

Capital Markets Commentary and Quarterly Report: 2nd Quarter 2026

Capital Markets Highlights

The stock market rallied strongly in Q2 2026¹, gaining +15.2%. For the year-to-date through June 30, the market was up +10.21%.

Investors shrugged off concerns about an inflation rate above 4%² and ongoing geopolitical conflicts. Instead, their focus was on strong corporate earnings, a stable economy, and expectations that the war with Iran will soon be over, bringing lower energy prices that should stimulate economic growth.

The best-performing stock market sectors in the quarter were Technology (led by AI-related semiconductor companies), Industrials, Financials, Healthcare, and Real Estate³. The worst-performing sectors were Energy, Consumer Staples, and Utilities.

Matrix's equity portfolios showed strong performance in the second quarter. Year-to-date through June 30, they were up in the high single to low double digits.

Interest rates were flat to modestly higher across the yield curve during the quarter. Market expectations moved from anticipation of one or two Federal Reserve rate cuts in 2026 to forecasts of a possible rate hike. This reversal was driven by the Iran war and rising oil prices, sticky inflation, and recent unexpectedly hawkish comments from new Fed Chairman Kevin Warsh about the importance of bringing down the rate of inflation.

Our Thoughts Going Into Q3

We remain optimistic about the economy and cautiously optimistic about the stock market for the balance of the year. Strong corporate earnings, the desire by the United States and Iran to end their war, and the spending binge on AI infrastructure are all positive factors for the economy. The recent pullback in oil and gas prices⁴ should provide a helpful boost to the economy, giving consumers more money to spend on things other than energy.

¹ All references to the stock market are the S&P 500® unless otherwise noted.

² CPI of 4.2% for the twelve months ending May 2026, Bureau of Labor Statistics.

³ All references to specific stock market sector performance are from Bloomberg & JP Morgan Asset Management Guide to Markets 06/30/2026.

⁴ Oil prices, as measured by spot month WTI, fell sharply during the quarter from a peak of more than \$110 a barrel in April to \$70 on June 30.

Two potential clouds threaten our positive outlook. First, the labor market may soften. Government healthcare spending cuts could slow job growth in healthcare, the economy's most resilient sector for several years⁵, while widespread AI implementation across corporate America risks further job losses. Second, overall market valuations sit at the high end of historical ranges with significant pockets of speculation and extended stock prices, leaving little margin for error if market psychology shifts or disappointments emerge.

In our Q1 letter, we said that we thought the market's decline earlier this year provided some very good investment opportunities. While the overall market was down less than 5% in the first quarter, many individual stocks had much bigger pullbacks, and we opportunistically added new names to the portfolios. During Q2, we continued to find good investments in areas of the market that have been left behind in the market's rebound, including names in the Consumer Staples and Healthcare sectors, and in some areas of Technology that have been under pressure due to concerns about AI's impact on their business models.

On the flip side, as the market rallied in Q2, we took advantage of higher prices to sell some positions and trim others that had become oversized or reached our target prices. For taxable accounts, that meant higher than usual capital gains during the first half of 2026. We think hard about taking taxable capital gains and will do our best to offset them with losses during the rest of the year. But our experience has been that it is often a mistake to let tax consequences overly influence investment decisions.

We have modest expectations for the overall stock market for the rest of the year. Following three and a half years of strong performance, the market ended the quarter just shy of its record high and was trading at more than 20 times estimated earnings, at the upper end of its historical valuation level. The low 1.08% dividend yield on the S&P 500[®] versus the competitive 4+% yield on short- and medium-term Treasuries is also a headwind.

Having said that, we have a more positive view for our portfolios and the broader market for the balance of the year because we anticipate the market's performance will continue to broaden beyond the high concentration in a few favorite sectors. This year, the equally weighted S&P 500[®] has outpaced the cap-weighted index. This is a very healthy sign in our opinion. If this trend persists as we expect, it should benefit our portfolios' performance, as we own many companies that have lagged the hottest market sectors, remain inexpensive, and are poised to lead in upcoming periods.

We continue to anticipate higher-than-usual volatility and many leadership rotations in the second half of the year.

⁵ Barron's June 20, 2026. Healthcare Has Been the Job Engine. That's About to Change.

