Rewey AM RAM Smid Value Composite

June 2026

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2Q26 | ReweyAssetManagement

top of page Home About Philosophy Letters, Blogs, News Quarterly Investment Letters In the News Market Musings Blogs Financial Planning Contact Website Disclaimers More Use tab to navigate through the menu items. July 2026 The RAM Smid composite gained 20.06 % in 2Q26, outperforming the Russell 2500 Value Total Return index which rose 18.50%. Year-to-date, the RAM Smid composite is up 31.15% vs. 24.16% for the index.

The Russell 2500 Value outperformed the S&P 500, which returned 15.20% in 2Q26. We see the outperformance as a continued sign that investors are rotating their portfolios away from the larger-cap tech heavy benchmarks and towards the more undervalued and neglected small and smid cap sector. The U.S. economy remained resilient in 2Q26 despite the Iran conflict. If de-escalation continues, this rotation is likely to persist. (1,2) Source: Rewey Asset Management, Index returns sourced from Bloomberg 6/30/2026. *Note that there are material limitations inherent in any comparison between RAM Smid strategy and the R2500 Value Total Return Index. The R2500 Value Total Return Index is unmanaged, and you cannot invest directly in an index. The RAM portfolio is actively managed and holds concentrated investments in the equity securities of small-mid capitalized companies. Please see important disclosures at the end of this letter.

The Economy Cooler but Healthy in 2Q26

After a strong GDP result for 1Q26, revised higher to 2.1% on its final revision, the economy looks to have cooled into 2Q26, with the current Atlanta Fed GDPNow nowcast for 2Q26 GDP at 1.2%. In our view, this weakness is mostly due to the uncertainty of the Iran conflict and higher oil prices.

The conflict drove West Texas (WTI) oil to a high of $117.63 on April 7th, and prices remained volatile with highs near $110 through mid-May. This spike almost certainly helped push in Core PCE, a favorite Fed inflation gauge, to 3.41% year/year for May, well above the Fed's 2% target. Still, investors looked past these results, as WTI oil prices fell to $69.50 at quarter-end, leading many to believe that lower inflation prints would follow. We believe a peaceful resolution should lead to lower oil prices and lower inflation, which would likely support continued healthy GDP. (3,4,5)

Capital Markets Boom

Capital markets fundraising surged in 2Q26, with IPOs raising $104 billion across 48 deals. While the $75 billion SPCX offering (excluding the greenshoe) accounted for most of the total, the quarter would still have been the strongest for IPO issuance since 2021 even without it, supported by nine other deals raising more than $1 billion each.

Although final figures are not available yet, total fundraising including BDC's, SPAC, and secondary offerings look to have surged as well, let by Alphabet's $80 billion secondary raise. Leading investment banks are also forecasting a very strong 2H26 issue calendar. We think this voracious investor appetite for new equity is a clear sign that investors do not think the Iran conflict will have lasting negative implications on the markets or the broader economy. (6)

The Rotation Continues

Despite a very strong market that lifted most indices, we believe the rotation away from large-cap "Mag-7" dominated indices continued in 2Q26. The Russell 2500 Value gained 18.50% in the quarter, vs. 15.20% for the S&P500 and 11.7% for the Magnificent 7 as a group. While the Nasdaq composite index did gain a strong 21.6% in the quarter, Bloomberg pointed out that roughly 91% of this gain was driven by just eight semiconductor related stocks. Still, the year-to-date gain for the Russell 2500 value of 24.16%, in our view, shows that investors are moving to smaller-cap stocks due to the structural factors of i) valuation discounts ii) Improving earnings and iii) domestic revenue exposure. If inflation begins to ebb and GDP remains relatively strong, we think this rotation can continue. (7,8)

Portfolio Highlights

We added five new positions in 2Q26 and sold four positions, which included both Webster (WBS) and Cross Country (CCRN) as they both have acquisition offers. We hold thirty-one positions, in line with our expectations over the long term.

