Holt Capital
Partners, L.P.

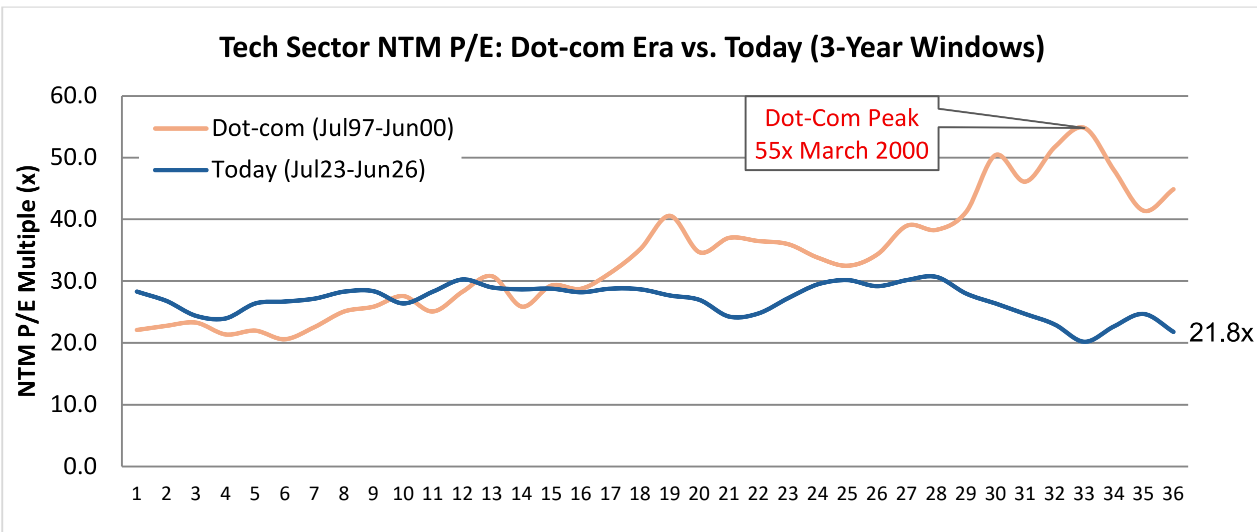
Second Quarter Financial Market Commentary

"Ninety Days in Ninety Seconds"

June 30, 2026

Are We In A Bubble?

- The question of whether today's market resembles the late 1990s dot-com bubble is increasingly being asked by clients and referenced in the media. Valuations are elevated, but the comparison to 1999-2000 is instructive precisely because of how different the picture looks today. At the dot-com peak in March 2000, the S&P 500 technology sector traded at over 54x forward earnings — built almost entirely on speculation and revenue multiples with limited underlying earnings.
- The chart below places the two eras side by side, showing the NTM (next twelve months) P/E ratio for the S&P 500 technology sector in the three years leading up to the dot-com peak in March 2000, and then the equivalent three-year window ending today.



Source Bloomberg.

New Federal Reserve Chair

- Kevin Warsh was confirmed as the new Fed Chair. At the FOMC's June 17th press conference, Warsh struck a decidedly hawkish tone — reiterating multiple times the Committee's commitment to delivering price stability, with virtually no mention of near-term rate cuts.
- Markets should expect the most meaningful policy changes to emerge later in the year. Warsh has indicated that independent task forces are currently evaluating five key elements of monetary policy conduct. Their conclusions could reshape the Fed's framework — including its inflation target, forward guidance approach, and balance sheet strategy — in ways that go well beyond the immediate rate path.

