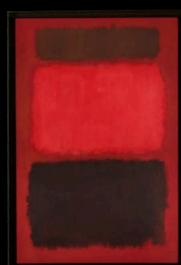
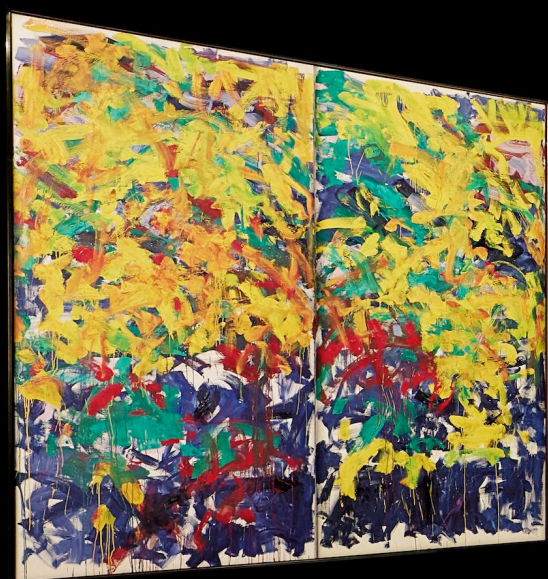


MASTERWORKS
ADVISERS

Q1 2026 - Investor Update

The Turn



I. The Turn

Dear Investors,

We will start with the news that matters most to our investors: after thirteen quarters of decline, the Masterworks Post-War and Contemporary Art Index posted a preliminary gain of approximately 3.8% in Q1 2026⁽¹⁾. This is the strongest quarterly reading since the market peaked in late 2021, and may signal that the four-year correction is over and the recovery has begun.

A note on how we know this. The Masterworks Post-War and Contemporary Art Index is constructed using a repeat-sale methodology, a methodology that is based on the approach Robert Shiller pioneered at Yale to track home prices, which became the S&P CoreLogic Case-Shiller Home Price Index.

The idea is straightforward: rather than attempting to index off of a broad universe of heterogeneous assets, you track the same asset across multiple transactions, isolating pure price appreciation from differences in quality or composition. When the same Warhol sells in 2018 and again in 2025, the change in price tells you something real about the market. We apply this methodology on a value-weighted basis across major public auction categories, using a rolling five-quarter window to accommodate the seasonal nature of art sales.

Readers of our prior letters will recall that we have been pointing toward this inflection for some time. In our year-end 2025 letter for example, we identified the specific catalysts for what could trigger an art market rebound.

1. The return of quality consignments to auction,
2. The reappearance of Chinese buyers, and
3. A preliminary flattening in our index.

Each of those calls has been further validated by Q1 2026 data. It is the culmination of signals we have been tracking, publicly and transparently, for nearly two years.

Return of quality to auction

The auction houses have led the charge. Sotheby's posted a 17% gain in transaction volume in 2025, reaching \$7 billion in global sales⁽²⁾. Christie's rose 6% to \$6.2 billion⁽²⁾. The second half of 2025 specifically saw a 26% year-over-year surge at both houses⁽²⁾. In London, Sotheby's March Modern and Contemporary evening sale totaled more than double the equivalent sale from the prior year⁽³⁾. In Hong Kong, Christie's 20th/21st-century sale saw all lots sell, with 100% of lots clearing⁽⁴⁾.

Reappearance of Chinese Buyers

Additionally, Chinese collectors, who were largely absent from major salesrooms for the past two and a half years, have returned with force. At Sotheby's Hong Kong, Joan Mitchell's *La Grande Vallée VII* sold for HK\$137 million (~\$17.5million USD)⁽⁵⁾, making it the most expensive work by a woman artist ever sold at auction in Asia. After being quiet over the last few years, Asia is now one of the loudest voices in the room.