Our advice on fixed income is the same as it has been for several years. We are very comfortable owning shorter maturities (5 years or less) and wary of longer-term bonds. We do not think investors in longer-term bonds are being compensated for the added risk of inflation, the growing government deficit, and uncertainties related to changes at the Fed.

Large Cap Value Strategy

Matrix's Large Cap Value Portfolio (LCV) was up in the mid-teens in Q2 2026, in line with the S&P 500[®] Index's gain and modestly ahead of the Russell 1000[®] Value's return. Over the past six months, the LCV portfolio was up in the low double digits and slightly outpaced the S&P 500[®] but trailed the Russell 1000[®] Value's return.

The sectors that added the most to the LCV portfolio's return in the quarter were Technology, Financials, and Industrials.

The largest detractors from performance this quarter were Consumer Staples and Healthcare.

During the quarter, we sold the portfolio's position in Federal Express. The company's recent results exceeded expectations, and its stock price reached our appraisal of its full value. We trimmed some positions in the financial sector (again): Bank of New York Mellon, Morgan Stanley, and Goldman Sachs. All three reached new highs in the quarter, and their size in the portfolio had become overweighted. We also modestly trimmed the Technology names Alphabet (Google), Applied Materials, Qualcomm, and Generac (mostly in tax-exempt accounts) as these positions had become oversized because of significant stock price appreciation.

We added to the portfolio's holdings in Intuit, Lowe's, Medtronic, Meta (Facebook), Nike, PepsiCo, TE Connectivity, Thermo Fisher Scientific, and Tyson Foods.

The largest sector weightings in the Large-Cap Value portfolio on June 30 were in Technology, Financials, and Communication Services, the same as on March 31.

We are optimistic about the portfolio's positioning and prospects for the balance of 2026. We believe the LCV portfolio can add to its gains as the year unfolds. As demonstrated by our activity this year, we are proactively making changes that we believe are taking advantage of the market's volatility and positioning us for continued gains in upcoming periods.

Our companies' operating performance and positioning are favorable, yet they sell at very attractive valuations. On June 30, the median P/E multiple of the LCV portfolio was 16.9x 2026 estimated earnings, which is attractive on an absolute basis and sells at a discount to the S&P 500[®]'s average multiple of 21.8x.

Dividend Income Strategy

After a good start to the year with a modest gain in Q1 when the S&P 500[®] had declined, the Matrix Dividend Income (MDI) strategy posted a high single-digit gain in Q2. While strong on an absolute basis, the second quarter's results trailed the S&P 500[®] and Russell 1000[®] Value Index's returns⁶. MDI's performance is in line with the S&P 500[®] for the six months through June 30 and lagged the Russell 1000[®] Value.

Portfolio performance in the quarter was led by stocks in the Financial, Technology, and Consumer Discretionary sectors. Our holdings in the Communication Services, Consumer Staples, and Industrials sectors were the largest detractors from the quarter's results.

During the quarter, we started new partial positions in Abbott Laboratories (ABT) and McDonald's (MCD).

ABT is a diversified global healthcare company that operates across four primary business segments: Medical Devices, Diagnostics, Nutrition, and Established Pharmaceuticals. We believe that the company is an attractive investment for the portfolio because of its recurring revenues, strong balance sheet, 54 years of dividend increases, and its price pullback from a 52-week high of \$139 to its current price of under \$90. At less than 16 times estimated 2026 earnings, the stock is trading at a 25% discount to the market and its own P/E multiple history. At our purchase price, the dividend yield was 2.8%.

MCD is a multinational fast-food chain known for its hamburgers, French fries, and signature items such as the Big Mac and Happy Meal. Historically, the company's financial performance has been very resilient. Ninety-five percent of McDonald's restaurants are owned by franchisees who pay employee wages, local utilities, and food costs. The company charges franchisees for rent, sales royalties, and a one-time licensing fee. MCD generates significant cash flow and has paid a dividend every year since declaring its first dividend in 1976. The company's shares were trading near their 52-week low amid concerns about weaker customer traffic, the negative impact of inflation on consumer spending, and price wars. We believe the company will work through these near-term issues, and the current lower share price and healthy dividend make it an attractive investment for the MDI portfolio. At our purchase price, the dividend yield was 2.8%.

