2026

SECOND QUARTER

GKV CAPITAL

MARKET
REVIEW
AND OUTLOOK

Earnings, Bubbles and Trump Accounts

2Q26 DATA POINTS

S&P 500 TR	+9.55%
GLOBAL EX. US	+13.68%
REAL ESTATE	+10.17%
US BOND INDEX	+0.62%
10-YEAR TREASURY YIELD	4.38%
S&P 500 LTM DIVIDEND YIELD	1.09%
S&P 500 12-MONTH EPS	$370.37
S&P Forward P/E	20.2x

GKV CAPITAL MANAGEMENT IS AN INDEPENDENT REGISTERED INVESTMENT ADVISOR. FOR MORE INFORMATION ABOUT US PLEASE CALL (805) 497-2616 OR VISIT GKVCAPITAL.COM

Opening Thoughts

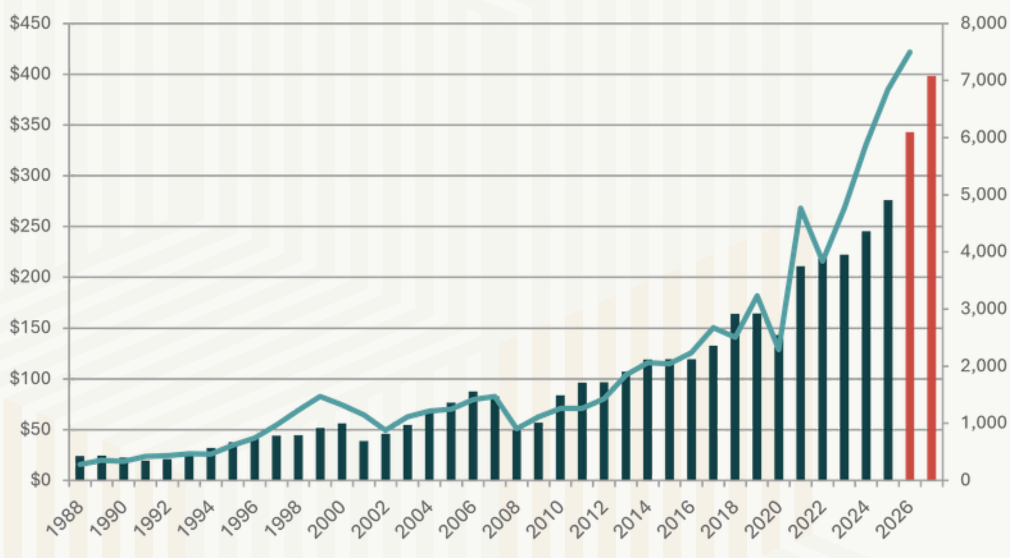
Congratulations to Elaine Kwei for completing the requirements and receiving her Certified Financial Planner® credential. To earn the CFP® designation requires a bachelor's degree, passing the 6-hour exam and accumulating 6,000 hours of professional experience. Elaine is already a Chartered Financial Analyst®, and she now adds the CFP® designation to her list of letters after her name. Amongst our 6-member staff, we have four licensed advisors, three California Notaries, two CFP®s, a Certified Divorce Financial Analyst®, and a rescue scuba diver (no registered trademark required for that one). GKV Capital can help if you are drowning financially or just regular drowning.

In all seriousness, the financial world is complex and mistakes are costly. We take our role as advisors seriously, and are very proud to be rather unique in that we take a team approach to working with our clients. Each of us has complementary skill sets and we apply our expertise across our entire client base. Rather than assigning advisors to particular clients, our entire staff is working together to meet your needs. Please do not hesitate to reach out if you have any questions. We are here to help.

We have grown our firm very intentionally over the years. With recent additions, we do have the ability to selectively take on new business without sacrificing existing client service capabilities. If you know of anyone that would benefit from our services, we would appreciate a referral.

Despite the twin inflationary pressures of tariffs and oil, the economy has remained resilient. The stock market has fared even better, driven by some truly impressive earnings growth. We expect corporate earnings to continue to support stock valuations into the second half of this year.

»S&P 500 TOTAL EARNINGS AND INDEX PRICE



2Q26 *Review*

At the beginning of the second quarter, the war in Iran was four weeks old and had driven U.S. and international equities to losses for the year. By the end of April, the stock markets had staged a massive rally as U.S. tech and industrials companies reported blowout earnings growth, driven by the AI data center buildout. The optimism continued through the rest of the second quarter, and the major indices all turned in record-setting performance. The markets looked past the conflict in the Middle East and the price of oil at $100 per barrel as U.S. companies continued to benefit from AI investment.

