

## Market Commentary

*"In preparing for battle I have always found that plans are useless, but planning is indispensable."*  
 Dwight D. Eisenhower

The first quarter of 2026 was defined by a succession of shocks that tested the resilience of every asset class. It began with markets still digesting the Supreme Court's landmark ruling in February that struck down the IEEPA tariffs, which initially sparked some optimism that the effective tariff rate would decline and reduce uncertainty. That optimism was short-lived. On February 28, the U.S. and Israel launched strikes against Iran, and within days the Strait of Hormuz was effectively closed to almost all traffic. WTI crude surged from \$67 to over \$101 per barrel by quarter-end – a pace of increase exceeding both the 2003 Iraq War and 2022 Russia-Ukraine invasion. Gasoline prices spiked 45% and diesel 35%, threatening to leak into core inflation. The S&P 500 fell 4.6% in Q1 and the 10-year UST yield rose 15bp to 4.32%, with much of the damage concentrated in March.<sup>1</sup>

The Fed kept rates unchanged at both its January and March meetings. In January, both Christopher Waller and Stephen Miran dissented in favor of a cut; at the March meeting, only Miran dissented. The updated dot plot showed just one cut in 2026 and one in 2027, with inflation projections revised higher to reflect the energy shock. Chair Powell said the Fed expects tariff-related price pressures to roll out of the numbers this year, but if they do not, there will be no cuts. Markets took this to heart – fed funds futures briefly priced in a higher likelihood of a rate hike than a cut before Powell tamped down those fears in a March 30 appearance, saying it was appropriate for the Fed to "look through" the oil shock. The market is now pricing in essentially no cuts in 2026, with the first fully priced cut not until mid-2027.<sup>1</sup>

Fourth quarter GDP growth was revised sharply lower from 1.4% to just 0.7%, reflecting weaker consumption and business fixed investment than initially reported. The Atlanta Fed GDPNow was tracking Q1 growth at approximately 2.0% by quarter-end, down from 3.2% just three weeks prior. Nonfarm payrolls rose 130k in January – the strongest since December 2024 – but most gains were in healthcare and are arguably more structural than cyclical. After a massive downward revision of 862,000, payrolls rose only 181k for all of 2025. The unemployment rate declined to 4.3%. Meanwhile, the Employment Cost Index rose just 0.7% in Q4, its lowest since mid-2021, providing important evidence that compensation pressures are easing despite the tight headline labor figures.<sup>1</sup>

Short-term inflation breakevens soared following the onset of the war, but longer-term breakevens remained anchored – a distinction Powell was quick to emphasize. Core PCE rose 2.9% year-over-year, a tenth above expectations, but the monthly rise of 0.363% was barely enough to round up to 0.4%. The inflationary impulse from energy prices is real but may prove transitory if the conflict is resolved or if demand destruction offsets it.<sup>1</sup>

## Performance

In Q1 2026, the Fund posted returns of -0.77% (DEBIX) and -0.83% (DEBTX). Below is a table of returns for the Fund, various relevant indices, and the Morningstar Non-traditional Bond category.

	1Q26	YTD	1YR	3YR	5YR	10YR
Shelton Tactical Credit Fund (DEBIX)	-0.77%	-0.77%	6.28%	6.27%	2.70%	3.71%
Bloomberg U.S. Aggregate Bond Index	-0.05%	-0.05%	4.35%	3.63%	0.31%	1.70%
Bloomberg U.S. Investment Grade Corporate Bond Index	-0.54%	-0.54%	4.78%	4.70%	0.76%	2.81%
Bloomberg U.S. High Yield Corporate Bond Index	-0.50%	-0.50%	7.01%	8.59%	4.22%	6.12%
Bloomberg U.S. Investment Grade Municipal Bond Index	-0.18%	-0.18%	4.29%	2.87%	0.84%	2.16%
Morningstar Non-traditional Bond Fund Category	-0.71%	-0.71%	3.63%	5.35%	2.36%	2.98%

Sources: Bloomberg; Morningstar Direct

Performance figures represent past performance and are not a guarantee of future results. The investment return and the principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost; current performance may be lower or higher than the performance data quoted. For more current month-end Fund performance information, please call our office at (800) 955-9988.

The Fund's Advisor, Shelton Capital Management (the "Advisor"), has contractually agreed to reimburse expenses incurred by the Fund to the extent that total annual fund operating expenses (excluding acquired fund fees and expenses, certain compliance costs, interest and broker expenses relating to investment strategies (including commissions, mark-ups and mark-downs), leverage interest, other transactional expenses, annual account fees for margin accounts, taxes (such as income and foreign withholding taxes, stamp duty and deferred tax expenses), and extraordinary expenses such as litigation or merger and reorganization expenses, for example) exceed 0.73% and 0.98%, for the Institutional and Investor class shares, respectively, until May 1, 2026.

