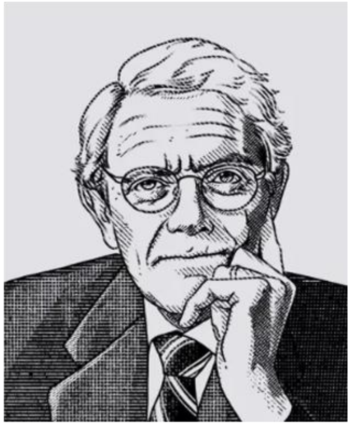
TIMBER POINT CAPITAL MANAGEMENT

POWERED BY FORTIS CAPITAL ADVISORS

"If you can follow one bit of data, follow earnings....I subscribe to the crusty notion that sooner or later earnings make or break an investment in equities."

-Peter Lynch

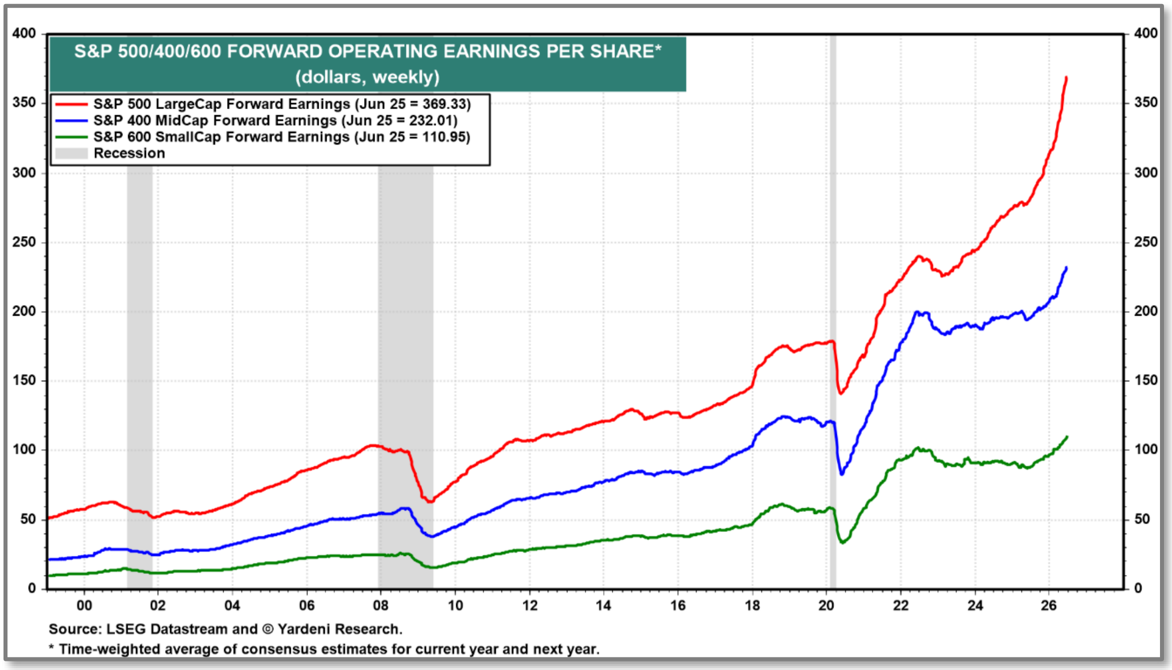


Earnings Boom!

Market Backdrop

The first half of 2026 reminded investors that markets often react far more dramatically to geopolitical headlines than the underlying fundamentals ultimately justify. The U.S.-Iran conflict dominated financial news throughout much of the spring, sending oil prices sharply higher after hostilities ensued and Iran temporarily closed the Strait of Hormuz. While the price spike fueled fears of renewed inflation and a potential derailment of the global expansion, we believed those concerns were overstated. The United States enters this cycle as the world's largest energy producer, global supply chains have become more resilient, and the developed world's dependence on Middle Eastern oil has steadily declined over the past two decades. As the military outcome quickly became clear and diplomatic efforts progressed, oil prices quickly retraced their gains—an outcome that, in our view, was far more likely than a prolonged energy shock.

