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2Q 2026 Commentary

July 9, 2026

PSG'S PERSPECTIVES

Market Leadership Broadens

Markets rallied strongly in the second quarter.

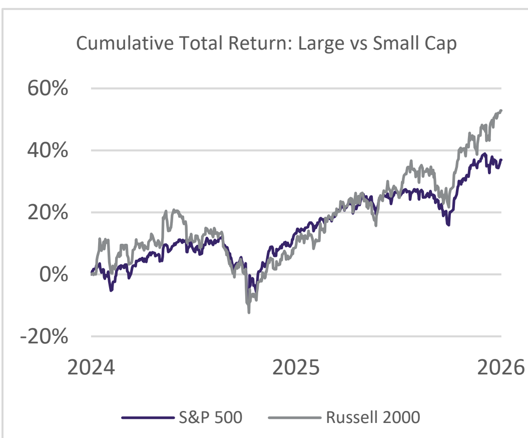
This quarter produced double-digit gains across all major equity indices. Small-cap stocks led the rally, while several of the largest AI spenders, including Microsoft, Meta, and Oracle, delivered more tepid returns of 2% or less. The catalysts for the rally included:

- Accelerating earnings growth
- Beginning of peace talks
- Oil supply and demand not as far out of balance as originally feared
- Explosive revenue growth reported by Anthropic (which is not publicly traded)

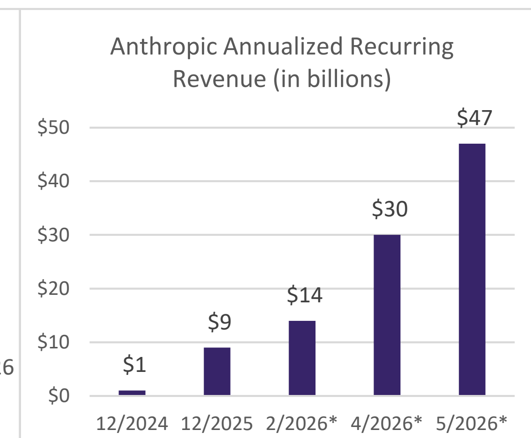
It is impossible to predict which events will cause markets to rise or fall, or which sectors will benefit or be harmed by those events. That is why we seek to build diversified, all-weather portfolios and customize them based on each client's financial needs and risk tolerance.

The equity market's leadership has shifted meaningfully. Many of the managers and sectors that performed worst last year are among the strongest performers this year, while the Magnificent 7[1], which led the market in recent years, have been far less dominant. This is exactly why diversification matters. It tends to produce smoother returns while reducing the risk of very large declines in value.

Small cap stocks have outperformed large cap over the last year and a half.



Source: FactSet



*February 2026 – Series G
*April 2026 – Google/Broadcom TPU Partnership
*May 2026 – Series H
Source: Anthropic

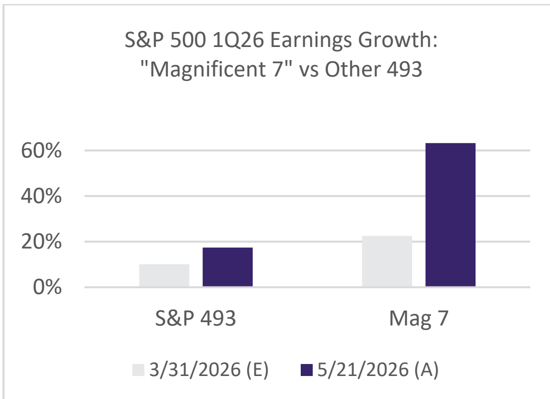
[1] The Magnificent 7 consists of Alphabet, Amazon, Apple, NVIDIA, Meta, Microsoft, and Tesla.

SECOND QUARTER REVIEW

AI Spending & Earnings Growth

Anthropic's disclosure of a $47 billion annualized revenue run rate, up from $9 billion at year-end, offered further evidence that AI is moving beyond experimentation and into real customer demand. Individuals and businesses are increasingly willing to pay for these tools. OpenAI, the owner of ChatGPT, has seen similar, though somewhat more tempered, acceleration. At the same time, U.S. companies continue to report stronger earnings and sharply higher profit margins, with the Magnificent 7 leading the way.