Fund Expenses - DEBIX (gross): 1.18% | DEBIX (net): 0.74%  
 DEBTX (gross): 1.43% | DEBTX (net): 0.99%

<sup>1</sup> Bloomberg

## Portfolio Management

### Peter Higgins

Head of Fixed Income & Sr. Portfolio Manager



Peter Higgins has over 25 years of experience in fixed income investing, most notably as Partner and Lead Portfolio Manager at both Ares Management and BlueBay Asset Management. Previously, Peter specialized in global leveraged finance at investment banks such as Deutsche Bank AG, Goldman Sachs & Co. and Credit Suisse in both London, England, and New York City. Peter earned a bachelor's degree in Economics-Political Science from Columbia University.

### Jeffrey Rosenkranz

Portfolio Manager



Jeffrey Rosenkranz has over 25 years of experience investing in the credit markets, with an emphasis in high yield, distressed debt, and special situations and has worked at firms including Cedar Ridge Partners, LLC, Durham Asset Management, Cooperstown Capital Management and Ernst & Young LLP. He holds an MBA from the Stern School of Business at New York University and a B.A. from Duke University. He is also a Certified Public Accountant.

### Chris Walsh

Portfolio Analyst



Chris Walsh has over ten years of experience analyzing credit and equity markets. He has been with Shelton Capital since November 2016. Chris earned a B.A. in Economics, Villanova University.

# 1Q 2026 Shelton Capital Management: Fixed Income Commentary

The quarter was challenging for all fixed income markets, with the Iran war, rising rates, and geopolitical uncertainty weighing on returns across the board. Our crossover-rated positioning, combined with our energy exposure and hedging, allowed us to somewhat mitigate these headwinds. The benefit of our active, unconstrained approach could bear fruit in the months ahead – the ability to avoid or underweight problem areas and then selectively add risk when dislocations emerge. Our longer-term performance remains very strong and is a testament to our ability to overcome the vagaries of the rates markets and the occasional idiosyncratic hiccups by stringing together significantly more idiosyncratic winners than losers over time.

The top 5 contributors and top 5 detractors for the quarter (12/31/25 - 3/31/26) are listed below:

Top Contributors	Top Detractors
Talos Energy Inc.	AMC Entertainment Holdings, Inc.
Uniti Group Inc.	Pyxus International Inc.
Pyxus International Inc. Term Loan	Oracle Corporation
Primo Brands Corp.	Grupo Aeromexico
Transocean Ltd.	The Kraft Heinz Company

Corporate credit long positions were a mixed contributor to performance during the quarter. Our energy-related positions – including Talos Energy and Transocean – were positive contributors as oil prices surged. Floating rate bank loans also weathered the volatility well. Uniti Group continued to benefit from strong execution following its merger with Windstream and additional ABS financing transactions, and Primo Brands advanced on improving operational execution. On the detractor side, AMC Entertainment declined as the box office faced a slow start to the year, Oracle spreads widened as markets questioned the sustainability of massive AI-related capital expenditures, and Kraft Heinz faced pressure from rising input costs and slowing sales. Aeromexico was impacted by higher jet fuel costs and disruption to travel patterns following the conflict in Iran. Our rate-sensitive investment grade bond positions were particularly challenged by rising interest rates.

We continued to strike a good balance between prudent credit selection in single B and select CCC credits we believe are underappreciated by the market and rating agencies, while avoiding weaker single Bs and CCCs which could be severely punished in a downturn. This kind of environment – where sector and security selection is increasingly differentiated – is highly conducive to our strategy.

## Corporate Commentary

Credit markets recorded their first quarterly loss in a year as performance deteriorated into quarter-end. January started constructively, but February and March were both negative from an excess return perspective, driven by AI disruption fears, private credit concerns, and then the Iran war. From a total return perspective, Q1 2026 was the worst quarter for both IG and HY since 3Q23. Duration-heavy segments bore the brunt of the move, with longer-dated investment grade underperforming significantly.<sup>2</sup>

Investment grade spreads widened from +73bp to +93bp over the quarter, and total returns were approximately -1.98%. IG new issue supply was the strongest first quarter on record at \$661 billion, surpassing the prior record set in Q1 2024. March alone saw \$240 billion of supply, the second-highest month ever, with mega-deals from Amazon (\$37 billion), Salesforce (\$25 billion), and Honeywell Aerospace (\$16 billion) leading the way. Despite this deluge, demand remained solid, with IG fund flows notching the strongest start to a year since 2021. New issue concessions rose as the quarter progressed, with the Salesforce deal alone driving March's average to 12.7bp – a sign that the market's appetite has limits. IG bond dealer inventories declined to record lows of -\$16 billion at one point in March, a notable technical factor.<sup>2</sup>

