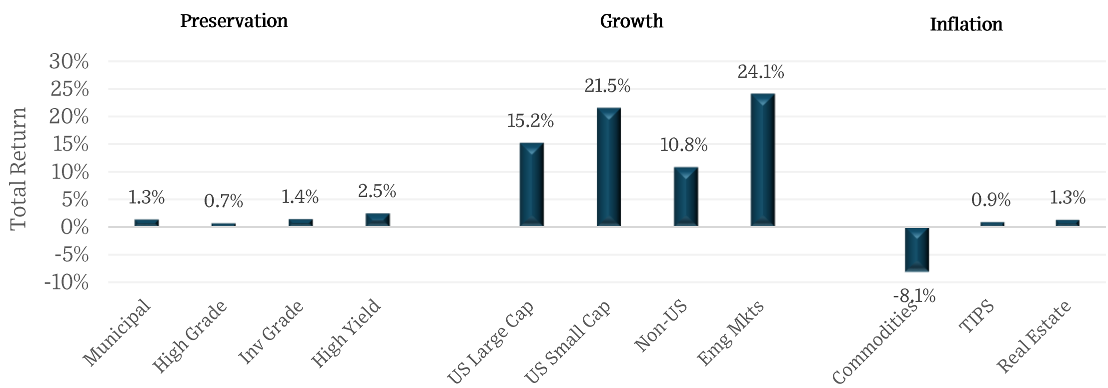
Summit Trail Advisors

Quarterly Investment Letter

2nd Quarter 2026 Summary

Equity markets rebounded in the 2nd quarter robust earnings reports from US companies led by Technology and chip makers. De-escalation of the Iran conflict subdued oil and interest rates during the quarter which also supported risk assets. Markets finished the quarter grappling with Iran hostilities increasing and a greater likelihood of Fed hikes.



2nd Quarter 2026 Market Index Performance
Source: Bloomberg, S&P, MSCI, NCREIF (Real Estate) data is lagged 1 quarter.

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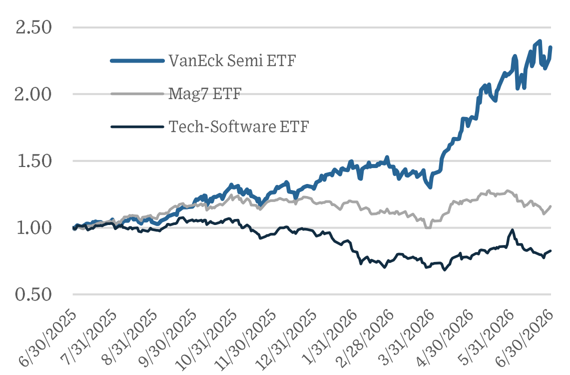
2nd Quarter 2026 Market Recap

Equity markets rebounded in the 2nd quarter from the modest losses to start 2026 as investors focused on strong corporate earnings along with de-escalation in the Iran conflict. The MSCI All Country World Index (ACWI) returned 14.9% for the quarter which restored positive returns for 2026 as of June 30th at 11.3%. Semiconductors and technology hardware drove positive markets during the quarter. The VanEck Semiconductor ETF (ticker: SMH) returned 71% in the 2nd quarter. All of the top 5 performers in the S&P 500 Index in the 1st half of 2026 were technology hardware companies. Emerging Market performance that has led equity markets in 2026 has been powered by chips as well, with chip-dominated markets like Korea (+88%) and Taiwan (+49%) leading the way. The Technology sector led sector performance across the board with returns for the quarter of 56%, 35%, and 69% in Small Caps, Non-US Stocks, and Emerging Markets indexes



Semiconductors vs. Mag7 and Software
Source: YCharts!, ETFs are SMH, MAGS, and IGV

