TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

July 2026

Quarterly Insights

EXECUTIVE SUMMARY

Stocks And Bonds Up In Q2

In the Second Quarter, the domestic S&P 500 Index was up 15.20%, in the range of all major regions and driven almost entirely by semiconductors. Emerging Markets was up 24.05% and similarly driven almost entirely by semiconductors (Korea). China was down 6.63% in Q2 and is down 14.97% year-to-date. To great fanfare, SpaceX (symbol: SPCX; $2 trillion market cap) became a public company on June 12. In the June 17 meeting led by new Fed Chair Kevin Warsh, the Fed announced no rate cut and indicated no future 0.25% rate cut. In Q2, the Bloomberg US Aggregate Bond Total Return USD Index (AGG) rose 0.66% and is up 0.62% year-to-date.

The Bifurcated Technology Sector

So far in 2026, market breadth has been incredibly narrow as semiconductors have driven most market returns. Semiconductors have flourished because AI-related spending by the big spenders (the Hyperscalers) has been astronomical .

Investors have been more enthusiastic about companies that make critical AI components than about the hyperscalers who plan to spend $650 billion - $1 trillion this year on AI. Consequently, memory, storage, and chip stocks vastly out-performed the "Magnificent 7" stocks in a bifurcated Tech sector.

We are cognizant of the high risks of the semiconductor mania. Any crack in momentum could cause a tidal wave of selling. Portfolio risk control is paramount.

Second Quarter 2026

In This Issue

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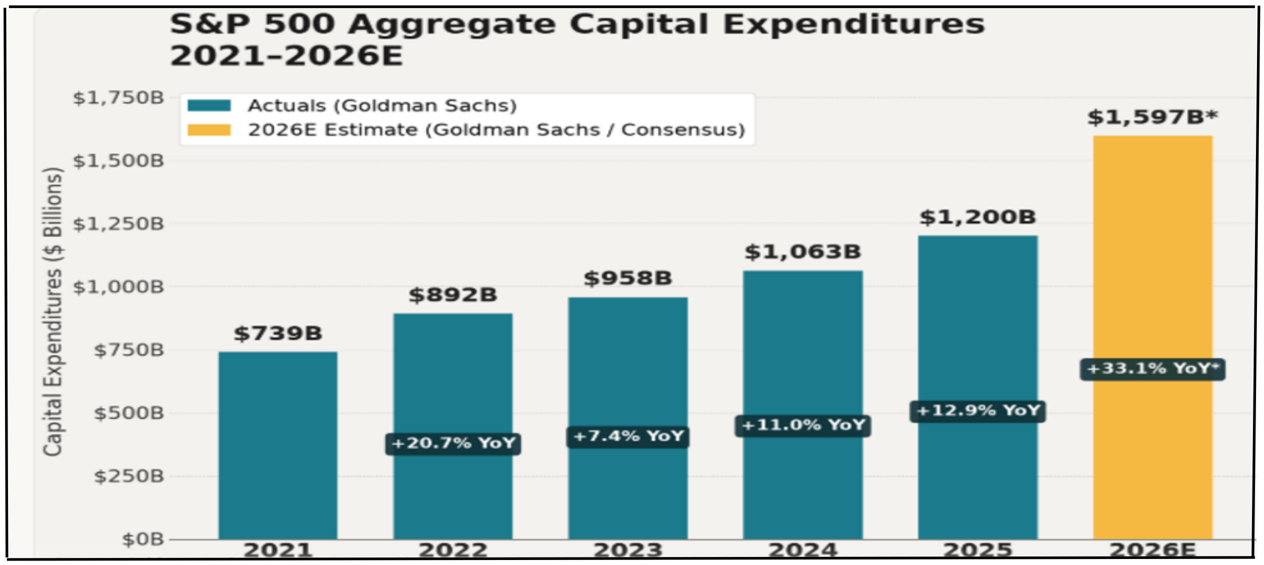
So Far, 2026 Performance Is Heavily Skewed To Semiconductors

