Five Mile River Investment Management L.L.C. July 21, 2026
Client Quarterly Letter
2nd Quarter 2026

PERFORMANCE

	Dow Jones Industrial	**S&P 500** (Capitalization Weighted)	**S&P 500** (Equal Weighted)
2026 Q1	-3.58%	-4.33%	0.67%
2026 Q2	12.90%	15.20%	11.39%
2026 FH	8.88%	10.21%	12.13%

The Bull Market in U.S. Equities Continues

The S&P 500 Index rose 10.21% for the first six months of 2026, and the S&P 500 Equal Weighted Index rose 12.13%, evidence that the bull market in stocks is broadening across more sectors than just technology. Further evidence of the market's broadening strength is that energy and technology tied for second place performance in the first half of 2026 at +19% each. The industrial sector was the star performing sector at +20.15% for the first half of this year.

Year-to-date, most companies have experienced strong earnings and that has been the driver or hallmark of this continued bull market. The 1Q26 earnings for the S&P 500 were exceptionally strong (+17%). This Q1 strength has prompted some Wall Street luminaries to raise the full-year 2026 S&P 500 earnings forecast to grow over 40%! Are these expectations too lofty? We will find out shortly as 2Q26 earnings releases are imminent.

It is interesting to note that the S&P 500 Index has advanced year-to-date by about 10%, and yet **reported** earnings are running ahead at a 17% increase versus last year's first quarter. When an index (or a stock) rises at a rate that is less than earnings growth, mathematically the Price Earnings Ratio (P/E) has to fall. This is demonstrated by the fact that the S&P 500 now commands a P/E based on 2026 full year earnings estimates of less than 19X, a decline from 22X at the start of the year. The P/E decline thus far in 2026 indicates that even after the S&P 500's 10% move up, the market is now valued 15% cheaper (on a P/E basis) than at the beginning of the year. Could this mean the bull market is losing its momentum?

Investments in Technology

On Monday July 13th, IBM pre-announced a disappointing 2Q26 earnings forecast causing a one-day stock price decline of 25%! IBM attributed this shortfall in corporate spending being diverted from their customers' general computing and software purchases. Five Mile River (FMR) interprets this as more than a mere one-off event. Rather, because of IBM's size and geographic reach, IBM's announcement implies that this deferral of business is likely to affect other companies as well. One of those companies that FMR thinks will be affected is Microsoft. Microsoft has a very large exposure to enterprise computing, so it is probable that it will experience something similar to IBM. In portfolio management this is referred to as "connecting the dots." The IBM news prompted FMR to reduce or eliminate client positions in Microsoft.

One company's pre-announcement does not kill a bull market, but the implications suggest some of the enthusiasm toward 2026 earnings growth will moderate. Whether this input has broader implications for the capital spending side of the economy is unanswerable at this time.

FMR's technology investments are underpinned by accelerating semiconductor earnings growth, and as such, are unlikely to be influenced by the forces affecting IBM. Specifically, Applied Materials, the dominant provider of capital equipment to the semiconductor industry, advanced 182% in the first six months of 2026 and Analog Devices, the leading manufacturer of analog semiconductors, rose 47%. FMR added Honeywell International in 2Q26 as the recent spin-off of the aerospace business leaves Honeywell as a pure technology investment. FMR's analysis indicates there are a number of very attractive businesses that will be additionally spun off by Honeywell International. An example of another Honeywell spin-off prospect is its quantum computing business, which FMR believes could be very valuable. To some this represents a new wave in computing.

The energy sector may well be the barometer for the market in the second half of 2026

FMR sent out a mid-quarter client update letter on March 13th, at the onset of the Iranian War. All past letters are accessible on www.fivemileriver.com (pswd FMR). The March 13th FMR client letter reiterated that FMR client portfolios have an overweighting in the energy sector with investments in pipelines, exploration and production companies, and the integrated energy "Majors" (Exxon and Chevron). In the letter FMR makes the case that geo-political reasons would keep the price of oil higher for much longer than anticipated. Originally, FMR's energy sector holdings, mentioned above, were selected because of the accelerating growth in their dividends and because they were beneficiaries of the increasing demand for natural gas generated electricity.

During the second quarter of 2026, the S&P 500 moved inversely to both energy stocks and oil prices. With the expectation/hope that the Persian Gulf was re-opening in 2Q26, Brent Crude dropped from a price peak of $110 per barrel to a low of $70 per barrel. It currently trades in the $80 per barrel range. As Brent Crude and the S&P 500 are inversely correlated, this 2Q26 decline in oil prices contributed to a significant 2Q26 market rally.

Prior to the onset of the Iranian war, oil traded in a range of $60 to $70 per barrel. This band has moved higher to a range of $70 to $90 per barrel, with the potential to trade towards the upper limits of this new band. The reasons for a higher price band are largely due to constrained supply from OPEC and Russia.

What is causing this? First, there is an unknown but significant portion of Persian Gulf production that will experience permanent declines in output caused by shutting off well pumping. The Gulf production moratorium continues as we enter the 20th week of restricted oil shipments. It would be consistent with past pumping cessations to see a permanent 10% reduction in Persian Gulf production caused by well and pumping dynamics. Wells that have been closed for a certain amount of time cannot reopen. Pre-war Gulf production stood at 20 million barrels per day, and the question is, how much of the $20mm barrels can no longer be pumped?