Remember, every major drawdown in the art market has historically been followed by a multi-year recovery. After the 2008–09 financial crisis, Post-War and Contemporary prices fell roughly 35% from their peak, the same magnitude as the current cycle, recovered fully by 2011, and then climbed for six more years⁽¹⁾. The 2016 correction recovered in eighteen months. In both cases, the investors who entered near the bottom captured the greatest appreciation⁽¹⁾.

Nevertheless, we remain attentive to macro risks that could temper this recovery, particularly shifts in trade policy, central bank guidance, and global political conditions, which could introduce unexpected volatility into discretionary asset markets.

As it stands today, the Post-War and Contemporary index sits near 2017 levels, leaving significant room for potential price increase should those levels simply return to prior peaks⁽¹⁾. What gives us confidence this time is not just that prices have stopped falling. It is that volumes have increased, Asian buyers have returned, and sentiment across the market has seemingly regained genuine momentum.

II. While Everything Else Was Down Last Quarter, Art Was Up

While April is recovering, the first three months of 2026 delivered the kind of quarter that stress-tests assumptions in traditional portfolio allocations.

The S&P 500 fell 4.6%⁽⁶⁾, with March alone accounting for a 5.1% decline, the worst monthly performance since 2022⁽⁷⁾. Tariff escalation rattled global supply chains as effective rates on Chinese goods approached 34%⁽⁸⁾, with Section 301 probes launched against major trading partners simultaneously⁽⁹⁾. Bitcoin dropped 22%⁽¹⁰⁾. Consumer confidence, as measured by the University of Michigan, sank to 53.3, a reading more consistent with recession than expansion⁽¹¹⁾. Moody's Analytics now places recession probability at 49% over the next twelve months⁽¹²⁾. Goldman Sachs has recession probabilities at a 30% chance⁽¹³⁾. While the markets are improving into April, Q1 was off to a rocky start.

And in the middle of all of this, the Masterworks Post-War and Contemporary Art Index posted its strongest quarterly gain since 2021⁽¹⁾.

To be clear, this quarter's divergence is not unique. The PWC index has historically had a low correlation to the S&P, typically around 0 over extended time periods⁽¹⁾. From 2022 through 2025, as equities rallied, the S&P 500 surged to all-time highs, driven by the AI boom and a resilient consumer, art corrected. The Post-War and Contemporary Index declined for thirteen quarters as the market digested the excesses of 2021. During that period, investors who were overweight equities looked prescient. Art, by contrast, tested patience.

What this last quarter demonstrates is not that art always rises when stocks fall, but it demonstrates something more important: art genuinely has moved to its own rhythm. It did not participate in the equity rally of 2023–2025 because the art market was working through its own cycle of correction, regardless of what the S&P was doing. And it did not follow equities down in Q1 2026 because the art market's recovery is being driven by its own fundamentals.

True diversification does not mean owning an asset that goes up when everything else goes down. It means owning an asset that is largely indifferent to the forces driving everything else.

III. AI, Generational Wealth, and the New Collectors

There is a powerful dynamic at work, and it may have profound implications for the art market over the next decade and beyond: AI is creating a new generation of extraordinarily wealthy individuals who may, in time, become the next great collectors.

The scale of wealth creation in artificial intelligence is without historical precedent. In Q1 2026 alone, venture funding reached \$300 billion globally - a 150% increase both quarter-over-quarter and year-over-year, with AI capturing roughly 80% of the total⁽¹⁴⁾. Four of the five largest funding rounds in venture history all closed in the first quarter: OpenAI at \$122 billion, Anthropic at \$30 billion, xAI at \$20 billion, and Waymo at \$16 billion⁽¹⁶⁾. Gartner expects worldwide AI spending to increase 44% in 2026 to \$2.5 trillion⁽¹⁵⁾. These are not abstract numbers. They represent equity grants, founder stakes, and early-employee windfalls that are minting a new class of ultra-high-net-worth individuals at a pace not seen since the dot-com era, and arguably exceeding it.

