July 2026 – Second Quarter Investment Summary

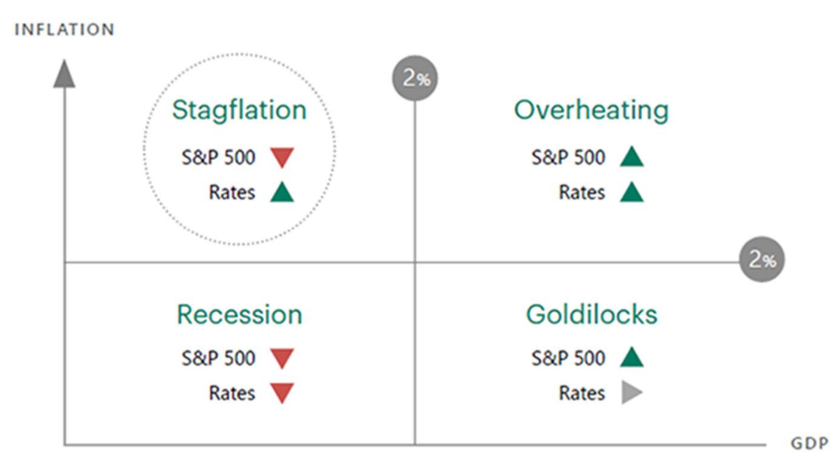
Trinity Financial Advisors | Confidential Client Update

Overall Assessment

Three months ago, we wrote to you as the Iran conflict compressed years of hidden risk into a single quarter. That conflict remains unresolved ð a ceasefire signed in mid-June has held only loosely, and oil inventories remain in a precarious position even as prices have eased well off their April highs. Markets, however, have mostly moved past it as the S&P 500 just closed out its best quarterly return in six years.

As this letter goes to print, that fragility has turned into open, and continuing, confrontation. Beginning on the night of July 7, the U.S. carried out its largest round of strikes on Iran since the ceasefire began, after repeated attacks on commercial vessels in the strait; Iran struck back at U.S.-linked sites across the Gulf, and President Trump stated plainly that the ceasefire is over. Strikes have continued in the days since, and on July 13 the administration reinstated a blockade on Iranian shipping, with the U.S. now charging transit fees as self-declared "guardian" of the strait. Oil has moved back above $78 a barrel, and South Korea's markets (KOSPI Index) fell 9% in a single session this week as the renewed conflict rattled markets broadly. We're treating this as an active, still-unfolding situation, not a one-time shock that's already passed. It doesn't change the message of this report so much as it underlines it: the risks we describe below were already building before this escalation, and the past week is a live example of how quickly a seemingly "contained" backdrop can turn and remain unsettled."

While pressures continue building underneath, the ñGoldilocksòscenario we described in April remains, on the surface, intact (moderate rates, contained inflation, resilient earnings, a supportive Fed). In many ways, that is exactly how markets have been behaving: as though the storm has passed, and it is safe to take on risk again. Corporate earnings have been genuinely strong, AI-related capital spending continues to surprise to the upside, and consumers ð at least those with savings or access to credit ð have kept spending.



But look closer and a different picture emerges. Markets are increasingly being carried by debt rather than simply by growth. Margin debt, money borrowed to buy stocks, sits at an all-time high, and government, corporate, and household borrowing are all climbing at the same time. Debt has a way of creating the appearance of a sturdier foundation than what's underneath it. Itôs easy to mistake a structure held up by borrowing for one that can stand on its own. That distinction matters more than usual right now, because the way markets have been trading ð sharp rotations, concentrated bets, heavy use of leverage ð looks less like an orderly market pricing in good news, and more like a market being driven by momentum rather than fundamentals.

The Trinity View: A market can look stable and still be borrowing against its future. That gap is what we're watching most closely.

For the second half of 2026, markets are currently rewarding momentum, rewarding leverage, and rewarding the assumption that everything remains manageable, at precisely the time that risks are growing and the need for prioritizing risk control and discipline has become stronger, not weaker ð this week's escalation in Iran among them.