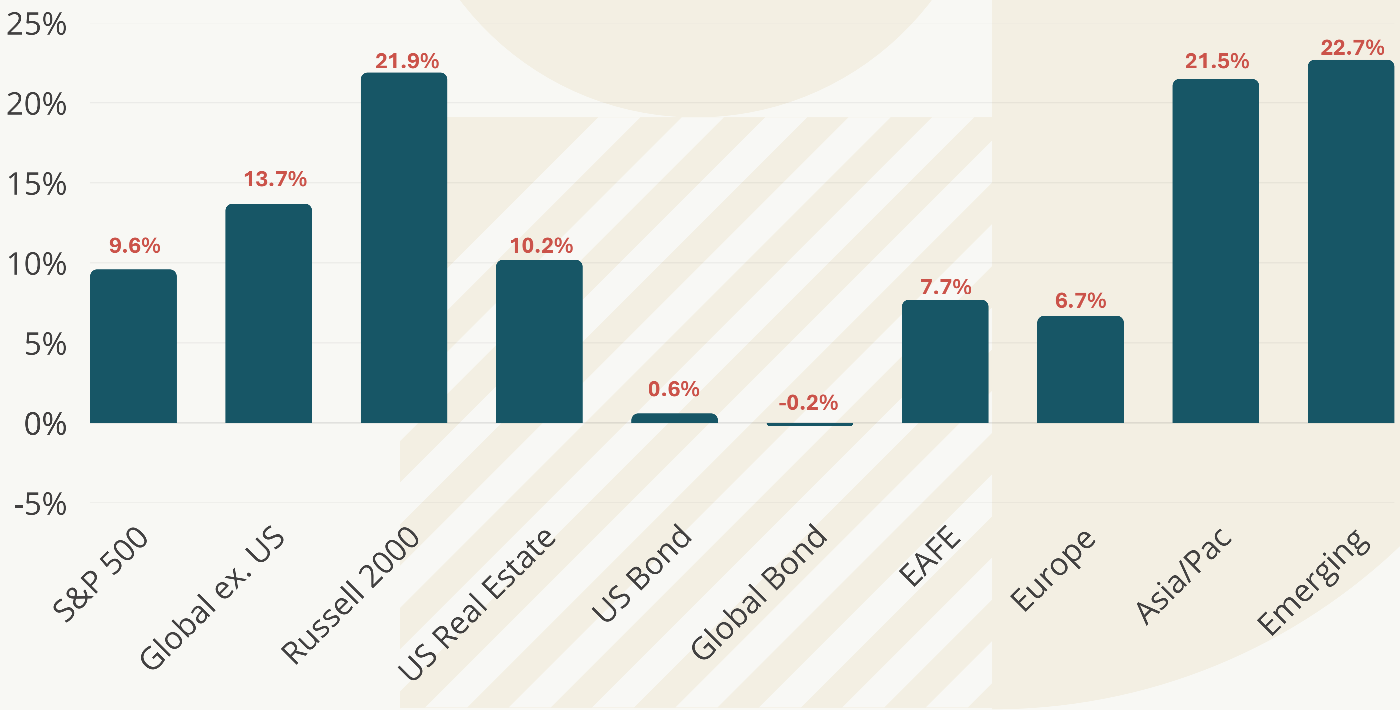
Hostilities with Iran appear to be ongoing. Despite this, the economic impact of the conflict is limited even if shipping through the Strait of Hormuz remains constrained. Oil and cargo shipments have restarted in fits and starts, but oil supplies have rebounded faster than expected. The markets are always forward-looking, and the consensus through the second quarter is that the conflict will be resolved; however the Strait may be less consequential than previously thought.

After ending the first quarter down 4.6%, the broad S&P 500 index recorded a gain of 14.9% in the second quarter and is now up 9.6% for the year. The tech-heavy Nasdaq staged an even bigger rally of 21.4% in Q2 and is up 12.8% year to date. Small caps outperformed their larger brethren, with the Russell 2000 up 21.9% for the year. Higher interest rates pressured the U.S. Aggregate Bond Index down 0.9%, as the 10-year Treasury yield increased modestly to 4.4%.

