## Summary


- Risk assets staged a powerful reversal in the second quarter. After a negative first quarter highlighted by conflict in the Middle East, the broader indices rallied strongly over the second quarter before a late-June pullback in technology trimmed the gains. The quarter's defining feature was a melt-up in equities occurring against a backdrop of accelerating inflation, a newly hawkish Federal Reserve, and an unresolved war with Iran.
- The macro picture inverted during the middle of the quarter. Oil collapsed nearly 40% from its conflict peak as a U.S.–Iran ceasefire framework took hold and the Strait of Hormuz began to reopen, pulling Brent from around $100/barrel back towards $70 at the end of June.
- Inflation finally caught up with the energy shock. Headline PCE reached 4.1% and the Fed's preferred core PCE gauge hit 3.4%, the highest in over two years. Much of the pressure was energy-driven and likely peaking as oil fell, but the prints framed the quarter's most consequential development: rate hikes are being priced into market expectations.


## Altrius' Performance

**Each of Altrius' strategies has had strong performance for the year. Our flagship balanced Global Income strategy, which is comprised of our U.S. equity, international equity and fixed income strategies, has posted gross returns of 8.8% for the year through Q2. Our Disciplined Alpha Dividend strategy (U.S. all-cap stocks) was higher by 15.4%, while our International ADR Dividend Income strategy (international stocks) grew by 9.4%. Our Unconstrained Fixed Income strategy (primarily U.S. high yield bonds) was higher by 2.2%. All returns are shown with gross IRR results from January 1 through quarter-end June 30, 2026.**

## The War, the Oil Reversal, and Inflation's Lag

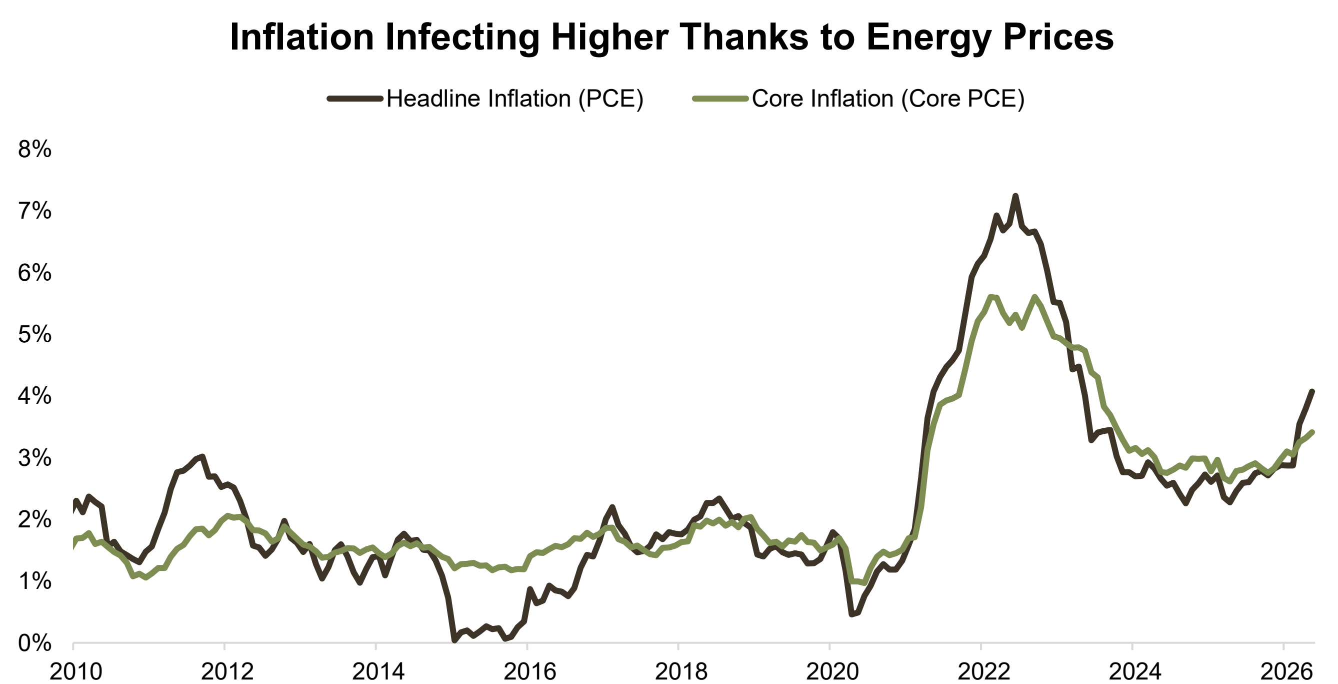
No single variable shaped the past two quarters more than the conflict in the Middle East. We entered April with the conflict in its hot phase, the Strait of Hormuz effectively closed since late February, and the global oil market pricing in a sustained supply disruption. Now there is a signed ceasefire framework, a partially reopened strait, and crude oil trading closer to its pre-war levels.

