WOODARD & COMPANY

Asset Management Group, Inc.

Registered Investment Advisor

Portfolio Profile

117 Kinderton Boulevard
Bermuda Run, North Carolina 27006
(336) 998-7000 (800) 214-1144 Fax (336) 998-7050
woodard@wcamg.com

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A Note on Our Team. To begin, we want to address a question that clients occasionally raise. John Woodard, who founded this firm in 1985 following his years with E.F. Hutton and Shearson Lehman Brothers, remains at the helm. He is here every day, engaged, guiding our investment committee and serving clients with the same energy and discipline that have defined his career for nearly five decades. John has no plans to retire, his leadership continues to shape everything we do.

We are equally pleased to note that Todd Senter, focused on compliance, research, and client service, and Steve Hungerford, focused on direction and implementation of trading as well as client services, remain hard at work on your behalf, carrying out their responsibilities with the professionalism and dedication our clients have come to expect. Our team is stable, deep, and committed, and we consider the continuity of that team one of the most valuable things we offer you.

The firm also carries forward through its next generation. John Woodard III, focused on research, analysis, and client service, and Matthew Blades, focused on research, analysis, financial planning, and client service, bring energy and a forward-looking perspective to the work. Together they ensure that the same standards of rigor and personal attention that have distinguished this firm since 1985 will continue to serve our clients for decades to come.

Cybersecurity Event and Reminders. We are pleased to invite our clients to a special cybersecurity event on the evening of October 6th at Forsyth Country Club. We will be joined by David McSweeney, Vice President of Fidelity's Enterprise Cybersecurity Group, who brings nearly three decades of experience in cybersecurity and investigations to the conversation. Drawing on a career that spans financial intelligence, digital forensics, and cyber investigations, David will offer practical guidance on protecting your accounts and your personal information in an increasingly digital world. Heavy hors d'oeuvres will be served. Space is limited and RSVPs are required, so we encourage you to contact the office to reserve your place. More detailed information will be sent out as the date approaches.

On the subject of security, we want to reassure our clients that we operate on a secure internal system and make every effort to protect your information. We also encourage you to do your part. Please take a moment to log in to your account directly through Fidelity to confirm your access, and make certain that your passwords are strong, unique, and updated. These simple steps go a long way toward keeping your accounts safe, and our team is always available to help if you have questions or concerns.

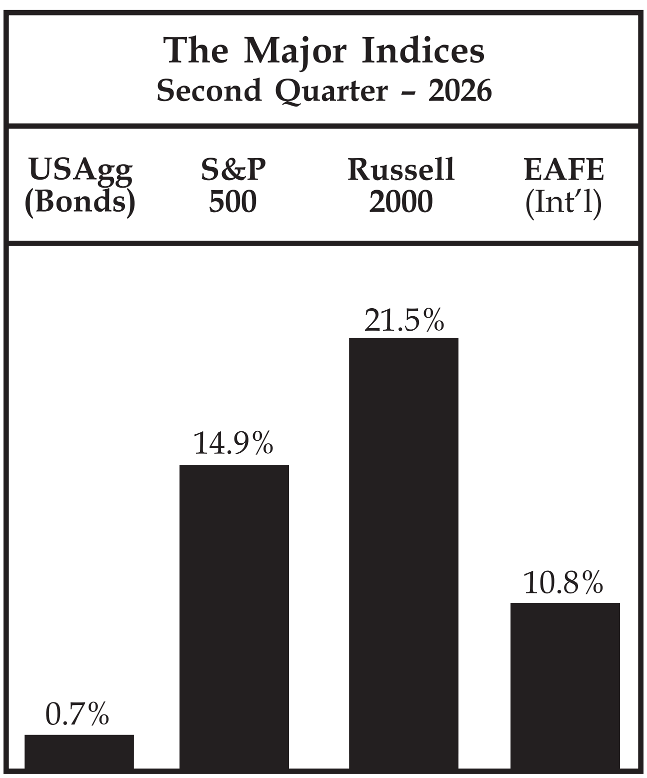
Our New Website Is Live. We are excited to share that our newly redesigned website is now live at the same address, wcamg.com. The new site reflects the care and professionalism we bring to our work, and it makes it easier than ever for you to stay connected with the firm, access resources, and learn about the services available to you. We invite you to visit and explore it, and we welcome any feedback you may have.

