BOYD WATTERSON
ASSET MANAGEMENT
A BOYD WATTERSON GLOBAL COMPANY

Boyd Watterson Investment Outlook

July 2026

Our Firm:

Boyd Watterson Asset Management, LLC is an SEC-registered investment advisory firm with approximately $19.7 billion of assets under management.[1] Over the last 90+ years, Boyd Watterson and its predecessor companies have successfully managed a broad range of fixed income and real estate strategies for institutions and individuals alike.

With a focus on the management of money and a dedication to the satisfaction of our clients' expectations, we offer the benefits of a boutique firm but with the resources usually attributable to a much larger asset management firm.

[1]As of June 30, 2026. Including real estate assets managed in separately managed accounts and advisory-only unified managed accounts (UMA). SEC registration does not constitute an endorsement of the Firm by the SEC nor does it indicate that the Firm has a particular level of skill or ability.

For information about Boyd Watterson's investment strategies, insights, philosophy and teams, please visit our website, www.boydwatterson.com

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The Macro View

The second quarter of 2026 was characterized by an easing of geopolitical tensions, as attention moved beyond the outbreak of war with Iran toward the question of whether shipping through the Strait of Hormuz would resume. The reopening of the Strait remains the single most important variable for our economic outlook. While the price of oil has moved off its recent highs, the durability of any normalization is far from assured. We believe the clearest takeaway is that the paths of growth, inflation, and monetary policy through the remainder of 2026 will depend largely on whether and to what extent the Strait remains open.

Performance for Periods Ending June 30, 2026

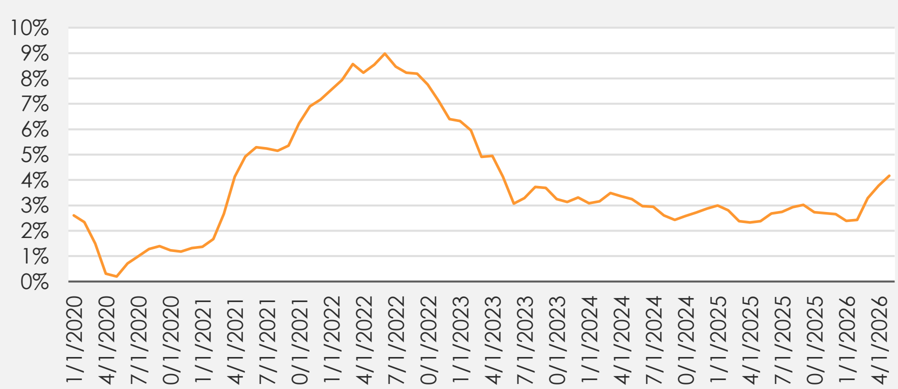
	QTD	YTD	1-Year	3-Year	5-Year
2-Year Treasury	0.27	0.50	2.62	4.03	1.54
10-Year Treasury	0.13	0.02	2.68	2.34	-1.72
Bloomberg Aggregate	0.67	0.62	3.79	4.16	0.08
Corporate Investment Grade	1.43	1.00	4.47	5.51	0.52
Corporate High Yield	2.42	1.87	5.75	8.75	4.13
Leveraged Loans	1.85	1.36	4.29	7.58	5.93
Mortgage Backed Securities	0.59	1.17	5.24	4.58	0.47
S&P 500	15.20	10.21	22.32	20.61	13.40
MSCI EAFE	10.82	9.44	20.23	16.44	9.05

Data as of June 30, 2026. Source: Interactive Data, Bank of America/Merrill Lynch/Bloomberg.

Economic growth has remained resilient, as sustained investment in artificial intelligence continues to offset pockets of weakness elsewhere in the economy. This has supported overall economic activity, but likely not to the extent that would justify the FOMC tightening monetary policy.

Inflation has accelerated globally and now runs above trend, a dynamic compounded by the energy and supply disruptions of recent months. While price pressures could begin to ease, we expect inflation to remain well above the FOMC's 2% inflation target, though not at levels likely to prompt the Federal Reserve to raise interest rates in the near term.

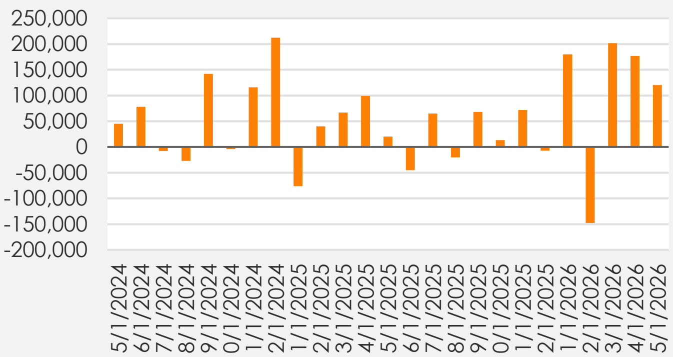
Consumer Price Index (Year-over-Year Percent Change)



Data as of June 30, 2026. **S**ource: Macrobond.

