Q2 MARKET INSIGHTS

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Summer 2026

KEY TAKEAWAYS

Despite heightened geopolitical uncertainty stemming from the conflict with Iran, equity markets delivered strong returns supported by broad-based earnings growth.

Earnings growth continued to broaden across sectors, improving market breadth and strengthening performance, especially among small-cap stocks.

Within large-cap equities, returns remained concentrated in a relatively small group of companies, making it challenging for diversified equity portfolios to keep pace with the S&P 500.

2026 is on track to be a record year for equity issuance, highlighted by several high-profile IPOs. While these offerings can present attractive long-term opportunities, we believe investors should remain disciplined and mindful of the heightened volatility that often accompanies newly public companies.

Since the nation's founding in 1776, the United States has navigated wars, recessions, financial crises, and other significant challenges. History suggests that investors who remain patient, disciplined, and focused on the long term have generally been rewarded.

Markets staged an impressive rebound in the second quarter as easing geopolitical tensions combined with a surge in corporate earnings growth to propel U.S. equities toward their strongest quarterly performance in six years. After a volatile start tied to the ongoing conflict in the Middle East, oil prices began to retreat as a ceasefire framework took hold, removing one of the market's most significant overhangs. At the same time, Corporate America continued to deliver exceptional results. Earnings growth significantly exceeded expectations, fueled by continued strength in artificial intelligence (AI)-related investments, robust consumer spending, and resilient business demand. The combination of declining energy prices and strong corporate fundamentals helped restore investor confidence and pushed equity valuations higher.

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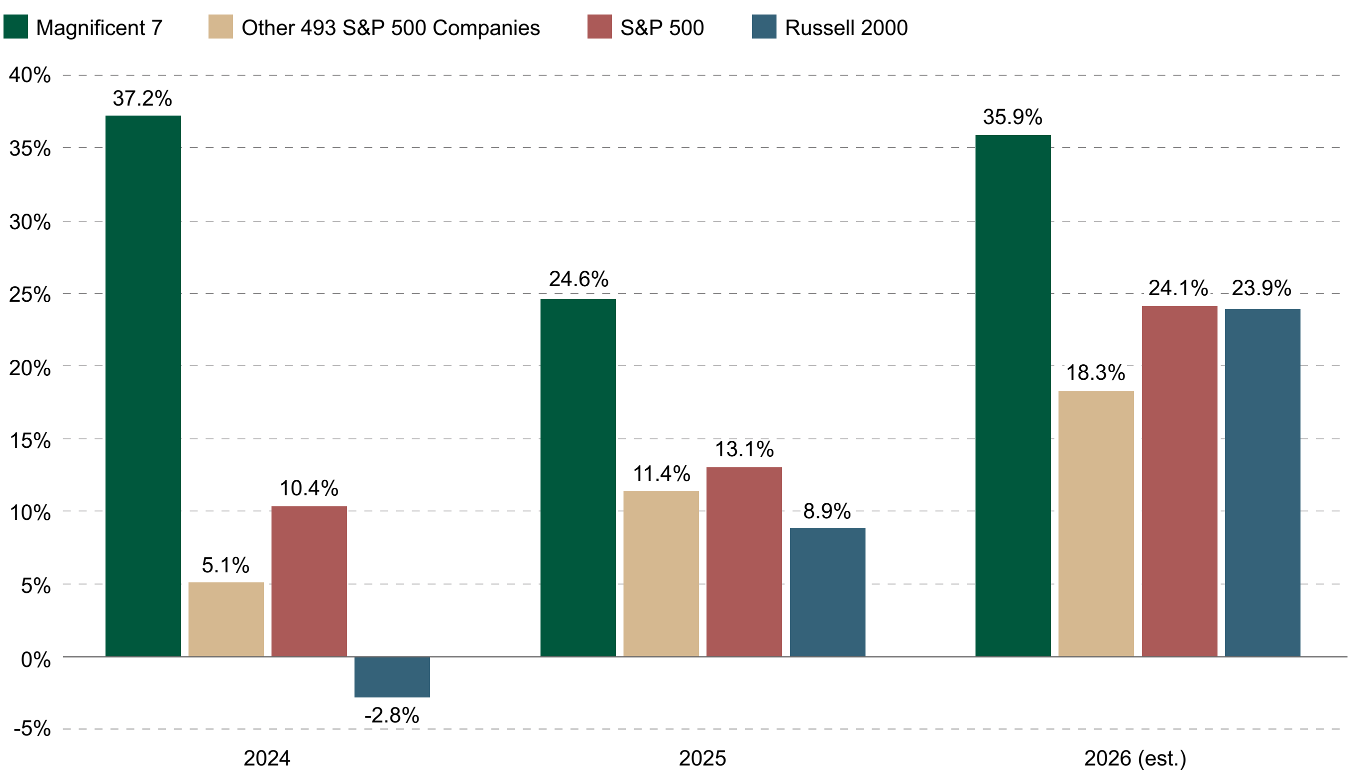
As a result, the S&P 500® Index returned 15.2% for the quarter, finishing at a new all-time high. Looking internationally, equity performance was also shaped by the global AI investment cycle. Foreign developed markets lagged the S&P 500 due to their relatively limited exposure to the technology companies driving the AI spending boom. In contrast, emerging markets outperformed, led by a powerful rally in South Korean equities as the country's leading memory semiconductor companies benefited from surging demand for AI infrastructure. All told, the MSCI EAFE Index, representative of foreign-developed markets, registered an 11.1% gain, and the MSCI Emerging Markets Index rose 24.1%. Switching to fixed income markets, the Bloomberg U.S. Aggregate Bond Index, the nation's leading benchmark for bonds, realized a 0.7% return for the second quarter as declining oil prices helped ease inflation concerns and reduce expectations that the Federal Reserve would respond by tightening monetary policy.

