

Income & Projection Matter Again

Executive Summary: U.S. large-cap equities declined in Q1 2026, with the S&P 500 down 4.3%, as higher rates, geopolitical risks, and multiple compression outweighed still-solid earnings growth. Van Hulzen's covered call strategy offered considerable protection, down just 2.4%, as option premium income helped offset equity market weakness. The quarter highlighted that covered call strategies can provide meaningful downside protection and improved relative performance in flat or declining markets. The team expects choppy, sideways markets to continue.

March Pullback Drags on Q1 Returns

U.S. large-cap equities experienced a modest but notable pullback in Q1 2026, with the S&P 500 declining 4.3% on a total return basis. The quarter mirrored early 2025, which also saw a 4%+ drawdown driven by tariff-related tensions. In both cases, the weakness was primarily a function of geopolitical headwinds rather than deteriorating fundamentals.

Macro pressures resurfaced

- Rising oil prices and geopolitical risk (Middle East conflict)
- Delayed Fed easing expectations as inflation proved sticky
- Higher real yields → pressure on equity multiples

Leadership narrowed, then broadened

- Early weakness driven by large-cap growth / "Mag 7"
- Later in the quarter, broader market participation improved and equal-weight stocks outperformed the cap-weighted index

Fundamentals remained strong

- Earnings still expected to grow ~13% YoY
- Revenue growth near ~10% YoY
- Price weakness was driven more by valuation compression than earnings deterioration

Why Covered Calls Outperformed

1. Income cushioned downside. Elevated volatility means higher option premiums, and this incremental income helps offset equity losses.
2. Lack of upside wasn't a penalty. In a down or sideways market, covered calls don't give up much upside and retain most of the premium
3. In strong bull markets, covered calls typically lag. But in flat/down markets, these strategies often outperform meaningfully. We saw this in 2022, as well as Q1 of last year and this year.

Quarter Highlights

It was a volatile quarter, with two uneventful months followed by a very disruptive March. We saw an exaggerated level of dispersion in the portfolio. The worst performers declined by more than 17% on average, while the best performers were up nearly 21% on average. As you see below, even the "Sideways Moving" category spans from -6% to +4%. As expected, options were accretive to returns in the top two quadrants. But it was difficult to stay out of the way in the energy and infrastructure segments, where options were a headwind.

Sideways Moving			
Name	Stock	Options	Net
TJX	4.2%	0.2%	4.4%
SLB	4.1%	0.1%	4.2%
NFLX	-4.0%	3.8%	-0.2%
FCX	-6.0%	4.4%	-1.5%
Median	4.1%	2.0%	6.1%

Covered Call Better

Declining			
Name	Stock	Options	Net
MSFT	-23.3%	2.3%	-20.9%
IBM	-17.6%	7.2%	-10.4%
TSLA	-17.3%	8.2%	-9.2%
DHR	-17.0%	3.9%	-13.1%
Median	-17.5%	5.6%	-11.9%

Covered Call Better

Rising			
Name	Stock	Options	Net
ETN	12.6%	0.6%	13.2%
JCI	9.6%	-4.4%	5.2%
TT	7.3%	-1.5%	5.7%
ITW	6.3%	-3.3%	3.0%
Median	8.4%	-2.4%	6.0%

Long Only Better

Exploding			
Name	Stock	Options	Net
XOM	41.8%	-22.4%	19.5%
KMI	23.0%	-0.9%	22.1%
JNJ	18.7%	-12.9%	5.8%
EXC	13.4%	-1.1%	12.4%
Median	20.9%	-7.0%	13.9%

Long-Only Better

Portfolio Examples

Amazon example

Jan 2025 - Mar 2026

Price	-5.1%
Dividend	0.0%
Options	12.5%
Total Return	6.7%

Since January 2025, Amazon's stock price has chopped sideways for 15 months, losing -5.1% from point to point. The call options, however, have done extraordinarily well in this environment, gaining 12.5% and bringing our total return to +6.7%

