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INVESTMENT REVIEW
2Q 2026

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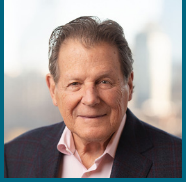
ECONOMIC COMMENTARY



BY HAROLD G. KOTLER, CFA
Founder-Chairman, Chief Investment Officer

The 250th anniversary of our amazing country is upon us. Many will focus on the angst and frustrations in this moment of time, but I want to redirect that energy. America has hopefully been a savior for many of those reading this. Many of us, our parents, or their parents, left another country; here, they and you found opportunity and success. Few of us would choose to go back. Every day there is another story of new success. Even within our own company, we have many inspiring examples of people who came to this country and went on to achieve remarkable success.

In most countries, it is very important to go to the "right" school or have a certain pedigree. In that world, credentials are critical to open doors and opportunities. Not so in America. A decent education is helpful, but not critical. Many of those who have succeeded didn't go to college or dropped out.

What is America's secret sauce? It's the ability for a person to develop their skills and pursue their dreams. Success is often built on dedication, perseverance, and honest work. Another important factor is a market-based economy, which encourages innovation, entrepreneurship, and competition. At its best, capitalism rewards hard work, creativity, and the ability to create value, giving people the opportunity to achieve more than they may have imagined.

This environment has helped attract talented people from around the world, each bringing unique perspectives, skills, and ideas. It is because our talent came from so many backgrounds that this country is so powerful, and the freedom to think creatively without enforced structures allows technology to blossom. This country allows us to wonder what might be, not what is, and critical to that process is the ability to find capital to invest and pursue new ideas. Risk capital is available not just for established businesses but for new ones as well. That is why we are a leader in innovation.

We are in the early stages of an AI technological revolution and capital is flowing into this change with complete abandon. Naysayers will argue that we will overspend and many companies will fail. Both are probably true, and that is exactly my point. Investors are willing to invest in ideas, knowing full well that some will work and others will not. That is the key — a willingness to take risks and understand the benefit of early investing. No one thinks all new capital will be successfully deployed, but they also believe much will. The key is the willingness of investors to lose. It is America's ability to raise venture funds at different stages of development that leads to great success. So I argue, don't get bogged down in the political environment or allow it to dissuade you from seeing these important changes. In the 250 years of American independence, there have been many periods of deep hostility, anger, and frustration. Yet here we are.

Some of the pessimism that has penetrated our political life has also impacted the current investment environment. As we are on the cusp of this next wave of innovation, many will see this as a bubble. Back in the 1960s there was a mindset that 50 companies would dominate the economic landscape. They were called the Nifty Fifty, much like today's Magnificent 7. Many of these Nifty Fifty companies no longer exist, but many still do. The survivors are industry leaders. Of course, there are always winners and losers, but in the end the majority of these great companies not only survive, they flourish, and investing in these companies back then would have provided great wealth.

The AI boom will change our lives. I believe this revolution could only happen in America, where capital, innovation, and opportunity are readily available. Young kids are now fabulously wealthy because of their creativity and access to capital. Investors are blind to everything but great ideas and talent.

Talent and ingenuity matter. So, as we celebrate our country's 250th anniversary, please take time to reflect on what is working in this wonderful land. Smell the roses, see the beauty as we move forward, and appreciate that our country will be in a perpetual state of change, growth, and opportunity.

Harold G. Kotler, CFA
Founder-Chairman, Chief Investment Officer

MUNICIPAL BOND STRATEGIES

Municipal bonds posted solid gains in the second quarter, overcoming a backdrop that offered little in the way of help. Treasury weakness, April 15 tax selling, and near-record new issue supply all pushed against the market. In the end, however, it didn't matter. Municipal bonds rallied steadily from start to finish. Much of the groundwork for that strength was laid by March's correction, which had pushed absolute and relative yields to their most attractive levels in months, setting up a natural launching pad for demand. Investors came off the sidelines in a big way, with mutual fund and ETF inflows finishing the first half on pace for the second-highest annual total on record. Pockets of heavy issuance produced a few rough patches along the way, but once supply was absorbed, the appetite for municipal bonds reemerged. By quarter-end, tax-exempt yields had fallen 6 to 26 basis points across the curve, with the long end posting the largest declines.