EARNINGS CONTINUE TO OUTSHINE UNCERTAINTY

The first half of the year was once again defined by geopolitical and macroeconomic shocks. In fact, this marks the fifth time in the past six years that investors have faced a major market disruption during the first six months of the year—driven by the COVID-19 pandemic in 2020, Russia's invasion of Ukraine in 2022, the regional banking crisis in 2023, escalating tariff disputes in 2025, and most recently, the ongoing conflict in the Middle East. Despite encouraging progress toward de-escalation, the situation in Iran remains uncertain. Diplomatic efforts have reduced the immediate risk of a broader regional conflict, helping restore confidence in global energy markets and allowing oil prices to retreat from their recent highs. Although underlying geopolitical tensions remain unresolved and the possibility of renewed hostilities cannot be ruled out, we do not expect the tensions with Iran to persist indefinitely. With affordability remaining a top voter concern heading into the 2026 midterm elections, policymakers have a strong incentive to prevent a renewed spike in energy costs that could fuel additional inflation concerns. Still, the situation in Iran remains an important risk factor to monitor through the second half of the year.

Actual and Estimated YoY Earnings Growth

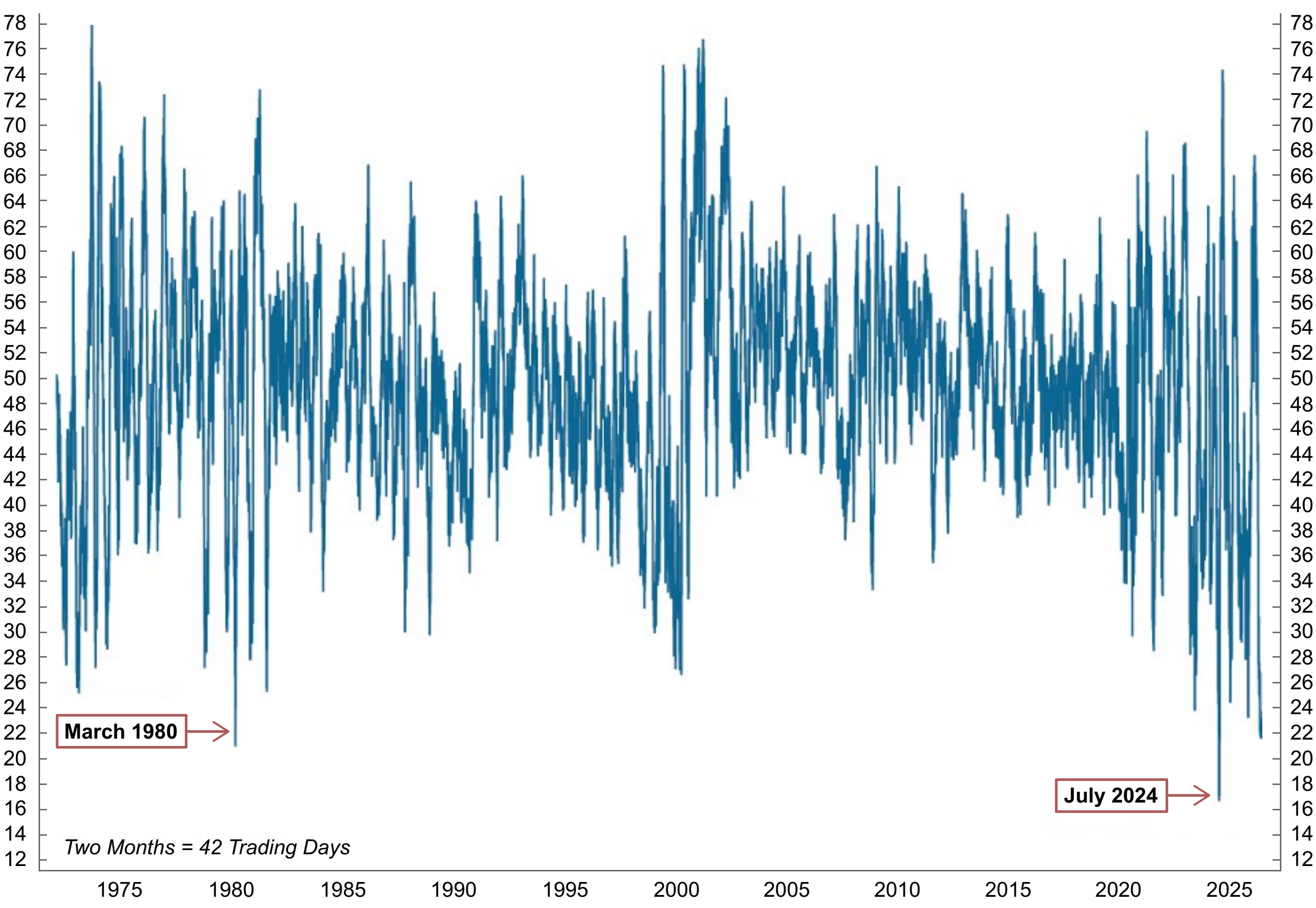


Source: FactSet and Furey Research

