SHELTON CAPITAL MANAGEMENT

SEPARATELY MANAGED ACCOUNT

Shelton Equity Income Strategy

Quarterly Commentary

As of September 30, 2026

Volatility and the Market

The third quarter of 2026 saw U.S. equities contend with a shifting mix of artificial intelligence optimism, geopolitical uncertainty, and renewed concerns over inflation and borrowing costs. Despite bouts of volatility tied to rising oil prices and elevated Treasury yields, major stock indexes pushed to record highs late in the quarter as investors positioned for another strong corporate earnings season. Escalating energy costs, persistent inflation risks, and historically elevated bond yields created potential headwinds for valuations and interest-rate-sensitive sectors.

Reviewing sector performance, the leaders for the quarter were Energy (+16.48%), Information Technology (+7.20%), and Health Care (+6.46%). The worst performing sectors this quarter were Utilities (-12.39%), Industrials (-9.66%), and Real Estate (-5.57%). While the major indices ended the quarter positive, 7 of 11 sectors were in the red.

Looking back on economic data for the quarter, inflation remained a focus but came down slightly, being held up in part by elevated oil prices caused by the conflict with Iran. Unemployment ended the quarter flat, and the Federal Reserve raised interest rates in September, with one more hike largely expected in December.

Shelton Equity Income Strategy Performance

During the third quarter, the Equity Income Portfolio outperformed the CBOE BuyWriteIndex (BXM) by 0.80%, delivering a gross return of 5.09% (4.75% Net) compared to the BXM return of 4.29%. The strategy generated 3.25% cash flow from option premiums and 0.30% from dividends during the third quarter (gross/before fees), bringing the year-to-date cash flows to 7.64% from options and 1.03% from dividends (7.69% Net).

Our strongest performers this quarter were Hewlett Packard Enterprises (HPE), NetApp Inc (NTAP), Conoco Phillips (COP), Arista Networks Inc (ANET), and Fortinet Inc (FTNT). We continue to hold all of these positions, actively buying them back if called away, as we believe they offer attractive value relative to peers.

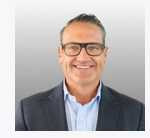
Our underperformers for the quarter were Centerpoint Energy (CNP), CVS Health Corp (CVS), Southwest Airlines Co (LUV), Lam Research Corp (LRCX), and Monster Beverage Corp (MNST). We have been actively moving out of LRCX and CNP, writing aggressive calls to have the positions called away. We continue holding LUV, CVS, and MNST as we still view them as attractively valued.

What We See Moving Forward

The third quarter was turbulent, starting out sharply negative before recovering into the finish. The fourth quarter is likely to be rocky as well, with many potential catalysts that can drive market direction: the ongoing war with Iran, interest rate changes and guidance from the Fed, domestic mid-term elections, and closely watched earnings results that will help determine the strength and returns of the AI trade that has dominated the market recently. With the potential for continued volatility from all these events, we believe the Equity Income strategy's approach can be well suited to the current market environment.

Source: Bloomberg

Strategy Management



Barry Martin, CFA

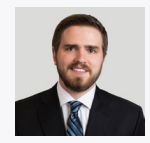
Senior Portfolio Manager

Barry Martin, CFA, joined the firm in 2008 and is a Portfolio Manager for Shelton Capital Management's Option Overwrite Strategies. Prior to joining Shelton Capital, Barry was Senior Vice President of portfolio management for an investment management firm specializing in option strategies and has been managing options for over 20 years.

Nick Griebenow, CFA

Portfolio Manager

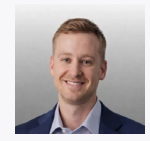
Nick Griebenow, CFA, joined the firm in 2018 and is a Portfolio Manager for Shelton Capital Management's Option Overwrite Strategies. Prior to joining Shelton Capital, Nick was a Senior Derivatives Trader for a large national brokerage firm.



Jason Goldenberg

Portfolio Analyst

Jason Goldenberg joined Shelton Capital Management in 2017 and is an Investment Operations Analyst that services all strategies of the Separate Account program.



Jake Gallion

Portfolio Analyst

Jake Gallion joined Shelton Capital Management in March 2026 as a Portfolio Analyst for the firm's Options Overlay Strategies.

Shelton Capital Management — Founded by Richard Shelton in 1985, Shelton Capital is a privately owned investment management firm with over $8 billion AUM (9/30/2026). The firm offers its investment management through a series of ETFs, open-end mutual funds, and separately managed accounts (SMAs).

IMPORTANT INFORMATION

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For a complete list of portfolio strategy investments and their respective contribution for the preceding 12 months, and the methodology for calculating contributions, please call 1-800-955-9988.
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