

Markets Shift Focus from Geopolitics to Earnings

Strong Corporate Earnings Growth Underpins Rally in Risk Assets

Global markets recovered in 2Q as Iran and the US negotiated a (short-lived) settlement to their conflict as the cost of war—military, economic and political—became too high for both parties. This freed up investors to focus on AI spending and exceptionally strong quarterly earnings despite higher interest rates, expanding deficits and rising inflation.

Rockingstone Performance

We had a strong 2Q in both absolute terms and vs. benchmarks as ETF and individual stocks drove outperformance. We were correctly positioned for a market rebound while fixed income was largely short duration oriented. In keeping with risk management principles, we trimmed AI winners while investing in “value” names.

Equity Markets Feel Frothy, but Earnings Growth has been Exceptionally Strong

Strength in corporate earnings continues to surprise to the upside. US companies have adeptly managed a challenging operating environment while robust financial markets are allowing for IPOs and M&A. The combined wealth creation along with remarkable AI spending has led to frothy market multiples even with yields climbing.

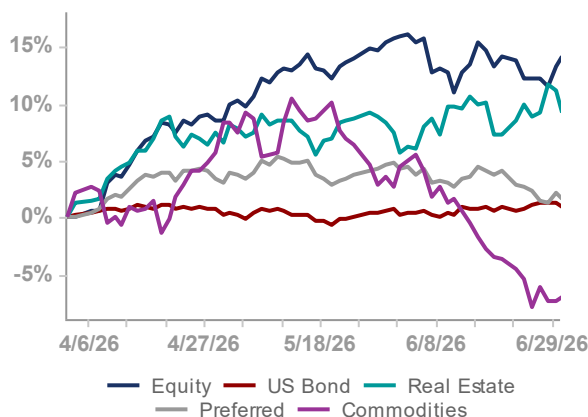
Implications for Portfolios

Large, unrealized gains limit, to some extent, the flexibility to make big moves in portfolios. Yet we continue selectively to trim AI winners and rotate into laggards. We see opportunities away from the S&P 500, specifically in US mid cap and small cap stocks (NAVN) and select non-US names (SOFWF) that were dislocated due to volatility and AI disintermediation.

S&P500 Forecast & Other Key Indicators

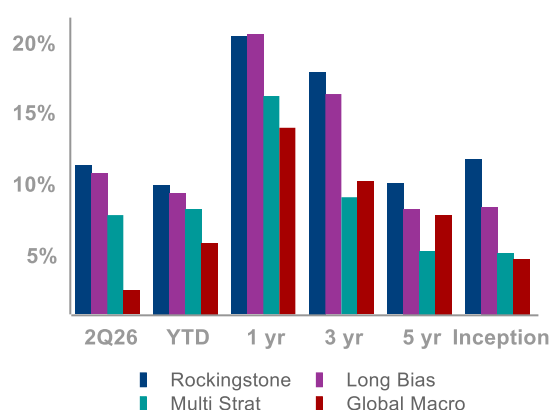
We forecast: EPS (2026: \$345), S&P500 (2026 year-end = 7315), GDP (2026: +2.0%), Gold (\$4000), Oil (\$80), 10-yr US Bond Yield (4.7%), Inflation (3.5%), 5-yr expected CAGR (US Large Cap -1%, US Mid Cap +6%, US Small Cap +9%, Developed +1%, EM +7%).

Figure 1: 2Q26 Asset Class Performanceⁱ



Source: FactSet

Figure 2: Rockingstone: 2Q26 & Historical Annualized Returnsⁱⁱ



Source: Rockingstone Advisors, Morningstar, Barclay Hedge Indices; Inception = 5/30/2009

ABOUT US

Rockingstone Advisors LLC, a boutique asset management firm founded in 2009, is co-managed by Brandt Sakakeeny and Eric Katzman, CFA.

As an SEC-registered investment advisor, we provide multi-asset investment strategies to individuals, families and small institutions through separately managed accounts.

Our investment strategies aim to capitalize on pricing inefficiencies across broad asset classes and individual securities, with a strong emphasis on fundamental research and analysis.

Investors can find more information including regulatory documents at our website:

www.rockingstoneadvisors.com

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Earnings Growth Underpins the Equity Rally

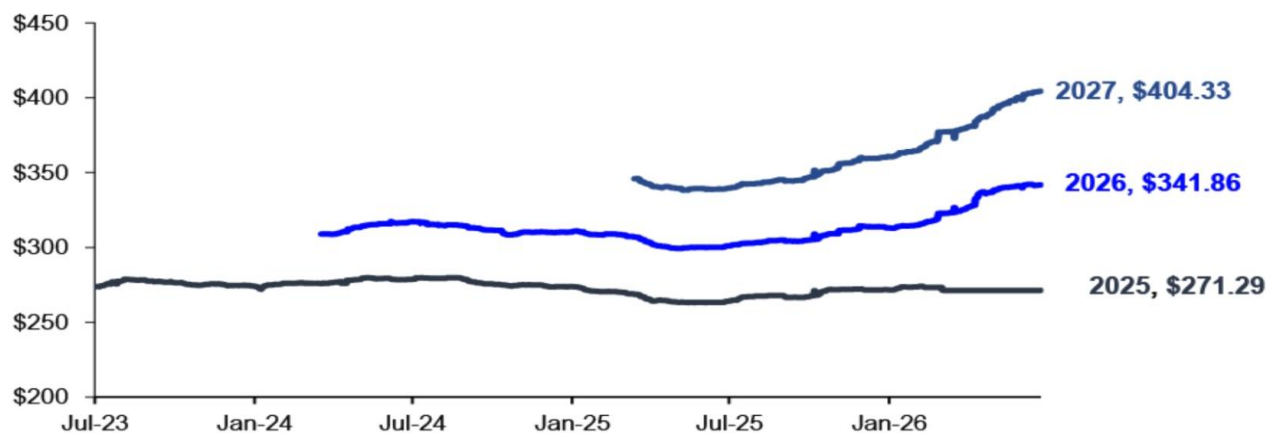
We have been too conservative on estimating the strength of S&P earnings

Our 1Q26 Quarterly Newsletter (published in April and available on our web site, www.rockingstoneadvisors.com), provides a broad-based overview of some of the key drivers in individual stock performance. This quarter we wanted to dive deeper into the surprisingly strong 2Q26 earnings growth, which, in our view, is providing the foundation for sustained appreciation in financial assets, and in particular, equities.

Overview. Regular readers of our Quarterly Newsletter know that we spend considerable time forecasting corporate earnings, having identified them in our 1Q26 issue as one of three key variables (along with geopolitics and AI investment) driving equity performance this year. What we did not fully anticipate at the start of the year is that earnings would surprise so dramatically to the upside.

Consensus expectations for 2Q26 S&P 500 earnings growth stand at 23.6% year-over-year as of mid-July, and based on the four-quarter average positive earnings surprise, the actual number is likely to land closer to 29-30% by the end of reporting season. If achieved, this would be the highest quarterly growth rate since 4Q21, when the economy was still lapping easy pandemic comparisons.

Figure 3: S&P 500 EPS Revision Trends 2025-2027



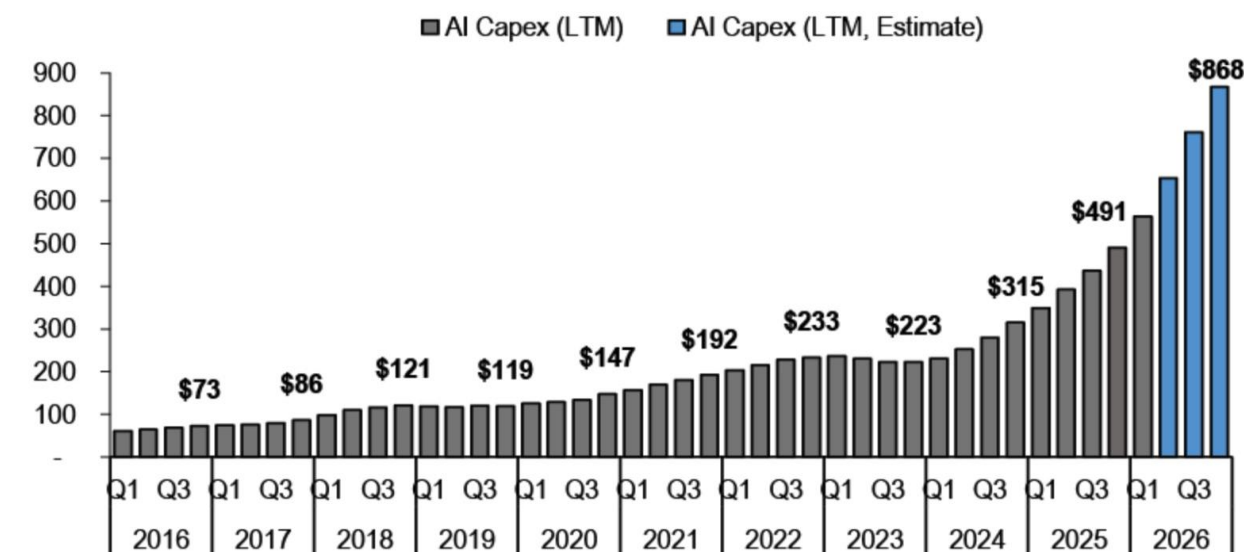
Source: Rockingstone Advisors, JP Morgan Research, Bloomberg, FactSet

Even more unusual is what happened during the quarter. In a typical quarter, sell-side analysts trim their bottom-up EPS estimates by roughly 2%. During 2Q26, they raised estimates by 3.4%, the largest intra-quarter upward revision in five years. Combined with the strong beat in 1Q26 (a final growth rate of approximately 27% versus 13% at the start of the cycle), Wall Street has become progressively more bullish, with Goldman Sachs recently raising its 2026 S&P 500 EPS estimate to \$340 (implying 24% growth) and Deutsche Bank forecasting 29% growth for the second quarter. We note that our own \$310 EPS estimate for 2026, published in our 1Q26 Quarterly and viewed at the time as somewhat cautious, now sits at or slightly below consensus.

Rather than simply celebrating 2026 year to date earnings and the implied growth, we think investors should ask a more analytically useful question: what is driving this surge, and how much of it will persist? In our view, the growth breaks down into distinct sources with very different characteristics. We would highlight four in particular: (i) the “real” operating earnings flowing from AI-related capital investment, (ii) non-operating mark-to-market gains on private company holdings, (iii) the cyclical windfall in energy stemming from the Iran War oil price spike, and (iv) the well-understood but mechanical tailwind from share buybacks and lower structural tax rates. Our purpose in this section is to isolate what we view as sustainable from what is viewed as more transitory.

- (i) **AI Capital Investment: Real, Concentrated, and Multi-Year.** The most important story in the S&P 500 earnings picture continues to be the extraordinary scale of capital investment flowing into artificial intelligence infrastructure. The four largest US hyperscalers — Alphabet, Amazon, Meta, and Microsoft — are collectively projected to spend \$700-725 billion on capital expenditures in 2026, up approximately 77% from roughly \$410 billion in 2025. Adding Oracle brings the figure above \$750 billion. To put that in perspective, this exceeds the entire capital budget of the US publicly traded energy sector by more than 4x, and Goldman Sachs’ aggregate 2026-2031 capex baseline for the top four hyperscalers alone is \$7.6 trillion.

Figure 4: AI Past and Expected Capital Expenditures (\$Bil)



Source: Rockingstone Advisors, JP Morgan Research, Bloomberg, FactSet

That spending flows almost immediately into the revenues (and, ultimately, the profits) of a reasonably well-defined ecosystem of suppliers (which we detailed last quarter). For example, NVIDIA reported data center revenue of \$75.2 billion in its most recent quarter, up 92% year-over-year, and the semiconductor industry alone is expected to contribute roughly 39% of the S&P 500’s year-over-year earnings growth in 2026. Again, Goldman Sachs estimates that AI-infrastructure beneficiaries collectively account for approximately half of total S&P 500 earnings growth this year and next. Excluding the technology sector, S&P 500 earnings growth in 2026 would run at approximately 7-8% rather than 14%-plus.

Importantly, the beneficiary set is broader than simply chip design. It includes custom silicon (AVGO, MRVL), data center REITs (EQIX, DLR), electrical equipment and cooling (ETN, VRT, HUBB, GEV), networking (ANET), and — increasingly — utilities. Independent power producers within the Utilities sector are expected to grow Q2 earnings by 59%, and during the first week of July, peak load on the PJM grid exceeded last year's record by 2 GW, driving real-time power prices to \$350/MWh from the year-to-date average of \$64/MWh. This is not a temporary phenomenon — it is the direct result of the AI buildout meeting an inflexible electrical grid, and we expect the theme to persist through the decade.

