KESTREL
WEALTH MANAGEMENT

Kestrel's View

Quarterly Economic Commentary
July 2026

Market Returns

	12/31/2025	06/30/2026	% Gain/Loss
Dow	48,063	52,319	8.85%*
S&P 500	6,846	7,499	9.54%*
NASDAQ	23,242	26,214	12.79%*

**Total Return Including Dividends*

Despite very challenging economic conditions, especially in the second quarter, stock markets have performed very well, much better than most expected. With high single-digit and low double-digit returns, exposure to equity markets has proven a winner. So, with such a strong first half of 2026, what do we do from here? We believe that staying focused on our long-term investment strategy is prudent and solid, even in the face of renewed escalation in the Middle East. As you well know, we utilize UBS as one of our sources for economic data and market analysis. You have seen many articles from UBS over the years supporting our forward-looking strategy. While we may differ on certain details, we generally agree with their broader outlook. Below are several excerpts from UBS over the past few days that once again align with our strategy.

UBS Daily House View: July 1, 2026

Semiconductor stocks had their best-ever quarter—the Philadelphia Semiconductor Index rallied 87.8% over the period. While markets started July in a cautious mood amid reports that talks between the US and Iran hit new hurdles, we expect stocks to rise over the next six months.

AI-related growth should continue to underpin market gains. Despite ongoing concerns over the sustainability of AI capex growth, recent equity capital issuance by mega-cap tech companies suggests that hyperscalers remain in build-out mode. We expect annual AI-related capex to rise to nearly USD 1tr next year, and such spending against the backdrop of capacity constraints across the AI supply chain points to further gains in the AI-led part of the market. While risks of slower capex growth have risen, we believe growing AI demand and accelerating cloud revenue growth should continue to provide a solid foundation for AI-related earnings growth.

A catch-up from cyclical sectors could broaden the rally. Robust earnings growth from other parts of the market should also drive stocks higher. While fresh headlines from US-Iran peace talks may weigh on market sentiment, the gradual resumption of traffic through the Strait of Hormuz and lower energy prices should support recovery in cyclical sectors across regions as cost pressures ease and supply visibility improves. In the US, a resilient economy, a solid labor market, and strong credit creation should all bolster earnings outside the AI complex.

Central bank policies should not be an obstacle to further equity gains. Tighter monetary policies remain a concern for investors, but we do not expect major central banks to hike rates aggressively. In fact, we don't expect the Federal Reserve to hike rates this year, as inflation should moderate in the coming months, the labor market is not overheating, and softer growth conditions should re-emerge in the second half of this year. The introduction of multiple task forces by Fed Chair Kevin Warsh also signals a slower policy reaction in the near term. In Europe, the latest inflation data and the energy backdrop have reduced the pressure for an extended hiking cycle, and we believe that any further tightening from the European Central Bank is likely to be delayed, limited, and data-dependent.

So, we retain a positive outlook for global equities and expect a further broadening of market leadership during the next phase of the rally. Investors should ensure diversified exposure to stocks across sectors, regions, and themes. Those looking for ways to navigate potential volatility can also consider capital preservation strategies.

UBS Daily House View: July 2, 2026

Federal Reserve Chair Kevin Warsh said he will stick to the US central bank's 2% inflation target and "disappoint" anyone who expects otherwise. Speaking at the European Central Bank's annual forum on Wednesday, Warsh reiterated the Fed's commitment to delivering price stability. The yield on 10-year US Treasuries rose 5 basis points to 4.47%. But Warsh also said that inflation risks have come down in recent weeks, with inflation expectations moving lower. He gave little indication about where he thinks monetary policy or the economy are headed, pushing back on efforts to extract forward guidance.

Markets continue to price in around two 25-basis-point rate increases over the next 12 months, as investors look to June's employment report on Thursday for more clues on the Fed's interest rate path. We maintain the view that current market conviction around Fed rate hikes is too aggressive.

The resilience in the US jobs market is not driving price pressures. Ahead of the official count on job growth, ADP data showed solid US private-sector job creation in June, with company payrolls rising by 98,000. This marks the best three-month stretch for hiring in more than a year. But while recent headline data point to resilience in the US labor market, wage dynamics continue to move in a favorable direction from an inflation perspective. Average hourly earnings growth has continued to decelerate, reinforcing the view that wage-driven inflation pressures are no longer a primary concern. The risk of larger-than-expected labor market displacement from AI may also shift the Fed's focus toward downside risks to employment.

Inflation should moderate as the year progresses. While AI-driven demand remains a source of inflation risk,

recent data showed that tariff effects are increasingly shifting onto a disinflationary path for the second half of this year. Our analysis suggests that the unwinding of the tariff pass-through effect could reduce inflation trends by 0.8 percentage points over the next year. Additionally, oil prices have returned to levels prevailing before the US-Iran conflict, and while the peace talks may be bumpy, a gradual resumption of traffic through the Strait of Hormuz should help with supply bottlenecks and ease inflation concerns.

