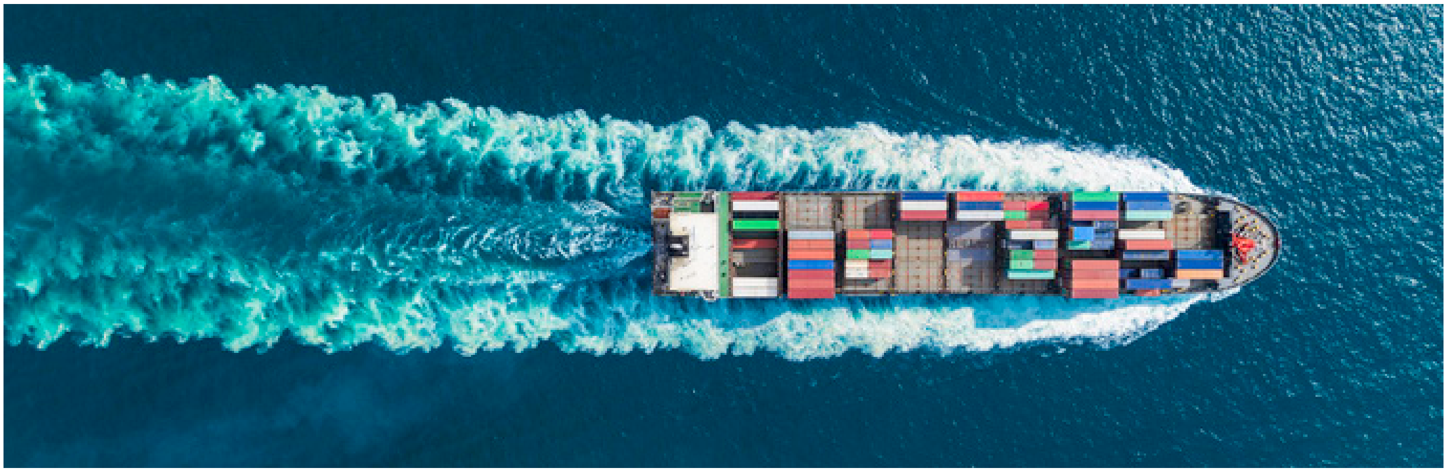


# Churning under the surface

BY JASON RICHEY, CFA, PORTFOLIO MANAGER

## The Big Picture:

- A placid monthly return for the S&P 500 Index masked sharp moves within and across equity market sectors.
- The PHLX Semiconductor Sector Index™ pulled back close to -30% at one point.
- Oil prices fluctuated wildly, while the Iranian conflict seemed no closer to conclusion.
- Early estimates for third-quarter gross domestic product (GDP) growth are strong, though the weeks in late August through September tend to be tricky for the market.
- 5% may be a good stopping point for the US 10-year Treasury yield.

July began with the S&P 500 Index around 7500 and ended with the S&P 500 Index around 7500. Along the way, however, the churn was intense beneath the surface. **Sharp daily moves offered something for every type of investor.** In one trading day, the stock market was up around 3 p.m. as US Federal Reserve (Fed) Chairman Kevin Warsh left the post-meeting press conference, then ended down about -1.5% an hour later at market close. Artificial intelligence (AI) fears took over, and **the PHLX Semiconductor Sector Index fell about -20% for the month**. At the same time, the US broad-market pullback was just -3.5% intra-month as investors rotated into other sectors, and the month ended essentially flat. The on-again, off-again war in Iran drove oil from below $70 per barrel to above $90 per barrel, then back toward $80 per barrel. Meanwhile, bond yields continued to rise and gold provided hardly any buffer. In short, a **humdrum equity-market index was only boring at the headline level.**

Our July Macroeconomic Scenario Analysis (MES) focuses largely on ***Inflation.*** We think ***Inflation*** is peaking, but **the Iran war isn't exactly abating, and the White House clearly prefers a run-it-hot economy**. Regarding ***Chaos***, markets have been pricing in Middle East de-escalation while the opposite has been occurring. GDP growth was only 1.5% in the second quarter, but the Federal Reserve Bank of Atlanta's GDPNow™ model forecasts GDP growth north of 5% for the current quarter. **The Atlanta Fed's estimate may be overly optimistic, but it doesn't suggest any economic headwinds in the immediate future.**