Implications for Portfolio Positioning. Our AI-related exposure spans direct pure-plays such as NVDA (which, in keeping with our risk management guidelines, we have been trimming as position sizes approached our 5% ceiling) as well as adjacent beneficiaries, including select utilities and industrials. This remains, in our view, the most durable component of the earnings story.

That said, we caution that not every incremental dollar of hyperscaler capex generates a corresponding dollar of downstream profit: Meta's stock declined roughly 9% in a single session after raising its capex guidance to \$125-145 billion without commensurate revenue visibility, and Microsoft's capex-to-operating-cash-flow ratio has now exceeded 50%. Amazon's free cash flow is projected to turn negative in 2026 as its \$200 billion capex plan is funded.

We know at a certain point (extreme valuation and/or disappointing growth such as the dot.com bubble in 2000) the AI investment thesis will play out. AI may cause job losses in some areas while boosting growth in other parts of the economy. We believe proper portfolio positioning requires properly sizing AI exposure while also getting set for the likely second derivative wave of productivity associated with myriad companies adopting the new technology.

- (i) **Mark-to-Market Investment Gains: Real GAAP, but Volatile.** A second driver of reported earnings growth is more subtle and, in our experience, less well understood by many investors. Under Accounting Standards Update 2016-01 — which became effective in 2018 — non-financial companies must periodically remeasure their equity investments, including those in privately held companies, to fair value, with the change in value flowing through "Other income (expense), net" on the income statement. These gains and losses are included in GAAP net income and, therefore, in the "operating" EPS figure that S&P Global publishes and that most strategists use to set index price targets.

The mechanics might seem arcane, but the dollar amounts are large. Microsoft, in its most recent 10-Q, disclosed that gains on its investment in OpenAI increased net income by \$7.6 billion and diluted EPS by \$1.02 in a single quarter (Q2 FY2026). In the year-ago period, the same investment produced a \$939 million loss (equivalent to -\$0.12 per share). This single line item swung Microsoft's EPS by more than \$1.14 on a like-for-like basis. Notably, Microsoft is unusual in that it explicitly presents non-GAAP figures that exclude these OpenAI-related gains and losses — an implicit acknowledgment by management that the volatility is not indicative of the company's operating performance.

Alphabet reported 2Q26 earnings on July 22, 2026, and the results powerfully illustrate the mark-to-market dynamic we describe above. GAAP net income surged 298% year-over-year to \$112.1 billion, and diluted EPS rose 294% to \$9.11 — well above consensus expectations of roughly \$2.88. The primary driver was \$99.0 billion in gains on equity securities (primarily SpaceX and Anthropic), which by Alphabet's own disclosure increased net income by \$77.1 billion and diluted EPS by \$6.26. Excluding these non-operating gains, Alphabet's underlying operating business remained impressive: operating income rose 30% to \$40.8 billion on 34% operating margins, Google Cloud revenue accelerated to 82% growth (\$24.8 billion) and Search advertising rose 17% (\$63.3 billion). Yet the vast majority of the reported EPS beat was non-operating in nature — a reminder that headline earnings figures in the current era can mask meaningful differences in earnings quality. Notably, since Alphabet reported, SpaceX shares have declined approximately 33% from their post-IPO peak — a reversal that will flow through Alphabet's 3Q26 net income as a negative mark, illustrating precisely the volatility we highlight above.

Alphabet also holds an approximate 14% stake in Anthropic, following the \$40 billion commitment announced in April 2026, of which \$10 billion was funded upfront. Tesla, through its \$2 billion pre-merger investment in xAI, now holds indirect SpaceX exposure that has similarly been marked upward.

Implications for Portfolio Positioning. We think about mark-to-market gains the way Microsoft's own non-GAAP presentation implies — real for GAAP accounting purposes, but not indicative of operating momentum and, importantly, not something that should be capitalized at the same multiple as recurring earnings. These gains are also inherently reversible: a decline in the market value of SpaceX, or a large accounting write-down at OpenAI, would flow through net income with equal force in the opposite direction. Our view of the underlying operating businesses at Alphabet and Microsoft is not materially changed by these disclosures, though we suspect that many investors will not fully adjust for the non-operating component when comparing reported EPS to consensus expectations.

Our risk management approach, as noted previously, is to limit individual positions to about 5% of a total portfolio. This is in part to reflect concerns around numerous market dynamics at play including: US government direct investments such as INTC, cross investments such as NVDA and CRWV, and private holdings and the accounting treatment (discussed above for GOOGL).

Figure 5: Q2 2026 S&P 500 Expected Earnings Growth by Sector

Sector	Q2'26 YoY EPS Growth (est.)	Est. Weight in Index Earnings	Primary Driver
Energy	+123%	3.7%	Iran War oil price spike (WTI avg +45% YoY)
Information Technology	+63%	31.8%	AI capital investment; semiconductors leading
Materials	+30-40%	1.9%	Chemicals rebound (DOW, LYB, MEOH)
Communication Services	+15-20%	10.6%	Digital ads, AI monetization at GOOGL / META
Utilities	+13%	2.3%	Independent Power +59% on data center demand
Industrials	+10%	7.5%	Aerospace, data center equipment
Financials	+7%	17.6%	Capital Markets +15%; Banks +11%
Consumer Discretionary	+3-6%	7.8%	E-commerce steady; luxury soft
Consumer Staples	+2-4%	4.7%	Defensive / steady
Real Estate	+2%	1.4%	Rate-sensitive
Health Care	-9%	10.6%	Gilead \$11.5B one-time charges; ex-Gilead ~+7%
S&P 500	+23-24%	100.0%	Mag 7 ~28% vs. S&P 493 ~17% — growth broadening

Source: FactSet Earnings Insight (July 10, 2026); sector earnings weights per S&P Dow Jones Indices (Silverblatt report, January 30, 2026); Rockingstone Advisors estimates where FactSet growth figures were not published. Growth figures reflect expectations at the start of reporting season and are likely to rise as beats accumulate.

- (ii) **Sector Composition: Energy Windfall and the Health Care Drag.** Aggregate index-level numbers can be misleading, and 2Q26 is a textbook example. More specifically, the almost 24% headline earnings growth is driven by two sectors while a third detracts materially. Energy is expected to grow earnings 123% year-over-year, on the back of WTI crude averaging \$92.55 in the quarter versus \$63.68 in 2Q25 — a 45% increase due to the Iran War-related supply shock. Refining and marketing earnings are projected to grow 231%, integrated oil and gas 160%, and exploration and production 106%.

Yet as of the end of July, WTI has retreated to approximately \$80 per barrel, and consensus already projects the Energy sector's 2Q27 earnings to decline 26% year-over-year. In other words, virtually all of the Energy sector's contribution to 2026 earnings growth is expected to unwind in 2027. It is a one-quarter story dressed as a trend, though we highlight energy prices have risen recently due to the resumption of tit-for-tat attacks between the US and Iran.

At the other extreme, Health Care is the only S&P 500 sector projected to report a 2Q26 earnings decline (-9%), largely because of one-time acquisition and R&D charges at Gilead Sciences totaling \$11.5 billion. Excluding Gilead, the sector's earnings are expected to have grown approximately 7%. Importantly, Information Technology is expected to grow 63%, and given its approximate 32% weight in index earnings, its dollar contribution is by far the largest of any single sector.

Portfolio Implications. We use a combination of ETFs and individual stocks that should complement those ETFs when creating client portfolios. Typically

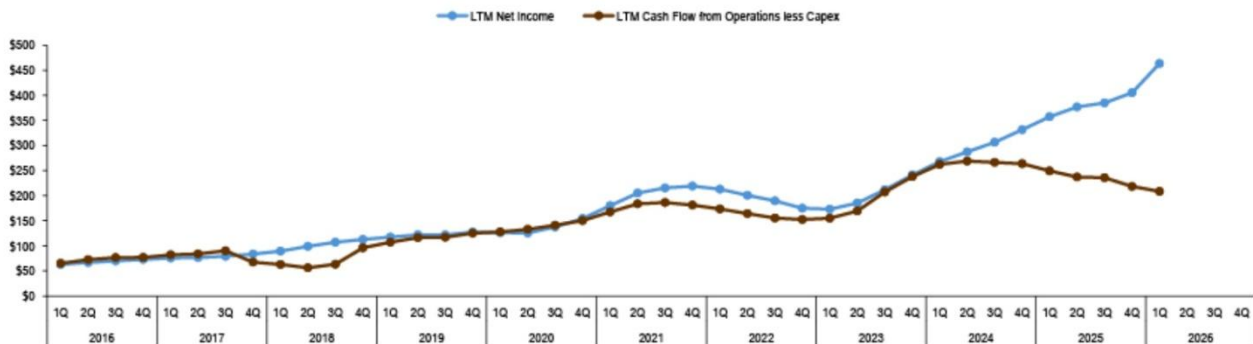
sector ETFs, such as XLK for Large Cap Technology, are close to their index weighting while individual stocks have a roughly 2% position. We see our approach and portfolio construction as limiting the volatility associated with the above-mentioned sector earnings. If our research is correct, we are adding individual stocks that outperform their sectors while appropriately taking account of an overall sector or geography's weight vs. the total benchmark. The energy complex is a good example. We have owned CNQ (well-run operation in Canada) and EQT (natural gas supplier for the AI build out) in the energy sector while XLE, the sector's main ETF, is generally underweighted. Although the Middle East conflict has elevated prices, we have been cautious on the overall sector given abundant supplies and new discoveries of carbon-based energy deposits and thus have only modest exposure to XLE. The combination of the three (2 stocks, 1 ETF) has helped performance for clients vs. a volatile sector within the S&P 500.

- (iii) **Mechanical Tailwinds: Buybacks and Tax Rates.** Two structural forces have been quietly boosting reported EPS for several years now. First, share count reduction: in 4Q25, approximately 73% of S&P 500 companies had lower diluted share counts than the year prior, adding an estimated 4% mechanical tailwind to per-share earnings growth (source: S&P Dow Jones Indices). We note that this buyback tailwind is somewhat overstated in strong equity years: rising share prices push more employee options into the money and, via the treasury stock method, inflate the diluted share count for companies still issuing traditional options — partially offsetting the buyback benefit at the index level.

Alphabet illustrates a related but distinct dynamic. Its 1Q26 diluted share count rose to 12.2 billion shares from 12.1 billion at year-end 2025 — the first quarter of net share increase since at least 2018. The proximate cause was a deliberate pause in buybacks (zero repurchases in 1Q26 versus \$15.1B in 1Q25, with \$69.5B of authorization untouched), which allowed continued RSU vesting to become visible. Alphabet's compensation is now predominantly RSUs and PSUs rather than traditional options, so the direct "options-in-the-money" effect is modest for GOOGL specifically. The larger dilution event is still ahead: in June 2026 Alphabet issued \$84.75B of fresh equity to fund its AI capex plan — reportedly the largest equity offering in history — which will hit the 2Q26 diluted share count.

Figure 6: Hyperscaler Net Income vs. Free Cash Flow

\$ in billion



Source: Rockingstone Advisors, JP Morgan Research, Bloomberg, FactSet

Second, tax rates: the S&P 500's effective tax rate ran at approximately 18.6% on a trailing-twelve-month basis as of 3Q25, well below the historical average of 29% since 1993. This is a permanent tailwind from the 2017 Tax Cuts and Jobs Act (as extended and modified by subsequent legislation), but it is a level effect — no additional year-over-year benefit is expected from here.

Portfolio Implications. One offset to the capital expenditure boom associated with AI is that historically very positive free cash flow large cap tech companies are now using that cash, borrowing funds and limiting what is returned to shareholders in the form of buybacks. In theory, capital expenditures should earn a higher return and thus reward equity holders over time. But with so many "asset light" technology companies becoming more exposed to real assets, it remains unclear if share buybacks will be such a benefit to the overall S&P 500 EPS growth rate going forward. This is another reason to be balanced in client portfolio holdings as the non-Mag 7 stocks in the S&P 500 (i.e. 493 businesses!) may very well have better relative cash flow dynamics the next few years and reward shareholders vs. dividend increases and/or buybacks.

Bringing it Together. We have attempted in Figure 7 to decompose our expectation for full-year 2026 S&P 500 EPS growth into its constituent sources. We emphasize that any such decomposition is inherently judgment-laden and that the components overlap; for example, a portion of AI-related operating earnings at Alphabet also generates the free cash flow that funds share repurchases. Most importantly, our purpose is not analytical precision but rather to underscore that a reasonable observer, looking at the same numbers we look at, would not conclude that the S&P 500 is durably set to grow at 24% per annum.