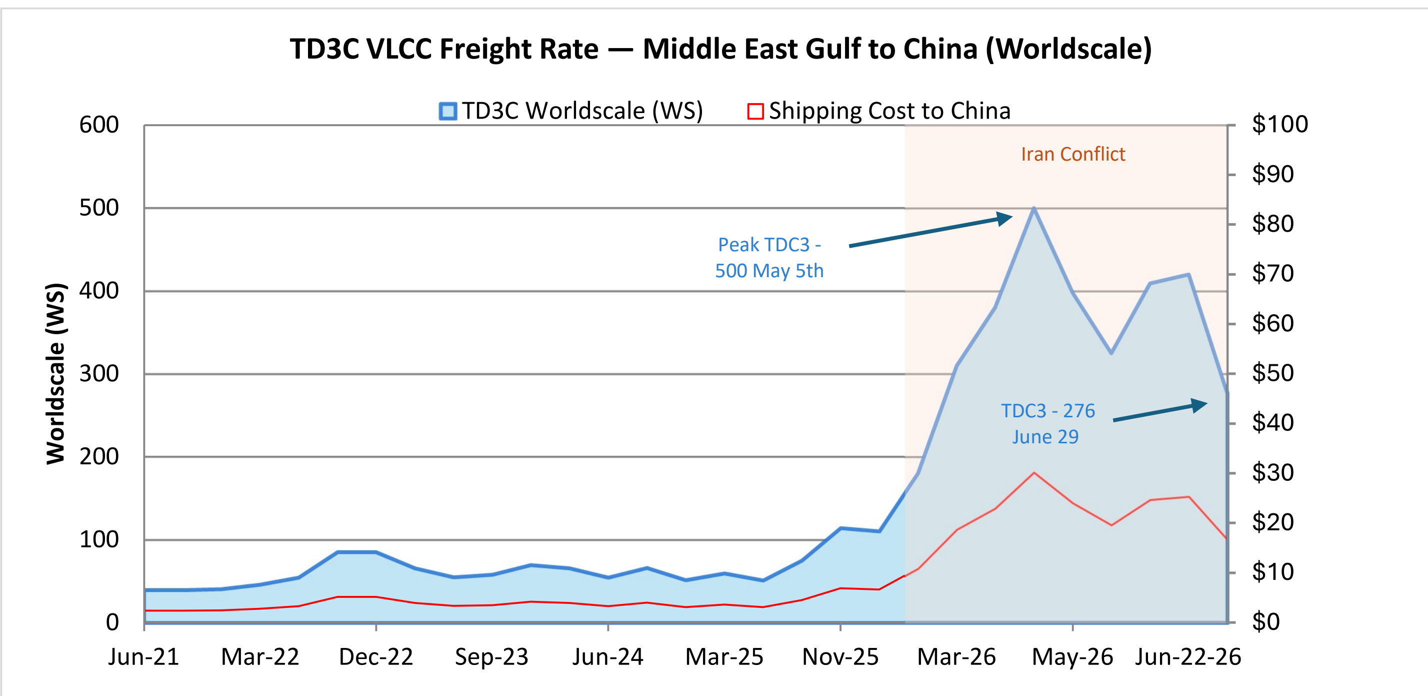
SpaceX IPO And AI Valuation

- SpaceX completed a highly anticipated IPO in June, drawing intense media coverage and enthusiastic retail participation. Yet the financial reality warrants scrutiny: the company priced at approximately 110x trailing revenues — despite being unprofitable on a net income basis.

- AI remains the defining narrative of the current market cycle. The transformative potential is real. But the investment question is not whether AI changes the world — it almost certainly will — but whether the capital being deployed will generate adequate returns. Historical precedent is sobering: a study of previous IPOs that priced at 40x revenues or more found that 80% of them underperformed the S&P 500 over the subsequent five years. Valuation ultimately reasserts itself.

Iran Conflict & The Strait Of Hormuz Premium

- The Iran conflict that dominated second quarter headlines appears, for now, to be winding down. Back-channel diplomacy and the absence of further strikes have left markets cautiously optimistic, and equity markets largely shrugged — oil prices softened alongside Brent with little lasting impact on risk assets.
- But that optimism deserves a wide confidence interval. Iran has a history of using apparent de-escalation as cover for repositioning, and the underlying dispute — enrichment capacity, sanctions, proxy activity — remains unresolved. The risk has been simply deferred, not eliminated.
- The TD3C Index, the benchmark VLCC freight rate from the Middle East Gulf to China, surged from a normal range of WS 50-70 (~$2-3/bbl) to a peak of WS 500 on May 5, 2026, before retreating to WS 276. At that level, shipping costs roughly $10-12/bbl — an incremental penalty of $8-9/bbl versus normal, effectively an ongoing and material tax on China's crude imports.
- Equities may be assuming the conflict is resolved, but freight rates tell a more cautious story: still at 4x historical norms, with the Hormuz risk premium largely intact. That cost burden on the world's largest oil importer deserves more attention than current equity prices suggest.

