

KATHMERE CAPITAL MANAGEMENT

MID-YEAR 2026

CIO Market & Economic Perspectives

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FOR CLIENTS OF KATHMERE CAPITAL MANAGEMENT

PART ONE

The First Half of 2026: Resilience Beneath the Headlines

The first half of 2026 has offered another reminder that markets can be resilient without being calm. At the index level, the story through May was broadly constructive: economic growth continued, corporate earnings surged, global equity markets delivered strong gains, and investment-grade bond market returns were roughly flat to modestly positive. But that summary understates how volatile the path was.

Investors had to contend with a number of meaningful crosscurrents: the war in Iran, rising oil and gasoline prices, renewed concern about inflation, modestly higher interest rates, fears that artificial intelligence could disrupt certain business models or eventually weigh on employment,

growing scrutiny of private credit, and continued debate about the scale and durability of AI-related infrastructure spending. Equity markets also experienced a meaningful selloff beginning in late February before staging a historically strong rally in April and May. Beneath the surface, performance was uneven. Semiconductor stocks produced extraordinary gains, while software stocks lagged dramatically. Energy and technology led at the sector level, while financials, health care, and communication services lagged.

In short, the first half was not simply a story of markets moving higher. It was a story of resilience amid a series of legitimate and, at times, unsettling concerns.

Major Headlines from the First Half

Among the most important macroeconomic and geopolitical developments during the first half was the war in Iran. The conflict led to a sharp rise in oil prices, which in turn raised renewed concerns about inflation, consumer spending, and interest rates. Higher energy prices matter because they act like a tax on consumers, raise input costs for businesses, complicate the inflation outlook, and make the Federal Reserve's job more difficult.

This was especially important because inflation had already proven stubborn. While inflation is well below its 2021–2023 peak, the final stretch back toward the Federal Reserve's 2% target has continued to be difficult. The war-driven increase in energy prices has derailed that progress, leaving

the Fed in a difficult position: elevated inflation calls for holding rates steady or even increasing them, while emerging signs of consumer stress call for rate cuts.

At the same time, artificial intelligence remained a dominant economic and market theme. On the positive side, AI-related infrastructure spending continued to support business fixed investment, corporate earnings, and investor enthusiasm. On the more cautious side, investors increasingly debated whether AI could disrupt certain business models, pressure profit margins in some industries, or eventually contribute to job displacement.

Private credit also attracted significant attention during the first half. Concerns around actual and

potential defaults, valuations, liquidity in semi-liquid vehicles, and the rapid growth of the asset class became more prominent in the financial press. We address these concerns in separate research commentary, but they were clearly part of the broader market narrative during the first half.

Finally, the equity market's path was itself a major story. After starting the year rather quietly, the S&P 500 nearly experienced a correction beginning in

late February through late March amid escalating concerns tied to Iran, oil prices, inflation, and interest rates. Yet the market subsequently recovered sharply, with April and May representing one of the strongest two-month stretches for the S&P 500 since 1950. That combination—a meaningful drawdown followed by a powerful rally—is a useful reminder that market returns rarely arrive in a straight line.

A Resilient but Uneven Economy

Despite these headwinds, the U.S. economy continued to hold up reasonably well. Real GDP growth remained positive in the first quarter, and continued growth is expected for the balance of the year. The economy has not been immune to pressure, but neither has it shown the type of broad deterioration that would indicate recessionary conditions.

The labor market remains central to the story. Conditions have clearly cooled from the unusually strong post-pandemic period, and job growth has slowed materially. However, the labor market still appears to be best described as “slow hire, slow fire.” Companies have become more cautious in adding workers, but despite some high-profile announcements, layoffs have not risen dramatically, and the unemployment rate remains low by historical standards.

That matters because employment is the key support for household spending. As long as most people who want jobs have them, consumer spending can generally remain resilient even when households are dealing with higher prices. Still, there are signs that the consumer cushion has become thinner. While real personal consumption expenditures have continued to rise, real personal income excluding government transfer payments

has turned negative on a year-over-year basis as inflation has moved higher. In other words, consumers are still spending, but the support from real income growth appears less robust than it was earlier in the cycle.

Business investment has been an important offset and a key theme in the economy and markets. In particular, the buildout of AI infrastructure has continued to support economic activity, corporate profits, and investor enthusiasm. Hyperscalers are rapidly increasing their spending on data centers, chips, compute, power, and related infrastructure. In addition to the AI buildout, the ongoing movement toward industrial reshoring and supply-chain resilience has increased demand for power generation, grid infrastructure, and energy security. The resulting investment cycle has been powerful enough to offset softness elsewhere in the economy.

Taken together, the economy remains resilient but uneven. Growth has continued, the labor market has cooled but not broken, and AI-related investment has been a meaningful tailwind. At the same time, higher energy prices, sticky inflation, elevated interest rates, slowing real income growth, and a lower savings rate all suggest that the economy is not without vulnerabilities.

Equity Markets: Strong Returns, Volatile Path

Global equity markets delivered strong gains through May, but the path was anything but smooth. The S&P 500's roughly 9% decline from late February through late March was a reminder that geopolitical shocks, energy price spikes, inflation concerns and fears about AI-driven job losses can quickly alter investor sentiment. The subsequent rally was equally powerful. April and May produced one of the strongest two-month advances for the S&P 500 in more than seven decades.