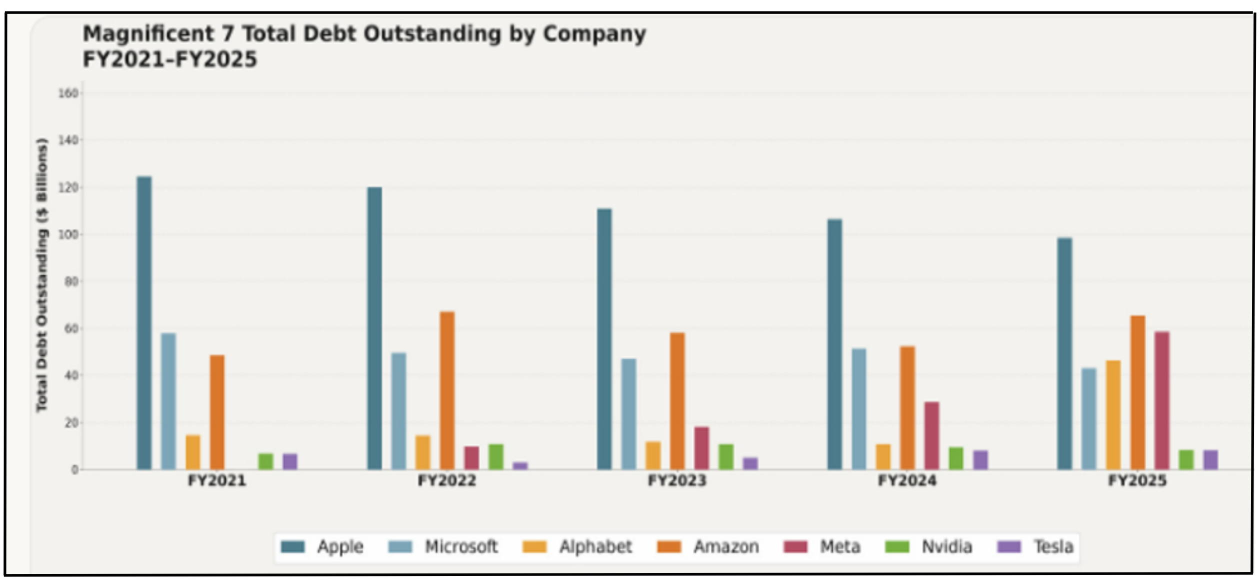
So far in 2026, we have seen a situation where relatively few stocks in one area (semiconductors) have driven most market returns. Semiconductors have flourished because AI-related spending has been astronomical. The five largest hyperscalers (Amazon, Alphabet, Meta, Microsoft, Oracle) are expected to spend nearly $750 billion on capital expenditures in 2026 - a year-over-year increase of 83%. Goldman Sachs projects S&P 500 capital expenditures to reach $1.6 trillion in 2026, a growth rate of 33%. While total S&P 500 capital expenditures has more than doubled since 2021, it has been driven almost entirely by AI infrastructure investment - non-tech capital expenditures have remained comparably flat.

Does The High Level Of AI Spending Make Economic Sense?

The race for AI leadership is proving very expensive.



