KINGSVIEW
INVESTMENT MANAGEMENT

ProCap

Q3 | 2026 Commentary

The third quarter of 2026 was characterized by continued gains in U.S. equity markets, shifting interest rate expectations, persistent inflation concerns, and signs of moderation in the U.S. labor market. While corporate earnings remained generally resilient, slowing employment growth raised questions about the sustainability of economic expansion. Treasury yields fluctuated as investors assessed the Federal Reserve's monetary policy outlook against a backdrop of uneven economic growth and continued uncertainty surrounding inflation. Geopolitical tensions, particularly those involving Iran and the broader Middle East, continued to influence energy markets and inflation expectations, reinforcing the importance of diversification and prudent risk management across both equity and fixed income markets.

The Federal Reserve maintained a cautious, data-dependent approach to monetary policy as inflation remained above its long-term target. Meanwhile, U.S. employment data presented a mixed picture, with relatively low unemployment but increasingly uneven payroll growth. These developments contributed to a more selective investment environment as investors balanced the potential for continued economic expansion against elevated equity valuations, interest rate uncertainty, and the possibility of further labor market deterioration.

ProCap employs a disciplined and objective economic model that is updated monthly and utilizes U.S. non-farm payroll trends to guide portfolio positioning. The strategy utilizes the same economic model as the Ambassador Income and Sector Alpha strategies, but expresses its signals through a balanced combination of fixed income and diversified equity sector allocations. During the third quarter, the model initially shifted to an expansionary state in July before returning to a more moderate economic outlook for August and September. These changes reflected the model's systematic assessment of evolving labor market conditions and resulted in meaningful adjustments to the portfolio's equity sector positioning.

At the beginning of the quarter, the expansionary signal prompted a reallocation of the equity portion of the portfolio toward real estate, consumer staples, industrials, materials, and utilities. This positioning provided exposure to a combination of defensive, economically sensitive, and interest rate-sensitive sectors. Consumer staples and utilities offered exposure to businesses with relatively stable demand characteristics, while industrials and materials provided participation in infrastructure investment, manufacturing activity, and broader economic growth. Real estate offered an additional source of diversification and potential sensitivity to changes in interest rates.

As the economic model returned to a moderate state in August, the portfolio shifted back toward a more diversified equity sector allocation, which was maintained through September. Exposure to real estate, consumer staples, and industrials was reduced, while allocations to materials and utilities were eliminated. At the same time, the portfolio reintroduced exposure to consumer discretionary, financials, healthcare, technology, and communication services. These adjustments broadened participation across sectors with distinct economic drivers, balancing cyclical growth opportunities with more defensive areas of the market. Increased exposure to healthcare and communication services also provided participation in industries we believe may benef from long term demographic trends, digital transformation, and technological innovation.

Throughout these adjustments, the portfolio maintained a consistent foundation of high quality investment grade fixed income securities. We believe this allocation continued to provide potential income generation, diversification, and a stabilizing component alongside the strategy's actively managed equity exposures. By maintaining a balanced approach across asset classes while dynamically adjusting sector allocations, the ProCap strategy seeks to participate in market appreciation while moderating portfolio volatility across changing economic environments.

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

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