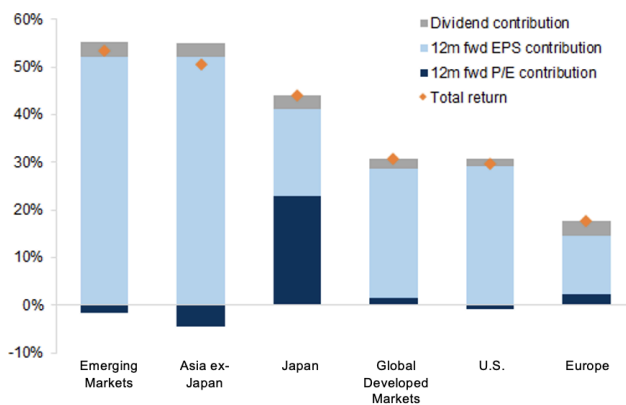
Through May, global stocks were solidly positive for the year with both U.S. and foreign stocks delivering double-digit gains. Non-U.S. developed

markets and emerging markets both outperformed the U.S., extending the leadership they delivered in 2025 and reinforcing the value of maintaining a globally diversified portfolio after a long period in which U.S. equities dominated.

Strong earnings growth was a major driver of equity returns both in the U.S. and abroad. This is an important point because market gains were not purely the result of expanding valuations or increasingly bullish sentiment. Corporate fundamentals remained supportive, particularly in areas tied to technology, AI infrastructure, energy, and other parts of the physical economy.

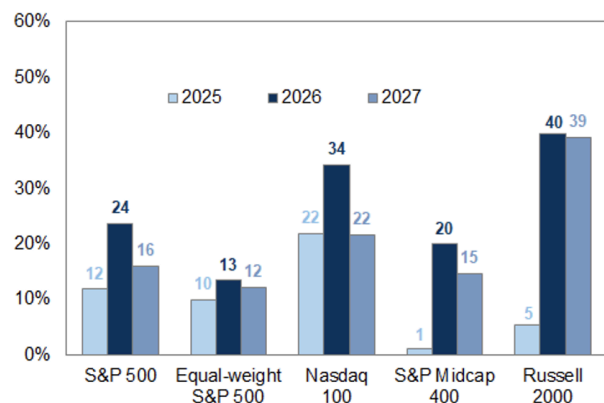
EXHIBIT 1

The Global Equity Rally Has Been Driven Primarily by Surging Near-Term Earnings Estimates
12-Month Trailing Return Contribution
12-Month Trailing Return in Local Currency



Source (Left): Chart from Goldman Sachs Global Investment Research. As of June 1, 2026. Index representation as follows: Emerging Markets (MSCI Emerging Markets Index), Asia ex-Japan (MSCI Asia Pacific ex-Japan Index), Japan (TOPIX), Global Developed Markets (MSCI All Country World Index), U.S. (S&P 500 Index), Europe (STOXX 600 Index).
Source (Right): Goldman Sachs Global Investment Research. As of May 29, 2026.

Analysts Are Expecting Strong Earnings for U.S. Stocks in 2026 and 2027
Annual Realized and Bottom-Up Consensus Earnings Per Share Growth Estimates



From a sector perspective, technology and energy were the clear leaders, while financials, health care, and communication services lagged. At the industry level, the divergence was even more

striking. Semiconductor stocks were standout performers, benefiting from continued AI-related capex and optimism around future demand. Software stocks, by contrast, dramatically

underperformed, reflecting investor concerns that AI may pressure certain software business models, lower barriers to entry, or change the economics of the industry.

The strong performance of energy and broader natural resources stocks also deserves attention. The war in Iran and the associated rise in oil prices provided immediate support for the sector, but the move also reflected a broader theme that has

become increasingly important: the physical economy matters. The previously mentioned boom in capital investment driven jointly by the AI buildout, and a renewed emphasis on supply-chain resilience and security concerns is highlighting how “old economy” sectors such as energy, industrials, utilities, commodity producers and infrastructure-related firms are increasingly regaining relevance after years of asset-light growth companies dominating markets.

Bond Markets: Higher Rates, Tight Spreads

High-quality bond market returns, while subdued, were generally modestly positive through May. Generally attractive starting yields helped cushion the negative impact of modestly rising interest rates, while credit-sensitive areas benefited from broadly supportive credit conditions.

Across both investment-grade taxable bonds and municipal bonds, returns were modestly positive with only modest differences between short-, intermediate- and longer-term bonds. However,

short-term bonds were less volatile throughout the year. That is important because it reinforces the role they are intended to play in portfolios. Short-term, high-quality fixed income is not designed to generate equity-like returns or to serve as the primary engine of long-term growth. Its role is to provide income, liquidity, stability, and a reserve against uncertainty. In the current environment, short-term bonds continue to offer attractive yields without requiring investors to take as much interest-rate risk.

Key Takeaways from the First Half

The first half of 2026 was defined by resilience, but not by simplicity. The economy continued to grow despite the war in Iran, rising oil and gasoline prices, sticky inflation, higher interest rates, and ongoing policy uncertainty. Consumers continued to spend, but income growth slowed and the savings rate declined. The labor market cooled, but layoffs did not materially rise. AI-related capital spending remained a major bright spot, but also raised questions about physical constraints, capital intensity, and future returns on investment.