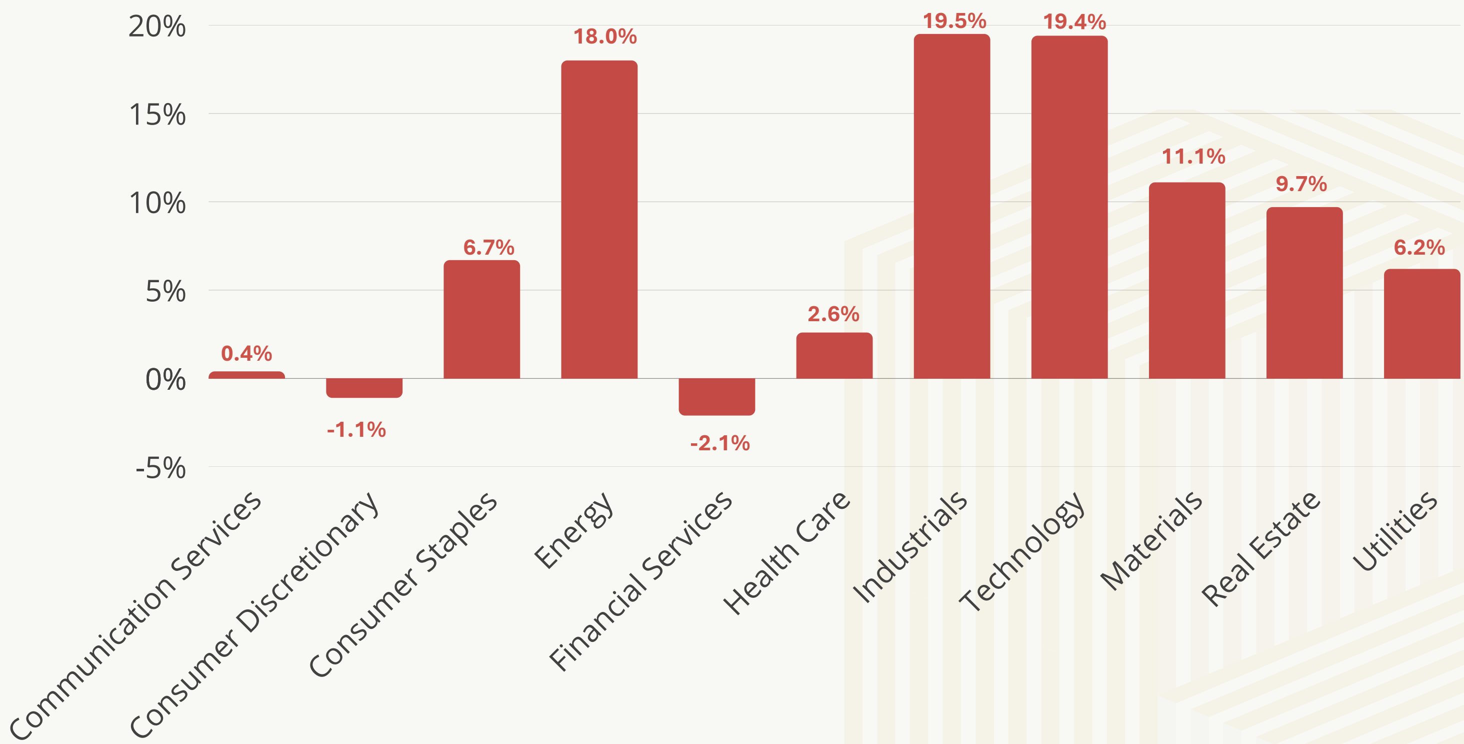
The oil supply shock has whipsawed the fortunes of the U.S. energy sector, which ended up 18% for the first half. The renewed appetite for technology stocks drove the sector up 19.4%, making it the top performer alongside industrials. Within technology, software remained weak, down 29.8% year to date, while semiconductor companies supplying AI picks and shovels rocketed up 160%. The materials sector also benefited from demand for construction materials and gases used in the manufacturing of semiconductors, gaining 11.1% year to date.

The impact of consumers bearing the brunt of inflation and $5 a gallon gas showed up in their reluctance to spend, and consumer discretionary was down 1.1% for the first half. Consumer staples held up better for an increase of 6.7%, while defensive sectors like utilities and healthcare turned in 6.2% and 2.6%, respectively. Financials were the

2Q26 MAJOR INDEX PERFORMANCE



2Q26 SECTOR PERFORMANCE



worst performing sector, down 2.1%, while real estate saw a strong recovery, returning 9.7%.

International equities saw a divergence between developed and emerging markets. The MSCI EAFE (Europe, Australia, Far East) index was up 7.7% in the first half. While European stocks only gained 6.7%, emerging markets turned in a blistering 22.7% gain, largely driven by South Korean and Taiwanese companies facing unprecedented demand for AI semiconductors and memory.

Core economic data in the U.S. continued to hold up in the second quarter, despite consumer sentiment hitting record lows. Over two-thirds of the U.S. economy is driven by consumer spending. We track employment data, income, debt, interest rates, and inflation to gauge the health of households and by extension, the health of the U.S. economy. Unemployment remains low, ending the second quarter at 4.2%. Disposable income is up 2.1% over the year ago period and retail sales increased by a very strong 6.9%. Many of these indicators are backward-looking: they won't tell you what is going to happen in the future but weakening trends can provide some insight into the direction of the broad economy.

The outlook for the global economy has bifurcated among major regions due to the Middle East conflict. Europe and Asian economies are much more dependent on energy imports, and the higher energy costs and the physical constraints on critical inputs including oil, gas, fertilizer, and chemical gases impact nearly every industry from agriculture to air travel to semiconductors. Middle Eastern countries including Saudi Arabia, Qatar, and the United Arab Emirates now expect economic contraction as oil and gas revenue plunged. Prior to the war, global GDP forecasts were for 3.3% growth; the most recent OECD forecast in April pegs growth at 3.1%. This global outlook reflects a mid-4% growth forecast for China, 2.0% for the U.S., 0.8% growth in Europe, and 0.6% growth in Japan.