Treasuries moved in the opposite direction over the quarter, with a surge in short rates sharply flattening the curve. The main driver was a change in leadership at the Fed. New Chair Kevin Warsh ran his first meeting in June, and the takeaway was more hawkish than expected, with the market bracing for the coming of tighter policy and less forward guidance. By quarter end, futures had erased the 30% odds of a year-end rate cut that we saw in March and instead priced in the chance of a quarter-to-half-point hike. Long rates finished the quarter essentially unchanged, buoyed by the Fed's hawkish tilt and encouraged by the progress in the Middle East. The Iran peace negotiations swung between hostile brinksmanship and diplomatic breakthroughs, and while the interim framework ended the quarter feeling shaky, significantly lower oil prices reflected market optimism that a lasting deal was close at hand.

> *"Municipal bonds enter the second half of the year on firm footing. Second quarter gains more than reversed the first quarter's losses, providing momentum for a market that often takes its cues from recent performance."*

The heavy new issue calendar created plenty of opportunities to add value in the second quarter. This continued a theme we have seen all year — namely, large deals requiring concessions to clear the market and then trading up significantly soon after. Year-to-date, we have purchased 30 different sizeable deals (over $500 million). On average, they have tightened 10 basis points through the end of the second quarter, with some as much as 20 basis points. Rather than limiting purchases to available cash, we aggressively sold existing holdings to maximize our participation in the most attractive offerings. Sales focused mainly on tight-spread, lower-yielding names where the return potential had run its course. We are constantly trying to upgrade the performance profile of all of our bonds and the second quarter was no exception.

17 MUNICIPAL INVESTMENT PROFESSIONALS

22 AVERAGE YEARS EXPERIENCE

INVESTMENT TEAM

John B. Fox, CFA	Partner, Director, Fixed Income
Brian T. Moreland, CFA	Partner, Portfolio Manager
Kara M. South, CFA	Partner, Portfolio Manager
Martin R. Tourigny, CFA	Partner, Portfolio Manager

GW&K MUNICIPAL BOND STRATEGIES

SHORT-TERM MUNICIPAL BOND
2–8 YEAR ACTIVE MUNICIPAL BOND
2–8 YEAR ACTIVE MUNICIPAL BOND ESG
MUNICIPAL BOND
MUNICIPAL BOND ESG
MUNICIPAL BOND PLUS
MUNICIPAL ENHANCED YIELD

Municipal bonds enter the second half of the year on firm footing. Second quarter gains more than reversed the first quarter's losses, providing momentum for a market that often takes its cues from recent performance. Tax-equivalent yields remain near their highest levels of the year, even with ratios still relatively expensive. Near-term supply looks set to take its usual July breather just as the summer reinvestment cycle kicks into full gear. Meanwhile, the macro picture looks more contained, with each new Iran flareup moving the market less than the last and Warsh's task forces still months away from major policy changes. Municipal bonds also appear better insulated than other markets from any disruptive fallout from the relentless AI buildout. Against that backdrop, compelling tax-equivalent yields should continue to attract investors and support the market through the back half of the year.

TAXABLE BOND STRATEGIES

14 TAXABLE INVESTMENT PROFESSIONALS

22 AVERAGE YEARS EXPERIENCE

INVESTMENT TEAM

John B. Fox, CFA	Partner, Director, Fixed Income
Mary F. Kane, CFA	Portfolio Manager
Brett Kozlowski, CFA	Partner, Portfolio Manager
Brian P. McArdle, CFA	Principal, Portfolio Manager

GW&K TAXABLE BOND STRATEGIES

SHORT-TERM TAXABLE BOND
INTERMEDIATE TAXABLE BOND
CORE BOND
CORE BOND ESG
ENHANCED CORE BOND
ENHANCED CORE BOND ESG
TOTAL RETURN BOND
CORPORATE BOND OPPORTUNITIES
SHORT-TERM FOCUSED HIGH INCOME

The second quarter began on a positive note following the announcement of a ceasefire in the war with Iran on April 7, which caused risk assets to rally. The markets began to look through geopolitical risk and focus instead on the continued strength in corporate earnings growth. The positive tone continued through May as the US and Iran inched closer to a deal and robust earnings growth was met with strong economic data. By late June, the two sides had signed a memorandum of understanding (MOU) and agreed to begin negotiations to end the war, which further buoyed risk assets. However, the June FOMC meeting, the first under Chairman Warsh's leadership, was decidedly hawkish, pushing front-end rates higher and moving spreads modestly off of their tights for the year.

