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Our team adheres to a set of principles designed with a goal to provide an exemplary client experience.

We believe the trust of our clients is earned over time and remains our most important asset.

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We take great pride in the professional quality of our work. We strive to provide exceptional client service that is proactive, thoughtful, and customized.

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Competitive investment returns with a focus on risk management.

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Sophisticated financial planning — an essential pillar in the development of your customized investment strategy.

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We believe in continuous improvement. As our clients' needs change, we learn and adapt.

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We stress teamwork in everything we do and remain accountable for our responsibilities.

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Integrity and honesty are at the heart of our business. Integrity: we do what we say we're going to do, full disclosure and no surprises.

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Honesty means we give it to you straight, even if means having a difficult conversation

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We regularly receive confidential information as part of our normal client relationship. It is our responsibility to protect against the unauthorized disclosure of this information.

FROM THE DESK OF

KEN SOUTH

August 11, 2026

Strong Earnings, New Highs and a Market Full of Mixed Signals

As we move into the second half of August, we have had a pretty full slate of earnings come from a majority of the S&P 500 companies. As of this week just under 90% of all index companies have released their earnings and guided for the periods forward out to a year. Here is what we have seen thus far in detail. Of note, earnings were reported up 22.1%, a huge number for only a year's difference. When considering Tariffs, Wars, and huge political dislocation domestically I find this particularly impressive. Also of note is that 86% of the companies have beat expectations and beat them by almost 30%! So not only are they over 20% higher, but they also beat what analysts had expected by almost 30%. Here is the breakdown:

S&P 500 Earnings Analysis

2Q26 Street Consensus EPS	
As of 6/30/26	$81.07
Current	$98.99
% change	*22.1%*

S&P 500 2Q26 Reported Earnings

Bottom-up based on constituents

			2Q26 Earnings results relative to consensus (bottom up)			
Sector name	# cos reported	% cos reported	% cos beating	% cos missing	Surprise (%)	Relative return since 6/30/26
S&P 500 (absolute)	444 / 500	89%	86%	14%	29.1%	3.4%
Cyclicals	217 / 246	88%	87%	13%	43.0%	-1.1%
Near-Cyclicals	116 / 129	90%	86%	14%	14.9%	4.6%
Defensives	111 / 125	89%	86%	14%	9.3%	-0.2%
Technology	59 / 73	81%	85%	15%	9.8%	-1.0%
Consumer Discretionary	41 / 48	85%	88%	12%	63.8%	0.6%
Industrials	72 / 77	94%	86%	14%	10.0%	-3.8%
Basic Materials	23 / 26	88%	87%	13%	7.8%	1.1%
Communication Services	22 / 22	100%	91%	9%	106.5%	-0.9%
Financials	67 / 76	88%	91%	9%	15.0%	4.3%
Real Estate	31 / 31	100%	87%	13%	2.9%	-2.3%
Energy	18 / 22	82%	67%	33%	20.9%	10.5%
Healthcare	51 / 58	88%	92%	8%	9.3%	2.6%
Consumer Staples	30 / 36	83%	83%	17%	8.6%	-1.6%
Utilities	30 / 31	97%	80%	20%	10.2%	-8.4%

Source: Fundstrat, FactSet

It would stand to reason then that the digestive phase that we just went through since around Mid-May really was not more than an uncomfortable period of back and forth since the indexes are now at new highs. I have been showing pictures of the price of the S&P and noting that this sideways action, better known as a “triangle formation,” went back and forth (in a triangle) and then on the day of the first Fed meeting of our new Fed chair, Warsh, broke down and almost certainly looked like a doomsday scenario where the market would do the flushing action to test the uptrend that has been in place since October of 2022. Well, this proved to be a bit of a “shakeout / fakeout” as the next day the market reversed right back up and left all the neigh sayers in the dust. Here is what it did exactly. Please really take a moment and study this picture as it shows what happened. Also, it was recently enough that all important facts could be considered and then decided as to what was most important. These facts, as I see them were; interest rates (breaking higher), oil (breaking higher), new Fed Chair (not giving the markets anything to go on with his new style), and earnings and forecasts basically blowing the doors off:

The point that made this action most frustrating and most difficult to predict was that the index under the surface really had a major tug-o-war going on. The S&P 500 currently offers attractive diversification between AI- and non-AI-related companies. According to Bloomberg data, **48 of the 500 companies in the index have positive AI exposure and collectively represent roughly 50% of the index's total market capitalization**. During June and July, the S&P consolidated within a range (the triangle that is denoted above with the thin green lines converging) as these two groups moved in opposite directions. AI-related segments weighed on the index, while non-AI benchmarks) largely bucked this weakness. Last week, several AI-exposed benchmarks showed signs of stabilizing, and this improvement enabled the S&P 500 to break above its summer range and move to new highs.