Underneath it all, several pressures ð a more cautious Federal Reserve, growing debt at every level of the economy, a private credit market issuing its first real defaults, and geopolitical fault lines extending well beyond Iran ð are now converging. Oil and the Strait of Hormuz still matter, and matter more again this week, but they're one part of a broader picture that includes new trade tensions between major economic blocs and a level of borrowing that isn't sustainable indefinitely.

For our clients, the most important message is this: we entered this year with portfolios positioned for resilience, not just growth. The diversification strategies we've emphasized have allocations in place to help as markets become more volatile and unpredictable.

Q2 2026 Market Update

The second quarter was, in almost every respect, the mirror image of the first. Where Q1 saw the S&P 500 fall 4.3%, Q2 delivered its best quarterly return in six years ð roughly +14% ð driven by easing oil prices, continued enthusiasm for AI-related infrastructure spending and strong corporate earnings (S&P 500 companies are on pace for the fastest revenue growth since 2022 and the fastest earnings growth since 2021). Technology stocks, which led the first quarter's decline, led the second quarter's recovery (up 21-27%). The broader global picture told a similar story: International stocks were up 11-14% for the quarter after falling in Q1, as international and emerging markets shares generally participated in the rally alongside U.S. stocks.

Commodities and Precious metals were down significantly during the quarter (down 9-15%). Oil fell sharply from its April peak near $138 a barrel to roughly $84 by quarter-end. Prices have eased further into July (down to $68) as shipping through the Strait of

Hormuz has partially resumed and talks between the U.S. and Iran have shown renewed progress ð though, as noted above, that progress has reversed sharply. Gold remains attractive strategically from a longer-term perspective, even as higher Treasury yields have reduced its relative appeal compared to interest rates in the near term.

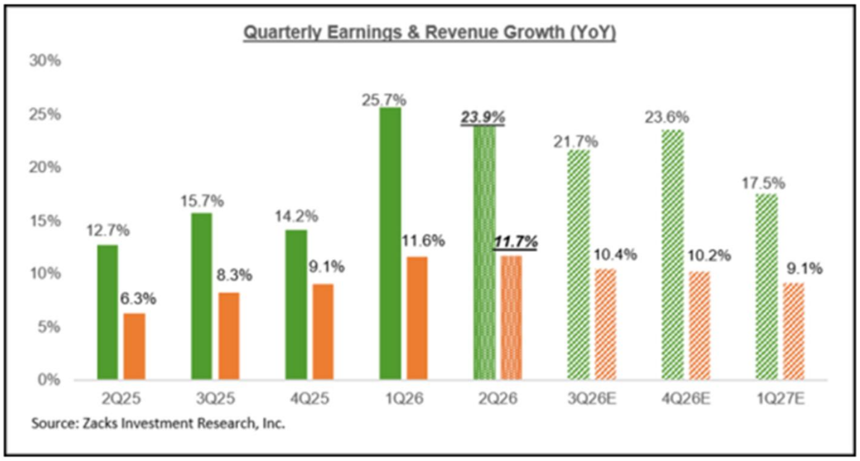
Fixed income had a more mixed quarter but ended the quarter mostly in positive territory. The 10-year Treasury yield finished the quarter higher, near 4.4%ï 4.5%, as the new Fed chair's more cautious tone in mid-June pushed rate expectations higher ð markets now assign better-than-even odds to a rate hike, not a cut, before year-end. Overall bond performance was up modestly for the quarter (up .2% to 2.5%).

Key Themes and Risks

The Case for Optimism: Why the Numbers Still Look Good

We don't want a list of risks to be the whole story, because there's a real, substantive case for why markets have rallied and could keep climbing.

Corporate earnings have simply been strong. The fastest revenue growth since 2022 and the fastest profit growth since 2021, with most companies beating the expectations set at the start of the year. Credit spreads, the extra return investors demand for riskier corporate debt, remain historically tight, the bond market's way of saying it isn't bracing for a recession. And spending on AI infrastructure keeps surprising to the upside, with the largest technology companies reiterating plans to spend even more.