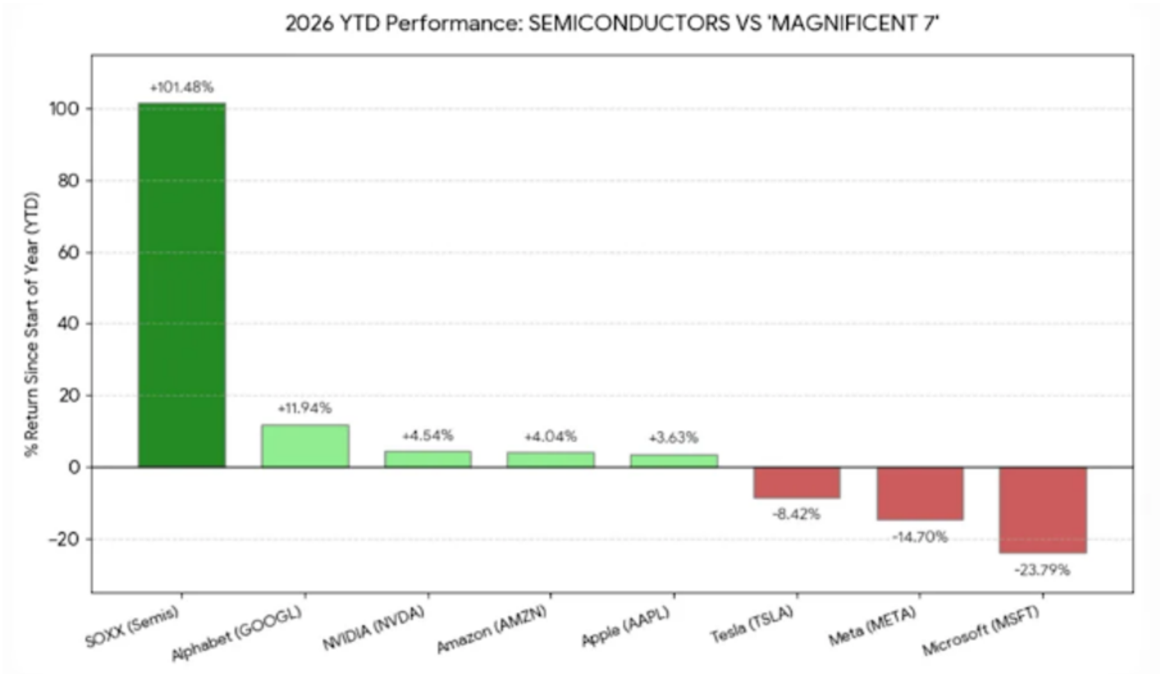
Some hyperscalers - Amazon, Meta, and Alphabet - have sharply increased borrowing to fund AI.



Will these astronomical spending levels generate adequate future returns? No one knows for sure. The return on investment (ROI), a basic premise of fundamental stock evaluation, is vague. At the moment, semiconductor euphoria has superseded traditional risk parameter considerations. Will this continue?

The "Magnificent 7" Have Not Been Magnificent

Investors have been more enthusiastic about companies that make critical AI components than about the big spenders (the Hyperscalers) who plan to spend $650 billion - $1 trillion this year on AI.



Semiconductors versus the "Magnificent Seven." · Yahoo Finance

Strategy Considerations

Leading into this year, we had a 3-facet framework to guide security selection:

1. Benchmark Risk Control - we pay extra close attention to the most heavily weighted S&P 500 Index stocks
2. High Quality Compounders - companies with a competitive advantage and excellent management
3. Quality Value Stocks - companies whose stock price has been pushed down and have upside potential

Given current market conditions, we have added a fourth facet: Momentum. We are scrutinizing stocks that are rising quickly and meet quality criteria. Market dynamics are changing and we are adjusting.

We are cognizant of the high risks of the semiconductor mania. U.S. margin debt rose 54% to a record $1.4 trillion in May from a year ago. Buyers ranging from hedge funds to teenagers have poured assets into leveraged ETFs, helping to nearly double the assets in these funds to a record $220 billion between March 30 and June 3 (source: FactSet). Any crack in semiconductor momentum could cause a tidal wave of selling.

Risk control remains paramount in our portfolio management. While we have had considerable exposure to Technology, AI, and semiconductors, we did not go "all in" on semiconductors. In this instance, portfolio diversification hurt performance. We are long-term investors and are confident that our investment approach is sound. We favor patience, discipline, and long-term intrinsic value over short-term price swings.

Stocks Up In Q2

In the Second Quarter, the domestic S&P 500 Index was up 15.20%, in the range of all major regions and driven almost entirely by semiconductors. Emerging Markets was up 24.05% and similarly driven almost entirely by semiconductors (Korea). China was down 6.63% in Q2 and is down 14.97% year-to-date. To great fanfare, SpaceX (symbol: SPCX; $2 trillion market cap) became a public company on June 12.