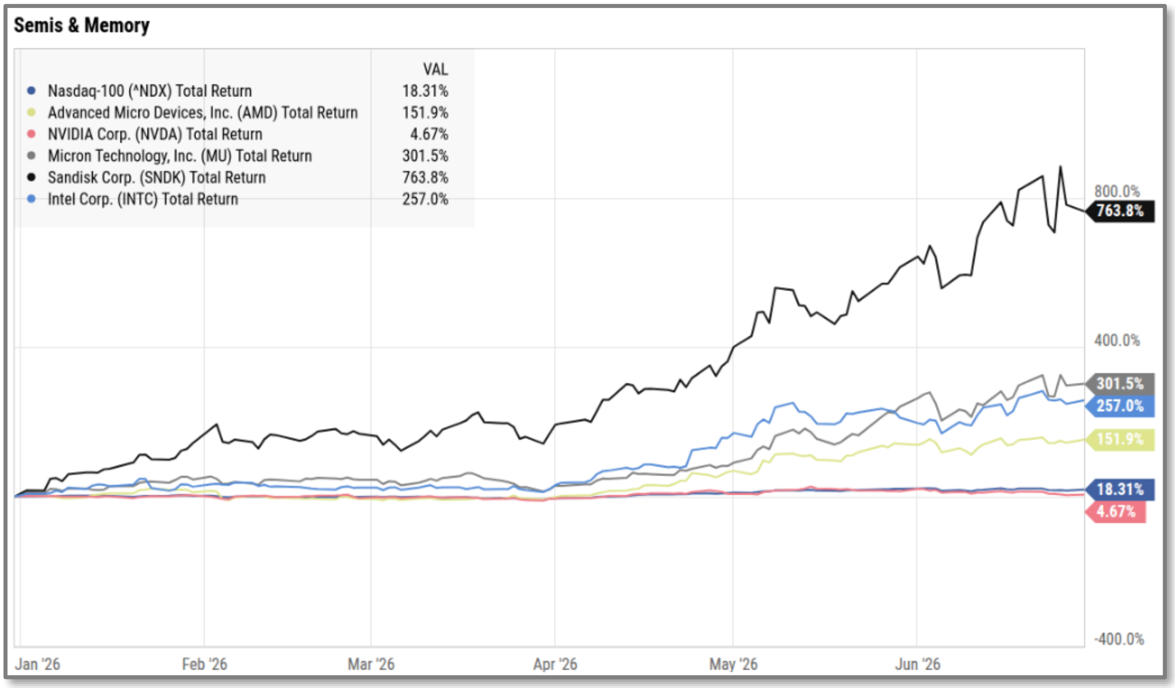
More importantly, we continued to believe investors were focused on the wrong variable. While geopolitical developments understandably dominated the headlines, the primary driver of equity markets remained the same theme we have emphasized throughout the year: a powerful global earnings expansion fueled in large part by the accelerating adoption of artificial intelligence. What increasingly became clear during the first half was that AI is no longer simply an exciting technological innovation—it has evolved into one of the largest capital spending cycles in modern history. Companies across nearly every industry are investing aggressively in AI infrastructure, driving exceptional demand throughout the semiconductor supply chain and producing a meaningful acceleration in corporate earnings growth.



The AI Trade

Nowhere was this dynamic more evident than in the semiconductor and memory ecosystem. As AI infrastructure spending accelerated throughout the first half, memory manufacturers such as Sandisk and Micron Technology emerged as some of the market's strongest performers, benefiting from a powerful memory supercycle driven by surging demand and constrained supply. At the same time, foundries such as Taiwan Semiconductor continued to report demand well in excess of manufacturing capacity, reinforcing our view that the AI investment cycle remains in its early stages and that enterprise spending on compute, networking, and memory infrastructure is likely to remain robust.

