

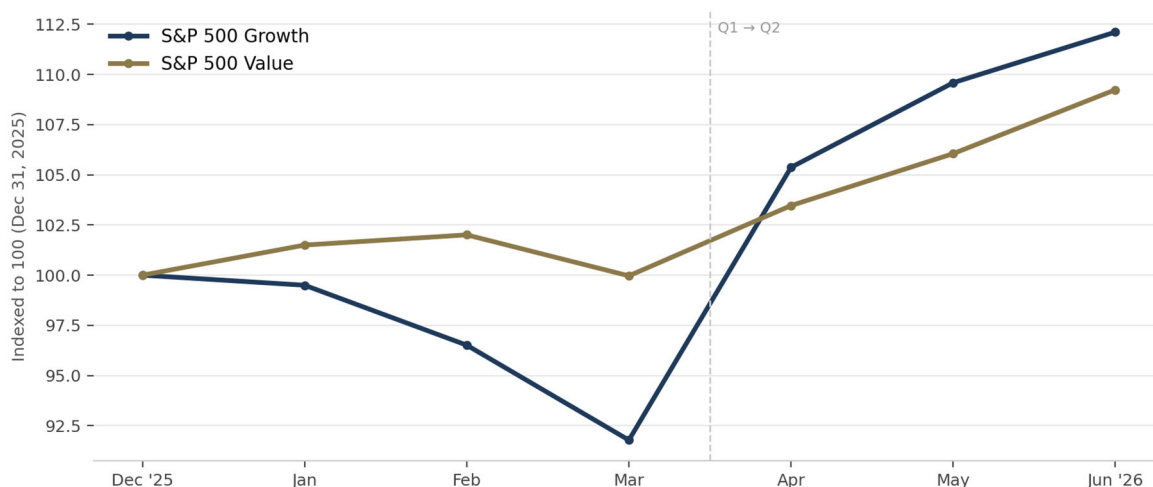
A Market in Recovery

The second quarter of 2026 delivered a sharp reversal from the volatility that defined the first quarter. After a fear-driven start to the year, in which the S&P 500 declined approximately 4.4% and the Nasdaq Composite fell more than 7% amid escalating conflict in the Middle East, equity markets staged one of the strongest rallies of the past several years. The S&P 500 returned approximately 15.2% for the quarter, its best three-month performance since the 2020 post-pandemic rebound. The Nasdaq Composite returned roughly 21.6%, the Dow Jones Industrial Average gained approximately 13.4%, and the Russell 2000 climbed about 21.5%, a sign that the rally broadened well beyond the largest technology names by quarter's end. Notably, the S&P 500 high beta index returned 27% vs the low beta index returning 5.4%, marking a return to favoring the high-flying speculative corner of the market. Dividend-focused strategies felt this rotation directly: the ProShares S&P 500 Dividend Aristocrats ETF (NOBL), a useful proxy for the steady dividend-growers we favor, returned approximately 6.6% for the second quarter (roughly 9.1% year to date), trailing the S&P 500's 15.2% advance by a wide margin and underscoring how far leadership rotated toward speculative growth even as quality dividend compounders continued to post gains.

The rotation into value that we highlighted last quarter reversed almost as quickly as it began. Growth stocks, led by mega-cap technology and semiconductor names, reasserted their leadership as the Iran conflict eased and corporate earnings came in well ahead of expectations. The Philadelphia Semiconductor Index gained nearly 88% during the quarter, its best three-month performance since the index's inception in 1993, powered by insatiable demand for AI infrastructure and a historic memory chip shortage discussed below. Complicating any simple growth-versus-value narrative, the June Russell reconstitution reclassified several mega-cap technology companies, including Apple and Microsoft, as blended growth-and-value holdings. Value benchmarks now carry meaningfully more exposure to the same names driving the growth trade than they did a year ago, a structural shift worth keeping in mind when comparing style returns quarter to quarter.

Growth Reclaims Leadership After a One-Quarter Detour

S&P 500 Growth vs. Value, cumulative total return, Dec 2025-Jun 2026



Source: S&P Dow Jones Indices (Q1 2026 factor dashboard, confirmed); Q2 2026 monthly path is Brookmont's estimate based on reported quarterly totals and is illustrative pending final index-provider data. Q1: Growth -8.1%, Value 0.0%. Q2 (est.): Growth ~+21%, Value ~+9%.