The labor market has remained on solid footing, with steady job growth, subdued layoffs, and improving private-sector job openings, offering little indication of near-term weakness. However, beneath the surface, the strain of higher prices has fallen disproportionately on lower-income households, a continuation of the uneven, "K-shaped" economy we have noted in prior Outlooks.

Total Private Nonfarm Payrolls (1-Month Net Change)



Data as of June 30, 2026. Source: Macrobond.

Against this backdrop, we have revised our monetary policy view. We no longer expect the FOMC to cut rates this year, but we also do not expect an increase. In our assessment, the Committee is positioned to remain on hold for some time, even as they place a renewed focus on above-target inflation. This assessment is further complicated by a leadership transition at the Fed, with Kevin Warsh now serving as Chairman. Although he came across as hawkish in his first meeting, we believe his bias will be toward cutting rates over the long run, but he will need to build consensus among the other Committee members to move policy in that direction. Importantly, Warsh has signaled that future monetary policy communication will emphasize brevity, data dependence, and reduced reliance on projections, signaling a shift away from the FOMC framework that has shaped market expectations over the past fourteen years.

The political dimension adds further complexity to the FOMC's policy framework. While the Trump administration has signaled it will not pressure the new Chairman, we are skeptical and believe political pressure will encourage a more accommodative policy stance. Additionally, the political calendar cannot be discounted, as the approaching midterm elections give the party in power a clear incentive for economic conditions to remain stable.

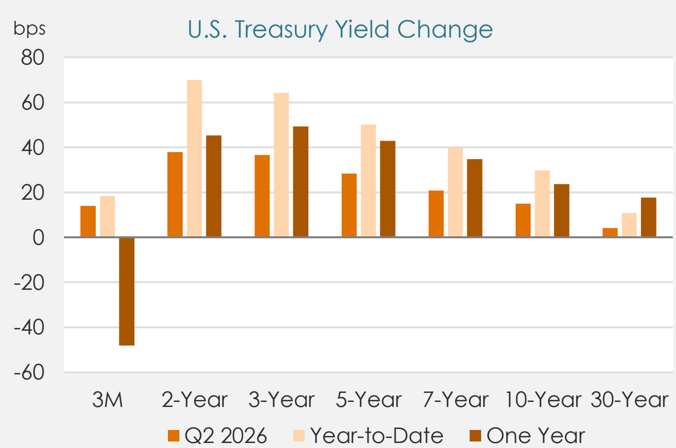
Taken together, we believe the bar to raise interest rates is considerably higher than the market currently appreciates, and that the timing and resolution of the war will ultimately determine whether the Fed's next move is a cut or a hike. It is also worth remembering that the United States did not cut rates as aggressively as many other central banks last year, which affords the FOMC additional room to remain patient, even as we have seen other central banks move to hike. We acknowledge this represents a change in our view, with market expectations having shifted from pricing in rate cuts to anticipating rate hikes, though we believe the Fed will continue to exercise patience.

Fixed Income

The initial ceasefire between the United States and Iran early in the second quarter provided optimism that the disruptions to shipping in the Strait of Hormuz could soon be resolved, setting the stage for a recovery in risk assets across the financial markets. As the ceasefire gave way to peace talks aimed at ending the war, oil prices retreated to near pre-war levels by quarter-end. However, the surge in oil prices had already pushed inflation higher, prompting investors to assess whether the FOMC would be forced to tighten monetary policy in response. As the quarter closed, these issues remained unresolved, leaving investors entering the second half of the year facing inflation that is above the FOMC's 2% target, peace talks that are tenuous, and asset valuations that appeared rich across the investment spectrum.

This geopolitical and macroeconomic uncertainty contributed to volatility in interest rates, which initially moved lower in early April following the ceasefire announcement. However, that move in interest rates quickly reversed as investors reassessed the inflation outlook after higher oil prices began feeding into the inflation measures. Interest rates were further pressured, particularly in short and intermediate-term maturities, due to the market's repricing of FOMC policy expectations. Markets shifted from assigning a low probability of an interest rate cut to fully pricing in a 25-basis point rate hike by the end of 2026. Fueling this shift in policy sentiment were comments from the new Federal Reserve Chairman, Kevin Warsh, as he signaled the FOMC would deliver price stability, a statement that was supported by the updated 'dot plot' showing 9 of 18 Committee members projecting an interest rate hike this year.

U.S. Treasury Yield Change



Data as of June 30, 2026. Source: Bloomberg.

Treasury yields generally moved higher during the second quarter, with yields rising from 15 to nearly 40 basis points across short and intermediate-term maturities, while long-dated Treasury yields increased slightly. For the second quarter in a row, this resulted in a flattening of the yield curve, as the yield differential between 2-year and 30-year Treasury yields declined an additional 34 basis points, to end the quarter at 78. While the flattening was driven primarily by the market's repricing of FOMC policy expectations, the minimal rise in long-term yields suggests investors remain confident that the Committee will fulfill its price stability mandate without derailing economic growth.