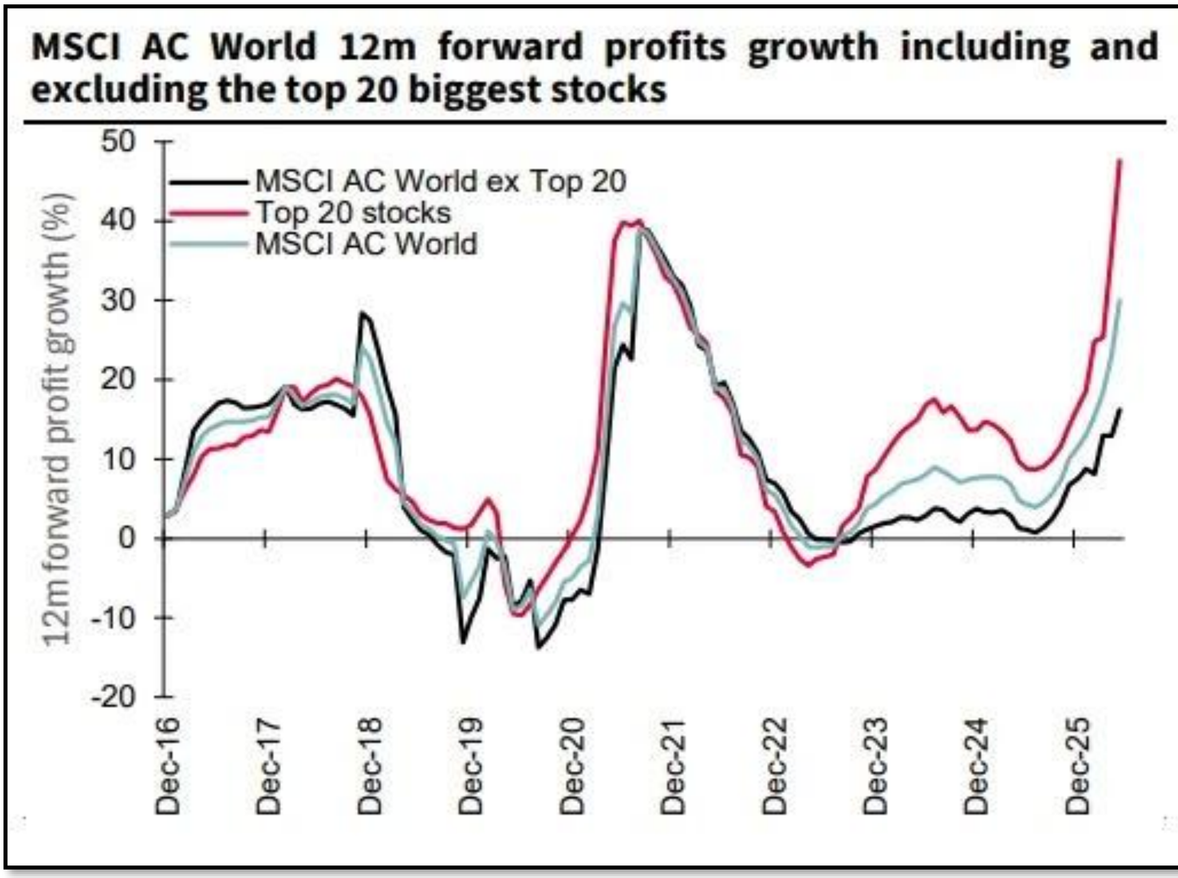
The benefits of AI, however, were far from evenly distributed. While companies supplying the hardware and infrastructure powering the AI revolution generated exceptional earnings growth, many software companies faced increasing competitive pressure as AI lowered barriers to entry and accelerated product commoditization. Even the large hyperscale cloud providers continued to invest extraordinary amounts of capital while the timing and magnitude of future returns remain uncertain. The lesson for investors is clear: transformational technologies rarely reward broad thematic exposure. They reward disciplined security selection and a willingness to differentiate between the companies building the infrastructure, those enabling adoption, and those facing disruption. In the end, earnings—not Iran, not oil, and not inflation—proved to be the dominant force driving market returns.



Source: YCharts

Diversification Benefits

Perhaps the most encouraging development of 2026 has been the continued broadening of market leadership beyond U.S. mega-cap growth stocks. Whereas the S&P 500 posted a strong 9.5% return, small- and mid-cap equities significantly outperformed, with the Russell 2000 advancing nearly 22% and mid-cap stocks posting gains of more than 16%. International diversification also added value. Developed international markets generated returns approaching 10%, while emerging markets gained nearly 25%. Surprisingly, international markets performed well despite a generally rising dollar. Again, the driver for international equities was a robust earnings cycle across both developed and emerging markets. The rapid decline in oil prices following the resolution of the Middle East conflict also provided a meaningful tailwind for many energy-importing emerging economies by easing inflation pressures and improving external balances. After several years of concentrated market leadership, the first half of 2026 rewarded investors who maintained diversified equity exposure across market capitalizations and geographies.



Source: Societe Generale

New Fed Leadership

A notable development during the first half was the leadership transition at the Federal Reserve, as Kevin Warsh assumed the role of Chairman in May, succeeding Jerome Powell, who remains on the Board as a Governor. At its June meeting, the Fed left its benchmark rate unchanged at 3.50%–3.75% but adopted a more cautious tone by removing its longstanding easing bias and emphasizing a data-dependent approach to future policy decisions. The committee also raised its inflation outlook for 2026, reflecting the temporary impact of higher energy prices during the Iran conflict, while Treasury yields remained elevated as investors reassessed the path of monetary policy. Although markets continue to debate whether another rate hike remains possible later this year, we believe investors continue to overestimate the importance of short-term Federal Reserve policy shifts. Interest rates undoubtedly influence market valuations and investor sentiment, but over time corporate earnings and economic fundamentals remain the primary drivers of equity returns. As we enter the second half of 2026, we expect monetary policy to remain an important backdrop, but not the defining investment theme.

