Dear xxxx;

The stock market is inherently forward-looking, with investors generally expecting that periods of uncertainty will ultimately give way to stability. Despite ongoing conflicts in both Europe and the Middle East, global equity markets ended the second quarter at or near all-time highs, driven largely by continued strength in technology companies.

U.S. equities (Q: +15.39%) and international equities (Q: +13.61%) delivered exceptional quarterly returns, reflecting one of the strongest quarters in recent history. US fixed income (Q: +0.67%) was slightly positive, and commodities (Q: -11.20%) sank due to declining oil prices. This letter will provide an analysis of the major geopolitical, financial, and thematic events that shaped the second quarter and our thoughts on the remainder of 2026.

Artificial Intelligence (AI)

AI has advanced tremendously since the introduction of ChatGPT on November 30th, 2022. Not only are there competing chatbots like Claude, Gemini, Perplexity, and CoPilot, but seemingly every company is using AI in some form both internally and externally. The AI trade refers to the collective investment in companies related to the AI boom, particularly semiconductor manufacturers, cloud infrastructure providers, and tech giants. These businesses provide essential hardware, data centers, and large language models which are driving the sector's growth. The AI trade has ignored all geo-political tension and is largely responsible for the exceptionally strong global equity performance in 2026.

Commodities

The S&P GSCI Commodity Index that we track is the broadest measure of the performance of physical commodities. At 51.8%, energy is the largest sector in the index, making it the primary driver of overall index performance. After a tremendous first quarter gain of 40.02%, primarily due to the closure of the Strait of Hormuz, the index dropped by 11.2% in the second quarter as oil prices fell by 29.4%. The decline in the price of oil became more significant after the June 17th signing of the Memorandum of Understanding and re-opening of the Strait of Hormuz. In fact, oil prices have now retreated to just 2.2% above their value on February 27th, the day before the start of the Iran war.

In general, the case for owning precious metals is that they serve as a hedge to economic uncertainty, like war. Unfortunately, the performance of metals throughout the Iran War has been atypical. Since the start of the war on February 28th, gold is down 23%, and silver, platinum, and palladium are down 30-35%. The reason for the decline in prices is mainly due to the increased global inflation created by rising oil prices. Higher inflation is forcing central banks to keep interest rates elevated, strengthening the US dollar. Because metals don't provide dividends, fixed income products have become more attractive.

CPI is a lagging indicator, so even though oil prices are coming down, the US likely won't see an improved CPI print until August. However, once investors believe CPI will decline, financial markets will begin to price in future rate cuts, weakening the dollar, lowering yields, and increasing the demand for precious metals. Even though global markets may move based on CPI predictions, the actual Federal Funds rate won't be adjusted until the Federal Reserve Board is confident inflation is under control.

Cryptocurrencies

The original purpose of Bitcoin was to create a decentralized peer-to-peer system for sending money over the internet without using banks. In the late 2010s, platforms like Ethereum expanded the purpose of blockchain beyond simple transactions. The early 2020s brough the rise of decentralized finance which tried to create complex financial services without traditional financial intermediaries. During the mid-2020s, cryptocurrencies began gaining broader institutional acceptance and real-world utility through the tokenization of real-world assets (RWAs) and the widespread issuance of stablecoins.

It took ten months after the first bitcoin was mined before an individual was able to purchase a bitcoin using fiat currency. On October 9th, 2009, a Finnish developer purchased 5,050 Bitcoins for $5.02 giving Bitcoin its first market value of $0.0009. By February 2011, the price of Bitcoin hit $1.00 representing a gain of 111,111%. On October 6th, 2025, Bitcoin reached its all-time high, $126,198 which, if the Finnish developer had held for 16 years would have been a gain of 14 billion percent.

Until the onset of COVID, Bitcoin was largely considered a tool that helped criminals move money. Since COVID, Bitcoin has become more of a mainstream asset, albeit a speculative one. Some believe that due to its limited supply, bitcoin is akin to digital gold, and while its total performance over these last five years has been largely in line with gold, its daily performance has varied substantially.

A common theme among some retail investors is to consistently seek the next best chance to 10x one's money. As the growth and performance of AI related companies has accelerated, retail investors have withdrawn capital from cryptocurrencies and precious metals to invest in AI. Should the AI trade persist, we believe the cryptocurrency and metal markets will decline until an inflection point is reached where money will be pulled from AI and put back into metals and crypto.

Iran War

Israel and the United States started the Iran war on February 28th, 2026, with coordinated airstrikes on Iranian nuclear facilities, military installations, and government sites killing Supreme Leader Ali Khamenei and many other members of Iranian leadership. Regional fighting targeting oil fields and airports continued through March until a temporary ceasefire was announced on April 7th. This ceasefire was short lived as the US began its naval blockade of the Strait of Hormuz on April 13th. Intermittent fighting continued through April, May, and June while peace negotiations were ongoing. The war officially ended on June 17th, 2026, with the signing of the Islamabad Memorandum and the lifting of the US blockade on June 18th. Although violations of the ceasefire were reported during the final weekend of June, the agreement remained in effect at quarter-end.

Global equity markets rewarded every sign of progress toward peace while largely ignoring setbacks when the tentative agreements were violated. After experiencing a 9.7% correction at the outset of the war, the S&P 500 staged the fastest rebound for a comparable drop since 1950. The market seemed to ignore the war due to a decoupling of the modern US economy from historic oil dependencies and surging corporate profits on the back of the AI boom.

Inflation

In February, the annual CPI reading declined by 0.3% to 2.4%, indicating the economy was clearly recovering from the peak post-COVID inflationary period, and the Federal Reserve would likely continue lowering the Federal Funds Rate. Due to the exorbitant increase in oil prices caused by the Iran War, the annual CPI print in May was 4.2%. In February, the market consensus was that the Fed would cut rates and continue cutting them if inflation remained cool. As of the end of the second quarter, the market now anticipates 1-2 rate hikes by the end of 2026.