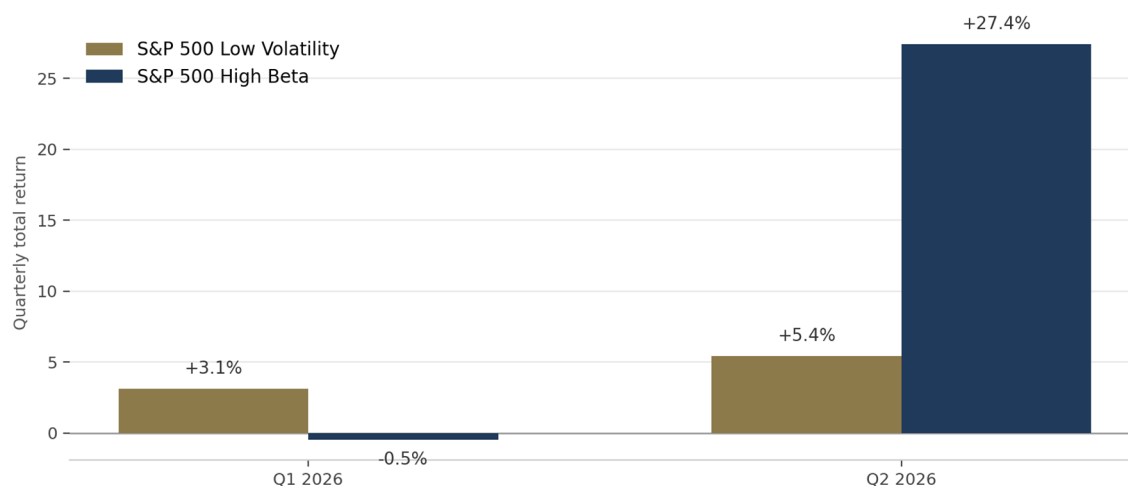
Sector leadership also shifted over the course of the quarter. Energy, last quarter's standout performer, underperformed as oil prices retreated sharply once the geopolitical risk premium began to unwind. Industrials, financials, and healthcare picked up the baton late in the quarter as some investors rotated away from richly valued technology names, though industrials remain the top-performing S&P 500 sector for the 1H2026 on a total return basis. With the median S&P 500 stock trading at a trailing price-to-earnings ratio above 25 by quarter-end, capital also moved further down the market-capitalization spectrum in search of value, helping fuel the strength in small- and mid-cap stocks noted above.

Two developments suggest the rally was built on more than momentum. First, the advance broadened beyond the small group of mega-cap AI names that dominated 2023 through 2025. Every sector in the S&P 500 posted a positive total return in the quarter, led by a 43% surge in large-cap technology, according to S&P Dow Jones Indices' sector data, but cyclical sectors from financials to industrials participated as well. Second, the earnings backdrop genuinely improved rather than merely beating a lower bar. First-quarter results, reported through April and May, saw 84% of S&P 500 companies beat consensus EPS estimates, the highest share since the second quarter of 2021 and above the five-year average of 78%, producing the index's strongest earnings growth since the fourth quarter of 2021. Analysts have continued raising estimates rather than trimming them: the projected year-over-year earnings growth rate for the second quarter has been revised up to 23.3% as of early July from 18.8% at the end of March, an unusual mid-quarter upgrade that, if it holds, would mark a second consecutive quarter of earnings growth above 20%.

The rotation was as much a story about risk appetite as it was about style labels. The same investors bidding up growth also bid up the market's highest-beta, most speculative names, while the steadier, lower-volatility cohort of the index was left behind after leading in the first quarter.

Risk Appetite, Reversed

S&P 500 Low Volatility vs. High Beta factor indices, quarterly return



Source: Q1 2026 figures confirmed via S&P Dow Jones Indices factor dashboard (Low Vol +3.1%, High Beta -0.5%).
Q2 2026 figures are Brookmont estimates derived from H1 2026 YTD fund-level data (SPLV, SPHB); confirm exact index prints before publication.

A quarter in which the riskiest quintile of the market outperforms the safest by nearly 22 percentage points is not, in our view, an environment to chase.