Equity markets delivered strong gains, but the path included a meaningful drawdown followed by a historically strong rally. Foreign stocks continued

to perform well, once again reinforcing the importance and potential benefits of global diversification. Bond markets were more muted, with higher rates offsetting the benefit of attractive starting yields and tight credit spreads.

For investors, the practical lesson is to remain disciplined and diversified. Headlines matter, but they rarely tell the whole story. Markets can sell off quickly and recover just as quickly. Leadership can shift. Strong themes can produce both winners and losers. And the same forces that support growth—such as AI infrastructure investment—can also introduce new risks through capital intensity, physical bottlenecks, and high valuations driven by

lofty expectations. That lesson applies not only to how we interpret short-term headlines, but also

how we position portfolios for the years ahead.

PART TWO

Positioning Portfolios for a Potentially Different Market Regime

The more important question for long-term investors is not simply what markets did over the past several months, but whether the investment environment of the next decade will resemble the one investors became accustomed to over much of the past 15 years.

We should be humble in answering that question. Forecasting what will happen next month is challenging enough. Predicting with precision what

will happen over the next decade is impossible. No one can know exactly what the next decade will bring.

Notwithstanding the futility of attempting to divine the unknowable future, investors still need to be careful about building portfolios that naively assume the next decade and beyond will simply be an extension of the recent past.

The Rearview Mirror Problem

A useful way to frame the challenge can be described as the “rearview mirror problem.” The idea is simple: investors have a tendency to extrapolate the conditions that rewarded them in the recent past into the future, which is natural. As a result, many portfolios today are positioned as though the backdrop that persisted over the last 15 years remains the most reliable foundation for

- Inflation was low and stable.
- Interest rates fell to and remained at historically low levels.
- Globalization enabled large domestic companies to sell their goods and services into a global market while helping contain prices and support corporate margins.
- Corporate and personal income tax rates broadly declined.
- Economic growth was relatively low by historical standards, but macroeconomic volatility was low.
- Capital was abundant.
- In a growth-scarce environment, investors were willing to pay high valuations for companies with strong growth prospects far into the future.

strategic portfolio construction for the years to come.

Looking forward, it’s important to recognize that the post-Global Financial Crisis regime was characterized by several mutually reinforcing factors that may or may not persist in the decade to come:

Together these forces boosted corporate profitability and supported strong equity returns.

In that environment, a relatively narrow set of assets and investment styles thrived. U.S., growth, and technology stocks dominated as asset-light companies with high margins, scalable business models, and long-duration growth expectations commanded premium valuations. On the other hand, “old economy,” asset-heavy, foreign, value and small-cap stocks delivered attractive absolute performance but lagged on a relative basis.

As a result, portfolios heavily exposed to U.S. mega- and large-cap growth and technology-oriented equities worked extraordinarily well. More diversified portfolios—including those with greater exposure to non-U.S. equities, value stocks, smaller companies, and real assets—often lagged on a relative basis. Diversification still mattered, but for

long stretches it felt more like a drag than a benefit.

There is nothing wrong with acknowledging how well that playbook worked. It did. But the mistake would be assuming that what worked best in the last regime must work best in the next one.

The proper conclusion is not that U.S., technology, or growth leadership is doomed. Nor is it that investors should abruptly abandon the companies, markets, or strategies that have worked well. Rather, the issue is becoming overly dependent on the continuation of a particular set of conditions. Portfolios built too heavily around the last cycle’s winners may be more fragile than they appear.

The leadership of the last decade-plus is well-justified in hindsight, but it is also not guaranteed to persist indefinitely. Investors should be careful about letting the rearview mirror become the primary guide to the road ahead.

Portfolios Have Become Concentrated in the Prior Cycle’s Winners

One reason the rearview mirror problem matters is that investors are often most heavily exposed to the prior cycle’s winners near the end of a strong run. Today, that means many portfolios have become increasingly dependent on U.S. equities, U.S. dollar assets, mega-cap technology and AI-related companies, intangible growth-oriented businesses, and a narrow set of assumptions tied to low inflation, easy capital, and stable globalization.

This concentration can be seen clearly in global equity indexes. The United States now represents roughly 64% of the MSCI All Country World Index (i.e., the global stock market), up from about 42% in 2010. That increase reflects the extraordinary relative performance of U.S. equities, particularly

U.S. large-cap growth and technology-oriented stocks, over the last decade and a half.

The concentration is also visible within the U.S. market itself. The information technology sector has approached 36% of the U.S. equity market, exceeding the concentration reached during the late-1990s technology bubble. And even that understates true technology-related exposure because several of the largest technology-adjacent companies are classified outside the formal information technology sector. Amazon, Alphabet, Meta, and Tesla, for example, sit in other sectors despite being central to the broader technology, digital advertising, cloud, e-commerce, platform, and AI ecosystem.

Importantly, we are not suggesting that these companies are poor businesses. In fact, by and large, they are exceptional businesses with extraordinary competitive positions, scale, profitability, and cash flow generation. But great companies can still be underperforming investments if sentiment becomes too exuberant and expectations become too lofty.

History offers useful perspective. The Nifty Fifty era and the dot-com bubble were both periods when investors became heavily exposed to a narrow group of perceived winners. In each case, many of the companies were real businesses, not simply speculative ideas. The problem was not that the underlying themes were entirely wrong. The

problem was that valuations and the lofty expectations embedded within them left little room for disappointment.