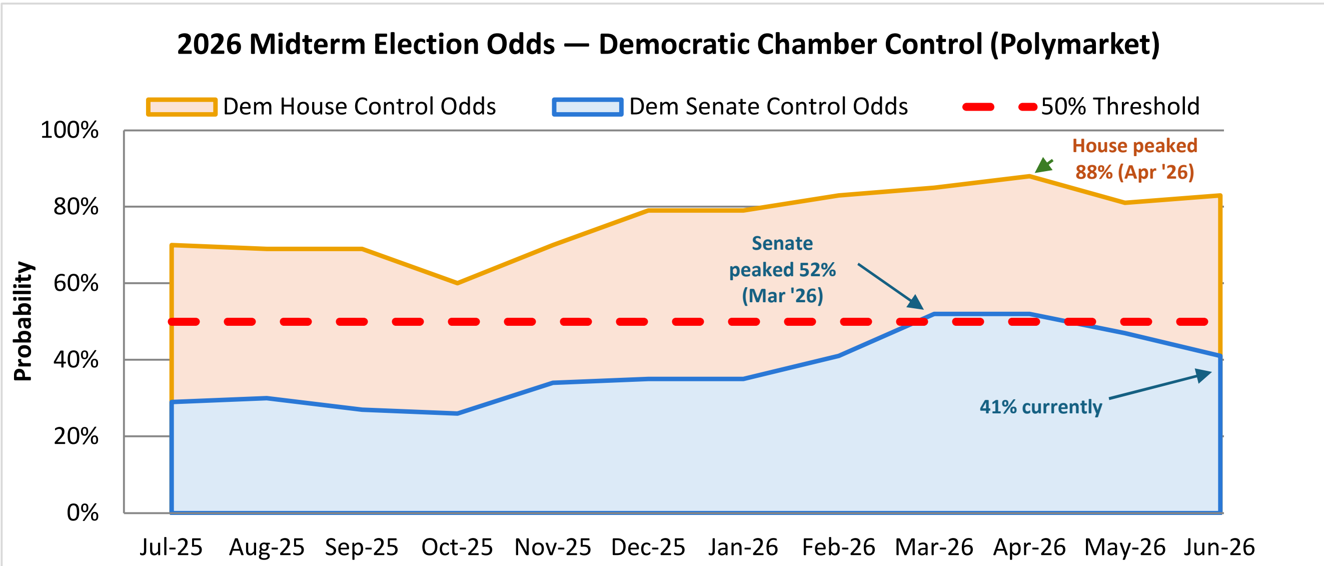


Source: Bloomberg.

Midterm Elections Likely To Weaken Republican Control, And History Suggests That's Good For Stocks

- With midterm elections approaching, political prediction markets have become a closely watched input for investors assessing the policy outlook. Democrats are the heavy favorites to retake the House — Polymarket has placed Democratic House control odds at 83% as of June 29, up from roughly 69% in mid-2025 and peaking at 88% in April 2026. The Senate has been the genuinely contested chamber: Democratic control odds started at 29% in mid-2025, fell to a low of 22% in late October, then staged a dramatic spring rally that crossed 50% in mid-March 2026 and peaked at 57% on April 15th. Senate odds have since pulled back to 41% as of June 29. In short: the House appears likely to flip Democratic, while the Senate remains a true toss-up.

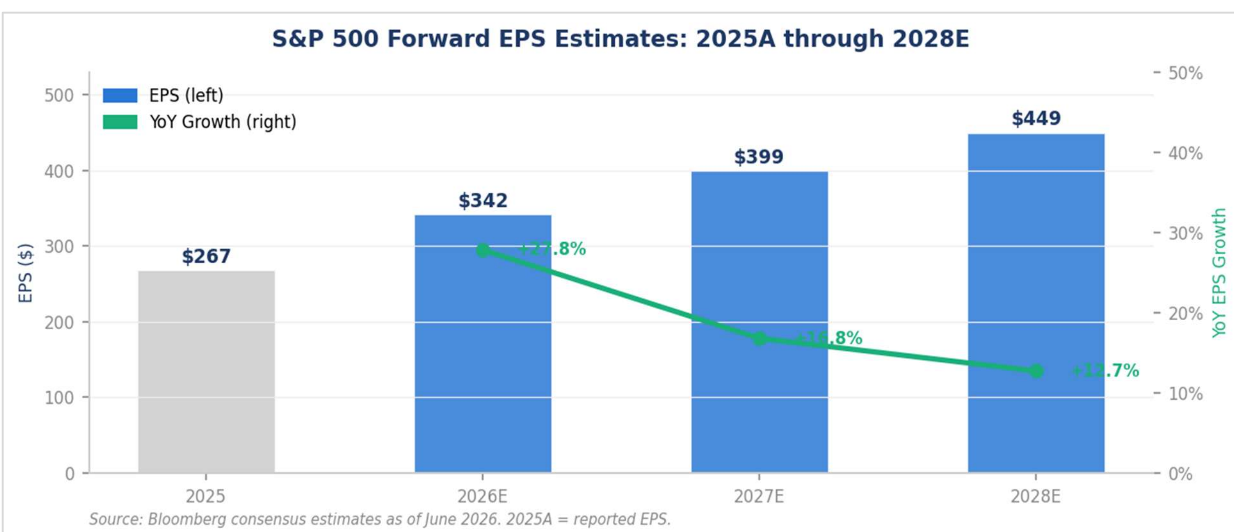
- Historically, midterm elections have been constructive for equity markets regardless of which party prevails. The most likely current scenario — a Democratic House paired with a Republican Senate and Republican White House — would produce divided government. A divided government has tended to produce some of the strongest equity market returns of any political configuration, as legislative gridlock limits policy risk in either direction.



