

Market Commentary

June 30, 2026



U.S. Equities Market

AI Leads the Rebound

U.S. equities rebounded sharply in the second quarter, with the S&P 500® Index gaining 15.2%, bringing year-to-date returns to 10.2%. Importantly, nine of eleven sectors delivered positive returns, with the advance led by Information Technology, which surged 31.8% as strong earnings and continued momentum in artificial intelligence ("AI") offset the weakness seen earlier in the year. Stocks in the Industrials and Consumer Discretionary sectors also posted strong gains, reflecting improving sentiment around geopolitical conflict and stabilization in interest rate expectations. In contrast, Energy declined 13.5% as oil prices retraced a portion of their first quarter spike, while Utilities remained roughly flat.

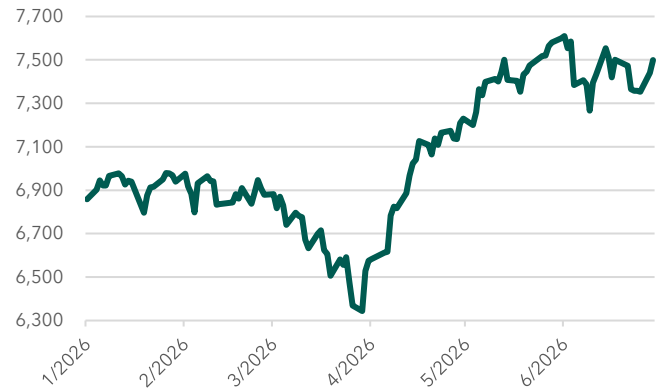
Growth stocks significantly outperformed value, supported by continued strength in technology, marking a sharp reversal from the first quarter. While large-cap stocks continued to perform well, small-cap equities outpaced large caps during the quarter and now lead on a year-to-date basis, pointing to a modest broadening in market participation. With respect to the S&P 500®, overall index performance remains relatively concentrated in a small group of mega-cap companies.

The macroeconomic backdrop reflects a slowing yet resilient economic environment. Inflation has reaccelerated over the past quarter, driven in part by earlier energy shocks tied to conflict with Iran and ongoing volatility in global energy markets, with supply chains expected to normalize only gradually following the reopening of the Strait of Hormuz. Meanwhile, consumer spending is showing early signs of fatigue as elevated costs weigh on purchasing power. Consequently, the Federal Reserve has held policy rates at restrictive levels, clouding expectations for a more gradual path to rate cuts. The labor market continues to show signs of stability, with unemployment holding steady even as wage growth begins to slow, while concerns around potential labor displacement from increased AI adoption persist.

As mentioned, ongoing uncertainty surrounding the Strait of Hormuz and global energy markets continues to create periods of volatility, with the trajectory towards resolution remaining a key driver of market sentiment. At the same time, strong corporate earnings and continued investment into AI infrastructure have provided meaningful support for domestic equities, reinforcing confidence in market leaders' continued growth. More broadly, the second quarter rebound reflected a combination of earnings resilience and improving risk sentiment, with elevated valuations suggesting continued optimism around AI-driven growth.

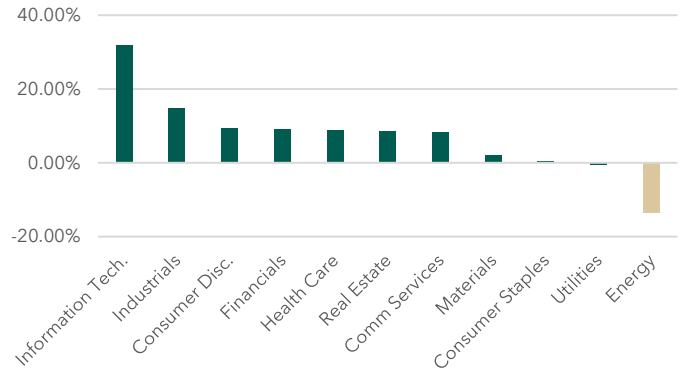
Looking ahead, market direction will likely remain sensitive to the path of inflation, developments in the Middle East, and the durability of earnings growth, particularly in AI-driven sectors. As such, it remains prudent for investors to monitor evolving economic and geopolitical conditions and maintain a balanced, long-term approach.