The Bloomberg US Aggregate Bond Index bounced back in the second quarter, posting a 0.7% return, which pushed the year-to-date return for the benchmark back into positive territory. Risk assets led the way, on the heels of US equity markets posting their strongest quarterly returns since 2020. Spreads tightened for various sectors of the Index, paced by investment grade (IG) and high yield (HY) corporates, leading to positive absolute and excess returns across the various spread sectors. For the quarter, the US High Yield Index posted an excess return of 221 basis points, followed by IG Corporates with 117 basis points of excess returns. The ABS Index beat duration-matched Treasuries by 36 basis points, and the MBS Index outperformed by 30 basis points.

Corporate credit markets delivered strong second quarter returns, as resilient demand and robust earnings growth outweighed geopolitical uncertainty and a surprisingly heavy issuance calendar. IG supply remained elevated, leaving the market on pace for a record year, but the issuance was easily absorbed by investor demand. Through the quarter, credit markets moved with developments in Iran and shifting levels of AI optimism, but the overall direction was clearly supported by de-escalation and an appetite for risk. That favorable backdrop drove lower-quality outperformance across both IG and HY. BBBs returned 1.7%, outpacing the broader IG Corporate Index, and ended the quarter 18 basis points tighter. Within HY, CCCs led returns, benefiting from higher coupons and less rate sensitivity. BBs outperformed BBBs, posting a 2.3% return and ending the quarter 41 basis points tighter. While credit fundamentals remain solid and market demand appears durable, tighter spreads leave less room for error. As Iran risk recedes, the focus for corporate credit is likely to shift back to AI infrastructure investment and whether that spending strengthens or pressures corporate fundamentals in the coming quarters.

Securitized products outperformed Treasuries but lagged IG and HY credit, with the OAS of the Agency MBS Index unchanged over the course of the quarter. While the quarter saw unchanged MBS spreads, looking closer shows in fact a bumpy ride, as uncertainty stemming from the conflict in Iran injected volatility into the price of oil as well as interest rates, which led to volatility in mortgage spreads. CMBS and ABS fared slightly better, as economic data continued to show strength and their lower sensitivity to rate volatility supported relative spread performance. The securitized sector generated 30 basis points of excess return and 58 basis points of total return for the quarter. Overall, the outlook remains constructive, as supply remains constrained due to the high level of mortgage rates and continued clarity on bank deregulation is supportive of bank demand.

> *"Expectations are for inflation to ultimately move back down toward the Fed's long-term target, while growth is expected to remain strong, driven by resilient consumer demand and continued corporate spending in support of the growth of AI infrastructure."*

Despite the increase in volatility in the second quarter amidst uncertainty over the conflict in Iran, spreads for various fixed income sectors traded in relatively narrow ranges. An overweight to spread product proved to be beneficial, as the various spread sectors generated positive excess returns. With tensions having eased in the Middle East since the MOU was signed by the US and Iran, the market's focus has turned back to the domestic economy and future of monetary policy by the FOMC under Chairman Warsh's leadership. Expectations are for inflation to ultimately move back down toward the Fed's long-term target, while growth is expected to remain strong, driven by resilient consumer demand and continued corporate spending in support of the growth of AI infrastructure. Once again, we believe that active management and our positioning in corporates and high-quality securitized product should leave us well-positioned in this environment.

DOMESTIC EQUITY STRATEGIES

Following a difficult first quarter impacted by the US/Iran conflict, equity markets quickly put that in the rear-view mirror with the fragile truce in place, registering their strongest quarter since 2020. The S&P 500 Index posted a gain of 15.2%, erasing Q1's losses and pushing its first-half returns into double digits at 10.2%. The broad strength of the US economy provided the primary support for the market. Strength in the manufacturing and services sectors plus resilient consumer spending aided by a 30% decline in oil prices drove solid economic growth, with corporate profit growth exceeding 20% among large cap companies. But it was Information Technology (IT) that posted the most striking returns, gaining 31% and being the only sector to post a return higher than the overall Index. Beneficiaries of AI compute and capital spending within IT, most notably semiconductors, electronic equipment, communications equipment and hardware, provided the bulk of these gains, while even software managed to advance following its Q1 meltdown as a perceived AI loser. Energy, not surprisingly given the drop in oil prices, posted a mid-teens decline. Defensive Utilities and Consumer Staples sectors also lagged in the quarter.