At quarter end, the combined weight of our top ten holdings was 43.3%. Cash was 6.83 % of the portfolio, which is a little higher than normal and driven by sales of positions on strength. While we continue to search for, and find, stocks that fit our investment philosophy, we also very much like the composition of our current portfolio and are believers in the benefits of long-term compounding with modest portfolio turnover.

Seven of our composite holdings had net cash on the balance sheet and only our two utility stocks had a debt to EBITDA ratio over 3x. Eight holdings were trading at or less than 1.5x book value. (9)

In 2Q26, the sector themes we discussed in our 1Q26 letter of semiconductor equipment and defense and aerospace returned strong results. While regional banks gained modestly as a group, we still see this group as inexpensive and having strengthening fundamentals along the lines of revenue growth, efficiency gains, credit costs and capital generation. We note the 90-day comment period on the Revised Standardized Approach ended in June without any apparent significant pushback. As we wrote in our Market Musing Blog , we see the potential for significant capital relief from this approach as a positive for the smaller regional banks. (10)

Ultra Clean Holdings, Inc. (UCTT)

UCTT, highlighted in our 3Q25 letter, was again our top performer in 2Q26, delivering a 127.81% return. The stock surged on strong quarterly results and a sharp inflection in the outlook for semi-conductor capital spending. Memory chips are now in short supply, as it has become apparent that artificial intelligence will be a massive consumer of memory. While we believe this upcycle is still in its early stages, we have trimmed our position into strength. (11)

Orthofix Medical Inc. (OFIX)

OFIX was our weakest performer in 1Q26, as the stock declined following its May 21st announcement that CMS had lowered its reimbursement for non-invasive bone growth stimulator devices. Due to the change OFIX reduced its revenue guidance by $5 million for 2026 and withdrew its prior 3-year targets. While clearly a disappointment, this news was not a company driven negative. We still forecast revenue and earnings growth for OFIX over the next few years and believe the share decline is overdone. Incredibly, on July 1st, CMS completely reversed this code change, a net positive for OFIX. (12)

Vontier (VNT)

We initiated a position in Vontier Corp. (NYSE: VNT), a $4.2 billion industrial technology company that provides fueling equipment, payment systems, and automotive repair tools. Although Vontier became an independent company only after its 2020 spin-off from Fortive (itself spun from Danaher in 2016), its portfolio includes well-established brands such as Gilbarco Veeder-Root and Matco.

At quarter-end, VNT shares were trading at $29.00, well below their February high of $42.10. Shares fell sharply following 1Q26 results, despite earnings and revenues meeting expectations. We believe investors overreacted to a modest reduction in revenue guidance, which was driven by the announced divestiture of the Teletrac Navman business, while full-year EPS guidance remained unchanged. In our view, this weakness created an attractive opportunity to invest in a high-quality industrial company that continues to benefit from the disciplined productivity and capital allocation framework of the Danaher Business System, generates strong free cash flow, has significantly reduced its leverage, and is deploying capital aggressively through share repurchases.

VNT easily surpasses our first investment pillar of Financial Strength. Since its 2020 spin-out, VNT has reduced debt by roughly $1 billion, invested roughly $1.24 billion in acquisitions and repurchased shares through its strong FCF. At 1Q26, debt to adjusted-EBITDA was 2.4x, below management's stated comfort range of 2.5x-3.0x. We believe that true leverage is even lower, because approximately $288 million of debt supports Matco's customer financing portfolio, an earning asset that could reasonably be netted against debt. Vontier produced $441 million in FCF in 2025 and is estimated to generate $469 million in FCF in 2026, which would equate to a current FCF yield of about 11%. After repurchasing $70 million in stock in 1Q26, in May VNT increased its share repurchase allocation to $1 billion, stated it would buy at least $125 million in shares in 2Q26 (3% of market value) and devote all FCF for 2026 to share repurchases at current levels. VNT's cash position should further be strengthened by its divestiture of Teletrac Navman, with $80 million cash proceeds up front and a total value of $220 million.