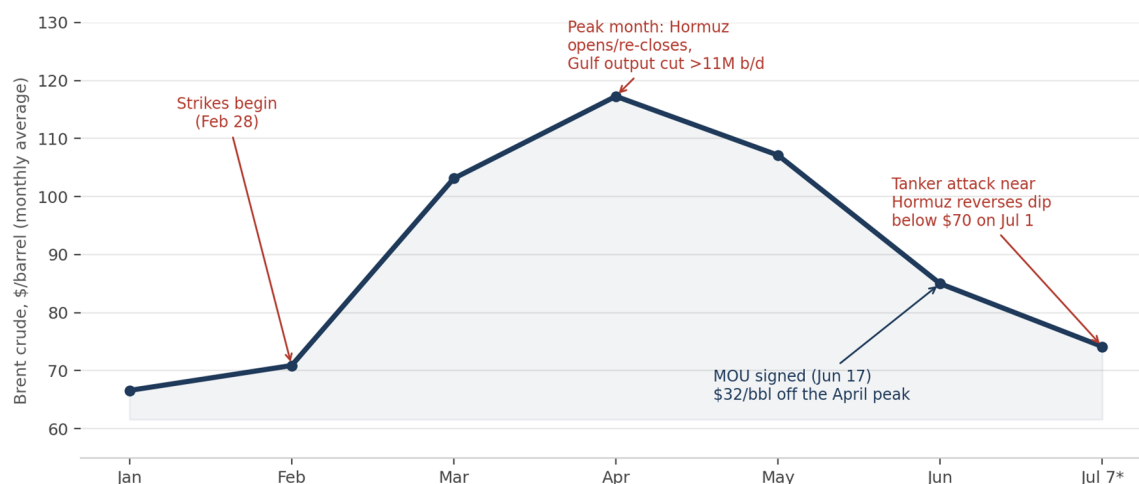
The Iran MOU: De-escalation, Not Resolution

The conflict that dominated headlines last quarter took a decisive, if incomplete, turn toward de-escalation, though not before several more rounds of escalation. Iran briefly declared the Strait of Hormuz fully open on April 17, only for both sides to re-escalate days later after the U.S. Navy seized an Iranian vessel and Iran fired on commercial shipping. By some industry estimates, Gulf producers had shut in more than 11 million barrels per day of output at the disruption's peak. The two sides finally signed a 14-point memorandum of understanding on June 17, brokered around the G7 summit, calling for the permanent termination of military operations on all fronts, including in Lebanon, and opening a 60-day negotiating window toward a final agreement.

The path of oil prices tells the story more precisely than any single headline. Brent crude, trading around \$72 a barrel before the war began, jumped 51% in March alone, one of the largest one-month moves on record, and kept climbing through the Hormuz open-and-close cycle in April, averaging \$117 a barrel that month, it's highest of the war. From there the decline was genuine: down to a \$107 average in May and, per the U.S. Energy Information Administration, an \$85 average in June, a \$32 per barrel retreat from the April peak. Prices briefly dipped below \$70 on July 1, essentially back to pre-war levels, before bouncing to the mid-\$70s within a week after Iran struck a commercial tanker near the strait and the U.S. revoked Iran's license to sell oil, a real-time reminder of how reversible this de-escalation still is.

From Chokepoint to Cooldown, With a Reminder of Fragility

Brent crude oil, monthly average price, Jan-Jun 2026, plus Jul 7 spot



Source: U.S. Energy Information Administration, Crude Oil Prices: Brent - Europe (FRED series MCOILBRETEU), confirmed monthly averages Jan-Jun 2026; EIA Short-Term Energy Outlook (July 2026) for the April peak/June average; CNBC (Jul 7, 2026) for the Jul 7 spot price.

Markets have treated the MOU as a genuine turning point, and equities rallied sharply as the framework came together. We would caution that the agreement is described by its own signatories as a preliminary framework, not a final peace settlement. As in the first quarter, we would caution clients against reading too much into any single headline, in either direction.