Figure 7: Rockingstone Framework — Composition of 2026 S&P 500 EPS Growth

Source	Character	Est. Contribution to '26 Growth	Durability
AI capital investment flow-through	Operating	~12 pp (roughly half of total)	Multi-year through 2027-28
Cyclical energy uplift	Cyclical / one-off	~4-5 pp	Reverses substantially in '27 (consensus Q2'27 Energy: -26%)
Mark-to-market gains on private tech stakes	Non-operating	~1-3 pp (concentrated in MSFT, GOOGL)	Volatile; reversible
Buyback-driven per-share tailwind	Mechanical	~3-4 pp	Slowing at capex-heavy hyperscalers
Structural tax rate	Level effect	0 pp incremental	Baseline (18.6% TTM vs. 29% historical avg since 1993)
Core operating growth (ex-above)	Operating	~4-6 pp	Broadening beyond Mag 7
Estimated total 2026 EPS growth		~24%	

Source: Rockingstone Advisors analysis. Contribution estimates are illustrative and rely on: FactSet Earnings Insight (July 10, 2026) for sector growth rates; Goldman Sachs Research (Ben Snider) for the AI-infrastructure attribution; company disclosures for mark-to-market figures (Microsoft 10-Q Q2 FY2026 disclosed \$7.6B OpenAI gain; Alphabet Q1 2025 disclosed ~\$8B in unrealized gains on private equity investments); S&P Dow Jones Indices for buyback and tax rate data.

Implications for Portfolio Positioning. Several conclusions guide our thinking as we work through the balance of 2026. First, the headline S&P 500 EPS figure is real GAAP, but it is being flattered in 2026 by mark-to-market gains and by a cyclical energy pop that most quality-of-earnings frameworks would classify as non-operating or non-recurring. Applying a full 21-22x forward multiple to a number that includes a large one-time gain generates a misleadingly optimistic index target.

Second, the durable, high-quality piece of the earnings story is the AI capital investment flow-through, which is where we have concentrated our exposure — mindful of stretched individual valuations and our risk-management ceilings. Recently we have taken profits in CLS, CSTM, and TSEM while adding to select laggards, including select software names (NAVN, SPGI), payment processors (V, MA), and business development companies.

Third, we do not view the energy earnings surge as sustainable. Our modest under-weight in Energy reflects our view that spot oil prices will continue to mean-revert toward long-term consensus of approximately \$70. Fourth, with reported earnings likely to hit new highs, index-level valuation multiples appear reasonable on trailing figures but stretched on forward operating earnings, particularly if one adjusts for the mark-to-market and cyclical contributions. This continues to inform our positioning away from mega-cap tech, in favor of US mid-cap and small-cap equities and select non-US names, where five-year expected returns look meaningfully more attractive.

Finally, we expect the second half of 2026 to bring a broadening of earnings growth, with the gap between the Magnificent Seven and the S&P 493 narrowing from the ~45 percentage points seen in 1Q26 toward parity by 4Q26. This broadening is welcome news for equal-weight strategies and stock pickers, both of which have struggled in the concentration regime of the past three years.

Forecast: 2026

Rockingstone Advisors: Our Latest Forecasts

In this section we focus on some key economic indicators for 2026. These data help us frame our investment decisions from sector and geographic weightings vs. the appropriate client benchmark as well as which individual equities fill out a portfolio.

Figure 8: Key Metric Forecast

Metric	Year End December	
	Band	Point
US Real GDP (2026)	+1.8% to +2.4%	2.0%
S&P 500 2026 EPS (RSA/Street)	NA	\$345 / \$349
S&P 500 2027 EPS (RSA/Street)	NA	\$385 / \$399
S&P 500 2026 Index	6400 - 6750	7315
10-Yr US Treasury Yield	4.5% - 5.0%	4.7%
Oil (WTI-2026 End)	\$75 - \$100	\$80
Gold (2026 End)	\$3,750 - \$4,250	\$4,000
Inflation (PCE - NTM)	+3.7% to +4.2%	3.5%

Source: Rockingstone Advisors, The Economist, FactSet, NYSE Arca, St. Louis Federal Reserve

A few observations and comments:

1. **S&P 500 2026 EPS.** Despite myriad “black swans,” including the disruption of the global trade system and the US-Iran War, management teams have continued to do an excellent job navigating these challenges. Using 2025 “operating” EPS of \$270 (NB: we have updated our data source to FactSet, which is slightly different from the former S&P Global figures of \$265), consensus now anticipates a shocking growth rate in 2026 of 29% or EPS of \$349! As noted in this report, EPS include some mark-to-market gains on investments that are material. How investors ultimately treat such gains on top of strong, core “operating” EPS remains to be seen. Nevertheless, companies delivered solid 1Q26 results and so far 2Q26 earnings season has been supportive of a forecast for strong annual S&P 500 EPS. As a result, we have materially increased our EPS forecast from \$300 to \$345.
2. **S&P500 Index Target.** We admit that both our previous forecast for S&P 500 EPS of \$300 and 2026 year-end target for the Index were too conservative. Companies, as noted above, have done an amazing job of delivering solid fundamentals. Over the last few years, we have assumed a P/E multiple on forward earnings of around 21x based on strong EPS growth, solid profitability and relatively low interest rates. Yet at this point, we are wary of using such a historically inflated P/E multiple due to (i) growth moderation in 2027 given the 29% figure in 2026 given investment gains, (ii) higher interest rates (the 10-year US Treasury yield has risen from 4.40% a month ago to 4.64% today), (iii) the impact of massive capital spending by AI hyperscalers and the potential such expenditures limit margins, and (iv) our 5-year asset return forecast points to -1% returns on the S&P 500.

Five-Year Asset Value Forecastⁱⁱⁱ

US Large-cap Returns Look Unattractive vs. Other Parts of the Market

Our belief is that over the long run asset values mean-revert (with respect to operating margins and P/E multiples). Our analysis for equities uses four variables, including (i) historical sales growth, (ii) corporate profit margins, (iii) dividend yields and (iv) valuation to determine potential long-term returns. Using valuation as an example, P/E multiples should theoretically decline (if currently above the historical mean) or expand (if currently below the historical mean) over the long term.

Based on our outlook for total returns, we expect the “give” of sales growth and dividends to be partly offset by the “take” of mean-reverting margins and changes in valuation multiple. Yet it is worth noting that after a decade of growth, led mostly by US large cap tech companies, the thesis of mean reversion is being put to the test, as such companies have incredibly strong competitive moats, historically high returns on invested capital and massive addressable markets.

The current capital spending wave on AI-related business by the same US large cap tech companies, however, could end up moderating margins. The risk of this development occurring is partly reflected in the significant valuation and profit margin decrease (-3.5%) components to total return for the S&P 500.

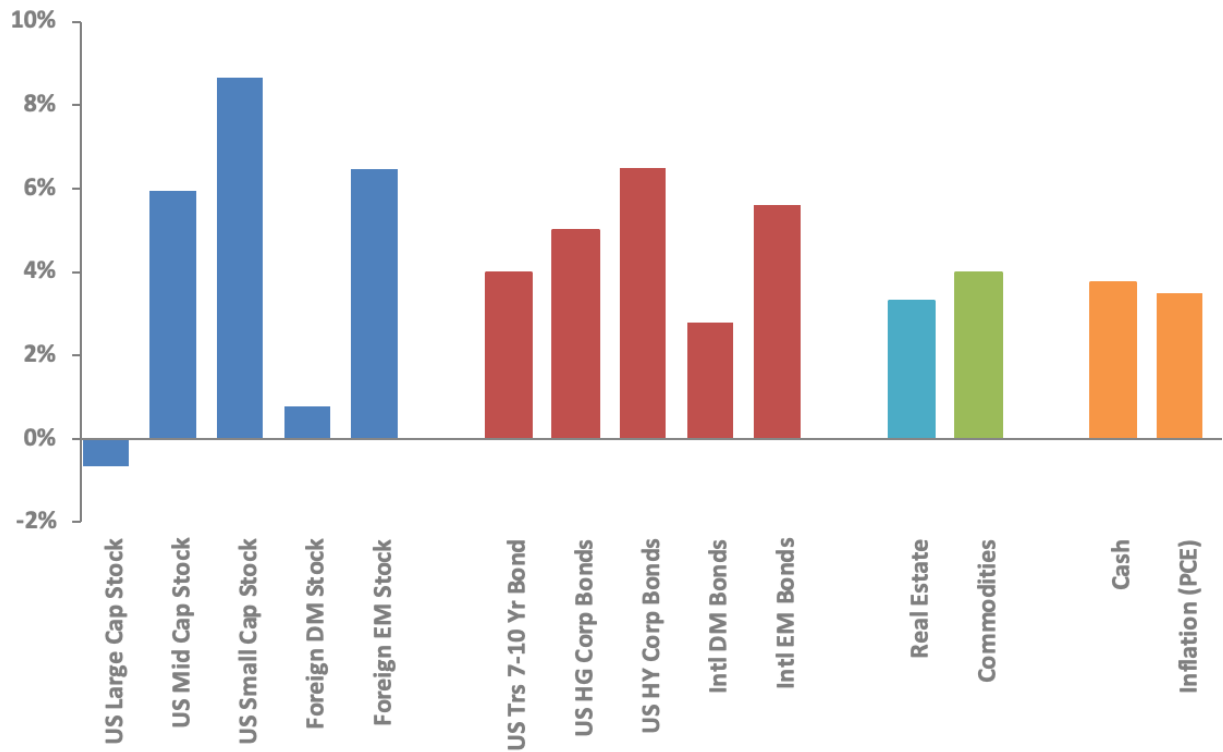
Figure 9: Five-Year Total Equity Return Calculations (Incremental Contribution)

<u>Asset</u>	<u>Index</u>	<u>LT Exp. Return</u>		<u>Sales</u>		<u>Profit Margin</u>		<u>Div.Yield</u>		<u>Valuation</u>
US Large Cap Stock	S&P500	-0.7%	=	4.9%	-	3.5%	+	1.4%	-	3.5%
US S&P Equal Weight	RSP	4.9%	=	4.4%	-	2.0%	+	2.2%	+	0.2%
US Mid Cap Stock	S&P400	6.0%	=	5.2%	-	1.1%	+	2.1%	-	0.3%
US Small Cap Stock	S&P600	8.7%	=	5.5%	+	0.2%	+	2.7%	+	0.3%
Foreign DM Stock	MSCI-EAFE	0.8%	=	1.7%	-	4.4%	+	2.9%	+	0.6%
Foreign EM Stock	MSCI-EM	6.5%	=	6.3%	-	4.0%	+	2.6%	+	1.6%

Source: Rockingstone Advisors

In fixed income (see the next page for various assumptions), we are assuming the yield curve and current rates move up slightly from current levels. Thus, we expect the total return to be somewhat less than existing yields would imply, as prices for fixed income instruments move in the opposite direction vs yields.

Figure 10: Five-Year Asset Class Total Return Forecast



Source: Rockingstone Advisors

Equity Performance

US Small Caps Lead a Broadly Positive Quarter

Global equity markets recovered sharply in the second quarter from the Iran-War drawdown of 1Q26, with all five tracked indices posting comfortably double-digit positive returns. US small-caps led the way, rising 20.7% for the quarter, followed by US large-caps (+14.3%), US mid-caps (+11.9%), emerging markets (+10.2%) and non-US developed markets (+10.0%). As we discuss at length in the feature section above, the move reflected the de-escalation of the Iran conflict, resilient corporate earnings and continued momentum in AI-adjacent industrials and utilities. Within the S&P 500, Technology (XLK) rose 41% and Industrials (XLI) 13% in 2Q26, while Energy (XLE) declined 9% as oil prices normalized.

Although the quarterly figures were strong across the board, June showed the first clear signs of internal rotation. Mega-caps (OEF) declined 3.0% while small-caps (IWM) posted a further gain of 4.2%. Value-oriented equities also outperformed growth, with VTV (Vanguard's Value ETF) rising roughly eight percentage points more than VUG (Vanguard's Growth ETF) in June. This pushed YTD "value" returns to +15.2% versus growth at only +6.2%, the first period of clear value-oriented outperformance in some time. The combination of dispersing sector leadership, broadening market breadth, and a rotation into cheaper corners of the market may be a healthy development for diversified portfolios.