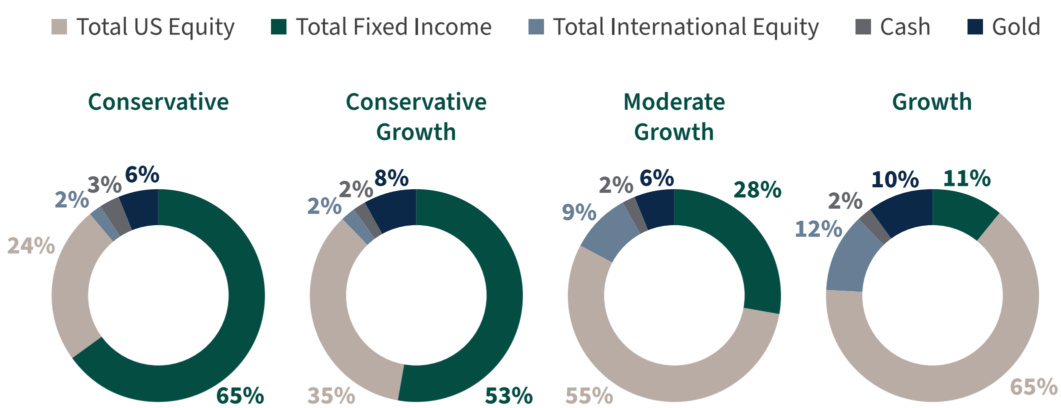
In terms of portfolio positioning, we continue to monitor the largest and most influential companies and sectors. **The pullback in semiconductors in July left us in a more hopeful mood.** Not only was the large drawdown healthy after an intense run-up in recent months, it was isolated and did not drag down the entire market. However, **as AI-related debt financing grows and free cash flow decreases, investors will need to monitor risks to the broader financial system.** Within fixed income, we remain biased toward short-duration exposure, and US yields have been rising for much of the year. **For now, we're looking at 5% as a near-term round number for the US 10-year Treasury yield** – a natural stopping point likely to attract attention from fixed income investors. Finally, gold bounced nicely, rising a quick 10% recently. The fundamental drivers of gold have not changed.

July was a wash at the headline level, but there was plenty of action to monitor. The market has been chopping along for a couple of months, and **the calendar is entering a seasonally tricky time of year.** Some anomalies are worth paying attention to, such as health care outperforming the S&P 500 Index by a sizable amount. Still, economic data has been better than expected, driven by an earnings season that has been historically strong in many respects. **As long as the AI trade remains intact, the market could continue to move higher**, though we're mindful of sizable bond issuance and ever-higher capital expenditure (capex) estimates.

# Global Tactical Strategies

## Asset Allocation Shifts

As of July 2026




| Asset Class | Symbol | Conservative | | | Conservative Growth | | | Moderate Growth | | | Growth | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Prior Month | Current Month | Change | Prior Month | Current Month | Change | Prior Month | Current Month | Change | Prior Month | Current Month | Change |
| S&P 500 | IVV | 9 | **9** | 0 | 11 | **11** | 0 | 23 | **23** | 0 | 25 | **25** | 0 |
| S&P 400 | IJH | 3 | **3** | 0 | 4 | **4** | 0 | 4 | **4** | 0 | 7 | **7** | 0 |
| S&P 600 | IJR | 0 | **0** | 0 | 4 | **4** | 0 | 5 | **5** | 0 | 5 | **5** | 0 |
| MSCI IEFA | IEFA | 2 | **2** | 0 | 2 | **2** | 0 | 6 | **6** | 0 | 12 | **12** | 0 |
| US Healthcare | XLV | 5 | **5** | 0 | 6 | **6** | 0 | 6 | **6** | 0 | 8 | **8** | 0 |
| Nasdaq 100 | QQQ | 0 | **0** | 0 | 0 | **0** | 0 | 2 | **2** | 0 | 2 | **2** | 0 |
| S&P Aerospace & Defense | XAR | 3 | **3** | 0 | 4 | **4** | 0 | 7 | **7** | 0 | 7 | **7** | 0 |
| Financial Select Sector | XLF | 2 | **2** | 0 | 4 | **4** | 0 | 5 | **5** | 0 | 7 | **7** | 0 |
| U.S. Infrastructure Dev. | PAVE | 2 | **2** | 0 | 2 | **2** | 0 | 3 | **3** | 0 | 4 | **4** | 0 |
| TOTAL EQUITIES | | 26 | **26** | 0 | 37 | **37** | 0 | 61 | **61** | 0 | 77 | **77** | 0 |
| Short-Term TIPS | STIP | 16 | **16** | 0 | 13 | **13** | 0 | 10 | **10** | 0 | 5 | **5** | 0 |
| US Aggregate Bonds | AGG | 26 | **26** | 0 | 20 | **20** | 0 | 13 | **13** | 0 | 6 | **6** | 0 |
| US 1–3 Year Treasury Bonds | SHY | 8 | **8** | 0 | 5 | **5** | 0 | 0 | **0** | 0 | 0 | **0** | 0 |
| Treasury Floating | TFLO | 4 | **4** | 0 | 3 | **3** | 0 | 0 | **0** | 0 | 0 | **0** | 0 |
| 0–3 Month Treasury Bond | SGOV | 11 | **11** | 0 | 12 | **12** | 0 | 5 | **5** | 0 | 0 | **0** | 0 |
| TOTAL FIXED INCOME | | 65 | **65** | 0 | 53 | **53** | 0 | 28 | **28** | 0 | 11 | **11** | 0 |
| Gold | IAU | 6 | **6** | 0 | 8 | **8** | 0 | 9 | **9** | 0 | 10 | **10** | 0 |
| Cash | CASH | 3 | **3** | 0 | 2 | **2** | 0 | 2 | **2** | 0 | 2 | **2** | 0 |