These episodes were poor times to abandon diversification. They were also reminders that the best companies, industries, and countries of one era do not always deliver the best investment returns in the next.

That is the core portfolio lesson. The point is not to reject recent winners. It is to recognize that portfolios concentrated in what has just worked best may be implicitly making a large bet that the same conditions, the same leadership, and the same valuation support will persist.

The Backdrop Has Shifted

The rearview mirror problem is especially relevant because a number of factors are suggesting that the world may be moving away from some of the conditions that supported the prior investment regime.

The Covid pandemic and the associated fiscal and monetary policy response were major shocks to the system. Inflation, which had been largely dormant for decades, surged to the highest levels in roughly 40 years. Interest rates rose rapidly in response, ending the near-zero-rate environment that had supported long-duration assets, growth stocks, and future cash flows far out into the future.

The fiscal backdrop has also become more challenging. Structural deficits remain large, debt service costs have risen, and the U.S. government's fiscal position has become progressively worse. None of this necessarily implies an imminent crisis. The U.S. remains the world's largest economy, has deep capital markets, and benefits from the dollar's central role in the global financial system. But persistent deficits and higher interest costs may

reduce fiscal and monetary policy flexibility over time and they increase the competition for capital thus potentially pushing interest rates higher.

Meanwhile, the AI buildout is generating enormous demand for capital investment across data centers, semiconductors, power generation, transmission, and related physical infrastructure. In addition, the changing geopolitical environment spurred by ongoing trade policy conflict and the wars in Ukraine and Iran have highlighted vulnerabilities in a world built around highly optimized global supply chains. As a result, companies and governments are increasingly focused not only on efficiency, but also on resilience, redundancy, and security through domestic or allied production capacity. That shift is further contributing to the previously mentioned capex supercycle.

The implication is not that the next decade must be worse than the last one. Rather, it's that the conditions that supported the prior regime—low inflation, low rates, easy capital, globalization, and

ample policy flexibility—may be less reliable going forward. Investors should therefore be careful about building portfolios that depend too heavily

on a continuation of the recent past or on a single optimistic growth scenario.

AI's Potential is Real, but Expectations and Capital Cycles Matter

Artificial intelligence is one of the most important forces shaping the current investment environment. Its potential is real. AI has the ability to improve productivity, accelerate innovation, transform business and become ubiquitous throughout the global economy. It may ultimately prove to be one of the most important technological breakthroughs of our lifetime.

But there is a difference between recognizing the promise of a technology and assuming that the investment implications are obvious.

The timing, magnitude, diffusion, and beneficiaries of AI-driven gains remain difficult to forecast. A whole host of companies across semiconductors, hardware, electrical components, energy, construction, materials and beyond are benefitting today from the surge in AI-related capex spending. In the future, some companies may use AI to reduce costs and improve margins. Others may use it to create new products and generate new revenue sources. Yet others may find that AI lowers barriers to entry, increases competition, or disrupts existing profit pools. In the long term, it's likely that the biggest benefits will accrue to users of the technology rather than the companies spending most aggressively to build it. And even if AI creates substantial value for the economy as a whole, that does not guarantee attractive returns for every company most closely associated with the theme today.

History is filled with examples of transformative technologies that created enormous economic value while producing uneven investment results.

Railroads, automobiles, telecommunications, the internet, and shale energy all changed the economy in important ways. In each case, however, the broad benefits to society did not always translate cleanly into attractive returns for the companies funding the buildout.

There are two main reasons this happens: expectations and capital cycles.

Expectations matter because markets are forward-looking. When investors become enthusiastic about a powerful theme, prices begin to reflect optimistic assumptions about future growth, margins, and profitability. If those assumptions prove correct, investors are likely to be rewarded. But if expectations are already high, future returns may depend not merely on good outcomes, but on outcomes that are even better than the market has already priced in.

This is not just a theoretical concern. During the late-1990s technology bubble, many investors correctly identified the internet as a transformative technology but incorrectly extrapolated that insight into unrealistic growth expectations for many technology companies. Some of those companies ultimately became durable winners, but investors who paid peak prices often had to wait many years to earn attractive returns.

Ultimately, the enthusiasts were right about the technology while the skeptics were right about the valuations and the investment prospects.

Cisco, Microsoft, and Oracle are useful examples. Each was a real company with real products, real

profits, and a meaningful role in the technology buildout. The issue was not that the technology was fake or that the internet did not matter. The issue was that expectations and valuations had become

so demanding that even strong businesses struggled to deliver strong investment returns from the peak.