A loosely held ceasefire took effect in early April. Through the middle of the quarter, a Pakistan-mediated framework gradually took shape, culminating in a memorandum of understanding announced in mid-June and signed by President Trump and Iranian President Masoud Pezeshkian. The agreement was designed to end the conflict within sixty days and to restore free commercial passage through the Strait of Hormuz.

The market's response was swift and one-directional. Brent crude, which had peaked at $118/barrel in late April, fell about 26% in May back into the mid-$80s. Oil prices fell further in June as the ceasefire framework took hold. By the end of the quarter, Brent was trading near $73, the lowest level since late February and roughly back to where prices sat before the war started.

The conflict in the Middle East is far from a settled matter. The truce is fragile and actively contested. In the final days of the quarter, Iran struck a commercial vessel in the strait with a drone, and the U.S. launched retaliatory strikes. The oil market has priced a return to normalcy, but the physical oil market is far from it today. That gap is a risk worth watching closely because much of the disinflation story of the second half rests on it.

The inflation data released during the quarter told the story of the energy shock working through the system with its usual lag. By the time the conflict's supply disruption was working through the inflation readings, the conflict itself was already de-escalating. Headline PCE accelerated to 4.1% year-over-year in May, the highest reading since April 2023, with the May producer price index rising 6.5% year-over-year, the steepest since late 2022. The Federal Reserve’s preferred gauge, the core personal consumption expenditures index, reached 3.4% year-over-year, the highest since October 2023. Falling oil prices should provide some reprieve to prices in the coming months; however, we are closely watching core inflation, and any sustained move higher would be worrisome for markets.




The acceleration in inflation has overwhelmingly been an energy story (at least so far). Energy accounted for more than 60% of the monthly increase in consumer prices, and the energy component of the CPI index was up more than 23% from a year earlier. Strip out energy and the picture is far calmer. This is consistent with the view we expressed in our first quarter commentary, that the 2026 inflation episode is fundamentally a supply-driven energy shock rather than a repeat of the broad, demand-driven inflation of 2022. The distinction matters because supply shocks, painful as they are, tend to reverse when the supply returns. With oil having round-tripped back to pre-war levels by late June, the near-term peak in inflation is likely behind us, and the early evidence supports that: consumer sentiment, which had collapsed to a record low of 44.8 in May, recovered to 49.5 by the end of June, and long-run inflation expectations eased meaningfully. That said, we expect inflation to remain sticky which has been our base case for a very long time.

## A New Fed Under Warsh

New Fed Chair Kevin Warsh was confirmed by the full Senate on May 13th by a vote of 54 to 45, the narrowest margin for a Federal Reserve chair in the modern era. Jerome Powell's term as chair ended two days later. In a development with little precedent in the past eighty years, Powell elected to remain on the Board of Governors as a sitting governor rather than leave the institution. It is an unusual structure for the Federal Open Market Committee: a former chair retaining a vote while his successor sets the agenda.