Despite daily headlines depicting an increasingly unstable world, strong corporate earnings ultimately remained the dominant driver of equity market performance during the quarter. Investors repeatedly looked past geopolitical uncertainty and instead focused on the underlying health of the economy and Corporate America. During first-quarter earnings season—which was reported throughout the second quarter—84% of S&P 500 companies exceeded analysts' earnings estimates, and 80% surpassed revenue expectations. Both figures were well above their respective 10-year averages of 76% and 67%. Even more impressive, S&P 500 earnings grew 28.8% year over year during the first quarter, dramatically exceeding the 13.2% growth rate analysts had expected at the beginning of the year. (All earnings data presented herein is from FactSet.)

Equally encouraging is the fact that earnings leadership has broadened considerably beyond the so-called Magnificent Seven[1]. While the largest technology companies continue to deliver impressive results, earnings growth across the remaining 493 companies in the S&P 500 has accelerated meaningfully, signaling improving profit trends across a wide range of industries (see chart on previous page). This broadening of earnings growth is an important sign of a healthier and more durable market, as index performance becomes less dependent on a handful of mega-cap companies. The improvement has been even more pronounced among smaller companies. After experiencing declining earnings in 2024, small-cap companies (represented by the Russell 2000® Index in the chart) staged a recovery in 2025 and are now expected to deliver earnings growth almost equal to the earnings of the S&P 500 for 2026.

