AURORA

1st Qtr. 2026 Investment Counsel Report

Market Summary

Given a rash of unsettling geopolitical and macro-economic machinations, the stock market might be expected to show signs of volatility and undo the recent positive streak of performance. War in Iran and the Middle East, resultant higher oil prices and inflation, and rising interest rates did indeed take some steam out of stock prices to begin 2026.

The large stocks of the S&P 500 Index (still dominated by a few large tech companies) fell -4.3% in the first quarter. An index even more concentrated in such large technology exposure, the Russell 1000 Growth Index fell -9.8% for the same period - more on this below.

More diversified, smaller company stocks represented by the Russell 2000 Index also caught a downdraft through the first three months, but recovered to post a meager +1.3% gain. The contrast between returns of different stock market measures illustrates that different profiles of stocks can and do march independently in short periods of measurement. Maintaining a diverse exposure across these style lines is essential to smoothing out short term turbulence on a successful long term investment program.

Foreign stocks as tallied by the EAFE Index also posted a negative -1.1% drop to begin the year. This marked a sharp reversal from recent outperformance and likely reflects heightened sensitivity to the geopolitical and economic concerns mentioned above.

Aurora Outlook

In the charts on top of the next page, we are trying to demonstrate that over the very long term stock prices eventually follow earnings and growth of earnings. However, in shorter interims, prices are driven by many other factors including investor sentiment, supply/demand of issuers, and general uncertainty and volatility. By illustrating the return patterns of different investment styles and profiles of stocks, we can see short term divergence in cycles that tend to revert regularly. Growth versus Value style investing and the different financial profiles of such benchmarks commonly ebb and flow - yet in the long term average returns for each are almost equal.

In the past 3 years or so, most stock market measures have been strongly positive, and returned well above the long term average of roughly 10% annual returns. Past this, more concentrated and style-specific areas of the market have had dramatically divergent returns - which is fairly typical when looking back over the long haul. In the post-Covid recovery since 2022, it is the prices of large stocks and particularly “growth” style large stocks that have been heavily favored. Interestingly, the recent advantaged earnings growth of the companies within Growth benchmarks corroborates this outperformance.

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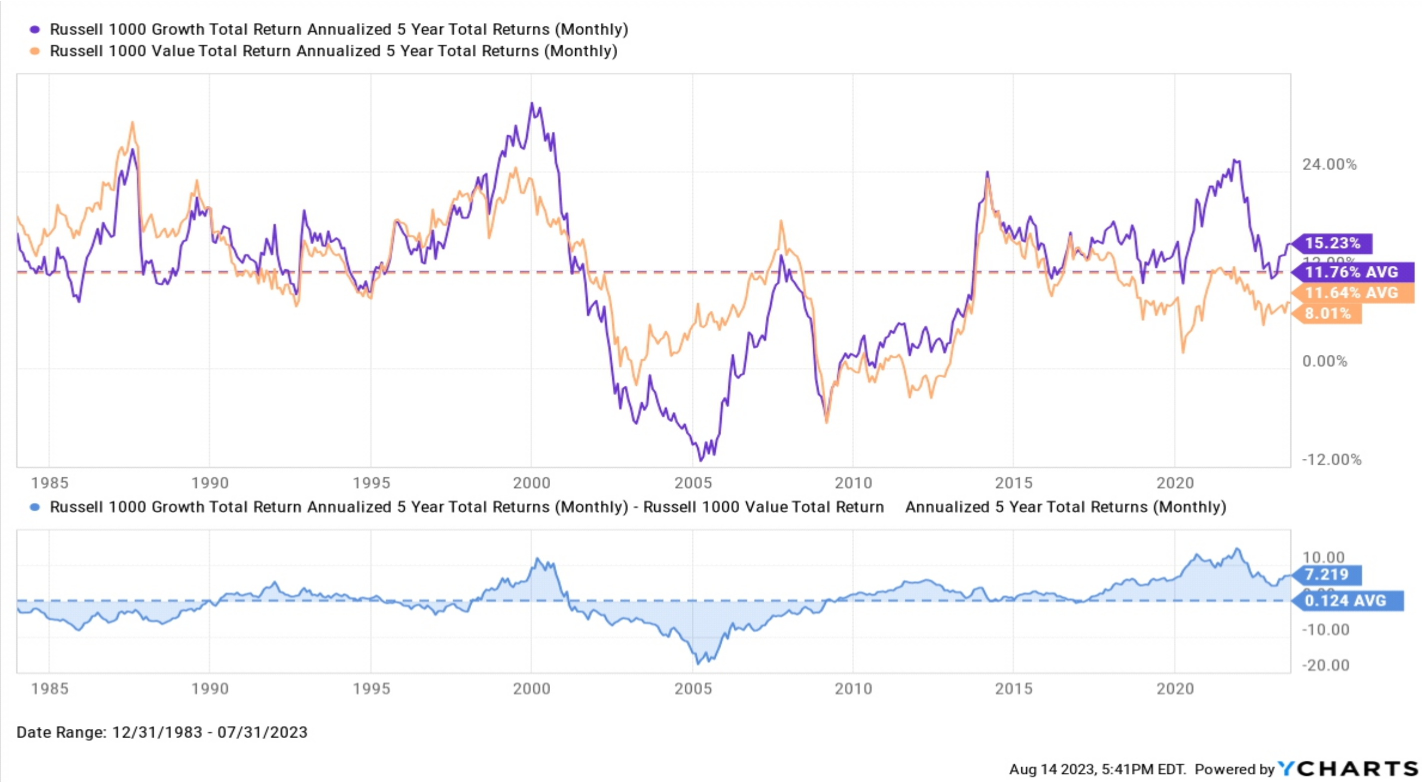

It is also important to understand and monitor "other" effects on short term market performance mentioned above. We feel that in particular, investor sentiment and supply/demand issuance are relevant at present. The anticipation and aspirations for AI capital investment have certainly been central in driving recent stock market returns - not unlike the Internet introduction and roll out. With trillions borrowed and invested in infrastructure, hardware and soon applications - AI will undoubtedly reshape traditional business models. The sheer size and scale of the investment amounts have also driven investor sentiment (expressed in a Fear Of Missing Out FOMO) dynamic, and has fueled appreciation in many unprofitable and speculative enterprises.

Another important factor that will come to bear in coming months is a deluge of new and IPO stock offerings, representing massive new "supply" into investor portfolios. From SpaceX and xAI, to Anthropic, to OpenAI and many others - the upcoming calendar of companies looking to public equity market support is sure to impact general investor attention and behavior. These "other" factors can and do have a short-term impact, but in the long run are less important than earnings and fundamentals.

Aurora Perspective
In the end, Aurora Investment Counsel has adhered to our fundamental based Growth At a Reasonable Price (GARP) discipline to deliver successful long term returns with a balanced level of risk and volatility Sometimes it feels out of step with certain market segments, but our focus and discipline have served clients well through many periods of ups/downs triggered by the "other" dynamics. We don't see the need to alter our long term focus, or to chase ephemeral trends like sentiment or supply/demand of IPO issuance.

Stock prices follow earnings over time - and the companies we have invested in have historically and presently are delivering adequate reward and opportunity for our investors. Aurora is still finding the earnings, the cash flow and the growth that we need for appreciating stocks, and at attractive valuations that avoid the excesses of some overheated areas of the market.

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