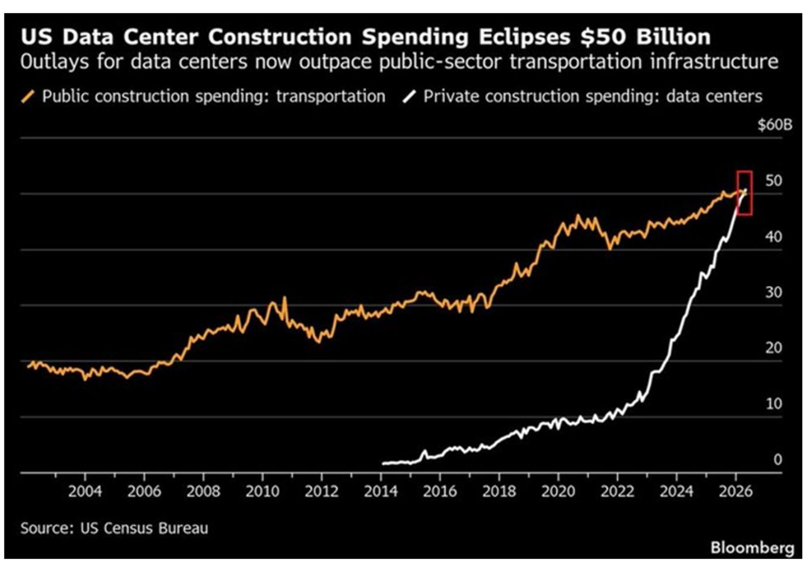


Green = Earnings Growth, Orange = Revenue Growth

Here's the distinction we'd draw: the broad economy is growing at a real, if unspectacular, pace. What's exceptional, the part responsible for markets hitting record highs, is concentrated overwhelmingly in one theme: AI-related spending and earnings. That's not a reason to dismiss the rally. It's a reason to understand what it's actually resting on, which we address directly below.

Artificial Intelligence: The Engine and the Question Mark

AI isn't just one theme among several in this report, it's the single largest driver of both the market's gains and the risks we've described. The clearest evidence of the scale involved isn't a corporate earnings call, it's what's actually being poured into the ground. In April, U.S. spending on data center construction crossed $50 billion on an annualized basis for the first time, and in doing so, overtook public spending on transportation infrastructure (airports, transit systems, and marine terminals combined) for the first time on record. Physical construction like this is a small slice of the total AI buildout (most of the spending goes to chips and equipment rather than the buildings themselves), but it's on an unprecedented scale.



Zoom out and the broader capital picture is even larger. The four biggest technology companies ð Alphabet, Amazon, Meta, and Microsoft ð are on pace to spend close to $700 billion combined on AI infrastructure this year, an increase of roughly 60% to 70% over last year, covering chips, servers, and power infrastructure in addition to the buildings themselves.

What's changed this quarter is how that spending is being financed. Increasingly, it isn't simply coming out of these companies' own enormous cash flows ð it's being financed through debt and complex off-balance-sheet structures. One major cloud provider saw its combined debt and lease obligations jump 68% in a single quarter, even as its free cash flow deficit widened sharply, from under $400 million to nearly $24 billion. Another financed a recent data center through a $27 billion special-purpose vehicle rather than putting it directly on its own balance sheet, and is arranging a similar structure for a second project. These arrangements are legal and common in large infrastructure financing, but they matter for the same reason margin debt and private credit growth matter: a rising share of this boom is being built on borrowed money, not simply reinvested profit.

This technology buildout is somewhat comparable to the buildout of internet infrastructure in the late 1990s. Like that era, spending is running well ahead of proven demand, with multiple companies racing to build capacity simultaneously ð a pattern that has, in every prior technology cycle, eventually led to a period of painful correction even when the underlying technology went on to change the world. Markets seemed to agree this quarter: the largest AI-related technology stocks fell into correction territory, down more than 10% from their May highs, as investors began questioning whether returns are keeping pace with spending. But there's an important difference from the dot-com era worth naming clearly: today's largest spenders are among the most profitable companies ever created, with real customers and real cash flow, not speculative startups with no revenue. That doesn't mean a correction can't happen. It means it would likely look different ð a repricing of an otherwise real business, rather than the collapse of businesses that were never real to begin with.