We sold Nestlé at a modest gain to fund other positions. We trimmed positions in the technology names Qualcomm and Texas Instruments after their share price gains made them oversized in the

⁶The Russell 1000[®] Value Index's mid-teens gain in Q2 was led by Technology-related names. Only two of the top technology performers (Cisco and Texas Instruments) paid a dividend over 2% as of 12/31/25, and Matrix's dividend portfolio owned both. Outside of those two names, the other twelve top performers did not meet our investment criteria.

portfolio. We also reduced positions in the financial names, Bank of New York Mellon and Morgan Stanley, the retailer Target, and the utility NextEra Energy after strong stock price performance.

For taxable accounts, we realized a loss in Accenture, a name we expect to repurchase after 31 days.

We used the proceeds from these sales and scale backs to build positions in Automatic Data Processing, Comcast Corp, Constellation Brands, Home Depot, Medtronic, NextEra Energy (repurchased later in the quarter at lower levels), PepsiCo, Inc, Procter & Gamble Co., and Tyson Foods.

The largest sector weightings in the Dividend Income portfolio on June 30 were in Financials and Technology. The portfolio also has 10%+ weightings in each of the Consumer Discretionary, Consumer Staples, and Healthcare sectors.

The fundamentals of the portfolio's holdings remain strong, with nine portfolio companies raising their dividends by an average of 8.1% in the quarter. In the first six months of the year, fourteen portfolio companies raised their dividends by an average of 6.8%. Over the last twelve months, the average increase for all holdings was also 6.8%.

Their dividend history, strong balance sheets, cash flow, and earnings should allow the portfolio to continue delivering on its three objectives: generating high current income and growing income, providing downside protection, and achieving capital appreciation over time.

On June 30, 2026, the portfolio had a 2.69% dividend yield, which compares favorably with the 1.08% yield on the S&P 500[®] and the 1.69% yield on the Russell 1000[®] Value.

The MDI portfolio had an average P/E multiple of 16.5x estimated 2026 earnings at the end of Q2 2026 compared to the S&P 500[®]'s 21.8x.

Fixed Income

Fixed Income returns⁷ were modestly positive in the second quarter and for the first six months of the year. The interest income was higher than the principal decline as interest rates rose.

In Q2 2026, shorter-term U.S. Treasury yields increased faster than longer-term maturities due to higher and persistent inflation, and after the new Federal Reserve chairman emphasized the importance of bringing inflation down. As a result, the yield curve both rose and flattened. At the end of the quarter, the 2-year Treasury yield was 4.17%, and the 10-year yield was 4.47%. The 30-

⁷All references to bond market & fixed income performance are from Bloomberg & JP Morgan Asset Management Guide to Markets 06/30/2026.

basis-point difference in yield dropped from 53 basis points at the end of Q1 and 70 basis points at the start of the year.

Why is this worth mentioning? It tells you that bond investors expect the Fed to keep short-term rates higher for longer and ultimately succeed in bringing down inflation.

The year began with the expectation that the Fed would cut rates twice in 2026. That view began to shift when the U.S. bombed Iran and the price of oil spiked. The odds of a rate cut shifted to an increase as the war has continued, oil prices stayed elevated throughout most of the quarter, and after new Fed Chair Warsh's comments on inflation in June.

We agree that the chances of a hoped-for rate cut have diminished but we are skeptical that the Fed will raise rates unless inflation accelerates from its current level (something we do not expect). The late-quarter decline in energy prices should soon temper inflation. For now, the Fed has said it is on hold regarding interest rate changes.

We continue to believe that the best risk/reward is in fixed income maturities of 1 to 5 years. Intermediate to longer term bonds are not attractive to us, given the risk of principal loss if interest rates move higher. Aside from inflation, the government's budget deficit continues to grow due to rising social program costs and the administration's desire to significantly increase defense spending.

Our taxable and municipal bond portfolio returns were positive in the quarter, and results were generally in line with our benchmarks for similar quality and duration. We are very comfortable with our short-term fixed-income maturities, which we believe are well suited to the current environment.

Balanced Accounts

After a prolonged period of being at the higher end of the equity weighting for balanced accounts, which has been significantly positive for portfolio performance, we have used the strength in equities in the second quarter of 2026 to modestly reduce this overweight, balancing the tax consequences for taxable accounts as part of the repositioning process. If equities continue to rally, we will proceed on this course at a measured pace.