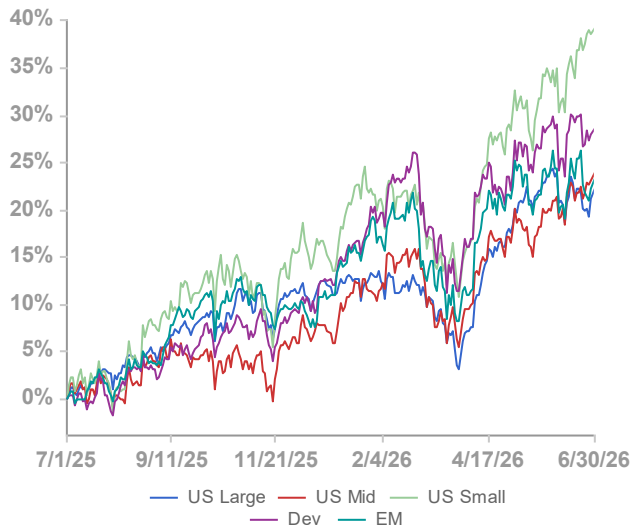
The trailing-twelve-month picture is exceptional (see below). The dispersion validates two of our long-standing views: (i) that non-US markets have been persistently under-owned by US investors, and (ii) that within the US, exposure outside the mega-caps offers a more attractive risk-adjusted proposition. We continue to lean into such positioning tilts. We note the following performance regarding 2Q26 and 12M26, respectively, results: US large-cap (+14.3% and +22.1%), US mid-cap (+11.9% and +16.0%), US small-cap (+20.7% and +39.0%), Developed (+10.0% and +28.2%), Emerging (+10.2% and +23.0%).

Figure 11: 2Q26 Equity Performance ^{iv}



Source: FactSet

Figure 12: 12M26 Equity Performance



Source: FactSet

Fixed Income Performance

EM Debt Leads a Broadly Positive Quarter for Bonds

Fixed income markets delivered a quiet but broadly positive second quarter, in stark contrast to the volatility of 1Q26. Duration was essentially inert — the 7-10 year US Treasuries (IEF) rose just +0.2% and the aggregate US bond index (AGG) +0.6% — reflecting a rates market caught between easing geopolitical tensions and above-target inflation.

The action was in credit. US high-yield (JNK) added +2.0%, US high-grade corporates (LQD) +1.1%, international corporates (PICB) +0.6% and mortgages (MBB) +0.5%. Notably, the clear winners of the quarter were emerging market bonds, with USD-denominated EM sovereigns (EMB) up +3.6% and the broader EM basket (VWO) up +3.5%, benefiting from both credit spread compression and a modestly weaker USD. Preferred securities (PFF) added +1.3% for the quarter but were a weak spot in June, declining -2.9% as expectations for a near-term Fed rate cut faded.

The trailing-twelve-month picture confirms a positive if unremarkable year for fixed income. Emerging market debt led the way at +9.2% (EMB) and +8.7% (VWO), followed by US high-yield at +5.7%, mortgages at +5.1%, US high-grade corporates at +3.9% and US governments at +2.8%. The exception is international developed corporates (PICB) at -1.2%, reflecting persistent USD strength and softer coupons abroad. Absent a meaningful move lower in the long end — which our forecast does not envision — we expect fixed income to continue delivering modest, coupon-driven returns. We retain our preference for short duration and continue to watch spread levels closely, particularly in lower-quality credit.

We focus on the following performance numbers for 2Q26 and 12M26, respectively: US High Grades (+1.1% and +3.9%), US Governments (+0.2% and +2.8%), US High Yield (+2.0% and +5.7%), Intl Developed (+0.6% and -1.2%), Emerging Markets (+3.6% and +9.2%).

Figure 13: 2Q26 Fixed Income Performance^v

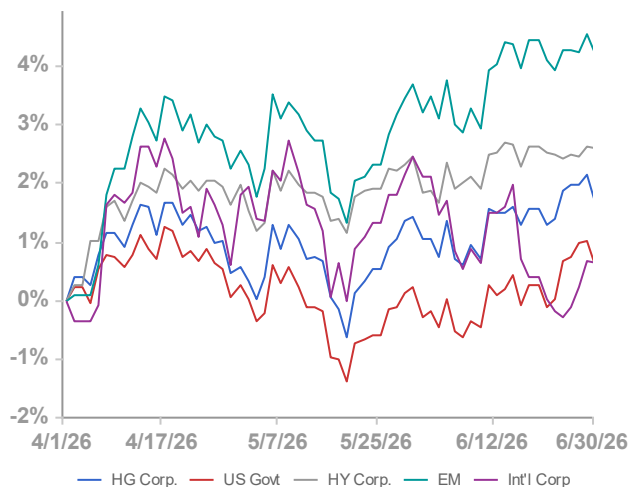


Figure 14: 12M26 Fixed Income Performance



Commodity Performance

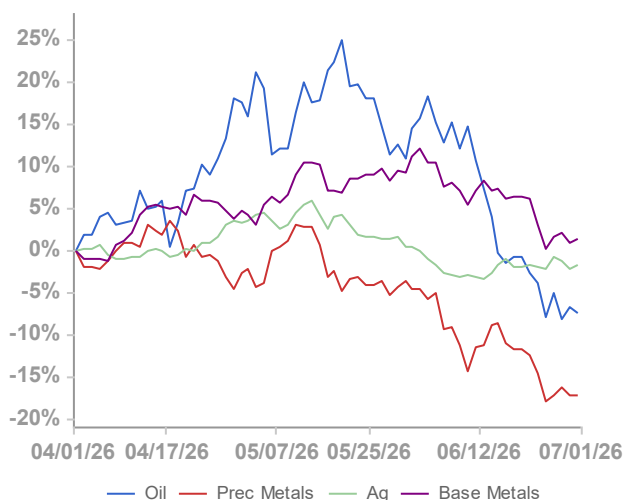
The Iran-War Trade Partially Reverses; Precious Metals Correct

We emphasize investors should normally expect greater volatility in commodity prices relative to equities or bonds. This is because commodities do not generate a stream of cash flows that can be discounted back to present value. Commodities are also susceptible to sudden supply and demand shocks. Because commodities are most often priced in \$US and traded globally, they are considered a store of value, especially if the dollar declines.

Last quarter saw a partial reversal of the 1Q26 Iran-War trade across the commodity complex. Oil (DBO), which had surged roughly +60-70% in 1Q26 on genuine supply-disruption fears, gave back -7.3% during 2Q26 as the US and Iran negotiated a de-escalation, though as flagged in our earnings feature above, energy prices have started to rise again in early 3Q on renewed tit-for-tat attacks. The larger story of the quarter, however, was in precious metals. The precious-metals basket (DBP) fell -17.0%, with silver declining -21.5% and gold -15.9%, in what we view as an unwinding of some of the “debasement bid” premium accumulated in 2025 and early 2026. Agriculture (DBA) was quietly weaker at -1.6%. The bright spot was base metals (DBB), up +1.5% on continued industrial demand, particularly copper’s role in electrification and data center buildout. June alone was uniformly severe as broad commodity de-risking ran through the sector.

The trailing-twelve-month view still reflects the extraordinary events of the prior three quarters (see figures below). We remain constructive on base metals given supply-constrained copper and aluminum demand from grid buildout. We note our modest direct exposure to energy and precious metals as an acknowledged limitation of our approach; the 2Q correction reinforces our discomfort with chasing extended moves. We typically invest in commodities via ETFs and the graphs below display what we view as representative performance for the underlying commodities. We highlight the following returns during 2Q26 and 12M26, respectively: Oil (-7.3% and +35.7%), Precious Metals (-17.0% and +25.4%), Agriculture (-1.6% and +7.5%), Base Metals (+1.5% and +27.8%).

Figure 15: 2Q26 Commodity Performance^{vi}



Source: FactSet

Figure 16: 12M26 Commodity Performance



Source: FactSet

Digital Asset Performance

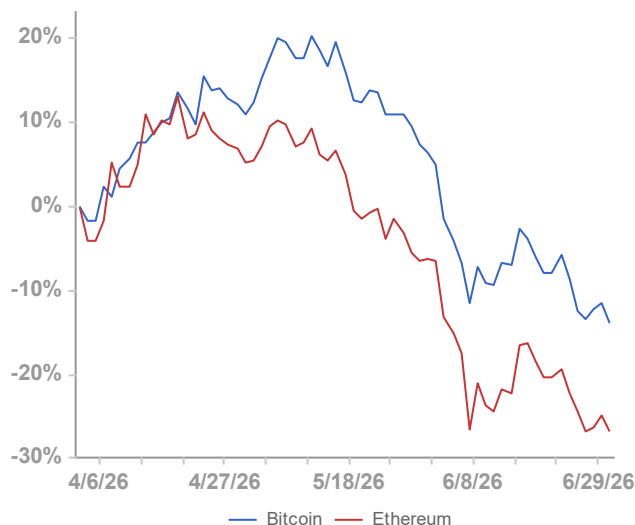
The Correction Deepens Across Bitcoin and Ethereum

Digital assets extended their 1Q26 losses, with both Bitcoin and Ethereum continuing to unwind the excesses of 2025. Bitcoin declined roughly 14% during the quarter, closing at \$58,548 on June 30, while Ethereum fell about 25%, closing at \$1,569. Both hit intra-quarter highs early in the period (BTC at \$81,740 on May 11; ETH at \$2,423 on April 17) before selling off through May and June. The decline appears tied more to broad crypto deleveraging and shifting narratives around token utility than to any single macro catalyst. The June tape was particularly weak, with Bitcoin down –20% and Ethereum down –22% in the single month.

As we have written in the past about digital assets, our belief is that they are not a substitute for equities or bonds or other cash flow-driven securities. There is no cash flow associated with the asset class, and as value investors, we generally prefer to acquire a stream of free cash flow. Yet it is worth recognizing that many assets do not generate cash flows but are widely recognized as being stores of value — including art, precious metals, coins and rare books. All of these “non-cash flow generating” assets trade with intermittent price discovery, albeit through Dutch or private auctions.

The two-quarter drawdown has taken Ethereum back to price levels last seen in the fall of 2023, and Bitcoin roughly to where it traded in mid-2024. As we have noted in prior letters, our view is that digital assets warrant a modest 1-2% allocation for most investors — an uncorrelated holding rather than a cash-flow substitute — and the drawdown of the past two quarters underscores the importance of position sizing over entry timing. We have not adjusted our allocation guidance in either direction, and we caution against the “buy-the-dip” reflex until we see stabilization in on-chain flows and a firmer institutional bid. We note the following performance regarding 2Q26 and YTD, respectively, results: Bitcoin (–14.1% and –33.1%) and Ethereum (–25.3% and –47.1%).