Source: Polymarket daily contract prices. Jul 2025–Jun 2026.

S&P 500 Earnings Expectations

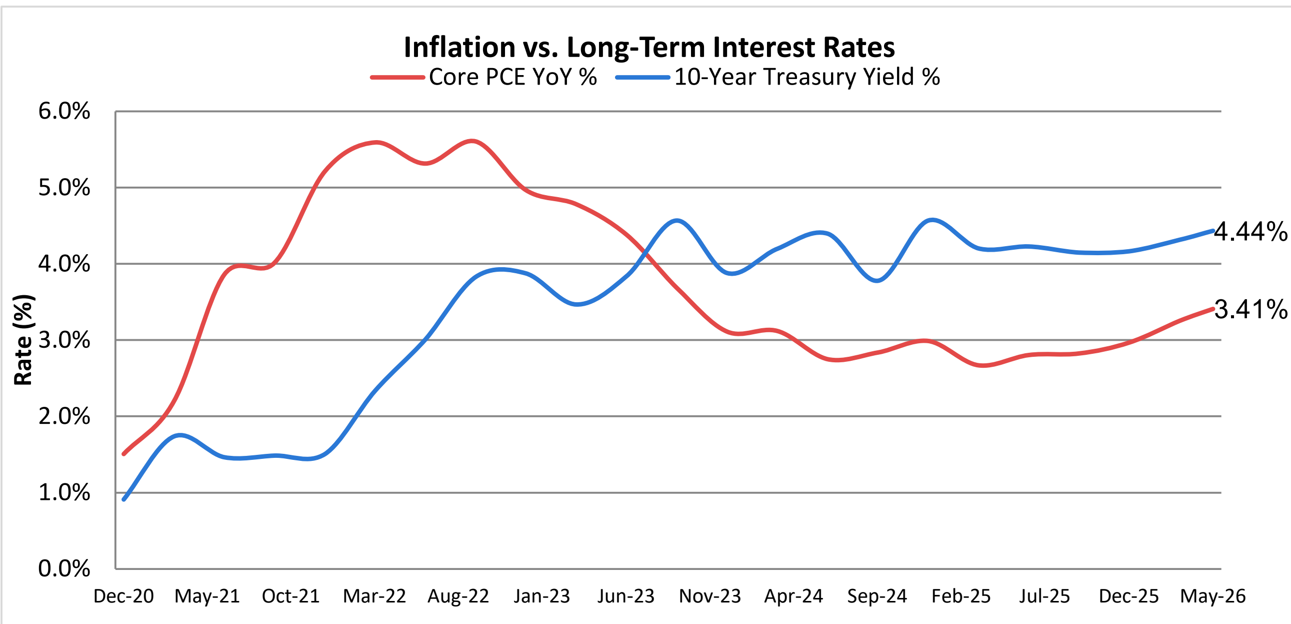
- With 2025 full-year S&P 500 EPS reported at $267, the forward earnings trajectory has become the central question for equity valuation. Consensus estimates embed a multi-year acceleration — implying roughly 28% growth in 2026, moderating to 17% in 2027 and 13% in 2028. These are ambitious but not implausible, assuming continued AI-driven productivity gains, margin resilience, and a benign macro backdrop.
- Any deterioration — recession, re-acceleration of inflation, or geopolitical shock — would likely prompt meaningful estimate cuts and multiple compression. Earnings delivery remains the single most important variable for equity returns over the next 18-24 months.



Source: Bloomberg consensus estimates as of June 2026. 2025A = reported EPS.

Inflation Remains Elevated

- The Fed's preferred inflation gauge — core PCE, which strips out volatile food and energy prices — has cooled meaningfully from its 2022 peak. Core PCE now sits at 3.41%, still well north of the Fed's 2% goal, while the 10-year Treasury yield has actually drifted higher over the same window, currently at 4.44%. That combination — sticky inflation and a rising yield — is a more difficult macro backdrop than the simple "inflation is falling" narrative suggests.
- Importantly, the path has not been a clean line down. After peaking near 5.6% in mid-2022, core PCE fell to the high-2% range by late 2023, only to drift back above 3% over the past year. That stall pattern — improvement followed by a re-acceleration — is consistent with a "last mile" problem: the easy disinflation from goods and base effects has run its course, while services, shelter, and wage-sensitive categories keep inflation pinned above target. The 10-year yield's failure to decline meaningfully despite a moderating headline inflation rate suggests the bond market shares this skepticism about a clean return to 2%.
- This matters directly for the Fed's reaction function. A still-elevated and sticky core PCE reading gives the Fed little room to cut rates aggressively, and the recent re-acceleration argues for caution rather than confidence that the inflation fight is won.