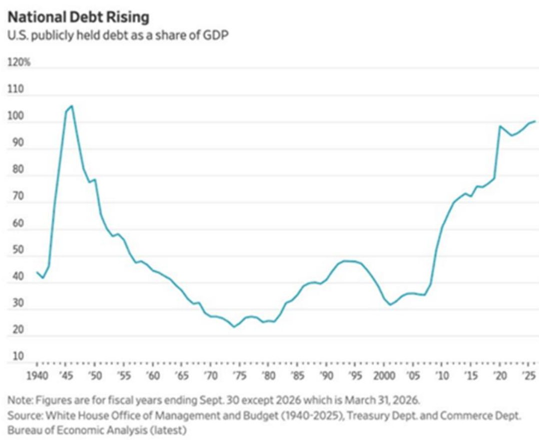
The clearest sign of how concentrated this risk has become isn't in the U.S. ð it's in South Korea. Samsung Electronics and SK Hynix alone now make up roughly half the weight of the KOSPI, South Korea's benchmark index, and a wave of profit-taking on AI-spending and memory-pricing concerns pulled the entire index into bear-market territory ð down more than 20% from its June high ð within a matter of days. That's not a verdict on whether AI demand is real. It's a vivid illustration of how much of the world's equity market, not just the U.S. portion of it, now depends on one theme continuing to deliver roughly on schedule.

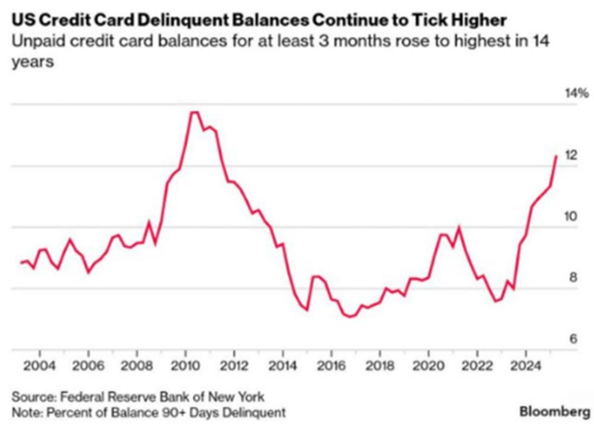
There's also a physical-world constraint that's easy to miss from a spreadsheet: some of the largest planned AI data center projects have run into permitting, power, and local opposition delays this year, in a few cases significant enough to end the project entirely. That doesn't mean AI demand is slowing. It means the buildout may prove lumpier and more uneven than the smooth growth markets are currently pricing in.

For general awareness, the practical takeaway isn't to avoid AI exposure ð it has been, and may continue to be, the single best-performing theme in the market. It's to recognize how much of the broader market's health is now tied to one theme succeeding roughly on schedule, and to make sure that exposure is sized and diversified deliberately, rather than accumulated by default through broad index fund exposure.

Debt and Leverage: The Real Central Question

Every level of the financial system is carrying more debt than it was even a few years ago, and that trend has been building for a long time, not just this quarter. Governments are running large deficits and refinancing enormous amounts of existing debt ð the U.S. alone has $8 to $10 trillion in Treasury debt to refinance this year. Banks and private lenders have expanded credit dramatically, with the private credit market now measured in the trillions of dollars, most of it carrying far less transparency than a traditional bank loan. And households have leaned on debt too, at a moment when their financial cushion is thinning.