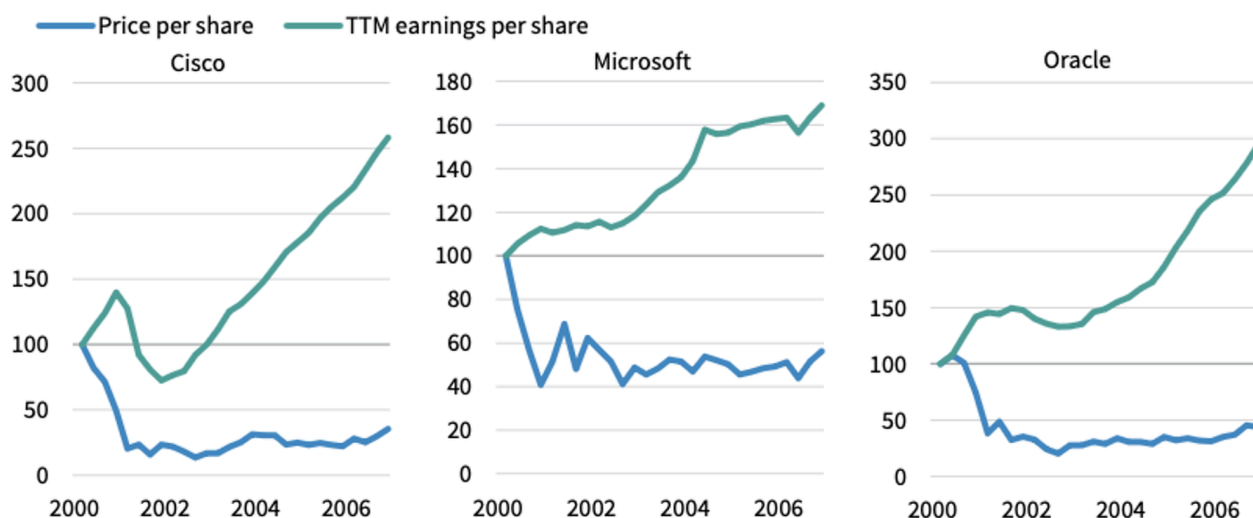
EXHIBIT 2

Strong Fundamental Performance Doesn't Always Translate into Strong Share Price Performance

Share Price and Earnings Per Share Performance

March 31, 2000 – March 31, 2006

March 31, 2000 = 100



Source: Chart from Cambridge Associates.

Another parallel between today's AI enthusiasm and the late-1990s technology boom is that AI-related demand has created a powerful but potentially cyclical boom in pricing, margins, profits, and valuations for many companies tied to the AI buildout.

The late-1990s analogy is once again instructive. During the internet infrastructure boom, demand for semiconductors, networking equipment, fiber, and related components surged. Supply was constrained in the near term, which allowed certain companies to enjoy unusually strong pricing, margins, and ultimately profitability. Markets took notice and valuations moved higher. But once capacity was increased and supply caught up,

pricing, margins, and profits fell. Markets ultimately took notice and valuations ratcheted lower.

None of this is meant to suggest that the current AI-related boom is fake. Rather, it means that it may be cyclical. When demand is strong and outpaces supply, prices go up, margins expand, profits rise, and investors pay higher multiples. But if supply eventually catches up, pricing and margins can normalize.

That is where capital cycles become critical.

The basic capital-cycle pattern is straightforward. Strong demand, high profits, and investor enthusiasm attract capital. That capital funds new

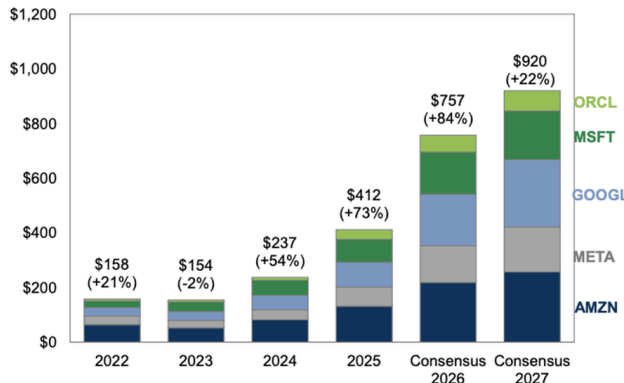
supply which critically takes time to build and come online. Over time, new supply can pressure prices, margins, and returns. When returns deteriorate, capital leaves the sector, investment falls, and future scarcity can emerge. The cycle then begins again.

The AI infrastructure boom has many of the ingredients of a powerful capital cycle. The demand may be real, and the long-term productivity potential may be substantial. But the capital pouring into the sector today is enormous. The current AI infrastructure boom is one of the

largest private-sector capital spending efforts in U.S. history. Today’s five major hyperscalers (Amazon, Meta, Alphabet, Microsoft, and Oracle) are expected to spend more than \$750 billion on capex in 2026 alone, and more than \$900 billion in 2027.¹ The Wall Street Journal noted that not only is the dollar amount large, but that the spending is historically large relative to the size of the economy. At more than 2.0% of GDP, it is slightly above the average annual spending on the U.S. railroad expansion in the 1850s (2.0%) and far above the annual spending on the interstate highway system in the 1950s and 1960s (0.4%).²

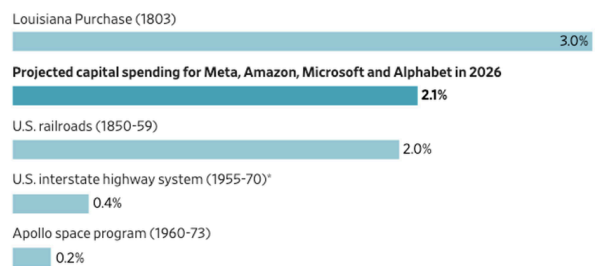
EXHIBIT 3

Analysts Expect the Hyperscalers Will Spend More Than \$750 Billion on Capex in 2026
Actual and Expected Hyperscaler Capex
In \$ Billions



Source (Left): Chart from Goldman Sachs Global Investment Research. As of June 10, 2026.
Source (Right): Wall Street Journal. As of February 7, 2026.