Percentage of S&P 500 Stocks Outperforming the S&P 500 Over the Past Two Months (2026-06-01 = 21.67%)



Source: Ned Davis Research, Inc.

[1] The Magnificent Seven stocks are Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla

> “AI processors have advanced at a faster pace than memory technology, requiring significantly more HBM to fully utilize their computing power. As a result, companies supplying these critical components have experienced exceptional earnings growth and stock price appreciation."

Historically, periods of broadening earnings growth have provided a favorable backdrop for equity markets, as improving fundamentals extend beyond a handful of market leaders and become more widely shared across sectors and market capitalizations. This dynamic has already been evident in the small-cap universe, where the Russell 2000 outperformed the S&P 500 by gaining 22.6% through the end of June. Large-cap performance, however, has told a different story. While earnings growth has become more broadly distributed across the S&P 500, stock returns have remained concentrated in a relatively small group of companies. Semiconductor and memory stocks generated outsized gains during the quarter as demand for high-bandwidth memory (HBM) surged alongside the rapid buildout of AI infrastructure. AI processors have advanced at a faster pace than memory technology, requiring significantly more HBM to fully utilize their computing power. As a result, companies supplying these critical components have experienced exceptional earnings growth and stock price appreciation.

This narrow leadership has made it difficult for broadly diversified equity portfolios to keep pace with the returns of the capitalization-weighted S&P 500. The chart on the previous page, courtesy of Ned Davis Research, illustrates the extent of this concentration. During the first two months of the quarter, only 22% of S&P 500 constituents outperformed the index—the third-lowest reading since 1972, exceeded only by March 1980 and July 2024. Compared to a typical year, in which roughly 48% of S&P 500 companies outperform the index, this finding underscores just how concentrated equity returns remained for much of the quarter. However, the chart also shows that such extremes rarely persist for long. Encouragingly, the exceptional outperformance of semiconductor and memory stocks began to moderate toward the end of June. If that trend continues, along with the broadening of corporate earnings growth, it should provide a supportive backdrop for more balanced equity market returns moving forward.

THE REALITY OF INVESTING IN BLOCKBUSTER IPOS

2026 is shaping up to be the biggest year for equity issuance in history as companies tap the public markets at an unprecedented pace. A primary catalyst has been the enormous capital requirements associated with building AI infrastructure, as well as a large backlog of mature, venture-backed companies that delayed going public during the higher interest rate environment of 2022–2025. The result has been a record-breaking first half for U.S. equity capital markets, with companies raising approximately $251 billion through IPOs, follow-on offerings, and other equity issuances—the highest first-half total on record.

> “SpaceX completed the largest IPO in history, raising approximately $75 billion at an offering price of $135 per share."

This quarter featured two of the most highly anticipated technology IPOs in recent history: SpaceX and Cerebras Systems. Investor demand for both offerings was extraordinary, but the trading action also served as a reminder of how volatile newly listed public companies can be. SpaceX completed the largest IPO in history, raising approximately $75 billion at an offering price of $135 per share. The stock opened its first day of trading at $150, quickly surged to roughly $225 within days, and then experienced a sharp correction of more than 30% from its peak before recovering to finish the quarter at approximately $170 per share. Cerebras Systems, which went public in May, followed a similarly volatile path. The company priced its IPO at $185 per share but opened near $350, almost double its offering price. The share price briefly reached approximately $386 during the first day of trading before retracing much of those gains, eventually ending the quarter around $221, roughly 43% below their post-IPO high.