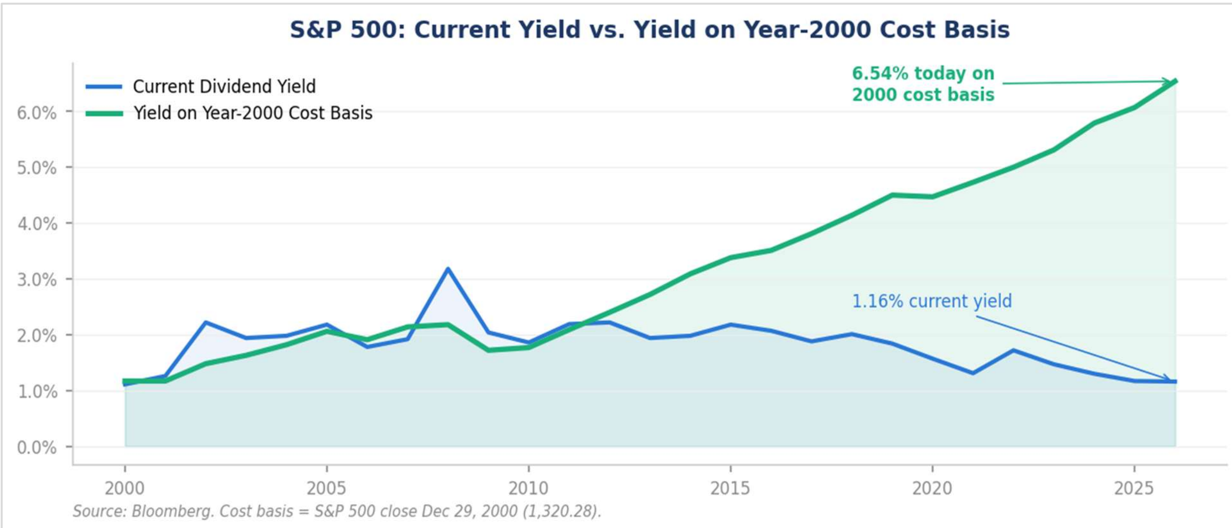
Source: Bloomberg, Bureau of Economic Analysis.

Capital Allocation: Dividends & Buybacks

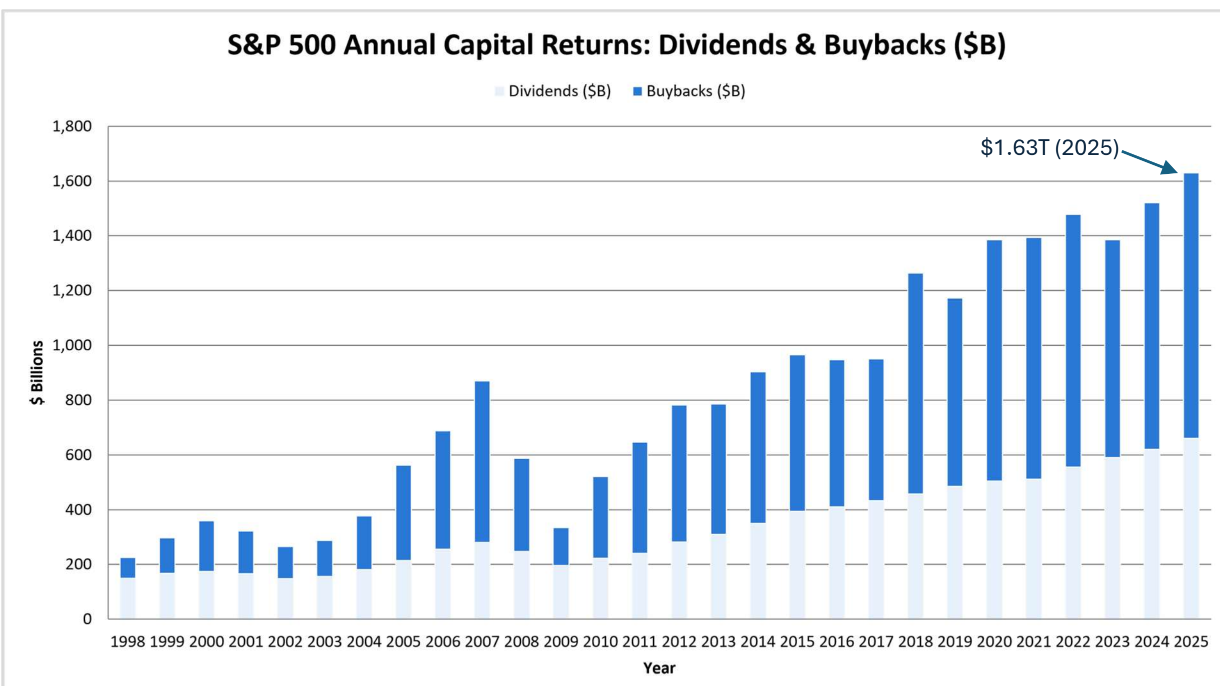
- Companies deploy excess cash through four primary channels: dividends, share repurchases, debt reduction, and acquisitions. These are long-term strategic decisions, and shareholders are best served by appreciating them in that light. Dividends tend to grow over time, steadily rewarding patient investors. Buybacks work quietly but powerfully — fewer shares outstanding means each remaining share owns a larger piece of the underlying business.
- One of the most underappreciated concepts in equity investing is yield on cost — the dividend yield relative to your original purchase price, not today's market price. An investor who bought the S&P 500 at year-end 2000 is now earning a 6.5% cash-on-cash dividend yield on their original investment, versus the current index yield of just 1.2%. That compounding effect is invisible to anyone watching today's yield — and it is one of the most compelling arguments for long-term equity ownership.