Despite the increased risks to the global economy, U.S. companies have proven to be remarkably adaptable and stocks are trading at reasonable valuations given the strong expected earnings growth.

Combined earnings for all companies making up the S&P 500 are forecast to reach $342.99 per share in 2026, a 24% increase compared to full year 2025. U.S. companies exhibited impressive resilience through last year's tariff turmoil and grew earnings 12%; it remains to be seen whether the Middle East conflict will impact growth this year.

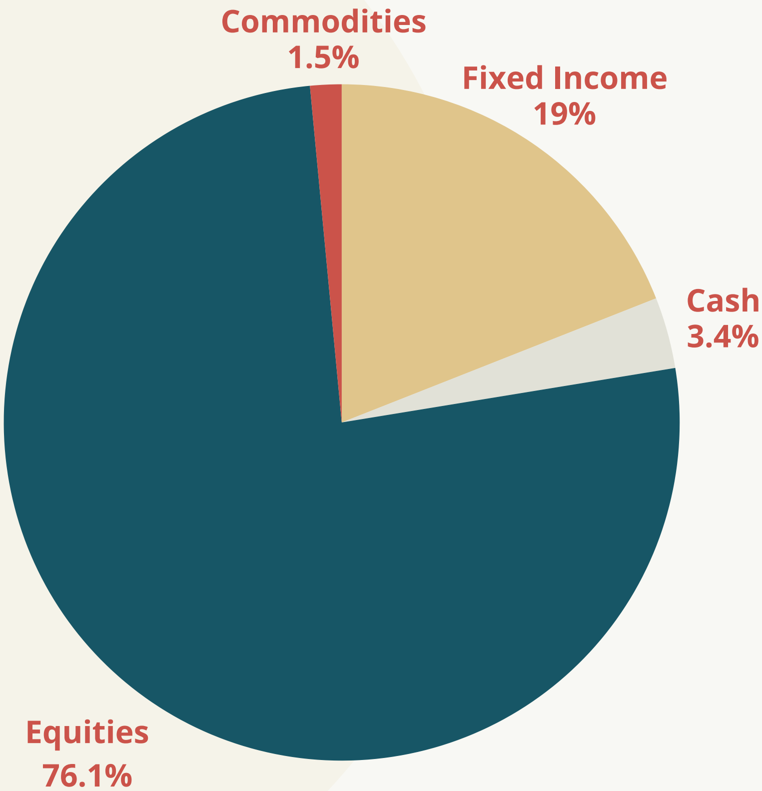
The 10-year Treasury yield ended the quarter at 4.44%. Inflation rose to 4.2% in the quarter, as higher energy costs drove up the price of everything from gasoline to fertilizer to consumer goods. Market watchers expect the Federal Reserve to hold rates steady in the current environment, with even a possibility of an increase should inflation worsen.

Higher interest rates mean that mortgage rates also remain elevated, with the 30-year mortgage rate hovering around 6.5%. The higher rates impact purchasing power and put downward pressure on new inventory, as existing homeowners are reluctant to give up their low-interest mortgages.

Gold's traditional safe haven status in times of uncertainty was more than offset by fears that higher inflation would keep interest rates higher for longer. The precious metal had its worst quarter since 2013 and is now down 7.1% for the year. Higher interest rates increase the opportunity cost of holding gold, which doesn't pay any interest or dividends.

Firmwide, we ended the second quarter with 76% in equities, 19% in fixed income, 1.5% in commodities, and 3.4% in cash. We continue to monitor economic and earnings data for any signs of change in underlying trends. We do not hold illiquid assets such as private credit or private equity.

WE MANAGE SEPARATE ACCOUNTS FOR EACH OF OUR CLIENTS. EACH PORTFOLIO IS CUSTOM TAILORED FOR THE CLIENT.



GKV FIRMWIDE

Asset Allocation

Corporate Earnings and Investment Bubbles

Last quarter we talked about uncertainty and how geopolitical tensions, inflation, negative consumer sentiment and a weaker employment picture were holding back stock market appreciation. Three months later it doesn't appear much has changed. We are still embroiled in conflict with Iran. The price of oil has retreated from the highs but remains 25% higher than before the war. And as a result, inflation has again accelerated, hitting 4.2% for the month of May. Prior to the war with Iran, inflation was beginning to look under control, up a more modest 2.4% in January and February. High inflation is slowing U.S. economic growth and keeping interest rates stubbornly high. The 10-year Treasury yield is currently above 4.5%, up from 4.2% at the start of the year. Fortunately, employment data has held steady with modest gains in monthly new jobs. Despite the lack of progress on a resolution in the Middle East, stocks moved markedly higher in the last three months, with several sectors recording noteworthy gains. And it should be no surprise to anyone that the best performers are all attached in some way to artificial intelligence.

