



The Fog of War

As the calendar turned into January, the tenor of the market changed dramatically. Volatility started to rise, and many of the unloved stocks from 2025 suddenly started to perform well again. Sellers took aim at large swaths of the market that could be disrupted by AI and began to think much more skeptically about AI infrastructure spending announcements. And this was all before the US and Israel went to war with Iran!

Most of the selling was concentrated in software providers, which returned -24.3% in the first quarter. Technology as a whole returned -7.6%, and the semiconductor sector gained +6.5%. This speaks to the unease in the market over AI- the market believes software could be seriously disrupted by AI, and they assume the demand for semiconductors will remain strong as the AI infrastructure buildout rolls on. However, companies announcing large capital expenditure plans for AI have not fared well in the market. Amazon announced plans to spend \$200 billion on AI infrastructure after reporting Q4 earnings, and the stock ended the quarter down -9.8%.

In addition to the AI considerations, the market is grappling with two huge issues: war in Iran and stagflationary economic data. The outcomes remain unknown, but both have the potential to upend longer-term trends in the stock and bond markets.

War In Iran

As we've previously written, war always exacts a humanitarian toll which shouldn't be ignored, but markets are most concerned with economic tolls. In striking commercial vessels, Iran has effectively closed the Strait of Hormuz- an enormous economic hit as about 20% of the world's oil and 1/3 of global fertilizer supply is moved through this waterway. It is unknown when the strait will reopen and, if so, what, if any, "fee" Iran will demand for safe passage. It's been reported that Iran is seeking payment of \$2 million per ship.

Thankfully, for now, it appears that both the US and Iran are interested in potential off-ramps from the conflict. However, many unknowns remain. Several major energy facilities in the Middle East have been at least partially destroyed, and the medium-term effects of the Strait of Hormuz closure are anyone's guess. Many refineries in Asia preemptively slowed production to avoid running out of oil entirely and it's difficult to say when they will resume operations at full capacity. The timing could not be worse for agriculture as the spring planting season ramps up in the northern hemisphere. Any way you slice it, the Iran conflict is likely to apply upward pressure on inflation.

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SPECIAL POINTS OF INTEREST

- If you would like to schedule a meeting for planning or portfolio questions, don't hesitate to contact us!
- Q2 Market & Office Closures:
 - Memorial Day Mon. May 25th, 2026
 - Juneteenth Fri. June 19th, 2026



The Fog of War

Stagflationary Economic Data

Recent economic data releases have tended to paint a stagflationary picture- even before the conflict in Iran. Stagflation is a condition in which economic growth stagnates while prices rise. Economic growth has been decelerating, and unemployment has been rising for the past 3 years. Even before the War in Iran, inflation appeared to be persistent.

The U.S. is facing a bit of an uphill battle as economic growth now relies entirely on productivity growth to offset a labor force that shrank by a seasonally adjusted 426,000 people over the past year. This contraction was driven by about 11,000 baby boomers reaching age 65 per day (many of whom are retiring) and a reversal in immigration policy that saw a net loss of 150,000 people in 2025- the first such decline since the Great Depression. By comparison, 2024 saw a gain of 2.7 million people from immigration. While AI-driven productivity growth could potentially fill this gap, this environment creates a unique economic regime that may encourage the Federal Reserve to prioritize controlling inflation over job creation because we don't need any new jobs to maintain a normal unemployment rate.

We follow the CPI and PCE indices for consumer prices and PPI for producer prices. PCE and PPI are both in an uptrend, and all three indices are well above the Fed's target. Furthermore, the core indices (which exclude the volatile food and energy categories) have been running above their "headline" peers. This means that food and energy have been pulling the headline indices down. This dynamic is highly unlikely to persist given the war, increasing the likelihood that inflation will remain above target.

Looking Ahead

The macroeconomic environment is weaker than in recent years. Growth has been slowing for some time, and inflation may be beginning to tick back up. However, if there is one thing we've learned in the post-COVID environment, it's that our economy is incredibly resilient and dynamic, and American businesses are adept at navigating suboptimal environments. We are therefore hesitant to get overly negative on the stock market.

In general, client portfolios held up well throughout the quarter compared to their benchmarks. Bond yields are up across the curve due to rising inflation expectations and growing national debt, but we remain pleased with our bond strategy and intend to keep duration relatively short to mitigate volatility.

It's very difficult to say whether we are out of the woods or not with respect to Iran, and the murky economic data may still take some time to resolve. We will continue monitoring both situations and we will react as necessary.