The breakout measures to 8,000, and the breakout point (7,620) should now serve as support, according to Thomas Lee of FundStrat. Most encouraging is the continued expansion in market breadth. **Approximately 69% of Russell 3000 constituents remain in uptrends, suggesting that AI weakness has not materially damaged broader participation metrics.** While we’re open to

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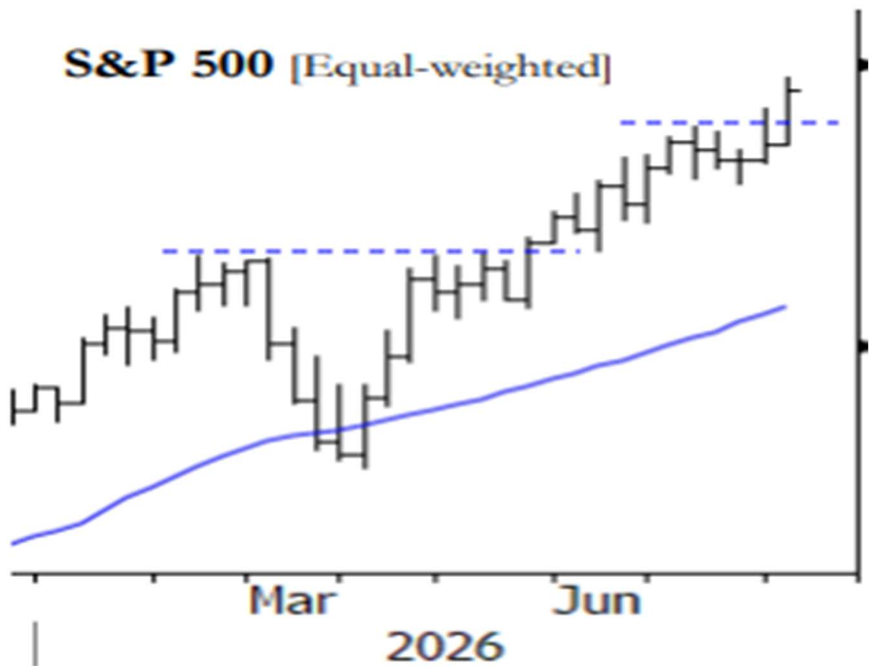
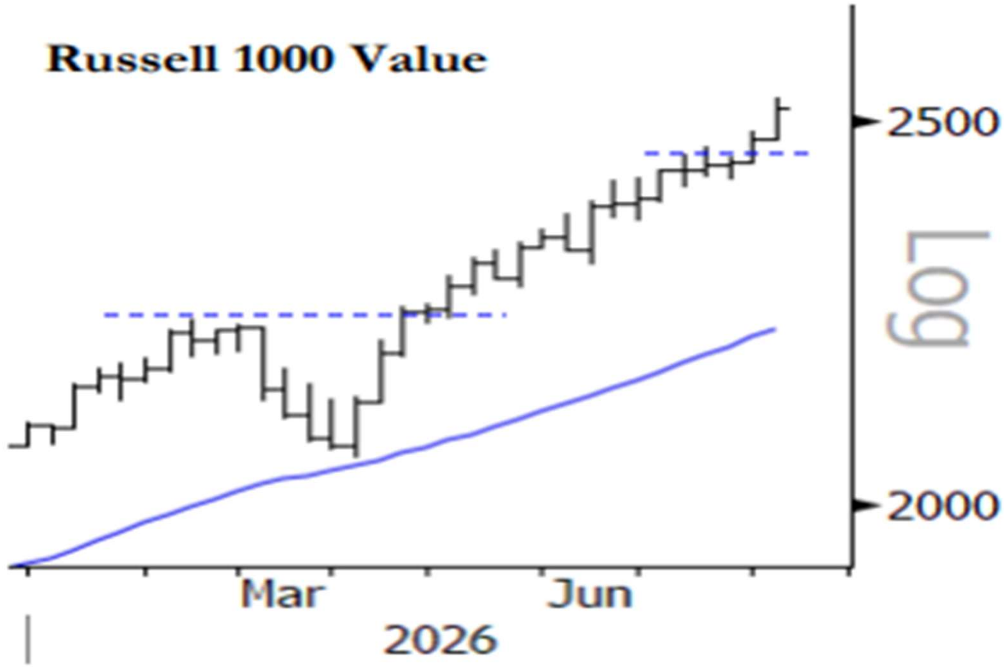
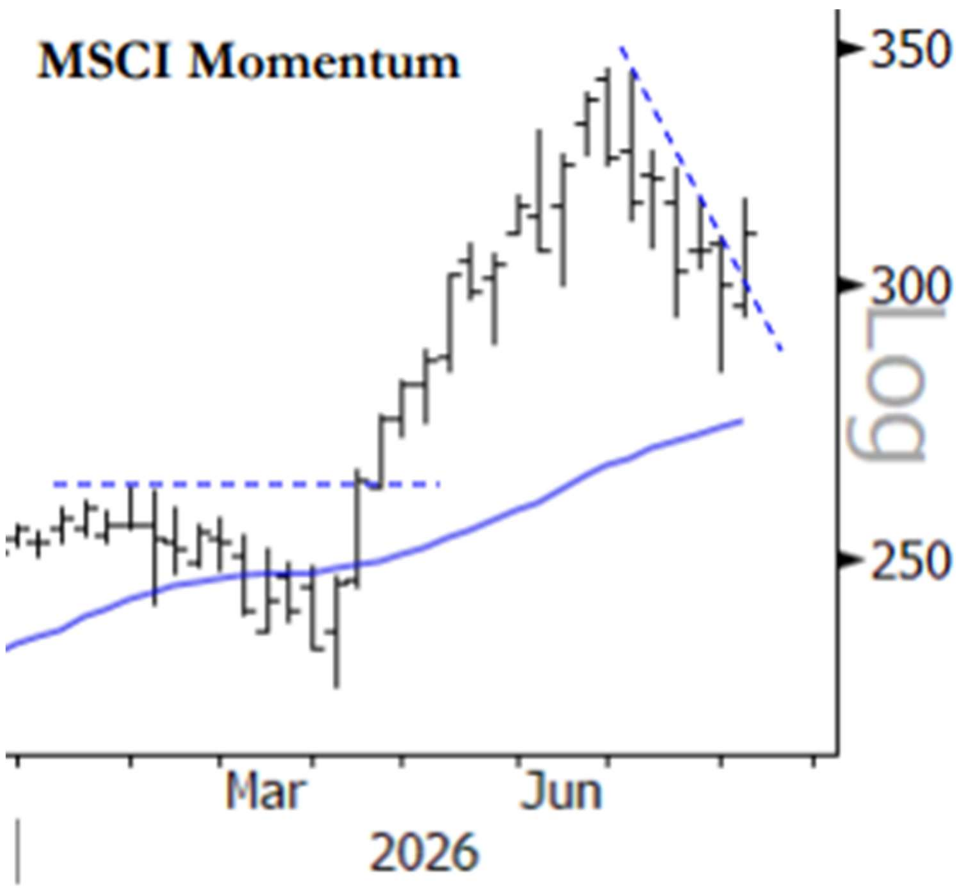
additional backing and filling in the AI-focused indices over the coming weeks, we think the stage is set for a Q4 rally and the resumption of longer-term leadership. This is what would be normal as we are now in the worst two-month period in the worst year of the four-year presidential cycle.