If you've spent any time at all reading our outlook over the years, you will know that our North Star for stock performance is company earnings and earnings growth. Yes, there are many factors that will affect stock prices, but ultimately, earnings anchor company valuations. Frequently stock prices appear capricious, driven by shifting investor sentiment, unpredictable news, or the introduction of unquantifiable information. While stock prices can be carried away or unduly punished by the madness of crowds, in the long run, objective fair value can be derived by reasonable expectations of future cash flows. It's the cash flows that separate the valuation analysis of stocks, bonds, and real estate from speculative assets such as collectables, crypto currencies, and commodities or foreign exchange (unless they are used in business for hedging purposes). Asset classes with cash flow can always be valued by discounting the present value of the future cash flows. That being said, expectations around the likely future cash flows can get carried away both positively or negatively, but forecasting future cash flow adds a level of academic rigor over trading on stock tips based on sentiment or tea leaves or social media posts.

In the second quarter, the S&P 500 gained 15%. The major index performance was great, but many companies and sectors did not participate in the rally. The dispersion across industry segments was noteworthy. The information technology sector gained a staggering 32% in the quarter and is up 19% for the year. Meanwhile the health care sector gained 8% in the quarter and is up an anemic 3% for the year. If asked why, any casual market observer is likely to attribute the rapid growth to excitement around artificial intelligence. And this answer would not be wrong. But the gains should not be simply ascribed to sentiment. The earnings growth for the information technology sector is

IF CORPORATE EARNINGS WERE TO SUDDENLY DECLINE, WE WOULD DETERMINE, WITH THE BENEFIT OF HINDSIGHT, THAT WE ARE IN AN INVESTMENT BUBBLE

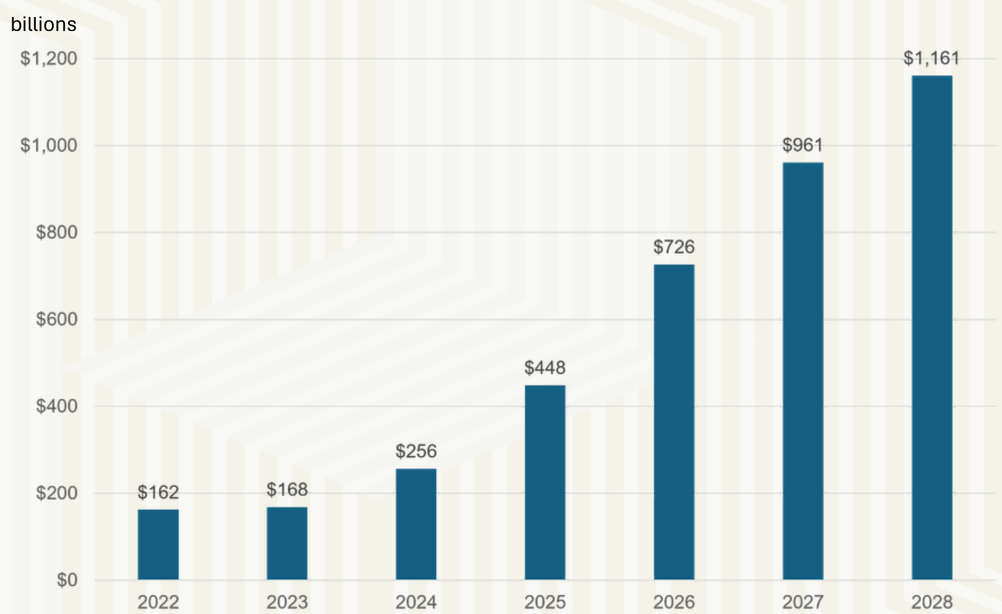
literally off the charts. In the second quarter, information technology earnings are forecast to increase 63% over the same quarter last year. On a price-to-earnings basis, because earnings are growing faster than stock prices, the sector is actually getting cheaper despite the higher stock prices.

The projected growth in earnings is critically important in gauging the outlook and opportunity into 2027. If spending on the buildout of compute capacity for AI slows significantly, earnings will fall. If the growth reverses to a decline, stocks will reverse and it will quickly become apparent that we are in an AI investment bubble. On the other hand, the current outlook is for datacenter spending to accelerate through 2027. Datacenters take several years before they are operational. Planned spending occurs well in advance. Certainly, business decisions can be revised at any time, but as capital expenditure budgets currently stand there is no slowdown in sight. For the full year 2027, information technology earnings are forecast to grow 31% on revenue growth of 22%. If these estimates are achievable then stock prices will move higher. So far, actual quarterly results have repeatedly come in better than anticipated. For example, in the March quarter, information technology earnings were forecast to increase 45% as of March 31st. When companies reported their actual March quarter results in mid-April, earnings growth exceeded 55% over the same period last year. Stocks took off in April because earnings are fantastic and forecasts for the next quarter and the next year all had to be revised significantly higher. Despite the war with Iran. Despite high inflation. Despite tariffs and unemployment concerns and terrible consumer sentiment, stocks had a great June quarter.

