QUARTERLY NEWSLETTER 2026.Q2

July 5, 2026

After a brief respite from the seemingly endless bull market in Q1 this year, global stocks resumed their trek upwards. The S&P 500 Total Return Index returned 15.2% for the quarter, and, not to be outdone, the MSCI ACWI-EX US Total Return Index, which measures stock returns for non-US companies, returned a solid 14.5%[1]. Both indexes stood near all-time highs as of the end of the quarter. The tech-heavy Nasdaq Index surged, returning 21.4%, making up for its relatively lackluster performance over the year prior, also ending the quarter near an all-time high.

At the end of last quarter, there was no shortage of concerns for investors: military conflict with Iran and the subsequent closing of the Strait of Hormuz, surging oil prices, sticky inflation, higher for longer interest rates, a weakening labor market, etc. Certainly some of those concerns still persist, but there has been meaningful progress made on an agreement with Iran, even if it is unclear what the United States has received out of the entire conflict. Regardless, oil prices have eased, and the domestic labor market has proven resilient, with labor market data coming in stronger than expectations over the last quarter, despite the headlines and fears that AI is going to replace all human labor.[2]

The Federal Reserve with its new Chairman, Kevin Warsh, remains in a difficult position. Inflation is still elevated and with the recent tightening of the labor market, futures markets have now flipped from expecting rate cuts by year-end to now pricing in one or two rate increases by year-end.[3] We think this is a reasonable expectation given current conditions, and we are also encouraged by Mr. Warsh's apparent commitment to remaining independent from President Trump, who has repeatedly argued for rate cuts despite elevated inflation. Interest rates of longer maturity have already reacted to the incoming economic data, with the 10-year Treasury Rate increasing from below 4% near the end of Q1 to 4.4% as of quarter-end. Because interest rate movements and bond prices are inversely related, these higher rates meant the Bloomberg US Aggregate Bond Index returned a paltry 0.7% for the quarter, bringing its year-to-date return to 0.6%.

As we have said before, the stock market has a way of churning through bad news. If investors can stomach the volatility, it has paid to be an optimist. While no single set of factors can completely explain why the stock market moves up, down, or sideways, in addition to the prospect of an agreement with Iran, it is our opinion that the surge from equity markets this quarter was largely due to extraordinarily strong corporate earnings.

Year-over-year earnings growth for the S&P 500 companies in aggregate for Q2 was approximately 23.1%, which marks the second straight quarter of earnings growth above 20% and the seventh straight quarter with earnings growth above 10%. Topline growth estimates are equally impressive. For the quarter, analysts estimate revenue growth for the index was 12.3%, which would mark the strongest growth since Q2 2022. Given that the stock market tends to be forward-looking,

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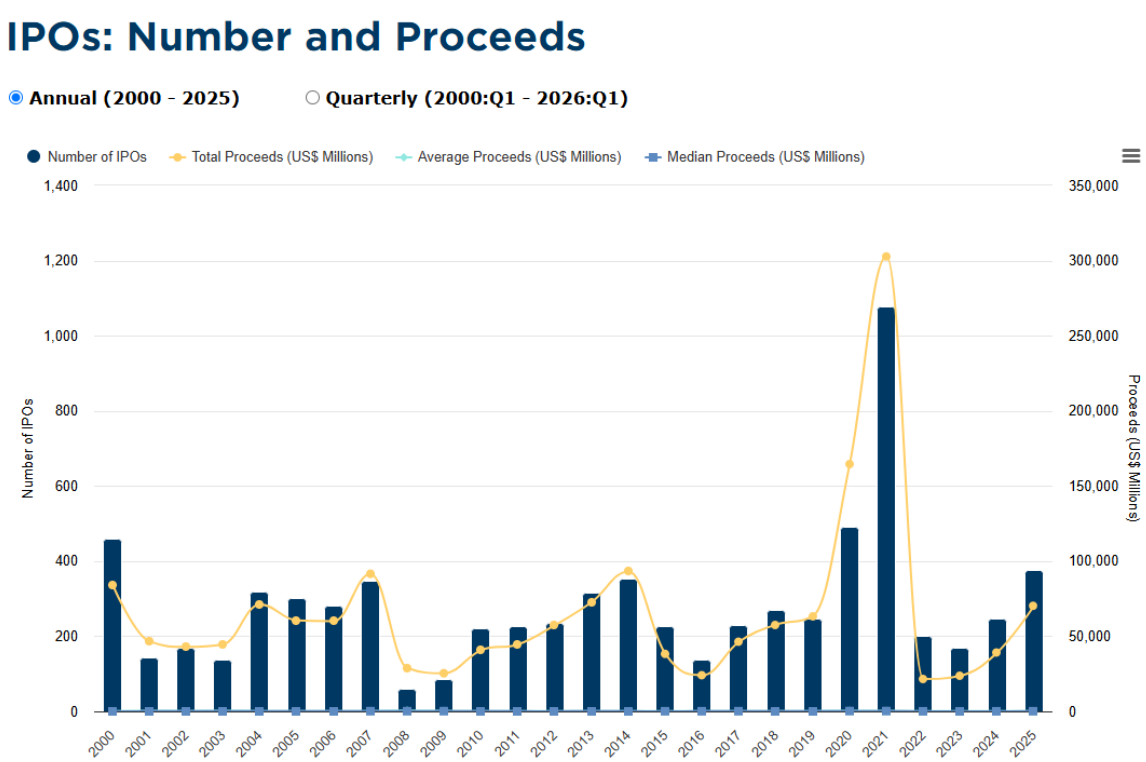
[1] All return data from YCharts
[2] US Bureau of Labor Statistics
[3] CME Group FedWatch