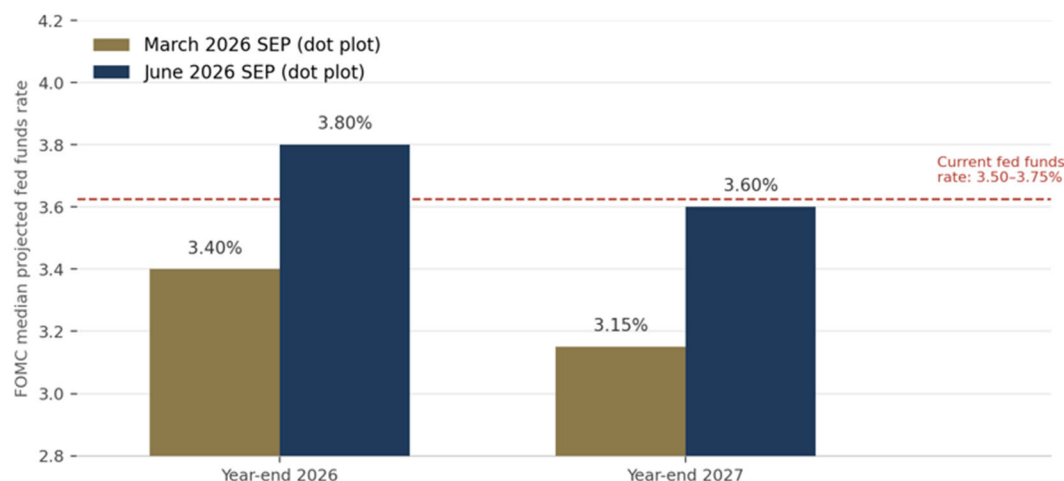
This kind of round trip is exactly why our *Future of Energy* theme is built around long-duration contracts and capital discipline rather than a bet on the spot price of crude. Our energy holdings are anchored in low-cost production and multi-year LNG offtake agreements rather than marginal barrels, while our utilities and material positions give us exposure to the natural-gas and nuclear side of the theme, which is far less correlated to a single geopolitical flashpoint than the headlines of the past two quarters might suggest.

A New Era at the Federal Reserve

Perhaps the most consequential development of the quarter for asset prices was not the Iran conflict but a change in leadership at the Federal Reserve. Kevin Warsh was confirmed as the 17th chair of the Federal Reserve in a narrow, contentious 54-45 Senate vote and took office on May 22, succeeding Jerome Powell, who elected to remain on the Board of Governors, an unusual arrangement without recent precedent. Warsh arrives with a mandate for reform, establishing five internal task forces to review how the Fed communicates, the data it relies on, and its framework for assessing inflation.

The Fed's Own Rate Path Reverses

FOMC median year-end federal funds rate projection ("dot plot"), March vs. June 2026 SEP



Source: Federal Reserve Board, Summary of Economic Projections, March 18, 2026 and June 17, 2026 (federalreserve.gov).
March SEP implied one 25bp cut in 2026 and a second by end-2027; June SEP saw 9 of 18 participants favor at least one 2026 hike (6 of those favoring two), versus zero members favoring a hike in March.

The circumstances of Warsh's arrival forced an abrupt pivot in tone. During his confirmation hearings, Warsh was viewed as an advocate for lower rates who believed AI-driven productivity gains would prove disinflationary over time. Inflation data released around his confirmation told a different story. The Consumer Price Index rose to an annual rate of 4.2% in May, its highest level since April 2023, while wholesale prices jumped 6% in April, driven substantially by the Iran-related spike in energy costs. At his first meeting as chair, on June 16 and 17, the Federal Open Market Committee held rates steady but dropped language pointing toward a future rate cut. Nine of the committee's members signaled support for at least one rate increase before year-end, with six of those favoring two quarter-point hikes, a sharp reversal from March, when the committee had penciled in a cut and not a single member favored raising rates.

Markets took notice. Two-year Treasury yields jumped to their highest level in over a year, and the S&P 500 and Nasdaq both fell more than 1% on the day of the announcement. The reversal in rate expectations, from two to three anticipated cuts at the start of 2026 to the possibility of hikes by year-end, is one of the largest repricings of Fed policy in recent memory, and one we are watching closely given its implications for the rate-sensitive parts of the market discussed below.

The Fed's own numbers make the shift concrete. In March, the committee's median projection saw the fed funds rate ending 2026 at 3.4%, implying one quarter-point cut this year and a second by the end of 2027. Chair Warsh, notably, declined to submit a projection at all, calling the dot plot unhelpful to the conduct of policy and setting up what he has said will be a broader review of how the Fed communicates.