♦ Buybacks have become the dominant form of capital return. In 2025, S&P 500 companies returned over $1.6 trillion through combined dividends and repurchases. Since 2003, the cumulative buyback effect has added 47% to EPS growth above what net income alone would have delivered.

Yield on 2000 cost basis	2025 dividends + buybacks	Cumulative buyback EPS boost
6.5%	**$1.6T**	**+47.5%**
vs. 1.2% current index yield	combined S&P 500 cash return	since 2003 vs. net income alone



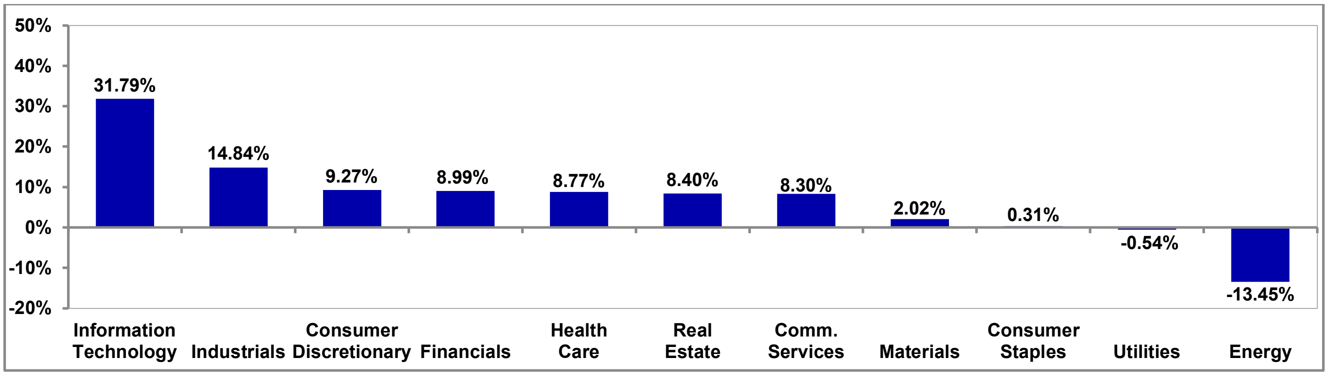
Source: Bloomberg. Cost basis = S&P 500 close Dec 29, 2000 (1,320.28).



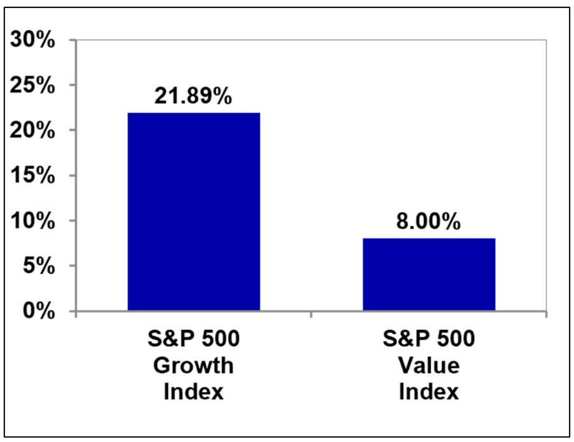
Source: Strategas, Haver. Annual data 1998–2025.