Important Market Communications by Email. In the past, we have written to our clients during significant market events, such as our letter during the 2008 financial crisis and our more recent letter on fixed income positioning in 2022. Going forward, we plan to make greater use of email for communications of this kind. One of the primary reasons is timeliness. Email allows us to reach you on the very day of an important market event or a significant positioning decision on our end, ensuring you hear from us when it matters most. After the first email is sent, you will have the option to opt out of any future emails should you prefer not to receive them.

Introducing *The Running Thesis*. Alongside our new website, we are pleased to introduce The Running Thesis, a new monthly dispatch written personally by John Woodard III. Where our quarterly newsletter offers the commentary of the full Investment Committee, The Running Thesis is a shorter, more timely read that captures what has actually moved in the markets, and why, over the preceding weeks. Each issue reflects Woodard & Company's ongoing research into markets, economic data, interest rates and commodities, portfolio considerations, and the themes drawing our attention, and all content is reviewed within our compliance framework before publication. The tone is conversational and the goal is practical. To receive it, you may sign up on our new website under the “News & Information” tab or simply email our office.

Account Flexibility Reminder. A friendly reminder: there is no account size minimum for family or additional accounts under your household. Any new or additional accounts within the same family are billed at the same rate. And even if a family member would prefer that we not manage their assets directly, we remain more than happy to sit down with them to review and discuss their accounts without charge. We consider it a privilege to be a resource for the families we serve.

Tax Loss Harvesting. We may take the opportunity, if it presents itself, to harvest tax losses in taxable accounts for our clients. We have had several years of good returns, assets appreciate, we want to reallocate but that brings capital gains taxes. We endeavor to be conscious of tax implications; however, we may want to tactically reallocate to achieve the best return possible. Consequently, you may see a purchase, subsequently a sell of that purchase, and question why we made the purchase in the first place. What we are doing is harvesting a loss, obviously we would have waited if we knew the markets were to decline temporarily. However, if we do this we would typically immediately purchase a similar asset so when the markets resume their uptrends, you would benefit, but also have a loss harvested to help offset previous gains for tax purposes.



Trust Services. Through our relationship with Fidelity, we have access to Fidelity Trust Services for clients whose estate plans call for a trustee. For families who need a trustee, or who prefer a corporate trustee rather than placing that responsibility on a family member or friend, Fidelity can serve in that capacity, providing institutional-quality trust administration that we can help facilitate on your behalf. To be clear, Fidelity does not draft trust documents or provide legal services; establishing a trust remains the work of your estate attorney. But once a trust is in place, or as you plan for one, a corporate trustee can bring continuity, impartiality, and professional administration to the role. If this is an area you have been meaning to address, or if you simply have questions, please do not hesitate to reach out to our team.

Markets Review and Forecast. The second quarter of 2026 was a strong one for equity investors. After a first quarter defined by the shock of the Iran conflict and a sharp pullback in stocks, the market staged a broad and powerful recovery. The S&P 500 gained 14.9% for the quarter and the technology-heavy Nasdaq advanced sharply, each posting its best quarterly performance since the second quarter of 2020. The Dow Jones Industrial Average rose 12.9% and closed the quarter at a record high, while the small-cap Russell 2000 surged 21.5% and international equities, as measured by the MSCI EAFE Index, gained 10.8%. Market strength was notably broad as well, with the equal-weight S&P 500 rising nearly 11%, its best showing since late 2023.

One of the most important drivers of our optimism is corporate earnings. First quarter earnings season was exceptionally strong: S&P 500 companies delivered year-over-year earnings growth of 28.6%, well above the roughly 13% that had been expected coming into the quarter, and the highest rate of growth since the fourth quarter of 2021 as the economy emerged from the pandemic. Every sector of the index reported earnings growth, led by technology at nearly 32%. This matters a great deal because earnings growth has one of the highest historical correlations with positive stock market returns. When companies grow their profits at this pace, the market tends to follow.

