Shikiar

July 22, 2026

Dear Client,

Greetings from Team Shikiar. As we cross the midpoint of the year, we hope you and your family are making the most of the summer months and finding time to refresh and recharge. Please find attached your investment performance and portfolio report for the second quarter of 2026, as well as annualized returns. The report provides the market value of your portfolio as of June 30th, 2026, along with asset allocation, security positions, cost basis, and a year-to-date capital gain/loss report.

Equity indices staged a solid rebound during the second quarter, recovering much of the ground lost in a more difficult Q1. The S&P 500, Nasdaq, and Dow each finished higher during Q2 and set new all-time highs. The advance was notably narrow: just ten stocks accounted for roughly 83% of the S&P 500 year-to-date gains.[1] There were rotations within various sectors, with technology a clear standout on the upside. However, some of the "Magnificent 7" technology names lagged on a relative basis as investors weighed rising AI-related capital spending and its near-term drag on free cash flow. We continue to view several of the seven stocks as very attractive long-term holdings, given their strong balance sheets, durable competitive positions, and central role in the AI ecosystem. Encouragingly, the group has firmed since quarter end, which we take as a modest reaffirmation of our view.

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[1] Jefferies Trading Desk, Bloomberg Data

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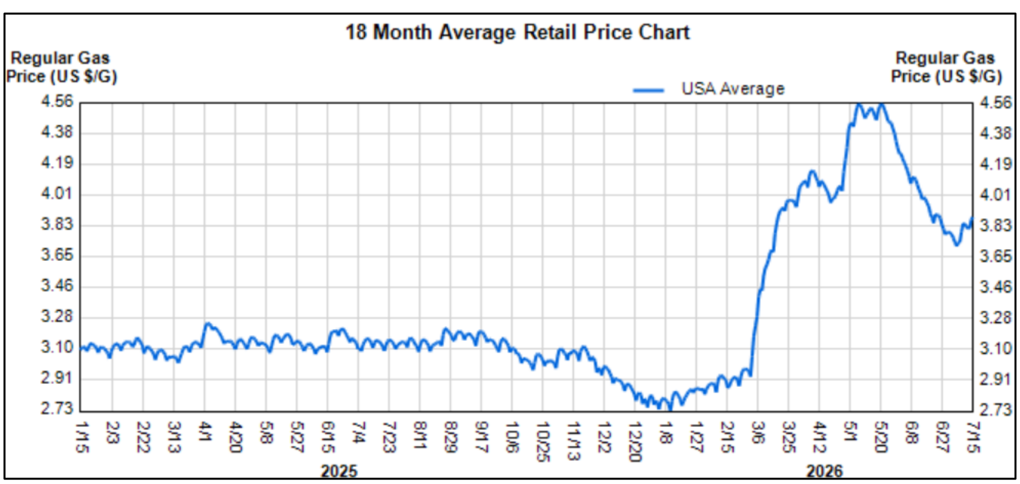
The defining macro event of the quarter remained the war in Iran, which stretched across the entire second quarter. An early-April ceasefire, since extended, halted the most intense fighting but gave way to months of brinkmanship over the Strait of Hormuz, through which roughly one-fifth of the world's oil and liquefied natural gas normally transits. After sporadic violations, including a brief exchange of missile fire between Iran and Israel in early June, mediators brokered a framework agreement, and on June 17th the two sides signed a memorandum of understanding establishing a 60-day window to negotiate a final settlement. As we write, that framework appears to be unraveling, as U.S. forces launched retaliatory strikes on dozens of targets across Iran this week after Tehran fired on commercial vessels in the Strait. Conditions remain highly unsettled and the path forward increasingly in doubt. The oil market moved in lockstep: Brent crude, which began the year near $62 per barrel, averaged roughly $117 in April and touched levels above $120 at the height of the disruption before reversing sharply to the low-$70s by late June as the Strait of Hormuz started to reopen. That relief began to reach the pump, with the national average price of gasoline, which had climbed above $4.50 a gallon at the peak, retreating through June to $3.83 as of July 15th as Figure 1 illustrates below.

Figure 1: Average U.S. Gas Price



Source: Gasbuddy.com

That backdrop has reshaped the broader economy, as our updated Economic Vitals Scorecard (Figure 2) illustrates.