IPO Stock Performance One Year Into Trading for the Top 10 Tech IPOs since 2012

Company	Date	1 Week %	1 Month %	3 Months %	6 Months %	12 Months %	1 Year Max Drawdown %
Facebook	May 18, 2012	-17%	-18%	-45%	-42%	-31%	-54%
Alibaba	Sep 19, 2024	-4%	-6%	18%	-9%	-30%	-49%
Snap	Mar 2, 2017	-7%	-8%	-13%	-39%	-26%	-56%
Uber	May 10, 2019	1%	3%	-4%	-34%	-21%	-68%
Snowflake	Sep 16, 2020	-14%	-5%	30%	-9%	27%	-52%
Palantir	Sep 30, 2020	5%	13%	164%	132%	153%	-53%
DoorDash	Dec 9, 2020	-17%	-19%	-28%	-28%	-13%	-47%
Twitter	Nov 7, 2013	0%	0%	11%	-32%	-10%	-58%
Zoom	Apr 18, 2019	5%	45%	54%	9%	142%	-40%
Airbnb	Dec 10, 2020	2%	3%	37%	0%	25%	-39%
Median	**n/a**	**-2%**	**-3%**	**15%**	**-19%**	**-12%**	**-53%**

Source: Goldman Sachs

These examples illustrate one of the biggest challenges individual investors face with high-profile IPOs. While the IPO price often appears attractive in hindsight, obtaining an allocation at that price is typically difficult because most shares are distributed to institutional investors and select clients of the underwriting banks. As a result, many investors can only purchase shares after trading begins on the open market, where prices can move dramatically in response to heavy demand, limited public float (meaning a limited number of shares available for active trading in the open market), and speculative trading activity.

Looking ahead, two additional blockbuster IPOs—Anthropic and OpenAI—are widely expected to come to market later this year or early next year. While these listings represent milestone events for the AI sector and are poised to see extraordinary levels of investor interest, recent history suggests investors should be prepared for significant price swings during the first several days and weeks after listing. Both SpaceX and Cerebras' trajectories were not unusual.

Historically, many of the largest technology IPOs have experienced substantial volatility shortly after going public. The above table, courtesy of Goldman Sachs, provides an analysis of the ten largest technology IPOs over the past 15 years and shows that post-IPO performance has been highly inconsistent, with many companies experiencing sharp drawdowns even when their long-term fundamentals remained intact. In other words, significant near-term volatility is the norm rather than the exception.

Given this backdrop, we believe the most prudent approach is to remain disciplined on valuation rather than chasing early price momentum. While it is impossible to predict exactly where these stocks will trade after listing, history suggests that patience is often rewarded. Allowing the initial excitement to subside, and waiting for post-IPO volatility to create a more attractive entry point, may provide a better balance between participating in these exceptional businesses and managing investment risk.

HAPPY 250TH BIRTHDAY!

As our nation celebrates the 250th anniversary of its founding, it is an appropriate time to reflect not only on America's remarkable history, but also on the long-term value that has been created for investors. The United States has endured wars, financial panics, recessions, market crashes, speculative bubbles, pandemics, and periods of intense political uncertainty. Yet through each challenge, one fundamental truth has remained unchanged: patient investors who maintained ownership in America's businesses have historically been rewarded.

The foundation for America's capital markets was laid just sixteen years after the signing of the Declaration of Independence. On May 17, 1792, twenty-four New York stockbrokers and merchants gathered beneath a buttonwood tree on Wall Street and signed what became known as the Buttonwood Agreement. Widely regarded as the founding document of the New York Stock Exchange, the agreement established a formal marketplace where investors could buy and sell securities under a common set of rules, bringing much-needed stability and transparency to the young nation's financial system.

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Those early markets looked very different from today's exchanges. Investors traded shares of banks, insurance companies, and infrastructure enterprises, along with government bonds. Companies such as the Bank of New York, the First Bank of the United States, and the Manhattan Company—an institution that would eventually become JPMorgan Chase—were among the first publicly traded securities. Equally important, many of America's earliest roads, bridges, and canals were financed not by the federal government, but by companies that raised capital from individual investors. From the very beginning, America's growth was fueled by entrepreneurs seeking capital and investors willing to finance innovation and economic development.