The broader wealth dynamics reinforce this trajectory. AI is accelerating a structural shift in how wealth is distributed. The productivity gains—Goldman Sachs projects 15% improvement when AI is fully deployed across developed economies—accrue disproportionately to those who own the capital: founders, shareholders, and the companies themselves⁽¹⁶⁾. The top 1% of households already hold a record share of financial assets. AI is likely to widen that gap further, as the technology amplifies returns on capital while compressing returns on labor.

This matters enormously for the art market. Art has always been, at its core, a market driven by the ultra-wealthy. The supply of blue-chip artworks is generally fixed. The supply and wealth of individuals with the means to own them is growing, and AI is the single largest engine of that growth.

IV. The Alternative Asset Reordering

The past eighteen months have witnessed a meaningful shift in how institutional and high-net-worth investors think about alternative assets. Investors are no longer asking whether to own alternatives, but which ones, and on what basis.

Within this landscape, two assets have commanded disproportionate attention: gold and Bitcoin. Both are framed by their advocates as answers to the same fundamental question: how do we make wealth today available for consumption tomorrow, when central banks have demonstrated a persistent willingness to dilute the value of fiat currency? We believe the art market also deserves consideration alongside those assets.

Gold's appeal as a safe haven is ancient and well-earned, and its performance over the past year, surging 44%⁽¹⁷⁾, crossing \$5,000 an ounce for the first time, reflects genuine demand for hard assets in uncertain times⁽¹⁸⁾. But gold has still been volatile to begin the year and Bitcoin's price declined 22% in Q1 2026 alone⁽¹⁹⁾. And its fifteen-year track record, while impressive, is still very short relative to other assets, even other alternatives.

Art offers something neither gold nor Bitcoin can claim: scarcity that does not merely hold constant but often increases over longer hold periods. No new Basquiats will ever be painted. And with each passing decade, the supply of available masterworks typically shrinks, as museums permanently acquire works and remove them from circulation.

The correlation with equities, as we have discussed, is negligible, and the durability of art's cultural and financial value has survived world wars, hyperinflation, technological revolutions, and every other disruption that the past five centuries has produced.

The alternative asset reordering that is underway is not a contest between gold, crypto, and art. It is a recognition that the traditional portfolio model is insufficient, and that thoughtful investors will increasingly allocate across multiple uncorrelated stores of value. We believe art deserves a meaningful place at that table, and that its combination of increasing scarcity, zero correlation, and millennia of proven durability make it an attractive option for diversification.

V. The Path Forward

We are optimistic about the remainder of 2026. The conditions that historically precede extended bull markets in contemporary art - prior market stabilization combined with improving sentiment, supported by the return of international buyers - are the conditions we observe today.

Our priorities for the balance of the year are clear:

1. We will continue executing disciplined sales as buyer confidence returns,
2. We will expand our event programming to new cities, deepening partnerships with museums and galleries,
3. We will continue acquiring high-quality works at prices that remain attractive, because we believe the repricing of the art market has only just begun.

Warm regards,

Scott Lynn
Masterworks CEO

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Art appreciation and correlation data is based on internal Masterworks analysis of the repeat-sales index of historical art market prices computed on a value-weighted basis, focused on the Post-War & Contemporary Art category. Quarterly index is internally calculated on a rolling basis. S&P 500 represents S&P 500 Total Return. All data is calculated from 12/31/1995 to 03/31/2026. Selection of different Art Index inputs or time periods would result in different returns. Index data from 01/01/2026–03/31/2026 is preliminary and may be subject to revision.

Art sales price data is comparative only. Each painting is unique and historical data is not a direct proxy for any specific painting or investment. Data represents whole art not an investment into our offerings which includes fees and expenses. Any comparative images are not currently live offerings and are provided for educational purposes only. We endeavor to include all relevant works and transactions in our analyses, but no definitive object-oriented database with all auction sales is known to Masterworks, and therefore, despite our best efforts the data may be incomplete or inaccurate.

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