I am not in the prediction business, but I am compelled to repeat what has been said throughout the year by the FundStrat team. According to Thomas Lee and his chief technician Mark Newton, this year was expected to be quite choppy. Well, this has certainly been the case. Also, they expected the markets to move into mid-August with new highs, then have a correction into the beginning of October, and then end 2026 with a strong finish.

To touch on how the market has been under the surface just a bit more, I want you to look at how the broad index has acted, and then see how the normally boring and stodgy value portion has acted and how the go-go momentum companies have acted in this most recent period:





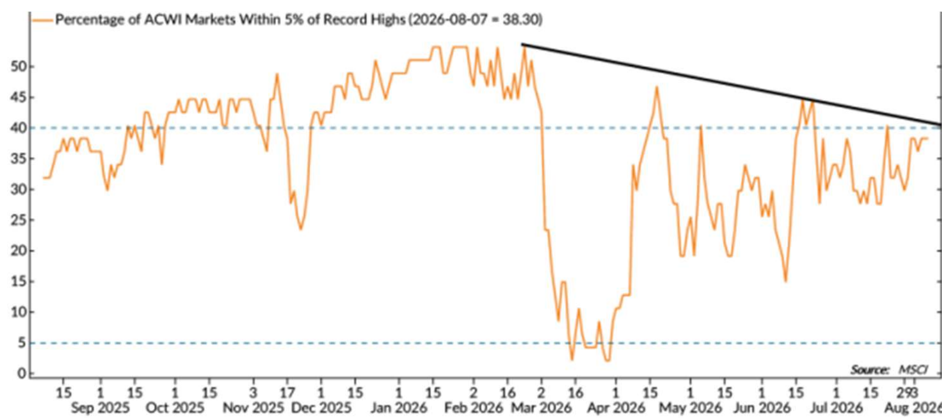


Please note how the momentum, generally known as technology and other "growthier" sectors took a major breather and the rest of the market grabbed the baton and ran with it. You will also see that the last price bar on the Momentum index shows a spike up through the downtrend line.

