



Dynasty Market Outlook

Back to the Future

2Q 2026

Where are we?

It started with a podcast in October 2025

The rotation didn't start with Iran – it began with a shift in the AI narrative

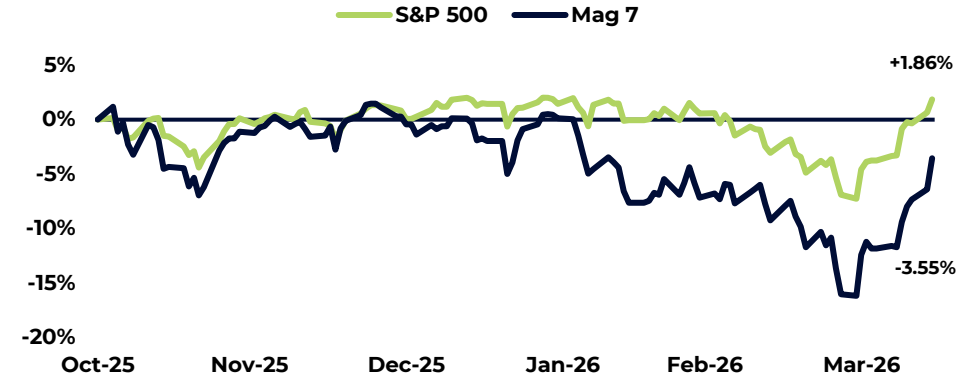
What happened

In October 2025, AI leaders – most notably Sam Altman – signaled that massive AI capex spending might not deliver returns as quickly as hoped. That single shift started a chain reaction still playing out today.

What it triggered

Capital rotated hard out of big tech and into the physical economy: energy, infrastructure, defense, materials. Microsoft was the first mega-cap to break key long-term support, and the 'growth at any price' trade started coming apart.

S&P 500 vs. Mag 7 since Oct '25



This rotation was underway before the first Iranian missile launched. The war accelerated it – but didn't create it.

The S&P is basically flat on the year after a massive relief rally, but the biggest tech stocks are still down over -3% YTD. Most of the market is doing great. The underperformance is concentrated in the names that dominated the last two years.

The S&P 500 is flat, but underneath, this market is thriving

The 7 biggest stocks are down ~3.1%. The other 493 are up ~4.0%. The index splits the difference and says “nothing happened.”

+1.78%

S&P 500 YTD

-3.14%

MAG 7 YTD

+4.05%

S&P 493 YTD

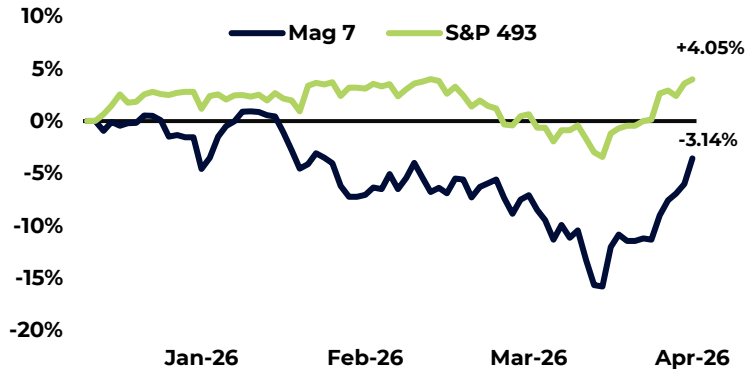
99th

DISPERSION %ILE

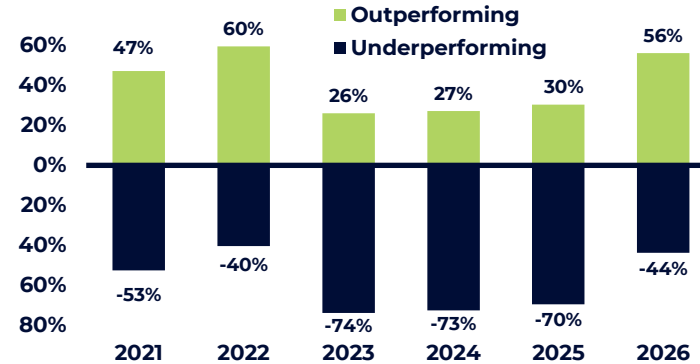
7 of 11

SECTORS POSITIVE

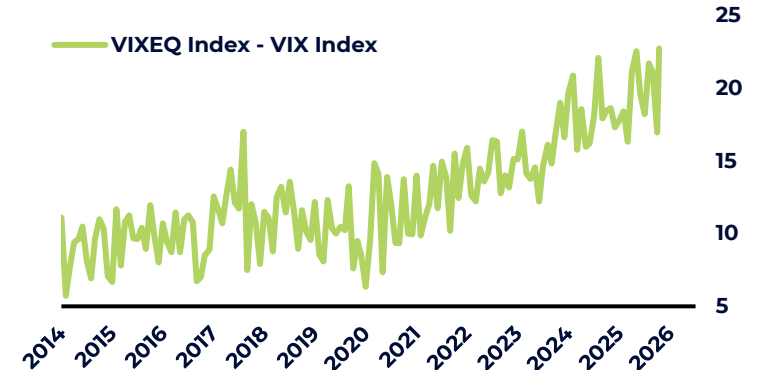
Mag 7 vs S&P 493 YTD performance



% of constituents outperforming the S&P 500



Single stock-level volatility premium near cyclical high

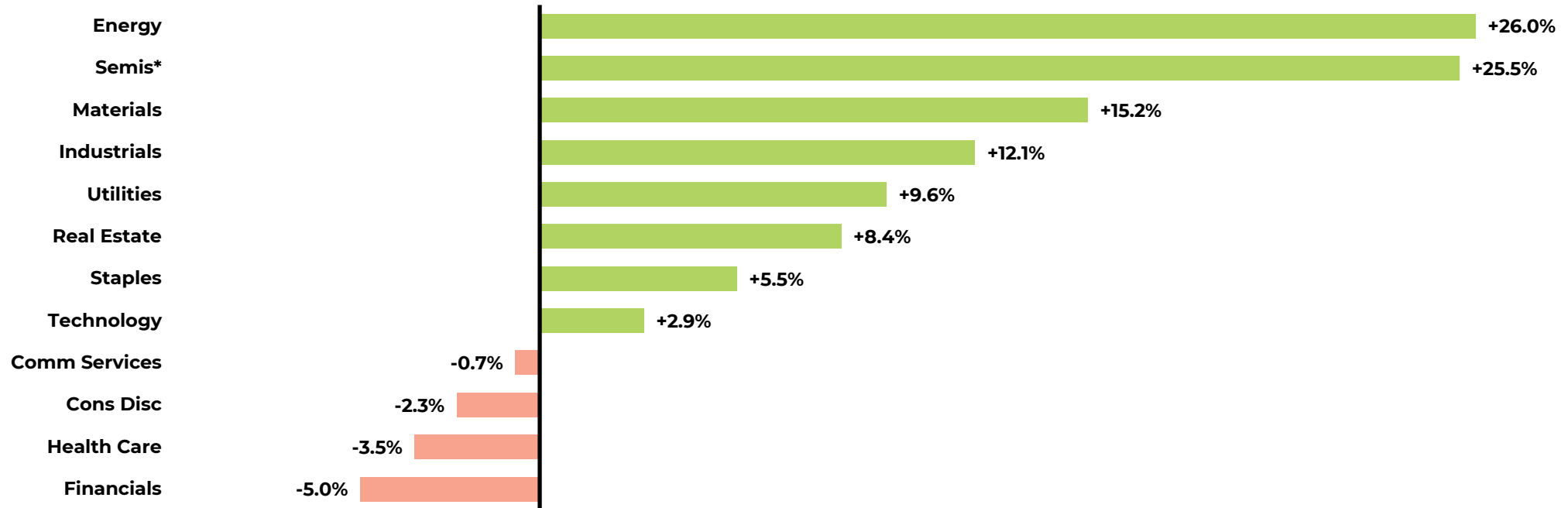


Equal weight S&P up +4.7%. Small caps +9.4%. The average stock is doing great – the index just doesn't show it.

The S&P 500 was flat because a handful of mega-cap tech stocks were dragging the cap-weighted index. Microsoft alone was down over -20% at points. But 7 of 11 sectors are positive, and more stocks are outperforming the S&P 500 than at any point since 2022. Stock selection matters right now.

The market is rewarding the builders

Energy, materials, and industrials are leading. Semis are up +25.5% on AI infrastructure spending



**Semis is a sub-sector within Technology*

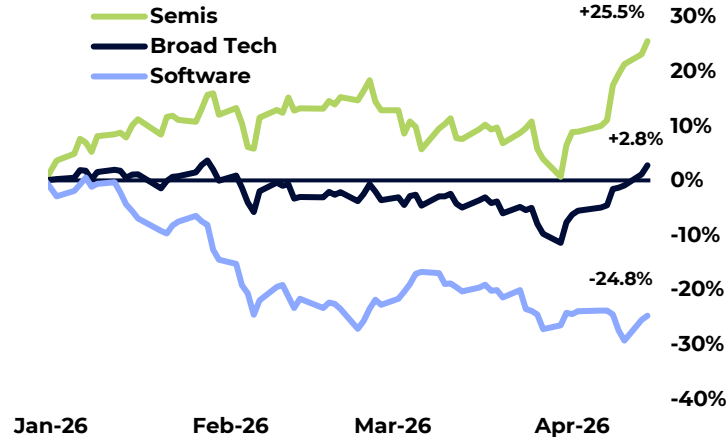
Oil +79%. Energy +26.0%. Semis +25.5%. Industrials +12.1%. The physical economy is winning.

AI is the catalyst, but the beneficiaries are physical: power generation, transformers, copper, steel, and datacenter buildouts. Semis (+25.5%) are the clearest AI infrastructure play, while Energy (+26.0%) and Materials (+15.2%) have also seen benefits. These structural tailwinds predated the Iran conflict and remain intact post-ceasefire.