S&P 500® Index



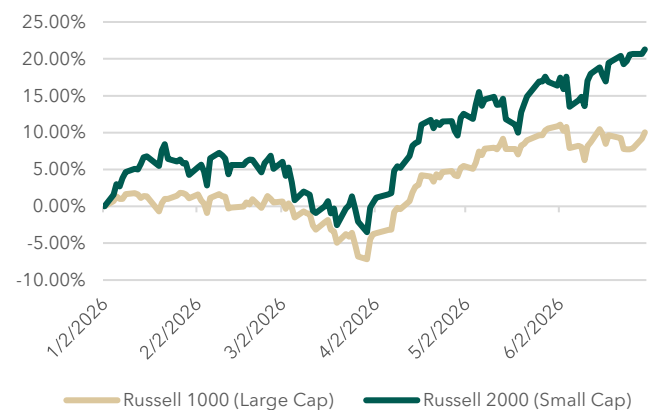
Source: Bloomberg

Q2 2026 S&P 500® Index Sector Performance



Source: Bloomberg

Large Cap vs. Small Cap Performance



Source: Bloomberg

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U.S. Taxable Fixed Income Market

Income Overwhelms Inflation Concerns

The second quarter of 2026 marked a meaningful shift in the fixed income narrative, as rising interest rates and changing Federal Reserve ("Fed") expectations weighed on the broad intermediate taxable bond market. Intermediate government and corporate yields moved higher, with the 5-Year U.S. Treasury yield increasing from 3.94% to 4.23%. The Treasury curve reflected a classic bear flattener, as front-end yields rose 30-40 basis points on shifting Fed expectations while longer maturities moved up only modestly. Even so, the Bloomberg Intermediate U.S. Government/Credit Bond Index returned 0.43% for the quarter, highlighting the benefit of coupon income and resilient credit markets.

Inflation re-emerged as the dominant market theme. Headline CPI rose to 4.2% year-over-year on higher energy prices and renewed concerns that inflation may prove more persistent than investors expected. Although recent peace negotiations in the Middle East pushed oil back below \$70 per barrel, the inflation outlook remains uncertain. The conversation around artificial intelligence has also evolved: once viewed as a long-term deflationary force, it is now increasingly discussed as a near-term source of inflation, as unprecedented spending on data centers, electricity infrastructure, and semiconductors reverberates through the economy.

Fed policy expectations shifted alongside these concerns. Markets that only months ago anticipated additional rate cuts began pricing in possible future hikes, while the transition to new Fed leadership added uncertainty. Though the Fed's path remains tied to inflation and employment, the prospect of less forward guidance and a reassessment of balance sheet policy contributed to greater interest-rate volatility. A growing belief that future quantitative easing will face a higher hurdle supports the view that longer-term rates may require a higher term premium than investors grew accustomed to over the past decade.

Despite heightened volatility, corporate credit markets showed notable resilience. Investment-grade spreads were choppy amid the Iran conflict and evolving Fed expectations but ultimately finished stronger, with BBB-rated corporate spreads tightening from 1.12% to 1.00% over comparable Treasuries – near multi-year lows. This occurred despite record new issuance, as investment-grade corporations issued debt at a historic pace, roughly 18% of it from AI-related borrowers. Strong investor demand absorbed the supply easily, underscoring the continued appeal of high-quality corporate credit.

One of the quarter's more important lessons is the continuing value of income in a higher-rate environment. As investors grappled with rising inflation, shifting Fed expectations, and greater volatility, the income generated by bond portfolios again proved a stabilizing force. Unlike much of the post-financial crisis era, today's market offers substantially higher starting yields, creating a larger cushion against adverse moves while enhancing long-term return potential. In our view, income remains one of the most reliable drivers of long-term bond returns and an important tool for navigating an uncertain market.

