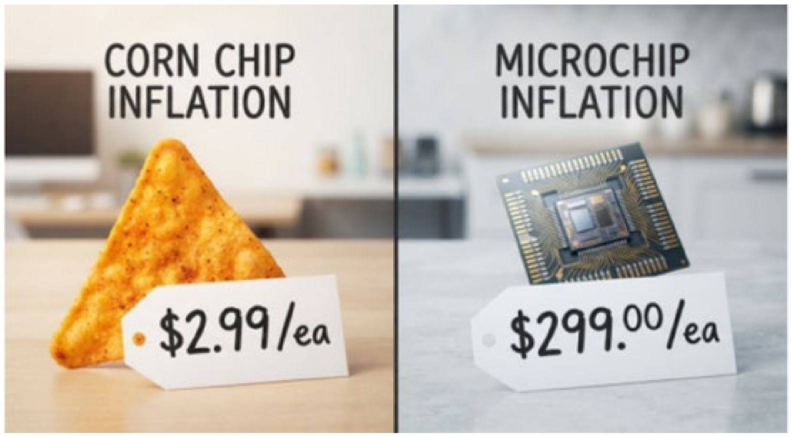
July 17, 2026



"First there was corn chip inflation,
then there was microchip inflation."[1]

- Unknown

Dear Client,

The Grey Owl All-Season Strategy's (GOAS) objectives are to minimize drawdowns, outperform short-term bonds by several hundred basis points each year (i.e., beat "cash"), and participate meaningfully in risk-on rallies.

In the first quarter, there was a significant "risk-off" period. The Nasdaq-100 Index[2] was hit the hardest of the major indices. It dropped -13% from January 28 through March 30, 2026 and was down -6% for the quarter. For the same quarterly period, GOAS delivered a +1.7% return, achieving our first objective.

The second quarter was the reverse. With the Iranian war abating or "worry fatigue" setting in, excitement over Artificial Intelligence (AI) took center stage and risk assets rallied. GOAS was up +4.2% — at least participating in the rally if not quite *meaningfully* participating. Taken

[1] This is more a funny reference than anything else. For our technical friends who might get picky: we realize supply chain bottlenecks and inflation are not the same thing.
[2] We use the ETF QQQ to represent the Nasdaq-100 Index.

together, the first half leaves GOAS up +6.0%, roughly 500 basis points ahead of short-term bonds and on pace for our second objective.

A few specifics below on the present environment and our current positioning, but first a more detailed review of the performance of the “primary” asset classes.[3]

The second quarter of 2026 was almost the mirror image of the first quarter. US equities (the worst performer in Q1) led in the second quarter with a +15.1% return, followed closely by global equities which were up +14.2%. Safe-haven, long-dated US Treasury bonds were again up just barely: +0.9%. Commodities, the best performer in Q1, were down -11.3% in Q2. Gold was the worst performer, down -14.4%.

Beyond the primary asset classes, the true leader was AI infrastructure: chips and other compute components as well as power generation. The Tortoise AI Infrastructure ETF (TCAI) was up +61.4% for the three-month period.

On the other side of the AI and technology trade, the “Magnificent 7” rebounded (+11%) from their Q1 selloff (-12.2%), but finished the second quarter still down -2.5% on the year. These mega-capitalization companies, which up until recently have led the current bull market and make up approximately 35% of the S&P 500, have come under modest pressure as AI excitement and the SpaceX IPO drew the spotlight. Now, just two weeks into the third quarter, AI infrastructure is under some pressure: TCAI is about 18% off its recent high. The back and forth continues.

Yet, there are other signs of equity market resilience. Russell 2000 small capitalization stocks are up +22.6% year-to-date, showing investor risk appetite is currently widespread. Equity market resilience despite the Magnificent 7 (and now the more speculative AI stocks) lagging is healthy. No matter how you look at it, this is not a “set it and forget it” environment.

[3] We refer to US equities, long-dated US Treasury bonds, gold, and commodities as “primary” asset classes, borrowing the language of HCWE & Company. These four assets best capture two variables that explain a significant amount of asset price movement: global growth and inflation. This framework is the basis for a permanent portfolio, an “all-season” portfolio, risk-parity, etc. US equities and commodities are “risk” assets, while US Treasury bonds and gold are “haven” assets. Returns are measured on a total return basis using index exchange traded funds (ETFs): SPY for the S&P 500, ACWI for the MSCI All-Country World Index, GSG for the S&P GSCI Commodity Index, TLT for the 20+ Year Treasury Bond index (i.e., “long-dated” US Treasury bonds), and GLD for gold.