Warsh's first meeting as chair was held June 16-17. The Committee held the federal funds rate steady at 3.50% to 3.75% by a unanimous vote, the fourth consecutive hold. However, almost everything around that decision changed. The post-meeting statement was cut to roughly 130 words from the 341 words at Powell's last meeting in April. It also removed much of the forward guidance and easing bias that had characterized the FOMC's communications for the better part of two years and renewed its commitment to deliver price stability.

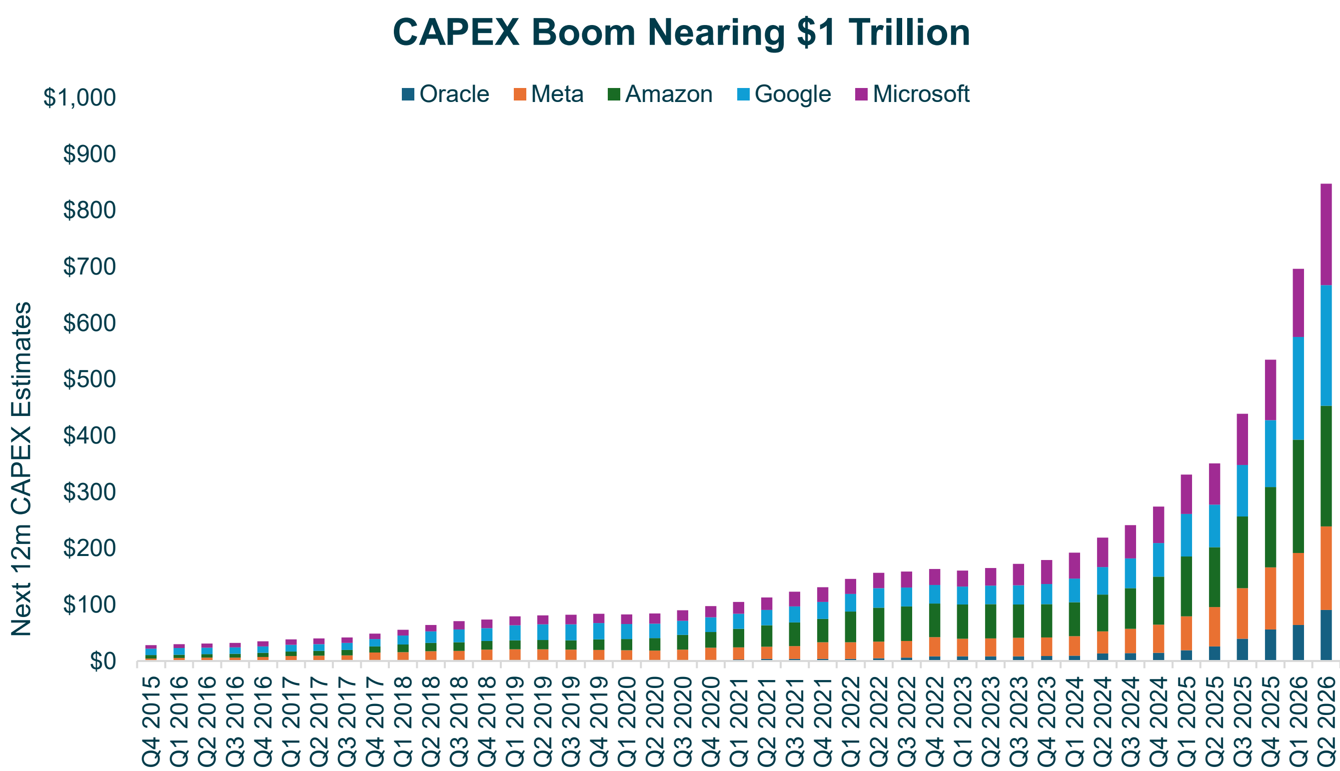
The accompanying Summary of Economic Projections delivered an upward revision to both the committee's inflation and federal funds rate expectations. The median projection for the federal funds rate at the end of 2026 moved up to 3.8% from 3.4% in March, implying a rate hike rather than cuts by year-end. Nine of the eighteen participants projected at least one rate increase this year, and seventeen of eighteen saw the risks to inflation as tilted to the upside. The Committee raised its projection for headline PCE inflation this year to 3.6% (up from 2.7% in March) and trimmed its growth forecast (down to 2.2% from 2.4% in March). Notably, Chair Warsh decided not to submit his own projection, and he signaled that the dot plot itself, along with several other elements of the Fed's framework, would be subject to review. He announced five task forces to examine the inflation framework, the measurement of productivity and labor in an age of artificial intelligence, the Fed's data sources, its communication strategy, and the management of its balance sheet. Working groups are being assembled with a year-end target for any policy recommendations.

