KERUSSO
CAPITAL MANAGEMENT

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US LARGE CAP VALUE
SECOND QUARTER 2026 REVIEW

In the fourth quarter of Game 1 of the NBA Eastern Conference Finals, the New York Knicks overcame a 22 point deficit against the Cleveland Cavaliers to win the game on their way to their first NBA Championship Title in 53 years. In coming back, they did not change their style of play. Instead, they remained disciplined on their way to the Championship, they had to overcome a formidable opponent.

In the second quarter of Game 3 of the NBA Finals, the New York Knicks overcame a 29 point deficit against the San Antonio Spurs to win the game on their way to their first NBA Championship Title in 53 years. In coming back, they did not change their style of play. Instead, they remained disciplined on their way to the Championship, they had to overcome a formidable opponent.

It is the end of the second quarter of 2026 and we have faced a performance challenge with a few details to follow as we have seen a period of time where one particular sector has gained market attention and fascination of noteworthy proportions.

Our opponent appears, in aggregate to be our benchmark, the Russell 1000 Value*; but, in reality, our opponent has been one particular sector, Technology.

I have been investing since November 1997 and have historically outperformed my formidable opponents, my benchmarks, the S&P 500**, the S&P Barra Value^, and the Russell 1000 Value, with some degree of consistency.

When filling out RFIs (Requests For Information) and RFPs (Requests For Proposals), we are often asked when should we expect to outperform with our strategy as well as underperform.

Our response to outperformance is that *"We expect to outperform in broad, balanced markets where the juxtaposition of fundamentals and valuation works in our favor as we are consistently seeking to purchase fundamentally sound companies trading at ridiculously low valuations on the basis of those fundamentals."*

In terms of underperformance, *"We expect to underperform in narrow markets where our portfolio positioning in terms of sector representation and/or stock selection is in an adverse position to market favor or fervor."*

In the Second Quarter, we experienced the latter as Technology was the only sector that outperformed our benchmark, the Russell 1000 Value, with a return of over 80%.

But, it is only the Second Quarter and, like the New York Knicks, who stayed disciplined on their way to a Championship, we are staying disciplined in managing money for our clients and expect to outperform again as we have historically done.**

Second Quarter Review
For the quarter, 8 out of 11 sectors outperformed the respective sector and/or the overall benchmark, the Russell 1000 Value; yet, the strategy underperformed. The underperformance was primarily attributed to stock selection, approximately 87% (of which almost 100% was related to Technology), and the balance was sector allocation, approximately 13%.

Performance for the Russell 1000 Value was extraordinarily narrow with only one sector outperforming – Technology.

The key driver for Technology was exuberance related to the continued buildout of the Artificial Intelligence (AI) infrastructure, primarily related to semiconductor chip companies. An overweight or market weight to the sector would not have been sufficient to outperform the sector or the market as the performance was very narrow yet resulted in the sector generating a greater than 80%, a level one would expect over several years, if not a decade.

Our portfolio was predominantly overweight Financials, Consumer Discretionary, Energy and Materials. The most significant underweights were Real Estate, Utilities, Industrials, Communication Services, and Health Care. Our portfolio was market weight Consumer Staples and Technology.

The three sectors with the highest contribution for the quarter were Financials, Industrials, and Consumer Discretionary. In Financials, 8 out of 13 holdings outperformed the respective sector and/or the overall benchmark, the Russell 1000 Value, as market, credit and interest rate sensitive holdings performed better with the prospect of the War with Iran coming to an end creating more positive consumer sentiment and incentives to increase spending. Also, relief on oil prices were expected to dampen inflation expectations with the potential to curtail the necessity of interest rate increases. In Industrials, 3 out of 6 holdings outperformed with those with higher potential economic sensitivity having the highest returns such as United Rentals and Caterpillar rising more than 50% in the quarter. In Consumer Discretionary, 3 out of 5 names outperformed as the prospects of better economic conditions increased investor's confidence in certain retail names.