Looking at price-to-earnings multiples, the 5-year average for the information technology sector is 25.8 times the forward 12-month earnings estimate. At the close of June, the price-to-earnings multiple for the technology sector stood at 22.7 times. Despite the recent runup in technology sector stock prices, valuations are in-line with long-term levels. As earnings numbers keep increasing, stock prices will keep pace.

To reiterate our position at the end of the first quarter, corporate earnings are strong and are likely to continue to drive investment gains in the second half of this year. At the same time, geopolitical risks and instability around inflation, employment and interest rates are creating uncertainty and holding back even better performance. We expect a similar cycle to last quarter. Better-than-forecast

»ESTIMATED AI CAPEX SPENDING



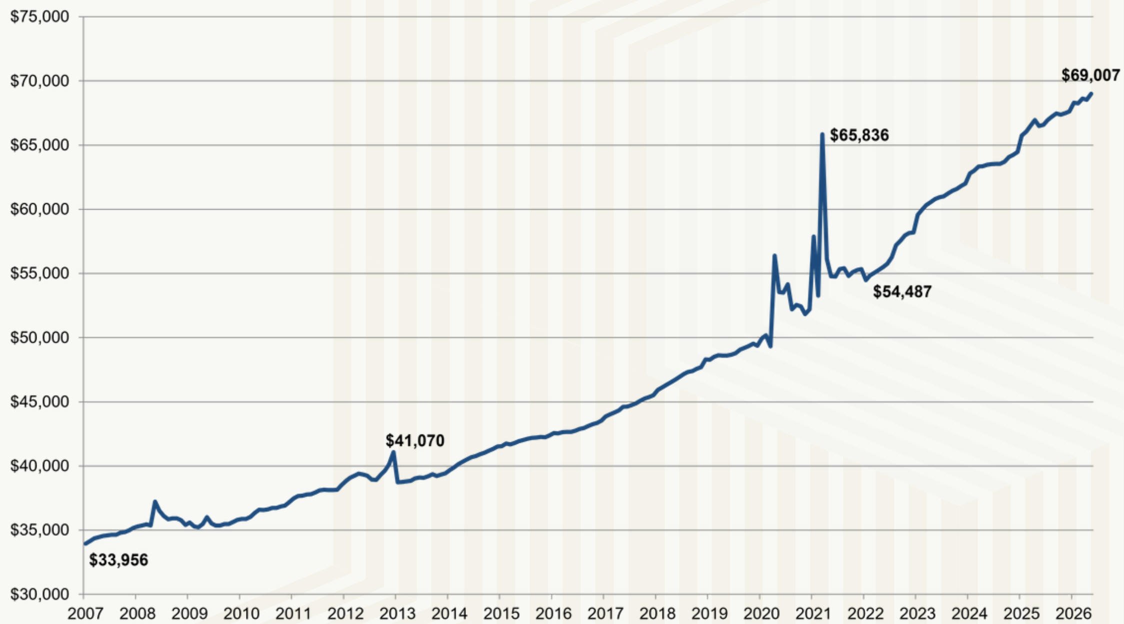
earnings reported in July will push stocks higher before macro concerns of geopolitics, inflation, interest rates unemployment conspire to keep markets in check.

We are paying close attention to the adoption of artificial intelligence, capital expenditures for datacenter buildouts and likely profit margins for both hyperscalers and semiconductors, memory, electronic components and industrial companies that are involved in the buildout of datacenter capacity. The biggest concern is that the massive AI infrastructure spending is a classic overinvestment. That either demand for AI computing power will not materialize or that revenue and earnings will not justify the significant investment, requiring a reckoning. This is not a new phenomenon. Many parallels can be found in modern economic history from the railroads, electrical infrastructure, oil exploration and production or more recently internet infrastructure investment. Every one of these revolutionary technologies required new capital investment in infrastructure and new business models that generated fantastic wealth but also came with cautionary tales for investors.

As of today, the promise of AI is still intact. The benefits of the technology are profound and will continue to drive capital spending to build out the capabilities for the next few years. How AI technologies will be applied, how business will change, what business models will develop and what the impact on the labor markets will be are still uncertain. We are certain, however, that spending will continue through this year. At the same time, it is important to stay diversified. Currently, technology makes up nearly 40% of the total S&P 500. Allocating more assets to outperforming sectors can increase performance but will also increase risk if the sector were to stumble. There are quality companies in health care, financials, industrials, and consumer products that should not be ignored.

The macro economic data is positive. Disposable income continues to record new highs. Unemployment is stable at 4.2%. Inflation has moderated and will improve with lower energy costs. Ending the conflict with Iran will help. Higher interest rates are holding back the economy but we need inflation to be in control. In the meantime, fixed income yields are more attractive than they have been in a long time.

»U.S. DISPOSABLE PERSONAL INCOME



Minor Accounts, Major Decision

One of the most common questions we hear from young families is, “How should I be saving for my child’s future?” With an increasing number of options, it can be overwhelming to assess what may be best. Traditionally, UTMA (Uniform Transition to Minors Act) accounts were the “go-to”. Then came 529s (educational accounts). And now there are Trump Accounts. How can one pick? Selecting the right minor account, oftentimes feels like an overwhelming, major decision.