Earnings growth continues to surprise to the upside.



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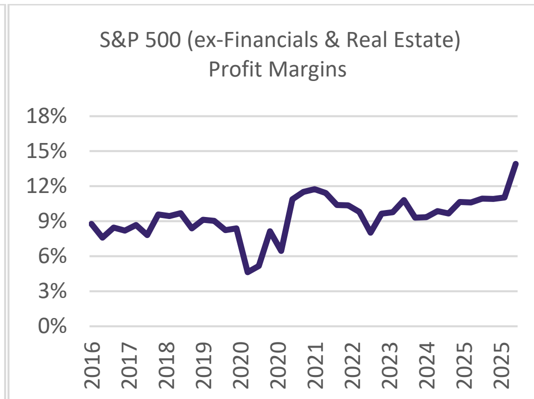


Source: Bloomberg LP

Technology companies continue to drive margins and earnings higher for the broader market. We believe this reflects a secular shift: many technology companies are more scalable and compelling businesses than traditional industrial companies, such as steel or auto manufacturers. At the same time, they are also benefiting from a cyclical lift tied to AI-related spending, and their stock prices have risen alongside earnings. That does not mean they are immune to market declines. The same attributes that make these businesses so attractive when revenues are growing can work in reverse when growth slows or contracts. In some cases, the downside can be more severe.

Markets were not uniformly higher; some big spenders are not participating in the rally.

Despite eye-popping earnings growth from the Magnificent 7, investors are increasingly focused on whether the largest AI spenders will earn an adequate return on their investments. Microsoft is down 23% year-to-date and 31% from its October 2025 high. Oracle is down 25% year-to-date and more than 50% from its September 2025 high. Meta is down 15% year-to-date and 28% from its 2025 high. If these large spenders slow their investment plans, the companies that have benefited most from that spending could also see their stocks come under pressure. This is another reason we continue to emphasize diversification.

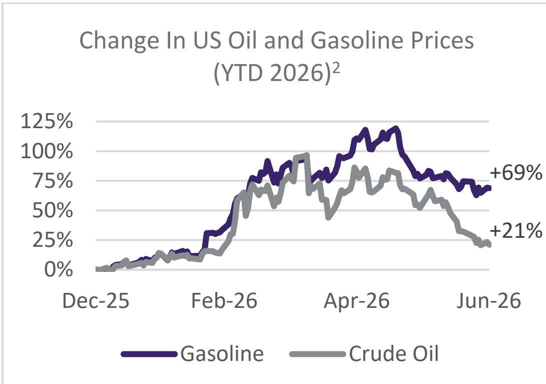
Resilient Growth Despite Geopolitical Risks

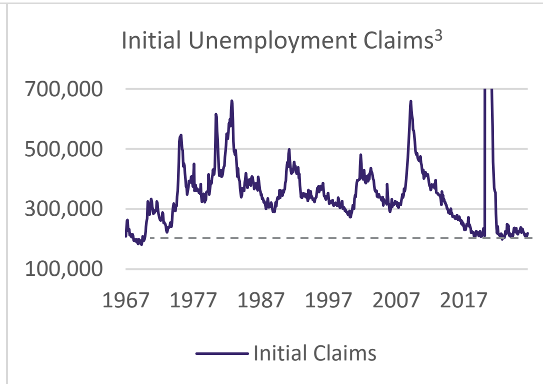
The economic impact from the war in Iran has been relatively muted thus far. Oil prices rose less than feared, and while gasoline prices did not recede as quickly, they have not meaningfully slowed the U.S. economy. At the same time, AI companies continued to show promising advances, prompting even higher capital spending with little apparent regard for the geopolitical backdrop.

Oil prices fell and tech spending accelerated, buoying economic growth.