Economic Growth

Hedgeye's real GDP projection model now shows the growth rate holding essentially flat through the second half of 2026 and into early 2027. Look closely and you will see modest rate-of-change acceleration and deceleration quarter-to-quarter, which could lead to both upside and downside volatility in risk assets.

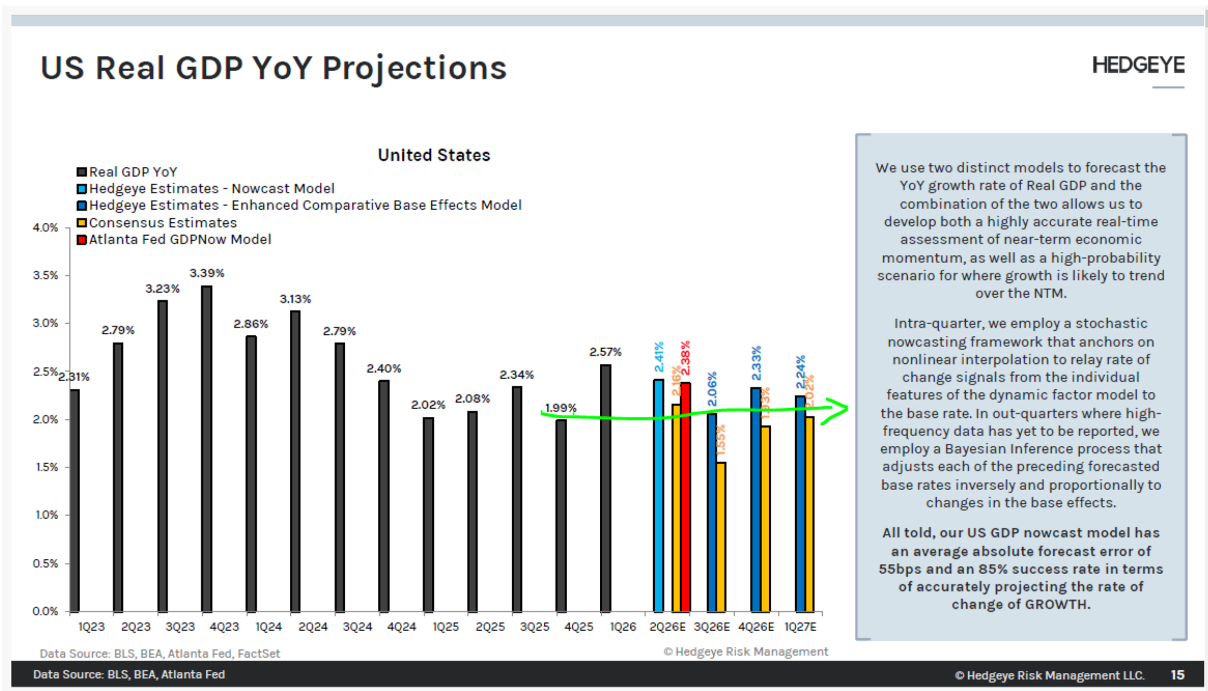


Figure 1 – GDP Projections (www.hedgeye.com)

Economic growth forecasts are positive and stable – not a threat to risk assets, but not a major catalyst either.

Inflation

On the other hand, Hedgeye's model forecasts CPI accelerating year-over-year in each of the coming quarters.