Second Quarter Investment Performance (including income)

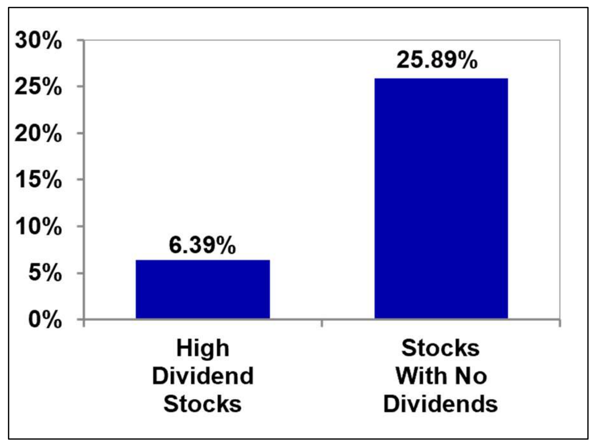
By Economic Sector



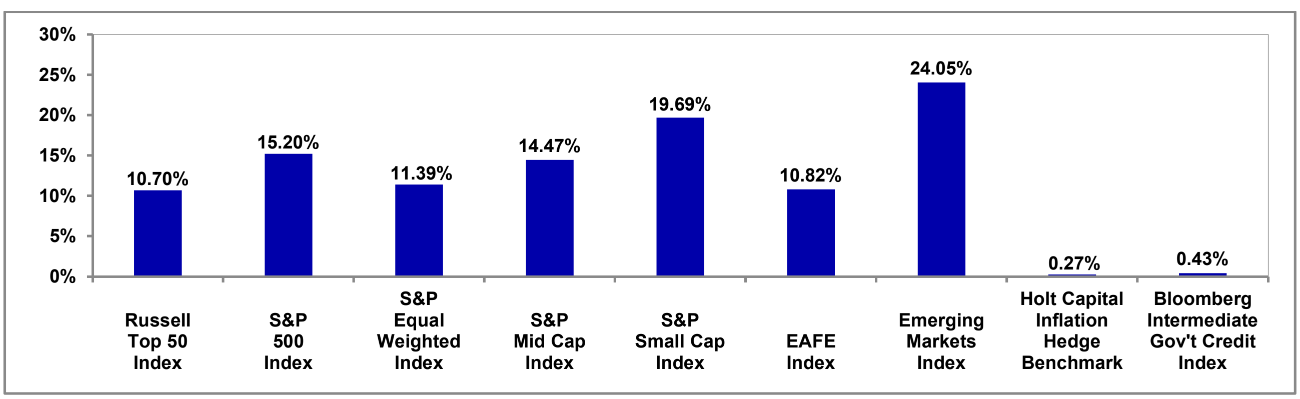
By Investment Style



By Dividend Yield



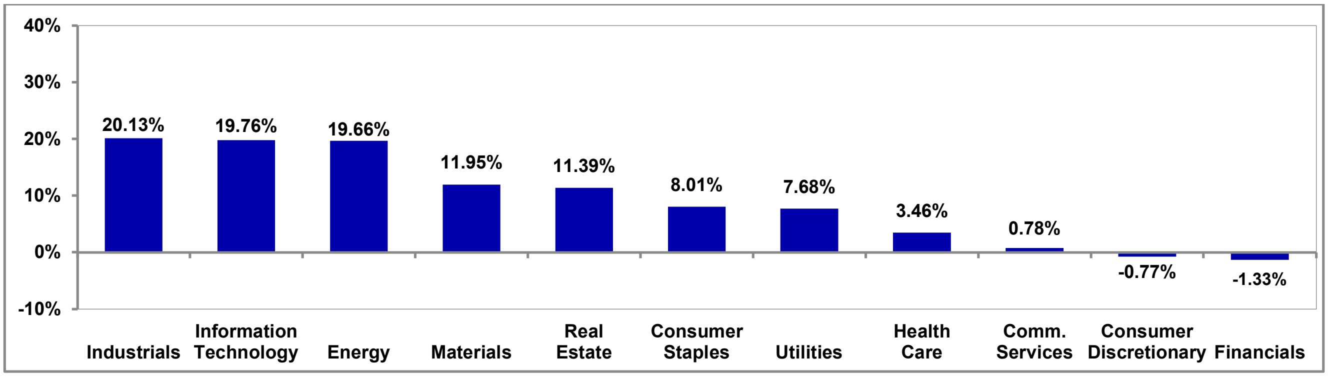
By Market Capitalization, Geography and Asset Class



