SHELTON CAPITAL MANAGEMENT

Shelton International Select Equity Fund

QUARTERLY
Commentary
As of September 30, 2026

Market Overview

The third quarter of 2026 was defined less by direction than by rotation. The AI and semiconductor complex that drove the second-quarter recovery paused, while energy, financials, and precious metals led. Rate-sensitive sectors came under pressure as sovereign bond yields reached multi-year highs across most major markets. Market breadth also narrowed considerably. The equal-weighted MSCI World index only rose by 0.18% while the capitalization-weighted index gained 1.88%, and only about 31% of index constituents finished the quarter above their 50-day moving averages, compared with roughly 48% at the end of June.[1]

European equities moved from record highs to a September selloff. The STOXX Europe 600 declined 1.29% for the quarter, ending close to where it began after posting fresh records in July and early August and then falling nearly 5% in September, its first negative month in six. Performance diverged across markets: the FTSE 100 gained 1.90% and Germany's DAX 0.63%, while France's CAC 40 fell 5.50% amid fiscal and political uncertainty ahead of the 2027 budget. Sector dispersion was pronounced. Eurozone inflation climbed to 3.2% in August, its highest level since 2023, and the European Central Bank raised rates 25 basis points to 2.50% in September. European equities continued to trade at roughly 16 times forward earnings compared with approximately 20 times for the S&P 500.[2]

Asian markets eased in aggregate but with wide national and sector differentials. The MSCI Asia Pacific ex-Japan index declined 0.4%. In Japan, the broad, market-cap-weighted TOPIX gained 7.3% in U.S. dollar terms while the price-weighted Nikkei 225 declined 0.8%, a reversal of the second-quarter pattern and a reflection of technology's underperformance. Elsewhere, Taiwan's Taiex advanced 4.9% to end the period at a record high and Hong Kong's Hang Seng gained 8.6%, while South Korea's Kospi fell 7.8% and India's Sensex declined 6.3%. Asian technology shares were notably volatile: Samsung Electronics declined 8%, Kioxia 37%, Tokyo Electron 20%, and SK Hynix 23% over the quarter. The Bank of Japan raised its policy rate 25 basis points to 1.25% and signaled that further increases were possible, and the yen strengthened over the period after earlier trading near multi-decade lows.[3]

Portfolio Managers

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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, joined Shelton Capital Management in November 2017. He has a B.A. in Economics and a M.S. in Applied Mathematics with an Option in Applied Probability and Uncertainty Quantification from the University of Colorado Boulder.

Rising Yields and the Rotation Beneath the Surface

The most consequential macro development of the quarter was the broad rise in sovereign bond yields. U.S. 10-year and 30-year yields reached their highest levels since 2002 and the 2-year yield rose 73 basis points, its largest quarterly increase since the second quarter of 2023. The pattern was global: German Bund yields reached 2011 highs, the 10-year gilt 2007 levels, and the French OAT 2002 levels, with the French-German spread at its widest since 2012. In Asia, the 10-year Japanese government bond yield reached a three-decade high and Australian 10-year yields reached 15-year highs. Contributing factors included energy-driven inflation, elevated government and corporate issuance, and fiscal concerns in several major economies. [4]

Energy remained an important driver. The June memorandum of understanding between the United States and Iran did not hold beyond mid-July, and WTI crude rose 30.1% over the quarter while diesel prices rose 45.2% amid tight refining capacity ahead of the U.S. harvest and heating seasons. Central banks responded to the resulting inflation pressure: in addition to the ECB and Bank of Japan, the Federal Reserve raised rates 25 basis points in September, its first increase since July 2023, and the Reserve Bank of Australia raised its cash rate to a 15-year high. For equity markets, the combination of higher yields and higher energy prices supported energy producers, banks, and precious metals, while weighing on real estate, construction, utilities, and other interest-rate-sensitive areas. Gold rose 3.7% over the quarter, supported in part by currency and fiscal concerns. [5]

Fund Performance

The Shelton International Select Equity Fund returned 1.96% in the third quarter of 2026, compared with 2.20% for the MSCI AC World Ex USA Small Cap, a relative loss of 0.24 percentage points.