We continue to like shorter-maturity treasuries, corporate bonds, and municipals where appropriate for income and portfolio stability during market pullbacks. Over the longer term, stocks have more upside.

Capital Gains Discussion

After 3½ years of very strong overall stock market gains and some outsized performance in a number of our equity positions in the past 18 months, some of our holdings have become too overweighted relative to the portfolio and reached or exceeded our fair value or target sale price.

As a result, we have been more active than usual in locking in profits and scaling back oversized positions. Longer term, we believe this manages the concentration risks and positions the portfolios for further healthy upside. Shorter term, this unfortunately results in us realizing greater than usual capital gains. While we engage in tax mitigation strategies to try to offset these gains, currently we do not have many investments meaningfully below our cost, so our potential tax losses are limited. We expect to take these losses where it makes sense in the upcoming months.

We are very sensitive to the tax implications of our higher-than-normal trading, and the gains realized this year. We factor capital gains ramifications into our investment decision-making process, but our ultimate focus is to grow and protect assets. When stocks become richly priced or very oversized, it can make sense to lock in the profit even after taking the tax impact into account.

Looking at the balance of 2026, we seek to moderate and control additional capital gains. However, as stated earlier, in our experience, it is often a mistake to let tax consequences overly influence investment decisions. So, we try to balance these considerations.

These are volatile and uncertain times. We believe our experience managing through difficult periods, dating back 40 years to the mid-1980s, should serve our clients well. We have positioned our portfolios in a way we believe should be protective in the shorter term and fully participate in the better times ahead. We are here and available if you want to discuss this commentary and your portfolio. Thank you for the trust you have placed in us.

Disclosure:

The information provided is for demonstrative and academic purposes and is meant to provide valuable insight into market cycles, NOT a recommendation to buy or sell any security. Any investments referenced above may currently be held or traded by Matrix Asset Advisors. Investment Advisory Services are offered through Matrix Asset Advisors, an SEC Registered Investment Adviser. No offer is made to buy or sell any security or investment product. This is not a solicitation to invest in any investment product of Matrix Asset Advisors. Matrix Asset Advisors does not provide tax or legal advice. Consult with your tax advisor or attorney regarding specific situations. Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance. Investing involves risk, including the potential loss of principal. No investment can guarantee a profit or protect against loss in periods of declining Value. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. The Securities identified and described do not represent all of the securities purchased, sold, or recommended for client accounts. Actual portfolio holdings may vary for each client and there is no guarantee that a particular client's account will hold any or all the securities identified. The reader should not assume that an investment in the securities identified was or will be profitable. Opinions and projections are as of the date of their first inclusion herein and are subject to change without notice to the reader. As with any analysis of economic and market data, it is important to remember that past performance is no guarantee of future results. The securities identified and described herein may not represent all the securities purchased, sold, or recommended for client accounts. The reader/viewer should not assume that an investment in the securities identified was or will be profitable.

All performance data is through (or as of) 06/30/2026 unless otherwise noted.

For more information about Matrix Asset Advisors, please visit our website at www.MatrixAssetAdvisors.com. Our website includes our firm's Client Relationship Summary document.

Definitions:

The S&P500[®] Index is a broad-based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. You cannot invest directly in an index.

The Russell 1000[®] Value Index measures the performance of those Russell 1000 Index[®] companies with lower price-to-book ratios and lower forecasted growth values.

Fixed Income type of investment security that pays investors fixed interest or dividend payments until their maturity date.

Inflation is a sustained increase in the general level of prices for goods and services.

Financials a section of the economy, is made up of firms and institutions that provide financial services to commercial and retail customers.

Health Care all businesses are involved in the provision and coordination of medical and related goods and services.

Information Technology businesses that sell goods and services in electronics, software, computers, artificial intelligence, and other industries related to information technology (I.T.).

Consumer Discretionary an economic sector classification of non-essential consumer goods and services.

Communication Services includes companies that sell phone and internet services via traditional landline, broadband, or wireless. The communications sector also includes companies that create and produce movies, television shows, and other content.

Federal Reserve is the central banking system of the United States. It was created on December 23, 1913, with the enactment of the Federal Reserve Act, after a series of financial panics led to the desire for central control of the monetary system to alleviate financial crises.

Economic growth an increase in the production of economic goods and services, compared from one period of time to another

Utility Sector companies that provide electricity, natural gas, water, sewage, and other services to homes and businesses.