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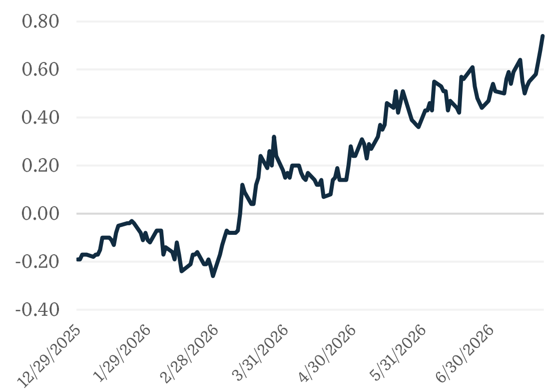
respectively. While Technology and AI-adjacent companies drove markets in the 2nd quarter and 1st Half of 2026, the market shifted away from the largest companies dominating performance. The largest 8 companies in the S&P 500 index by weighting ("Mag8") averaged a return of just 1.2% in the first 6 months of 2026, while all other companies in the S&P 500 index averaged a return of 13.5%. Three of the Mag8 stocks suffered negative returns, led by Microsoft's 22% decline as its software exposure and lack of leadership in AI compressed the company's valuation. The lack of momentum in the largest S&P 500 constituents created an environment where outperformance was possible via equal-weighting or active management. Small Cap stocks also outperformed with the Russell 2000 up 21.5% for the 2nd quarter, 22.6% for the 1st half of 2026, and 40.8% for the past year as of June 30th, 2026. Trailing returns that are all well ahead of the S&P 500 index despite higher interest rates and weaker earnings growth.

Fixed Income Markets provided modest returns for the 2nd quarter as interest rate expectations continue to adjust to the Iran conflict and increased inflation numbers. The Bloomberg US Aggregate Bond Index returned just 0.7% for the 2nd quarter and is up 0.6% in 2026. Municipal bonds have fared better despite their lower tax-advantaged yields, returning 1.1% in 2026. Bond returns have been subdued by the higher rate environment that started with the Iran conflict on February 28th. The 2-Year Treasury Yield was at 3.38% when the Iran conflict began (February 28th) and peaked at 4.37% on July 23rd. The 2-Year is typically a proxy for near-term Fed Funds rate expectations. Early in 2026, the 2-Year sat below the Fed Funds rate showing that markets expected the Fed to be able to cut interest rates in 2026 given mild inflation numbers, weaker employment growth and pressure from the White House. The 2-Year quickly changed its path in early March and now is showing market expectations that the Fed may need to hike interest rates 50-75bps to address near-term inflation impact. The combination of higher energy prices and AI-related hardware supply limitations suggest that the economy may be running hot and could create higher future inflation expectations.



2-Year Treasury Yield vs. Effective Federal Funds Rate
Source: YCharts!,

Throughout market and financial media debates about the impact of the Iran conflict, higher inflation numbers, and even the possibility of recession, S&P 500 earnings have been excellent. Markets recovered in April partly from a sense that the Iran conflict may be de-escalating but the bigger catalyst was the 1st quarter earnings reporting season that spanned from mid-April to mid-May. 1st quarter earnings growth topped 28%, well above expectations which then raised analysts' expectations for the 2nd quarter and remainder of 2026. With the 2q26 earnings season about 60%

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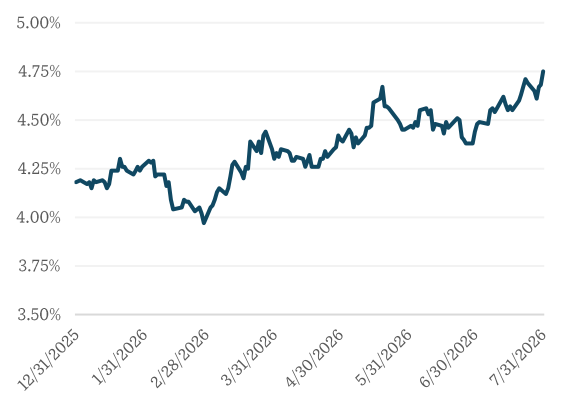
complete as of July 31st, the S&P 500 has delivered 47% earnings growth year/year according to FactSet, its highest number since 2021 when earnings were being compared to the Covid-19 economy in 2020. Year 2026 earnings are now estimated to grow 29% versus 2025 and forward earnings expectations for 2027 continue to increase. S&P 500 net profit margins are also at record highs with the strongest margin (16%) as measured by FactSet since they started collecting the data in 2009. And while there is concentration in Technology, 8 of the 11 GICS sectors in the S&P 500 are expecting earnings growth greater than 10% for calendar year 2026. The acceleration of earnings and strength of corporate margins makes a near-term recession case a very difficult argument. Pessimists can point to earnings quality issues as GAAP earnings have seen the benefit of unrealized gains on balance sheet investments (non-operating profits) contributing to outsized growth. Yet, even with these gains removed, S&P 500 earnings growth for the 2nd quarter sits at 28% according to FactSet.