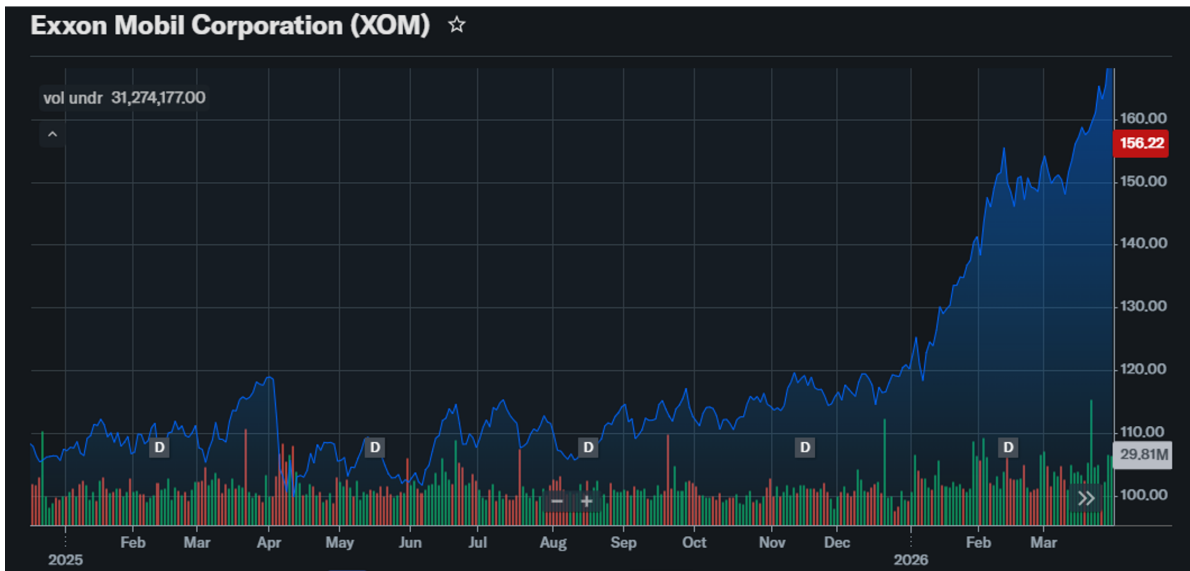


Exxon example

Jan 2025 - Mar 2026

Price	64.4%
Dividend	5.2%
Options	-24.1%
Total Return	45.6%

Over the same time period, Exxon mostly chopped sideways as well...until the Iran war broke out. The stock price surged through our strike price, resulting in option losses (effectively capping our upside). But the position still made 45% in just 15 months.



Exxon's price peaked at \$171 on 3/31 but has since pulled back to \$156, making this a great example for our "don't be greedy" philosophy.

Looking Forward

The team expects continued volatility. Much of the near-term outlook hinges on the status of the Strait of Hormuz, the critical chokepoint for roughly 20% of global oil supply. The closest historical analogue is the 1973 Arab oil embargo, which removed roughly 5–7% of global supply and took about five months to resolve, during which oil prices ultimately quadrupled. Today's situation may be even more consequential: disruptions tied to Iran have the potential to impact a far larger share of global flows, suggesting that while markets have already reacted sharply, the duration of the disruption—rather than the initial shock—will ultimately determine whether this episode resembles a temporary spike or a sustained energy-driven macro shock.

Van Hulzen's covered call strategy is positioned to benefit from the continued trends in energy, materials and industrials, as well as the volatility that occurs during the transition in these themes. But we want to emphasize that no matter what the current sector trends are, we emphasize the same factors: **strong cash flow returns, meaningful competitive advantages, and quality balance sheets**. And we use call options to add incremental income and protection to the portfolio. These characteristics should come in handy in a climate which most economists expect will be volatile and likely result in just mid-single digit returns. Our strategy targets yields of 7-8%, which means we don't rely quite so much on price appreciation for our total return.

