MH & ASSOCIATES • SECURITIES MANAGEMENT CORPORATION

INVESTMENT VIEWS

JUNE 30, 2026

THE WARSH ERA BEGINS

Kevin Warsh was sworn in as the new Federal Reserve Chairman and with him, a new era begins at the US central bank. From the first moment he was nominated earlier this year, investors have taken him to be a so called “hawk,” someone who prefers tighter monetary policies. However, if investors paid close attention Warsh is neither a hawk or a dove. Instead, he is looking to reduce the role of the Fed after over nearly two decades of dominance in the financial markets.

At his first press conference in June, Warsh laid out extensive plans to rework and reimagine the way in which the bank conducts business. Every aspect of the Fed, from how it communicates to what data it considers and how that data is collected, calculated and interpreted – it is all under review.

For sure, Kevin Warsh believes that prior policies benefited the wealthy “Wall Street” while hurting regular people “Main Street” and his aim is to fix that. We applaud this step and believe that many of the policy choices the Fed has made were mistaken. One example is the Pavlovian-like response to raise rates whenever their measure of inflation gets too high. Raising interest rates suppresses aggregate demand in the economy and while certainty there at times when demand is too strong there are many times when higher prices are caused by supply problems. Raising rates may temporarily suppress demand at the expense of the economy, it in fact short circuits the price signal to suppliers who will increase supply in response to higher prices. Warsh also believes that the so called Philips Curve, which purportedly demonstrates a trade off between employment and inflation, is not always true. The Philips Curve is at the center of current Fed policy.

Kevin Warsh will bring a new era of Fed policy to investors. Surely it will be different than his predecessors, but it is far too early to label him a “hawk” or a “dove” – he may be an entirely different kind of bird.

SMOLDERING PRIVATE MARKETS

We have been monitoring the developing problems in the private funds, which have been a smoldering issue since late 2025. Private funds invest in loans or equity stakes in non-public companies. These companies often have far less transparency and liquidity than similar public companies. Investment in such funds often come with tight restrictions on withdrawals, requiring investors to stay in the funds for several years or even a decade.

Since last year, there have been growing demands by private credit investors for withdrawals. Some funds allow small withdrawals upon request, subject to approval by the fund. One fund in particular closed the door on further withdrawals, which sparked a mini-panic in other funds, with investors fearing that their fund may be next to not allow withdrawals. The smoldering problem has now expanded to equity funds, with many private equity funds closing their doors to investor withdrawals.

Additionally, private funds, especially private equity funds have notoriously opaque values. Unlike the public stock markets, private equity values are estimated by the fund itself. Several industry observes have noted that there are a growing concern that many private equity fund values may be overestimated.

We note the problems in private markets can threaten to spill over into public markets as many wealthy investors have sizable holdings in public markets as well. Should the issues in private markets continue to get worse, some investors may need to sell the public holdings for liquidity. We also note that large public banks are involved in lending to private funds and that private funds have been making investments in AI data centers and other “hot” areas of the economy.

For now, the smoldering problem remains smoldering. However, we are very watchful for any sign of the problems igniting into a full fledged fire.

IS EXE READY TO EXPAND

Expand Energy (EXE) has been a portfolio holding for several years now. It is one of the largest natural gas producers in the US and has advantageous locations for exporting it to outside markets. It has been laggard, even underperforming during the Iran War, which boosted our other energy holdings. Yet, we are not too frustrated and are patient with this name as it pays a 4% dividend. Artificial Intelligence (AI) is generating a huge demand for more electricity and natural gas is the best near-term solution to meet it. With strong free cash flows, a solid balance sheet and a dominant position in the US market, we expect EXE to be recognized by investors as this theme matures in the coming year.

IS QUANTUM COMPUTING NEXT?

Artificial Intelligence is all the rage for investors right now. The list of must own AI names includes several of our holdings, including MU, GOOGL, QCOM, BE and CSCO. While this boom may have some time to go before it goes bust, we are eyeing burgeoning developments in quantum computing that may become the next key area of interest for investors. The development of quantum computers will bring with it new demand for exotic materials and specialized equipment. This is just another part of the so called “4th industrial revolution” that also includes AI, biotechnology, nanotechnology, robotics, space and energy.

NOT TOUCHING SPACEX FOR NOW

Massive IPO’s have had a rough go for quite a while now. The last IPO that actually performed well was Google way back in 2005. Since then there have been a stream of offerings that have fizzled or crashed completely after hitting the market like Lucid, Coinbase, Rivian, Robinhood, and most recently Cerebras Systems. But precedence aside, the valuation and blue sky expectations are what give us pause. Currently the stock trades at over 42 times next years revenue. Not unheard of, but a very high hurdle. SpaceX is expected to spend $1.6 trillion over the next decade, thus a high likelihood they will be returning to the capital markets for more cash and more shareholder dilution. It is amazing that the biggest IPO in history was not enough money to keep up with the spending that SpaceX will need to be undertaking.

Truth be told, we like the company and the ideas. For anyone who has been on an airplane that has Starlink as their internet service, you will not find a better available connection. Moving data centers into space, where solar panels are ten times more productive and the need for cooling does not exist, is a very intriguing idea. Other ideas like settlements on the Moon and Mars, while likely inevitable, are decades away from reality. The revenue projections also include very strong growth from their enterprise segment including a coding startup to compete with Anthropic’s Claude and growth in their own large language model. These are more than likely to be commoditized in short order and the addressable market of $22 trillion that the company projects for enterprise Ai is a pipe dream right now. There will definitely be a demand for shares as it will need to be added to ETFs and indecies, but we need more than hype to be interested.

GOOD OMENS FOR A GOOD MID-TERM Q3

There has been a lot of talk, including from us, about how poor the market tends to due in years with mid-term elections. In general this is true, however some of this is relative to how well non-mid term years have performed. That said, when the S&P 500 is up greater than 10% in a mid-term election year (which it was this year), the following quarter was also positive eight out of the nine times this has occurred. On top of that, the full year posted a median gain of 26% and was positive 100% of the time. This also ties in well with the “mid-term melt up” phenomenon that tends to occur post elections. The odd of a decent second half to the year appear to be on the markets side.

Recommendation List: A list of all previous specific investment discussions published over the past 12 months will be provided upon request. Please email lara@mhandassociates.com or call our office for this list.

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