The same repricing hit precious metals even harder than equities. Gold, which had set a string of record highs above \$5,500 an ounce in January on fears of dollar debasement and fiscal risk, gave back all of its first-quarter gain and then some, falling 14.1% in the second quarter to \$4,018.74 by June 30, its worst quarterly decline since 2013. Silver fell further still, down 21.8% from a mid-May high above \$88 an ounce. The mechanism was the same hawkish repricing described above: as 2026 rate-cut expectations evaporated and the dollar strengthened, the opportunity cost of holding a non-yielding asset rose sharply, more than offsetting whatever safe-haven bid the ongoing conflict might otherwise have provided.

The consumer, so far, has proven more resilient than the inflation and rate backdrop might suggest, though not evenly so. Retail sales rose 4.9% year-over-year in April, the strongest reading in eight months, and grew roughly 4% over the first four months of the year even as prices rose alongside them. That resilience is not evenly distributed: higher-income households have accounted for a growing share of spending growth, while credit card delinquencies among lower- and middle-income borrowers have climbed toward levels last seen in the 2008-09 recession and the personal savings rate has fallen to its lowest level since October 2022.

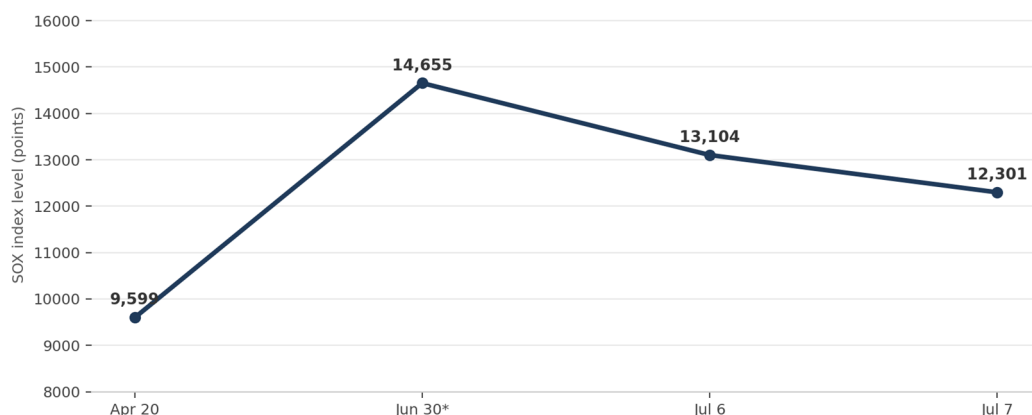
A higher-for-longer rate path is not uniformly bad news for our holdings. Our bank positions benefit from continued repricing of fixed-rate assets at higher yields, and each entered the quarter with the capital flexibility to keep returning cash to shareholders even if the Fed stays on hold longer than the market had hoped.

AI, Memory, and the Semiconductor Supercycle

The AI investment cycle we discussed last quarter has only intensified. Demand for high-bandwidth memory (“HBM”), the specialized chips that sit alongside AI processors, has grown so quickly that Samsung, SK Hynix, and Micron (which together produce nearly all of the world's DRAM) have reallocated most of their manufacturing capacity toward it. Because HBM consumes several times the wafer capacity of conventional memory per gigabyte, that reallocation has starved the market for the ordinary DRAM used in laptops, smartphones, and servers. Contract prices for conventional DRAM have risen by as much as 50% to 90% in a single quarter by some estimates.

The Semiconductor Supercycle, By the Numbers

PHLX Semiconductor Index (SOX), actual daily closing levels, Apr-Jul 2026



Source: FRED (series NASDAQSOX), Nasdaq, Inc. Figures are actual reported index closing levels on the dates shown, not an estimated or rebased series. *Jun 30 reflects the index's approximate quarter-end high per Nasdaq/Investing.com daily data; the index's own reported Q2 2026 return was +87.8%, its best quarter since inception in 1994.

The financial impact on the beneficiaries has been extraordinary. Micron shares more than tripled during the second quarter alone and are up over 260% year to date, propelling the company into the ten largest S&P 500 constituents and displacing a longtime member of that group. The semiconductor index itself gained 87.8% in the quarter, its best three-month performance since inception, before giving back some of that gain in a sharp early-July pullback, evident in the exhibit above. The result is a market that looks, on the surface, remarkably healthy. S&P 500 earnings are on pace for their second consecutive quarter of growth above 20%, and semiconductor company profits alone are projected to grow nearly 150% year over year. That strength is narrow, however. A handful of AI infrastructure names are responsible for a disproportionate share of both the earnings growth and the index-level return. Late in the quarter, we saw a preview of how quickly sentiment can turn, as Micron and SanDisk each fell more than 13% in a single session on profit-taking, part of a broader pullback that took the semiconductor index down from its quarter-end high of roughly 14,655 to roughly 12,300 within the first week of July.