Figure 2: Shikiar Asset Management Economic Conditions Scorecard – July 2026

Shikiar Asset Management Economic Conditions Scorecard - July 2026

Variable	Trend	Commentary
UMich Consumer Sentiment Index	↓	Sentiment rose to 49.5 in June from May's record-low 44.8; the energy spike keeps cost-of-living top of mind, with year-ahead inflation expectations at 4.6%.
U.S. GDP	→	Q1 2026 real GDP was revised up to 2.1% (from 0.5% in Q4), but the gain was import-driven: private domestic sales rose just 1.7% and consumer spending 0.5%.
Inflation	↓	Headline CPI eased to 3.5% YoY in June (from 4.2%), with prices -0.4% MoM — the largest monthly drop since April 2020 on the oil pullback; core cooled to 2.6% YoY.
Corporate Earnings YoY Growth	↑	S&P 500 Q1 earnings grew ~28% YoY, a sixth straight double-digit quarter, with record ~11.4% net margins; consensus sees ~18% FY2026 growth.
Geopolitics	→	The U.S.–Iran ceasefire has collapsed: the U.S. carried out a fourth strike in a week and reinstated a blockade on Iranian ships transiting Hormuz (mid-July), putting the war premium back on. China/Taiwan risks persist.
Ten Year Treasury Yield	→	The ten-year yield remains in 4.5% - 4.6% range, near a two-month high, as renewed Mideast strikes lifted oil and a hawkish Fed reinforced higher-for-longer.
Nonfarm Payrolls	↑	Payrolls rose +57k in June (near the +36k 12-month average), and April–May were revised down a combined 74k; wages up 3.5% YoY.
Job Openings	↑	Job openings jumped to 7.6M in April and held in May, the highest since May 2024, lifting the openings-to-unemployed ratio to ~1.0; the 1.9% quits rate signals caution.
Initial Claims	↑	Initial claims eased to 215k (week of July 4), with the 4-week average down to ~219k; continuing claims held near a multi-month high at ~1.81M
Commodity Prices	→	WTI sits around $80 — well off from the ~$125 mid-war highs — even after the U.S. reinstated the Hormuz blockade and strikes resumed
JPM Global PMI Index	↑	Activity stayed in expansion: the U.S. composite PMI rose to 52.2 in June (a five-month high) and global factory output neared a five-year high, though some orders front-run supply disruptions.
Retail Sales	→	Retail sales rose a strong 0.9% in May (+6.9% YoY), control group +0.7%; spending is resilient but flattered by higher gas prices and more credit use.
Unemployment Rate	→	Unemployment ticked down to 4.2% in June, but for the wrong reason — participation fell 0.3pp to 61.5% (lowest since March 2021) as workers left the labor force; still historically low.
Housing Market Index	↓	Builder confidence slipped to 35 in June, a 14th straight month below 40 (unseen since 2011-12), as high rates, material costs and affordability sideline buyers; 35% cut prices.
High Yield Bond Spreads	↑	High-yield spreads stay very tight at ~2.8%, well below the ~5% norm and near cycle lows, underscoring strong risk appetite and easy financing.
Corporate Debt Levels/Credit	→	Corporate leverage stays elevated, but tight spreads, record margins and solid earnings keep debt service manageable; isolated credit events focus attention on weaker, consumer-exposed borrowers.
Consumer Credit	→	Consumer credit was flat in May after April's 4.8% rise; revolving card balances contracted at a 4.7% annual rate — an abrupt pullback in borrowing.

Overall Score - Neutral to Solid - The economy is resilient, but risks have shifted. Labor demand is firm and corporate fundamentals shine: strong earnings, healthy margins and tight spreads mean easy financing and solid risk appetite. Offsetting that, the energy shock has reignited inflation, sentiment is near record lows, housing is stalled, and households lean on credit as savings erode. Headline growth held up, but private demand is softening. With the ceasefire fragile and the Fed hawkish, the near-term path hinges on whether easing energy relieves the consumer before inflation and rates do more damage.