estimates for earnings over the coming quarters and years are crucially important. For the full-year 2026, analyst earnings expectations are for growth of an astonishing 24.0%, which implies increasing growth over the final two quarters of the year.[4] Even with the domestic stock market up 10.2% year-to-date, because corporate earnings have grown so quickly, the overall stock market now looks less expensive than the beginning of the year, at least looking at P/E ratios.

Even with the strength in corporate earnings, as always, we see risks in the market. Elevated valuations remain, but another trend has reared its head this year that we find concerning: a hot IPO market. Elon Musk's SpaceX went public this quarter and raised a record breaking $75B to go along with its mind-numbing $2T+ valuation. Total IPO proceeds have already amounted to $112.5B for the year, dwarfing the $44B total from all of 2025. In fact, the total for this year is already more than the last four years combined and is already approaching the $142.4B in 2021, which is the highest year on record.[5] Obviously, SpaceX is a bit of an outlier and is driving many of these statistics, but rumors are swirling about other blockbuster IPOs including Anthropic and Open AI in the pipeline. If these companies come to the public markets before year-end, 2026 will likely smash the previous IPO record.

IPOs are a necessary and healthy part of a functioning financial ecosystem, but if private companies begin rushing to become public and "cash out", we think that can be a signal of exuberance, which does not bode well for future returns. A chart of historical IPOs and S&P 500 returns confirms this concern[6]:



[4] Factset Earnings Insight
[5] Renaissance Capital, IPO Proceeds by Year
[6] SEC.gov: IPOs Number and Proceeds

Strong IPO markets immediately preceded negative returns in the S&P 500 in 2001, 2008, 2015, and 2022. We will caution that there is some reverse causality here. Companies will logically try to IPO during strong markets and will hold off if the stock market is weak. In other words, it is not the IPO market that is *causing* stock market corrections, but the correlation between IPO peaks and subsequent negative S&P 500 returns is difficult to ignore.

With all this in mind, we remain comfortable with our client portfolios. We are still constructive on stock markets outside the United States and find many pockets of the domestic stock market attractive. For example, software stocks, which include blue chip names like Microsoft, Salesforce, Adobe, and Workday, have taken a beating; the iShares Software Sector ETF has lost 14.3% year to date. We think the fear that AI will eliminate these companies within the next few years, which are deeply ingrained in corporate operations, is overdone. Analysts certainly agree, expecting Salesforce, whose stock has plummeted over 40% year to date, to grow earnings by double-digits in each of the next three years.[7] We are also limiting our exposures where we think valuations and risks aren't fully compensating investors (like many of the aforementioned IPOs), and we are confident our portfolios are positioned well for a variety of market outcomes.

As always, it is a privilege to manage your account and we are available for any questions or concerns that arise.

Sincerely,

Jack Dukeminier, CPA, CFA

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[7] YCharts

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