The broadening of equity market returns continued down cap in the quarter, as the Russell 2000 Index advanced 21.5%, extending its year-to-date gain to 22.6%. IT was the top performer among small caps as well, gaining 56%. While there was broad strength across all IT industries, semiconductors stood out with a return of over 100%. Health Care and Industrials also posted impressive returns, with broad gains in the former driven by takeover activity and new drug approvals, and more narrow AI infrastructure-related industries benefiting the latter. Energy was the laggard among small cap stocks as well, with oil & gas production companies particularly weak. Style factors favored lower quality attributes, which is not uncommon in a strong market, with high beta, low ROE, and non-earners all performing strongly.

"While today's environment may feel especially uncertain given the new world of AI, quantum computing, drones, crypto, and alternative power — periods of disruption have always created opportunities for long-term investors."

Large cap Growth stocks outperformed Value by nearly 3% in the quarter. Surprisingly, IT's strength was heavily weighted toward Value names in semiconductors and hardware. But this was more than offset by weakness among other Value-heavy sectors such as Energy, Financials, and Consumer Staples. Year-to-date returns still favor Value, which has maintained a lead of nearly 11%. Among small cap stocks, Growth had a performance advantage of over 8% for the quarter, driven mostly by relative weakness among value-heavy sectors Energy, Financials, Utilities, and Real Estate. This erased most of Value's year-to-date advantage, which now stands at less than 1%.

Little has changed since last quarter, although during the ceasefire with Iran at the end of the second quarter, investors were able to refocus on the long list of positives likely to impact markets and the economy into the second half of the year. Most noticeable is the broad strength in nearly all economic indicators. The labor market remains steady despite earlier concerns about AI-related job losses. ISM survey data continues to show expansion in both the services and manufacturing economies. The Manufacturing survey has now put up an impressive six-month streak of favorable readings, no doubt helped by both tax breaks and the AI infrastructure buildout. And despite worrisome consumer confidence surveys, consumer spending remains quite resilient, and should have a tailwind from the meaningful drop in oil prices. Earnings growth also remains very strong, with expectations of growth in 2026 of over 20% for large cap companies and mid-teens for smaller companies.

While the list of concerns is not particularly long, inflation remains stubbornly high, prompting a more hawkish Fed and keeping interest rates elevated, which could weigh on stock valuations. There are also growing challenges to the AI investment theme, most notably declining free cash flows by the hyperscalers and uncertainty as to the timing and magnitude of returns on these massive investments. Lastly, while the Middle East truce remains in effect, there is a lot of work that still needs to be done before we can say with confidence that renewed escalation is unlikely.

While today's environment may feel especially uncertain given the new world of AI, quantum computing, drones, crypto, and alternative power — periods of disruption have historically created opportunities for long-term investors. Nothing in the current environment has changed our investment approach, which remains focused on identifying high-quality, well-managed, financially sound companies that create new markets, gain share within existing markets, or create sustainably high returns on capital. Our job is to separate the wheat from the chaff, which can be difficult when newer technologies are in their early stages of development, but we remain confident that our quality-oriented approach ultimately wins out as markets and companies mature.

