Shelton Tactical Credit Fund

DEBIX • DEBTX

Quarterly Commentary

As of September 30, 2026

MARKET COMMENTARY

"When your day is long, and the night, the night is yours alone
When you're sure you've had enough, of this life, well hang on." R.E.M., Everybody Hurts

The third quarter of 2026 was a painful one across all fixed income markets. Interest rates rose sharply, driven by persistent inflation, higher energy prices, strong economic growth, elevated AI-related corporate bond issuance, and competing high rates in other developed countries. The Fed under new Chairman Kevin Warsh signaled a renewed commitment to bring inflation back to 2% on a timely basis. Consumer spending from the upper half of the K-shaped economy remained resilient despite higher energy prices and wages that are not keeping up with inflation. WTI crude began the quarter at $69.50, and rose to $105.83 in mid-September, before falling to $90.42 by quarter-end. The S&P 500 rose 2.30% in Q3 and the 10-year UST yield rose 81bp from 4.47% to 5.28%.

The Fed kept rates unchanged in July, but after Warsh's pointed remarks at Jackson Hole, raised rates in September, following-through on their renewed commitment to try and bring inflation back to 2% sooner rather than later.

Second quarter GDP growth was revised up from 1.5% to 2.2%, and the economy continued to run hot, with the Atlanta Fed GDPNow forecast for Q3 at 3.74% at quarter-end – a figure that would have exceeded 6% if not for a surge in imports of oil and AI-related capital goods. Consumers continue to spend above their earnings, with personal spending up 0.9% in August against just 0.2% growth in personal income. The labor market sent more mixed signals, as payrolls unexpectedly fell by 23k in July before rebounding by 162k in August, while the unemployment rate remained below 4.25%. This combination of strong growth and sticky inflation pushed the FOMC into action, and the September dot plot showed 16 of 18 participants expecting at least one more hike this year. At quarter-end, fed funds futures were pricing in one more hike by year-end, while OIS markets imply a policy rate near 4.9% by mid-2027 – well above the 4.125% median dot.

Inflation briefly cooperated early in the quarter, as the temporary peace deal pushed gasoline prices lower and June CPI fell 0.4%, but the relief proved short-lived. The breakdown of the peace process in August sent diesel prices to all-time highs and gasoline to nearly $4.50/gallon, the highest ever for the month of September. Headline PCE inflation rose to 3.4% year-over-year in August, with core at 3.0%, both below consensus thanks in part to a methodology update that shaved more than 20bp off recent annual readings - but the trending direction of travel is still higher. Diesel is a significant input for most goods and services, so the risk of pass-through into core inflation is much greater than it was last quarter. Longer-run inflation expectations remain reasonably well anchored, but the bond market is no longer giving the Fed the benefit of the doubt on the path back to 2%.

Source: Bloomberg

Portfolio Management

Peter Higgins

Head of Fixed Income & Sr. Portfolio Manager

Peter Higgins has over 30 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 30 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.

Performance

In Q3 2026, the Fund posted returns of -1.86% (DEBIX) and -1.91% (DEBTX).

TOTAL RETURNS	3Q26	YTD	1YR	3YR^	5YR^	10YR^
Shelton Tactical Credit Fund (DEBIX)	**-1.86%**	**0.18%**	**2.07%**	**6.93%**	**2.31%**	**3.27%**
Bloomberg U.S. Aggregate Bond Index	-3.51%	-2.91%	-1.84%	4.05%	-0.64%	1.13%
Bloomberg U.S. Investment Grade Corporate Bond Index	-3.94%	-3.11%	-2.30%	4.97%	-0.46%	2.04%
Bloomberg U.S. High Yield Corporate Bond Index	-1.82%	0.10%	1.41%	8.01%	3.60%	5.05%
Morningstar Non-traditional Bond Fund Category	-1.24%	-0.39%	0.43%	5.09%	2.16%	2.61%

Fund Expenses - DEBIX (net): 0.74% | DEBTX (net): 0.99%
^Annualized.

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. Sources: Bloomberg; Morningstar Direct

TOP CONTRIBUTORS

AMC Entertainment Holdings, Inc.
Bausch Health Companies Inc.
Talos Energy Inc.
Rivian Automotive Inc.
The GEO Group, Inc.

TOP DETRACTORS

Six Flags Entertainment Corporation
Mars Inc.
Oracle Corporation
Iron Mountain Incorporated
Pyxus International Inc.

The quarter marked a rough stretch for fixed income, caused by the sharp and rapid rise in interest rates. Market drawdowns are opportunities for our strategy to set up potential future performance, as we add to high conviction positions that are on sale for reasons unrelated to their individual situations, while also finding new ideas as we pick through the market wreckage. 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.

