

A Tale in Two Acts

Emerging markets entered 2026 with momentum. The conditions identified as favorable — a resilient global economy, a weakening U.S. dollar, and still-attractive valuations relative to developed markets — were all in place, and the first two months of the quarter delivered on that promise in striking fashion. Then, in the final days of February, the investment environment changed abruptly.

On February 28, U.S. and Israeli forces launched strikes against Iran. The subsequent closure of the Strait of Hormuz — through which approximately 20 million barrels per day of crude and refined products normally flow — triggered what proved to be the worst month for Asian equity markets since October 2008. A quarter that had been building toward meaningful outperformance was largely erased in March.

The result was a near-flat quarter for emerging markets. In a period defined by that kind of shock, preserving capital while maintaining our positioning is a result we can build on.

Market Overview

January and February: The Rally That Was

The first two months of 2026 extended the broadening-market narrative described in our annual outlook. Emerging markets outpaced developed markets by a substantial margin through February, rising roughly 15% on a cumulative basis against almost flat gains in U.S. equities.¹ Three forces drove this:

AI-driven hardware demand continued to reshape the technology landscape in Asia. Korea surged almost 24% in January alone — its third-best monthly performance in decades — as Samsung, SK Hynix, and the broader memory complex benefited from accelerating capital investment in AI data center.² Taiwan's semiconductor supply chain followed, with the TAIEX gaining more than 9% in January.² Earnings revisions in Korean IT were among the strongest in the world. The software-versus-hardware split that had defined late 2025 continued: companies building the physical infrastructure of AI — memory, power management, cooling, test equipment — kept outperforming those whose business models faced disruption from it.

The U.S. dollar continued to weaken. The trade-weighted dollar index, which had fallen roughly 7.5% in 2025, pushed further in January, with the DXY declining to 97. For emerging market assets, a weaker dollar is a genuine structural tailwind: it eases financial conditions, supports commodity prices, and reduces the cost of dollar-denominated debt across EM economies. The three-conditions framework we have described in prior commentaries — strong global economy, weak dollar, reasonable valuations — was intact and delivering.

Japan's political shift provided an additional tailwind for regional sentiment. Prime Minister Sanae Takaichi's Liberal Democratic Party secured a landslide majority in February, providing clarity on fiscal direction and policy continuity that markets had been waiting for. Japanese equities rose more than 8% in February on the news.

March: The Iran Shock

The geopolitical risk that had been building through January and February materialized suddenly. Operation Epic Fury — the U.S.-Israel offensive against Iran that began on February 28 — closed the Strait of Hormuz and sent crude oil surging past \$100 per barrel, ultimately touching \$119 before pulling back. WTI crude finished Q1 up 63.4%, its best quarter since Q2 2020⁴. European natural gas hit multi-year highs after Iranian strikes damaged Qatar's Ras Laffan LNG facility, wiping out approximately 17% of global LNG capacity.

The consequences for equity markets were swift and severe. The MSCI Asia Pacific ex-Japan index fell 13.7% in March — the worst monthly decline since October 2008³. Within the region, the damage was distributed by oil import dependency. India, which imports the vast majority of its energy needs, declined approximately 20% in U.S. dollar terms for the full quarter, with record foreign institutional outflows and the rupee hitting all-time lows. Korea fell 24.6% in March, giving back much of its exceptional January-February gains, as oil cost concerns and a dramatic selloff in memory names — following Google's announcement of a chip compression algorithm — hit simultaneously³. China, with a more diversified domestic energy mix and strong underlying economic data (exports +22%, industrial production ahead of expectations), declined a comparatively modest 7.7% in March and finished among the best-performing major EM markets for the quarter³.

Portfolio Managers

Derek Izuel, CFA



Derek Izuel, CFA is Chief Investment Officer and a Portfolio Manager of the International Strategies. He has over 24 years of portfolio management experience at Invesco, HighMark Capital and Vitruvian Capital. Derek earned his MBA from the Ross School of Business at the University of Michigan and a B.S. in Computer Science from the University of California at Berkeley.

Tony Jacoby, CFA



Tony Jacoby, CFA is an Equity Analyst of the Emerging Markets Fund. He joined Shelton Capital Management in November 2017. Tony earned a B.A. in Economics and an M.S. in Applied Mathematics with an Applied Probability concentration from the University of Colorado Boulder.

¹ Source: MSCI

² In USD. Source: MSCI

³ Source: MSCI

⁴ Source: Bloomberg

1Q 2026 Shelton Emerging Markets Fund Commentary

Fund Performance

The Shelton Capital Emerging Markets Equity Fund officially returned +3.82% in the first quarter of 2026, compared to -0.17% for the MSCI Emerging Markets Index, our benchmark. However, due to timing differences in the calculation of index and mutual fund performance, we believe that the actual performance during the quarter was about flat and close to in-line with the benchmark.⁵

The active return of approximately 9 basis points reflects two competing forces: stock selection contributed roughly +200 basis points to relative performance, offset by approximately -190 basis points of factor and sector headwinds — most notably an underweight to energy names at precisely the moment when oil surged 76% in a single quarter.