Technology spending is driving much of the incremental growth in the economy, and the economy continues to expand. A slowdown in technology capital spending would likely have meaningful implications for both economic growth and equity prices, but there are few signs of that happening today.

In the meantime, initial unemployment claims reached lows not seen since 1969, despite the U.S. workforce having roughly doubled in size since then. The unemployment rate, at 4.2%, remains low and is below where it stood when the war began. Most risk measures continue to suggest the U.S. economy is performing well, with remarkably few signs of meaningful stress.





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EQUITIES

Equities were higher across the board while gold and bitcoin fell.

2nd Quarter – Indices Higher By 10% or More

- All indices, including the S&P 500 (+15.2%) were up double digits.
- Microcap Growth (+29%), Small Cap Growth (+26%), and Small Cap Core (+21%) were up the most, while Mid Cap Value (+13%), Mid Cap Core (+14%) and Large Cap Value (+14%) were up the least.
- Developed International lagged (+11%) while Emerging Markets led (+23%).
- Gold (-15%) and Bitcoin (-13%) were among the worst performers.

2026 YTD – Small Cap Outperformed Large Cap

- All indices were up, though the S&P 500 (+10.2%) was among the laggards.
- Microcap Growth (+24%), Small Cap Value (+23%), and Small Cap Core (+23%) were up the most, Large Cap Growth (+5%), Mid Cap Growth (+7%), and Large Core (S&P 500 +10%) were up the least.
- Developed International lagged (+10%) while Emerging Markets led (+23%).
- Gold (-7%) was down despite the outbreak of war with Iran; Bitcoin (-33%) has struggled since its October 2025 all-time high.

[2] Crude Oil is WTI; Gasoline is RBOB; NYMEX prices; Source: FactSet
[3] Unemployment Insurance Initial Claims. Source: FactSet

The new Federal Chair, Kevin Warsh, is expected to change how the Fed communicates.

BONDS

2nd Quarter – Modest Returns

- Bond returns were flat to up slightly in the quarter.
- The new Federal Reserve Chair, Kevin Warsh, seems intent on removing the Fed as a forecasting tool for short-term interest rates; he does not want to offer guidance to the extent it has for the last 20 years.
- Interest rates were up slightly (***See Table 1)***, but the interest earned by many higher coupon bonds covered much of the negative price impact.

2026 YTD – Quiet Thus Far

- Bond returns were roughly flat.
- Interest rates were up, particularly for the 2-year and 5-year Treasuries, which generally caused bonds maturing in that price range to fall, though money market funds and longer-term bonds generated higher returns.

Table 1

US Treasury Yields *(source: FactSet; numbers may not sum due to rounding)*

Maturity	12/31/25	3/31/26	6/30/26	2Q26 Yield Change	YTD Yield Change
3 Month	3.6%	3.7%	3.8%	**+0.1%**	**+0.2%**
2 Year	3.5%	3.8%	4.1%	**+0.3%**	**+0.6%**
5 Year	3.7%	3.9%	4.2%	**+0.3%**	**+0.5%**
10 Year	4.2%	4.3%	4.4%	**+0.1%**	**+0.2%**
30 Year	4.9%	4.9%	4.9%	**0.0%**	**0.0%**

Leadership changes in equity markets point toward advantages of diversification.

SUMMARY

Markets enjoyed a strong rally this quarter, supported by accelerating earnings growth, the beginning of peace talks, and continued positive data points on the technological and financial progress of AI companies. Small-cap stocks continued to lead. Concerns about the economic impact of a protracted war have eased since March, though the risks have not fully receded. AI leadership has also shifted somewhat, as several of the largest spenders, including Microsoft and Oracle, have lagged the companies benefiting from their investment. We continue to stress the importance of diversification in this environment.

FUN FACTS

- Small cap stocks (Russell 2000) had the best first half of a year since 1991.
- Weekly Initial Jobless Claims were 190,000 the week of April 20th, the lowest level since **1969**.
- Generative AI reached 53% adoption rate in the United States in three years.

DISCLOSURE

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