Q1 2026 Scorecard	
↑	3
→	11
↓	3

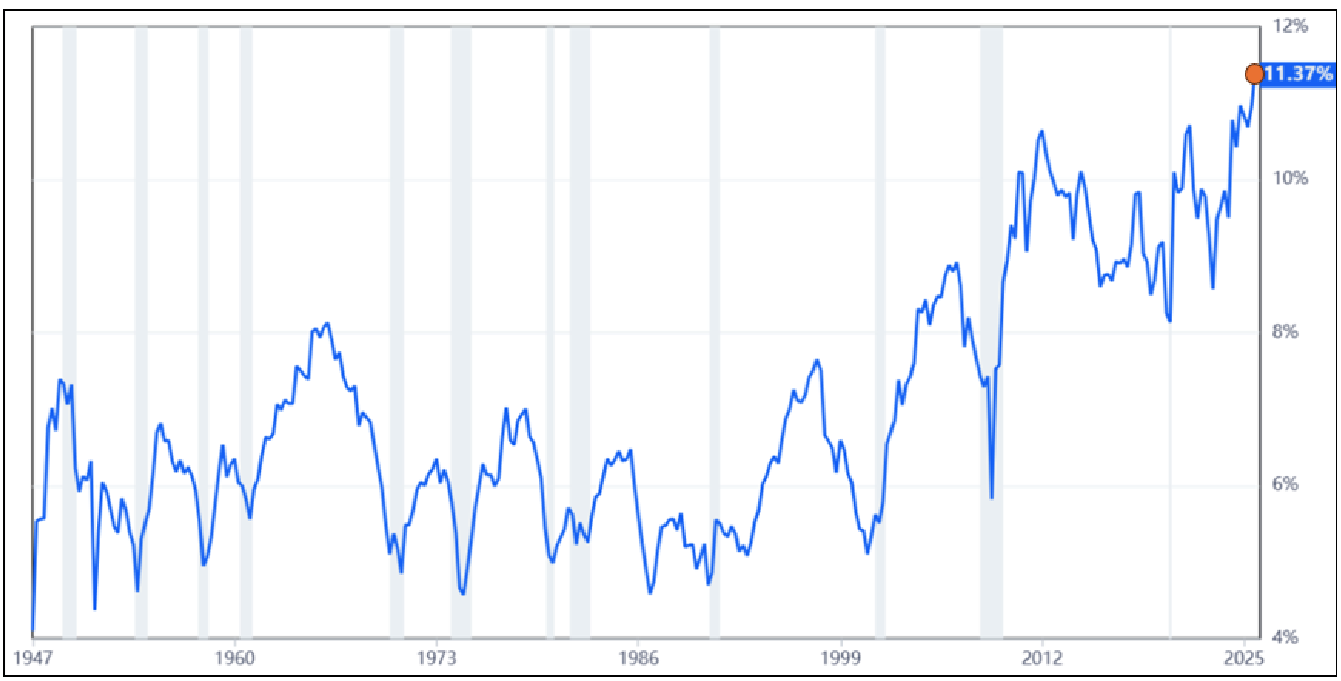
Q2 2026 Scorecard	
↑	6
→	8
↓	3

A few themes stand out from this scorecard. On the positive side, the labor market remains a source of strength, with payroll growth still solid despite a softer June Nonfarm Payrolls (NFP) report, job openings near a two-year high, and initial unemployment claims near recent lows. The pressure points remain the consumer and cost of living, though June brought some welcome relief. The Consumer Price Index (CPI), which had hit a three-year high of 4.2% in May, eased to 3.5% in June as energy prices fell sharply, the largest monthly decline since April 2020, with core inflation cooling to 2.6%. Still, consumer sentiment is the lowest it's been in 48 years, housing starts and sales remain stalled, and households continue to rely on credit, even as second-quarter bank earnings pointed to a resilient consumer and early signs that savings balances are being rebuilt. Affordability, from groceries and gasoline to housing and borrowing costs, remains both a practical strain on household budgets and an increasingly central political issue. On balance, the scorecard reads neutral-to-solid: resilient, but dependent on whether the reprieve in energy prices holds long enough to relieve consumer pressure before inflation and rates do more damage.

This backdrop of volatile energy prices, rising inflation expectations, and a debatable growth outlook is what confronted the new Federal Reserve Chair, Kevin Warsh, at his first meeting in mid-June. Warsh was clear that price stability is paramount, noting that inflation has now run above the Fed's 2% target for roughly five years and called the Committee's resolve to bring it down "unanimous and unambiguous." The message landed as more hawkish than markets expected, but the Fed held rates at 3.50%–3.75% and updated "dot plot" projections tilted toward a potential rate hike rather than a cut penciled in just three months earlier. Our own view is that the Fed is more likely to stand pat in 2026, using strong rhetoric to tighten financial conditions rather than moving the policy rate itself. What is unmistakable is that Warsh plans to bring a different approach from previous Chairman Jerome Powell. Warsh excluded forward guidance from a dramatically shortened statement, and declined to submit his own rate projection, a first for a sitting Chair.