While all of these accounts can help build wealth for a child, they have very different rules pertaining to flexibility, funding, ownership, investment options, access, and taxation.

UTMA accounts were created in 1986 to replace the former UGMA (Uniform Gifts to Minors Act) accounts that had been around since 1956. Both types of accounts are used to gift cash and securities to minors, but the UTMA expansion allowed for gifting of real estate, intellectual property, and other assets as well. These accounts are by and large the most flexible and common, but the least tax-advantaged option.

Section 529 accounts were instituted in 1996 as a part of the Small Business Job Protection Act and are named in conjunction with the IRS code that governs them. They are primarily used to save for education in a tax-advantaged way, but they are the most limited option. However, Secure Act 2.0 expanded their use, addressing one of the biggest concerns around over-contributing and limited access to funds.

Trump accounts (a.k.a. 503A accounts) were most recently established under the One Big Beautiful Bill Act in 2025. They are a type of retirement account that comes with a special, limited-time $1,000 funding from the U.S. Treasury for children born between 2025-2028, but much remains unknown. They are a way to kick-start retirement funding without the earned-income requirements seen with other retirement accounts.

Opening, Funding & Ownership

UTMA accounts can be opened at most banks or financial institutions. An adult can open an UTMA account for any qualifying minor. There is no limit to the amount of cash or non-cash assets that can be contributed. All contributions are made with after-tax dollars or fair market value of contributed assets and are considered an irrevocable gift to the minor. Federal gift tax rules apply and should be reported accordingly. The adult acts as the “controller” of the account until the child reaches age of majority (either 18 or 21 depending on the state), upon which the account transfers ownership to the named beneficiary and becomes immediately accessible to them.

529 accounts must be opened through a state plan or national provider. Each option may have differing fees, investment options, or tax benefits. 529s are not solely for minors, although there are many benefits to the time value of money related to 529s, so they commonly come up as an option for minor children. An adult must open the account and name a beneficiary (it could even be themselves!). The account opener becomes the owner indefinitely, with the beneficiary never receiving control. In fact, the owner can choose to change the beneficiary (within certain timing and related person limitations). This comes in handy

THE ANSWER TO HOW TO BEST SAVE FOR YOUR CHILD’S FUTURE ISN’T ONE-SIZE-FITS-ALL

when one beneficiary doesn't need full access to the funds to support their education, and the owner can then choose to have the funds start benefiting another sibling or cousin. As far as contribution limits, 529s have no federal annual contribution limit, but some states have lifetime maximums. Without affecting the federal lifetime gift tax exemption, contributors can gift up to the annual gift allowance; however, there is a 5-year accelerated gifting option that allows 5x the annual gifting limit to be met without triggering a reduction in lifetime gifting against the contributor's estate.

Trump accounts are the most limited from an opening and funding perspective. Only a legal guardian, parent, adult sibling, or grandparent can open an account for the benefit of a related minor. The adult must file IRS Form 4547 and sign up online on the Trump accounts government portal (trumpaccounts.gov). Funding is limited to $5,000 per year with after-tax dollars. Employers can also choose to contribute up to $2,500 annually (within the $5,000 total contribution max). There is a limited-time U.S. Treasury contribution of $1,000 for any account opened for a minor born between January 1, 2025, and December 31, 2028, regardless of additional contributions. For minors under the age of 10 born prior to January 1, 2025, there may be an option to receive a Dell Foundation contribution of $250 depending on the child's zip code's median income.

Investment Options

UMTAs are also the most flexible when it comes to investment options. Typically, UTMAs can invest in virtually any asset, depending on the platform on which the account is opened. 529 and Trump accounts, on the other hand, are much more restrictive and come with a limited menu of options, typically consisting of target date funds, ETFs, and other mutual funds. One caveat pertains to Trump Accounts – upon the minor turning 18, the account essentially converts to a traditional IRA, and investment options are widely expanded.

Access to Funds

As soon as a minor reaches age of majority, they can access their UTMA funds immediately and for any purpose. The account acts like any other brokerage or bank account. If prior to age of majority, the owner wants to use the funds for the benefit of the minor, they can do so – assuming they keep records and receipts as to not trigger any issues with the irrevocability of the gift. For example, if the minor needs a car, the adult custodian can use the funds to purchase a car for the minor – or they can even purchase the car themselves and request that the UTMA reimburse for the expense since it benefited the minor.

529 distributions are much more restrictive. To avoid any additional taxes or penalties, funds can only be accessed to pay for qualifying education expenses (including tuition, books, room and board, and computers, etc.). The recent expansions in federal legislation around 529 plans also allow for use of funds for K-12 education, capped at $20,000 per year. Funds may also be used to pay back student loans up to $10,000 (lifetime limit). 529 owners can also elect beneficiaries to receive annual rollovers to their Roth IRA accounts (within annual contribution limits and lifetime max of $35,000 per beneficiary).

