



QUARTERLY LETTER, JULY 2026

Fellow Investors,

For most of the second quarter, the markets were driven by news concerning the Iran War. Major combat operations began on February 28th and mostly ended after the April 8th cease-fire agreement. The war mattered to markets because the Iranians closed the Strait of Hormuz, reducing global crude oil flows by about 20% of global daily consumption and significantly reducing liquefied natural gas (LNG) and fertilizer flows as well. Oil prices peaked at \$113 per barrel on April 7th and have declined erratically since then, hitting a low of \$70 on June 24th. On June 17th, the Strait of Hormuz was partially reopened after the signing of a memorandum of understanding between the United States and Iran, and oil slowly began to flow out of the area once again. This was critical, as many countries had been drawing down oil reserves to keep their economies running. Their ability to do this was finite, and there were some real concerns that a true oil shortage would develop when their reserves were depleted, sending prices much higher and slowing economic activity sharply. While those fears have not completely disappeared, such a dire outcome is far less likely now.

While the conflict with Iran is not resolved, the opening of the Strait of Hormuz has allowed Wall Street to think about other things: a new Federal Reserve Chairman (Kevin Warsh) and the massive IPO of SpaceX.

Mr. Warsh became the Fed Chair on May 22nd and appears intent on reforming the Federal Reserve. He started his reforms by doing away with forward guidance and creating five advisory committees to study communications, the balance sheet, inflation frameworks, data sources, and productivity/jobs. These committees are expected to wrap up their work by the end of 2026, so it won't be long before we find out what they recommend. At its May meeting, the Fed kept the Federal Funds Rate target unchanged at 3.50% – 3.75%. Mr. Warsh emphasized price stability in his remarks, and prediction markets took those comments as a sign that rate hikes were more likely in the near future, not the expected rate cuts. We'll see.

As regards the SpaceX IPO I am struck by the high valuation given to the company: 55 times this year's estimated sales (the company is not yet profitable, so Price/Earnings is meaningless). As a rule of thumb, I generally consider 10 times sales to be expensive – SpaceX is far beyond that. CEO Musk has set himself some very ambitious goals including deploying orbital data centers and putting a million people on Mars – if he can do the improbable, perhaps his company is worth its current price. Again, we'll see.

On to more mundane concerns.

The U.S. economy appears to be doing fine. The U-3 Unemployment Rate was 4.3% on May 31st, about where it has been since May 2025. 1st Quarter real GDP growth was reported to be 2.1% on March 31st and the Atlanta Federal Reserve's GDPNow estimate for second quarter is 2.5% as of June 25th, 2026. Inflation has increased throughout the year with the Consumer Price Index indicating 4.2% year-over-year inflation on May 31st, 2026. The high inflation number probably prompted Warsh's repeated emphasis on price stability as a Federal Reserve goal. Interest rates in general bottomed in early March and have been rising erratically ever since. The yield on the 10-year Treasury bond was 3.94% on March 1st, rising to 4.38% on June 25th. Similarly, the 30-year fixed mortgage rate was 6.1% on March 1st and hit 6.57% on June 25th.

The S&P 500 has bounced nicely from the late March low and is now up roughly 7% year to date. Semiconductor stocks have led the move higher as massive investments by artificial intelligence developers and cloud service providers accelerated chip makers' revenue and earnings growth.

As I did last quarter, let's review our standing questions. The questions are listed below in italics, with our updates in bold letters.

- *When will the AI boom end?* **The answer still eludes me. My number one concern is that the AI boom will turn to bust, and the stock market will do a re-enactment of 2000 – 2002. I have been actively reducing exposure to companies benefitting from AI investments for the last 18 months. I may have acted too soon, and our investments may underperform for a time if the AI boom continues.**
- *When will the contraction in manufacturing end?* **1st quarter 2026. This question will be dropped going forward.**
- *Will the tailwinds for gold continue?* **The price of gold has dropped about 25% from its January peak and is down 6% year to date. The stronger dollar has been a headwind, but the structural tailwinds (central bank buying, gold backed crypto currency buying, profligate government spending) are still in place. Our gold related holdings change little during the Quarter.**
- *Will the tariff and regulatory upheaval we saw in '25 settle down, allowing CEOs to start making long-term decisions again?* **This is not yet clear. In conversations with CEOs tariffs rarely come up any more and regulatory change is more often beneficial than not. Long term, I think regulatory reform is a significant positive change for the U.S. economy.**
- *What will inflation do this year?* **So far it has mostly gone up, it is not clear how much was due to oil prices and how much is due to other factors. Also unclear is the ability or willingness of the Fed to raise interest rates and thereby increase borrowing costs for the government.**
- *How long will the Iran war last?* **45 Days. How high will oil prices go? \$110 per barrel. I don't think the U.S. will resume major combat operations. This question will also be dropped unless I am wrong and major combat operations resume.**

The accounts Muhlenkamp and Company manages remain up by high-single-digit percent year to date. I've taken profits on some successful investments in the Quarter and sold our international and Chinese investments. The Chinese holdings were not meeting my expectations, so I sold them. The international exchange-traded fund we owned was heavily exposed to Korean and Taiwanese chipmakers and did better than I expected. I sold it because I think those chipmakers are now overpriced. I'm not in a hurry to put our cash to work but will happily do so when I find lucrative opportunities.

I hope that you and your family enjoyed our nation's 250th Birthday and didn't get overcooked! As always, please contact us if you have any questions, we'd love to hear from you!

Jeff Muhlenkamp, Portfolio Manager
Muhlenkamp and Company, Inc.

Consumer Price Index (CPI) – measures the average change in prices over time that consumers pay for a basket of goods and services, commonly known as inflation.

GDP (Gross Domestic Product) – is the total market value of all goods and services produced within a country in a given period of time (usually a calendar year).

Price to Earnings ratio (P/E) – the current price of a stock divided by the trailing twelve months earnings per share.

Price to Sales ratio (P/S) – the current price of a stock divided by (in this case) the average of analysts' estimates for FY 2026 sales. Trailing twelve months' sales or forward twelve months' sales estimates are also commonly used in this calculation.

S&P 500 Index® – the S&P 500 (Standard & Poor's 500) is a stock market index that tracks the performance of 500 leading publicly traded companies in the United States. The S&P 500® Index is weighted by market value and its performance is thought to be representative of the stock market as a whole. One cannot invest directly in an index.

U-3 Unemployment Rate – U-3 is the official unemployment rate published by the U.S. Bureau of Labor Statistics (BLS). It measures the total number of jobless people (aged 16 and older) who are available to work and have actively searched for a job in the past four weeks, expressed as a percentage of the labor force.

Past performance does not guarantee future results.

The comments made in this letter are opinions and are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

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