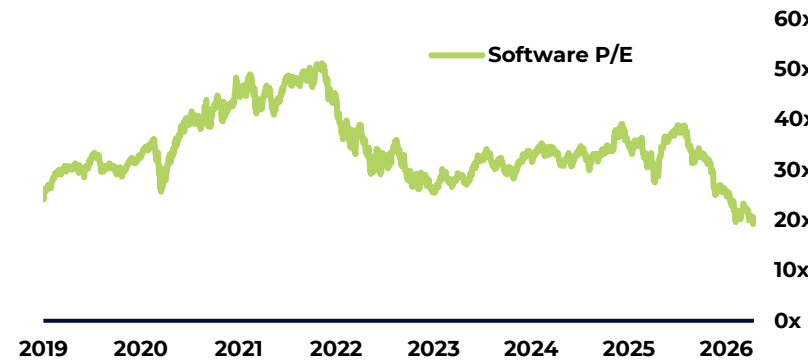
Software is struggling and it's showing up in credit

Public software is being re-rated. The pressure is spilling into private credit through BDCs

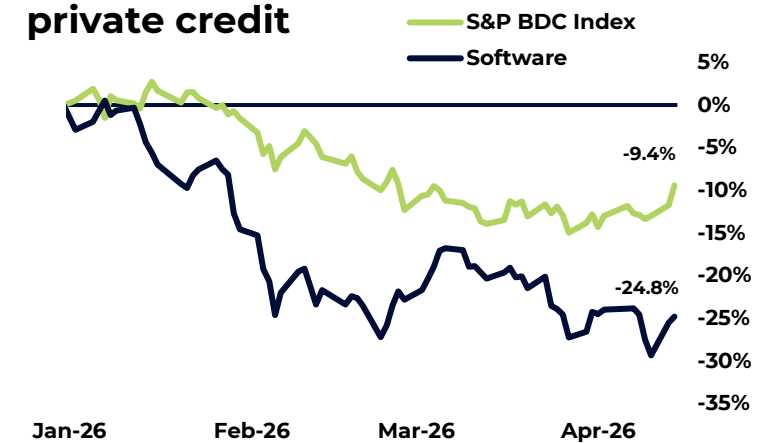
Performance across tech



Multiples have compressed since 2022



Software stress spills into private credit



This is a software problem. It's not a credit crisis.

Software forward P/E has compressed to its lowest level since 2018 as investors price in AI disruption risk. That re-rating is bleeding into private credit through BDCs with heavy software exposure. But the stress is narrow. AI infrastructure builders are thriving and broader credit markets are functioning fine. This is software getting re-rated, not a systemic problem.

Is the redemption pressure in BDCs a signal or just retail panic?

50%

40%

30%

20%

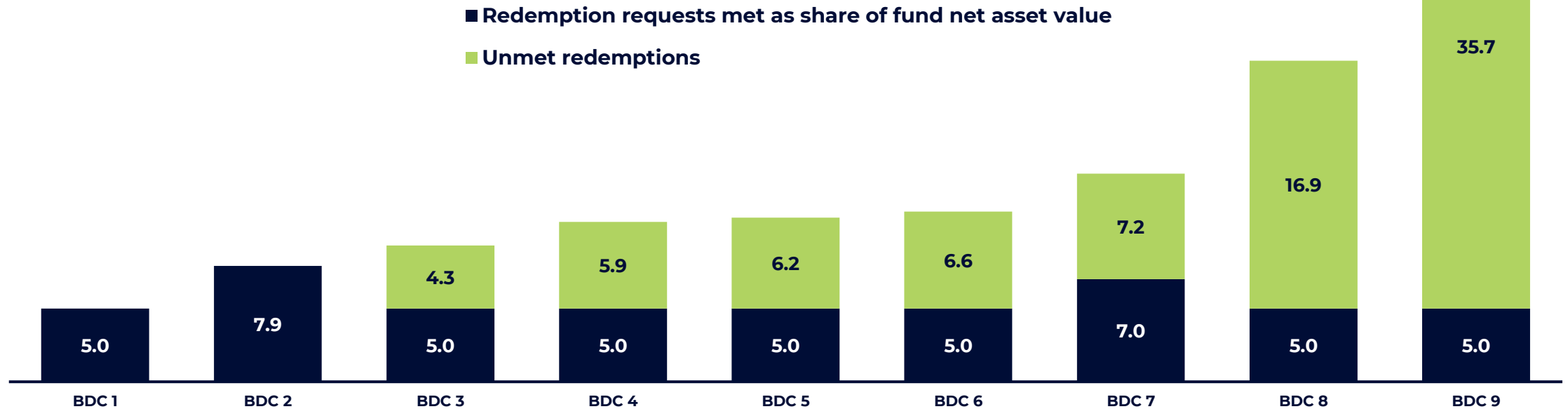
10%

0%

"While retail and some wealth management investors are pulling back from private credit, we believe many institutional investors are recognizing this dislocation as an attractive entry or re-entry point into the asset class," Goldman Sachs added.

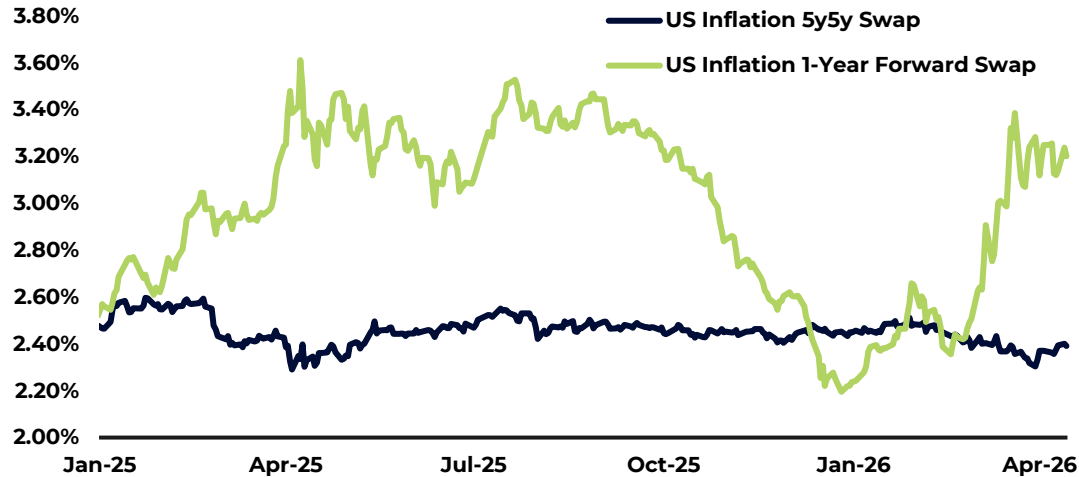
■ Redemption requests met as share of fund net asset value

■ Unmet redemptions

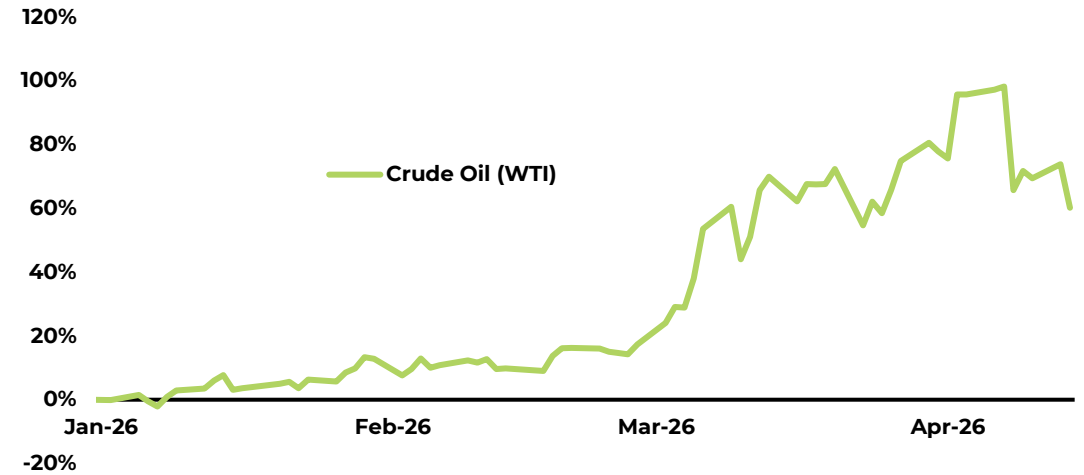


Inflation fears spiked with Iran, but the market sees this as temporary, not permanent

Long-term inflation expectations remaining stable



Oil is up +60% YTD but pulling back on ceasefire



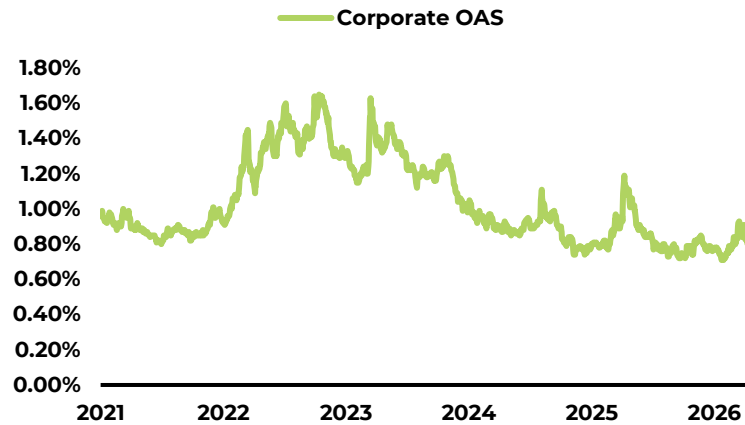
Long-term inflation expectations are holding near 2%. The market is treating this as a temporary supply shock, not a repeat of 2022.

When oil spiked, short-term inflation fears spiked with it. But longer-term expectations barely moved. The market is pricing this as a conflict-driven supply shock, not a structural inflation problem. Trump's 2-week ceasefire and Iran's agreement to reopen the Strait have pulled oil below \$100. If that holds, the Fed can stop worrying about inflation and start watching jobs.

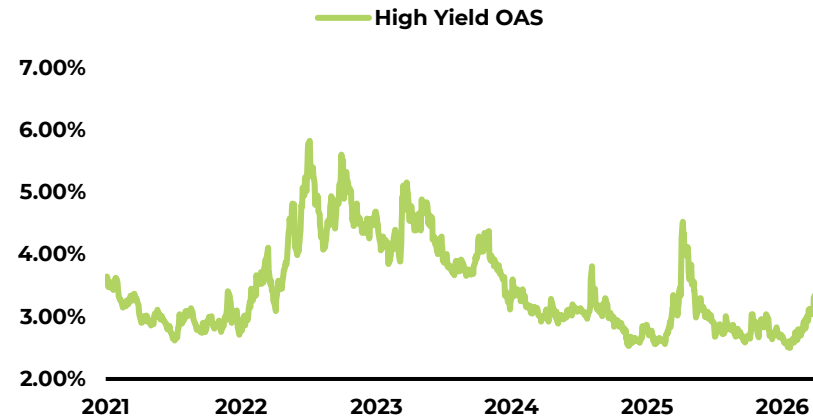
Rates rallied on the ceasefire – highlighting inflation fears as being conflict-related

Fixed income flipped positive across the board after the relief rally

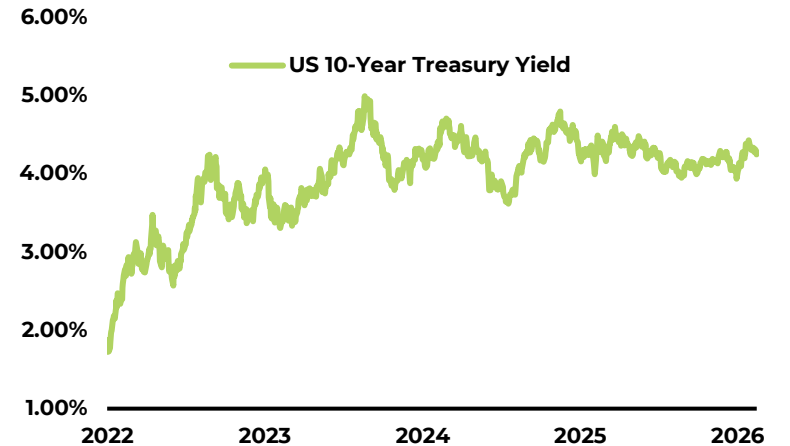
Investment Grade Corporate Bond Spreads



High Yield Corporate Bond Spreads



10 year treasury yields have been anchored at 4.30%



Why we moved up in quality

Credit spreads were near the tightest levels since COVID, meaning the extra yield you're getting for taking on lower-quality credit risk was minimal. Historically, starting from these levels means forward returns disappoint.