Hyperscaler Capex is Historically Large Relative to the Size of the Economy
Spending as Percentage of GDP
Annual Average



A useful analogy is to consider how today’s AI infrastructure boom resembles the shale energy revolution of the 2010s. Research from Carlyle makes a compelling case that today’s AI infrastructure boom increasingly rhymes with the U.S. shale boom of the 2010s: a transformative technology paired with enormous capital spending, confidence in future pricing, aggressive capacity buildout, and the risk that returns disappoint if supply expands faster than demand.³ Hyperscalers

are becoming less asset-light and more like asset-heavy commodity producers as they invest heavily in data centers, chips, power, land, and related infrastructure. In Carlyle’s framing, AI compute is evolving into a “bit-atom” commodity priced by the hour, much like oil is priced by the barrel or electricity by the megawatt-hour. That makes supply, demand, marginal cost, utilization, and pricing increasingly central to the investment case.

The key warning is that AI may be an extraordinary technology while still producing uneven investment outcomes for the companies funding the buildout. Shale created major benefits for consumers, the U.S. economy, and energy security, but many equity investors suffered because engineers solved the supply problem too well, costs fell, and returns on capital collapsed. Carlyle sees a similar risk in AI if compute prices fall, lower-cost competitors emerge, or off-balance-sheet data-center financing structures leave companies with long-duration obligations in a more commoditized market.

Ultimately, the point is not that AI is overhyped or destined to disappoint. It may exceed today's

already lofty expectations. The point is that even powerful, legitimate themes should be translated into portfolios with discipline. Investors should distinguish between the economic promise of a technology, the expectations already reflected in market prices, and the capital-cycle risks faced by the companies funding the buildout. Further, it's important to recognize that the physical economy—energy, metals, infrastructure, and other asset-heavy, “old economy” sectors—may be an important beneficiary of the AI buildout.

A thoughtful portfolio can participate in AI-related growth without depending exclusively on the most obvious, expensive, or crowded expressions of the theme.

Portfolio Implications: Diversification Beyond Last Cycle's Winners

The conclusion from all of this is not that investors should abandon U.S. equities, technology companies, or the AI theme. Nor is it that portfolios need a dramatic tactical overhaul. The better conclusion is that portfolios should be built with greater awareness of concentration, valuation, inflation risk, capital intensity, and the possibility that market leadership may broaden or rotate over time.

In practice, that points to several portfolio priorities.

Equities: Diversify Beyond the Narrowest Winners

Core public equity exposure should remain the foundation of long-term growth portfolios. Public

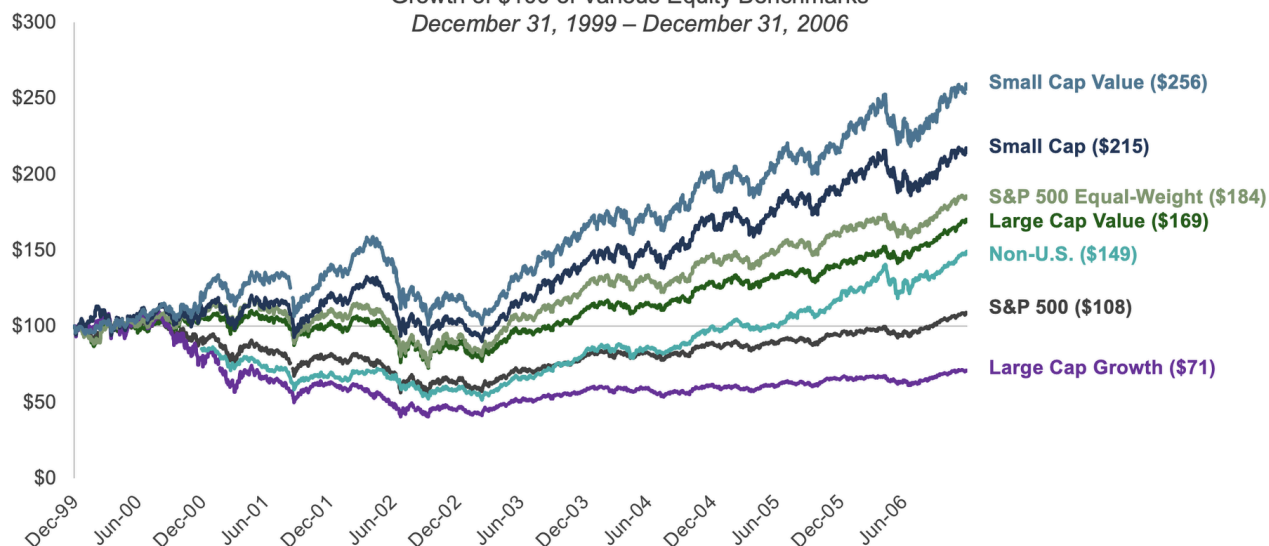
equities represent ownership in businesses, and over long periods, business ownership has historically been one of the most effective ways to grow wealth.

But the composition of that equity exposure matters. After a long period of U.S. large-cap growth and technology leadership, investors should be careful about allowing recent winners to dominate future outcomes. This argues for maintaining meaningful exposure to non-U.S. equities, value stocks, small-cap stocks, and other less crowded areas of the market.