The Fed's new task forces could delay policy adjustments. While Warsh offered little guidance on the Fed's interest rate path, he said that some of the key appointments to the five task forces reviewing Fed operations will be named next week, hinting that foreign central bankers may be named to some of the panels. He added that it was his "aspiration" that within a year, the US central bank will shift to using real-time data to set monetary policy and would rely less on backward-looking government surveys. As the Fed reassesses its framework and tools, we expect the review process undertaken by the task forces to delay major policy adjustments in the near term.

So, we believe the Fed will keep rates steady in the near term and see scope for markets to scale back their expectations for Fed tightening. This should benefit short- to medium-maturity quality bonds as yields fall, and we see current elevated yields as an opportunity for investors to lock in durable portfolio income.

UBS Daily House View: July 7, 2026

Following the strong rally in semiconductor stocks in the second quarter of this year, investors are increasingly looking beyond tech and toward other sectors as they reassess the next phase of the AI trade. Over the past month, for example, the S&P 500 health care, industrials and financials subsegments have all outperformed the Philadelphia Semiconductor Index's 5.6% gain.

While we remain confident in AI's growth story and continue to see attractive opportunities in semis and hardware, we have also highlighted that the next leg of equity gains is likely to be marked by a broadening of market leadership. Investors should ensure diversified exposure across sectors and regions.

A resilient economic backdrop in the US should support a broadening rally. The US economy remains resilient, and a solid labor market, strong credit creation, and fiscal support should all help boost earnings outside the AI complex and enable this year's equity rally to broaden further. We see particular opportunities in consumer discretionary amid healthy spending, financials due to growing capital market activity and improving profitability, and health care thanks to policy clarity and innovation momentum. We also like industrials and utilities given improving cyclical manufacturing conditions and exposure to secular themes.

So, we believe investors should ensure their core equity allocation is broadly diversified. Those looking at transformational innovation for long-term gains should consider not just AI, but also power, resources and longevity.

UBS Daily House View: July 8, 2026

The price of Brent crude oil rose by around 6% on Wednesday, climbing above USD 78/bbl for the first time in two weeks, after tensions between the US and Iran re-escalated. The US military on Tuesday launched a series of new strikes against Iran and revoked a license allowing the Islamic country to sell oil after three tankers were hit by projectiles in the Strait of Hormuz. President Trump said on Wednesday that he believes the Memorandum of Understanding with Iran, which set the stage for talks toward a permanent resolution to the conflict, "is over." He added that talks with Iran were "a waste of time."

Iran's foreign ministry said the US move breached the framework agreement the two sides reached last month to end the war, adding that it would take any measure it deemed necessary to safeguard its interests and national security. The 10-year US Treasury yield rose above 4.57%, the highest level in nearly four weeks. S&P 500 futures were down 1% ahead of the start of US trading. We have held the view that the path toward a lasting peace deal is likely to be bumpy, with periodic flare-ups in tensions potentially triggering bouts of market volatility. But we also believe both sides remain incentivized to keep the Strait open, and that investors should retain diversified portfolios.

Strong earnings growth should drive equity markets higher. We see room for global equities to move higher, driven not just by continued strength in AI growth, but also by a resilient economic backdrop that should support earnings growth outside the AI complex. Secular trends such as electrification and longevity should underpin further gains in sectors including utilities and health care, while the increase in global manufacturing activity points to improving conditions for industrials and other cyclical parts of the market. We forecast 21% earnings growth for global stocks (MSCI ACWI) this year, followed by another 12% increase in 2027.

Elevated yields offer an opportunity to secure appealing portfolio income. Persistent inflation concerns have kept global bond yields elevated, but we expect them to fall as the year progresses. We believe policymakers are likely to maintain their hawkish stance for a while longer, but once they become more confident that second-round inflation effects are limited, a softening of central bank rhetoric should support lower bond yields through the

second half of the year. In the US, recent data suggested that tariff effects are shifting onto a disinflationary path, and the labor market is not overheating. Lower Federal Reserve policy rates next year should help drive yields lower, benefiting short- to medium-maturity quality bonds.

So, while markets may swing in response to fresh geopolitical headlines, investors should stay the course with a portfolio that is well diversified across asset classes, regions, and sectors. Investors can also consider capital preservation strategies for more defensive equity positioning.

As we look ahead to the second half of 2026, our sentiment at Kestrel Wealth Management remains one of measured optimism. The resilience the markets have shown through recent volatility, delivering strong returns despite changing economic conditions and renewed geopolitical tensions, reinforces our conviction that a disciplined, long-term investment strategy is the right path forward. We continue to believe the markets are positioned to trend upward as the year continues and that rates will remain steady for the time being. That said, optimism is never a substitute for diligence. We are closely monitoring economic data, Fed policy, and developments in the Middle East and around the globe, and we stand ready to make thoughtful adjustments when warranted.

Our commitment to you remains unchanged: to make sound investment decisions designed to protect and grow your wealth. As always, please reach out with any questions. We are grateful for your continued trust. We understand that this is your money, and we are your stewards.

Since 2015 our mission has been to protect, manage, and grow our client's wealth. With our truly holisitic client approach, we get to know you and your goals on a deeper level. By doing this, we can create a financial plan that meets your needs now, and in the years to come. And as life changes and priorities shift, our team of experts will be right by your side.

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