Why we added duration

We think the next move in rates is more likely down than up. The ceasefire rally pulled yields lower and boosted bond prices as inflation fears faded. If geopolitics continue to calm and the Fed eventually cuts, bonds have more upside from here.

Doing more with less – productivity gains offset slower hiring

Hiring has slowed, but the economy is producing more with fewer workers and needs far fewer new jobs to stay stable

+178K

MARCH JOBS (3X FORECAST)

-133K

FEB REVISED

4.3%

UNEMPLOYMENT

+2.1%

PRODUCTIVITY '25

3.5%

WAGES (COOLING)

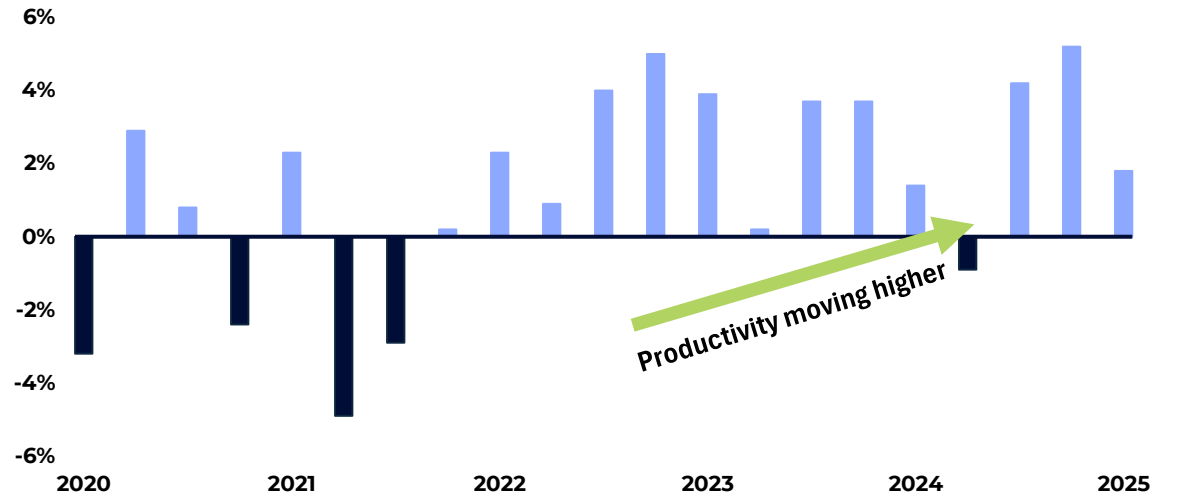
The labor market

March added 178K jobs – 3x above street expectations – but most of the growth was healthcare strike returnees. February was revised down to -133K, from -92k prior. The 12-month avg is just ~22K/month. Companies aren't hiring aggressively, but they're not cutting either.

The quiet positive: productivity

The economy doesn't need a hot jobs market to grow. AI adoption is pushing productivity higher and keeping labor costs in check. Workers are producing more per hour than at any point last cycle, and only ~5% of companies have meaningfully adopted AI at scale. There's a lot of runway left.

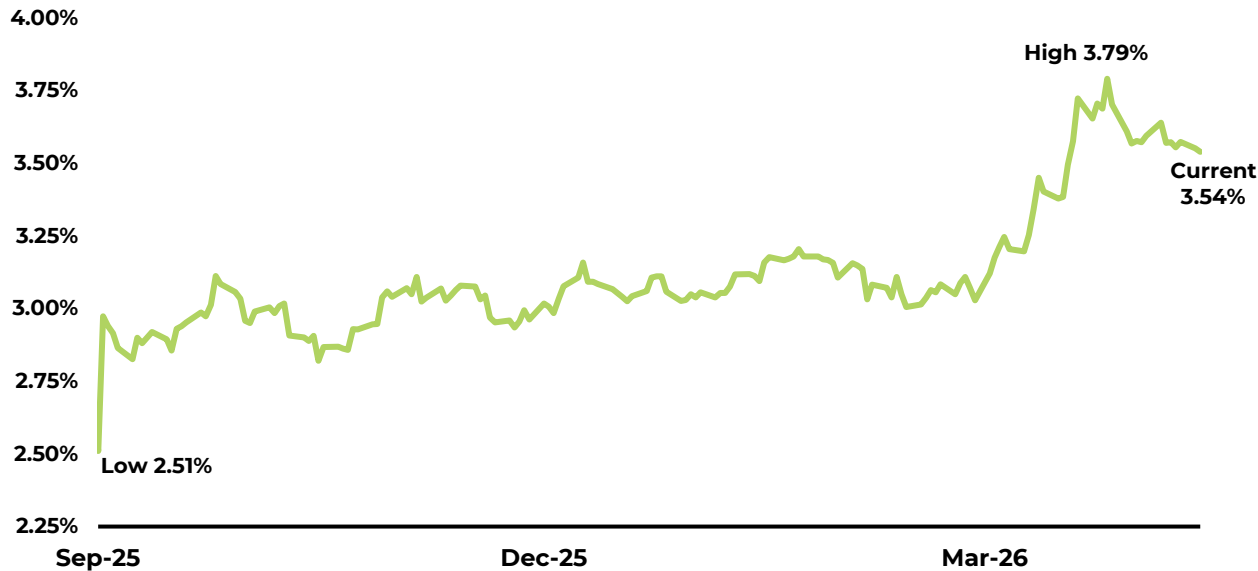
U.S. Labor Productivity Output Per Hour Nonfarm Business Sector



The Fed is back to being a tailwind

Dec '26 Fed Funds Futures: from 4-5 cuts (Sep '25) to hikes (Mar '26) to a partial cut (today)

December 2026 Market Implied Fed Funds Target



THE ARC SINCE SEPTEMBER 2025

Sep '25: 2.510. 4-5 cuts priced.

Year-end: ~3.08. ~2.3 cuts priced.

Mar 26: 3.791. Above target. Hikes priced.

Today: 3.543. Hikes gone. ~40% odds one cut.

0

HIKES '26

0

HIKES '27



CUT ODDS

After the round trip, accommodation is back on the table

With inflation expectations anchored, the Fed can look through this supply shock. Outside of energy, most contributors to inflation are showing signs of stabilization. As we approach the May chair transition, we expect the narrative to shift toward accommodation, especially if the labor market breaks down.

The earnings picture doesn't support a recession narrative

Q1 2026 EPS growth estimated at +13.2% YoY, which would mark 6 consecutive quarters of double-digit growth.

+13.2%

Q1 EPS GROWTH EST

+9.7%

Q1 REVENUE GROWTH EST

19.8x

FWD P/E

59

CO'S ISSUING POSITIVE GUIDANCE

Revenue growth at +9.7% would be the highest since Q3 2022. Positive EPS guidance came in at 59 companies, well above the 5-year average of 44 and the 10-year average of 40. Forward P/E has compressed to 19.8x, close to the 5-year average, and well off the 22.0x we saw at Q4 end. Earnings are the strongest argument against the recession narrative right now, and the reason we're staying positioned for a risk-on market.

Valuations fair, earnings growing, forward guidance well above average. This is not a recession setup.

We still like the U.S. but International has been hard to ignore

International has outperformed since October, but the U.S. structural advantages are real

Value vs. Growth

+6.7%

VALUE

-2.7%

GROWTH

+4.2%

EQUAL WEIGHT

U.S. vs. International YTD Performance

+7.9%

EAFE

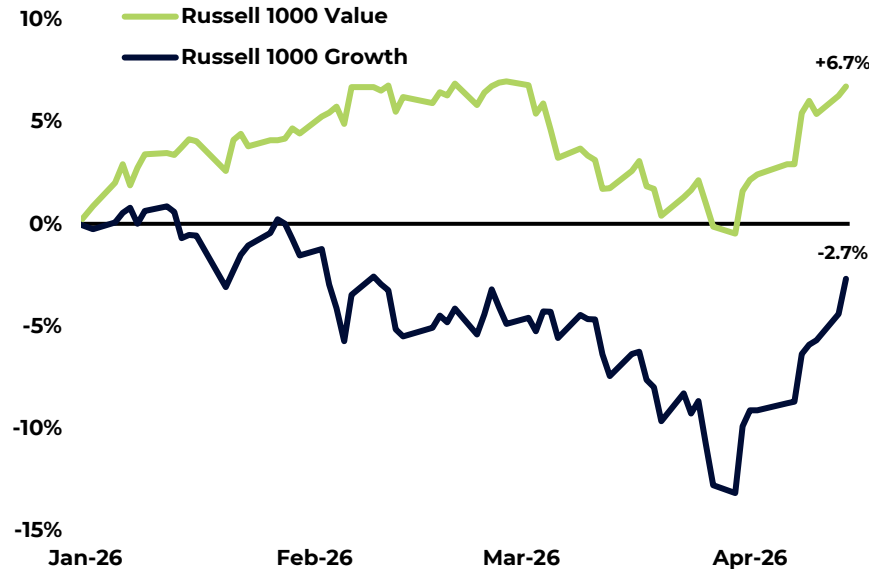
+13.7%

EM

+1.8%

S&P 500

Growth gives way to value



Why we remain U.S. overweight

Energy independence The U.S. is a net energy exporter. Europe and Japan import 90%+ of their energy. When oil spiked, EAFE dropped -7.8% in March alone.

Earnings superiority U.S. EPS growth +13.2%. Revenue +9.7%. Record positive guidance. Structurally higher margins and more buyback capacity.