High yield spreads widened from +269bp to +328bp. HY total returns were approximately -0.50%, with the late month "Hormuz Hope" rally on March 31 compressing spreads 18bp and limiting the damage. HY issuance totaled \$80 billion year-to-date, with \$21 billion in March – a step-down from February. M&A dominated March's use of proceeds at 57%, led by the Electronic Arts LBO financing and the Nexstar/Tegna transaction. Issuance skewed heavily to higher quality, with BBs accounting for 64% of YTD supply and zero CCC issuance in March. HY fund flows turned negative in Q1 for the first time since 2023, with eight consecutive weeks of outflows. Leveraged loan funds also saw outflows for the first time since 2023. By rating, CCCs underperformed across all asset classes.<sup>2</sup>

From a sector perspective, energy was the clear outperformer across IG, HY, and loans, as higher oil prices provided a meaningful tailwind. Independent E&P, refining, and oil field services led the way. The major underperformers shared common characteristics: exposure to software disruption and private credit. Within IG, media, life insurance, finance companies, and brokerage/asset managers lagged. In HY, technology and packaging underperformed. Software, which now accounts for almost 13% of the leveraged loan index, was a significant drag on loan performance.<sup>2</sup>

The US HY default rate rose to 2.5% in March from 2.4% in February, with three defaults: Trinseo (missed interest payment), Cumulus Media (Chapter 11 filing), and Advantage Solutions (distressed exchange). Despite the modest uptick in defaults, the distress ratio actually improved, falling to 7.4% – well below the post-GFC average of 12.4%. The balance sheets of HY issuers showed modest erosion in 4Q25 earnings. Leverage rose to a 3.5-year high of 4.44x as EBITDA contracted year-over-year for the first time since 2Q23, while total debt grew at its fastest pace in five years. Interest coverage eroded to 4.30x as interest expense rose at its quickest pace in two-plus years. The strongest EBITDA gains were in Metals/Mining, Energy, and Tech, while the largest declines were in Housing, Autos, and Media.<sup>2</sup>

Sources:<sup>2</sup>Bloomberg; JP Morgan; CreditSights

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## Outlook

The quarter ended with markets starting to price in a more complex and uncertain global environment. The Iran war has introduced the kind of exogenous supply shock that central banks are least equipped to address. Raising rates would do nothing to unblock the Strait of Hormuz. Cutting rates could further fuel inflation expectations. The Fed's only viable option is patience – and the market has largely accepted this, pricing in an extended pause that could stretch well into 2027.

The specter of war has raised the probability of stagflation, while lowering the immaculate disinflation bull case. As headlines on the inflationary impact from the war in Iran recede and its impact on slower growth rise, a reasonable scenario would be for 1 rate cut in 2026, alongside the 10-year UST declining by year-end. The key variables are the duration and intensity of the conflict, the demand destruction from higher energy prices potentially overwhelming the inflationary impulse, and interest rate volatility and higher energy prices causing contagion in other vulnerable sectors like private credit and AI data centers.

Private credit remains a simmering concern. The frauds and bankruptcies we flagged last year – beginning with Tricolor as the “canary in the coal mine” and followed by First Brands – were merely the opening act. Blue Owl's sale of \$1.4 billion of private loans at 99.7% of par, coupled with the permanent halt of quarterly redemptions at OBDCII, is exactly the type of development that erodes confidence. We continue to believe that the rush of capital into private credit has driven a wave of loose underwriting across the entire leveraged finance ecosystem – banks, CLOs, BDCs – and that the consequences will unfold over the coming quarters. Slower growth and higher rates would accelerate this reckoning.

AI-related spending and disruption have become a major driver of market performance. The massive capital expenditures from hyperscalers are driving financing requirements that will continue to pressure IG supply. At the same time, markets are increasingly questioning whether these investments will yield appropriate returns, and the rapid deployment of AI models is disrupting existing industries in ways that are difficult to predict. The February selloff in AI and software stocks was a taste of what happens when sentiment shifts. For credit investors, the challenge is navigating sectors that may be disrupted (software, outsourced services, media) while potentially benefiting from those that gain (energy, infrastructure, select technology).