Over the next 250 years, the United States transformed from a small agrarian economy into the world's largest and most innovative economic power. American businesses evolved from textile mills and railroads to industrial giants, and ultimately to today's global technology leaders that are reshaping nearly every aspect of modern life. Throughout this evolution, public capital markets have played a vital role by efficiently directing savings toward the businesses building the country's future. Despite countless setbacks along the way—including wars, financial crises, and pandemics—the U.S. stock market has consistently reflected the ingenuity, productivity, and entrepreneurial spirit that have driven America's long-term economic success.

The power of long-term investing is difficult to overstate. Wharton professor Jeremy Siegel estimated that a single dollar invested in U.S. equities in 1799 and simply left to compound would be worth roughly $200 million today, representing a compounded annual return of 8.8%[2]. That outcome did not require perfect market timing, forecasting elections, or identifying the next winning stock. It simply required patience, discipline, and confidence in the long-term ability of American businesses to innovate, adapt, and grow. By comparison, a dollar held as cash over that same period would have seen its purchasing power erode dramatically. In inflation-adjusted terms, one dollar from 1799 has the purchasing power of only about five cents today, underscoring the importance of investing in assets that have the potential to preserve and grow wealth over time rather than allowing inflation to steadily erode purchasing power.

While history does not guarantee future results, the lessons of the past two and a half centuries remain remarkably relevant. Markets will likely experience periods of volatility, economic uncertainty, and geopolitical challenges. However, history suggests that investors are generally best served by maintaining a diversified asset allocation that aligns with their financial goals, risk tolerance, and investment time horizon. We believe that successful investing is a marathon, not a sprint. By remaining patient, staying invested through market cycles, and adhering to a disciplined long-term investment plan, investors give themselves the best opportunity of achieving their financial goals.

We sincerely thank you for your ongoing confidence and trust in us. If you have any questions or would like to discuss your portfolio allocation, please don't hesitate to reach out to your relationship manager. We're here to support you in making informed decisions that best serve your interests.

Happy Summer!

[2] Note that this is a purely theoretical exercise. As there was no available broad-market index reported in 1799 and an investor could not actually buy a low-cost, broad-market index fund, diversify across hundreds of stocks, or automatically reinvest fractional dividends without incurring transaction fees.

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Definitions:

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The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East), excluding the U.S. & Canada. The MSCI EAFE Index is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the U.S. and Canada. With 913 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Indices are not managed and do not incur fees or expenses. Performance numbers for the index are total return with dividends reinvested in the index.

The MSCI Emerging Markets Index captures large and mid-cap representation across 24 Emerging Markets (EM) countries*. With 838 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Performance numbers for the index are total return with dividends reinvested in the index.

The Bloomberg Barclays U.S. Aggregate Bond Index provides a measure of the total return performance of the U.S. dollar denominated investment grade bond market, which includes investment grade government bonds, investment grade corporate bonds, mortgage pass through securities, commercial mortgage backed securities and asset backed securities that are publicly for sale in the United States.

The Russell 2000® Index measures the performance of the small cap segment of the U.S. equity market. Launched on January 1, 1984 the index includes approximately 2,000 of the smallest companies based on a combination of their market cap and current index membership. The Russell 2000 Index is a subset of the Russell 3000® Index, which was designed to represent approximately 98% of the investable U.S. equity market. Semi-annual reconstitution and quarterly IPO inclusions ensure newly eligible companies are represented and that larger stocks do not distort the performance and characteristics of the true U.S. small cap opportunity set.

Artificial intelligence (AI) is a wide-ranging branch of computer science concerned with building smart machines capable of performing tasks that typically require human intelligence. While AI is an interdisciplinary science with multiple approaches, advancements in machine learning and deep learning, in particular, are creating a paradigm shift in virtually every sector of the tech industry. Artificial intelligence allows machines to model, or even improve upon, the capabilities of the human mind. And from the development of self-driving cars to the proliferation of generative AI tools like ChatGPT and Google's Bard, AI is increasingly becoming part of everyday life—and an area companies across every industry are investing in.

Please contact us for more information on how we can assist you with your financial needs.

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