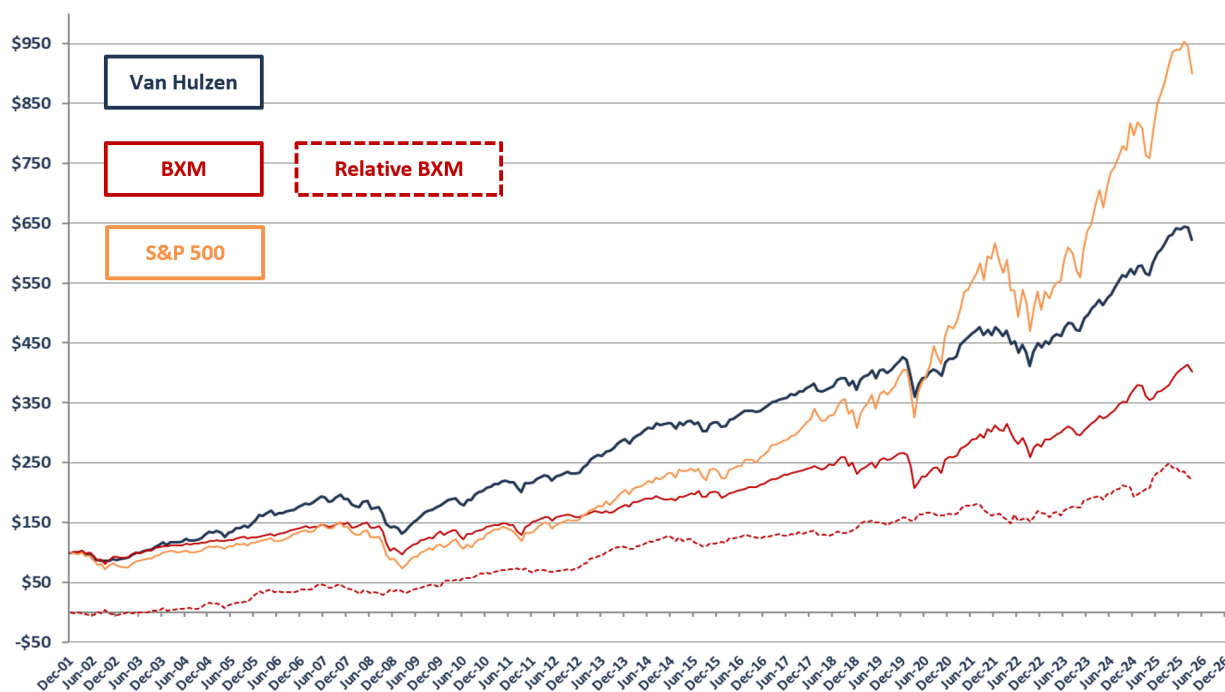
Key Takeaways

- Large-cap equities saw a valuation-driven pullback in Q1 despite solid earnings
- Covered call strategies outperformed due to income and muted upside sacrifice
- The quarter highlighted the importance of strategy diversification, not just asset diversification
- The team expects continued volatility as tensions continue around the Strait of Hormuz and its impact on energy prices and Fed policy
- Covered calls should continue to benefit investors in this uncertain environment

Van Hulzen Covered Call Strategy

The Van Hulzen Covered Call strategy invests in US companies that we consider to have high shareholder yield (dividends and share repurchases) and uses call options with the goal of reducing portfolio volatility and creating incremental income. The goal is a portfolio that has equity exposure while seeking higher than average annual income (target of 6-8% annual), although there is no guarantee that the strategy will achieve its objective, generate profits or avoid losses. Below you will find the graph of the Van Hulzen Covered Call Strategy and the Covered Call Index BXM.

Covered Call Strategy Performance (gross as of 03/31/2026)



Returns (annualized)*	Mar 2026	3M	6M	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception
Van Hulzen (Gross)	-3.1%	-2.7%	-1.0%	-2.7%	9.9%	10.7%	6.8%	6.6%	6.8%	7.8%
Van Hulzen (Net)	-3.1%	-2.7%	-1.2%	-2.7%	9.4%	10.0%	6.1%	5.9%	6.1%	7.0%
BXM	-2.9%	-0.9%	5.6%	-0.9%	11.4%	11.0%	7.9%	7.2%	7.3%	5.9%
Difference (Gross-BXM)	-0.1%	-1.8%	-6.5%	-1.8%	-1.4%	-0.4%	-1.1%	-0.6%	-0.5%	1.9%
S&P 500	-5.0%	-4.3%	-1.8%	-4.3%	17.8%	18.3%	12.1%	14.4%	14.2%	9.5%

*Inception date : 12/31/2001. Figures greater than one year are annualized. Van Hulzen returns represent actual returns from composite of accounts. Source: Bloomberg, Tamarac

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