Second, and perhaps less widely known, Russian oil production has experienced significant destruction as a result of targeted bombing by Ukraine. Only recently has this been quantified by some of the energy research sources FMR employs. Russia's production has declined from over 10 million barrels per day to a level closer to 5 million barrels per day.

These two sources of lost production would certainly be more than enough to cause an increase in the price of oil, keeping it in the higher price band for several years.

The possibility of a tipping point for oil?

Why hasn't the price of oil stayed higher given this significant and growing loss of oil production. Remember that 20% of the world's daily oil supply used to come through the Straits of Hormuz, and the closure of this supply has been going on for months. The answer is two-fold, pumping from the U.S. Strategic Petroleum Reserve (SPR) and the draining of world inventories all along the supply chain from: floating tankers, terminal hub storage, and local storage. It is important to note that when oil sits for a long period of time, as is the case with the SPR, sludge sinks to the bottom of the well or storage terminal, rendering pumping below a certain level impossible. Industry specialists indicate that the U.S. is quickly approaching a level below which we simply cannot pump – more specifically, forecasters are now claiming the U.S. **is within weeks of reaching** the effective bottom of the U.S SPR. This suggests that the U.S. could experience energy shortages not merely price increases. European countries are in a worse situation.

Once the Persian Gulf doors open, energy demand will be stronger than anticipated as world inventories begin the multi-year replenishment of both commercial storage, as well as the replenishment of the many different national "strategic" reserves. The reason this will be a long-term issue is that the re-fill of inventories could run in excess of 1.5 billion barrels of oil demand. This compares with world supply/demand equilibrium of 100 million barrels per day.

Liquid Natural Gas (LNG)

When natural gas is cooled to -260 degrees Fahrenheit, its volume reduces by 600 times. This enables LNG to be transported in cryogenic tanks. Qatar, the small (3mm citizens) sovereign Arab country on the northeast coast of the Arabian Peninsula is the third largest natural gas liquids producer, accounting for 20% of world demand. Qatar was attacked and bombed by Iran, shutting down 17% of its LNG production. The damage done in Qatar will take three to five years to repair and replace.

The three largest U.S. natural gas pipelines are all owned by companies whose stock is held in FMR client portfolios. These pipelines feed the major U.S. LNG production facilities in the Gulf of American and the Chesapeake Bay. Replacing lost Qatar LNG production represents yet another leg to the growth story benefitting these pipeline companies. Depending on the individual client's investment strategy, from Income, Balanced, and Growth, FMR client portfolios have investments in these three dominant U.S. C corporation natural gas pipelines in the U.S. They are Kinder Morgan Inc., OKE Inc, and Williams Companies Inc. The latter, Williams (WMB), owns the largest interstate natural gas pipeline in the U.S. with an 1800 mile-long pipeline running from Corpus Christi, Texas to New York. FMR taxable investment accounts also hold positions in two Master Limited Partnerships (MLPs) in the pipeline space, MPLX and Enterprise Product Partners. MLP's are restricted from use in retirement accounts.

Can the Bull Market continue?

In January, FMR made a forecast of 10% growth in the S&P 500 index for 2026, which was based on 10% anticipated growth in S&P 500 earnings. While the current six-month price gain for the S&P 500 index **matches** FMR's forecast for the full year, clearly FMR's estimate of 10% earnings growth in 2026 at this juncture appears too conservative. The 2Q26 earnings releases began last week with the financials delivering very strong results. Beginning tomorrow and continuing for the next three weeks, fully 400 of the S&P 500 companies will be releasing 2Q26 earnings. The question remains whether results will meet the lofty growth expectations Wall Street has built into the market and company valuations. FMR anticipates a sideways market through the second half of 2026, with the risk that the market treats company earnings disappointments similarly to the drop IBM experienced. FMR is a long-term investor for client portfolios and often will take advantage of price declines to round out positions or initiate new positions. FMR's investment selection

process emphasizes companies that are #1 or #2 in their industry, generate growth in free cash flows, have durable balance sheets with income generated from a high percentage of recurring revenues. Therefore, FMR's stock selection avoids businesses that might be prone to the air-pockets in demand implied in IBM's announcement.

FMR welcomes your comments and, as always, encourages setting a time to discuss the portfolio strategy employed for your account/s. We wish you a most enjoyable summer season.

Sincerely,



Lee Todd Mary Peter Martha

**The S&P 500 Index is a market capitalized weighted index of 500 companies. It is a growth-biased index because the larger the capitalization of a company, the larger the weighting it contributes to the S&P 500 Index performance. The index referenced includes the dividends issued by these 500 companies. This index is used for a comparison for FMR accounts.*

*** The S&P 500 Equal Weight Index is included in the performance chart to demonstrate how the S&P 500 Performance looks without the overweighting of a handful of technology companies.*

The performance data included in this letter are not audited and have not been otherwise reviewed or verified by an outside party. While Five Mile River Investment Management, LLC endeavors to furnish accurate information, investors should not rely upon the accuracy or completeness of this information.

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Please remember to contact Five Mile River Investment Management if there are any changes in your personal/financial situation or investment objectives *Please also advise us if you would like to impose, add or modify any reasonable qualifications to your investment portfolio(s).*