KINGSVIEW
INVESTMENT MANAGEMENT

CORE

Q2 | 2026 Commentary

The 2nd quarter of 2026 brought a strong rebound rally across the equity markets, largely due to cooling tensions globally and improved stability with U.S. foreign affairs. The possibility of a resolution in the Middle East has brought some calm to previously nervous markets concerned about overheating inflation on supply chain disruptions. As a result, major stock market indices soared to new highs during the quarter, as confidence came roaring back to both U.S. and global equities.

The quarter across the financial markets can be summarized with lower asset price volatility on the back of easing geopolitical tensions, a continued pause on any rate action from the Fed, and a quickly improving corporate guidance and earnings picture. Market participants are increasingly finding themselves reactionary given the quick pace of recent changes to factors affecting their investments. While overall market negative volatility has declined across nearly all assets in CORE, we have seen some increased opportunities to potentially benefit from holding less correlated assets together in portfolios and rebalancing. Diversified portfolios have largely demonstrated their value during the second quarter, as the market increasingly broadened giving diversified portfolios plenty of opportunities to shine during the period.

Closing out Q2, the markets appear set to continue with their positive momentum, and may use any positive inflation, economic, or geopolitical news as continued fuel for the equity rally. Overall market volatility has now ratcheted down to the lowest levels seen in several years and credit spreads closed out the quarter near multi-decade lows. Most broad-based equity indices saw relatively strong performance at some point during the quarter, and nearly all major indices wrapped the quarter up near all-time highs.

Early in the second quarter, concern with corporate earnings declining due to inflation and supply shocks faded away and we witnessed markets becoming much more resilient and optimistic. Relative differences in equity performance once again persisted throughout the period, and this could be seen by comparing the performance of the cap-weighted S&P 500 with its equal weight counterpart for the quarter, wherein the cap-weighted version notably outperformed in Q2. This outperformance was mainly due to increased momentum within the equity space, and much of this benefit flowed to larger, more established companies with higher influence in the cap-weighted S&P 500 Index. As a result, large cap equities performed strongly and closed out the quarter on or near new highs, with middle and smaller capitalization securities also setting new highs during the quarter.

Within equities, the total return crown for the quarter went to small-cap growth. Large -cap value was the worst equity performer for the quarter, however, it still posted strong real returns for the period. Large cap growth also performed well overall, a return to the dominant trend of the past few years. This quarter's outperformance by small-cap can be largely attributed to an increase in momentum for securities outside of the large cap space, coupled with attractive relative valuations and rising interest in other parts of the market. International and emerging market securities have seen recent pushes higher along with the possibility of increased fiscal spending abroad and the US dollar weakening. Emerging markets have also heavily benefited from the strong AI and technology rally over the past 12 months. This increased momentum can be attributed to the fact that global interest rate differentials may not significantly widen further, and it is possible any rise in rates at home may begin a general trend abroad. Q2 overall saw some momentum flow out of value and straight back into growth and other, more favored parts of the equity market.

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Fixed income continued to trade mostly flat overall for the first half of the year. Bond yields saw modest increases across the yield curve, and larger increases at the front end of the curve for the quarter. With bond yields pushing broadly higher throughout the quarter, the majority of returns for fixed income can be directly attributed to yields, and not from pricing help along the curve. The performance of fixed income overall was near flat to unchanged for the quarter in total return. While bonds are seen as continuing their break after demonstrating strong performance last year, they did put in some work earlier in the year in helping to stabilize portfolios.

Within fixed income, high-yield, short duration corporate bond holdings, and long duration treasuries all outperformed relative to the domestic fixed income benchmark. The worst performers in fixed income were short and intermediate treasuries, but they still posted slightly positive performance for the period. Bonds may return to a positive real return environment if rates continue to remain rangebound to lower, and inflation concerns can remain muted and subdued. It is also becoming increasingly likely that any further rate hikes from the Fed may turn out to be a tailwind for bonds. According to Fed futures rate consensus information, at least 1 rate hike is possible throughout the remainder of 2026, dependent on updated economic and inflation data from this point forward. There remains only a small chance of no rate changes this year at this point, largely due to persistent and sticky inflation data.

Overall, the current bond environment is still signaling great confidence in the general economy, and credit spreads currently trade near multi-decade lows. Significant demand persists for credit all along the curve, in both public and private markets.

Fixed income in general continues to remain historically attractive pricing and yield-wise, and the intermediate and longer-term outlook continues to remain attractive for bonds. The Fed's longer-term target for both inflation and its stated neutral aiming point for short-term rates still leaves what we believe is opportunity on the table for fixed income at current levels.

In the CORE Portfolio Series, our general strategy is to own a mix of everything, optimized from our perspective in weights reflective of the likely forward valuation market opportunity and to rebalance over time. This means acquiring more asset classes that may be out of favor and holding them steadfast, rebalancing as needed instead of simply chasing and owning only the top performers. This in general means that CORE portfolios may benefit from reversion to the mean. Diversified portfolios may perform at times of increasing market breadth.

We at Kingsview Investment Management appreciate your continued support of the CORE Portfolio Series. Should you wish to speak with one of our portfolio managers, please email investments@kingsview.com.