Consumer spending, which has powered the economy beyond what anyone expected, may finally be reaching its limits. Delinquency rates on household debt rose to 4.8% in Q4 – the highest since 2017 – with credit card delinquencies at 12.7% (the worst since 2011) and auto loan delinquencies at 5.2% (near the 2010 record). Student loan delinquencies surged 16.3% in Q4, the biggest increase on record. Retail sales were flat in December and weak in January. Now add \$4+ gasoline to this picture and the outlook for the consumer – particularly at the lower- and middle-income cohorts – is genuinely concerning. Even upper-income consumers may pause spending if equity markets correct further from here.

On the positive side, current all-in yields above 5% in IG and above 7.4% in HY are compelling entry points for total return-oriented mandates, and we believe that current yield levels are attractive even if near-term volatility persists. Spreads, while wider than the cycle lows, are still not at levels that fully compensate for the macro risks ahead. We believe spreads have further to widen, particularly in lower-quality segments and sectors exposed to software disruption, private credit contagion, and consumer weakness.

Our positioning continues to be a mix of high yield and investment grade corporate bonds – with an average credit quality of BBB- / BB+, a cash balance, and hedges. The energy shock has benefited some of our positions (Talos, Transocean) while creating new opportunities to add selectively to sectors where we believe the market has overreacted. We have maintained both our IG CDX and HYG option hedges. Complacency was punished this quarter, and we expect further episodes of headline-driven volatility as the war evolves and its economic consequences become clearer. The longer the conflict drags on, the more severe the damage could be, not just from higher energy prices and interest rates, but also interrupted supply chains for fertilizer, helium, and other fundamental building blocks of the global economy.

We believe the sweet spots for future total returns remain threefold: i) high quality shorter duration BBB and BB corporate bonds that benefit from yield without excessive rate sensitivity; ii) certain lower-rated single-B and CCC corporate bonds that we believe are stronger and more resilient than the market appreciates, with identifiable paths to credit improvement even in a slowing growth environment; and iii) event-driven investments that are not totally dependent on wide-open credit markets to facilitate the transactions to drive these catalysts.

Considering uncertainty around interest rates, we have been selective about adding duration. With the 10-year at 4.27% and the 30-year flirting with 5%, the risk/reward for duration is improving, especially if the demand destruction side of the war eventually dominates the inflation side. However, the near-term path is uncertain, and we prefer to add duration opportunistically rather than making a large directional bet.

There are valid reasons to believe spread widening might stop short of previous recessions, as the index has a better-quality composition (more BBs, fewer CCCs), beginning all-in yields are higher than the onset of a typical recession, and the average dollar price of bonds is much lower and much closer to recovery rates. However, if spreads were to blow out to levels above +800 basis points that are often reached in severe recessions, total returns would likely be quite negative. Navigating these bouts of volatility by adjusting credit quality overall and selecting the right individual securities will be the keys to success, and we are confident in our ability to thrive in such an environment.

We welcome uncertainty and volatility, as it creates opportunities to buy bonds at cheaper prices when others panic and sell. This quarter tested that conviction, and the quarters ahead are likely to test it further. As always, we will be cognizant of valuations, while continuing to seek value and compelling risk/reward investments across fixed income credit products.

#### **IMPORTANT INFORMATION**

*Investors should consider a fund's investment objectives, risks, charges, and expenses carefully before investing. The prospectus contains this and other information about the fund.*

*To obtain a prospectus, visit <https://www.sheltoncap.com/wp-content/uploads/2025/11/Prospectus-5.1.25.pdf> or call (800) 955-9988. A prospectus should be read carefully before investing.*

*It is possible to lose money by investing in a fund. Past performance does not guarantee future results and current performance may be lower or higher than the performance data quoted. Diversification does not assure a profit or protect against loss.*

*Credit-related instruments typically decrease in value when interest rates increase. Concentration in a small number of issuers increases the risk that one issuer could have a large adverse impact on the Fund's return. Borrowing and frequent trading could increase the Fund's operating expenses. High-yield bonds involve greater risk of default, and may be more volatile and less liquid, than investment grade securities. Subordinated and unsecured loans may be disproportionately affected by default and downgrade. Foreign investments may be adversely affected by currency fluctuations, lower liquidity, tax regulation, and political instability. Derivatives can be highly illiquid and difficult to unwind. The Fund's short positions may equal up to 100% of the Fund's net asset value. Short sales theoretically involve unlimited loss potential since the market price of securities sold short may continuously increase.*

*The Bloomberg Barclay U.S. Aggregate Bond Index is an unmanaged index of the U.S. dollar-denominated investment grade fixed-rate taxable bond market. It includes government, corporate, mortgage-backed, and asset-backed debt securities with a maturity of at least 1 year. It is not possible to directly invest in an index.*

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