EXHIBIT 4

While the Overall Market Struggled After 2000 Under the Weight of its Rich Valuations, A Variety of Previously Out-of-Favor Segments of the Market Performed Significantly Better

Growth of \$100 of Various Equity Benchmarks
December 31, 1999 – December 31, 2006



Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Investing involves risks such as fluctuating value and potential loss of principal value. There is no guarantee strategies will be successful.
Index representation as follows: S&P 500 (S&P 500 Index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), S&P 500 Equal-Weight (S&P 500 Equal Weight Index), Small Cap (S&P 600 Index), Small Cap Value (S&P 600 Value Index), Non-U.S., (MSCI All Country World ex USA Index).
Source: Ycharts.
See Important Disclosures regarding factor investing, investment philosophy/process, specific securities, and third-party data.

International developed and emerging market equities offer exposure to different economies, sector compositions, valuation starting points and currency exposures. Value stocks may benefit if investors become more focused on current cash flows, valuation discipline, and capital efficiency. Small-cap stocks remain economically sensitive and face real challenges, but starting valuations are more attractive in many areas, and smaller companies could benefit if market leadership broadens.

None of this requires abandoning U.S. large-cap equities or AI-related companies. Rather, the goal is balance. A thoughtful equity allocation can participate in long-term growth themes while reducing dependence on the most expensive or crowded expressions of those themes.

Systematic factor tilts can help. Value, quality, and momentum exposures can provide disciplined ways to potentially modestly enhance core equity exposure. Implementation also matters, especially for taxable investors. Long-only direct indexing and tax-aware long-short strategies may improve after-tax outcomes when applied thoughtfully and in the right investor circumstances.

Real Assets: Distinct Sources of Diversification and Potential Resilience

Real assets can play a useful role in portfolios, but the case is not the same for every strategy. Private infrastructure, natural resources equities, and triple-net-lease real estate each offer different exposures, return drivers, and risks. The common thread is not that they all benefit from the same theme, but that each can add something different to a portfolio that is otherwise heavily dependent

on traditional equities and bonds. That may be especially valuable today given increased demand for physical investment, more uncertainty around inflation, and public equity markets that have become more concentrated in growth and technology companies.

Private infrastructure provides exposure to essential assets and services that are difficult to replicate. This can include power, transportation, communications, digital infrastructure, utilities, and other critical systems. High-quality infrastructure assets may offer durable cash flows, long asset lives, contractual or regulated revenue streams, and some degree of inflation linkage. The case today is strengthened by the fact that many economies need substantial investment in power, data, transportation, and other essential systems at a time when public-sector balance sheets are increasingly constrained. Infrastructure is not immune to higher interest rates, valuation risk, regulatory risk, or execution risk, but it can provide a differentiated source of long-term growth and income tied to assets that are foundational to economic activity.

Natural resources equities offer a different type of real asset exposure. Companies tied to energy, metals, mining, agriculture, and related industries are cyclical and can be volatile, but they can also provide exposure to scarcity, supply discipline, inflation sensitivity, and commodity cycles. The case today is supported by years of underinvestment in many resource industries, continued demand from electrification and industrial activity, renewed focus on energy security, and the possibility that inflation may be more volatile than it was during the prior cycle. These businesses often perform differently than the growth and technology companies that dominate broad equity indexes. As a result, natural resources equities can serve as a higher-volatility complement to traditional public equities, particularly when

investors want exposure to parts of the market where capital discipline, supply constraints, and real-world demand can drive returns.

Triple-net-lease real estate is different from both infrastructure and natural resources equities. The case is less about capital-cycle upside and more about contractual income and resilience. In a triple-net-lease structure, tenants are generally responsible for property-level expenses such as taxes, insurance, and maintenance, while the landlord receives rent payments under long-term leases. When tenants are high quality, properties are mission critical, and rent escalators are embedded in the lease structure, the result can be a relatively durable stream of income with return drivers that differ from traditional public equities and bonds. The case today is that higher yields have improved the income opportunity, while long-term contractual leases may provide a useful complement to more volatile public markets.

Taken together, these strategies are not interchangeable. Private infrastructure can provide exposure to essential long-lived assets. Natural resources equities can provide exposure to cyclical, inflation-sensitive businesses tied to physical supply and demand. Triple-net-lease real estate can provide contractual income and a different form of portfolio stability. Used thoughtfully and sized appropriately, these exposures can help portfolios become less dependent on any single economic environment or market regime.

Bonds: Be Mindful of the Dynamic Stock-Bond Relationship

High-quality bonds still matter. They provide income, liquidity, stability, and potential ballast during periods of economic weakness. That role has not changed. What investors should be more careful about is assuming bonds will always diversify equity risk in the same way they did from

the mid-1990s through the pandemic, a period defined by generally low and stable inflation.