The portfolios reflect the inherent risks of fluctuating prices and uncertainty of rates of returns. The cash portion of this portfolio is represented by money market instruments.

# Macroeconomic Scenario Analysis

On a monthly basis, the Cougar Global investment team establishes the probabilities of the future path of the US economy over the next year and quantifies its independent global research into the following five scenarios:

| GROWTH | INFLATION | STAGNATION | CHAOS | RECESSION |
|---|---|---|---|---|
| **4%** | **48%** | **22%** | **16%** | **10%** |
| Last month 0% | Last month 50% | Last month 24% | Last month 16% | Last month 10% |
| Change +4% ▲ | Change -2% ▼ | Change -2% ▼ | Change 0% | Change 0% |

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Cougar Global Investments calculates the Macro Economic Scenario (MES) analysis by assigning probabilities to each of the five economic scenarios (Growth, Stagnation, Inflation, Chaos and Recession) over the next 12 months. Macroeconomic scenarios are based on quantitative data sourced from various firms and then weighted and may be adjusted based upon Cougar Global Investments thought capital. MES are subject to change. These are hypothetical examples and are not representative of any specific situation. Actual economic results may vary. Economic forecasts set forth may not develop as Cougar MES indicates and there can be no guarantee that these strategies promoted will be successful. Past performance is no guarantee of future results. Macro Economic Scenarios: Growth – U.S. economy is growing at or above its potential growth rate, Recession – U.S. economy is shrinking (negative quarter over quarter growth rate), Stagnation – U.S. economy is growing at lower than its potential growth rate, Inflation – Consumer Price Index (CPI) inflation rate is higher than U.S. economy's potential growth rate, Chaos – a high impact, low probability event ("Black Swans").

Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful. Small-capitalization companies are subject to higher volatility than those of large-capitalized companies. International and emerging market investing involves special risks such as currency fluctuation and political instability and may not be appropriate for all investors. Stock investing involves risk, including the risk of loss. Investments in emerging market issuers are subject to a greater risk of loss than investments in issuers located or operating in more developed markets. This is due to, among other things, the potential for greater market volatility, lower trading volume, higher levels of inflation, political and economic instability, greater risk of a market shutdown and more governmental limitations on foreign investments in emerging market countries. High Yield/Junk Bonds are not investment grade securities, involve substantial risks and generally should be part of the diversified portfolio of sophisticated investors. Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity and redemption features. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price. Mortgage-Backed Securities are subject to credit, default risk, prepayment risk that acts much like call risk when you get your principal back sooner than the stated maturity, extensions risk, the opposite of prepayment risk, and interest rate risk. Investing in IAU involves additional risks. The market price of the Shares will be as unpredictable as the price of gold has historically been and the price received upon the sale of Shares may be less than the value of the gold represented by them. Government bonds and Treasury bills are guaranteed by the U.S. Government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. The fund's concentrated holding will subject it to greater volatility than a fund that invests more broadly. The fast price swings of commodities will result in significant volatility in an investor's holdings. Precious metal investing is subject to substantial fluctuation and potential for loss. All indexes mentioned are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results. The indexes don't reflect charges, expenses, fees and is not indicative of any particular investment. Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, disease, and regulatory developments. The Bloomberg U.S. Aggregate Bond Index is composed of the total U.S. investment-grade bond market. The market-weighted index includes Treasuries, agencies, CMBS, ABS and investment grade corporates. The MSCI ACWI® (All Country World Index) measures the performance of large and mid-cap stocks across 23 developed markets (DM) and 24 emerging markets (EM) countries. The S&P 500 or Standard & Poor's 500 Index (IVV) is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. The iShares Core S&P Mid-Cap ETF (IJH) seeks to track the investment results of an index composed of mid-capitalization U.S. equities. The iShares Core S&P Small-Cap ETF (IJR) seeks to track the investment results of an index composed of small-capitalization U.S. equities. The iShares Global Consumer Staples ETF (KXI) seeks to track the S&P Global 1200 Consumer Staples (Sector) Capped IndexTM. The iShares Core MSCI EAFE ETF (IEFA) seeks to track the investment results of an index composed of large-, mid- and small-capitalization developed market equities, excluding the U.S. and Canada. The Health Care Select Sector SPDR® Fund (XLV) seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of the Health Care Select Sector Index (the "Index"). The S&P Aerospace & Defense Select Industry® Index (XAR) represents the aerospace & defense segment of the S&P Total

Stock Market IndexTM. The Financials Sector Index (XLF) seeks to provide an effective representation of the financial sector of the S&P 500 Index. The Index includes companies from the following industries: financial services; insurance; banks; capital markets; mortgage real estate investment trusts ("REITs"); and consumer finance. The Nasdaq-100 (QQQ) is a globally recognized index that tracks the performance of 100 of the largest non-financial companies listed on the Nasdaq Stock Market® encompassing a diverse range of industries and sectors. The Global X U.S. Infrastructure Development ETF (PAVE) seeks to provide investment results that correspond generally to the price and yield performance, before fees and expenses, of the Indxx U.S. Infrastructure Development Index. The iShares MSCI Emerging Markets ex China ETF (EMXC) seeks to track the investment results of an index composed of large- and mid-capitalization emerging market equities, excluding China. The iShares 0-3 Month Treasury Bond ETF (SGOV) seeks to track the investment results of an index composed of U.S. Treasury bonds with remaining maturities less than or equal to three months. The iShares 0-5 Year TIPS Bond ETF (STIP) seeks to track the investment results of an index composed of inflation-protected U.S. Treasury bonds with remaining maturities of less than five years. The iShares Core U.S. Aggregate Bond ETF (AGG) seeks to track the investment results of an index composed of the total U.S. investment-grade bond market. The SPDR® Bloomberg 1-10 Year TIPS ETF (TIPX) seeks to provide investment results that, before fees and expenses, correspond generally to the price and yield performance of the Bloomberg 1-10 Year U.S Government Inflation-Linked Bond Index. The iShares 1-3 Year Treasury Bond ETF (SHY) seeks to track the investment results of an index composed of U.S. Treasury bonds with remaining maturities between one and three years. The iShares Treasury Floating Rate Bond ETF (TFLO) seeks to track the investment results of an index composed of U.S. Treasury floating rate bonds. The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

Cougar Global optimizes portfolios in US dollars for four risk categories. GTS – Conservative may be appropriate for clients who have accumulated sufficient wealth to begin making regular withdrawals for income requirements while potentially achieving investment returns sufficient to preserve capital over a full investment cycle. GTS – Conservative Growth may be appropriate for clients who may have occasional income needs and are willing to take moderate downside risk to achieve investment returns GTS – Moderate Growth may be appropriate for clients who have a long term investment horizon and can tolerate downside volatility in the course of a market cycle. GTS – Growth may be appropriate for clients who have a long term investment horizon and can tolerate higher downside volatility in the course of a market cycle. The conversion dates from sub-advisors to ETFs are April 30, 2008, for GTS – Conservative; February 29, 2008 for GTS – Moderate Growth; and October 31, 2007 for GTS – Conservative Growth. As of December 31, 2008, Cougar Global stopped using sub-advisors.

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