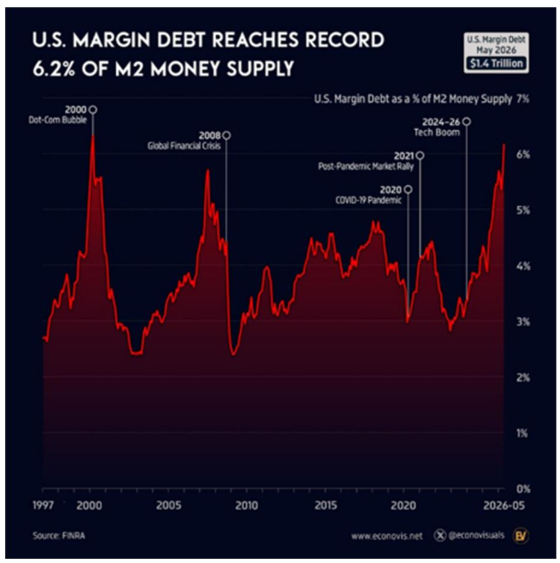


Consumers are showing more financial stress. Credit card delinquencies have climbed to their highest level since 2011. The national personal savings rate has fallen to its lowest level in more than two decades. More Americans are borrowing against their retirement accounts to cover near-term expenses. And home prices in a growing number of markets are softening as lenders tighten standards ð a sign that even the most durable asset most families own is starting to feel the pressure of a higher-rate, higher-debt environment.

This isn't only a U.S. story. Japan's 10-year government bond yield has climbed to roughly 2.85%, its highest level in nearly three decades, as investors grow increasingly uneasy about Prime Minister Takaichi's multi-trillion-dollar spending agenda layered on top of the world's largest government debt load. Japan built that debt pile on decades of near-zero interest rates; now that rates are rising there too, the country most associated with cheap, patient capital is having to prove it can still service its own debt on more expensive terms ð a preview, in some ways, of the same question hanging over the U.S. and other heavily indebted governments.

None of this, taken alone, signals an imminent crisis. Debt-funded growth has continued for years longer than many expected, and it may well continue for a while yet. But a system this reliant on continually adding debt ð at the government level, the lending level, and the household level, all at once ð has less room to absorb a shock than it had a decade ago. That is the real central question for the second half of 2026: not whether any one borrower runs into trouble, but whether a system this dependent on borrowing can keep functioning smoothly if confidence in that borrowing wavers.

Layer on top of that, the leverage building directly inside markets themselves. Margin debt, money investors borrow specifically to buy stocks, has climbed to an all-time high in dollar terms, and as a share of the broader money supply it now sits just below the record set at the peak of the dot-com bubble in 2000. That kind of borrowing has historically shown up shortly before major market tops, not because it causes them directly, but because it reveals how much optimism and leverage have built into the system by the time conditions finally turn, as this quarter's AI-related pullback, discussed above, illustrated directly.



This is the pattern we described in April using the image of an avalanche: pressure builds quietly, layer on layer, long before anyone can identify which additional snowfall finally moves the mountain. Debt, at every level, is the snowpack. It doesn't announce itself the way a single bad headline does. It accumulates in places most people aren't watching, until enough layers are in place that almost any trigger will do. Pressures of this kind don't resolve on a predictable schedule, which is exactly why positioning for risk control matters more than trying to time an outcome no one can reliably forecast.

Geopolitical Pressures: Beyond Iran

The Iran conflict, which we've flagged as unresolved all year, escalated sharply beginning July 7 and has continued in the days since. Following repeated attacks on commercial vessels in the strait, the U.S. carried out its largest strikes on Iran since the ceasefire began (more than 80 targets, including air defenses, naval assets, and command infrastructure) and revoked the oil-sales waiver Iran had been granted under the June agreement. Iran retaliated against U.S.-linked sites across the Gulf and strikes continued into a third consecutive day. The ceasefire that had held loosely since mid-June is now, in the President's own words, over; Iran has declared the strait closed, a claim the U.S. disputes, and on July 13 the administration reinstated a blockade on Iranian shipping, positioning the U.S. as the strait's self-declared "guardian" and announcing transit fees for passing vessels. Oil has moved back above $78 a barrel. This is no longer a single flare-up we're waiting to see resolve ð it's an active, unresolved conflict, and a clear demonstration that this risk was never gone, only quiet.

It's also no longer the only geopolitical fault line worth watching. A trade conflict is building between China and Europe that may prove more consequential than the more familiar U.S.-China tensions. China's domestic economy has weakened enough that exports have become one of its only remaining sources of growth, and it has ramped up shipments of EVs, batteries, solar equipment, and steel into European markets that are themselves struggling. Europe has responded with tariffs and trade restrictions on Chinese goods, and China has retaliated in kind. Neither side has an easy way to back down: China needs the export revenue, and Europe is unwilling to watch more of its industrial base erode the way its solar industry already has.

