



Quarterly Point of View *Durability vs. Prediction*

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Investing is often framed as an exercise in prediction. In reality, prediction is an inherently unreliable foundation for decision-making—one that becomes even more exposed in environments like the present. Elevated geopolitical instability, persistent inflation concerns, and an uncertain path for monetary policy and economic growth have widened the range of possible outcomes. In this setting, the challenge is not simply forecasting what is most likely to occur, but recognizing the limits of that exercise.

To be effective, a prediction must be correct across multiple dimensions—direction, timing, magnitude, and market interpretation. Missing on any one of these can lead to materially different results. Even when forecasts are broadly right, markets often respond in nonlinear and narrative-driven ways, discounting, overshooting, and repricing as expectations evolve. As a result, being “right” on inflation, interest rates, or economic growth does not reliably translate into investment success. This creates an unfavorable asymmetry: the benefit of being precisely correct is often limited and transient, while the cost of being wrong can be significant and cumulative.

That asymmetry becomes more pronounced in the current environment. Geopolitical instability has become more visible and more consequential, with conflicts like the one with Iran, influencing markets not only through direct risk, but through second-order effects on energy prices, trade flows, and inflation – adding complexity to already uncertain economic conditions. At the same time, the path of growth and monetary policy remains unclear. In stable periods, market leadership tends to be more persistent. In contrast, uncertain backdrops often produce fragmented and episodic leadership—further reducing the reliability of strategies that depend on prediction.

This dynamic is reinforced by structural features of modern markets. The speed at which information and narratives circulate compresses time horizons, creating a constant pressure to react—rotating exposures, adjusting positioning, and aligning with shifting narratives. These behaviors can disrupt the compounding process precisely when patience and consistency are most needed. Inflation adds another layer of complexity, influencing valuations, capital allocation decisions, and the distinction between nominal and real returns. Differences in business quality—pricing power, cost structure, and balance sheet strength—become more consequential over time, even if they are not immediately visible.

Rather than attempting to predict what will work next, we believe the focus should shift to what can endure. Our investment framework centers on three forms of durability:

Durability of Returns

We own businesses capable of producing consistent economic outcomes through time, where investment results are driven primarily by the productive capacity of the underlying asset rather than by short term price fluctuations or trade timing. These companies have strong competitive positions, consistent cash flow

generation, and cultures of durable and growing dividends. Their return profile is less dependent on any single macro-outcome, making them more reliable contributors to long-term compounding.

Durability of Capital

In uncertain environments, which is a seemingly constant state of markets, the most consequential risk is not short-term volatility, but permanent impairment of invested capital. Periods of disruption tend to expose vulnerabilities in balance sheets, business models, and capital allocation decisions. Therefore, raising the probability we avoid those vulnerable outcomes, preserves the base upon which compounding depends.

Durability of Behavior

Uncertain markets test discipline. Shifting narratives and uneven market leadership create a temptation to react, often at the expense of long-term success. A clear, transparent and understandable investment approach, supports consistency of behavior, helping investors maintain holding periods necessary for powerful compounding.

Within this framework, an emphasis on high-quality companies with strong dividend cultures provides an additional layer of resilience. A growing stream of cash returned to shareholders offers a component of return less dependent on market pricing and more directly tied to underlying business performance, an advantage when price appreciation is less predictable. Over time, dividends have played a meaningful role in total equity returns, particularly in periods when capital appreciation is uneven or muted in real terms, serving not only as a tangible source of return but as a mechanism for compounding when reinvested.

Taken together, an investment approach centered on durability - of returns, capital, and behavior - is particularly well aligned with the current environment. Not because it is positioned for a specific scenario, but because it is built to endure across a wide range of conditions.

When the path forward is less clear, the advantage shifts away from those who seek to predict what will happen next, to those prepared for a range of possibilities. In the end, compounding is not a function of foresight, but of survival.

It is a sincere privilege serving those that have entrusted us with their capital.

Respectfully,



Cameron K Martin
Chief Investment Officer
Martin Capital Partners, LLC

Statistical and analytical data provided by Factset.

If you would like additional information on how Martin Capital Partners, LLC conducts business, we can provide a copy of our SEC Form ADV part II, firm brochure.

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