AI and productivity The U.S. is where AI capex is deployed. Productivity +2.1% with only 5% of AI being used at scale. The productivity dividend accrues here.

March exposed the vulnerability International went from +10.9% YTD to +2.9% in one month on the oil shock. It recovered — but the fragility was clear.

We added international exposure selectively, but the U.S. structural advantages are real, and the risks of going further are asymmetric

Dynasty House View

Seven themes for Q2 2026

01

Bits-to-atoms continues

Favor the physical economy. The war accelerated this trade. It didn't create it.

02

AI infrastructure > software

Stay long the builders. Avoid the disrupted.

03

Dispersion is here to stay

What you own matters more than it has in years.

04

Defense sector

Geopolitics provide the headline. Fiscal spending is the real driver.

05

Yields attractive, but spreads compressed

Forward returns historically lackluster when spreads this tight

06

BDCs are a structure not a strategy

Manager selection remains critical

07

Private Equity – Build it. Don't just buy it.

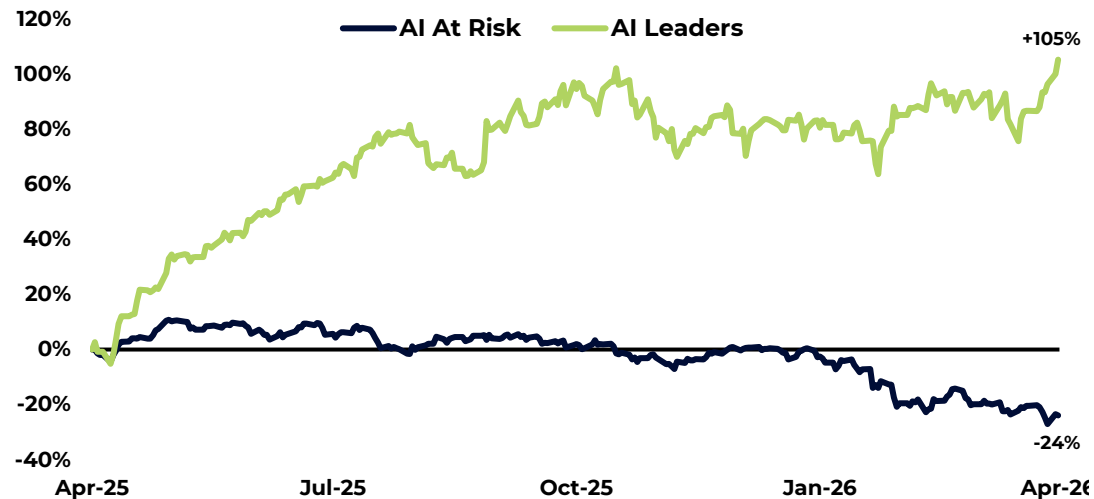
Operational improvement is where the returns are.

Public Markets

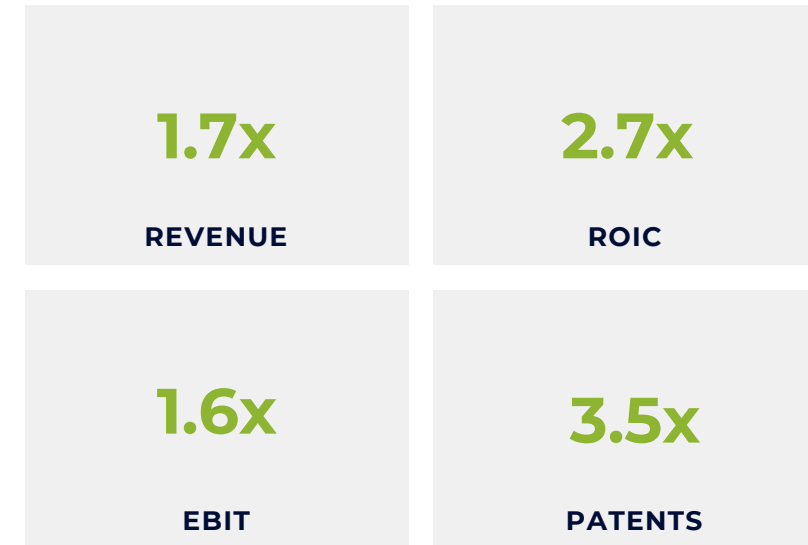
The future belongs to infrastructure and the early adopters of AI

AI adoption in early innings – only ~5% of companies "future-built," ~60% still laggards

AI Leaders +105% vs. AI At Risk -24% over the past year



"Future-built" companies vs. average



We remain constructive on AI — the key is owning the infrastructure layer, not the disrupted software layer

AI agents are becoming utility-like infrastructure — always on, never prompted — further disrupting incumbent software business models. We believe the winning side will be the builders and beneficiaries of this AI infrastructure. Observed usage remains well below theoretical exposure, representing a significant untapped productivity runway.

The world needs physical stuff and there's not enough

AI infrastructure and geopolitical pressures continue to create structural shortages for critical materials

Electrification & Grid Buildout



- **Transformer Steel:** Structural demand for Grain-oriented electric steel and specialty conductors
- **Lead Times:** Power transformer lead times surged from 20 to 128 weeks since 2022
- **Pricing:** Transformer prices up 4–6x
- **Capacity:** Grain-oriented electric steel capacity additions take 3–5 years to bring online

Global Defense Upcycle



- **Record Budgets:** U.S. defense spending at historical highs
- **European Rearmament:** Accelerating demand for military hardware
- **Key Materials:** Titanium, superalloys, beryllium, tungsten, carbon fiber for missiles, naval vessels, launch vehicles
- **Supply Concentration:** Limited substitutability for critical grades

AI Datacenter Construction



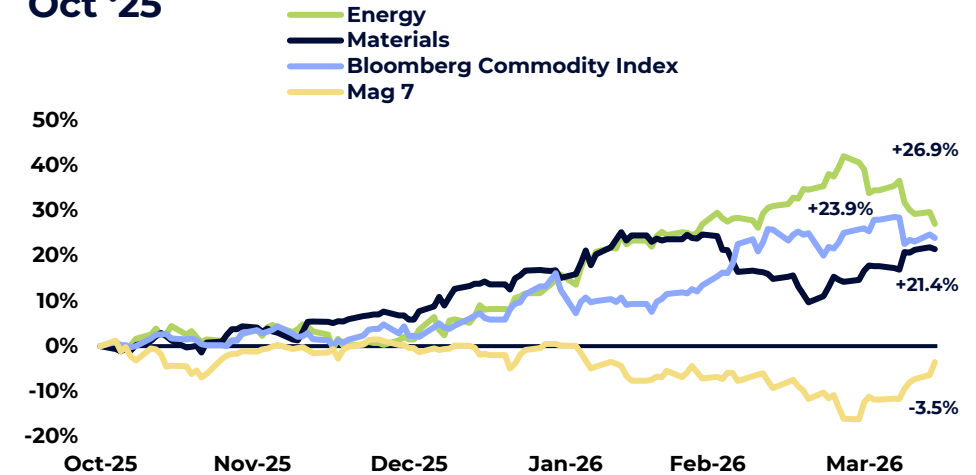
- **Physical Infra:** Requires transformers, high-purity copper, and cooling systems
- **Semiconductor Fab:** Growing demand for specialty chemicals
- **The Irony:** Software-compressing technology expands demand for physical atoms and materials

Aerospace Recovery



- **Post-Crisis Ramp:** Continued grinding recovery in aerospace sector
- **Engine Manufacturers:** Ramping production of aircraft engines
- **Elevated Demand:** Sustained demand for nickel superalloys, titanium forgings, and specialty aluminum alloys

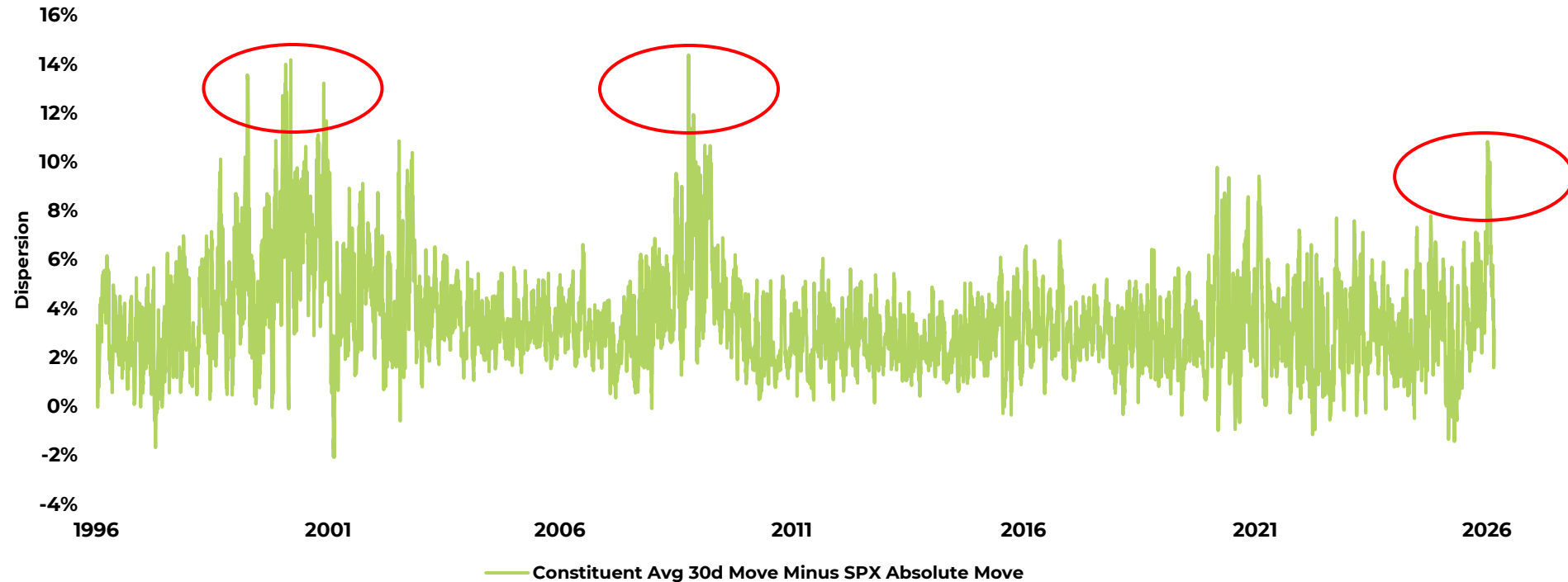
Physical economy vs the Mag 7 since Oct '25