Separately, competition between the U.S. and China over strategic resources and technology (semiconductors, rare earths, critical minerals, AI infrastructure) continues to intensify, with both countries increasingly using export controls and trade restrictions as tools of national policy rather than simply economic ones.

History offers a caution here: periods when major economies compete aggressively over supply chains and strategic resources tend to raise costs, slow growth, and increase the odds of miscalculation, even when no single dispute rises to the level of open conflict. We don't view any one of these flashpoints as decisive on their own. But taken together (Iran, the China-Europe trade conflict, US-China conflict, S. Korea markets, Japan's bond market) they represent a broader shift toward a more fragmented, more protectionist, and more fragile world, with pressure surfacing in multiple areas that bear close watching.

Precious Metals: Reading the Volatility

Clients have understandably asked about the swings in gold and silver this year. Gold is up more than 25% over the past year and a half, but that gain hasn't come in a straight line ð sharp pullbacks, tied mostly to moves in Treasury yields, have punctuated the climb. This has brought gold down significantly during the second quarter and down 5% for the year. Gold doesn't pay interest, so when rates rise, as they did after the Fed's more cautious tone this quarter, it becomes comparatively less attractive and is used as a primary reason for the declines, regardless of what else is happening in the world.

We think it's important not to let that short-term trading pattern obscure the reason portfolios hold gold in the first place. Gold is a strategic holding, meant to hedge exactly the kind of structural risks highlighted in this report.

Central banks continue to purchase gold actively. China's in particular, now buying for nineteen consecutive months ð have kept adding to reserves, a pattern that looks more like long-term insurance than short-term trading. Silver is in its fifth consecutive year of a genuine supply shortage, squeezed by demand from solar, EVs, and electronics.

This quarter's precious metalôs price action reflected interest rate expectations, not a change in the reasons for holding these metals.

Closing Perspective

The second quarter is a good example of why good near-term numbers and building long-term pressure are not opposites. They can both be true at once, and the risk is mistaking a calm surface for a resolved picture. The rally was real. The earnings behind it were real. And the pressures building underneath, debt at every level of the economy, an AI boom increasingly financed with borrowed money, a credit market producing its first real failures, and geopolitical fault lines extending well beyond Iran, are also real, and both should be considered in balancing out portfolio risk.

Iran, Japan, and South Korea are three very different stories ð a war, a fiscal reckoning, and a concentrated equity market ð but this quarter they told a similar one: pressure is surfacing in multiple, unconnected corners of the global system at close to the same time, which is exactly the pattern of pressures building that could create market adjustments that could become meaningful.

We don't think the answer is to abandon a momentum that's clearly still in place, and we don't think the answer is to ignore what's building underneath it either. That's why we continue to expect surprises along the way, and why we favor managers with real experience navigating markets like this one. Rather than leaning on broad index exposure, we're placing more emphasis on careful stock selection and thoughtful use of cash and alternative strategies ð tools built for a market that may not move in a straight line.

We remain focused on managing risk through disciplined, sometimes unconventional strategies, while staying alert to the opportunities a rally like this one continues to present. If you are uncertain about your current exposure or have questions about how these developments affect your specific situation, we encourage you to reach out. We value the trust you place in us and do not take it lightly.

Jim Evens
Investment Director

Economic Speedometer Summary — City National Rochdale

Below is the monthly economic speedometer summary across key indicators. (Green = positive, Yellow = neutral, Red = negative)

Rochdale Speedometers[SM] – June 2026

Economic and financial indicators that are forward-looking 6 – 9 months

- While consumer spending may slow, remarkable corporate profit growth continues to support strong Fixed Investment, supporting U.S. growth.
- The Federal Reserves response to inflation depends on if it is supply (geopolitical & shipping) driven or demand (AI-related CapEx & broad commodity increases). Both supply and demand side pressures are present today, supporting a continuation of the wait and hold approach.
- The non-U.S. growth impact from the Strait of Hormuz closure is more acute due to higher reliance on middle east energy imports. This may raise inflation, and stunt growth for a longer period. But the paradigm shift to higher defense and infrastructure spending remains intact.
- Earnings remain strong as 2026 S&P 500 consensus estimates have grown to 23.5%.