Another driver of CPI increases will be microchips. Microchips, specifically memory chips, are a type of semiconductor integrated circuit used to store digital data and instructions in electronic devices. These chips are needed for every piece of technology we own. The AI boom requires massive datacenters, and those datacenters require memory chips. Due to the limited supply of memory chips, the price of those chips has increased by nearly 350% in the last 18 months. While some companies were initially eating these costs, more are passing them along to their customers. The general public only became aware of this phenomenon when Apple announced their company-wide price increases on June 25th.

Federal Funds Chairman Kevin Warsh

Kevin Warsh grew up in Albany, NY, attended Stanford for undergrad, and received his law degree from Harvard. He worked in investment banking for Morgan Stanley before being hired by President George W. Bush as a special assistant to the President for economic policy. In 2005 he was appointed to the Federal Reserve Board of Governors where he served under Ben Bernanke. He was instrumental in helping the United States through the 2008/9 financial crisis. He left the board in 2011 and became a partner in the Duquesne Family Office. In 2026 Warsh was nominated by President Trump, and confirmed by the Senate, to be the Chairman of the Federal Reserve Board of Governors.

While the US president does not control the Federal Reserve, President Trump has frequently requested that the Federal Reserve lower the Federal Funds Rate. During Chairman Warsh's first news conference on June 19th, Chairman Warsh said, "The Fed remains committed to price stability and maximum employment." He also said, "I don't do forward guidance." Multiple times during the press conference, Warsh mandated that inflation be reduced to its 2% target. His statements coupled with the dot plot release were viewed as hawkish, however, the market was relieved to learn that the Fed would remain an independent body.

Mortgage Rates

At the end of 2025, we used our letter to explain how mortgage rates are determined and we predicted that if the economy remains stable and growing mortgage rates would finish 2026 at 5.00%. Prior to February 28th, our prediction was plausible. Mortgage rates, which began the year at 6.25%, had fallen to 6.08%. However, since the start of the Iran War, mortgage rates have increased to 6.59%. Given the potential for future rate hikes, we now believe mortgage rates could reach 7.00%, the highest rate since 2001. Home buying and the health of the real estate market are directly tied to the mortgage rate. The higher the rate, the lower the number of homes being bought and sold in the US. Since the start of the Iran war, the number of mortgage applications has decreased by 28%.

Conclusion

So far in 2026, the market is firing on all cylinders. Market participants have shrugged off geopolitical risks in favor of the AI trade, propelling global stock markets near all-time highs. The Fed has indicated decisions will be made based on the economic data points they receive. All eyes should be focused on the CPI print in August, as this print will include the decrease in oil prices and the increase in microchip prices. This print will help both the Fed and the public determine whether rates will be increased, decreased, or remain flat during the 4th quarter.

PORTFOLIO UPDATES

Diversification

As you know, GA Pincus Funds uses a proprietary algorithm embedded within custom software to deliver tax-adjusted returns that aim to outperform your blended benchmark. We aim to use a broad set of asset classes so that each of your portfolios represents the global stock, bond, and commodity markets. Each year there will always be a best performing asset class and a worst performing asset class. Diversification ensures stability since your portfolios own a blend of the global market. Part of our investment strategy involves shifting portfolio weightings to minimize the exposure to the underperforming asset classes while maximizing exposure to the stronger asset classes. We will continue to monitor the changing ETF landscape to further diversify each of your portfolios when it is applicable.

Client Referral Network

One of the oldest and most successful methods to grow a business is through word of mouth. GA Pincus Funds has been fortunate and has grown substantially due to referrals made by you and your fellow clients. We would like to use our future quarterly newsletters to return the favor to our clients. We plan to dedicate a section of our newsletters to our client's businesses. Rather than list your name or company name, we will instead indicate the category of business and location where you operate. For example, Real Estate Professional in Chicago, or Employment Lawyer in Georgia, or Public Relations Professional in New York, etc. If you would like to participate in this program, please let us know. This referral program is **free marketing** for your business. **We will not accept payments for these referrals.**

Performance Calculations

The performance of your accounts is calculated daily, taking into consideration daily deposits and withdrawals, and those daily returns are combined to form your quarterly, YTD, and since inception returns. When we round off this enhanced precision it may shift your performance by 0.01-0.02% when compared to the calculation ((end date value – start date value)/start date value). Please note, the performance figures in your statement are accurate and are GIPS (Global Investment Performance Standards) compliant.

Exchange Traded Funds (ETFs) are required to distribute all excess cash, net income, and dividends received from their constituent companies to their shareholders annually. These distributions take the form of dividends. Many ETFs issue special dividends at the end of the year to ensure compliance with this rule. The amount of the dividend is removed from the ETF on x-date, and the shareholder receives the funds on the pay date. The x-date and the pay date can at times straddle New Year's Day. Please be aware, your full year returns on the statements we deliver may be slightly lower than the statements you receive from Schwab due to this nuance.

It is impossible to predict whether and by how much the market will increase or decrease. Our algorithm rebalances your accounts according to changes in the relative weightings of the securities you hold. As one security becomes too heavily weighted the algorithm sells shares in that security. Conversely, as one security becomes too lightly weighted, the algorithm purchases shares of that security. Instead of rebalancing based on time (as most managers do), this algorithm rebalances based on a securities' relative weighting in the portfolio. This gives GA Pincus Funds a long-term advantage. No matter what the market does in the future or has done in the past, if your time horizon is long enough (>1 year), this algorithm has proven itself to be successful.

Please stay safe and healthy. We are always available to answer any questions you may have.

Best regards,

Gabriel

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