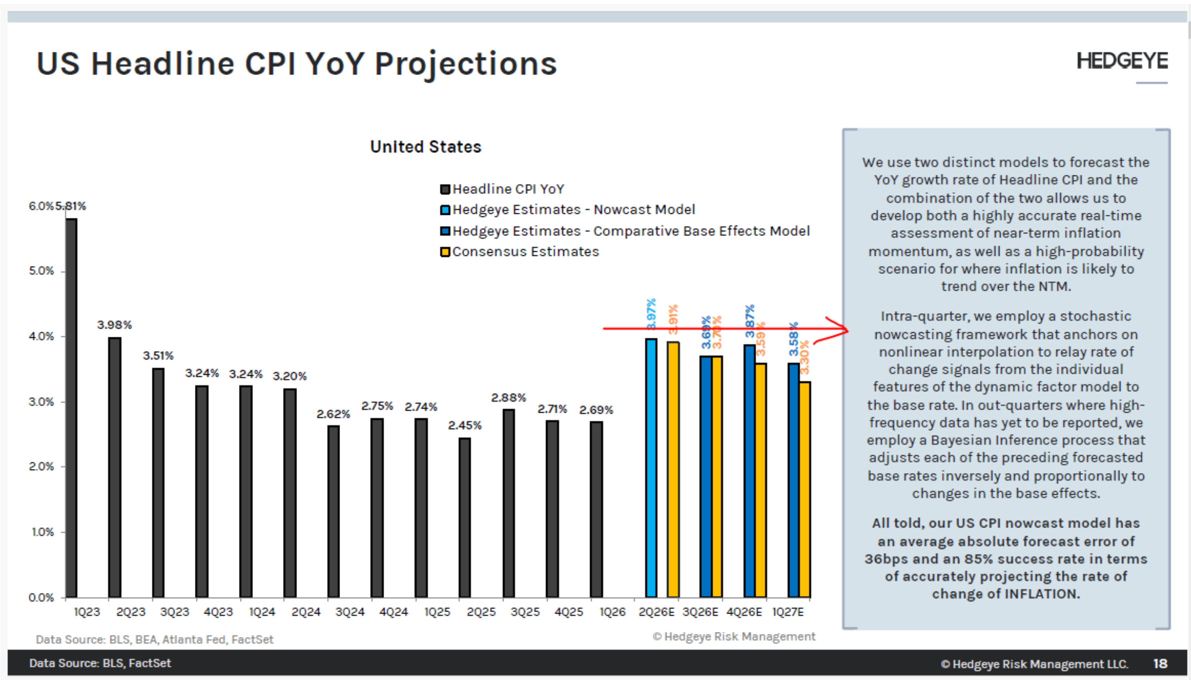


Figure 2 – Inflation Projections (www.hedgeye.com)

Inflation now appears stubbornly high, creating a backdrop that favors some risk assets over others.

Market Signals

Lowry's analysis points to an equity market biased higher, but not without risks and conflicting signals. Buying Power is above Selling Pressure, but Selling Pressure is rising. Perhaps this reflects the dull interest in the Magnificent 7 and the now-correcting AI infrastructure?

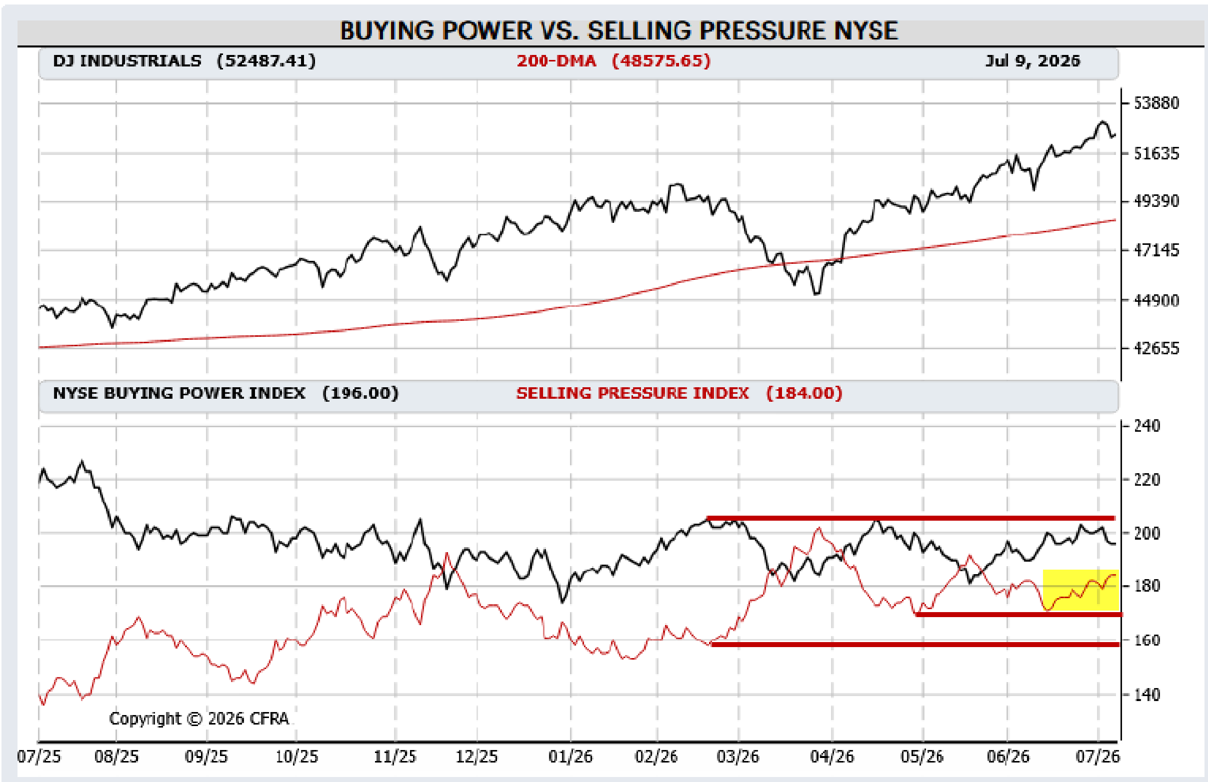


Figure 3 – Buying Power vs. Selling Pressure (www.lowryondemand.com)

Lowry's puts it this way:

> When the light turns green, an automobile might accelerate quickly, using a lot of fuel. However, when it gets up to highway speed, it does not require much to maintain its momentum. The stock market is not very different. The surge in Demand and buying activity just after an important low can create a positive buzz for investors. Typically, buying calms soon thereafter, and the market needs just enough Demand to keep the advance going.