We also think we see a strong path to growth for VNT, our second investment pillar, through both revenue acceleration and productivity driven margin improvements. Vontier is well positioned to benefit from the ongoing modernization of retail fueling stations, offering traditional fueling equipment, EV charging solutions, and integrated payment systems. As gasoline stations evolve into higher-margin convenience destinations, retailers are investing heavily in new construction and remodels. For example, 7-Eleven plans to build approximately 1,300 new stores and remodel roughly 7,000 existing locations by 2030. Vontier is uniquely positioned to participate in this investment cycle, providing not only fueling equipment but also cloud-based point-of-sale hardware and software that can integrate in-store and pump transactions. We also expect continued growth at Matco, whose mobile tool distribution business should benefit from aging vehicles, rising repair complexity, and higher used vehicle prices, all of which support increased demand for professional repair services and tools.

Importantly, VNT continues to operate under its version of the renowned Danaher Business System. Management expects productivity initiatives to reduce operating expenses by approximately $15 million in 2026 and has guided to roughly 130 basis points of operating margin expansion, including approximately 80 basis points from sales leverage and productivity initiatives and 50 basis points from the divestiture of Teletrac Navman.

At current prices, we see the valuation as compelling and have been adding to our position. In our view, the market is focused on the reduction in reported revenue following the Teletrac Navman divestiture while overlooking that the transaction removes approximately $110 million of annual revenue with little impact on earnings, effectively masking the strength of the underlying business. Notably, VNT left its EPS guide of $3.35-$3.50 unchanged for 2026 post the divesture announcement on May 7th, which effectively was a raise to core EPS of $0.05. At the mid-point of guidance, VNT's 2026 PE ratio is only 8.7x. We have set our AFV price target at $45, up over 55% from current levels and a 2026 PE ratio of approximately 13.25x. Given the company's strong free cash flow generation, disciplined capital allocation, and multiple opportunities for revenue, margin, and EPS growth, we believe this valuation remains conservative. While our valuation does not incorporate any benefit from accelerated share repurchases, we believe this could provide meaningful incremental EPS accretion over time. (13)

Looking Forward

The broader stock market remained remarkably resilient in 2026, given the lagging impacts of the government shutdowns and the Iran conflict. We believe that the negative impacts of these events should continue to ebb over 2H26 and the 1H26 spike in inflation should slowly unwind as well.

While the path to peace with Iran will likely remain bumpy and simmering tensions will likely remain, we think oil prices are likely to keep declining from conflict-inflated levels. The domestic economy looks solid, driven by solid business confidence, the administration's re-shoring initiatives and the surge in data center construction. If these factors continue over 2H26, we think the rotation towards smaller caps is likely to not only continue but likely accelerate as investors gain more confidence to look beyond the concentrated trading patterns of recent years.

Regardless of the actual results however, our investment philosophy remains unchanged: we focus on financially strong companies that can withstand periods of volatility and execute on clear value-creation plans over a 2-3 year horizon. Over our 36 years of professional investing, we have come to expect the unexpected. Our disciplined, long-term approach allows time to become an ally and creates opportunities to invest at attractive valuations, and to withstand the economic and geopolitical bumps that are likely to occur.

We appreciate your trust and support. As always, please feel free to contact us to discuss our commentary or to share your thoughts.

Chip

Notes:

1. Past performance is no guarantee of future results. The RAM SMID Value Composite schedule of net investment performance of Rewey Investment Management LLC (the "Schedule") represents the activity of separate customer trading accounts managed collectively (collectively the "Accounts") for the annual and cumulative periods from January 1, 2019 through June 30, 2026. 2022-2Q26 performance unaudited. Please see full Marcum footnotes for RAM Smid composite 2019-2021 at Microsoft Word - {A44BB912-3141-4B59-AE8E-3D695C6B8BD4} (reweyassetmanagement.com) . Performance graphic not to scale. The performance results for the period of 1/1/19-11/8/2021 are from accounts managed by Chip Rewey while affiliated with Advisory Services Network.