Corporate fundamentals remain the clearest bright spot for the economy and stock market. Standard and Poor's 500 index earnings reached a record in the first quarter, growing roughly 28% year over year, a sixth consecutive quarter of double-digit gains. At the time of this letter, corporations are reporting their second quarter 2026 earnings results, and we will be listening to a score of hour-long plus update calls over the next several weeks paying close attention to management commentary on present conditions and forward guidance. Consensus points to another strong double-digit advance of about 15% - 20% year-over-year for 2Q, but it is important to consider that technology and energy are forecasted to drive 70% of that growth, with the other nine sectors contributing the remainder. Profitability is equally striking, with Standard and Poor's index after tax profit margins at a record of better than 11% in Q1 2026 as Figure 3 illustrates below, reflecting disciplined cost control and the early operating leverage that AI and automation are beginning to deliver.

Figure 3: S&P 500 Corporate Profit Margins After Tax

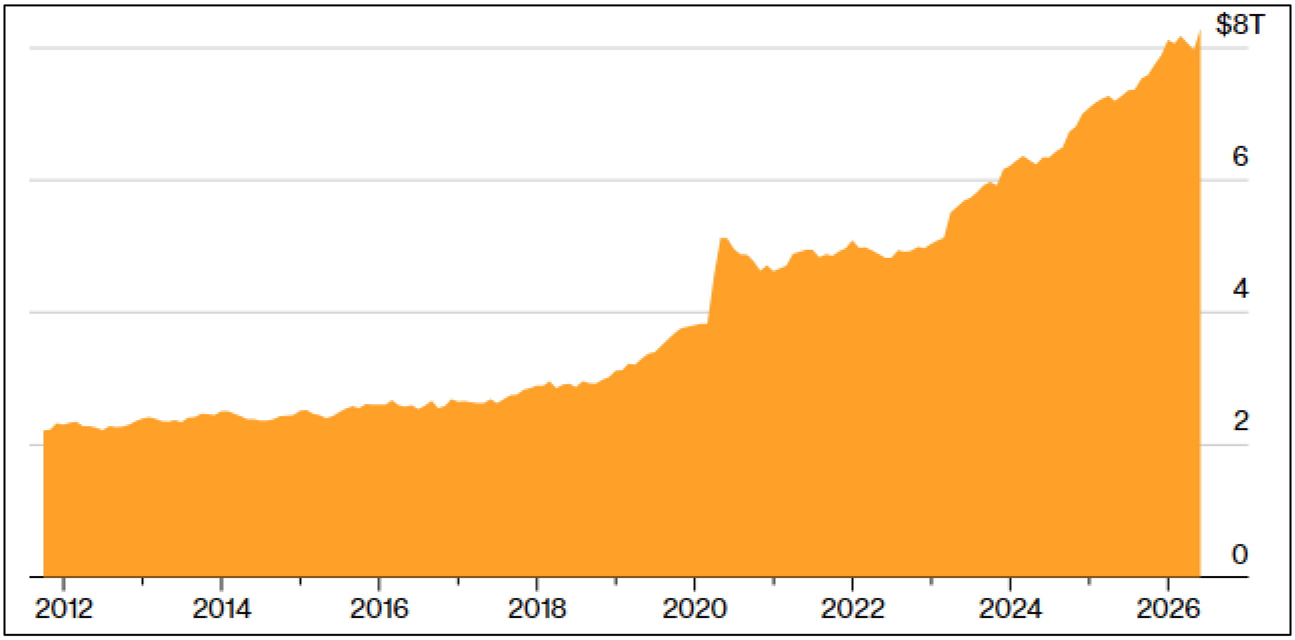


Source: Shikiar Asset Management

Global mergers and acquisitions (M&A) are on track for their strongest year since 2021, at roughly **$4 trillion** in announced volume, up about 13% from 2025 and second only to the pandemic-era peak, as a wave of megadeals drives value even as overall deal counts decline. Paramount's roughly $170 billion acquisition of Warner Bros. Discovery, and NextEra Energy's $67 billion combination with Dominion Energy underscore both the scale and the breadth of the activity. U.S. IPOs have raised roughly $112 billion across 79 deals so far this year,[2] more than six times the pace of a year ago, headlined in June by SpaceX's roughly $85 billion Nasdaq debut near a $2 trillion dollar valuation, the largest public offering in history. Anthropic and OpenAI, both of which filed confidentially during the quarter, are still to come. We view this combination of record earnings, healthy margins, and a reopening deal market as a meaningful pillar of support for equities, though we are monitoring the wave of equity and debt supply closely, as offerings of scale could pressure existing positions as investors may raise cash to participate. Goldman Sachs projects total U.S. share issuance will reach 1.8% of aggregate market capitalization this year, which would overtake company buybacks for the first time in 23 years. Offsetting that, and noteworthy, is that more than **$8 trillion** remains parked in money market funds, and a rotation of even a fraction of those balances into equities could comfortably absorb the elevated supply as Figure 4 shows below.