Index	Q1 Total Return	YTD Total Return	1 Year Total Return
S&P 500	-4.3%	-4.3%	17.4%
DJIA	-3.2%	-3.2%	12.3%
Nasdaq Comp	-7.0%	-7.0%	24.5%
MSCI EAFE	1.2%	1.2%	23.9%
Russell 2000	0.9%	0.9%	25.7%
US Aggregate Bond	0.0%	0.0%	4.0%

Integrating Long-Term Care into Retirement Plans

People are living longer. According to the CDC's 2024 estimates, American life expectancy is 79. If I have worked on a financial plan for you, I've likely told you that women live longer than men, and that is still true. Women are expected to live to age 81, while male life expectancy is 76. These longer lifespans mean there is an increased likelihood of needing long-term care (LTC). It's estimated that 70% of adults over 65 will need some form of LTC.

Long-term care is a bigger problem for women since they live longer, and they are more likely to need it. Also, since women are likely to outlive their husbands, they may be left without anyone to help them as their needs increase. The American Association for Long-Term Care Insurance reports that 70% of nursing home residents are women. When I plan for married couples, I will plan for the wife to need more expensive care for longer, unless family history indicates otherwise.

Costs of Long-Term Care

There are several levels of care and a wide range of costs. The costs also vary based on where you live. I am going to stick with national averages for now, but generally, if you're in a higher cost-of-living area, you can expect to pay more. The pricing data below was sourced from the Genworth Cost of Care Survey.

In-Home Care: This is when the senior remains in their home and receives professional assistance. This is more cost-effective than assisted living if they need less than 40 hours of care per week. There are two different levels of care- non-medical and skilled. These services are billed hourly, which offers flexibility but can also lead to unexpected increases as needs grow. The national median costs for in-home care are \$35/hour for non-medical caregivers and \$90/hour for skilled nursing care. There will likely be a need for a mix of both.

Assisted Living: These are facilities that offer residents around-the-clock staff availability and assistance with activities of daily living. The base monthly rent includes housing, meals, utilities, and basic care. There may be additional charges for higher levels of care if needed. The national median assisted living cost in 2025 is \$6,200/month. We always plan for at least some decrease in current lifestyle expenses if assisted living is required because the facility fees cover so many expenses you would otherwise have.

Nursing Home: These facilities provide even more care than an assisted living facility. There will be skilled nursing care 24 hours a day. The costs include personal care, room & board, supervision, medications, and rehabilitation therapies. Similar to assisted living, and likely to a greater extent, lifestyle expenses that occurred before entering the nursing home will decrease. The national median cost of nursing home care in 2025 ranged from \$9,500 to \$10,800 per month.

Length of Care: The average length of LTC is 2.2 - 3.7 years. Since there are levels of care, that does not necessarily mean you will be at the highest level the entire time. Only 20% of people will need LTC for 5 years or longer. Folks who are married need less time in care, and men have a shorter stay than women on average.



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What Doesn't Pay for Long-Term Care

There are common misconceptions about how LTC expenses can be paid for. These sources will not fund LTC:

Medicare covers only short-term rehabilitative care for up to 100 days and does not cover help with activities of daily living.

Health insurance generally will not cover LTC, including Medigap policies.

****Medicaid** will cover LTC, but it is difficult to qualify and is intended as a safety net, not a plan to pay for care. You must have extremely low levels of assets and income, and there are policies in place, like 5-year lookback periods, that prevent people from gifting away all their assets to qualify.

Funding Strategies

There are two ways to pay for LTC costs. You can self-fund or purchase insurance. There are multiple ways to achieve both strategies.

Self-Funding – The simplest way to self-fund is with your investment portfolio. This involves planning for expenses at the beginning of retirement so that you are careful not to spend too much early on, in case you, your spouse, or both of you need LTC. If there are pensions and Social Security, there may be enough stable monthly income to support long term care costs.

Selling your primary residence is a good way to pay for LTC, especially for someone who is single or for the surviving spouse. If assisted living or nursing home care is needed, the home will be unoccupied, so selling it will free up cash and reduce expenses.

Other less common options include reverse mortgages and Health Savings Accounts (HSAs). The use of HSAs may become more common in the future, but currently, we don't see many folks in retirement with large HSAs. It is likely they will be depleted before LTC is needed.

Insurance – Long-term care insurance is harder to find than it used to be. Many carriers stopped offering it because the costs of LTC grew faster than they expected, and they lost money on those policies. Policies are expensive, with average premiums ranging from \$1,000-\$4,000/ year for someone age 55. Coverage for a 75-year-old female can be as high as \$9,700/year. A common issue we see with insurance is that, as people age, they want to or must drop their coverage because the premium increases are so large.

A second option to straight LTC insurance is to purchase a whole life insurance policy with a LTC rider. This can reduce costs, and if LTC isn't needed, heirs will still receive the death benefit. These riders are not typically as expensive as a full LTC policy.

It's essential to have LTC included in your retirement plan. We can help you weigh the pros and cons of different options to pay for it if the need arises and give you guidance on what makes the most sense for your situation based on family history, income, and assets. If you would like to discuss your unique situation, please contact us!

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