Figure 17: 2Q26 Digital Asset Performance ^{vii}



Source: FactSet

Figure 18: 12M26 Digital Asset Performance

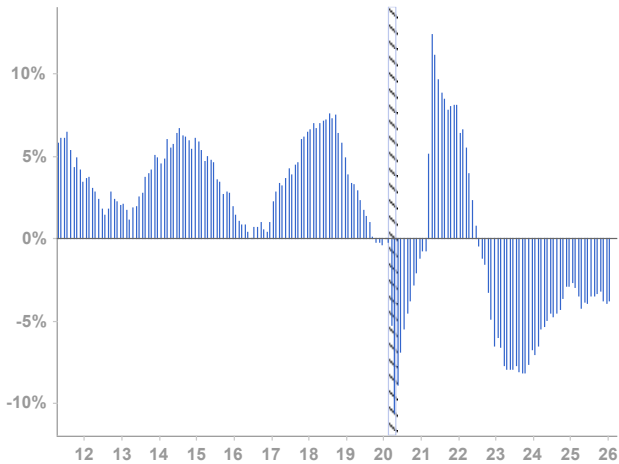


Source: FactSet

Chart Book

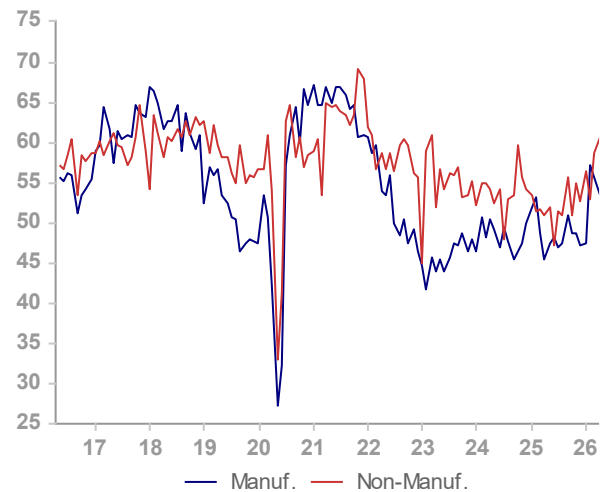
Leading Indicators

Figure 19: Index of Leading Economic Indicators



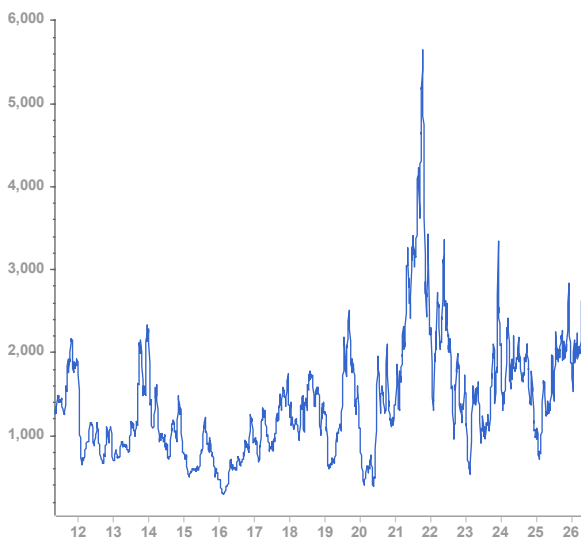
Source: FactSet

Figure 20: ISM New Orders



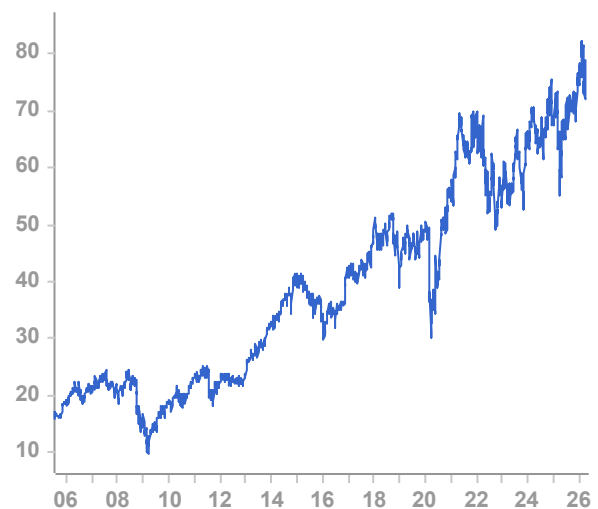
Source: St. Louis Federal Reserve, FRED Database

Figure 21: Baltic Freight Index



Source: FactSet

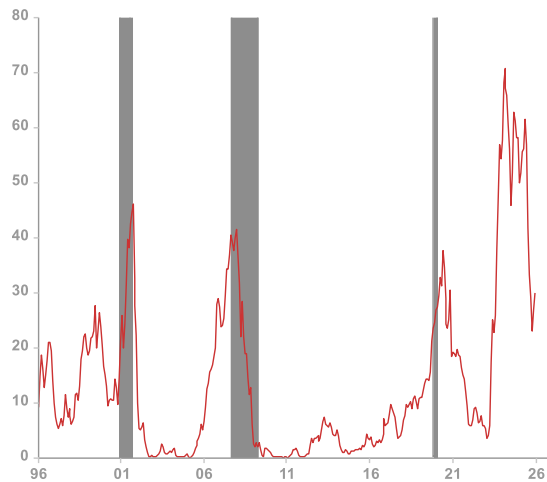
Figure 22: DJ Transports



Source: FactSet

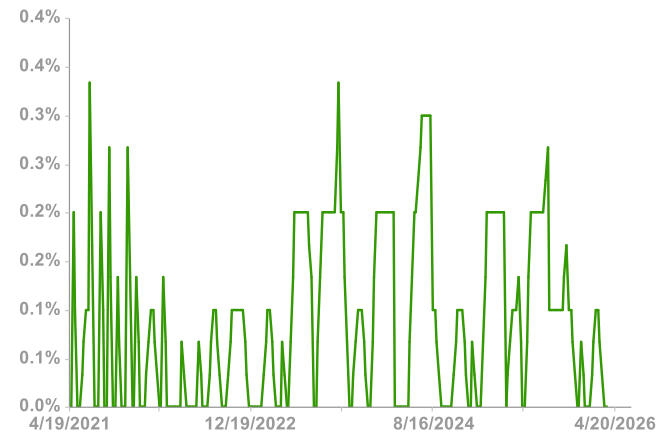
Real-time Recession Risk Indicators

Figure 23: Treasury Spread Recession Predictor



Source: FactSet, FRED Database

Figure 24: Sahm Real-time Recession Predictor



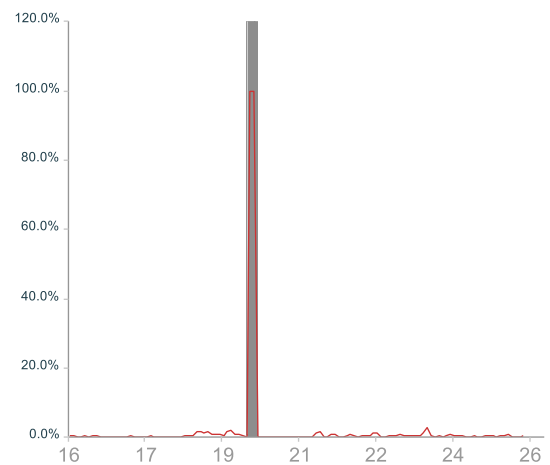
Source: St. Louis Federal Reserve, FRED Database

Figure 25: GDP Now (Atlanta Fed)



Source: FactSet, FRED Database

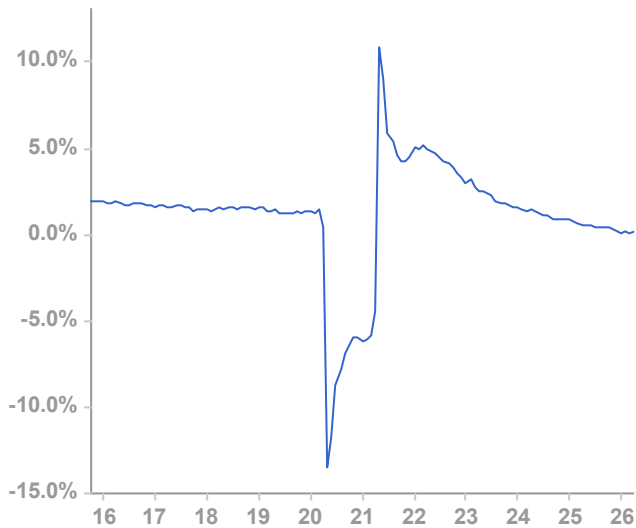
Figure 26: Smoothed US Recession Probabilities



Source: FactSet, FRED Database

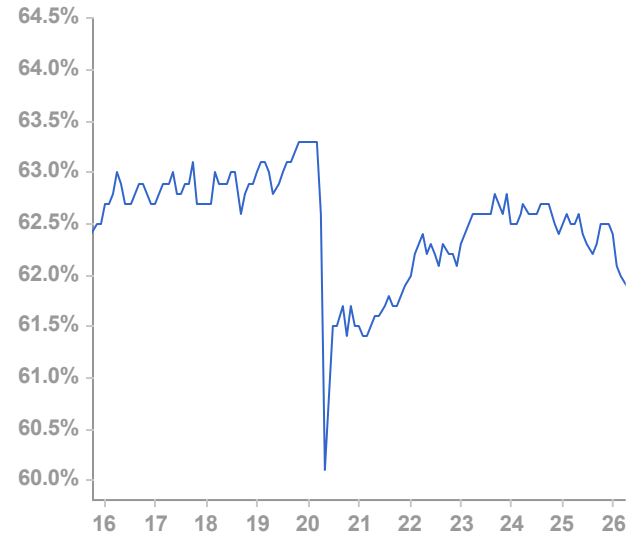
Labor Market Indicators

Figure 27: Payroll Growth (Establishment Survey, % Chg YoY)



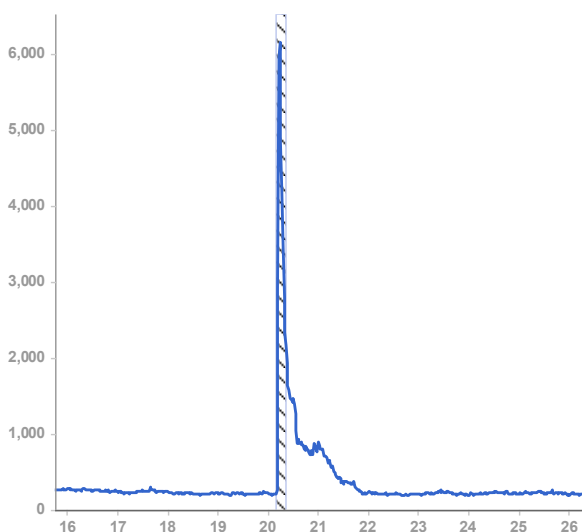
Source: FactSet

Figure 28: Labor Participation Rate (% of Workforce)



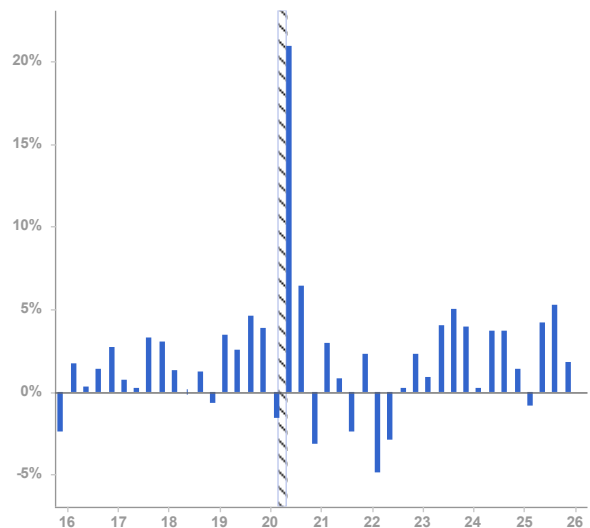
Source: FactSet

Figure 29: Initial Unemployment Claims



Source: FactSet

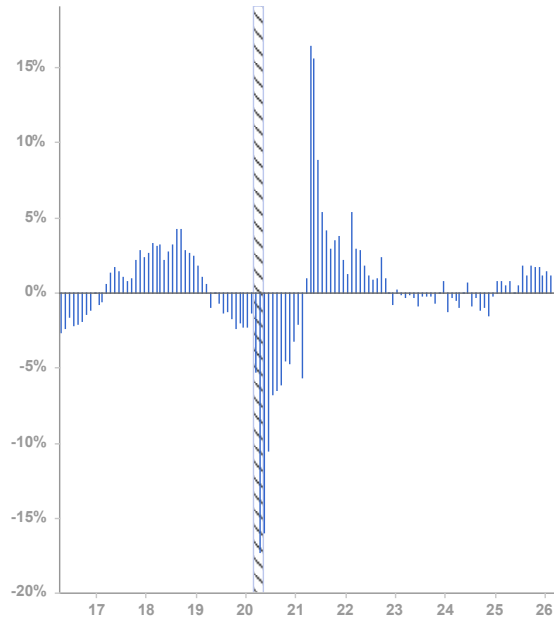
Figure 30: Non-Farm Productivity (% Chg YoY)



Source: FactSet

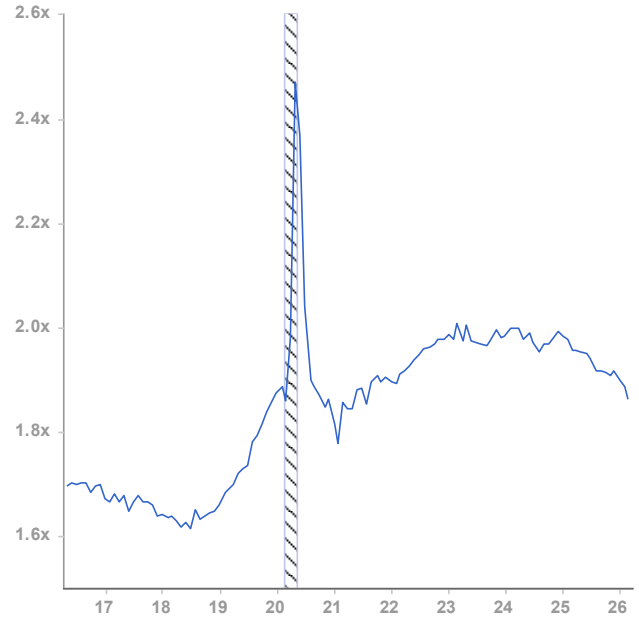
Production and Business Activity Indicators