Corporate Earnings a measure of the economic income of the corporation available for a distribution to its shareholders.

Volatility is the degree of variation of a trading price series over time, usually measured by the standard deviation of logarithmic returns.

Municipal Bond is a bond issued by state or local governments or entities they create such as authorities and special districts. In the United States, interest income received by holders of municipal bonds is often, but not always, exempt from federal and state income taxation.

10-year Treasury Yield the yield that the government pays investors that purchase the specific security.

Interest rates are the amount a lender charges a borrower and is a percentage of the principal—the amount loaned.

Dividend Yield a financial ratio that tells you the percentage of a company's share price that it pays out in dividends each year.

Maturities are the agreed-upon dates on which the investment ends, often triggering the repayment of a loan or bond, the payment of a commodity or cash payment, or some other payment or settlement term.

Consumer Spending the Value of the goods and services purchased by, or on the behalf of, U.S. residents.

Short Term Bonds are bonds that will pay back your principal, or mature, quickly, typically within four years.

Intermediate Term Bonds - issued with maturity dates that are between two and 10 years.

Long Term Bonds - maturities of between 10 years and 30 years.

Capital Appreciation is an increase in the price or Value of assets.

High Grade Corporate Bonds that are believed to have a lower risk of default and receive higher ratings by the credit rating agencies, namely bonds rated Baa (by Moody's) or BBB (by S&P and Fitch) or above. These bonds tend to be issued at lower yields than less creditworthy bonds.

Yield Curve is a line that plots yields, or interest rates, of bonds that have equal credit quality but differing maturity dates.

Equal Weighted Index a stock market index – comprised of a group of publicly traded companies – that invests an equal amount of money in the stock of each company that makes up the index. Thus, the performance of each company's stock carries equal importance equity is in determining the total value of the index.

P/E Multiples the ratio for valuing a company that measures its current share price relative to its per-share earnings.

Corporate Profitability is a measure of an organization's profit relative to its expenses.

Yield Curve Steepening when long-term interest rates are higher than short-term interest rates.

Deficit is when expenses exceed revenues, or when a person, company, or government spends more than it receives in a given period.

Consumer staples are products that people buy regularly, regardless of their financial situation or the economy.

Tax- Exempt some or all of a person's or business's income is free from federal, state or local tax.

Fair Value represents the Value of a company's assets and liabilities when a subsidiary company's financial statements are consolidated with a parent company.

Cash Flow the net amount of cash and cash equivalents being transferred in and out of a company.

Energy Sector is the totality of all the industries involved in the production and sale of energy, including fuel extraction, manufacturing, refining and distribution.

Taxable accounts are accounts where the normal IRS tax rules apply. In a taxable account, you pay taxes on interest, dividends, and capital gains, in the year in which you earn them.

Market Valuation the value of an asset based on the price that would be paid for it if it were sold at a certain time.

Balance Sheets a statement of the assets, liabilities, and capital of a business or other organization at a particular point in time, detailing the balance of income and expenditure over the preceding period.

Forward earnings are a company's projected net income for a future period, typically for the next 12 months or the upcoming fiscal year.

Geopolitical relating to politics, especially international relations, as influenced by geographical factors.

Industrials Companies that manufacture machinery, handheld tools, and industrial products. This sector also includes aerospace and defense firms as well as companies engaged in transportation and logistics services.

Hawkish is a financial advisor or policymaker who believes that monetary policies should maintain high-interest rates to curb inflation. They are primarily interested in high-interest rates as they relate to Fiscal policy.

CPI The Consumer Price Index (CPI) consists of a family of indexes that measure price change experienced by urban consumers. Specifically, the CPI measures the average change in price over time of a market basket of consumer goods and services. The market basket includes everything from food items to automobiles to rent.

Artificial Intelligence is the ability of a digital computer or computer-controlled robot to perform tasks commonly associated with intelligent beings.

Balanced Accounts combines asset classes in a portfolio in an attempt to balance risk and return. Portfolios are divided between stocks and bonds, either equally or with a slight tilt, such as 60% in stocks and 40% in bonds. Balanced portfolios may also maintain a small cash or money market component for liquidity purposes.

Realized capital gain occurs when an investment is sold for more than its purchase price, and it becomes a taxable event.