The last point that I want to bring up about the internal action of the indexes is the breadth within the index that supports the strength of this move to new all-time highs in the price of the indexes. While a lack of renewed broadening is indicated, the narrow leadership is evident reflecting the lack of new highs in all indexes (S&P 500 at highs yet NASDAQ composite and NASDAQ 100 not at new highs).

Based on the lesser of new highs and new lows divided by issues traded, high readings reflect worsening breadth. And they can warn that the market is experiencing a blow-off, a narrow bull market finale. To be clear this is not insinuating a major and longer-term correction, but instead a needed recharging of the market's batteries before the earnings forecasts kick in once again to allow the markets to advance once again.

Considering their positive correlations with the world indexes, it would be encouraging to see breadth indicators confirm the benchmarks at new highs, together with breadth signals, a bullish High-Low Index, and rising percentages of new highs across markets, sectors and stocks. At present this is what the breadth of world markets looks like. Since the US represents over half of the world market capitalization, this is really quite a telling picture. It speaks to a market that is strong in that it is at new highs, but the strength of all markets to be at new highs is lacking. It could be a pause to refresh, or it could mean (as Thomas Lee has stated) that the markets may need to do their final August/ September washout before the strong year-end performance. Here is the picture of what I am referring to:



The current move has been quite impressive I believe as they so far have defied what has tended to be the worst two-month period of the year within the worst year of the four-year cycle.

In closing, I don't know if we are completely out of the woods or not on the markets' volatility. What I do know is that if interest rates break up towards 5% and or oil goes back up to the high 80's more negativity could rise its ugly head. If the earnings season ends with continued strong numbers and these other two

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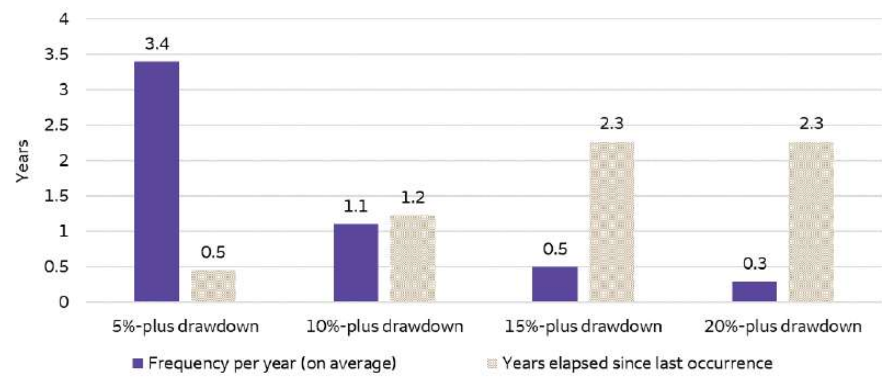
points don't materialize, then we could be in for maybe more sideways action than a decline before a year-end rally. I want to emphasize an important point that I have brought up for the last couple of years. Volatility is just part of a market. Here is the probability going back to 1928 of different levels of market drawdowns. Please note that drawdowns of 5+% tend to happen 3-4 times per year, 10% variety about once a year, and bigger one far less often.

Death, taxes, and … volatility



Sources: Bloomberg, Ned Davis Research, and Wells Fargo Investment Institute. Daily data: January 3, 1928 – January 17, 2025. Years elapsed since last occurrence based on trough date of the occurrence. Trough dates are 8/5/2024 for 5%-plus drawdown, 10/27/2023 for 10%-plus drawdown, 10/12/2022 for 15%-plus drawdown, and 10/12/2022 for 20%-plus drawdown. Drawdowns are measured by the S&P 500 Index. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

Summer can be hot and sweaty and this only makes these challenging periods more challenging for investors. Keep yourself hydrated and enjoy the warm ocean, El Nino seems to be in full swing.

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Investing involves risks including possible loss of principal. No strategy assures success or protects against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The S&P 500 is a stock market index tracking the stock performance of 500 of the largest companies listed on stock exchanges in the United States. Indexes are unmanaged and cannot be invested in directly.

The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.

The Nasdaq-100 is a large-cap growth index. It includes 100 of the largest domestic and international non-financial companies listed on the Nasdaq Stock Market based on market capitalization.

The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index. Indexes are unmanaged and cannot be invested in directly.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

Data sourced from Bloomberg (2025).

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Bond yields are subject to change. Certain call or special redemption features may exist which could impact yield.

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The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

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