The dollar rallied to a post-Liberation Day high, reversing some of its 2025 decline. Meanwhile, gold sold off and the front end of the Treasury curve firmed. By the end of the quarter, markets had moved to price a meaningful probability of a rate hike by October and a strong likelihood of one by December—a complete reversal of the easing narrative that was present at the start of the year.

The transition has unfolded against a backdrop of public pressure from the Trump administration for lower rates, and the unusually narrow confirmation vote reflects how contested the appointment was. A chair who responds to that pressure by tightening, as the June projections imply, is at least demonstrating independence in the direction opposite to what was demanded. Whether that independence persists is among the more important institutional questions facing markets over the next several years, and it is not one that can be answered today.

## Equity Markets

The key driver of the rally in the second quarter was artificial intelligence, much like it has been for the last few years. The amount of capital being invested by the hyperscalers is difficult to overstate. Over the course of the spring, the largest technology platform companies raised their capital expenditure guidance, and the combined planned spend over the next 12 months is now nearly $850 billion. NVIDIA, the beneficiary poster child of AI spending, reported record quarterly revenue of $81.6 billion in late May, up 85% from a year earlier, with data center revenue nearly doubling. These are real revenues, real profits, and in most cases capital spending funded out of free cash flow rather than debt. However, significant equity and debt issuance during the second quarter marks a divergence from internal cash flows funding the CAPEX.




Source: Bloomberg LP. Data as of 6/30/2026.

Despite the huge CAPEX spend, the quarter also reminded investors how much risk is concentrated in this handful of names. The Magnificent Seven now represents nearly one-third of the entire S&P 500, an historic level of concentration. The forward price-to-earnings multiple on the index sits near 21x, above its five- and ten-year averages, and that premium is overwhelmingly a function of these few stocks. We do not read valuation measures as timing signals—expensive markets can become more expensive—but as a statement about the long-run return one can reasonably expect from the index at today's starting point. Due to the valuation of these companies (some of which we have owned in the past), we are avoiding these overvalued companies and have recently sold companies which have benefited from the CAPEX spending outside of the tech sector (i.e., akin to those selling the pickaxes and shovels to the gold mining speculators).

U.S. equity markets stumbled twice in June. On June 5, a disappointing capital-spending signal from Broadcom triggered a semiconductor selloff of startling violence: U.S.-listed chipmakers shed more than a trillion dollars of market value in a single session, the Philadelphia semiconductor index fell more than 8%, and the Nasdaq Composite dropped 4.2%, its worst day in over a year. A second round of selling hit in the final full week of the quarter around Micron's earnings, dragging the chip names and several mega-cap platforms lower again as speculative capital retreated. Neither episode reflected a deterioration in the underlying demand for computing power. However, the bar for continued outperformance is extraordinarily high, and even a modest disappointment in guidance can erase enormous sums very quickly.