Much of that earnings power has been concentrated in semiconductors and memory, which were the standout performers of the quarter. The demand for computing capacity tied to artificial intelligence has been relentless, and the companies that supply the chips, memory, and infrastructure behind it have seen extraordinary results. We believe the buildout of AI infrastructure represents a genuine and durable investment cycle, and the productivity gains it promises are significant. Historically, periods of economic growth driven by rising productivity have coincided with broad improvements in living standards. Productivity growth benefits the consumer, the worker, and the economy as a whole, and we view AI as a meaningful contributor to that dynamic in the years ahead.

Our constructive view does not rest on earnings alone. A combination of forces is working in favor of continued expansion: an ongoing shift toward deregulation, lower corporate tax rates, and the gradual onshoring of manufacturing and supply chains back to the United States. The trade and tariff disputes that unsettled markets over the past year have largely subsided, removing a meaningful source of uncertainty. Each of these forces supports corporate profitability and economic growth, and together they form the foundation of our bullish posture heading into the second half of the year.

The labor market has reinforced this picture. Employment has settled into what many have described as a "low-hire, low-fire" environment, but the underlying data has remained solid. Monthly job gains have moderated in recent readings, with some of the earlier strength attributable to temporary factors such as hiring around the World Cup, yet the unemployment rate has remained low, ticking down to a healthy 4.2%. Job openings have also stayed encouragingly firm. The most recent JOLTS report showed openings rising to 7.6 million, the highest level in two years and comfortably above expectations, which had called for a decline. That leaves roughly 1.04 job openings for every unemployed worker. A labor market this steady, even amid the uncertainty of the quarter, speaks to the resilience of the broader economy.

Not every corner of the economy is running hot, and we want to be balanced in our assessment. Housing in particular has become strained. Home prices remain elevated at levels that are increasingly difficult for buyers to absorb, and the data has begun to reflect that pressure. The thirty-year mortgage rate rose modestly over the quarter alongside the 10-Year Treasury yield, though both have since settled off their highs. Affordability remains a genuine challenge, and it is an area we are watching closely as the year progresses.

We would also highlight a notable increase in merger and acquisition activity across the first half of the year. We expect this trend to continue as the year unfolds, supported in part by a recent Supreme Court ruling affirming the President's authority to remove and replace officials at independent government agencies. Reduced regulatory friction of this kind tends to encourage corporate dealmaking, and we anticipate a steady pace of transactions in the quarters ahead.

While our long-term outlook remains firmly constructive, we would offer a measured note as we move into the second half of the year. The S&P 500 finished the quarter up 9.6% year to date, a strong result, and it is worth remembering that markets rarely advance in a straight line. Historically, the third quarter has tended to be one of the more subdued and choppier stretches of the calendar, and this year carries an added wrinkle in the midterm elections. Election years frequently bring bouts of heightened volatility, and it would not surprise us to see periodic pullbacks or a market correction in the months ahead. We would view such episodes as a normal and healthy feature of a functioning market rather than a cause for concern. Our discipline in these moments is to remain focused on quality and the long-term, and we would remind our clients that short-term volatility often creates the very opportunities that reward patient, well-positioned investors. We are optimistic about where the market is headed over time, and we are equally prepared to navigate the bumps along the way.

Interest Rates. The story of the quarter in fixed income was the Federal Reserve's shift toward a more cautious posture. Kevin Warsh took over as Chairman of the Federal Reserve during the quarter, and in his first meeting at the helm he struck a deliberately hawkish tone, emphasizing price stability and the importance of the Fed's independence. We view this as understandable and, frankly, appropriate. A new chairman must establish his credibility as an independent steward of monetary policy rather than an instrument of any administration, and a measured, inflation-focused stance early in his tenure accomplishes exactly that.

Warsh is a former Fed Governor with a well-established philosophy: he favors a leaner Federal Reserve balance sheet, a disciplined focus on price stability, and a more restrained role for the central bank overall. As the balance sheet contracts and his broader approach takes hold, we believe the effect will be constructive for the long-term health of both the dollar and the financial system.