Country positioning was the largest positive contributor, led by Japan, with the United Kingdom, Denmark, Turkey, and Italy also additive. Underweights to emerging markets offset this contribution slightly. Within industry positioning, technology hardware and equipment, semiconductors and semiconductor equipment, energy, and retailing contributed, while capital goods, real estate, transportation, and the pharmaceuticals, biotechnology and life sciences group detracted. The composition of security selection changed substantially from the second quarter. United Kingdom and European industrial and construction-services holdings led, along with precious-metals producers, while several Japanese semiconductor-materials positions that had been among the strongest second-quarter contributors gave back ground as the AI-related trade paused.

[1] Source: Morningstar, MSCI, StreetAccount
[2,3,4,5] Source: StreetAccount, Bloomberg

Key Contributors

Keller Group plc (KLR LN), the United Kingdom-listed geotechnical specialist contractor, was the largest contributor to active return during the quarter, with the Fund maintaining an overweight position throughout the period. On August 4, 2026, the company reported interim results for the half year ended June 30, 2026. Revenue rose 10.3% to £1,608.0 million, an increase of 11.1% on a constant-currency basis, while underlying operating profit increased 14.9% to £117.9 million, or 17.1% at constant currency. The underlying operating margin expanded 30 basis points to 7.3%. The company reported record volumes in North America, where revenue rose 16.7% at constant currency to £984.4 million, and disclosed that data center projects had grown to 9% of group revenue from 3% a year earlier. Management raised the interim dividend, reported progress on a £100 million share repurchase program, and indicated that full-year performance was expected to be materially ahead of prior expectations. Shares performed strongly over the balance of the quarter. [6]

Indus Holding AG (INH GR) is a German holding company that acquires and develops small and medium-sized industrial businesses, primarily in German-speaking countries. The fund held an overweight position, on average, in the stock during the third quarter of 2026, and the position was a contributor to active return for the period. On August 12, 2026, Indus Holding published its half-year results. First-half revenue grew 15% year-over-year to EUR 965.2 million, and profit after tax reached EUR 61.9 million versus EUR 28.1 million in the same period a year earlier. Second-quarter adjusted operating profit margin came in at 15.5%, compared with 7.2% in the prior-year quarter. Shares rose after the results. The following day, Bankhaus Metzler analyst Victor Beyer raised his recommendation on the stock to Buy from Hold. [7]

Precious-metals holdings were collectively among the stronger contributors to active return. Positions including Wesdome Gold Mines Ltd., Aya Gold & Silver Inc., Perseus Mining Ltd., and DPM Metals Inc. each added to relative performance as gold prices rose 3.7% over the quarter and the broader basic-resources complex advanced. Demand for precious metals was supported during the period by elevated sovereign debt issuance, fiscal concerns across several major economies, and a generally weaker U.S. dollar, factors that also contributed to the rise in global bond yields discussed above. These holdings are subject to commodity-price, operational, and jurisdictional risks, and there is no assurance that the conditions that supported them during the quarter will persist. [8]

Key Detractors

eToro Group Ltd. (ETOR US(ADR)), the multi-asset investment and trading platform, was among the largest detractors from active return during the quarter. On August 11, 2026, the company reported second-quarter results. Net contribution rose 9% year over year to $229 million and GAAP net income rose 77% to $53 million, with funded accounts increasing 18% to 4.28 million and assets under administration rising 10% to $19.2 billion. Despite these year-over-year gains, shares declined sharply following the announcement. Investors focused on a sequential slowdown, with net contribution down approximately 11% from the first quarter and net income below the prior quarter's record, a substantial year-over-year decline in cryptocurrency trading activity, and July data showing assets under administration down 5% from a year earlier. Concurrently, the company announced an agreement to acquire U.S. brokerage TradeZero for up to $231 million in cash and equity, a transaction that several analysts cited as a source of uncertainty in lowering price targets. The shares declined further over the remainder of the period. [9]