5-Year U.S. Treasury Yield



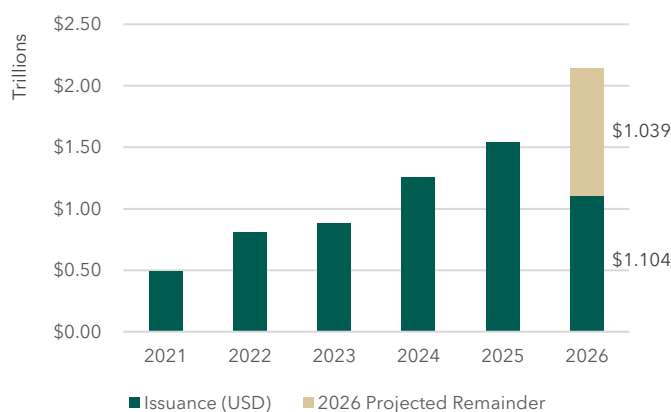
Source: Bloomberg

U.S. BBB Corporate Credit Spreads



Source: Bloomberg

Investment Grade Corporate Issuance



Source: Bloomberg

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DAVIDSON
INVESTMENT ADVISORS

U.S. Municipal Fixed Income Market

Income Leads the Way

The municipal bond market entered the second quarter of 2026 following a sharp repricing in March, with yields moving higher amid renewed inflation concerns and geopolitical uncertainty.

While volatility persisted into April, the market gradually transitioned into a period of stabilization, supported by strong underlying demand and an increasingly attractive income profile. From April through June, interest rate movements continued to track U.S. Treasuries and evolving expectations for Federal Reserve policy. Unlike late in the first quarter, however, the municipal curve experienced a modest rally. Over the course of the quarter, yields declined approximately 10 basis points on the front end, roughly 30 basis points in the 10- to 15-year portion of the curve, and 40 to 50 basis points on the long end.

Despite this rally, absolute yields remain elevated relative to recent years, continuing to anchor demand. Municipals maintained a compelling after-tax income advantage versus other high-quality fixed income sectors, particularly for high-net-worth investors. This higher income environment helped offset modest rate-driven volatility and reinforced the role of municipals as a core income allocation.

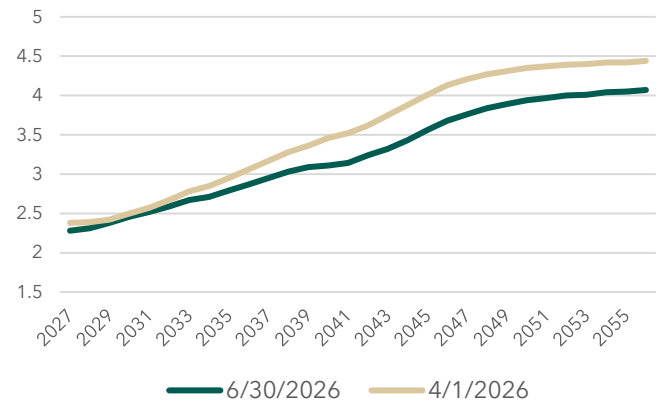
Supply remained a defining feature of the quarter. Total municipal issuance exceeded \$300 billion year-to-date through June, approximately 10% higher than the same period in 2025. Issuers continued to access the market to fund infrastructure needs adjusting to a declining level of federal support. Even with heavier issuance, market technicals held up well. New deals were generally absorbed efficiently, with stronger demand focused on higher quality issuers and essential service sectors.

Fund flows provided additional support. Municipal mutual funds and ETFs recorded approximately \$50 billion of inflows year-to-date, compared to roughly \$9.4 billion at this point in 2025. This represents an improvement of about \$40 billion, or more than five times last year's pace, underscoring the strength and consistency of investor demand for tax-exempt income.

Credit fundamentals across the market remained broadly stable. State and local balance sheets, though gradually normalizing, continue to reflect stronger-than-historical reserve levels, providing a cushion against slower economic growth and evolving fiscal conditions. As in prior periods, sector dispersion persists. General Obligation and Essential Service sectors remain resilient, while Health Care, Higher Education, and select high yield sectors continue to face structural pressures, reinforcing the importance of disciplined credit selection.