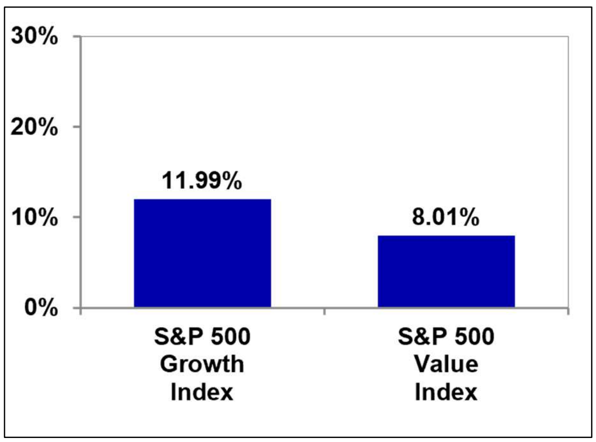
- Technology and consumer discretionary stocks were the leaders after being laggards in the first quarter. Companies that produce memory chips for use in AI servers were exceptional performers during the quarter and had an outsized impact on the return of the non-dividend payors index. Korean chip makers also played a disproportionately positive role in the return of the Emerging Markets Index.
- Investor enthusiasm focused on companies that should be AI beneficiaries, growth stocks dominated value strategies. The perception that many of those secondary beneficiaries were mid cap and small caps helped drive returns from those indexes above the mega-cap stocks in the Top 50 Index.

Year-to-Date Investment Performance (including income)

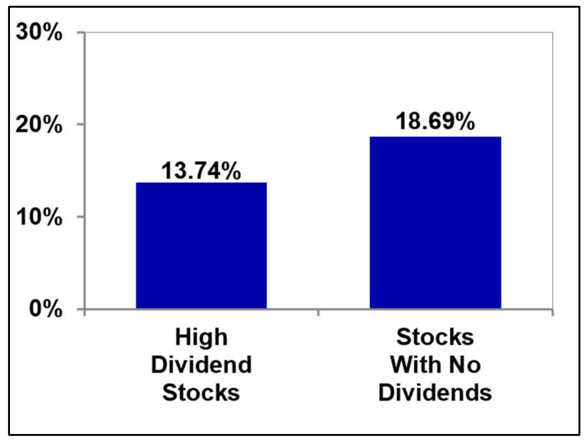
By Economic Sector



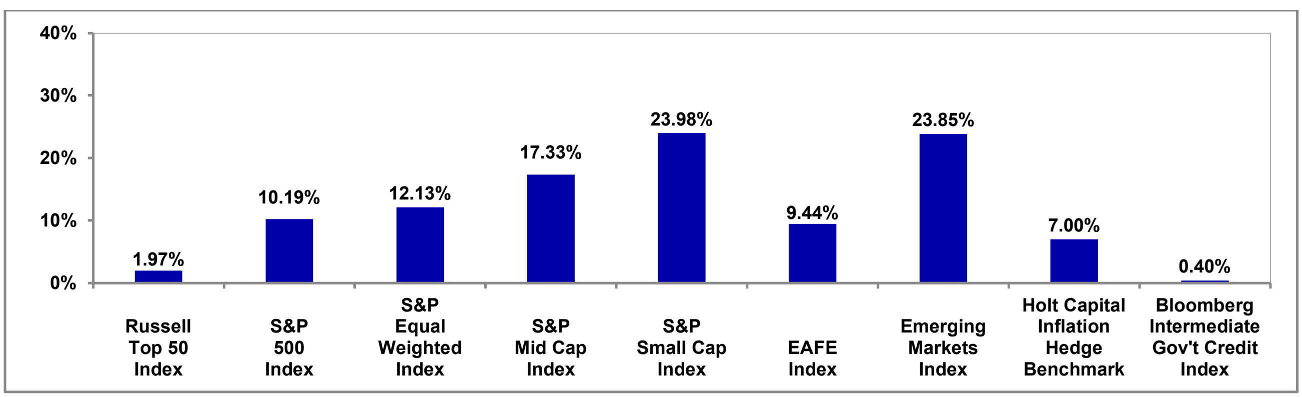
By Investment Style



By Dividend Yield



By Market Capitalization, Geography and Asset Class



- One of the defining stories of 2026 has been a sharp rotation in sector leadership between the first quarter and the second quarter. Energy and technology essentially swapped places — energy surged +38% in Q1 as the dominant leader, then fell over 13% in Q2 as oil prices retreated. Technology did the mirror image: down 9% in Q1, then up 31% in Q2 as AI optimism reignited. Industrials stands out as the one sector that delivered strong gains in both quarters.
- Small cap stocks posted their best start to a year in the past 35 years and were among the stars of the first half. Although the broader health care sector was a modest performer, biotech stocks continued to rally sharply. This is a function of productive science, as well as a major increase in mergers and acquisitions by large pharmaceutical firms.