Beta got you here but now you need a new ride

Active management should benefit with high dispersion

S&P 500 Dispersion reached the 98th percentile during Q1

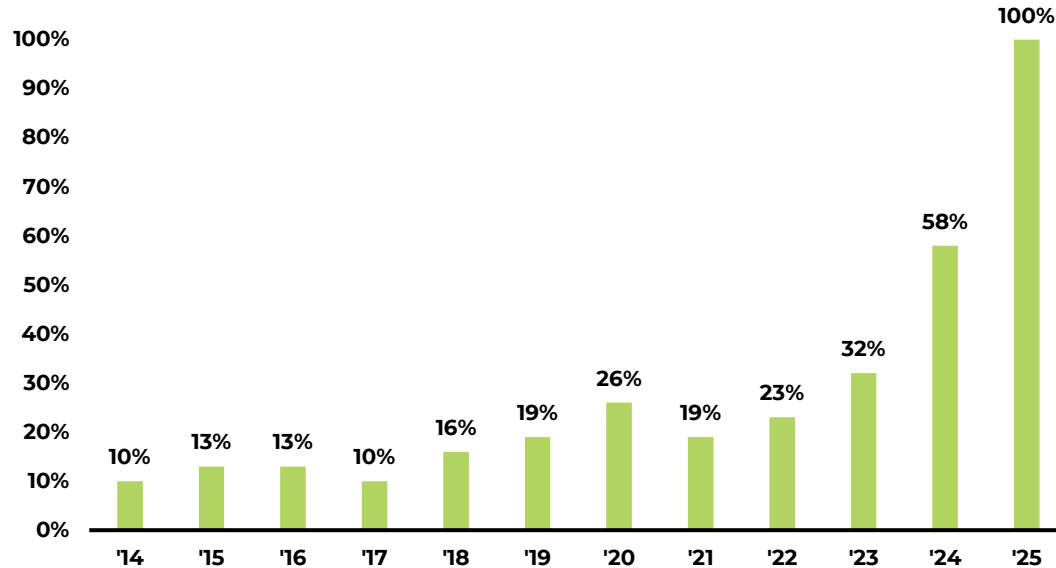


S&P 500 stock dispersion touched the 98th percentile during Q1, meaning the gap between winners and losers is wider than nearly any period in the last 30 years. The prior peaks coincided with major regime shifts: the dot-com bubble, the Global Financial Crisis, and the post-COVID reopening. Today's driver is AI. In this environment, what you own matters far more than market exposure alone.

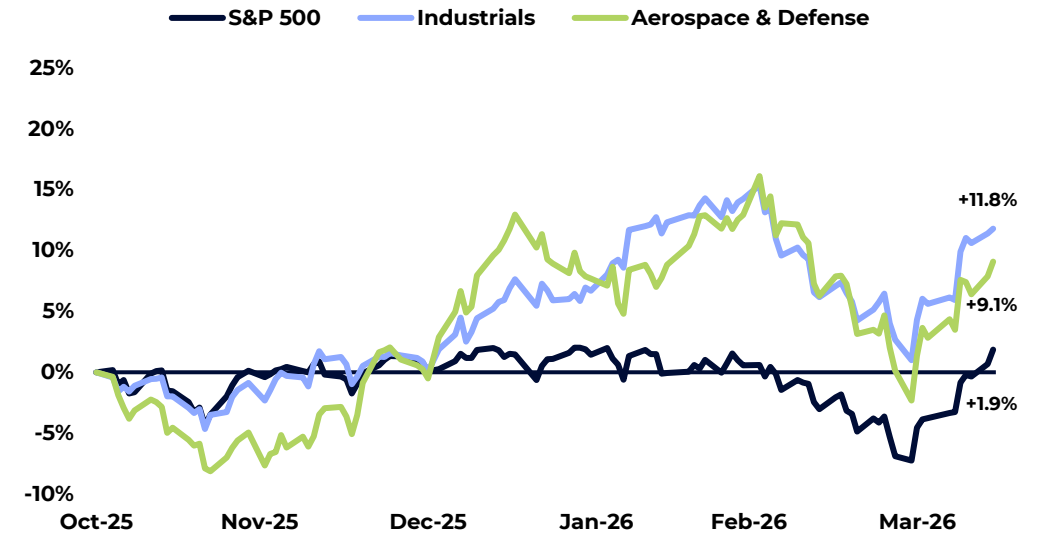
War has added fuel to the fire for the defense sector

The geopolitical backdrop has reinforced structural demand for defense, power, and critical materials

% of NATO reaching 2% GDP Defense Threshold



Industrials +11.8% Since October – our largest sector overweight



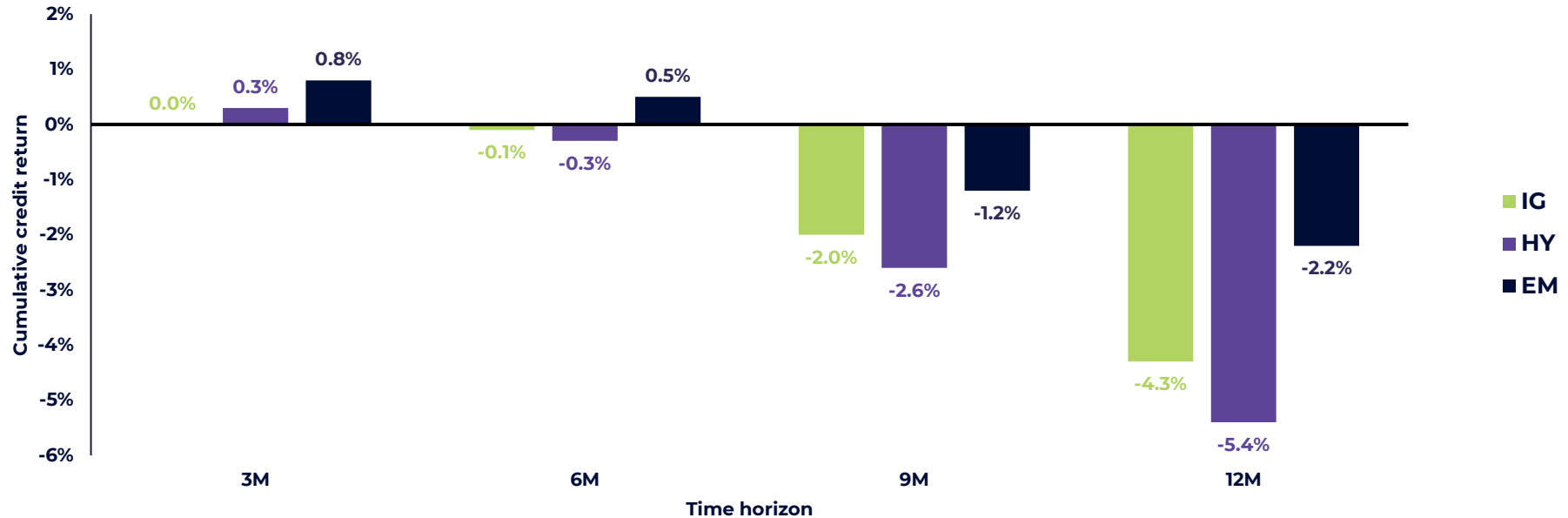
100% of NATO now at 2% GDP defense spending – up from 10% a decade ago

The 2026 National Defense Authorization Act (NDAA) approved ~\$900B in defense spending. The Iran conflict and resulting usage highlighted the need for even more spending, as the ongoing broad-based rearmament cycle was already expected to drive +5% growth in spending prior to the start of the conflict. Industrials remains our largest sector overweight, anchored by aerospace & defense and power. These are multi-year structural themes, and they will likely persist regardless of the Iran outcome.

Tight credit spreads leave little room for error

Bottom decile spreads typically deliver negative forward returns for HY and EM credit

Median return when starting bond spreads in bottom decile (i.e., today's levels)



The private credit stress is a software issue, not a systemic credit event, but valuations warrant moving up in quality

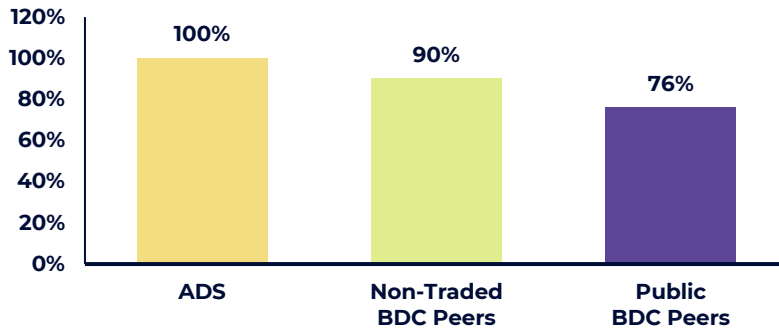
The software sector's public re-rating is bleeding into private credit through forced redemptions and liquidity caps. We think the stress is contained, not systemic. But with spreads near the bottom decile historically, the return profile for lower-quality credit is less compelling even with yields still attractive. We moved up in quality and extended duration. We'd rather wait for a better entry point than chase tight spreads.

Private Markets

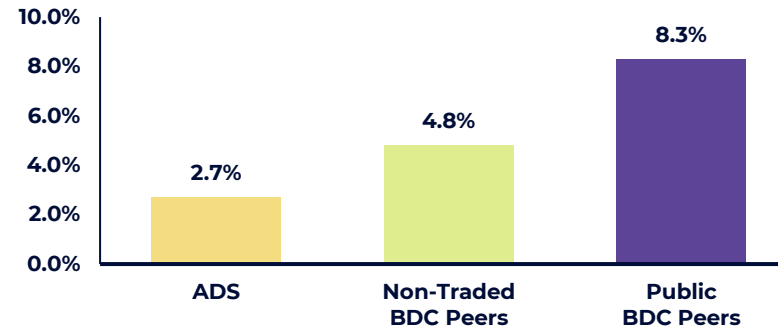
BDC is a structure, not a strategy

Meaningful risk approaches across direct lending strategies that will lead to dispersion in a stressed environment and potentially create opportunity for opportunistic credit strategies that can lean into dislocation