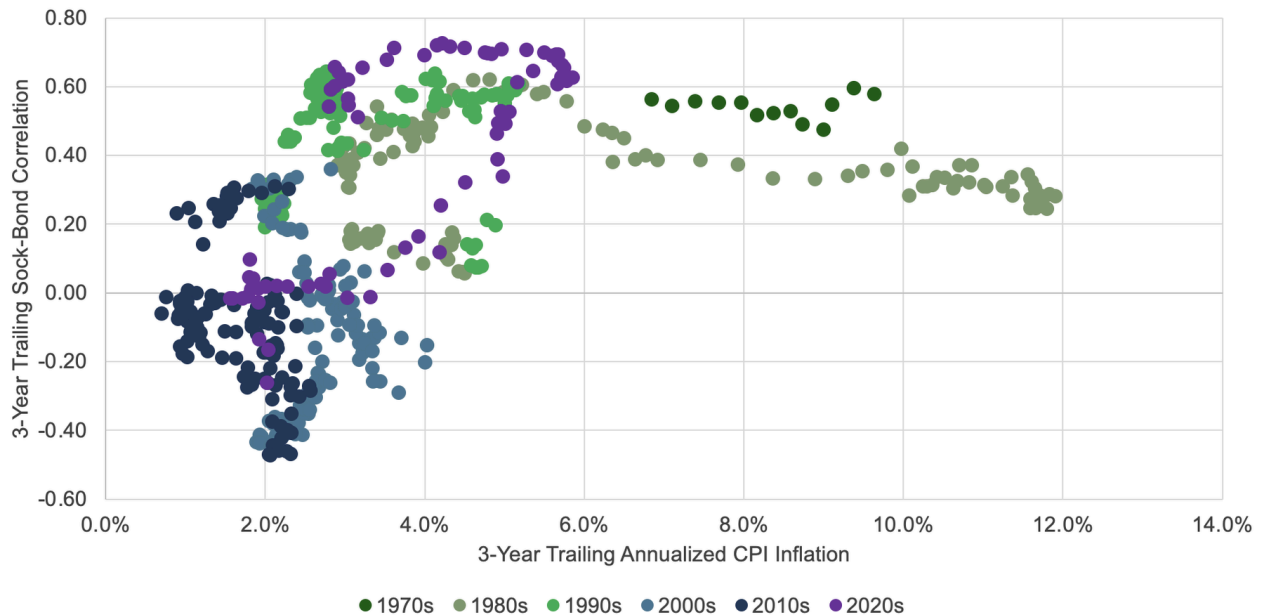
But that relationship is not a law of nature. It is heavily influenced by the level and volatility of inflation. In the decades before the mid-1990s, when inflation was generally higher and more

volatile, stocks and bonds were often positively correlated for long stretches. In those environments, inflation shocks could pressure equities and bonds at the same time: stocks through lower real growth, margin pressure, and higher discount rates; bonds through rising yields and falling prices.

EXHIBIT 5

Stocks and Bonds Have Historically Been Positively Correlated When Inflation is Sticky and Above Approximately 2.5%

Rolling 3-Year Stock-Bond Correlations & Trailing 3-Year Annualized CPI Inflation
January 1979 – April 2026



Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Investing involves risks such as fluctuating value and potential loss of principal value. There is no guarantee strategies will be successful.
Index representation as follows: Stocks (S&P 500 Index) and Bond (Bloomberg U.S. Aggregate Bond Index).
Source: Kathmere calculations based on data from Dimensional Fund Advisors.

That history matters because inflation in the next decade may not be as benign as the mid-1990s through pandemic environment. Inflation may ultimately settle near target, but it may also prove more cyclical and volatile than investors became accustomed to during the era of globalization, abundant labor, and cheap energy. If inflation risk remains more prominent, intermediate- and

longer-duration bonds may provide less consistent diversification during equity selloffs.

For that reason, we continue to prefer a bias toward shorter-duration, less-interest-rate-sensitive fixed income for reserve allocations. Short-term, high-quality bonds can provide income, liquidity, and stability without requiring investors to take as much duration risk. Longer-

duration bonds can still play a role, especially if growth slows meaningfully and rates decline, but they should be used deliberately rather than simply because they worked well in the last regime.

The broader point is not that bonds no longer work. It is that the stock-bond relationship is

dynamic. If inflation is low and stable, bonds can be powerful diversifiers. If inflation is higher or more volatile, that diversification benefit may be less reliable. Portfolios should be built with that possibility in mind.

Principles for the Years Ahead

The central message is not that investors should make a dramatic shift based on a single forecast. The future will not unfold exactly as any of us expect. Because we cannot know in advance, portfolios should be built to endure multiple possible futures rather than optimized around a single expected one.

For the years ahead, several principles stand out. Long-term growth assets should remain the foundation of portfolio growth. This includes public stocks, private equity, and private infrastructure, each of which can help portfolios participate in long-term economic growth, innovation, and capital formation. Within public equities, exposure should remain globally diversified and not overly dependent on a narrow group of companies, styles, or markets. Systematic factor tilts can help diversify return drivers, and tax-aware implementation should be considered where appropriate.

Risk-aware growth assets should also play an important role. Core, income-producing real estate

and private credit can provide income, diversification, and exposure to return drivers that differ from traditional public equities. But they should be sized thoughtfully and evaluated carefully, with particular attention to manager quality, structure and liquidity.

Reserve assets remain essential. Core, high-quality fixed income should continue to provide income, liquidity, and stability. At the same time, investors should be mindful that stock-bond diversification is heavily influenced by the level and volatility of inflation. Given the possibility that inflation may be higher or more volatile than it was during much of the post-1990 period, we continue to prefer a bias toward shorter-duration, less-interest-rate-sensitive bonds for reserve allocations.

That is the essence of preparation over prediction. We do not need to know exactly what the next decade will bring to recognize that portfolios should be diversified, globally oriented, valuation-aware, tax-aware, and built with humility about the future.

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Index Descriptions

The S&P 500 Index is a market capitalization-weighted index consisting of 500 leading publicly traded U.S. companies.

The MSCI All Country World Index (ACWI) is a free float-adjusted market capitalization weighted index designed to measure equity market performance across developed and emerging markets globally.