Trump accounts are still the biggest unknown, but legislation suggests they will act in accordance with traditional IRA rules, meaning there is a 10% penalty on any distribution made before age 59½ unless used for qualifying withdrawals such as education expenses, first time home purchase, medical expenses, and disability, among other reasons. After 59½, withdrawals can be made penalty-free for any reason.

Taxation

While UTMAs have been the star of the "flexibility show" thus far, they are by far the least tax-advantageous out of our contenders. The only real tax benefit comes from the fact that a portion of the income and earnings may be tax-free under "kiddie tax" rules. In 2026, the first $1,350 of income is tax-free and the next $1,350 is potentially taxable at the child's tax rate. Any earnings above that are then taxed at the higher of the parent's or child's tax rate. Additionally, taxes are paid along the way – there is not a deferral or complete avoidance that may be seen in other types of accounts.

On the other hand, the main benefit of 529s and Trump accounts lies in the time-value of the tax benefits. While there may not be an initial tax benefit (some states have special programs for 529s) to the contributions, the growth and earnings are deferred (similar to an IRA). For 529s, withdrawals may be completely federal income-tax free if used for qualified education expenses. If funds are used for a non-qualifying expense, there may be taxes on the non-principal portion of the withdrawal and a 10% penalty. Additionally, some states don't fully recognize the federally expanded use of funds and may impose state taxes (i.e., CA partially taxes K-12 distributions). For Trump accounts, the 10% penalty goes away at age 59½. It is important to note that while the contributions are made with after-tax dollars, Trump accounts are not intended to act like Roth accounts; they are intended to act like Traditional IRA accounts. Only principal may be withdrawn tax-free, so there is a level of basis-tracking that is required to fully optimize the taxation of the account. If your child has earned income, you should consider contribution to a minor Roth IRA first before contribution to a Trump Account.

The Bottom Line

The answer to how to best save for your child's future isn't one-size-fits-all; it really isn't as *major* as a decision as it feels. You can open all of these accounts for the same beneficiary – as each serves a different purpose. The important thing is to make sure you know what each account does, what purpose it serves, and how it may impact you and the beneficiary.

	Ownership	Funding	Investment Options	Taxation & Benefits	Best For...
UTMAs	Controlled by an adult for the benefit of a minor until age of majority	No funding limits; federal gift tax reporting must be followed	Virtually any asset	Follows "kiddie tax" rules; no deferred benefit or contribution tax advantages	Families who prefer flexibility and want to gift assets other than cash
529s	Always controlled by the owner of the account (never forces transfer of ownership)	State-specific annual funding limits; 5x federal annual limit accelerated gifting allowed; federal gift tax reporting must be followed	Limited menu of funds	State-specific contribution tax advantages; deferred taxation on growth and income; potential avoidance of taxes on withdrawals for qualify expenses or rollovers; may be subject to 10% penalty	Families who prioritize tax-advantaged educational benefits
Trump Accounts	Controlled by a qualifying adult for the benefit of a minor until age 18	$5k annual contribution (of which $2,500 can come from an employer); limited-time "free" funding options	Limited menu of funds until age 18	No contribution tax advantages; deferred taxation on growth and income; may be subject to 10% penalty	Families who want to take advantage of the limited-time U.S. Treasury funding or families who want to give their kids a kick-start to their retirement savings

2026

BUILD YOUR WEALTH

To Fund Your Passions

GKV Capital Management is an independent investment advisory firm registered with the Securities and Exchange Commission since 1975. We provide portfolio management services for our clients which include individuals, families, charitable trusts, corporations and retirement plans. We are an independent, fee-only advisor. We do not receive commissions, and we do not sell any financial products. We have a fiduciary responsibility to put our clients' interest first.

Client accounts are separately managed and tailored to meet the specific needs, including risk tolerance, investment objectives, and tax consequences of each client. Client assets are held at an unaffiliated brokerage firm.

With extensive expertise in security analysis, we make direct investments on behalf of our clients buying individual securities. This eliminates costly mutual fund fees and increases the flexibility to manage volatility. We actively allocate capital to take advantage of investment opportunities altering exposure to individual companies, industry sectors, and asset classes in anticipation of the changing investment and economic environment.

We are transparent in all facets of our asset management practice and believe it is important for our clients to know what they own, why, what their performance is, and what they are paying in fees. We build comprehensive portfolios for our clients with a goal of reducing volatility and producing prudent growth.

We protect and build wealth at GKV Capital.

GKV CAPITAL

INDEPENDENT INVESTMENT ADVISORY

Southern California

2555 Townsgate Rd., Suite 310
Westlake Village, CA 91361

Phone (805) 497-2616

Northern California

1350 Treat Blvd., Suite 260
Walnut Creek, CA 94597

Phone (925) 627-8680

gkvcapital.com
greg@gkvcapital.com