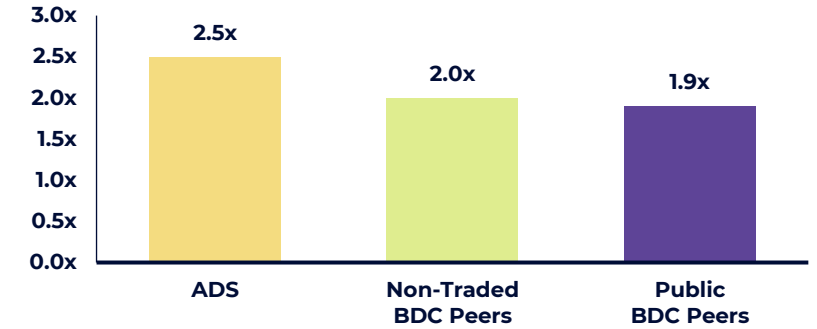
First Lien %



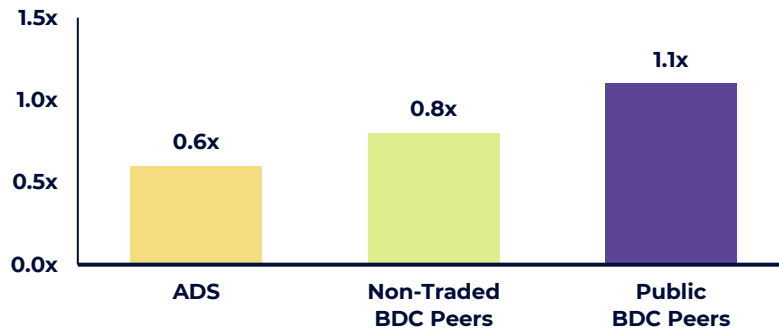
PIK % of Income



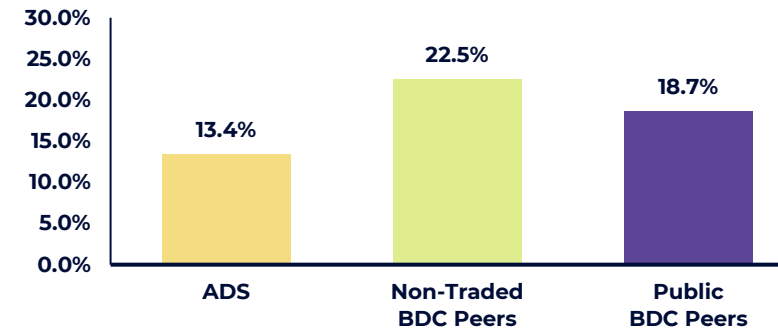
Interest Coverage



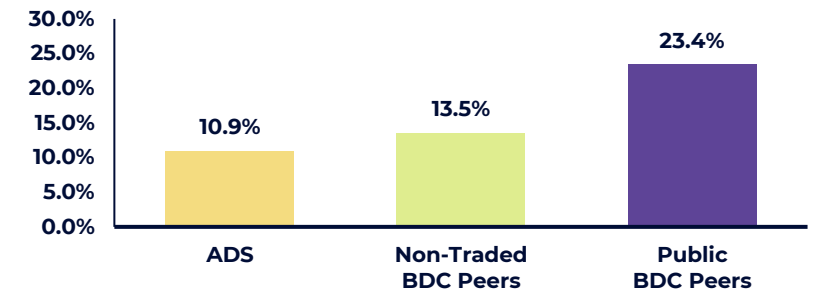
Fund Leverage



Software Concentration %

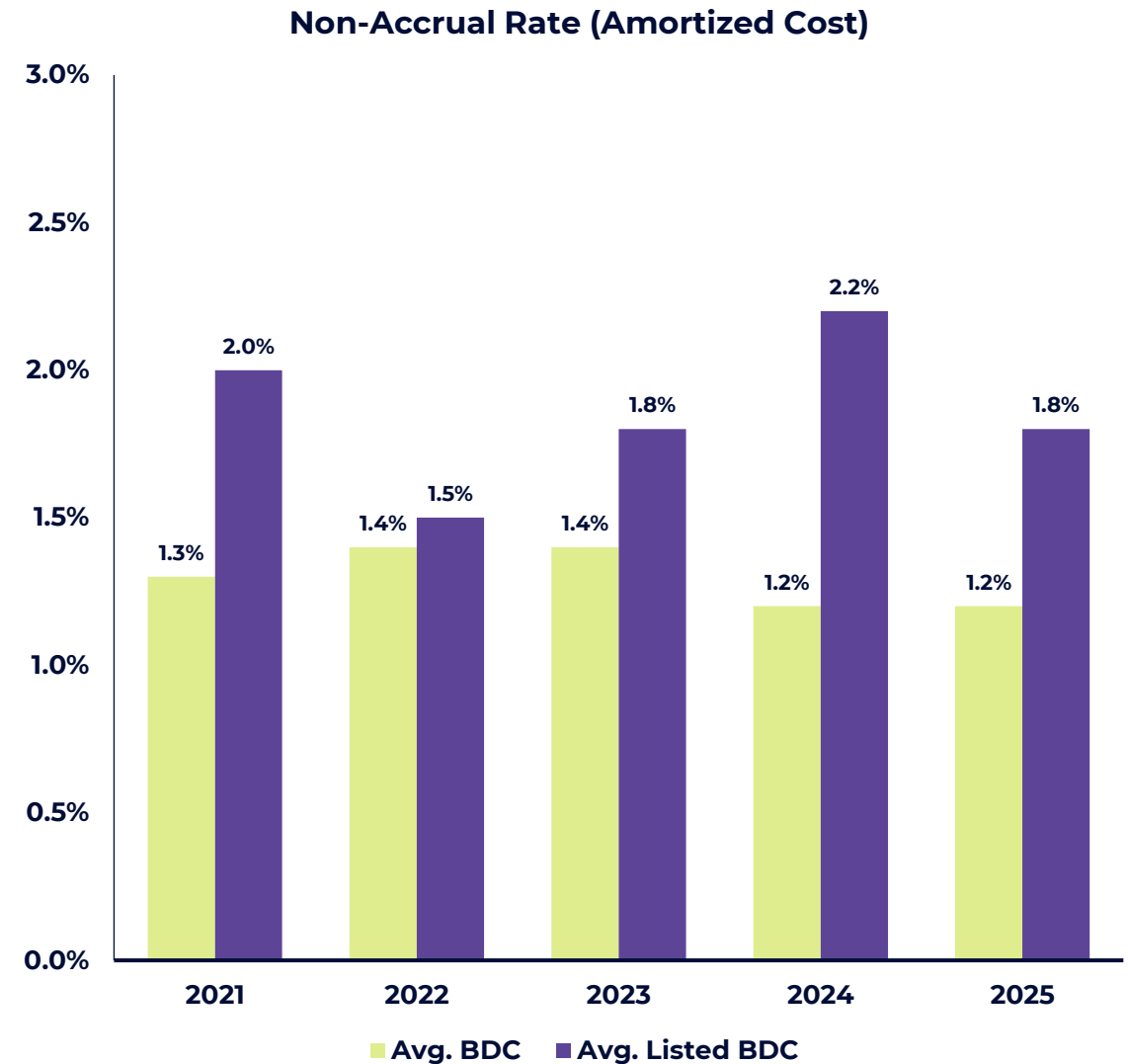
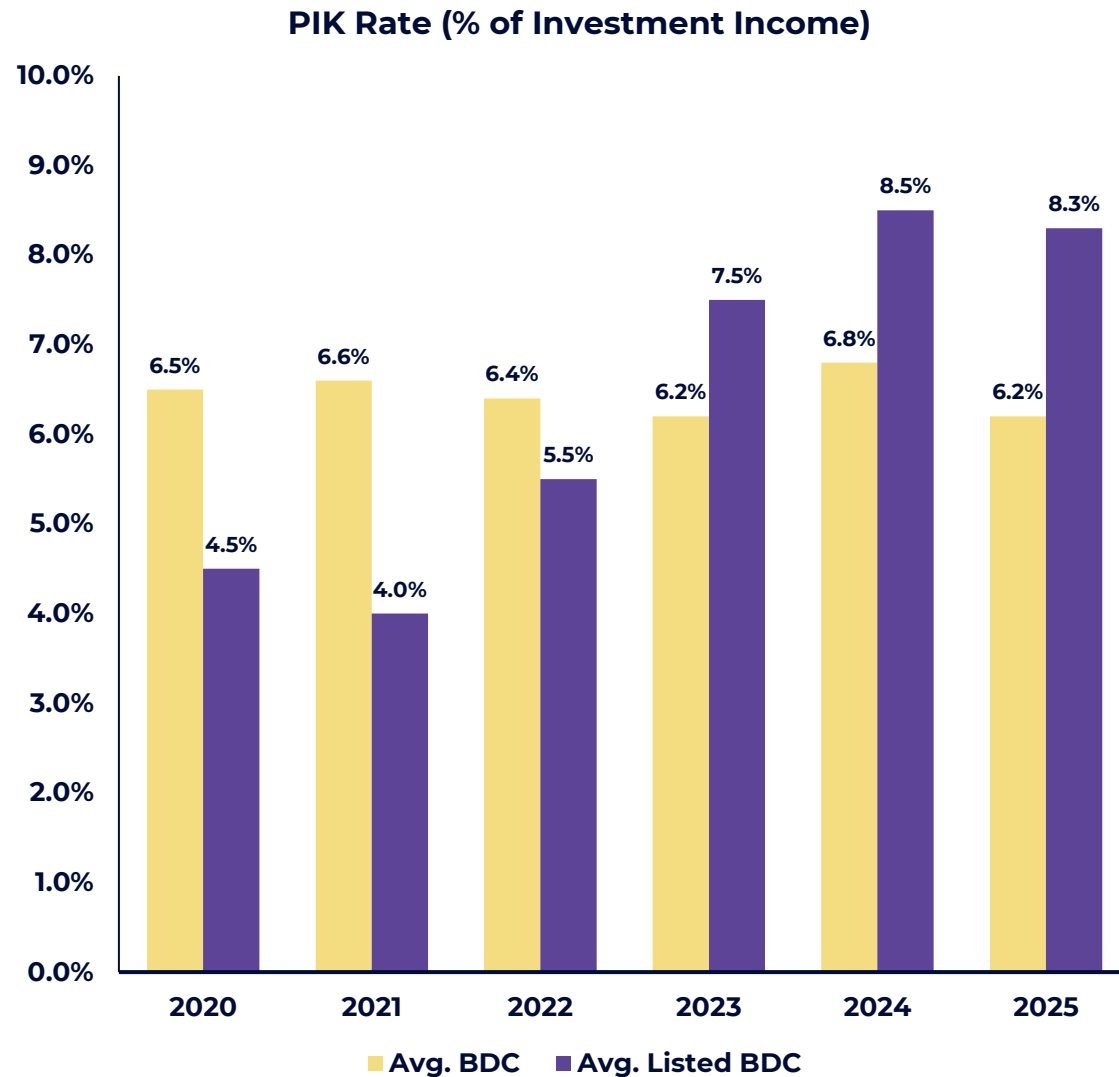