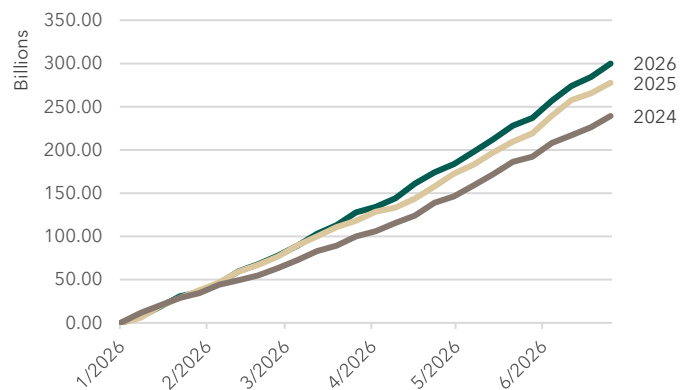
Overall, the second quarter of 2026 represented a period of stabilization following the volatility of late Q1. Sizable demand from investors throughout the quarter reinforced the municipal market's role as a source of high-quality, tax-efficient income. In this environment, a continued focus on credit quality, selective sector exposure, and thoughtful duration positioning remains crucial.

AAA Municipal Yield Curve Changes



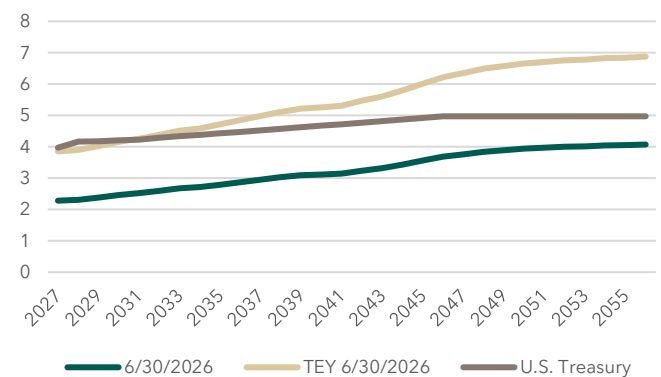
Source: Bloomberg

Municipal Issuance Year-over-Year



Source: Bloomberg

Municipal Taxable-Equivalent Yield Comparison



Source: Bloomberg

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International Equities Market

Gangnam Style Emerging Market Performance

International equity performance was strong during the second quarter, with emerging markets materially outperforming both U.S. equities and Developed Market international equities. The MSCI Emerging Markets® Index led, gaining 24.1% for the quarter. Domestic equities, represented by the Russell 3000® Index, returned 15.4%, while the MSCI EAFE® Index rose 10.8%. The Bloomberg Dollar Spot® Index was essentially flat, up 56 basis points, during the quarter, a very modest headwind to translated U.S. dollar returns for foreign holdings.

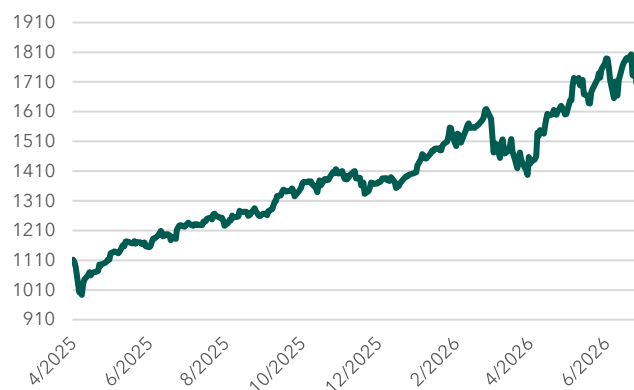
The quarter was shaped by continued geopolitical conflict in the Middle East, which kept investor attention squarely focused on energy markets and supply chain disruptions. Crude oil prices spiked sharply due to the closure and subsequent blockade of the Strait of Hormuz, yet prices have since moderated as the ceasefire appears to be holding. Although the risk of more severe disruption appears to have diminished, uncertainty surrounding the pace of normalization remains. The lagged effects of higher energy costs are likely to remain important factors influencing inflation expectations and central bank policy in the months ahead.