Performing less poorly doesn't really feel like a win, but we will take it and move on. We outperformed broader fixed income by being shorter duration, running a purposefully large cash balance, and actively managing our hedges. Rate sensitive higher quality bonds suffered from the sharp rise in interest rates, while certain credit sensitive bonds sold off with the market rather than due to company-specific or idiosyncratic reasons. Retail and consumer names fared well, as spending proved resilient in the face of higher gas prices and then accelerated as the conflict began to ease. Several of these companies are also benefitting from tariff refunds. AMC and Cinemark continued their rally as the summer box office set records, with AMC taking advantage of this strength to complete a comprehensive refinancing of their entire capital structure, driving a significant win for the Fund. Bausch Health rose after strong Q2 earnings. Talos Energy benefitted from higher oil prices, completed an attractive tuck-in acquisition, and executed a concurrent refinancing. Excitement about Rivian's new product, R2, continued to build and the Company has executed well in the early stages of the launch. GEO won significant additional business during the quarter. Most detractors suffered from rising interest rates rather than company-specific challenges. Six Flags declined on concerns about poor weather in certain markets during the peak summer season, while we take a longer-term view. Credit hedges helped dampen volatility and contributed positive returns.

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. In particular, single-Bs have been an emphasis due to their short duration and our view that they are goldilocks in this economic environment – just the right amount of credit risk, but not too much. They are the best performing cohort of corporate credit this year. This kind of overall environment – where sector and security selection is increasingly differentiated – can be highly conducive to our strategy.

CORPORATE COMMENTARY

Credit markets gave back much of their second-quarter gains, as the relentless rise in Treasury yields overwhelmed coupon income and, in September, finally spilled over into credit spreads. Spreads held near historically tight levels through July and August even as rates moved higher, but a hawkish FOMC, heavy supply, and a late-month risk-off turn gapped high yield spreads nearly 50bp wider in September alone to their widest level since April, pushing yields above 8.3%, the highest since April 2025. Investment grade spreads were more resilient, finishing at +81bp versus +77bp at the end of June, but IG total returns suffered given the longer duration of the asset class. Year-to-date through quarter end, single Bs returned +0.97%, comfortably ahead of BBs at -0.01% and CCCs at -1.81%. In investment grade, BBBs returned -2.71% ahead of As at -3.24%, AAs at -4.53%, and AAAs at -6.01%.

Investment grade supply continued at a record pace. New issuance was approximately $517 billion in the quarter, 25% above 3Q25, bringing year-to-date volume to a record $1.74 trillion – up 29% year-over-year. September alone brought $207 billion, headlined by Paramount Skydance's $30 billion acquisition financing, and full-year issuance is now expected to exceed $2 trillion for the first time. Unlike the first half, the deluge began to weigh on the market, as heavy supply of longer-dated corporates added to pressure on the long end of the curve. Rising base rates and a tilt toward BBB issuers pushed average new issue coupons up 40bp in September alone to 5.81%, the largest monthly increase since November 2024.

High yield issuance was more uneven, totaling $81 billion in the quarter, roughly a third below 3Q25, as a quiet summer gave way to a September surge of $51 billion, the largest month of 2026. Two jumbo deals, Paramount Skydance ($11.4 billion) and SoftBank ($10.0 billion), accounted for 42% of September's volume, and both priced wide for their ratings. The market remained skewed toward higher quality issuers, with BBs capturing 87% of September volume, well above their 67% year-to-date share, and there was no CCC issuance for the second consecutive month. Refinancing or repayment of debt remains the most common use of proceeds at ~51% of YTD issuance, although M&A accounted for more than half of September supply. Year-to-date issuance of $264 billion is running just 2% behind last year, led by TMT at 28% of supply. The AI buildout is reshaping the index itself, as telecom now accounts for almost 10% of high yield, up from 6.5% at year-end 2025, and data-center paper makes up just over 3% of par outstanding.

Beneath the surface, fundamentals continue to diverge by rating. Median net leverage in high yield eased modestly to 3.6x in 2Q26, right in line with its long-term median, and BB EBITDA margins sit near their record high at 19.4%. The lower-quality tail tells a different story: CCC leverage stands at 8.1x, up 2.0x year-over-year, and CCC margins have collapsed by more than 900bp over the past year to 11.2%, just over half their year-ago level. The AI buildout is also visible in the sector data, as Telecommunications leverage jumped 1.6x in the quarter to 6.4x, now the most levered sector in high yield, while IG telecom leverage reached its highest level in data going back to 1997. In investment grade more broadly, BBB leverage ticked up to 2.40x, its highest since 4Q20.