Top 10 Position Concentration %

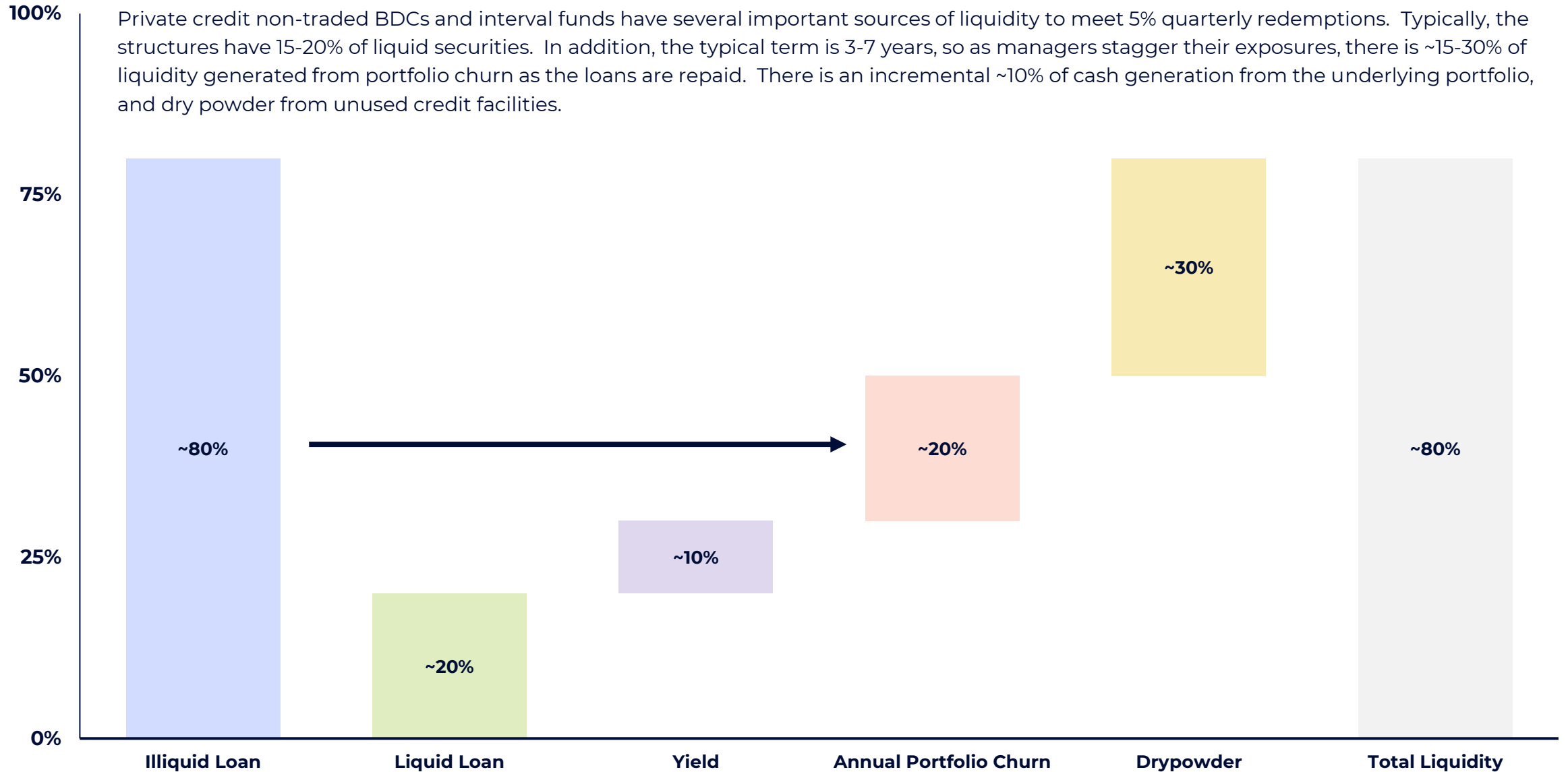


Public BDC Peers have more exposure to loans from 2021/2022 when rates were near 0%

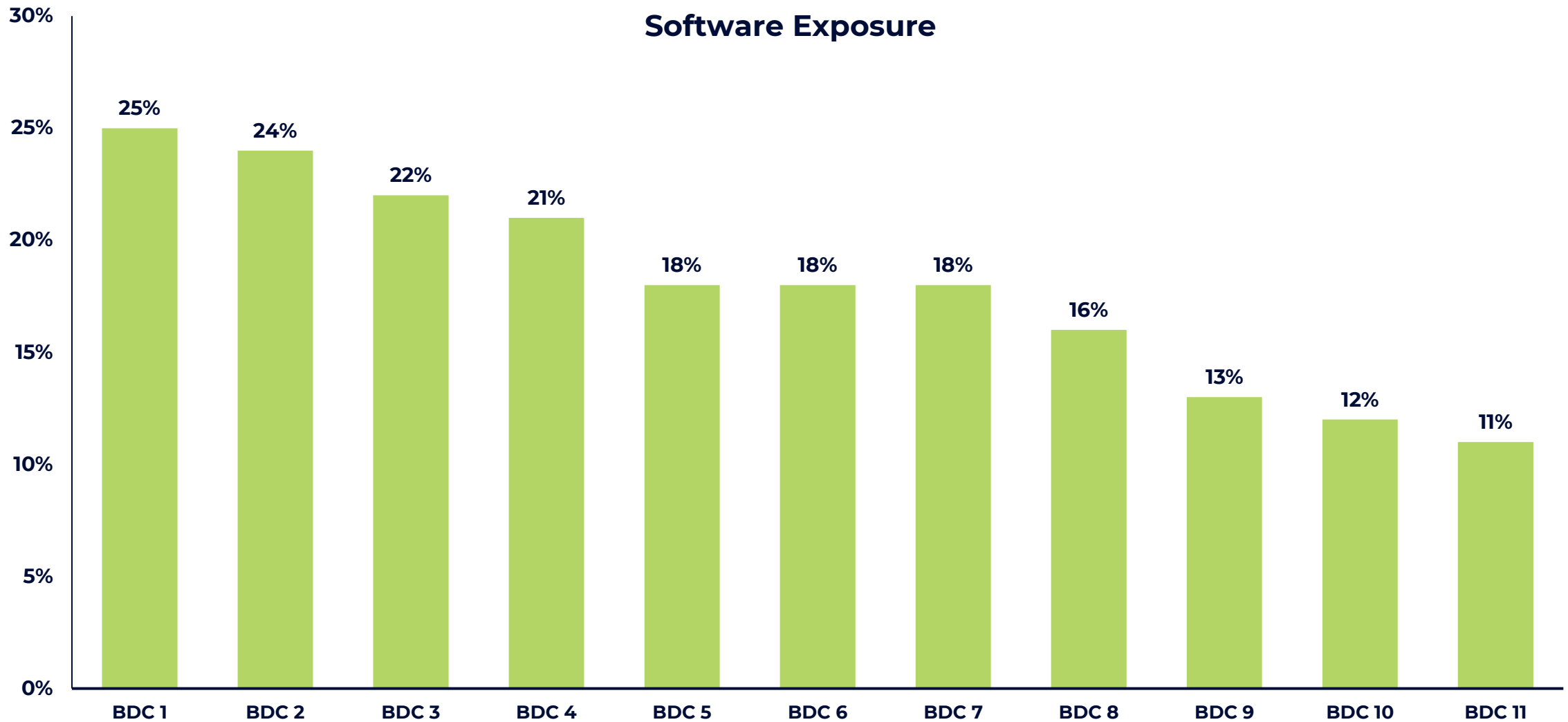
BDC is a structure, not a strategy (cont.)



An illiquid structure for an illiquid asset

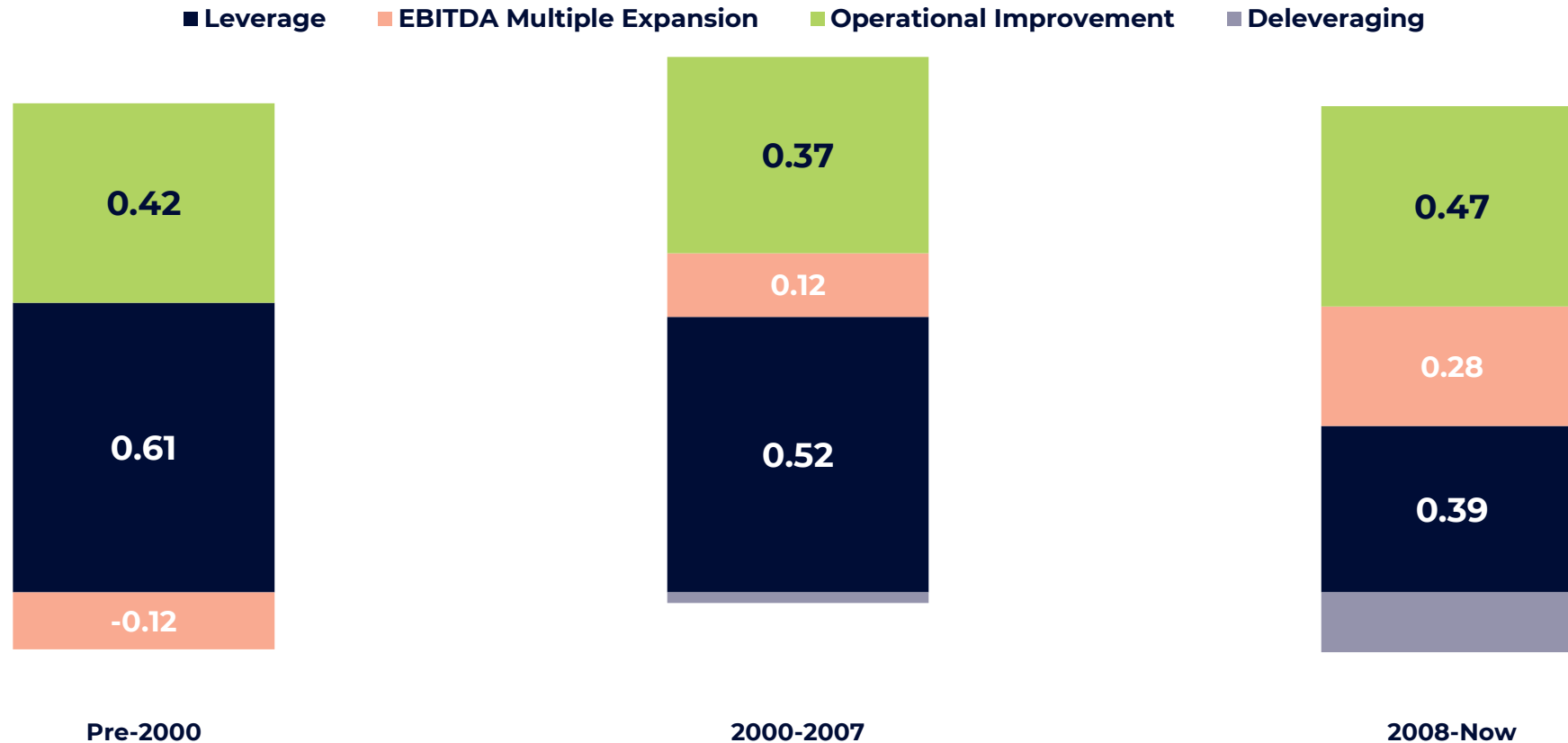


BDC software exposures are meaningful but not all software is created equal



Operational value creation in private equity

Value Creation % Contribution in Global Buyout Investments



As the private equity industry has evolved, operational improvement has become the primary driver of value creation, overtaking financial engineering. The most durable alpha comes from accelerating revenues, optimizing costs, and expanding margins through hands-on involvement. Today, nearly half of value creation in global buyouts stems from operational improvement, up from 42% pre-2000.