Rockpoint Gas Storage Inc. (RGSI CN) owns and operates six natural gas storage facilities in Alberta and California. The stock was a detractor from active return during the third quarter of 2026. The fund held an overweight position, on average, during the period. On July 16, 2026, US natural gas prices fell after a government report showed stockpiles rose more than analysts expected. The average analyst rating on the stock also declined that day. Shares fell. Gas prices dropped again on July 27 as Middle East tensions eased, and US supply remained ample. The stock also declined that day. On August 13, Wells Fargo lowered its earnings estimates for the company's next two fiscal years following first-quarter results, while keeping its Equal Weight rating. Shares fell on the news. [10]

Japanese semiconductor-materials holdings detracted from active return as the AI-related trade paused during the quarter. Positions including Fuso Chemical Co., Tokyo Ohka Kogyo Co., and Anritsu Corp., each of which had been among the Fund's stronger contributors in the second quarter, declined as investor attention shifted from the pace of AI infrastructure demand toward questions about capital-expenditure returns, monetization, and competition. Sentiment was also affected during the period by discussion of AI model safety and by calls from several developers to slow the pace of frontier-model development. Asian technology shares were broadly weak over the quarter, and the Philadelphia Semiconductor Index declined 11.4% after a substantial advance across the prior six quarters. We continue to hold these positions based on our assessment of their business fundamentals, though the timing and durability of AI-related capital spending remain uncertain. [11]

Outlook

The third quarter was consistent with the view we set out at mid-year, that renewed energy pressure and a less accommodative rate environment would narrow market leadership. That narrowing was evident in the quarter's breadth statistics and in the sharp divergence between interest-rate-sensitive sectors and those positioned to benefit from higher yields and firmer commodity prices. We would note that the narrowing arrived later than we anticipated, with a strong second-quarter earnings season sustaining broader participation for longer than we expected.

Looking forward, we believe the behavior of long-dated sovereign bond yields is likely to be a more important variable than the price of oil. Equity markets absorbed a substantial move in crude during the quarter without a broad decline, supported by corporate earnings. The rise in long-dated yields proved more disruptive, contributing to the weakness in real estate, construction, and other rate-sensitive sectors. Should yields continue to rise, valuations across equity markets could face further pressure; should they stabilize, some of the breadth that characterized the first half of the year could return. The portfolio is not positioned around a specific interest-rate forecast.

[6] Source: Company reports, Bloomberg
[7] Source: Bloomberg
[8] Source: Bloomberg, Shelton Capital Management internal attribution
[9] Source: Company reports, Bloomberg
[10] Source: Bloomberg, Dow Jones
[11] Source: Bloomberg, StreetAccount, Shelton Capital Management internal attribution

Outlook Continued

The AI theme continued to evolve during the quarter. We have expressed exposure primarily through companies supplying chemicals, precision components, test equipment, and specialty materials used in AI infrastructure rather than through semiconductor and platform companies.
Japan remains the portfolio's largest country exposure and was the quarter's largest positive country contributor. The currency dynamic also improved: the Bank of Japan raised its policy rate to 1.25% and indicated that further increases were possible, and yen strength contributed positively to U.S.-dollar translated returns after detracting in the second quarter. We would caution that currency movements are difficult to forecast and that renewed yen weakness could again become a headwind. The portfolio is not positioned around a specific currency forecast.

Europe and the United Kingdom continue to offer company-specific opportunities, though political risk increased over the quarter. France faces an uncertain path to a 2027 budget, German coalition stability has been questioned following state election results, and the United Kingdom faces a fiscal credibility test at its October budget. European equities continue to trade at a meaningful valuation discount to the United States while delivering solid earnings growth, and we continue to identify opportunities in both regions that do not depend on a single macroeconomic outcome.

International small caps offer a broad and dispersed opportunity set in a global equity market dominated by concentrated returns and singular themes. Having said that, small cap equities, both internationally and domestically, are relatively underexposed to the AI buildout, and can serve in a diversifying role in an overall portfolio. It is not inconceivable that small cap equities could deliver positive returns in a broad AI selloff, particularly if accompanied by a decline in interest rates.

Important Information

The stated opinions and views in the commentary are for general informational purposes only and are not meant to be predictions or an offer of individual or personalized investment advice. Such information does not constitute a recommendation to buy or sell specific securities or investment vehicles.

Holdings are subject to change.

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