Here our view diverges from the consensus. While markets and the Fed's own projections currently point toward no rate cuts, and even a modest chance of a hike before year-end, we believe a cut is more likely than a hike in 2026. Our reasoning is straightforward. The inflation that spooked the Fed this year was driven primarily by wartime oil prices, and that pressure is now easing. As the conflict in Iran winds down, crude prices have fallen back toward pre-war levels, and the clearest evidence of that de-escalation is in the oil market itself. With energy prices receding, we expect headline inflation to settle over the coming months. The approach of the midterm elections in November adds a further consideration, as periods leading into elections have historically favored accommodative conditions. We are comfortable being more dovish than the crowd on this point.

On interest rates specifically, the 10-Year Treasury yield began the quarter at 4.26%, peaking at 4.67%, and then easing off its highs, a move that pushed the thirty-year mortgage rate higher as noted above. We continue to anticipate that rates will move lower over the intermediate term as inflation cools.

We also want to share our broader view on the U.S. dollar. Between Chairman Warsh's expected policies, including a smaller Federal Reserve balance sheet, and the structural shift toward onshoring driven by the changing trade environment, we see the dollar in a general uptrend going forward. A stronger dollar shaped the commodities markets this quarter in particular. Gold and silver, after an extraordinary multi-year run, both pulled back sharply as the dollar strengthened, a reflection of the well-established inverse relationship between the dollar and dollar-denominated commodities. Oil, meanwhile, fell sharply from its wartime highs as tankers began moving through the Strait of Hormuz once more, offering the market a welcome sign of normalization.

Portfolio Allocations. We remained overweight equities throughout the quarter, a posture that reflects the bullish outlook described above and one that served our clients well during the market's strong advance. In our Tactical Asset Allocation Portfolios, we have taken a barbelled approach, concentrating our holdings in short-term and intermediate-term maturities rather than reaching for the longest end of the yield curve. This structure is deliberate. The 10-Year Treasury may well trade in a range of roughly 4% to 4.75% for some time, and in that environment the additional risk carried by long-dated bonds is not adequately compensated. By anchoring our positions in shorter and intermediate maturities, we capture attractive yield while significantly reducing our exposure to the price volatility that longer-dated bonds experience when rates move. It is a posture built to protect principal and generate steady income, rather than one that depends on a sharp decline in rates to succeed.

In our more aggressive portfolios, we made a series of refinements during the quarter. We shifted several positions into funds carrying lower expense ratios, a change that reduces cost and improves net returns over time, and we initiated a small position in a highly rated semiconductor fund to gain focused exposure to the theme driving so much of the market's earnings growth. These adjustments sharpen the portfolios without altering their fundamental character.

In our Market Leaders Portfolio, we made several changes over the quarter. We added positions in Robinhood, SpaceX, and Morgan Stanley, and we increased our existing position in Constellation Energy Corporation. We exited PayPal entirely, and we trimmed our positions in Goldman Sachs, Home Depot, Procter & Gamble, and Mastercard.

We are especially pleased to share that our Market Leaders Portfolio participated in the SpaceX initial public offering, gaining access to the largest public offering in history at the offering itself. We will discuss the IPO in more detail below, but we wanted our clients to know that when an opportunity of this magnitude arose, we were positioned to act on it.

The IPO Landscape. The second quarter delivered one of the most active periods for initial public offerings in market history, with new share sales topping $250 billion through June and eclipsing the prior first-half record set in 2021. The centerpiece was the SpaceX offering, which stands as the largest IPO ever completed. The enthusiasm surrounding it was considerable and, in our view, understandable. SpaceX has built an extraordinary business, and its achievements in aerospace and satellite infrastructure are genuinely remarkable. As noted above, our Market Leaders Portfolio participated in the offering and holds a position today.

The pace of large offerings appears likely to continue. Anthropic and OpenAI, two of the most prominent names in artificial intelligence, have both taken steps toward public offerings, with reports pointing toward the fourth quarter or beyond as a potential window depending on market conditions. We are engaged with these developments and will evaluate each opportunity with the same discipline we apply to every investment we consider. The surge in new supply is worth watching, as a heavy volume of offerings can test the market's appetite, but it also reflects a healthy and dynamic capital environment. We will keep our clients informed as these situations develop.

If you have any other questions about your account or any concerns, please give us a call at 336-998-7000. We always enjoy talking with our clients.