2,7 Data regarding the Russell 2500 Value Total Return Index, Russell 2000 Value Total Return Index, the S&P 500 Index, and the Bloomberg Magnificent 7 Total Return Index are sourced from Bloomberg. Each of these indices are an unmanaged group of securities considered to be representative of the small and mid-cap stock market, and the large-cap stock market in general, respectively. Indexes are unmanaged and do not incur management fees, costs, or expenses.

The Russell 2500 Value -Dynamic Index(R) measures the performance of the small to mid-cap value-dynamic segment of the US equity universe. It includes Russell 2500 Index companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium term (2 year) growth and lower sales per share historical growth (5 years) and relatively less stable business conditions that are more sensitive to economic cycles, credit cycles, and market volatility based on their stability variables.

It is not possible to invest directly in an index. There are material differences between the RAM SMID Value Composite portfolio and the indexes used for comparison purposes. The RAM portfolio is actively managed and holds concentrated investments in the equity securities of small-mid capitalized companies. An index is generally designed to illustrate the performance of a specific asset class (i.e., small cap) but is not actively managed and the index performance does not reflect the impact of advisory fees and other investment costs.

3. 2026 Quarterly U.S. GDP statistics are sourced from the Bureau of Economic Analysis and Bloomberg.

4. Atlanta Fed GDPNow GDP forecast data sourced from Bloomberg.

5. WTI (West Texas Intermediate Crude) prices sourced from Bloomberg.

6.

SEC 1Q26 IPO capital market report (2Q report due late 3Q26): SEC.gov | SEC Publishes Updated Market Statistics, Highlighting Increase in IPOs and Proceeds Raised

Renaissance 2Q26 IPO report: 2Q26 US Review

Our estimate of total 2Q26 equity raise is based on Renaissance Capital 2Q report and adding back an estimate of $10.5 billion to include the SEC's broader definition which includes closed-end funds, BDC's and SPAC's and secondary market issues.

With Over $250B Raised This Year, The IPO Market Is Entering A New Era - A Look At What JPMorgan, Morgan Stanley Bankers Expect

8. Bloomberg Article: Ten Stocks Drive Almost All Nasdaq 100 returns: Equity Insight 7-1-2026.

9. All portfolio discussions are based off our model RAM Smid portfolio of separately managed accounts. Company financial estimates sourced from Rewey Asset Management proprietary analysis, and Bloomberg BEST company estimates. Historical pricing and company financial data sourced from company 10Q and 10K filings, and Bloomberg. Individual portfolios may hold slight deviations in position sizes, cash levels and positions held. Portfolio statistics discussed are from June 30, 2026. These statistics will likely change over time. Debt/EBITDA ratio comments exclude financial companies due to non-comparability.

10. Market Musing Blog: The Basel Endgame Proposal for Regional Banks: A Potential Positive

11. All financial ratios, statistics, and projections discussed in the Ultra Clean Holdings (UCTT) commentary are sourced from UCTT 10K, Proxy, 10Q filings, company press releases, company public conference calls and webcasts, company slide presentations, RAM discussions with management, Bloomberg, UCTT company webpage and Rewey Asset Management proprietary financial analysis and Rewey Asset Management industry due diligence. Historical share price information sourced from Bloomberg.

12. All financial ratios, statistics, and projections discussed in the Orthofix (OFIX) commentary are sourced from OFIX 10K, Proxy, 10Q filings, company press releases, company public conference calls and webcasts, company slide presentations, RAM discussions with management, Bloomberg, OFIX company webpage and Rewey Asset Management proprietary financial analysis and Rewey Asset Management industry due diligence. Historical share price information sourced from Bloomberg.

13. All financial ratios, statistics, and projections discussed in the Vontier (VNT) commentary are sourced from VNT 10K, Proxy, 10Q filings, company press releases, company public conference calls and webcasts, company slide presentations, RAM discussions with management, Bloomberg, VNT company webpage and Rewey Asset Management proprietary financial analysis and Rewey Asset Management industry due diligence. Historical share price information sourced from Bloomberg.

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