ALTMAN INVESTMENT MANAGEMENT

EQUITY STRATEGY FOCUS

JULY, 2026

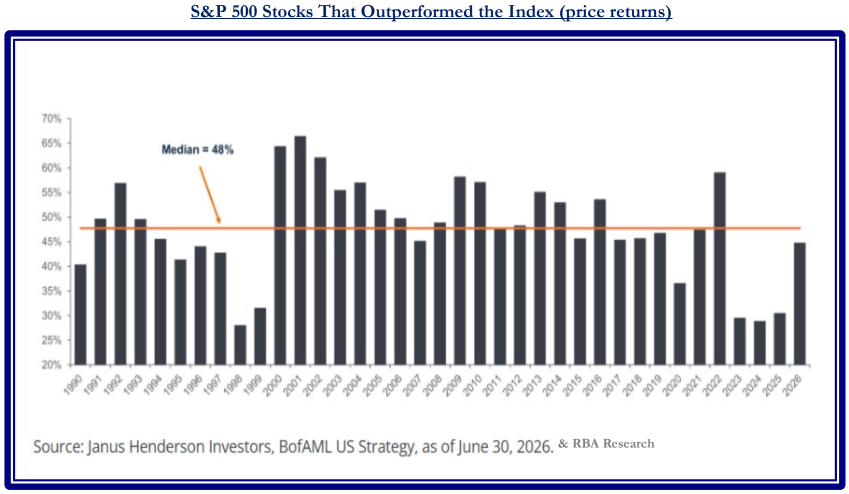
IN VIEW: Performance

Stocks delivered strong results in the first half of the year, with the S&P 500 up 10.2% and the Russell 1000 Value index up 16.2%. The AIM outperformed the S&P 500 index as market leadership broadened beyond the Magnificent 7, outpacing the S&P 500 benchmark by over 500 basis points. This outperformance was driven largely by stock selection within the Technology sector, where names like Intel, Applied Materials, Keysight Technologies, and Cisco posted exceptional first-half returns ranging from roughly 50% to nearly 280%. By contrast, Apple and Nvidia, the usual high-flyers together making up nearly 15% of the index, posted comparatively modest mid-single-digit returns. In the Healthcare sector, Merck and Johnson & Johnson also contributed to relative performance, while in Financials, every holding except Fidelity National Information Services added to the composite's outperformance.

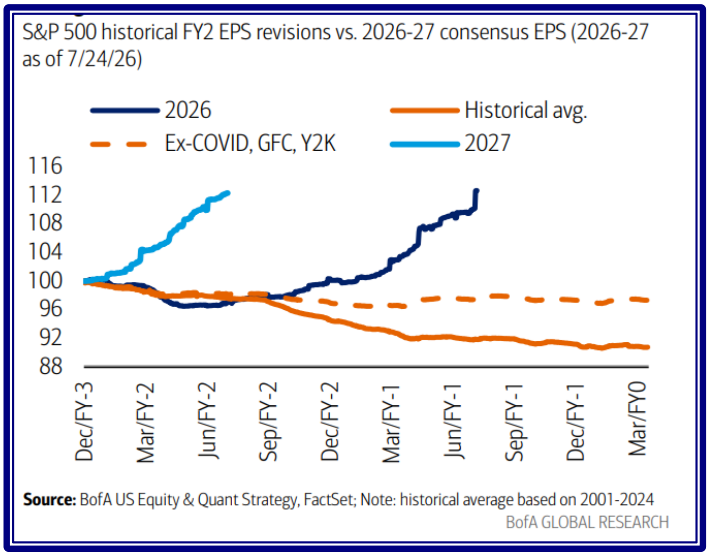
The composite performed in line with the Russell 1000 Value index. Solid investment decisions and stock selection successes were balanced by areas where some expectations were not fully realized. An overweight in Technology, surging 60%, only partially offset disappointing results in Software. Additionally, Cisco and Keysight Technologies delivered robust total returns of 54% and 72%, respectively. However, the value benchmark benefited from even larger gains in Sandisk, Western Digital, and Dell Technologies whose total returns exceeded 780%, 240%, and 245% respectively. An overweight in Banking and Insurance alongside favorable stock selection were additive to relative performance. Positive contributions from stock selection in Healthcare were offset by weaker selection in Industrials. Our modest exposure to Communication Services only partially offset weak stock performance in Consumer Discretionary positions.

Market breadth continues to improve as the narrow leadership in equities gradually unwinds. Rather than relying on a concentrated group of Mega 7stocks to drive returns, investor participation is expanding across a broader range of sectors and industries. As speculative investors appear increasingly cautious, there has been a shift towards companies with strong underlying fundamentals. Investors are focusing on earnings quality, balance sheet strength, and sustainable cash flows, signaling a gradual rotation toward higher-quality businesses. The current trend suggests there is still meaningful room for market participation to widen further.