Our quality screens, including dividend and free cash flow, prevent us from owning many of the high-flying AI names. However, we continue to express our *Artificial Intelligence* theme through the parts of the AI supply chain we find more durable and less crowded than the chipmakers themselves. Further down the value chain, our materials positions supply the specialty materials that leading-edge chip fabrication consumes in ever-larger quantities as node layer counts rise, a business we think benefits from the AI

buildout regardless of which chipmaker or memory maker ultimately wins the current cycle. We have exposure to the interconnection and high-speed data center networking the buildout requires, along with broader building automation and power management, and on-device AI monetization.

The competitive credit implications we flagged last quarter for software companies and private credit have advanced, not receded. Fitch Ratings reported that the trailing U.S. private credit default rate reached a record 6.0% in April, and several large direct-lending funds, including vehicles managed by Ares and Apollo, moved to cap investor redemptions in recent weeks as withdrawal requests surged. Software exposure remains a focal point for the funds most affected, though private credit vehicles generally employ little structural leverage, an important distinction from the mortgage-backed vehicles at the center of the 2008 crisis.

It is worth noting that the AI buildout's power demands are increasingly a bottleneck, an intersection where our *Artificial Intelligence*, *Future of Energy*, and *Industrial Sovereignty & Automation* themes converge and, in our view, is where conviction across our thematic framework concentrates most. We expect grid capacity, not chip supply, to be the more binding constraint on AI infrastructure spending over the next several years.

Why Brookmont

The second quarter was a reminder of how quickly market narratives can invert. Three months ago, we wrote about a market beginning to reward durable, cash-generative businesses after years of narrow, momentum-driven leadership. That rotation reversed sharply once the acute phase of the Iran conflict passed, and investors returned to the same concentrated set of AI infrastructure winners that led the market from 2023 through 2025.

We enter the third quarter with a market trading at an elevated valuation, a Federal Reserve that has pivoted from anticipated rate cuts to the live possibility of hikes, a geopolitical settlement that remains a framework rather than a final agreement, and a credit cycle showing its first real signs of stress in the sectors most exposed to AI disruption. None of this requires a bearish conclusion on its own, and corporate earnings have genuinely been strong. Together, these conditions argue for the same discipline that has always defined our approach: owning businesses with durable competitive advantages, strong balance sheets, and the ability to compound value regardless of which narrative the market is telling itself in any given quarter.

Disclosures

This letter may contain "forward-looking statements" which are based on Brookmont's beliefs, as well as on a number of assumptions concerning future events, based on information currently available to Brookmont. Current and prospective clients are cautioned not to put undue reliance on such forward-looking statements, which are not a guarantee of future performance, and are subject to a number of uncertainties and other factors, many of which are outside Brookmont's control, and which could cause actual results to differ materially from such statements. All expressions of opinions are subject to change without notice.

Brookmont Capital Management is a registered investment advisor that invests in domestic and global securities. Brookmont Capital is defined as an independent investment management firm that is not affiliated with any parent organizations.

A complete description of Brookmont's performance calculation methodology, including a complete list of each security that contributed to the performance of this Brookmont portfolio is available upon request.

Certain economic and market information contained herein has been obtained from published sources prepared by other parties, which in certain cases has not been updated through the date of the distribution of this letter. While such sources are believed to be reliable for the purposes used herein, Brookmont does not assume any responsibility for the accuracy or completeness of such information.

These individual securities do not represent all of the securities purchased, sold, or recommended for this Brookmont portfolio and the reader should not assume that investments in the securities identified and discussed were or will be profitable.

The Brookmont Dividend Growth Strategy returns are based on an asset-weighted composite of discretionary accounts that include 100% of the recommended holdings. Individual accounts will have varying returns, including those invested in the Strategy. The reasons for this include 1) the period of time in which the accounts are active, 2) the timing of contributions and withdrawals, 3) the account size, and 4) holding other securities that are not included in the Strategy. Dividends and capital gains are not reinvested. The Strategy does not utilize leverage or derivatives. Returns are based on U.S. dollars. The inception of the Strategy is January 1, 2008.

