

April 6, 2026

Dear Clients and Friends,

“Beware the Ides of March.” — Julius Caesar, William Shakespeare

In ancient Rome, the Ides of March was a day when debts were settled, a natural moment of reckoning within the financial calendar. In recent years, that idea has felt increasingly relevant. The period from late February through early April has repeatedly brought meaningful market and economic turning points, including the onset of COVID in 2020, the outbreak of the war in Ukraine in 2022, tariff-driven volatility in 2025, and now war with Iran. While each episode has been distinct, the early part of the year has often set the tone for what follows by shifting expectations and reminding investors how quickly conditions can change.

After strong years for investors in 2024 and 2025, this year has begun on a more difficult footing. Even with a relief rally based on hopes of a resolution to the war on the final day of March, the S&P 500, including dividends, still closed the quarter down 4%. The technology-heavy Nasdaq declined by roughly 6% after falling more than 10% earlier in the month. Bond prices have also moved lower, with the yield on the 10-year U.S. Treasury rising to approximately 4.3%. Higher oil prices, persistent inflation concerns, and continued government borrowing have all contributed to this shift. Given the war in the Middle East and the region’s importance to global energy supply, a more pronounced reaction might have been expected. Instead, markets have shown a degree of resilience, reflecting a growing tendency to look through near-term disruptions in anticipation of eventual normalization. Keep in mind that markets were down similar levels just a year ago following the Administration’s “Liberation Day” tariff announcements but recovered quickly, only to set all-time highs just months later.¹

The human and economic perils of war are always of grave concern. As stewards of our clients’ capital, however, our responsibility is to step back and focus on the longer-term forces that will shape portfolios over time. In our view, the themes that were in place prior to the conflict are likely to reassert themselves once the immediate uncertainty subsides. These include the continued adoption of artificial intelligence and the likelihood that inflation and interest rates remain higher than investors have grown accustomed to in recent years.

“We tend to overestimate the effect of a technology in the short run and underestimate the effect in the long run.” — Roy Amara²

The past provides useful analogues for investment cycles involving new technologies. One research organization that synthesizes data on emerging trends is The Institute for the Future (IFTF), a Silicon Valley-based nonprofit think tank originally spun out of The RAND Corporation.³ While studying the adoption of computing in the 1960s and 1970s, long-time IFTF president Roy Amara deduced that expectations for emerging technologies evolve over time. Amara observed that new technologies tend to generate an initial surge of enthusiasm, followed by a period of recalibration as practical limitations and economic realities become clearer. Near-term expectations often run ahead of reality, even as long-term impact is understated.

¹ Market data (S&P 500, Nasdaq, Treasury yields): Bloomberg.

² Roy Amara quote: Institute for the Future materials.

³ Institute for the Future (IFTF) background: IFTF.org.

This pattern was later expanded by the Gartner consulting firm in the mid-1990s in what is now known as the “Hype Cycle.”⁴ The framework describes a progression from a peak of inflated expectations to a trough of disillusionment, followed by a more measured phase of adoption as real-world value becomes clearer. Although originally developed as a tool for evaluating enterprise technologies, it has proven useful in understanding broader market behavior during periods of rapid innovation.

The recent evolution of artificial intelligence appears consistent with this pattern. The pace of innovation has been significant, and the long-term implications are widely recognized. At the same time, the scale of investment required and the timing of the associated returns are now being more closely scrutinized. In an environment where interest rates remain elevated, that scrutiny carries greater weight.

Viewed through this lens, the recent market reaction is not unusual. This dynamic is evident in the recent share price volatility of Microsoft and Amazon. Both companies are investing heavily in artificial intelligence infrastructure, committing tens of billions of dollars annually to data centers and related capabilities. Microsoft’s capital expenditures are expected to exceed \$100 billion this year, while Amazon’s are projected to be even higher, driven largely by continued expansion of AWS and AI-related infrastructure.⁵ These investments have raised questions about near-term returns, contributing to share price declines of approximately 33% and 20%, respectively, from their 52-week highs.

At the same time, the underlying businesses remain exceptionally strong. Microsoft continues to generate operating margins above 40% and returns on invested capital in the high-20s% range, supported by durable growth in Azure and its broader enterprise software ecosystem. Azure revenue has continued to grow at a rate in excess of 25% year-over-year, reflecting both cloud adoption and early AI-related demand.⁶

Amazon’s core business is well-moated from scale and a management culture focused on continuous efficiency improvement, consistent with its aspiration to be “Earth’s most customer-centric company.” Amazon Web Services (AWS) remains the leading cloud infrastructure provider and a primary toll road for AI deployment. AWS generates operating margins of approximately 30–35% and contributes over half of Amazon’s consolidated operating income, despite representing a minority of total revenue.⁷

While near-term earnings and cash flow will be affected by increased investment, these expenditures are likely to reinforce competitive positioning over time. The recent share price declines appear to reflect a reassessment of timing rather than a deterioration in long-term value and likely represent opportunity.

The adjustment in investor expectations has not been limited to companies making the largest investments. Aon plc has also experienced share price pressure despite a business model that is less directly tied to the capital intensity of artificial intelligence. Aon continues to generate operating margins near 30% and returns on invested capital in the mid-20% range, supported by a highly recurring revenue base and long-standing client relationships.⁸

Aon’s core business involves helping large enterprise clients understand and manage highly complex risks, whether related to insurance, cyber threats, evolving regulations, or an increasingly intricate global environment. This work

⁴ Gartner Hype Cycle: Gartner Research.

⁵ Microsoft and Amazon capex: Bloomberg; company filings.

⁶ Microsoft financial metrics: Bloomberg.

⁷ Amazon AWS metrics: Bloomberg; company filings.

⁸ Aon plc financial metrics: Bloomberg.

relies heavily on expertise and judgment. While artificial intelligence may enhance aspects of its capabilities, it is unlikely to displace the central role the firm plays for its clients, as is suggested by its near 20% sell-off from its peak last February.

"Wonderful companies don't go on sale very often. When they do, you buy them." — Charlie Munger

In periods of rapid innovation, markets do not always distinguish clearly between businesses whose long-term prospects have fundamentally changed and those that are simply being evaluated through a more demanding lens. That creates opportunities for investors who believe in the long-term prospects for high-quality businesses like the ones that have earned their places in Douglass Winthrop portfolios.

This is not to suggest that conditions could not deteriorate further in the near term with more challenging news out of the Middle East or other corners of the world. While the current correction has been uncomfortable, it has not reached a point where the path forward is clearly upward. It serves as a reminder that investors should be cautious about extending too far into risk in pursuit of returns.

In our view, this is an appropriate moment to revisit long-term risk tolerance and ensure that portfolios are positioned with sufficient liquidity to navigate periods such as this and those that will inevitably follow. We encourage our clients to consult with the Douglass Winthrop team and stand ready to help you assess your overall asset allocation in the face of the changing investment landscape. We cherish the conversations we have with our clients and the trust you place in us.

As we turn the page from this tumultuous March, we hope that spring brings resolution, peace and the conditions for greater prosperity at home and abroad. No matter what opportunities and challenges the future brings, we look forward to navigating them together.

Sincerely,

Douglass Winthrop Advisors

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