The current market seems to have internally calmed down quite a bit, according to our tepid body of evidence. Some indicators may have the look of a failing market, yet there is still enough Demand to soak up Supply. The Law of Demand and Supply does not quantify how much Demand must dominate. Intuitively, the greater the spread between Buying Power and Selling Pressure, the healthier the market. But as long as there is an advantage, it is good enough, albeit without much cushion. Currently, Buying Power indeed has that advantage.

Market internals support the case for a continued advance, but as with the flat GDP growth and elevated inflation, some caution is warranted.

Current Positioning

Our current portfolio remains balanced within an all-season framework. Compared to last quarter, our equity exposure is more heavily weighted to US-listed equities. Within the US, our sector exposure is a barbell of interest rate sensitivity and secular growers. We currently have no energy equity or industrial commodity exposure. The specific holdings are unconventional, but at the highest level the aggregate risk exposure lines up almost perfectly with a 60% equity / 40% bond benchmark. The difference is where that risk comes from: a 60/40 draws the overwhelming majority of its variance from equities, while ours is spread across the growth and inflation exposures described above. That balance is the point — and it is why we will not track a 60/40 quarter to quarter, as the second quarter showed.

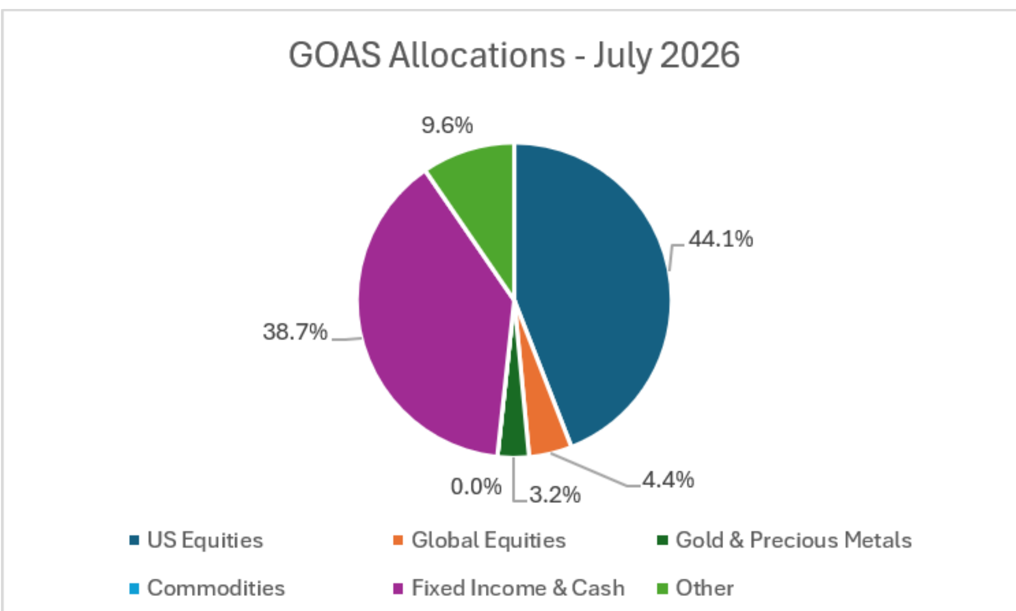


Figure 4 – GOAS Allocation

This is a very balanced portfolio today—rooted in our all-season philosophy and adjusted for present conditions: **don't try to predict the future; position with prevailing conditions while diversifying to enable success across many possible futures**.

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The significant post-COVID acceleration in corn chip inflation may be behind us, and the near-vertical microchip inflation may have peaked, but stubbornly high inflation seems here to stay. Coupled with political uncertainty, multiple wars, and massive technological change, it is a tricky backdrop. And, in our opinion, one perfect for an "all-season" portfolio.

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As always, if you have any thoughts regarding the above ideas or your specific portfolio that you would like to discuss, please feel free to call us at 1-888-GREY-OWL.

Sincerely,
Grey Owl Capital Management
Grey Owl Capital Management, LLC