Private credit has become a key focus for investors and warrants continued monitoring. Refinancing activity is accelerating, and lenders are becoming increasingly selective, particularly within software-focused portfolios. While portions of the market may face pressure, we believe broader concerns are overstated. Manager selection, underwriting discipline, and portfolio construction remain far more important than broad asset class exposure. As in most market cycles, we expect differentiation—not systemic stress—to define investor outcomes.

Entering the second half of 2026, we remain fundamentally constructive on both the economy and financial markets, as the key indicators we monitor continue to support a favorable backdrop for risk assets. Geopolitical events will undoubtedly remain unpredictable, but the conflict between the United States and Iran appears to have settled into a fragile, yet stable equilibrium. Assuming that balance holds, investors can once again focus on the factors that ultimately drive long-term market returns—corporate earnings, economic growth, and business investment.

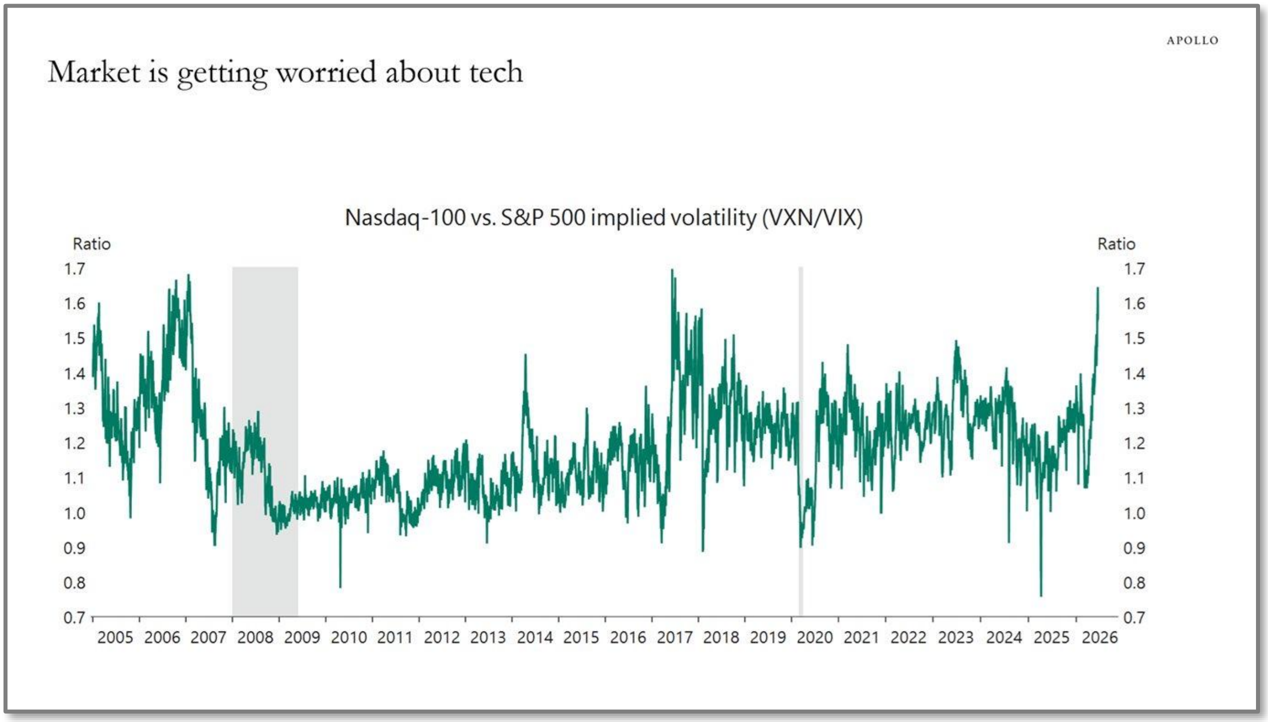
2026 2Q Key Economic and Investment Drivers