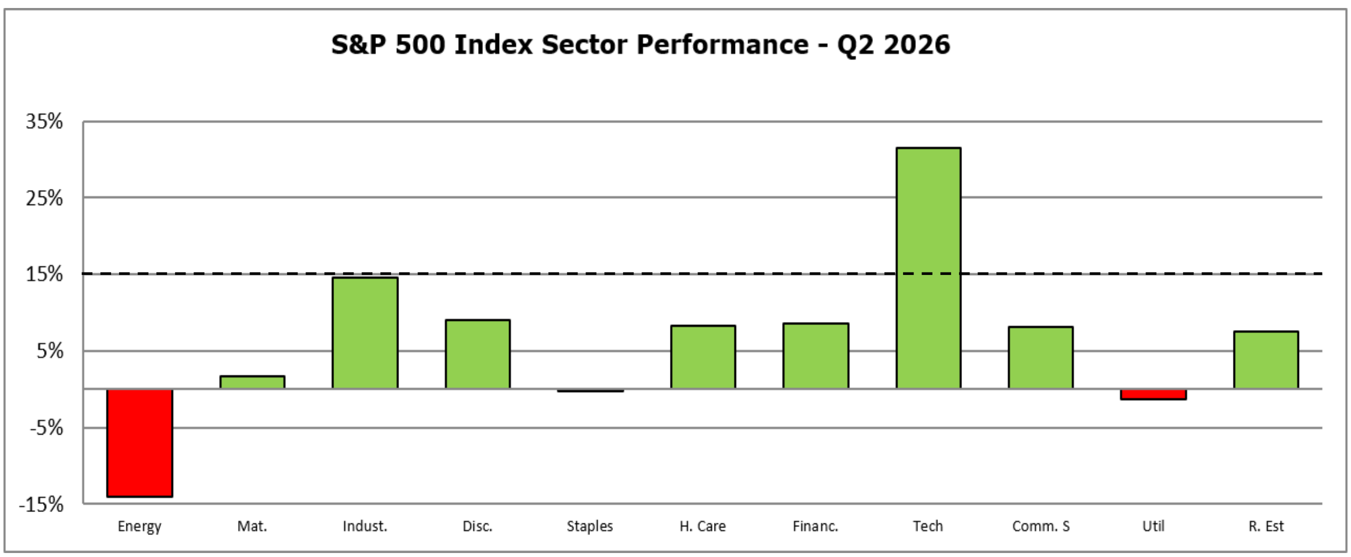
Equity Index Performance

Index	Q2 2026	2026 YTD
S&P 500 (Domestic)	**15.20%**	**10.21%**
MSCI EAFE (Foreign) *	**10.82%**	**9.44%**
MSCI Emerging Markets	**24.05%**	**23.85%**
MSCI EMU (European Monetary Union)	**14.42%**	**9.54%**
MSCI Japan	**14.21%**	**15.78%**

* Europe, Australia and the Far East

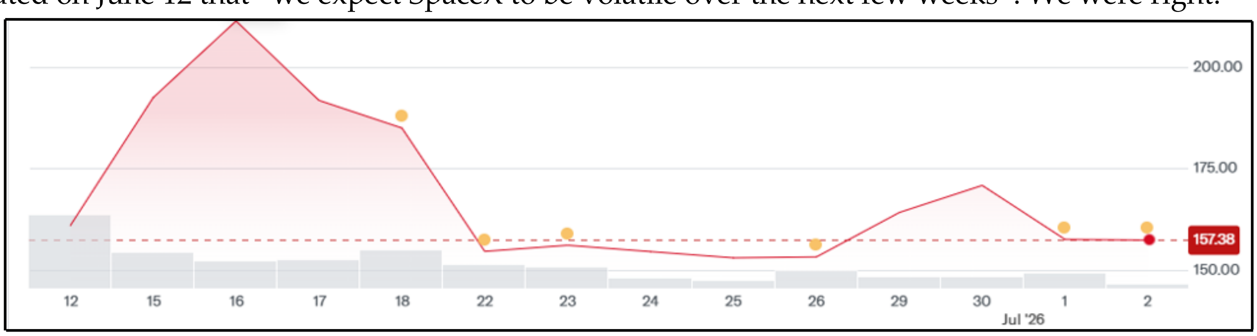
The Market Was A One-Trick Pony

There were two main events in Q2. First, semiconductor stocks went on a literal tear and single-handedly pushed up the S&P 500 Index by a little over 15%. Second, tensions slightly eased with the Iran conflict and oil prices fell. Given its high (over 50%) correlation to oil prices, the Energy sector also fell accordingly.



SpaceX Was A Wild Ride

We stated on June 12 that "we expect SpaceX to be volatile over the next few weeks". We were right.