The Brookmont Dividend Growth Strategy Composite contains fully discretionary accounts with similar value equity investment strategies and objectives. For comparison purposes, the Dividend Growth Strategy Composite is measured against a combination of two indices. The S&P Dividend Aristocrats Index was used prior to November 2013; ProShares S&P 500 Dividend Aristocrats ETF is used subsequently. The ProShares S&P 500 Dividend Aristocrats ETF is an exchange-traded fund designed to track the S&P 500 Dividend Aristocrats Index. The fund focuses on U.S. large-cap companies in the S&P 500 that have increased their dividends for at least 25 consecutive years, giving investors exposure to businesses with long records of dividend growth, financial durability, and shareholder returns.

NOBL is equal-weighted, which helps reduce reliance on a small number of very large companies and can provide broader exposure across dividend-growing stocks. It is typically considered by investors seeking a blend of income, quality, and lower-volatility equity exposure, though it may lag broader growth-oriented indexes when non-dividend-paying or faster-growing companies lead the market. There is no representation that this index is an appropriate benchmark for such a comparison. The volatility of this ETF may be materially different from the performance of the strategy.

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The Brookmont Core Dividend Strategy Composite contains fully discretionary accounts with similar value equity investment strategies and objectives. For comparison purposes, the Core Dividend Strategy Composite is measured against the ProShares S&P 500 Dividend Aristocrats ETF. The ProShares S&P 500 Dividend Aristocrats ETF is an exchange-traded fund designed to track the S&P 500 Dividend Aristocrats Index. The fund focuses on U.S. large-cap companies in the S&P 500 that have increased their dividends for at least 25 consecutive years, giving investors exposure to businesses with long records of dividend growth, financial durability, and shareholder returns.

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The Brookmont Quality Growth Strategy returns are based on an asset-weighted composite of discretionary accounts that include 100% of the recommended holdings. Individual accounts will have varying returns, including those invested in the Strategy. The reasons for this include, 1) the period of time in which the accounts are active, 2) the timing of contributions and withdrawals, 3) the account size, and 4) holding other securities that are not included in the Strategy. Dividends and capital gains are not reinvested. The Strategy does not utilize leverage or derivatives. Returns are based in U.S. dollars. The inception of the Strategy is January 1, 2015.

The Brookmont Quality Growth Strategy Composite contains fully discretionary accounts with similar value equity investment strategies and objectives. For comparison purposes, the Quality Growth Strategy Composite is measured against the iShares Russell 1000 ETF. The iShares Russell 1000 ETF (ticker: IWB) is an exchange-traded fund designed to track the Russell 1000 Index, which represents large- and mid-capitalization U.S. companies. The fund provides broad exposure to the U.S. equity market and is commonly used as a core holding for investors seeking diversified access to established U.S. stocks. There is no representation that this index is an appropriate benchmark for such a comparison. The volatility of this ETF may be materially different from the performance of the strategy.

Brookmont's returns do include reinvestment of dividends and are shown gross-of-fees. All transaction costs are included. The Russell 1000 Value cumulative return includes reinvestment of dividends and capital gains. During a rising market, not reinvesting dividends could have a negative effect on cumulative returns.

Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Net-of-fees performance was calculated using actual management fees. Additional information regarding the policies for calculating and reporting returns is available upon request.

Your account returns might vary from the composites returns if you own securities that are not included in the Strategy or if your portfolio dollar-cost averaged into the Strategy during the reporting period.

The firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. The composite policy requires the temporary removal of any portfolio incurring a client-initiated significant cash inflow or outflow of at least 15% of portfolio assets. The temporary removal of such an account occurs at the beginning of the month in which the significant cash flow occurs and the account re-enters the composite at the beginning of the month which follows the cash flow by at least 30 days. Additional information regarding the treatment of significant cash flows is available upon request.

Brookmont Capital Management claims compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of Brookmont's composites and a presentation that adheres to GIPS standards, please contact Suzie Begando at 214-953-0190 or write Brookmont Capital Management, 5950 Berkshire Lane, Suite 1420, Dallas, TX 75225.

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Past performance is not indicative of future returns