Select Subsector

Q2 | 2026 Commentary

The second quarter of 2026 marked a strong recovery in equity markets as investor sentiment improved following the volatility experienced earlier in the year. Inflation continued to moderate, providing greater confidence that price pressures were gradually easing, although still above the Federal Reserve's long term objective. The Federal Reserve maintained a patient, data-dependent approach to monetary policy, while interest rates fluctuated as investors evaluated the timing and magnitude of potential policy easing. The U.S. labor market represents a source of economic strength, with monthly non-farm payroll reports reflecting steady job creation and relatively low unemployment throughout the quarter.

Geopolitical developments also kept focus. Tensions in the Middle East periodically contributed to higher energy prices and episodes of market volatility. Nevertheless, improving corporate earnings, resilient consumer spending, and confidence in the U.S. economic outlook supported a broad recovery in equity markets.

Select Subsector utilizes a unique approach to sector rotation. Rather than allocating across broad market sectors, the strategy expresses its outlook through a diversified portfolio of more narrowly defined industry groups. Throughout the second quarter, the model consistently maintained a slight expansionary outlook, reflecting labor market resilience and stable economic conditions. As a result, no significant portfolio changes were required during the quarter.

Throughout the quarter, the portfolio held exposure to industries that we believe benefitted from continued digital transformation and artificial intelligence investment, including semiconductor equipment and software. The portfolio held allocations to specialized areas of healthcare, including pharmaceuticals, medical devices, healthcare providers, and managed care, where long term demographic trends and innovation support durable growth opportunities. Additional allocation to insurance, aerospace and defense, communication services, and consumer leisure businesses provided diversification across industries with distinct economic drivers while maintaining participation in long-term secular growth themes.

Looking ahead, we are constructive on the outlook for U.S. equities while recognizing that evolving Federal Reserve policy, inflation trends, and geopolitical developments may generate periods of market volatility. The strategy's disciplined, model-driven approach is focused on adapting to changing economic conditions through objective labor market data while emphasizing carefully selected industry exposures that we believe are well positioned to benefit from favorable long term fundamentals.

Should you wish to speak with one of our portfolio managers, please email investments@kingsview.com.