[2] Goldman Sachs Investment Research

Figure 4: U.S. Money Market Fund Holdings



Source: Crane Data, Bloomberg

The other defining theme of the quarter was artificial intelligence, which continued to dominate both the headlines and the market's returns. The clearest expression was in memory and semiconductors, where a shortage of the high-bandwidth memory used in AI servers drove a powerful run, lifting the chip complex and Korea's stock market (KOSPI) to record levels, before retreating from these peaks in recent weeks. Underpinning it all is an extraordinary wave of capital spending: the five largest hyperscalers (Amazon, Microsoft, Google, Meta, and Oracle) are expected to spend over $750 billion[3] on infrastructure in 2026, up more than 67% from 2025, with roughly three-quarters directed at AI. The open question is the return on that investment, as this spending has begun to outstrip the hyperscalers' cash flow and is increasingly funded with debt. **However**, companies insist the demand is real. **As Amazon's CEO Andy Jassy put it in his 2025 shareholder letter, "We're not investing approximately $200 billion in capital expenditures in 2026 on a**

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[3] Jefferies Research/Company Presentations

hunch," and the adoption data bears him out. ChatGPT now reaches close to a billion users each week, some nine in ten Fortune 500 companies use AI in one form or another, and roughly 20.6% of businesses worldwide have adopted it in some form, underscoring both the pace of change and the runway that still lies ahead.

That enthusiasm does not exist in a vacuum, and as always, there are several risks which we continue to monitor closely. The fiscal backdrop is increasingly constrained. The national debt now stands above $39 trillion, the federal deficit is running at roughly $2 trillion for fiscal 2026, and total debt has climbed to more than 100% of GDP, above even its post-World War II high, with interest costs on that debt now exceeding $1 trillion a year and absorbing a growing share of government resources. Speculation within pockets of the investment community has also become more visible, with margin debt reaching a record of roughly $1.42 trillion this spring, up more than 50% from a year earlier and, relative to GDP, above even the 2021 peak. Beyond the balance sheet, the geopolitical map remains unsettled well beyond Iran. U.S. pressure on Cuba and Greenland has escalated, and our transatlantic relationships are persistently being tested across trade and defense. Competition with China across technology and security continues to be "front page news." Closer to home, November's midterm elections add a layer of domestic policy uncertainty. Cybersecurity threats are growing more frequent and sophisticated, and the regulatory environment continues to evolve across technology, trade, and national security.

Considering these developments, we wanted to update you on the actions we have taken across your portfolio(s). Throughout the quarter we remained nimble, selectively adding new positions within technology, healthcare, and industrials where we identified attractive risk-adjusted opportunities. Where appropriate, we trimmed holdings opportunistically on strength, managing position sizes with an eye toward valuation and prudent diversification. Realized gains were offset, where possible, by harvesting losses elsewhere in the portfolio, and as always, all maneuvers were executed in a tax-efficient manner where applicable. We also continued to add to preferred equities offering yields in excess of 300 to 400 basis points above comparable Treasuries, which we view as an attractive and durable source of income in the current rate environment. We also continue to selectively allocate capital to corporate bonds, municipal bonds, and Treasury bills where appropriate. Throughout, we maintained ample cash reserves, preserving the flexibility to act decisively should a renewed bout of volatility create compelling buying opportunities.

As we share in each of our quarterly letters, the senior team at the firm "eats its own cooking" and is meaningfully invested in many of the same securities we hold in your portfolios. Further, we seek portfolio companies that manifest attractive, sustainable long-term fundamentals that encompass the following: leading market share, strong balance sheets, free cash flow, revenue and earnings growth, cash dividends, periodic share repurchases, and well-respected management. While the current environment presents challenges, we remain optimistic about the path forward and confident in our disciplined, research-driven approach.

We hope you have the opportunity this summer to enjoy some quality rest and relaxation with family and friends. As always, thank you for your confidence, which is greatly appreciated

Very Truly Yours,

Team Shikiar