S&P 500 Stocks That Outperformed the Index (price returns)



2nd quarter earnings season has begun with a solid start. Approximately 25% of S&P 500 companies have reported results, with roughly 80% exceeding consensus expectations. S&P 500 earnings growth so far is robust coming in up 36% year-over-year as analysts continue to revise earnings estimates higher. Positive earnings revisions are driven by the Information Technology and Financials sectors. Meanwhile, companies continue to accelerate AI investment, with consensus estimates calling for capital expenditures to increase 40% year-over-year in Q2, up from 33% in Q1. Immediate price action the day following earning beats has been positive in Energy, Real Estate, Consumer Staples, and Industrials, while price action following earning beats in Technology has been negative. This suggests investor expectations for the Technology sector remain exceptionally high, making it increasingly difficult for earnings beats to translate into positive stock performance**.**

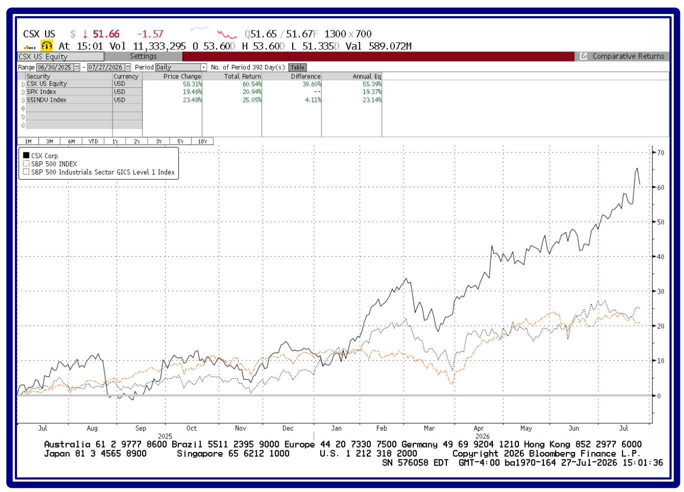


CLOSE-UP: Equity Sector Overview

Rails:

Rail stocks have delivered strong performance over the past year with CSX Corporation (CSX) rising 60%, driven in part by increased demand for transport of materials and equipment used in data center construction. The company continues to see strength in petrochemical exports as a result of disruptions in the Middle East. Also, a shift in shipments from trucks to rails is driving forest product volumes. Against this favorable backdrop, consensus estimates for CSX call for 25% earnings growth and 7% revenue growth this year, marking a sharp turnaround after largely negative earnings reports since 2023. Fuel surcharge gains have helped offset higher fuel costs, while strong core pricing, volume growth, and continued cost efficiencies have supported the company's ability to raise both revenue and operating margin guidance.

CSX Up ~60% Over Past Year



Source: Bloomberg

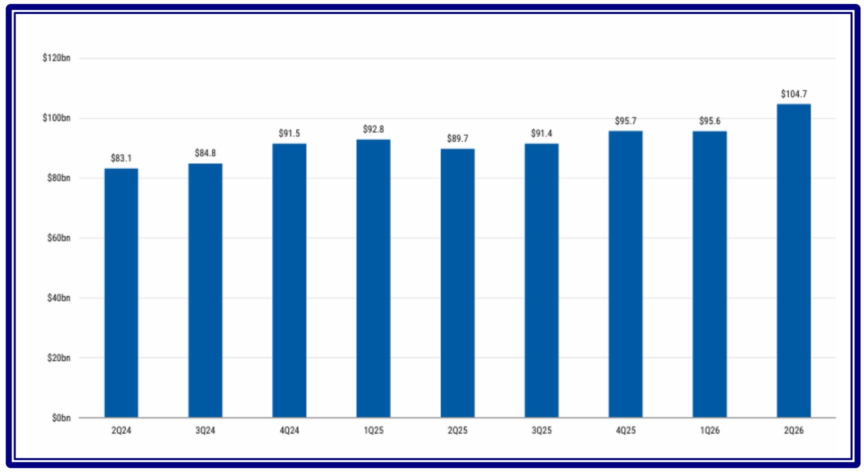
Healthcare:

Health Care is gaining favor in the eyes of investors amidst heavy deal activity and improved research productivity. The FDA drug approvals reached multi-year highs as big pharmaceutical companies opt to buy growth through acquisitions. The S&P Healthcare index is up 5.7% year to date though July with Pharmaceuticals up 14%. Johnson & Johnson and Merck each climbed 24% year to date through July. We further diversified the sector by establishing a position in Medtronic (MDT) in early June. MDT is a global medical technology company that designs, manufactures, and markets innovative medical devices and therapies for hospitals, healthcare providers, and patients. We believe the company is well positioned to exceed revenue growth expectations driven by strong demand for its newest medical technologies. Growth is being fueled by innovative products for treating heart conditions, next-generation pacemakers, and advanced spine surgery solutions. Looking ahead, newer robotic surgery and hypertension treatments could provide another leg of growth in the coming years.