15 EQUITY INVESTMENT PROFESSIONALS

26 AVERAGE YEARS EXPERIENCE

INVESTMENT TEAM

Daniel L. Miller, CFA	Partner, Director, Equities
Aaron C. Clark, CFA	Partner, Portfolio Manager
Joseph C. Craigen, CFA	Partner, Portfolio Manager
Jeffrey W. Thibault, CFA	Partner, Portfolio Manager
Jeffrey O. Whitney, CFA	Partner, Portfolio Manager

GW&K DOMESTIC EQUITY STRATEGIES

EQUITY DIVIDEND PLUS
DIVERSIFIED EQUITY
SMALL/MID CAP CORE
SMALL/MID CAP GROWTH
SMALL CAP VALUE
SMALL CAP CORE
SMALL CAP GROWTH

GLOBAL EQUITY STRATEGIES

9 EQUITY INVESTMENT PROFESSIONALS

27 AVERAGE YEARS EXPERIENCE

INVESTMENT TEAM

Daniel L. Miller, CFA	Partner, Director, Equities
Reid T. Galas, CFA	Partner, Portfolio Manager
Karl M. Kyriss, CFA	Partner, Portfolio Manager

GW&K GLOBAL EQUITY STRATEGIES

GLOBAL SMALL CAP

INTERNATIONAL SMALL CAP

The war-driven selloff last quarter was brief, with global equity markets roaring back in April and then going on to deliver strong second quarter results. The MSCI World ex USA Index gained 10.2% for the quarter, outpacing the still-respectable 7.9% return of the MSCI World ex USA Small Cap Index. During June, both indices declined, but they still finished the first half of the year with gains of nearly 11%. This performance came despite a continued, albeit modest, 2.9% appreciation in the US dollar during the first half.

While the bull market remains intact, underlying market breadth and participation suggest a more nuanced backdrop. The AI trade has become the dominate driver of global market direction while price moves across the largest names in the space are showing dramatic levels of daily volatility. As a case in point, the largest name in the MSCI World Small Cap Index is now Sandisk, a memory company benefiting from the voracious demand for its chips. The stock ended the quarter with a market cap of about US$300 billion (that's a heck of a small cap!) and while it has increased greater than 200% since the end of last quarter the daily volatility is closer to that of a micro-cap meme stock. During the quarter Sandisk was +/- 3%, on 43 out of 62 trading days (69% of the time). Within small caps most of the AI beneficiaries are suppliers to big AI companies and benefit from the capex spend of large hyperscalers and their direct equipment suppliers. This is real; the orders are real, the spending is real, and the profits are real. However, capex spend is not the same as end demand. When the build out ends the demand decline for capex will be significant, even in a world where AI is as successful as the bulls hope. It is difficult to know how long this AI capital investment cycle will last. However, recognizing that it is cyclical is key to positioning for broader, more normalized market performance and avoiding the classic downturn that we believe will inevitably arrive.

Our approach has been to let some of our AI 'winners' continue their dramatic runs; periodically taking some profits off the table but acknowledging that the cycle may have many quarters of outperformance ahead. We are taking the gains and recycling them into what we consider out-of-favor but stable businesses, with attractive valuations but lacking the narrative excitement the market continues to pay up for.

In terms of the Middle East conflict, the ceasefire has created a Schrödinger's Strait situation where the Strait of Hormuz is either open or closed or both depending upon the day. However, by the end of the quarter the shipping lanes began to open. This, combined with a dramatic increase in US exports and high reserves in China helped stave off the worst fears from March and April. A resumption in the petroleum product flow out of the Gulf is a significant positive for Asia and Europe. Unfortunately, the current situation looks to be a classic case of an unstable Nash equilibrium where neither side has much to gain from resuming conflict, but events could easily upset the fragile peace.

Global markets are not cheap, and some major markets are arguably expensive. We are fond of saying that 'initial conditions matter' and the current conditions have not historically presaged high future returns at the index level. However, this highlights one of the most attractive qualities of investing in small cap markets: the ability to own niche companies where success is not dependent on crowded macro themes or index level valuations. Those able to own a portfolio different than the index can currently find compelling investment ideas around the world, with idiosyncratic business drivers and their own investment narratives.

> *"For investors with the ability to use short-term volatility and focus on long-term business dynamics the outlook is quite attractive."*

Some of the political and macroeconomic concerns are providing us with these opportunities. For example, the Japanese yen is back to levels not seen since before the Plaza Accord in the 1980s. Meanwhile, the UK is about to welcome their seventh Prime Minister in the last 10 years. But these macro concerns just provide us the opportunity to buy, what we believe, are amazing businesses at a discount; supported by a weak yen in Japan and cheap multiples in the UK. For investors with the ability to use short-term volatility and focus on long-term business dynamics the outlook is quite attractive.

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