Figure 31: Industrial Production (% Chg YoY)



Source: FactSet

Figure 32: US Inventory to Shipment Ratio



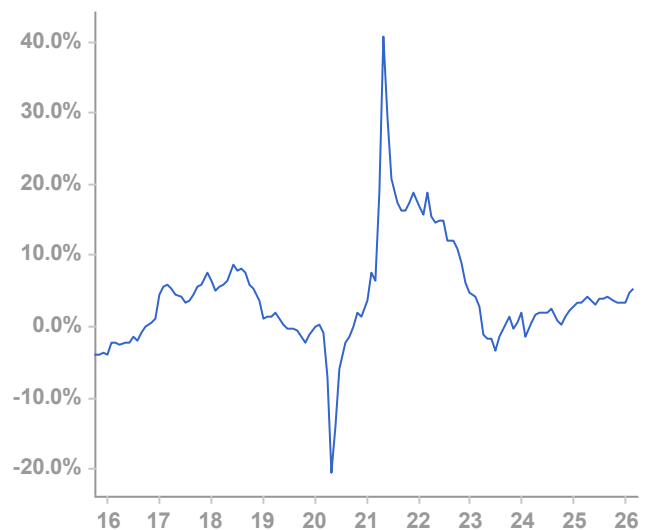
Source: FactSet

Figure 33: Unfilled Orders (% Chg. YoY)



Source: FactSet

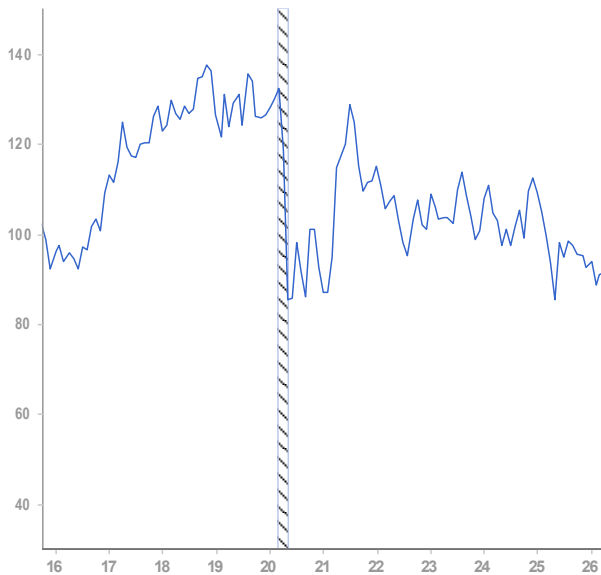
Figure 34: Business Sales (% Chg. YoY)



Source: FactSet

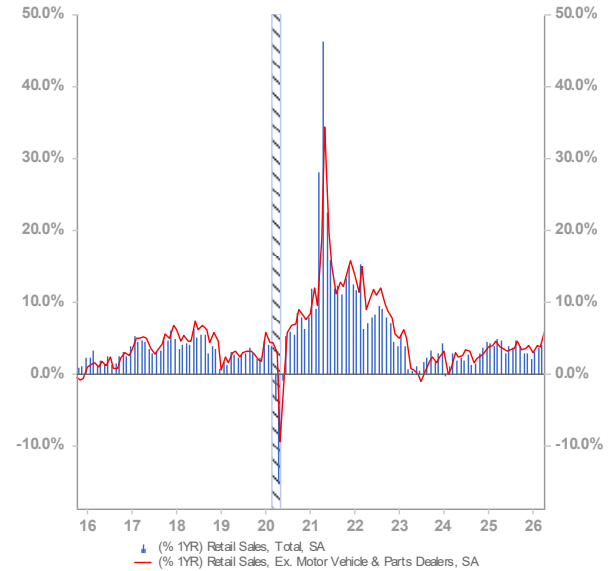
Consumer and Household Activity Indicators

Figure 35: University of Michigan Consumer Sentiment



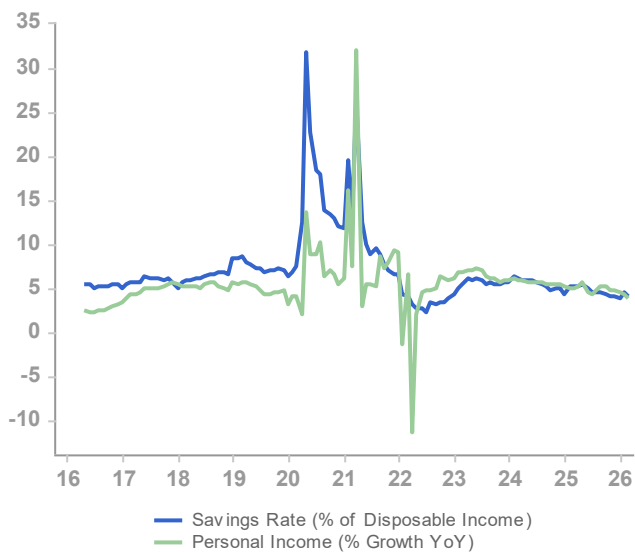
Source: FactSet

Figure 36: Retail Sales



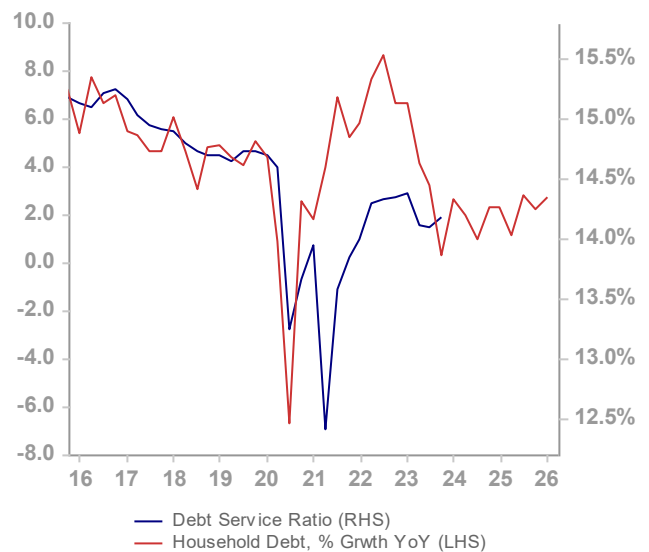
Source: FactSet

Figure 37: Personal Income and Savings Rate



Source: FactSet

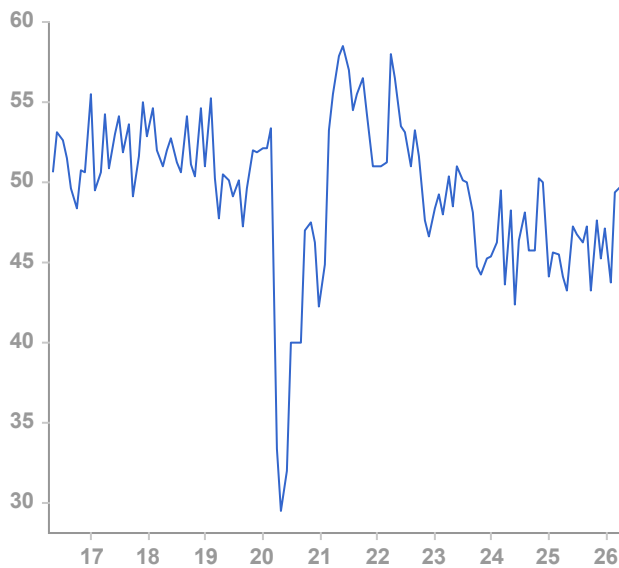
Figure 38: Household Debt



Source: FactSet

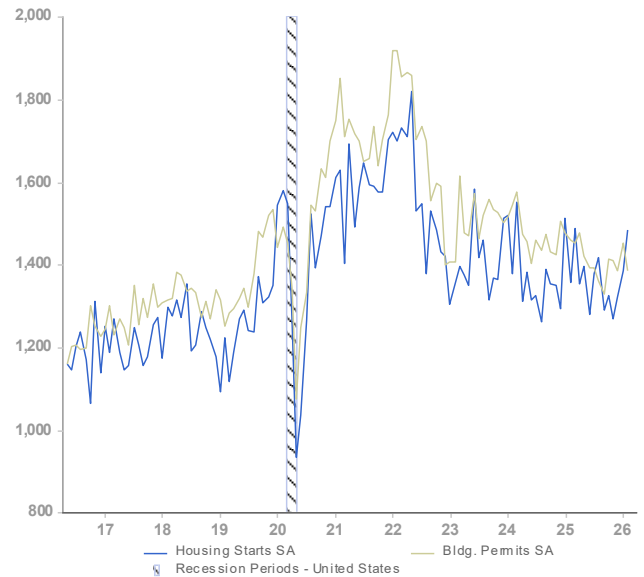
Housing and Construction Indicators

Figure 39: Architecture Billings Index



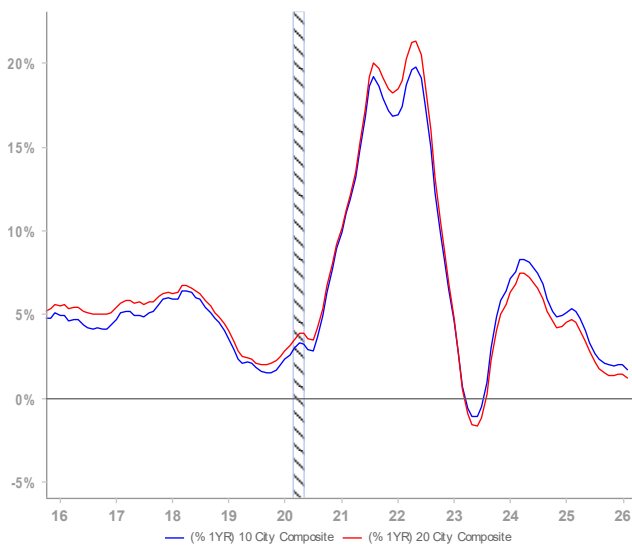
Source: FactSet

Figure 40: Housing Starts and Building Permits



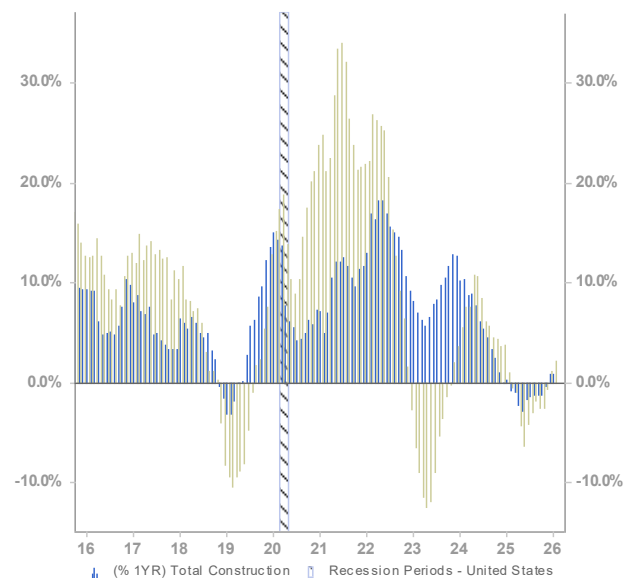
Source: FactSet

Figure 41: Case-Shiller 20-City & 10-City Index, % Chg YoY



Source: FactSet

Figure 42: Private and Total Construction (% Chg YoY)