Real Economic Growth	**Rising** **Stable** **Falling**	With diminishing geopolitical risk, the economic growth trajectory in the US should remain positive throughout 2026 driven primarily by the AI capex boom.
Inflation	**Rising** **Stable** **Falling**	U.S. inflation should trend lower as oil prices have fallen sharply. Additionally, long term expectations remain grounded near the Fed's 2% target.
Real Interest Rates	**Rising** **Stable** **Falling**	Real interest rates have increased modestly over the past year but remain within the 2% range. Current real yields do not appear restrictive enough to derail economic growth or corporate earnings.
US Dollar F/X Value	**Rising** **Stable** **Falling**	The US dollar has remained relatively strong, reflecting continued global capital flows into the United States, supported by a resilient economy and attractive investment opportunities.
Taxes and Regulations	**Rising** **Stable** **Falling**	The U.S. fiscal and regulatory backdrop remains mixed, with constructive tax policy offset by rising spending pressures, particularly in defense. Overall, policy remains supportive of corporate earnings but less favorable from a deficit perspective.
P/E Ratios	**Rising** **Stable** **Falling**	S&P 500 earnings growth continues its rapid ascent while valuations have remained muted. The S&P 500 now trades roughly at 20x forward earnings, which leaves room for a revaluation higher
Fixed Income Risk Premiums	**Rising** **Stable** **Falling**	Despite concerns over private credit, high yield spreads have remained near secular tights reflecting a stable economic backdrop. Uncertainty persists in private markets; New supply could impact public markets.
Volatility	**Rising** **Stable** **Falling**	Volatility has remained remarkably muted over the past several months again showing the resilience of investors and the U.S. stock market. Periodic spikes are always a risk.

Source: TPCM **Bullish Neutral Bearish**

Too Far Too Fast?

While we remain constructive on the long-term AI investment cycle and the earnings growth it continues to generate, we are far from complacent. Several shorter-term technical indicators have become less supportive, particularly within the semiconductor sector. Although the semiconductor index remains near all-time highs, market breadth has begun to narrow, option volatility has increased, and many leading companies have appreciated well beyond 100% over the past year. Long-term secular trends remain intact, but markets rarely move in a straight line. We believe investors should resist the temptation to chase performance at current levels and instead remain patient for more attractive entry points. At this stage, we view these developments as a yellow flag rather than a reason to materially alter our constructive long-term outlook.



Taken together, our economic and market scorecard continues to support a constructive outlook for investors. The backdrop of healthy economic growth, resilient corporate earnings, and continued business investment remains intact, even as geopolitical and monetary policy risks warrant ongoing attention. The more important question, however, is not whether we remain bullish—it is where we believe the best opportunities exist.

Throughout much of this cycle, we have maintained overweight allocations to technology, artificial intelligence, and the semiconductor ecosystem—a positioning that has served clients well. Looking ahead, however, we believe the opportunity set is broadening. While the long-term AI story remains compelling, stock price action across parts of the technology sector now reflect considerable optimism. Meanwhile, improving earnings trends in financials, health care, international equities, and small- and mid-cap stocks suggest market leadership is beginning to expand. Our portfolios will remain constructive on equities but with a greater emphasis on diversification, valuation discipline, and capturing the next wave of earnings growth.

2026 3Q Asset Class and Sector Probabilities

Major Market Asset Class	Likelihood of Outperformance
Bonds outperform Cash	59.7
Equities outperform Bonds	51.8
Non-Traditional outperforms Equities	56.9
Non-Traditional outperforms Bonds	57.3
Europe outperforms the US	47.8
Asia outperforms the US	46.8
EM outperforms the US	51.3
Small Cap outperforms Large Cap	53.0
Mid Cap outperforms Large cap	51.0
Value outperforms Growth	54.3
Credit outperforms Government bonds	50.0

Sectors v Market	Likelihood of Outperformance
Discretionary	47.8
Energy	47.0
Financials	55.1
Health Care	56.0
Industrials	49.7
Info Tech	47.8
Materials	48.7
Real Estate	52.6
Staples	47.8
Communications	48.7
Utilities	48.7

Source: TPCM

Bullish Neutral Bearish

Markets will continue to react to elections, geopolitical conflicts, central bank decisions, and countless unforeseen events. We view these developments as essential inputs into our investment process because they shape the economic landscape and influence investor behavior. Ultimately, however, it is the interaction between macroeconomic conditions, corporate earnings, and disciplined capital allocation that drives long-term investment success.

As we enter the second half of 2026, we remain constructive but increasingly selective. The AI-driven earnings cycle remains intact, economic conditions continue to support risk assets, and market leadership appears to be broadening beyond a narrow group of technology companies. We expect this environment to reward diversification, valuation discipline, and active security selection. Rather than chasing yesterday's winners, our focus remains on identifying tomorrow's sources of earnings growth while managing risk across full market cycles.

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