Bonds Rise In Q2

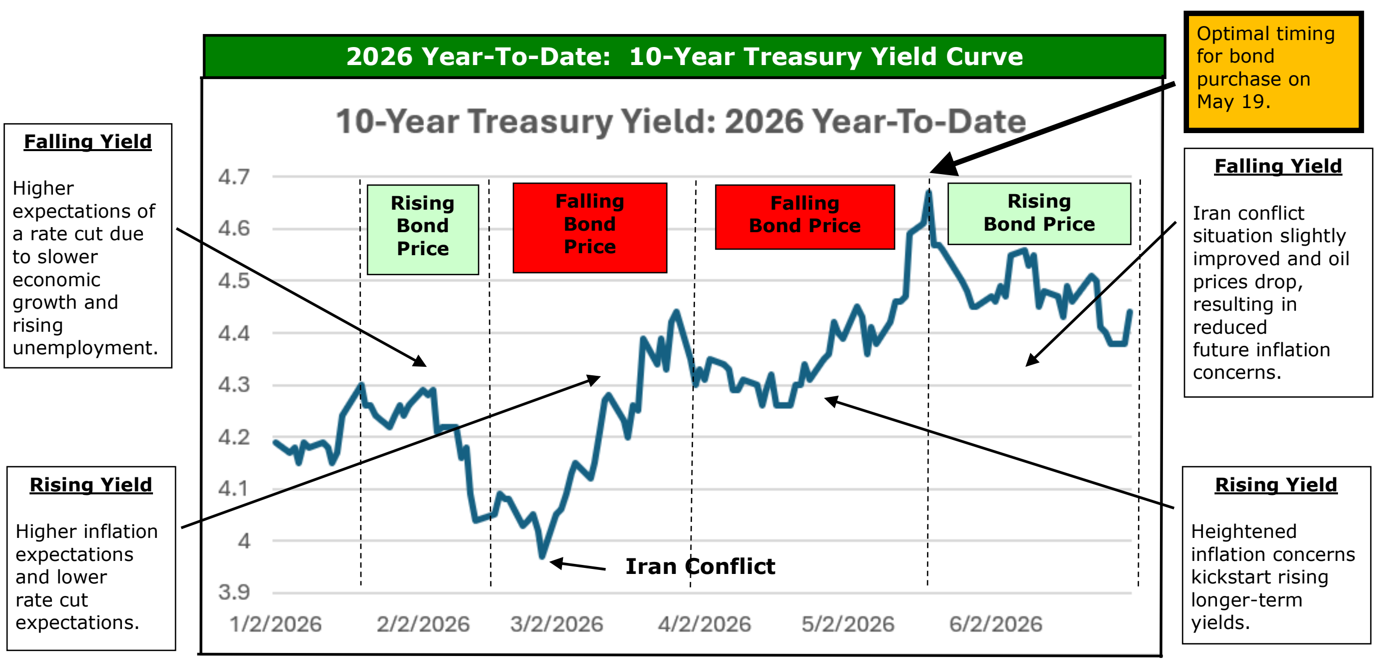
The Bloomberg US Aggregate Bond Total Return USD Index (AGG), a broad-based representation of bond performance, rose 0.66% in the Second Quarter. Year-to-date, the index is up 0.62%. The Fed's preferred inflation gauge, the core Personal Consumption Expenditures Index, rose 4.1% in May. In its June 17 meeting, the Fed announced no rate cut and indicated no future 0.25% rate cut.

Key US Interest Rates	June 30, 2026	March 31, 2026	Change
Federal Reserve Board Funds Target Rate	3.50% - 3.75%	3.50% - 3.75%	No Change
2-Year Treasury (Constant Maturity)	4.14%	3.79%	+ 35 basis points
5-Year Treasury (Constant Maturity)	4.19%	3.92%	+ 27 basis points
10-Year Treasury (Constant Maturity)	4.44%	4.30%	+ 14 basis points

Anatomy Of Our Bond Trade On May 19

On May 19, we sold some US Treasurys and purchased other US Treasurys with the proceeds. There was an opportunity to buy longer term Treasurys at a lower price and gain overall portfolio yield. The purchased Treasurys had a 4.9% yield versus the 4.1% yield on the sold Treasurys. Subsequent to the trade (through June 30), bond prices rose. The purchased Treasurys went up over 2%.