Source: FactSet

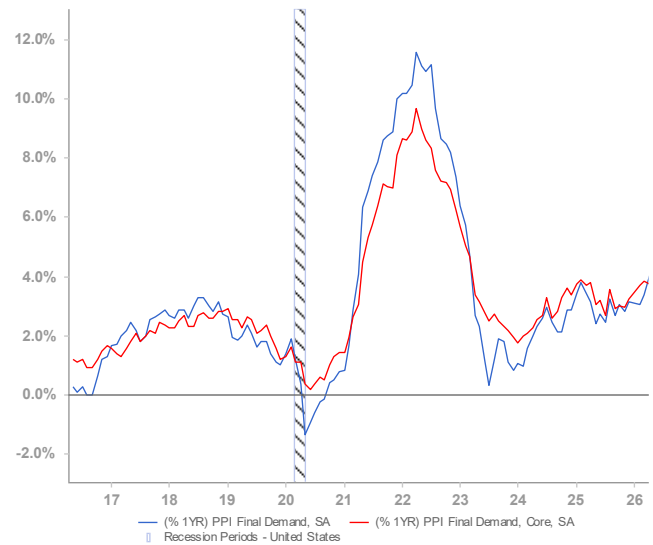
Price Indicators

Figure 43: Consumer Price Index



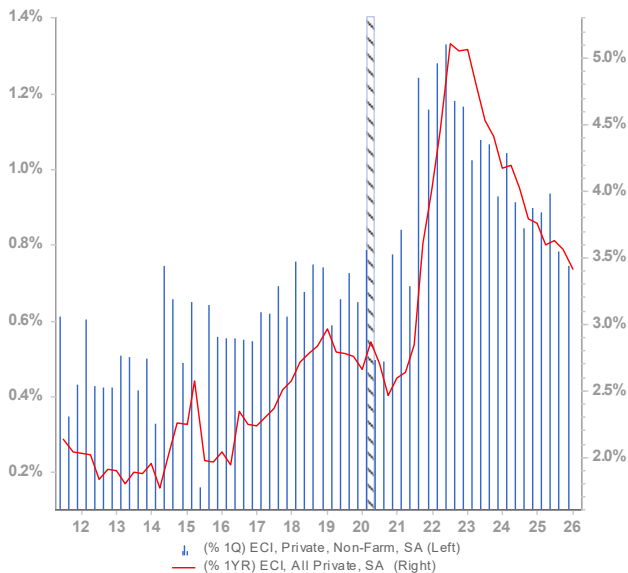
Source: FactSet

Figure 44: Producer Price Index



Source: FactSet

Figure 45: Employment Cost Index



Source: FactSet

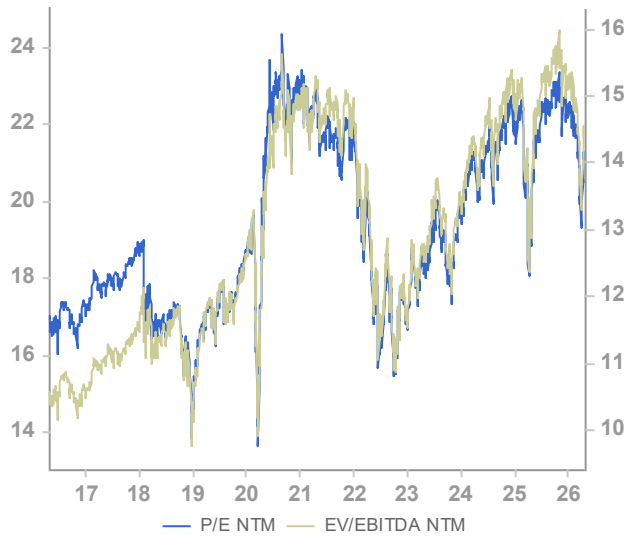
Figure 46: 10-Year, 5-Year Forward Inflation Expectations



Source: FactSet

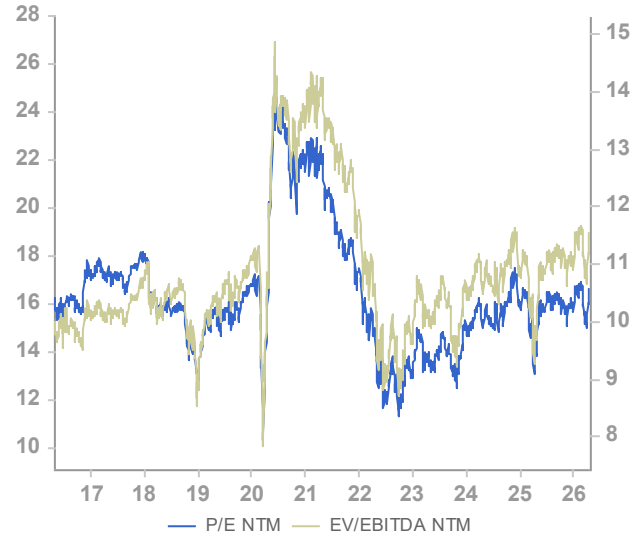
Valuation Indicators

Figure 47: S&P 500 P/E (LHS) & EV/EBITDA (RHS)



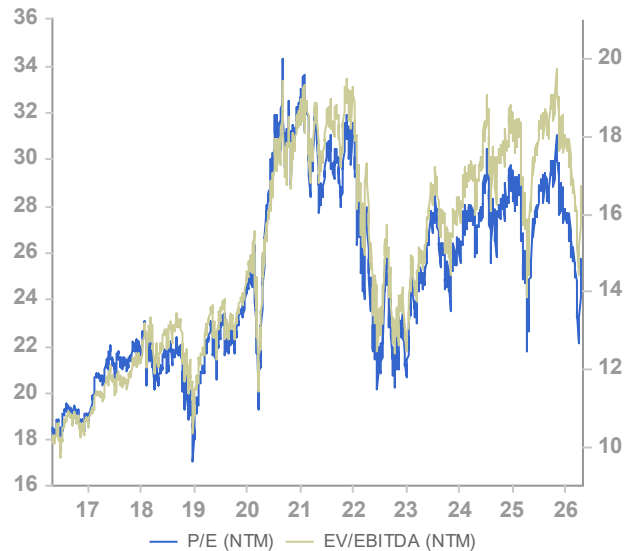
Source: FactSet

Figure 48: S&P Midcap 400 P/E (LHS) & EV/EBITDA (RHS)



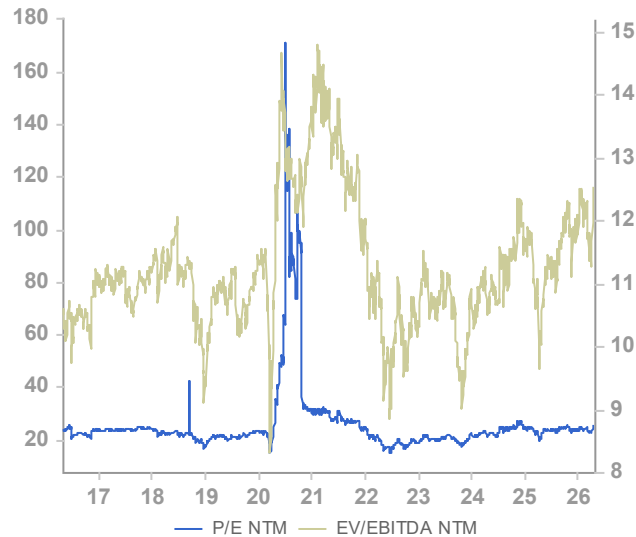
Source: FactSet

Figure 49: Nasdaq 100 P/E (LHS) & EV/EBITDA (RHS)



Source: St. Louis Federal Reserve, FRED Database

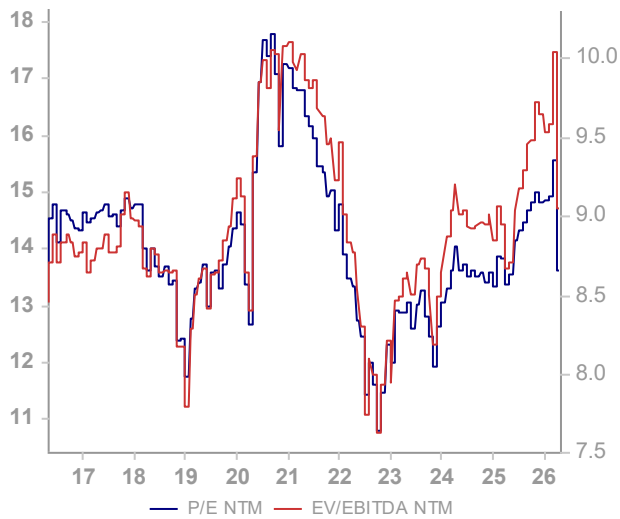
Figure 50: Russell 2000 P/E (LHS) & EV/EBITDA (RHS)



Source: St. Louis Federal Reserve, FRED Database

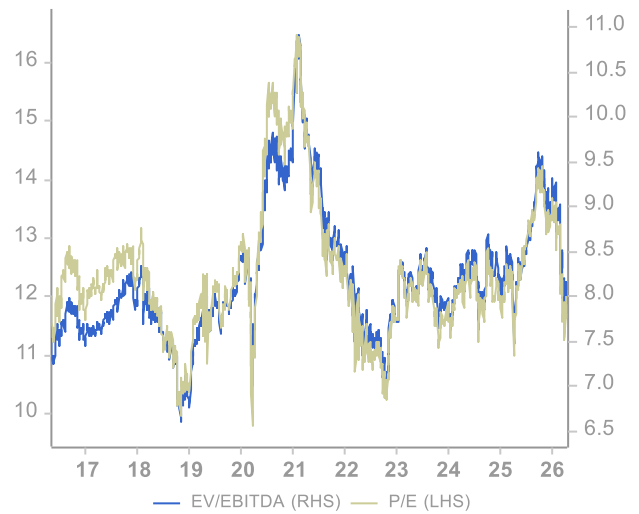
Valuation and Volatility Indicators

Figure 51: Intl Developed P/E (LHS) & EV/EBITDA (RHS)



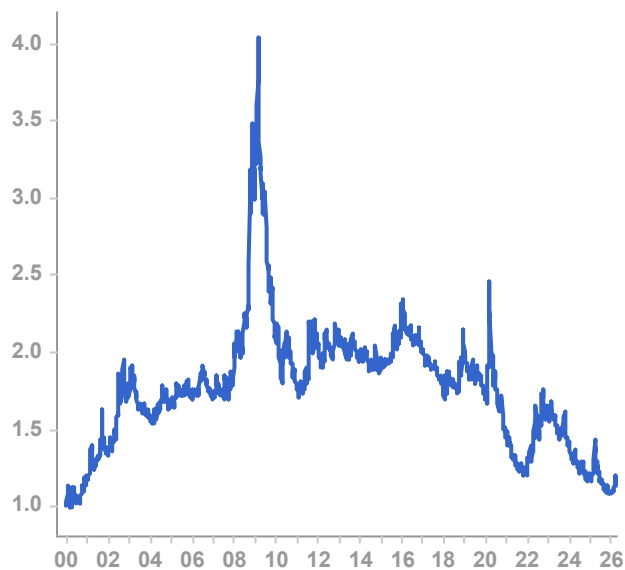
Source: Robert Shiller, Yale University, Rockingstone Advisors, Standard & Poor's

Figure 52: Emerging Markets P/E (LHS) & EV/EBITDA (RHS)



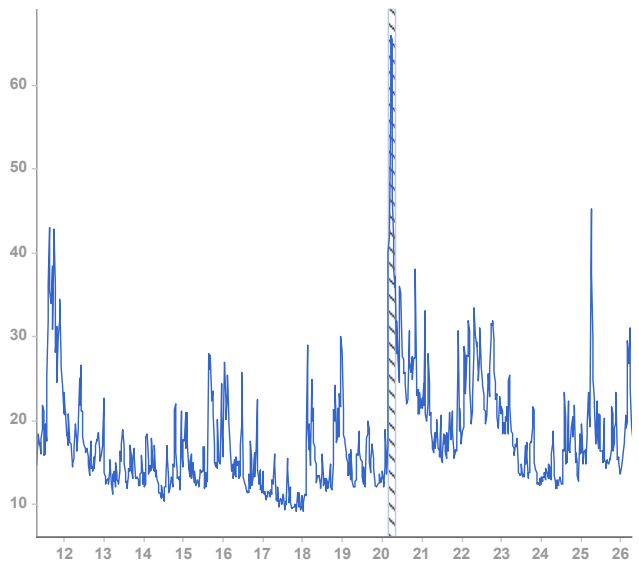
Source: Robert Shiller, Yale University, Rockingstone Advisors, Standard & Poor's

