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A Strong Economy, Higher Rates, and Why Discipline Matters More Than Ever

THE TREMLETT BRIEF

Corporate earnings are strong, the economy is resilient, and AI investment remains powerful.
But higher rates and crowded trades make discipline and selectivity essential.

THE ECONOMY IS STRONG—AND THAT'S A GOOD THING (WITH NUANCE)

The economy continues to grow, corporate earnings are exceeding expectations, and participation is broadening beyond technology.

But higher long-term interest rates and a large budget deficit are creating headwinds. Any one of these factors is manageable; together, they warrant attention. Higher rates increase borrowing costs for consumers, businesses, and the government, while elevating the risk of a future debt spiral.

Productivity is the key wild card. If AI investment drives meaningful productivity gains, it could allow for stronger growth with less inflation—an ideal outcome. If not, the Fed's job becomes more difficult.

Inflation has been better than expected, but the bond market is pricing future inflation risk. That's why long-term rates have moved higher despite improving data. We expect volatility around every inflation report and Fed meeting.

THREE FORCES TO WATCH

STRONG ECONOMY	HIGHER RATES	LARGE BUDGET DEFICIT
Growth supports jobs, spending, and earnings.	*Increases borrowing costs across the economy.*	*Adds to long-term fiscal and rate pressures.*

Individually manageable. Together, they matter.

THE FEDERAL RESERVE: PATIENT, NOT PASSIVE

The Fed is in a difficult position. Inflation remains above target, and rising energy prices are a wildcard they can't control.

The key today is to remain patient and let prior rate hikes work through the system. The economy is slowing, but not breaking. The labor market is healthy, but not overheating.

Markets have already priced in much of the tightening through higher yields, mortgage rates, and tighter credit conditions—giving the Fed more flexibility to wait for clearer signals.

THE FED'S BALANCING ACT

- Inflation above target
- Economy slowing, not breaking
- Labor market healthy, not overheating
- Patient and data dependent

The goal: Allow prior tightening to continue working.

EARNINGS ARE STRONG AND LEADERSHIP IS BROADENING

Corporate earnings remain excellent, with strength now spreading across industrials, financials, energy, healthcare, defense, infrastructure, and more.

This is what a healthy bull market looks like—one that rewards quality, free cash flow, and disciplined execution rather than speculation alone.

AI investment continues to be a powerful, multi-year theme, but the opportunity is far broader than a handful of mega-cap tech stocks.

THE EARNINGS PICTURE (FACTSET)

>90%	~86%	>40%	~32%
of S&P 500 companies have reported Q2 results	have beaten earnings estimates	aggregate earnings growth (year-over-year)	underlying earnings growth (excluding the largest gains)*

Source: FactSet Earnings Insight (July 31, 2026)

**Excludes unusually large gains from a few companies.*

WHY I DON'T WANT THE STOCK EVERYBODY ALREADY OWNS

Crowded trades are popular for a reason—but popularity creates risk. When expectations are high and everyone owns the same names, disappointments hurt more.

A company can be a fantastic business and still be a poor investment if too much of the good news is already priced in.

My goal is to own high-quality businesses that are mispriced—not just well-known. That's where the best long-term returns come from.

CROWDED TRADE VS. ACTIVE SEARCH

CROWDED TRADE	ACTIVE SEARCH
High expectations	Lower expectations
Popular ownership	Unpopular today
More sensitive to disappointment	Greater margin for upside
Higher risk	Lower risk, better reward

We focus on mispriced quality—not just well-known names.

HOW WE BUILD PORTFOLIOS: INTENTIONAL AND DIVERSIFIED

Our portfolios typically have an R-squared of 65%–70% to the broad market.
That means we participate in market returns, but we also have meaningful exposure to areas driving independent returns.

We invest across companies, sectors, and factors to reduce risk and increase the odds of long-term outperformance.

DIVERSIFIED FOR MORE INDEPENDENT RETURNS

R-SQUARED 65%–70%	MULTIPLE SOURCES	RISK MANAGEMENT	LONG-TERM FOCUS
Participate in the market…	…with independent return drivers	Reduce downside risk	Improve odds of outperformance

WHAT I'M WATCHING

- Corporate earnings and management commentary
- Capital spending trends
- Inflation and energy prices
- Labor market strength
- Business confidence
- AI infrastructure spending

FINAL THOUGHT

Markets don't reward investors who react the fastest—they reward those who remain disciplined the longest.
Headlines change every day. Investment theses rarely should.

I continue seeing healthy corporate earnings, improving productivity, and sustained capital investment—long-term trends that remain far more important than short-term market noise.

Volatility is inevitable. Long-term wealth is built through discipline, patience, and a focus on enduring fundamentals.

— Scott Tremlett
Founder, CEO & Chief Investment Officer