Defense:

Northrop Grumman's (NOC) shares have been under pressure this year due to execution challenges which include higher costs in its space systems and defense businesses, specifically related to rocket motor production. As a result, 2nd quarter profits declined from the prior year, however overall earnings beat expectations. The earnings surprise was mostly due to tax benefits rather than operating improvements. In its report the company highlighted net awards of $20 billion of increased backlogs to a record $105 billion, up 17% year over year. This reflects strong demand across key programs including the Sentinel intercontinental ballistic missile, the B-21 Raider, and the company's space and missile defense portfolio. As a result, management raised its full-year 2026 revenue guidance while reaffirming its operating income and adjusted free cash flow outlook. Looking ahead, we believe NOC is well positioned to benefit from sustained global defense spending as geopolitical tensions in the Middle East and Ukraine continue to drive demand for advanced weapons systems. Overall, we expect accelerating revenue growth, coupled with improving margins, to drive further upside.

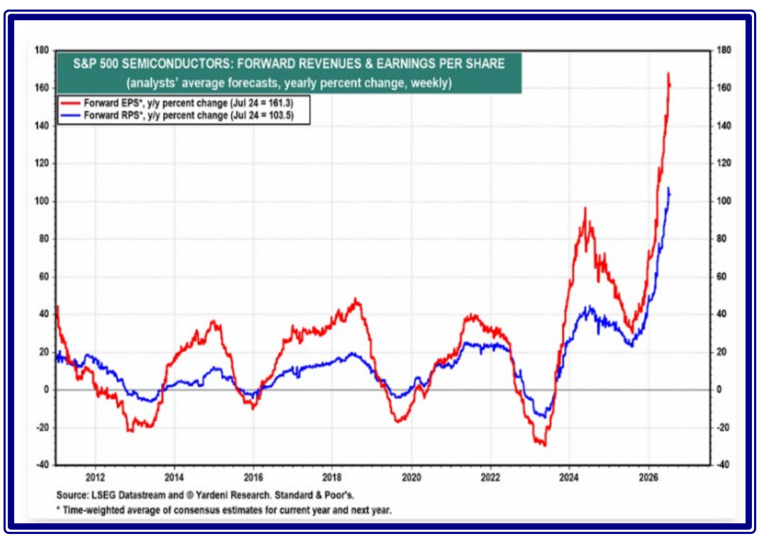
NOC Quarterly Backlog



Source: Morgan Stanley Research

Semiconductors:

Semiconductor Forward Revenues and EPS

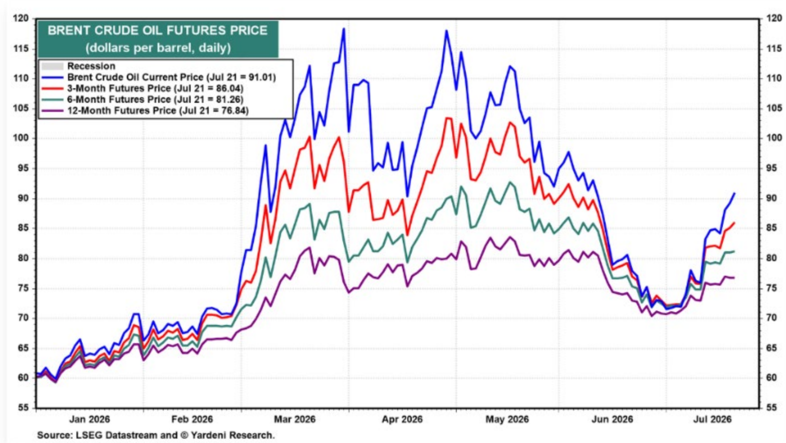


Spending by hyperscalers continues to drive semiconductor free cash flows. Analysts expect capital expenditures by these major cloud providers to increase 25% to $750 billion this year. That spending is expected to support forward earnings-per-share growth of more than 160% and revenue-per-share growth of 103% across the semiconductor industry. Recognizing the sector's extended rally, we trimmed our Intel position in recent months. Our underweight positioning in semis reflects growing investor concerns about the sustainability of earnings per share momentum. Even after the recent ~20% correction however, Philadelphia Semiconductor Index remains up ~60% year to date through July.

Oil:

The war with Iran is disrupting global oil supplies, leaving the U.S. Strategic Petroleum Reserve at its lowest point in more than four decades. Offsetting at least some of these risks, keeping the price of oil under $100, is lower demand from China and the declining level of U.S. energy intensity (how much energy the economy uses to produce a dollar of economic output). However, as long as the war continues without a defined path and time frame to resolution, transportation through the Strait of Horuz will remain risky, and global oil supply disruptions are likely to persist. This ongoing uncertainty supports maintaining exposure to oil as a hedge against supply disruptions.

Brent Crude Futures



Conclusion:

Overall, the first half of the year reinforced our view that market leadership is broadening beyond the Mega 7 stocks creating a more favorable environment for diversified portfolios. The market is becoming increasingly focused on which companies can monetize their AI investments. Over the past several years, direct beneficiaries such as cloud computing, software and semiconductors have monopolized performance, whereas, going forward we believe Healthcare, Industrials and Financial companies be rewarded as they begin to realize benefits from improved efficiencies and productivity gains.