What's next?

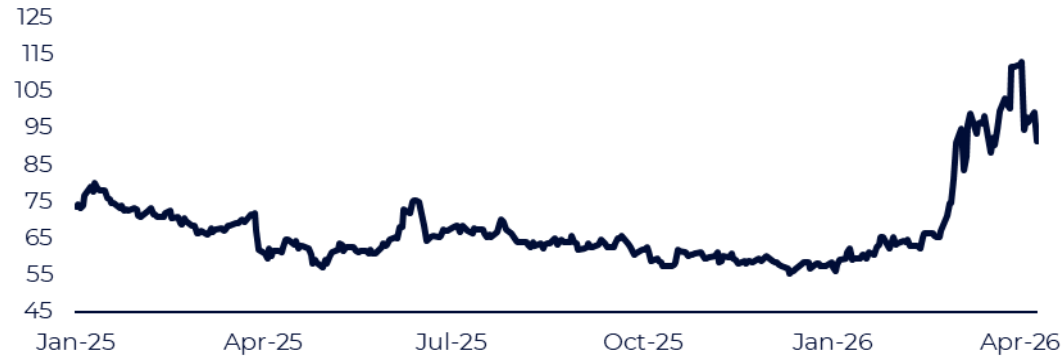


Appendix

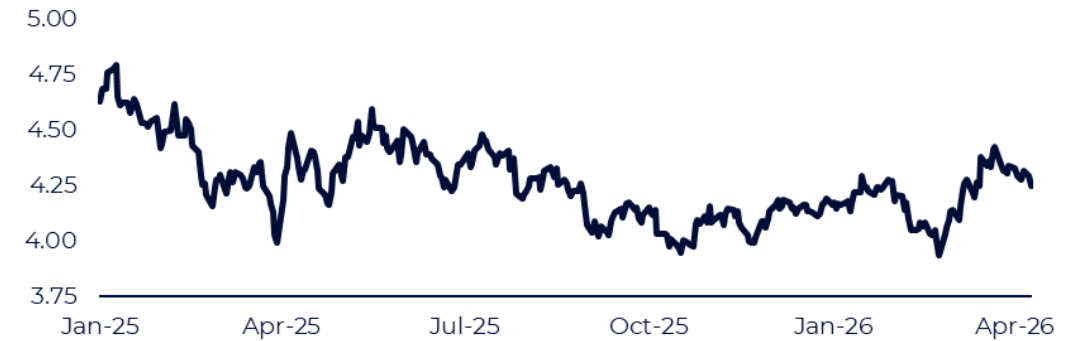
Dynasty “Four Prices”

In 1Q we said "Don't Fight Trump" on prices – has the Iran shock changed the calculus yet?

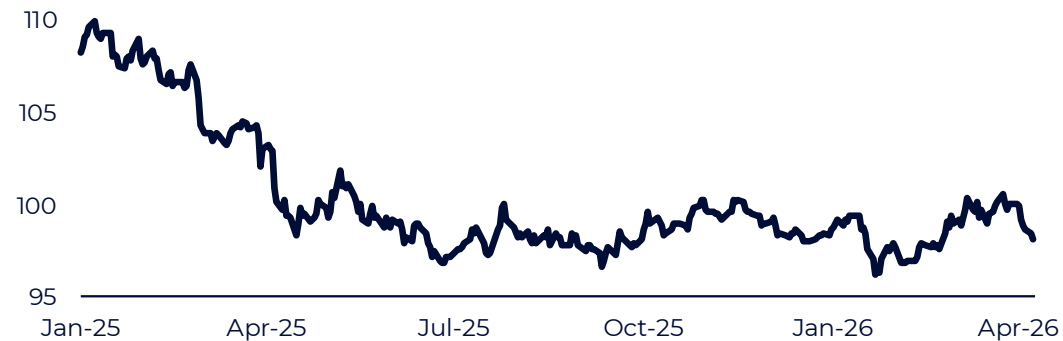
Oil



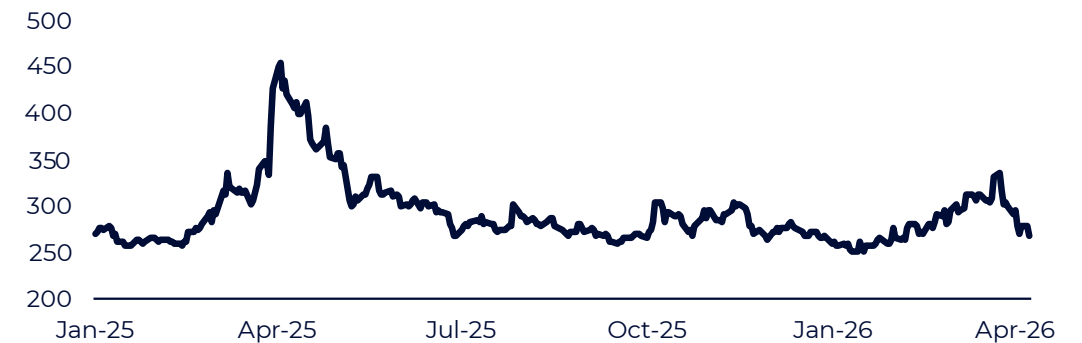
US 10yr



USD



HY Spreads



Our 1Q outlook was built on falling oil, falling rates, a weaker dollar, and tight spreads. The Iran conflict flipped all four. Oil surged, yields spiked, the dollar rallied, and HY sold off as inflation expectations rose and global growth came into question. As ceasefires were reached and peace negotiations got underway, those pressures started to ease. We're watching all four closely, and a sustained move in any of them could prompt us to revisit our view. For now, though, we're treating them as temporary, war-related dislocations.

Market Performance

1Q and YTD performance

US Related

ETF	Description	1Q	2026
SPY	S&P 500	-4.37%	2.12%
DIA	Dow Jones Ind	-3.25%	1.40%
QQQ	Nasdaq 100	-5.93%	2.46%
IJH	S&P Midcap 400	2.56%	8.69%
RSP	S&P 500 Eq Weight	0.62%	4.67%
QQQE	Nasdaq 100 Eq Weight	-3.54%	1.34%
IWB	Russell 1000	-4.29%	2.08%
IWM	Russell 2000	0.93%	9.36%
IWV	Russell 3000	-3.99%	2.41%

Factors

ETF	Description	1Q	2026
IVW	S&P Growth	-8.16%	1.25%
IVE	S&P Value	-0.07%	2.96%
IJK	Midcap 400 Growth	3.97%	11.21%
IJJ	Midcap 400 Value	1.03%	5.94%
IJT	Smallcap 600 Growth	2.67%	10.93%
IJS	Smallcap 600 Value	4.34%	9.78%
DVY	DJ Dividend	8.10%	8.66%
MTUM	Momentum	-4.04%	8.09%
USMV	Low Volatility	-1.10%	-0.11%
SIZE	Size	-0.96%	3.77%
QUAL	Quality	-3.22%	2.56%

Global

ETF	Description	1Q	2026
EWA	Australia	5.99%	15.23%
EWZ	Brazil	20.84%	31.35%
EWG	Canada	1.59%	6.99%
MCHI	China	-6.48%	-3.41%
EWQ	France	-3.58%	3.36%
EWG	Germany	-6.66%	-0.73%
EWJ	Hong Kong	8.66%	12.33%
INDA	India	-13.34%	-8.05%
EWI	Italy	-1.67%	7.07%
EWJ	Japan	4.58%	10.74%
EWV	Mexico	8.51%	13.59%
EIDO	Indonesia	-15.56%	-12.14%
EWP	Spain	0.74%	7.81%
EIS	Israel	5.46%	15.73%
EWU	UK	3.59%	9.30%

EFA	EAFE	1.15%	7.92%
EEM	Emerging Mkts	3.80%	13.76%
IOO	Global 100	-4.50%	2.79%
VT	All World	-1.71%	5.23%
CWI	All World ex US	1.87%	9.27%

Sectors

ETF	Description	1Q	2026
XLV	Cons Disc	-8.55%	-2.29%
XLP	Cons Stap	6.13%	5.47%
XLE	Energy	37.91%	25.96%
XLF	Financials	-9.40%	-4.97%
XLV	Health Care	-4.90%	-3.46%
XLI	Industrials	4.55%	12.07%
XLB	Materials	10.68%	15.20%
XLRE	Real Estate	1.87%	8.36%
XLK	Technology	-7.57%	2.88%
XLC	Comm Services	-5.53%	-0.67%
XLU	Utilities	8.25%	9.62%
SMH	Semis	6.46%	25.51%
ICV	Software	-24.26%	-24.80%

Currencies

ETF	Description	1Q	2026
FXB	British Pound	-1.34%	1.24%
FXE	Euro	-1.45%	0.58%
FXJ	Yen	-1.35%	-1.50%
DXY	Dollar	1.58%	-0.18%

Fixed Income

ETF	Description	1Q	2026
SHY	1-3 Yr Treasuries	0.27%	0.52%
IEI	3-7 Yr Treasuries	-0.05%	0.44%
IEF	7-10 Yr Treasuries	-0.14%	0.56%
TLH	10-20 Yr Treasuries	-0.24%	0.81%
TLT	20+ Yr Treasuries	0.17%	1.18%
AGG	Aggregate Bond	0.02%	0.88%
TIP	T.I.P.S.	0.41%	1.47%
JNK	High Yield	-0.43%	1.32%
MBB	Mortgage-Backed	0.41%	1.30%
LQD	IG Corporate	-0.38%	0.94%

Commodities

ETF	Description	1Q	2026
DBC	Commodities	29.47%	28.98%
DBA	Agric Commod.	7.05%	6.27%
USO	Oil	83.99%	79.08%
UNG	Nat. Gas	-4.32%	-13.87%
GLD	Gold	8.57%	12.31%
SLV	Silver	5.77%	11.83%

Dynasty Investment Team



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