Developed international equities were pressured by this backdrop, particularly in Europe, given the region's outsized reliance on imported oil and natural gas. Eurozone inflation increased to 3.2% in May, well above the European Central Bank's target, and higher energy costs weighed on consumer purchasing power and business confidence. These factors, combined with structural headwinds and limited policy flexibility, likely contributed to the positive but lagging performance of the MSCI EAFE® Index.

Emerging markets, however, were able to look through much of the volatility and were the clear standout during the quarter. The ongoing buildout of AI infrastructure supported East Asian technology markets, particularly Taiwan and South Korea, given their central role in global semiconductor and memory chip supply chains. Commodity-producing markets in Latin America also benefited from demand for oil and critical minerals as global supply chains reconfigure.

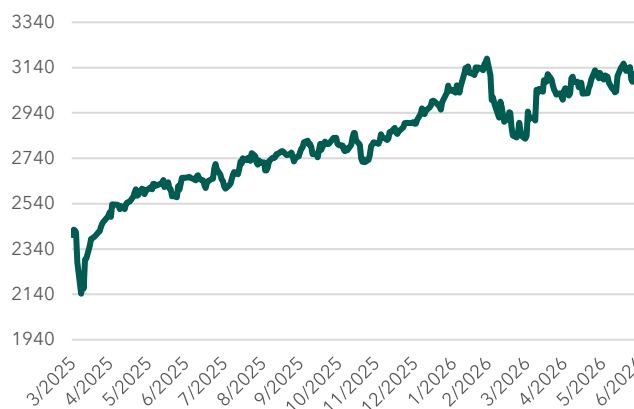
The quarter highlighted the competing forces shaping global markets: geopolitical disruption and higher energy costs weighed on energy-importing developed markets, while AI-driven technological growth supported select markets in emerging Asia. Looking ahead, this reinforces the importance of maintaining diversified international exposure and a long-term perspective, as regional and sector performance will likely continue to vary meaningfully.

MSCI Emerging Markets® Index



Source: Bloomberg

MSCI EAFE® Index



Source: Bloomberg

Bloomberg Dollar Spot® Index



Source: Bloomberg

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The S&P 500® Index is a gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

The Russell 1000® Index is a benchmark that tracks the 1,000 largest U.S. companies, making up approximately 93% of the total U.S. equity market capitalization. It is frequently used by institutional investors as the primary gauge for large-cap or broad U.S. market performance.

The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity market. It consists of approximately 2,000 of the smallest companies in the broader Russell 3000® Index, making it one of the most widely used benchmarks for U.S. small-cap stocks.

The Russell 3000® Index is a capitalization-weighted stock market index that seeks to be a benchmark of the entire U.S. stock market.

The Bloomberg Intermediate U.S. Government/Credit Bond Index is a broad-based flagship benchmark that measures the non-securitized component of the U.S. Aggregate Index with less than 10 years to maturity. The index includes investment grade, U.S. dollar-denominated, fixed-rate treasuries, government-related and corporate securities.

The MSCI Emerging Markets® Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Market countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI EAFE® Index is broadly recognized as the pre-eminent benchmark for U.S. investors to measure international equity performance. It comprises the MSCI country indexes capturing large and mid-cap equities across developed markets in Europe, Australasia and the Far East, excluding the U.S. and Canada. Numerous exchange-traded funds are based on the MSCI EAFE® Index, and the Chicago Mercantile Exchange, NYSE Liffe U.S. and the Bclear platform of Liffe are licensed to list futures contracts on this index as well.

The Bloomberg Dollar Spot Index tracks the performance of a basket of 10 leading global currencies versus the U.S. Dollar. It has a dynamically updated composition and represents a diverse set of currencies that are important from trade and liquidity perspectives.