The result is one we view as a solid foundation given the nature of the shock. Broad market factors were not on our side in March, but our individual stock decisions more than compensated on a cumulative basis.

Key Contributors

Samsung Electronics was the leading contributor in the portfolio. Samsung returned +31.6% for the quarter, driven by surging demand for high-bandwidth memory chips used in AI data centers and continued momentum from its strategic partnership with OpenAI announced in Q4 2025. The company's position in the AI infrastructure supply chain — not just memory, but packaging and advanced manufacturing — continues to deepen, and earnings revisions throughout Q1 reflected that. Samsung remained our largest single position, and we maintain conviction in its role as a central beneficiary of the AI capital spending cycle.

GEK Terna The Greek construction and infrastructure company returned +30.8% in the quarter, benefiting from sustained infrastructure investment across Southern Europe and its growing renewable energy project pipeline. GEK Terna has been a consistent performer in the portfolio, and its exposure to European defense and infrastructure buildout — themes that accelerated in Q1 — reinforced our thesis.

Chroma ATE returned +85.8% during the quarter. The Taiwanese test and measurement equipment maker is a direct beneficiary of the AI-driven semiconductor capital expenditure cycle: as chipmakers invest heavily in next-generation capacity, demand for precision testing systems rises with them. This is exactly the kind of second-derivative AI exposure that we have been deliberately building — companies that benefit from the infrastructure build without carrying the direct obsolescence risk of the software and services layer.

Key Detractors

HDFC Bank was the largest detractor. The stock declined -31.7% in the quarter, almost entirely a function of India's acute exposure to the oil shock. India's equity market fell roughly 20% in U.S. dollar terms over the quarter, driven by the combination of record foreign outflows, a weakening rupee, and genuine economic concern about the impact of sustained high oil prices on growth and inflation. HDFC Bank, as a high-quality holding with a meaningful position size, bore the brunt of that country-level selling. Our view on the underlying business remains unchanged; the challenge was positional, not fundamental.

Guotai Haitong Securities declined -20.2%. Guotai Haitong is a Chinese investment bank and brokerage that had performed well in prior quarters as domestic capital market activity recovered. In Q1, a combination of the broader oil shock selloff and increased regulatory scrutiny across Chinese financial institutions weighed on the stock.

Infosys fell by -25.1%. Indian IT services have been under consistent pressure as clients reassess technology spending in the context of AI-driven productivity gains — a dynamic we have been watching since 2025. The Iran shock added a macro overlay to what was already a headwind.

Outlook for Q1 2026

The investment backdrop entering Q2 2026 is more complicated than it was entering Q1, but the core opportunity in emerging markets has not diminished — it has, in some respects, become more selective and therefore more interesting.

The three conditions we monitor — a resilient global economy, a weaker dollar, and attractive valuations — are now mixed rather than uniformly supportive. Global growth remains real but is increasingly under pressure from the oil shock. The dollar has reversed direction, at least temporarily. But valuations, after March's selloff, are the most compelling they have been in years. Korea's forward price-to-earnings ratio collapsed from 9.4x at the end of February to 6.6x by quarter-end — more than two standard deviations below its historical average. India, despite its near-term macro headwinds, now trades below 20x forward earnings. These are not distressed levels, but they represent genuine opportunities for long-term investors who can look past the near-term uncertainty.

The central question for emerging markets in the coming months is the duration and resolution of the Strait of Hormuz disruption. A negotiated reopening — even a partial one — would materially shift the calculus for energy-importing economies, EM currencies, and global central bank expectations. Conversely, an extended closure or escalation would add to stagflation pressures that are already beginning to show up in PMI data across Europe and Asia.

What has not changed is the structural evolution of the emerging market opportunity set that we have described throughout 2025. Today's emerging markets are not the commodity-driven, China-dependent universe of the early 2000s. The technology supply chains of Korea and Taiwan, the infrastructure buildout of Southeast Asia and the Gulf, the financial deepening of Brazil and India — these are durable structural trends that a single quarter's geopolitical shock does not reverse. Our portfolio is positioned to capture these themes through patient, disciplined stock selection, and we remain committed to that approach as the macro environment continues to evolve.

⁵ Details on the effect of timing on performance calculation: The MSCI Emerging Markets Index is calculated at market close on the last day of the quarter. Mutual fund and ETF net asset values (NAVs), however, are calculated later in the evening — and if overseas markets have already opened by that time, the price changes in those markets must be reflected in the NAV calculation. On April 1, 2026, the MSCI Emerging Markets Index rose 4.33%, with the majority of that gain occurring in the early hours of trading — before U.S. NAVs were finalized on the evening of March 31. As a result, both the Fund and the iShares MSCI Emerging Markets ETF (which tracks our benchmark and is subject to the same NAV calculation requirements) captured a portion of April 1's index return in their March 31 NAVs.

The iShares ETF reported a quarterly return of 3.8% for Q1 2026. Because our fund's return was similar to the ETF's, we believe our performance would have been similarly close to the Index return had both been calculated on the same end-of-day basis."

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The MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries. With 1,441 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country EM countries include: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

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