Many of our investors and clients have noticed when the broader market indices driven by these companies have fallen sharply lower that our performance has been flat or even higher (and the reverse during growth-momentum rallies). For all the recent volatility in the AI trade, the broad market held up nicely because something was working beneath the mega-cap surface: the equal-weighted index, small caps, and previously unloved sectors began to carry their fair share in the final weeks of June. We have written for several quarters about the risks of an index whose fortunes rest on a handful of names, and the beginning of a genuine broadening is exactly what a durable bull market requires. It is difficult to declare that leadership has permanently changed, but the late-quarter rotation is a welcome development.

## Fixed Income

The bond market spent the second quarter telling a more cautionary story than the equity market. In mid-May, the 30-year Treasury yield spiked to 5.18%, its highest level in 19 years, before easing back below 5% by the end of June. The move on the front-end of the curve, which tends to move with Fed funds rate expectations, moved slightly higher as it priced in a rate hike instead of cuts. By the end of June, the 10-year Treasury yield stood at 4.44%, the two-year near 4.14%, and the thirty-year near 4.91%, leaving the curve modestly upward-sloping after spending much of the 2022 to 2024 period inverted. However, it is worth noting that in early February the spread between the two-year and 10-year hit a recent high of 74 basis points—but it has since been more than halved to 30 basis points by quarter end.

**30-Year U.S. Treasury Rate Hits Level Not Seen Since 2007**


Source: Board of Governors of the Federal Reserve System. Data as of 6/30/2026.

Credit markets, by contrast, remained calm. Despite two equity drawdowns and a hawkish Fed, high-yield spreads ended the quarter at 275 basis points and corporate bond spreads near 75 basis points, both close to multi-year tight levels. The credit market does not corroborate any stress in the markets. When spreads are this tight, investors are being paid very little to take on credit risk, and the asymmetry is unattractive: there is limited room for spreads to compress further. However, all-in yields for high yield corporate bonds above 6% offer nice current income—especially when you consider where we've been in recent years. We continue to favor higher yield issues, shortening duration relative to the U.S. Aggregate Bond Index, and remaining opportunistic in finding opportunities.

## Investment Implications and Outlook

We find ourselves at the midpoint of 2026 looking at a market and economy that has remained resilient despite numerous things to worry about. Markets sit near record highs, having recovered everything they lost (and some) in the first quarter. It has done so while inflation reached a three-year high, the Federal Reserve pivoted from contemplating cuts to projecting hikes, and a war shut off the key transportation route for many energy commodities. The market has chosen to look through all of it.

Our base case is constructive but disciplined. If the truce holds and energy markets remain contained, inflation should continue to recede from its recent peak, the consumer should regain some confidence, and earnings growth can continue. In that environment, in our opinion, the most attractive opportunities are not in the names that have already run the furthest but in the broadening we observed later in the second quarter. Our portfolios maintain exposure further down in market capitalization and our discipline remains income-focused and value-driven when compared to market-cap-weighted indexes.

It is clear that the risk and reward in the most crowded parts of the market is unbalanced. Remaining disciplined (which can be a drag during a momentum cycle), is critical to long term success. In fixed income, the hawkish turn at the Fed and the pressure at the long end argue for keeping duration shorter, while using the higher absolute yields now available to be selective where the compensation is adequate.

We would frame the path ahead in the short term around a couple of key markers. The first is inflation. If core PCE fails to drop back below roughly 3% as the energy effect fades, or if the Fed delivers the rate hike its projections now imply, we would expect equities to potentially selloff in the short term. The second is the war in the Middle East. Much of the disinflation thesis rests on the Strait of Hormuz opening and oil staying low—and a breakdown of the ceasefire and a move in Brent back above $100 would reintroduce stagflation risk.

The second quarter sent markets to record highs despite numerous unresolved risks. It is a good reminder that markets tend to confound investors—what seems like the "likely" scenario is often different than what actually plays out. This calls for staying invested—earnings growth and the economy still support that—but also for remaining disciplined, because the concentration at the top of the market is a vulnerability and the broadening beneath it is an opportunity.

We thank you for your continued trust and partnership.

## Disclosures

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