Despite elevated interest rate volatility, risk assets in the bond market had a strong quarter, as total and excess returns were positive across the fixed income landscape. Investment grade (IG) corporate bond spreads tightened 14 basis points during the quarter, leaving valuations at the tighter end of their historical range. Reflecting investors' continued appetite for corporate credit risk, IG excess returns were strongest among BBB-rated issuers and bonds with maturities of 15-years or longer. High yield (HY) corporate bond spreads tightened 53 basis points during the quarter, led by single-B rated issuers, which tightened 62 basis points.

Within the securitized sectors, spreads on asset-backed and commercial mortgage-backed securities tightened, while agency mortgage-backed spreads widened slightly. All three sectors posted positive excess returns, led by the commercial mortgage-backed sector, where excess returns were driven by lower rated single-A and BBB-rated tranches.

With the macroeconomic outlook continuing to reflect heightened uncertainty, our portfolio positioning remained focused on measured positions across our four alpha drivers. We used the rise in interest rates to extend portfolio duration across our active strategies, ending the quarter with a modestly long duration position. We maintained our preference for a bulleted maturity structure in our Core and Intermediate strategies but modestly reduced the degree of that position to support the slight extension in portfolio duration.

Our sector positioning continued to reflect overweight allocations to corporate bonds in all active strategies, emphasizing short-to-intermediate maturities while remaining underweight in long-dated corporate bonds. Given valuations near the richer end of historical ranges, we remain highly selective when evaluating corporate credit opportunities. We also continue to favor asset-backed securities over Treasuries, with a particular emphasis on bonds backed by auto loan collateral. Within our Core-based strategies, we maintained an overweight allocation to agency mortgage-backed securities.

Given our expectation that economic growth remains resilient and the FOMC stays on hold for the balance of the year, we expect to await greater clarity on the geopolitical front before making any significant adjustments to our alpha driver positioning. We believe our portfolios remain appropriately positioned, providing us with the flexibility to increase risk should more attractive investment opportunities emerge in the coming months.

Real Estate

As we enter the second half of 2026, both the macro economy and commercial real estate look to be entering a period of stability as it appears that the war with Iran is winding down, inflation and interest rates have stabilized, and debt and equity markets appear relatively healthy. With the economy expected to have slow but healthy growth and with real estate valuations at a lower basis than a few years ago, we believe that investors are going to begin shifting asset allocations to real estate funds. These capital flows would be expected to create more liquidity in the market and push deal activity and valuations upwards. In addition, we believe fundamentals are expected to continue to improve as demand increases, older supply is converted to other uses, and little new construction breaks ground, keeping a lid on supply. We except that commercial real estate will have slow, positive price appreciation for the next few years as excess supply is eroded and that most returns will be generated by income at properties, which bodes well for government-leased vehicles.

Additionally, the Trump administration's policies towards its office use is providing further tailwinds for the government-leased sector. The federal government's policy towards in-office work has greatly improved utilization at government-leased properties nationally and this has trickled down to the states as well. Many states have issued return-to-office mandates and perhaps most notably, California's return-to-office policy of four days per week in office is set to kick in in Q3 2026. The government has continued to work towards selling off more of its under-utilized and obsolete owned real estate and is expected to lease more space in the future. The private sector has proven to be more effective and efficient at operating real estate properties than the government and leasing will ultimately save the government money and ensure high quality office space for its workers. All of this will benefit the government-leased sector as its primary tenant base fills more leased space and reduces competitive owned space which will be repurposed to other uses.

This market environment where growth will be slow and steady tends to favor income-oriented funds such as the government focused ones Boyd Watterson operates. The current administration's policies that favor government leasing will likely strengthen this advantage. Boyd's funds target income generation in the 5%-8% range and are not reliant on strong appreciation gains to hit its targeted overall returns, as opposed to core funds who are more consistently in the 3-4% range for income returns. The high occupancies at properties and government credit on its leases are factors that contribute to more reliable and predictable income returns for Boyd's funds to bring long term stability for investors. We believe these market dynamics are beneficial to the current and future states of our funds.

Equities

The U.S. equity market rebounded sharply in the second quarter after posting negative returns in the first quarter of 2026. The NASDAQ led the way, up 21.41% in Q2, followed by the S&P 500, up 15.20%, and the Dow up 12.90%. It was the best quarter for the S&P 500 in six years, driven by a strong earnings outlook, continued economic growth, and an improving geopolitical climate. The Technology sector led the market, gaining 31.60%, followed by Industrials, which rose 14.53%. In contrast, the Energy sector declined 14.03%.

Growth stocks outperformed value stocks during the quarter, reflecting strong investor demand for companies with favorable earnings prospects. The S&P 500 Growth Index advanced 20.16%, while the S&P 500 Value Index rose 7.40%.

Small-cap stocks outperformed both mid-cap and large-cap stocks during the quarter, though performance remained within a tight band. The Morningstar Small-Cap ETF returned 16.35%, compared with 16.08% for the Morningstar Mid-Cap ETF, and 15.62% for the Morningstar Large-Cap ETF.