KINGSVIEW
INVESTMENT MANAGEMENT

Select Subsector

Q3 | 2026 Commentary

The third quarter of 2026 was characterized by continued gains in U.S. equity markets, persistent inflation concerns, shifting interest rate expectations, and signs of moderation in the U.S. labor market. The S&P 500 Total Return Index advanced +2.30% during the quarter, reflecting continued investor confidence despite economic and geopolitical uncertainty. Corporate earnings remained an important source of market support, particularly among businesses benefiting from artificial intelligence investment, infrastructure spending, and technological innovation. At the same time, elevated equity valuations and uncertainty surrounding the pace of economic growth contributed to a more selective investment environment.

Inflation remained a central concern throughout the quarter as the Federal Reserve continued to balance persistent price pressures against emerging signs of moderation in the labor market. Uneven U.S. payroll growth raised questions about the sustainability of economic expansion, while changing interest rate expectations influenced treasury yields and equity market valuations. Geopolitical tensions involving Iran and the broader Middle East, along with uncertainty surrounding global trade policy, continued to influence energy markets, inflation expectations, and investor sentiment. These developments reinforced the importance of disciplined sector selection as investors evaluated the outlook for corporate profitability and economic growth.

The Select Subsector portfolio 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 underlying economic model as the Sector Alpha portfolio but expresses its signals through a more specialized combination of equity subsectors and industry groups. This approach allows the portfolio to target specific areas of the economy rather than relying exclusively on broad sector exposure. During the third quarter, the model initially shifted to an expansionary state in July before returning to a moderate economic outlook for August and September.

At the beginning of the quarter, the expansionary signal prompted reallocation toward real estate, food and beverage, semiconductors, software and services, retail, utilities, aerospace and defense, biotechnology, pharmaceuticals, and medical devices. This positioning provided exposure to a diverse combination of defensive industries, economically sensitive businesses, and areas we believe may benefit from structural growth trends. Semiconductors and software offered participation in artificial intelligence investment and digital transformation, while aerospace and defense provided exposure to government spending and national security priorities. Biotechnology, pharmaceuticals, and medical devices offered potential opportunities associated with healthcare innovation, while food and beverage and utilities provided exposure to industries with relatively stable underlying demand. Real estate and retail added sensitivity to interest rates, consumer spending, and broader economic activity.

As the economic model returned to a moderate state in August, the portfolio transitioned to a different combination of specialized industry exposures. Allocations to real estate, food and beverage, retail, utilities, and biotechnology were eliminated, while communication services, leisure and entertainment, insurance, property and casualty insurance, and healthcare providers were introduced. Semiconductors, software and services, aerospace and

defense, pharmaceuticals, and medical devices remained in the portfolio, providing continuity across several areas supported by long term technological, industrial, and healthcare trends.

The revised positioning broadened exposure to businesses with distinct economic drivers while maintaining a selective emphasis on industries we believe exhibit attractive fundamental characteristics. Communication services and leisure and entertainment provided participation in digital media, advertising, travel, and consumer experiences. Insurance and property and casualty insurance introduced exposure to businesses whose profitability may potentially benefit from disciplined underwriting, investment income, and evolving pricing conditions. Healthcare providers offered participation in healthcare delivery and services, complementing the portfolio's existing exposure to pharmaceuticals and medical technology. Collectively, these allocations reflected the model's prescribed positioning for a more moderate economic environment.

These adjustments illustrate Select Subsector's systematic approach to adapting portfolio exposure as economic conditions evolve. Rather than relying on discretionary market forecasts or short term investor sentiment, the strategy uses objective labor market data to guide industry selection. By allocating across a diversified group of targeted subsectors, the portfolio seeks to capture opportunities within specific areas of the economy while avoiding excessive reliance on any single industry or investment theme.

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

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