general remain seduced by the Fed and Trump puts (the implied promise to step in if things get unstable). One could argue that is the primary reason JD Vance is currently in Pakistan.

PERFORMANCE COMMENTARY

The first quarter saw the Russell 1000 Growth and the Magnificent 7 stocks struggle – down 9.9% and 12.2% (MAGS – equal weighted ETF), respectively. The Russell 1000 Value led for a change – up 1.6% (price only). The leading sectors were Energy, Materials, Utilities and Consumer Staples, with Financials, Consumer Discretionary and Technology the biggest laggards. Software stocks were an outlier to the downside for the reason noted above. With our significant overweights in Energy and Materials and underweight in Financials our sector weighting was a substantial contributor to our performance. Stock selection was also a strong positive, with APA Corp (up 74%), Bunge (up 43%), Baker Huges (+ 34%), Murphy Oil (+ 32%), BorgWarner (+ 20%) and Fluor Corp (+ 18%) leading the charge. Of course we had our laggards, most significantly Fidelity National Information Services (a small position, - 29%), Baxter International (- 12%), AIG (- 12%) and Mohawk Industries (- 10%).

Our trading remained elevated, due largely to the substantial moves in some of our positions - noted above. It was the first time in a while that we bought and sold shares of the same company within the confines of a single quarter. The big shift in the portfolio was out of gold miners (not completely) in January and into pharmaceuticals, medical equipment and oil producers. Then with the war in Iran, in March, (and APA, Murphy and Baker Huges roaring), we pivoted to taking profits in oil, while continuing to build health care and adding to our attractive value laggards (Fidelity National and Omnicom). New positions were established in Bristol-Meyers Squibb and Regeneron Pharmaceuticals, while we eliminated Warner Brothers Discovery, State Street, and Kinross Gold. It was a busy quarter.

OUTLOOK

Despite repeated claims to the contrary, I still suspect that, for the US, Iran is not primarily a uranium/nuclear issue - as it is for Israel. For decades, technology has been steadily shrinking the world and changing competitive and strategic boundaries/barriers that an earlier US relied on. America’s leaders have ignored the erosion for a generation as unavoidable. Perhaps AI - the demands it represents for resources and capital and the belief that it is a race best won – has finally changed the geopolitical calculus. Trump’s actions, in toto, (tariffs, Panama Canal, Gaza, Venezuela, Iran and others, discussed but not yet taken) appear to be about reviving US hegemony by controlling strategic resources and depriving our challenger, China, from the benefit they might convey - while we still can. Trump appears to believe that buttressing US dominance is critical for our future security and to propel growth as we try to outrun our accumulated debt. Our national debt problem is not unique in today’s world, but its scale defies austerity (cutting costs would have too great an impact on economic activity/tax receipts) and continuing to ignore it would be foolish. Growing out of it also seemed improbable, but perhaps less so with additional drivers/resources. In thus speculating, I am not defending or rationalizing – just trying to understand what I am observing as an investor. I will reiterate that recent actions have been, at times, hard to watch and the consequences remain unknown. To be fair, it was hard to watch past Presidents sit idly as our middle class and manufacturing base disappeared and our debt piled up.

It would be the height of arrogance to be too confident about what happens next. I cannot recall a time with more large moving parts. War, credit issues, high oil prices, record sovereign debt and low consumer confidence all represent cautions with respect to economic activity. On the other hand, markets are convinced that Fed/Treasury support will be provided proactively. In other words, more of the same. When in these circumstances we lean heavily on valuation. Remember that, in our interpretation, value is defined by discounted future cash flows attributable to equity holders. If, on average, our assumptions prove reasonable, then a portfolio built on attractive valuation is like having a safety net (margin for error). In the short term, stocks may go out of favor (or not) but in the long term the cash flows will prevail. We will stick to our discipline as we move forward and believe that it will continue to serve us well. Thank you for your interest and support and please do not hesitate to call or email with any questions or concerns.

Sincerely,

Robert W. Simmons, CFA
Managing Member

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