Interest rates and elevated market expectations appear to be the largest near-term risks to equity prices. July has brought a return to escalation in the Iran conflict without a clear off-ramp for the US that does not include Iranian control of the Strait of Hormuz. The return of military activities in the Strait has pushed oil prices meaningfully higher than the June ceasefire levels, which means higher inflation prints for the US in the coming months. Treasury markets are sending signals that they believe the Fed may be getting behind inflation data. As the 2-year Treasury chart above shows, markets are pricing in at least 2 hikes over the coming months. In addition, longer-term Treasury rates have moved higher as well with the 10-year Treasury moving into the 4.5% to 5.0% range. In the post-Covid market environment, 10-year rates approaching or exceeding 5% has spelled trouble for stock prices. Higher rates means a higher cost of capital to fund future capital expenditures, raising the bar for achieving returns on those investments that are already being actively debated by markets. More broadly as rates go higher, investors tend to put pressure on stock valuations given a larger discounting of future cash flows as well as concerns to the economy from interest rate sensitive areas like housing and manufacturing. The benchmark 30-year mortgage rate recently moved to 1-year high given the move in longer-term treasury rates. Higher interest rates also create more challenges for the Treasury to manage the never-ending debt cycle of US federal deficits, with zero conversation in Washington about trying to manage the country's finances. If politicians will not take steps to show any progress on the US debt burden, bond markets (i.e. "vigilantes) may decide it is time to send their own message by increasing the cost of borrowing as we have seen happen in other countries



10-Year Treasury Yield
Source: YCharts!

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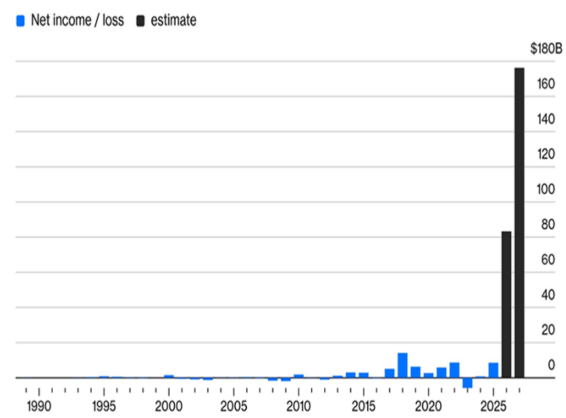
like the UK. The US has uniquely liquid and deep bond markets relative to others, but US Treasury auctions and rates are now worth watching closely.

The other challenge for equity markets is just how strong the earnings cycle has been and what that means for investor expectations. We detailed above the strength of current US corporate earnings and margins. Current earnings growth is only matched by levels we saw post-recession in 2008 and 2020, yet the current cycle is not following a defined deep recession like those periods (although 2022 was certainly a slowdown). The prolonged rally in markets is amplifying earnings by increasing the value of investments many companies are making on balance sheet in other technology companies. Google's 2nd quarter earnings tallied over $9/share including $98b billion in unrealized market gains, versus estimates that expected about $2.85/share that did not factor in the market windfall. That earnings report singlehandedly took S&P 500 2nd quarter earnings growth from 25% to 38% as of July 23rd before Amazon's results (and similar unrealized market gains) in the last week of July took growth even higher. No company illustrates the massive cycle in current corporate earnings coming from AI capital expenditures more than Micron. The company's most recent quarter posted $28.2 billion of net income. That more than doubled the prior quarter's net income and is up 14 times from the prior year's earnings. Micron's most profitable quarter ever prior to the 2026 fiscal year was $4.3 billion. Micron projects more growth ahead but the memory chip business is the definition of cyclical and numerous companies are making moves to build out chip capacity. While the good times are clearly in place now it is hard to imagine this pace for earnings growth can continue which can create more volatility for equity markets ahead even with positive earnings growth.