Why did bond prices rise after May 19? The market perception leading up to May 19 was that the Iran conflict was in a stalemate. Bond prices were falling because of heightened inflation concerns. This presented a buying opportunity. When concerns subsequently eased regarding the conflict, oil prices fell and inflation concerns slightly eased. Bond prices rose.



Bonds Remain Important

Bonds are an important component of portfolio risk control. Yields remain attractive. Our bonds are positioned to avoid substantial bond price declines.

The Three Retirement Health Costs That Medicare Won't Cover

While getting older certainly has its challenges, most people can't wait until they turn 65 so that Medicare kicks in. Shifting to Medicare should significantly reduce your medical expenses, but Medicare has three significant gaps in coverage. It is good to be cognizant of these gaps to avoid unpleasant surprises.

1. Routine Dental Care

It often comes as a surprise that Medicare won't pay for routine dental care. Each person is different so there is not a standard expected cost for out-of-pocket expenses. Dental cleaning without insurance can range from $100-$250, a root canal costs around $1,200, and dentures can range from $1,000-$10,000+. Does outside dental insurance make sense for Americans who are 65 or older? The short answer is that "it depends". Dental insurance tends to make sense if you expect crowns, root canals, dentures, implants, or other major work. Self-insuring is often better if you mainly need cleanings and checkups.

2. Vision Exams and Care

Medicare does not cover vision care, and that can get expensive. Without insurance, an eye exam can cost $100-$250 and prescription eyeglasses can cost $200-$600. Medicare can cover eye care when it is tied to a medical condition.

While it is impossible to segregate financial data between dental and vision care, the average annual out-of-pocket expenditure excluding long-term care for Americans 65 or older is $6,661.

3. Long-Term Care

You may eventually need some form of long-term care (LTC). Medicare won't cover these costs because they aren't considered medical services. If you have to pay for LTC on your own, these costs can be extensive (over $100,000 a year per individual) or may be considerably less.

We suggest self-insuring LTC to a target $250,000. When you self-insure, you take the funds that you would have used to pay LTC insurance and invest these funds on your own to cover future costs.

The LTC costs we are most concerned about are the potential "upper-end costs": the roughly $100,000 median annual cost for a nursing home. The average length of a nursing home stay is 2.6 years for women and 2.3 years for men (source: American Association For Long-Term Care Insurance). Hence we believe $250,000 is a safe amount to earmark for LTC costs - 85% of people spend less than $250,000 in their lifetimes.

Contact Us

If you are still years away from retirement, figuring out what your future healthcare costs not covered by Medicare will appear tough. Your current spending is not a great guide because your employer (if applicable) may be covering a large portion of your medical bills and your health needs could be very different when you are older. We are here to help you plan accordingly and welcome discussion.

We have a serious housing crisis in the USA. There is a shortage of affordable homes relative to demand, which pushes up home prices and leaves many households unable to buy. As of Q1 2026, the national average home price was $514,600 and the median home price was $403,200. This data will deviate according to location. The younger generation has been hit especially hard over the last 15 years. A typical first time home buyer was 30 years old in 2010, 33 years old in 2020, 38 years old in 2024, and 40 years old right now.

The 21st Century ROAD to Housing Act ("Renewing Opportunity in the American Dream"), better known as the "Housing Affordability Bill", was created to address the problem. Measures in the bill include allowing pre-approved home designs to speed permitting and construction, streamlining federal and local housing processes, updating manufactured housing rules, expanding lending flexibility for community and rural banks, and imposing restrictions on large institutional ownership of single-family homes. The Senate passed the bill on June 22 (85-5 vote) and the House passed the bill on June 23 (358-32 vote). The President has yet to sign the bill into law. We are excited to see the bill come to fruition for two main reasons:

1. Any measures to make home ownership more affordable for the younger generation will have lasting quantitative and qualitative societal benefits.
2. It is an economic stimulus. More affordable housing allows households to spend more money on other goods and services. Also, there will be construction jobs and demand for building materials and services.

Stay tuned for progress updates.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress.

Respectfully submitted,

TRIVANT

CUSTOM PORTFOLIO GROUP, LLC