The three sectors with the lowest level of contribution were Technology, Communication Services, and Health Care. In Technology, 2 out of 7 holdings underperformed the respective sector and/or the overall benchmark, the Russell 1000 Value. While the other 5 holdings outperformed the overall benchmark, only 1 holding outperformed the sector, Micron Technology, a semiconductor company that returned over 200% in the quarter due to high demand for AI related chips as well as the increased pricing power associated with diminished production capacity for the more typical DRAM related chips causing a perfect storm for fundamentals typically thought of as cyclical that may now have a bit more of a short-term secular growth underpinning. In Communication Services, 5 out of 5 holdings underperformed as the lack of participation in the AI themes in our holdings was reflected in the lack of market enthusiasm for what we believe are fundamentally sound companies trading at very attractive valuation levels. In Health Care, 5 out of 6 holdings underperformed as the defensive orientation of our holdings was not met with enthusiasm in what turned very quickly into a more risk-on type of investment environment.

The stocks with the greatest positive contribution were United Rentals (+55.82%), Qualcomm (+44.04%), Williams-Sonoma (+28.33%), Caterpillar (+50.60%), and T Rowe Price (+27.64%). These stocks represent holdings from the Industrials, Technology, Consumer Discretionary, and Financial sectors. These stocks were among the strongest performers as the atmosphere shifted from concerns regarding a prolonged conflict between the US and Iran as a negotiated ceasefire materialized, allowing for greater emphasis to be placed on the economy and AI. Each stock is still a portfolio holding as we continue to view them as *Value Creating Opportunities.*

The stocks with the greatest negative contribution were Micron Technology (+205.56%), Devon Energy (-17.28%), Cheniere Energy (-15.58%), Charter Communications (-34.13%), and CF Industries (-16.29%). With the exception of Micron, these stocks represented the exact opposite of the relief trade regarding the conflict between the US and Iran as well as the expected boon for the economy and AI in the aftermath. Each stock is still a portfolio holding as we continue to view them as *Value Creating Opportunities*.

During the quarter, all of SLB Corporation, in Energy, was sold. New positions were purchased in Marathon Petroleum in Energy, American Tower in REITs, and Micron Technology, First and Solar in Technology.

Overall purchases and sells resulted an increase in the Technology, Consumer Discretionary, and REIT sectors offset by decreases in the Health Care, Energy, and Materials sectors. Any other changes occurred on the basis of capital appreciation and depreciation of individual securities.

All was related to our quest of seeking out *Value Creating Opportunities* for our clients.

Third Quarter Outlook

It is the beginning of the third quarter and, like the New York Knicks, we are down, down and disciplined.

Being down happens in NBA basketball games, in life, in portfolios.

So, being down is not the issue.

The response to being down is the issue.

The last word in the opening statement in this outlook is disciplined.

Having maintained a disciplined investment approach for almost 30 years across a variety of market environments we continue to believe the current market environment presents opportunities that warrant careful consideration within the context of our investment process..

The pendulum of market sentiment is not stagnant. It is dynamic, swinging between extremes.

Last quarter, and basically since the beginning of the year, as well as going back into the tail end of 2025, we noted significant optimism has been found in all things AI.

As a result, the non-AI related sectors, industries, and companies via stocks have not overwhelmingly been in favor.

Frankly, from our perspective, that sets the stage for where the next level of outsize market returns can and should be found.

We believe our portfolio approach is timely for capturing these returns given what has transpired over the last few quarters.

So, our broad-based approach enables us to assess opportunities across a diverse set of industries and market segments as we continue to believe that long-term investment success is less about simply extending the momentum of the moment and more about finding the various ways to exploit market inefficiencies as part of the movement.

Being disciplined. Being patient. And, expecting to be rewarded is what we have done, are doing, and will do on behalf of current and future clients.

So, is a comeback for this year, like the New York Knicks, guaranteed? NOPE!!!

But, is it possible and probable? We think so.

Randell A. Cain, Jr., CFA
Partner
Founder/CEO/CIO/Portfolio Manager
Kerusso Capital Management
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*The Russell 1000 is composed of approximately 1,000 large and mid-cap US equities that exhibit value characteristics. It is an unmanaged index and includes dividends, and distributions but does not reflect advisory fees, brokerage commissions, withholding taxes or other expenses of investing. Investors cannot invest directly in an index. **The S&P 500 is a stock market index that tracks approximately 500 of the largest publicly traded companies in the United States. ^The **S&P Barra Value Index** was a style benchmark created to track the **value stocks** within the S&P 500.