The US HY default rate, including distressed exchanges, ticked up 5bp to 2.68% in September (1.99% excluding DISH), still below the 25-year average of 3.2%, and third-quarter default/LME volume was the lightest since 4Q22. Forward-looking indicators are less benign. HY bonds trading at or above +1,000bp rose $6.4 billion in September to $73 billion, or 5.2% of the market, and the most severely distressed cohort – bonds below $50 – surged to a 40-month high of $31.3 billion, with Cable accounting for 55% of it. Recoveries also remain well below historical norms at 31.8% over the last twelve months versus a post-GFC average of 39.7% – a reminder that when things go wrong in today's market, they go very wrong.

Sources: Bloomberg, Barclays, CreditSights, JP Morgan

OUTLOOK

At quarter-end, the prevailing market view appeared to be that the economy is strong, the consumer is holding up, inflation remains too high, the conflict with Iran is unlikely to be resolved soon, and interest rates will therefore continue to move higher. When everyone agrees, we look for reasons to be contrarian. This story could reverse in many ways – AI spending slows if the return-on-investment case weakens, the pressure of inflation and higher borrowing costs dents consumer spending, the conflict is resolved, or the cumulative effect of rate hikes and tighter financial conditions slows the economy enough to justify lower rates. We cannot predict the timing of any of these, but with the 10-year UST above 5.25%, the risk/reward is becoming more compelling by the day.

AI-related spending remains the dominant driver of both growth and supply. Hyperscaler capex continues to drive enormous financing requirements across IG and HY, and these borrowers are largely price-insensitive, leaving other issuers and investors to absorb the consequences in the form of wider concessions and higher term premiums at the long end. For credit investors, the challenge remains navigating sectors that may be disrupted (software, outsourced services, media) while participating in those that stand to gain (energy, infrastructure, select technology), while recognizing that any deflating of AI enthusiasm would ripple through tech-heavy indices, capex-dependent supply chains, and ultimately economic growth. The AI-related theme has increased dispersion among single-name credit spreads, creating greater opportunities for credit selection.

Consumer spending has remained remarkably resilient, even in the face of record diesel prices and real earnings that have turned negative. However, spending continues to outpace income, and economic logic suggests this cannot continue indefinitely. The Conference Board's consumer confidence index plunged from 89.4 to 81.9 in September, below even its pandemic lows – notable given that this measure places more emphasis on the labor market, which has held up reasonably well. The K-shape persists, and the burden of higher energy prices and borrowing costs falls disproportionately on lower- and middle-income cohorts. Upper-income consumers have powered spending on the back of record asset prices, but should cracks form in that foundation, they will likely pause or pare back spending as well.

On the positive side, all-in yields are higher than they have been in some time – roughly 5.9% in IG and above 8% in HY – even though high yield spreads of around +300bp remain well inside their 25-year average of approximately +500bp. Today's opportunity is being driven by base rates rather than credit risk premiums, and investors are being paid well to own shorter-duration, higher-quality credit. Looking at the last twenty years, from current yield levels, BBs and single Bs have delivered average 12-month total returns of 8.4% and 9.5%, respectively.

Our positioning continues to be a mix of high yield and investment grade corporate bonds – with an average credit quality of BB+, a purposefully large cash balance, and hedges. Our shorter duration and emphasis on single Bs helped cushion the Fund during the selloff, and our cash balance now gives us ample dry powder to deploy as all-in yields reach levels not seen in years. We expect further episodes of headline-driven volatility as the Iran conflict evolves, the Warsh Fed establishes its inflation-fighting credibility, and the midterm elections arrive, bringing the potential for gridlock and another contentious debt ceiling negotiation in 2027.

We believe the sweet spots for future total returns remain threefold: i) high quality shorter duration BBB and BB corporate bonds that benefit from the highest all-in yields in years 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 inflation and interest rates, we have remained selective about adding duration. Last quarter we suspected the market's hawkish reaction might prove overdone; instead, the Fed followed through. With the 10-year at 5.28% and the 30-year near 5.5% at quarter-end, Treasury yields are the highest in nearly two decades, but markets are now pricing in close to another 100bp of hikes through 2027 – well beyond the Fed's own projections – and long-end supply shows no sign of slowing. We believe the balance of risks is gradually shifting in favor of duration, and we expect to add it opportunistically, favoring the short and intermediate parts of the curve, 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, but it has also left the bond market offering the most compelling starting yields in years. 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/2026/07/SCM-Trust-Prospectus_Web.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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