Historical Micron Net Income ($b)
Source: Bloomberg, FactSet

We will close with a comment on the new Fed Chair Warsh and what that means for the Fed and markets. President Trump nominated Kevin Warsh on January 30th, 2026, to be the next Fed Chair and he was confirmed on May 13th. The US Dollar Index was at 97 on the date of Trump's announcement and currently sits just below 100 after selling off after the FOMC meeting. The 10-Year Treasury was 4.24% and recently crossed 4.70%. Most of the financial media on Warsh has focused on the politics of his nomination and how he will deal with President Trump which we think misses the point. Warsh's leadership is likely one of the more foundational changes at the Fed in decades. The previous four Fed Chair terms (Greenspan, Bernanke, Yellen, Powell) dates all the way back to 1987 and followed a script of increasing the Fed's role in capital markets and communication to financial markets. The Financial Crisis in particular led to a more visible role for

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the Federal Reserve and increased efforts to avoid surprises for markets. In addition, the Fed's balance sheet grew massively during the 2008 and 2020 market downturns as well as controversial programs like "quantitative easing". New Chair Warsh has made clear his disdain (our words) for this modern Fed and the knock-on effects it has created. Markets fully expect the Fed to be the buyer of last resort and to support markets in periods of distress. Markets also expect the Fed to telegraph behavior in a manner that is consistent with prior periods. Warsh's initial step was a tightening of the formal FOMC Statement after his initial FOMC meeting on June 17th. The FOMC release was reduced from a word count of 336 in April to 140 words in June. It may be too far to suggest Warsh's proportional word count reduction (58%) may serve as a target for the Fed's balance sheet in time, but the initial message was sent. Warsh's press conference following the July 29th FOMC meeting was even clearer to the financial community. Among other statements he made in his remarks was the analogy he wants markets "to follow the ball, not the referee". We appreciate his World Cup timing, although the referee seemed just as important to this viewer. The New York Times followed with reporting that the Fed Chair was considering reducing the number of FOMC meetings from 8 to 4 annually. We have commented in numerous past letters about the market's addiction to accommodative Fed policy. We are constructive on Warsh's changes at the Fed, but the patient in this case has been medicated for a very long time and we should expect some withdrawal symptoms (volatility) if Warsh follows through with his message.

Higher volatility is typically associated with declining markets. The July 29th FOMC meeting was one of the first meetings in recent history where markets were fairly uncertain what the Fed would do going into the meeting (about a 60% chance of the hold according to CME FedWatch). That same tool is predicting a 67% change of a 25bp hike on September 16th. Markets sold off after the July 29th FOMC and were mixed in terms of performance in July despite the strength of 2nd quarter earnings reports. We would expect more caution from markets given the environment but would encourage investors to remain invested in "the ball", i.e. the current corporate earnings cycle.

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Chart of the Quarter:

Consumer Debt Service Payments as a % of Disposable Personal Income

The boom in corporate earnings and AI capex cycle has changed much of the economic discourse. Historically, a majority of economic data focused on consumer spending and employment as signs of economic health. Consumer data overall has been mixed and mediocre in terms of spending and driven some concerns about possible US recession. Weak spending combined with expectations of higher unemployment built a recession case in some corners in late 2025. Job numbers have held in as the "jobspacolypse" from AI has not come to fruition. It is worth keeping an eye on consumers as interest rates move higher. This chart from the St. Louis Federal Reserve shows the benefit of the interest rate environment over recent years relative to past decades. But the average for the 2020s is dragged down by the 2020 to 2022 period and we are well above the average currently. If the Fed does hike as expected and longer rates do not respond (i.e. move lower), consumer spending could be challenging. A combination of higher rates and weakness in employment markets would give credence to "recession watch".

Source: Strategas, FRED. Equals total quarterly scheduled consumer debt payments divided by income.

Term of the Quarter:

"Tuttle UFO Disclosure ETF"

The good folks at Tuttle Capital have launched a lot of ETFs over the past years and are best known for their Inverse Cramer ETF. But the UFO Disclosure ETF caught our eye mostly because we didn't understand the public companies that the ETF would own. The fund's strategy "is built around the advisor's assessment of government disclosure, reporting, and legislative activity related to unidentified anomalous phenomena and advanced technologies". We are not sure Lockheed Martin's CEO (the ETF's 3rd largest holding) would agree with their place in the portfolio. We are assuming Palantir is partially a large holding for their CEO's hair. The ETF only has $2.8m in net assets and performance has lagged the broad market since its February inception. But the real miss here was on the ticker selection of UFOD, which makes sense, but "XFIL" was available if Tuttle really wanted to lean in. We expected better. Our ticker selection services are available in the future for a small (recurring) fee.

Source: Tuttle Capital, YCharts!

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