Figure 53: S&P 500 Dividend Yield



Source: FactSet

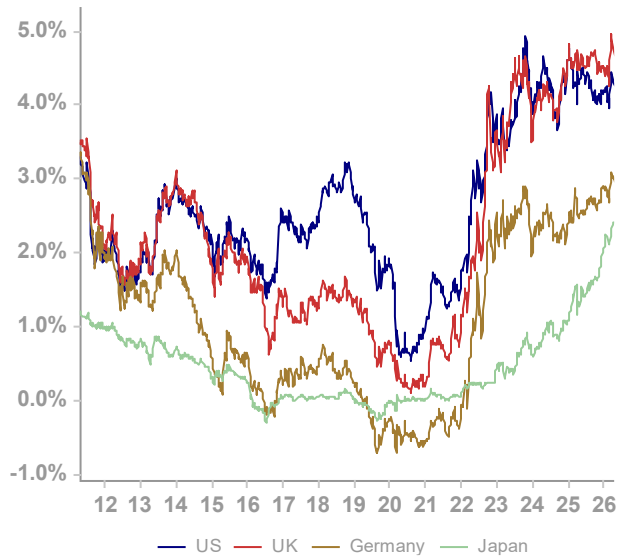
Figure 54: CBOE Volatility Index



Source: FactSet

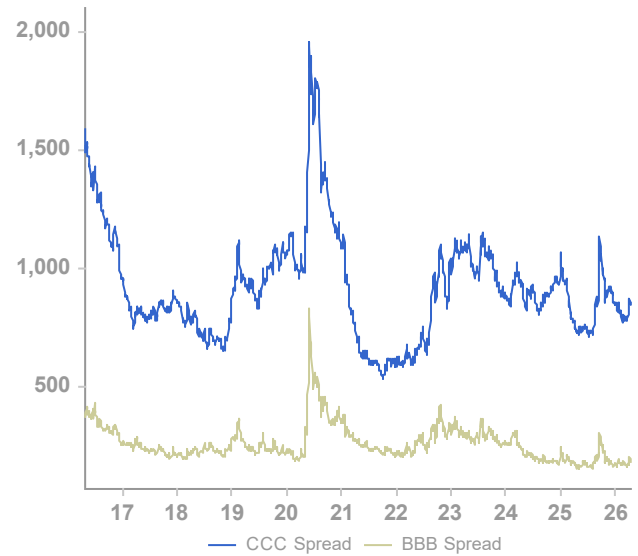
Bond Market Indicators

Figure 55: 10-Year Global Bond Yields



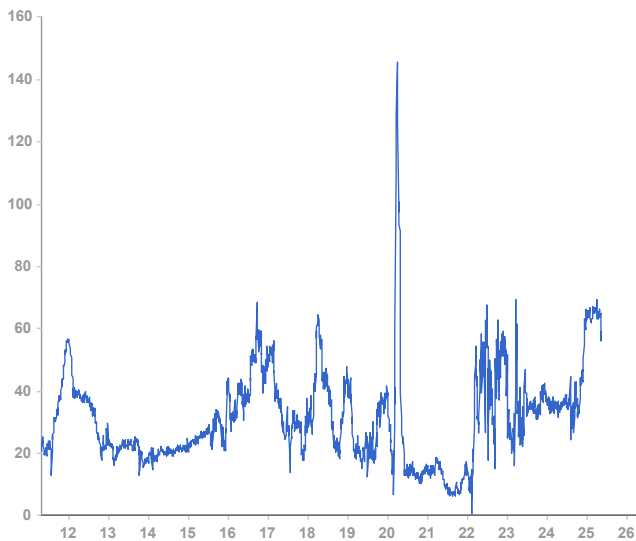
Source: FactSet

Figure 56: CCC and BBB Spreads (Option Adjusted)



Source: FactSet

Figure 57: TED Spread (bps)



Source: FactSet

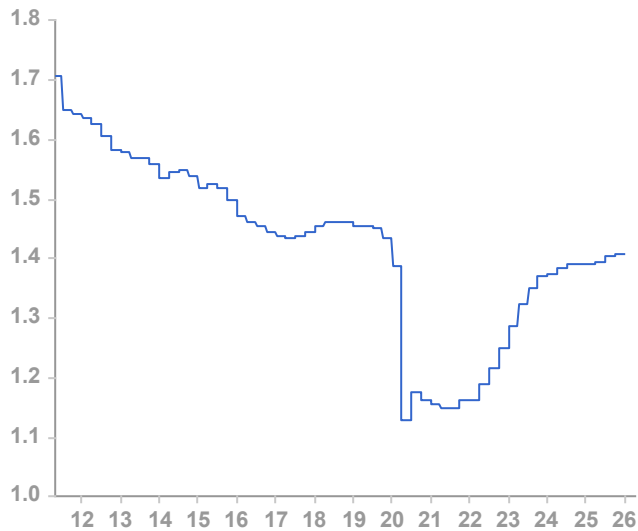
Figure 58: 10-Year Minus 2-Year Treasury



Source: FactSet

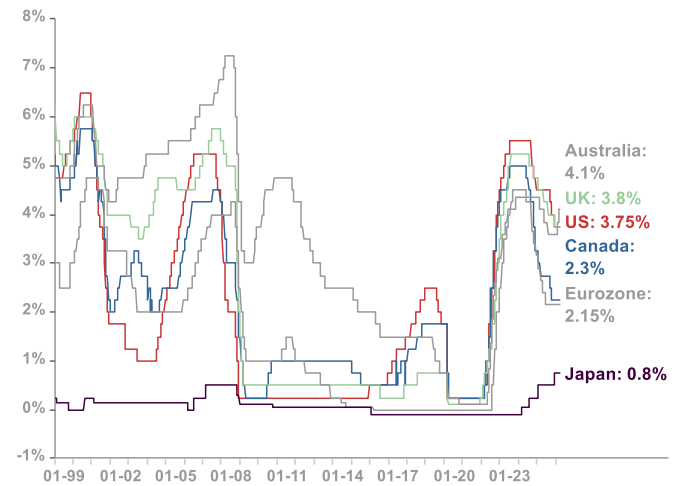
Liquidity and Other Indicators

Figure 59: Velocity of M2 Money Stock



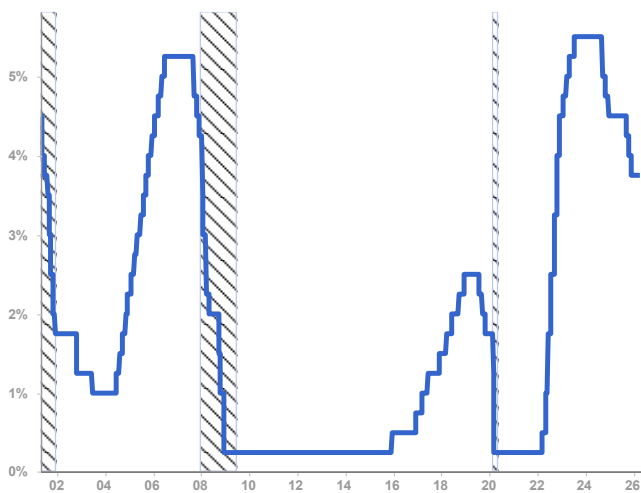
Source: FactSet

Figure 60: Central Bank Policy History



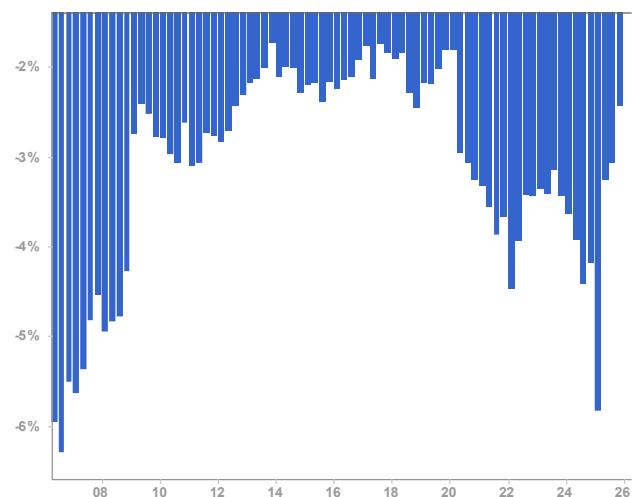
Source: FactSet

Figure 61: Fed Funds Target Rate



Source: St. Louis Federal Reserve, FRED Database

Figure 62: Current Account Deficit (as % of GDP)



Source: St. Louis Federal Reserve, FRED Database

Appendix

Important Regulatory Disclosures and End Notes

Form ADV available upon request. This quarterly is only for informational purposes and not a solicitation to buy or sell securities or as a source of specific investment, legal or tax recommendations.

Rockingstone Advisors is solely responsible for the content of this Quarterly. The information and statistical data contained herein have been obtained from sources we believe are reliable but cannot guarantee.

Rockingstone Advisors performance charts depict the mean aggregate return of all accounts invested with a similar objective and risk tolerance during the entire return period; individual account performance may materially differ according to strategy and portfolio composition. Returns are calculated using time-weighted method (TWM) and are weighted by portfolio assets. Returns can be influenced not only by the actual performance of the underlying portfolios, but by the mix (composition) of portfolios in any given year and the number of portfolios within the sample set. Public equity returns are calculated by Morningstar based on information received from our custodian(s). Other investment returns, including private equity and real estate investments are calculated based on valuation data from parties other than Rockingstone Advisors or at cost. Fixed income returns generated by private notes are recognized when the cash coupon is paid, rather than on an accrued interest basis (except for PiK securities). Annualized return is based on portfolios invested as of June 1, 2009. The sample set of portfolios within each annual cohort has increased over time and the mix changes every year. Our investment returns may reflect investment opportunities that are unavailable to all of our clients, for reasons including: (i) certain funds in which we have invested are now closed to new investors, (ii) certain clients may not meet “accredited investor” standards, (iii) certain investments are available only to officers or directors of a business, and/or (iv) we may believe that historical returns most likely will not be generated by a specific security or strategy and thus are no longer allocating new capital to a specific security or strategy. Past performance is neither indicative of-- nor a predictor of-- future performance. Mean reversion is a powerful force, meaning periods of outperformance are typically followed by periods of underperformance. All figures are net of fees and expenses. Rockingstone’s performance must be assessed in light of not just how we performed relative to the benchmarks, but how much risk we assumed in generating portfolio returns.

Quarterly Data prices are as of June 30, 2026; most other prices and yields are as of July 27, 2026.

We are happy to provide the raw data and source links for any of the charts or tables in this Quarterly. We are also happy to provide individual account performance data by annual cohort or by IRR (instead of TWM) so you can better understand the range of portfolio returns. We thank you for your interest and always appreciate any feedback.

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eric@rockingstoneadvisors.com

ⁱ Asset class performance charts depict Equity (SPY ETF), Bonds (BND ETF), Commodities (DBC ETF), Preferred (PFF ETF) and Real Estate (VNQ ETF) price change plus dividends and interest during the selected period.

ⁱⁱ Rockingstone Advisors performance charts depict the mean aggregate return of all accounts invested with a similar objective and risk tolerance during the entire return period; individual account performance may materially differ according to strategy and portfolio composition. Returns are calculated using time-weighted method (TWM) and are weighted by portfolio assets. Returns can be influenced not only by the actual performance of the underlying portfolios, but by the mix of portfolios in any given year. Public equity returns are calculated by Morningstar based on information received from our custodian(s). Other investment returns, including private equity and real estate investments are calculated based on valuation data from parties other than Rockingstone Advisors. Fixed income returns generated by private notes are recognized when the cash coupon is paid, rather than on an accrued interest basis. Annualized return since inception is based on portfolios invested as of June 1, 2009. The sample set of portfolios within each annual cohort has increased over time. Our investment returns may reflect investment opportunities that are unavailable to all of our clients, for reasons including: (i) certain funds in which we have invested are now closed to new investors, (ii) certain clients may not meet “accredited investor” standards, (iii) certain investments are available only to officers or directors of a business, and/or (iv) we may believe that historical returns most likely will not be generated by a specific security or strategy and thus are no longer allocating new capital to a specific security or strategy. Past performance is not indicative or a predictor of future performance. Mean reversion is a powerful force, meaning periods of outperformance are typically followed by periods of underperformance. All figures are net of fees and expenses. Rockingstone’s performance must be assessed in light of not just how we performed relative to the benchmarks, but how much risk we assumed in generating portfolio returns.

ⁱⁱⁱ Our Five-Year Forecast is updated quarterly and reflects our best judgment on future performance based on current valuations relative to historical valuations, as well as our outlook for earnings and macroeconomic conditions. We caution that predicting outcomes is inherently risky and subject to change.

^{iv} Equity performance charts depict U.S. large-cap (SPY ETF), U.S. mid-cap (VO ETF), U.S. small-cap (IWM ETF), International Developed (VEA ETF), and Emerging Markets (VWO ETF) price change plus dividends and interest during the selected period. We note that Vanguard highlighted a trading glitch in the shares of VO during March 31, 2015 that led to prices materially higher than underlying NAV. Hence you should assume VO’s valuation and total return was inflated as of the end of the first quarter.

^v Fixed income performance charts depict Intermediate Government (IEF ETF), High Yield Corporates (JNK ETF), High Grade Corporates (LQD ETF), International Corporates (PICB), and Emerging Markets bonds (EMB ETF) price change plus interest income earned over the selected period.

^{vi} Commodity performance charts depict Precious Metals (DBP ETF), Base Metals (DBB ETF), Oil (DBO ETF), and Agriculture (DBA ETF) price change.

^{vii} Digital asset performance charts depict the price changes of Bitcoin (BTC) and Ethereum (ETH) over the selected time frame.