Q2 2026 In Review:



When Index Performance is Only Part of the Picture

What we saw:

The S&P 500 returned 15.20%[i] on a total return basis for the quarter ended June 30, 2026 (the "Quarter, Q2"). That is the best quarter the S&P 500 has had since Q2 2020[ii] when it was rebounding off the Covid-19 lows.[iii] From our vantage, it was not a rising tide that lifts all boats kind of quarter. The divergence in returns was even more extreme than what we saw in Q1.

The story began in Q1 which saw a rise in expectations for Artificial Intelligence ("AI") infrastructure spending, with major technology companies projecting record capital expenditures for 2026. Specifically, Amazon, Microsoft, Google, and Meta started hinting at 2026 capital expenditures approaching $700 billion, mostly to support AI infrastructure such as data centers. [iv]

Stocks remained down in Q1 amid the Iran conflict[v] and elevated oil prices. On April 1, President Trump stated on social media that the United States would consider a ceasefire proposal involving Iran, aspects of which were subsequently disputed by Iranian officials.[vi] One factor that may have contributed to the market rally was increasing investor optimism regarding geopolitical developments and AI-related infrastructure spending. On April 7th, the US announced a two-week ceasefire agreement with Iran that moved markets significantly.[vii] In our view, moderating geopolitical concerns allowed investors to place greater emphasis on rising expectations for AI-related infrastructure spending and corporate earnings.

The market rallied strongly over the next two months, with the S&P 500 having a total return of 15.9% between April 1st and June 2nd.[viii] The rally was influenced by the AI infrastructure stocks. The Semiconductors & Semiconductor Equipment industry group returned 49.75% during the Quarter. The Technology Hardware & Equipment industry group was up 30.44% during the Quarter. Both industry groups include companies that sell components used in AI data centers or equipment used to manufacture those components.[ix]

Our attribution analysis estimates (estimate because the analysis used the State Street SPDR S&P 500 ETF Trust (SPY) as a proxy) that nine companies[x] classified by us as AI-infrastructure-related, which made up about 3.4% of the S&P 500 Index at the beginning of the Quarter contributed approximately 5.7 percentage points of the S&P 500 Index's 15.2% total return during the Quarter. Said another way, a little over one third of the S&P 500 Index's return came from what started as a 3.4% weight in the index.[xi] Our attribution analysis estimates (based on SPY as a proxy) that the Information Technology sector contributed approximately 10.3 percentage points, representing roughly two-thirds of the S&P 500 Index's total return during the Quarter.[xii] All 10 of the other sectors underperformed the index during the quarter.[xiii]

That divergence in returns started to unravel a little bit towards the end of the Quarter. In June S&P 500 was down 95 basis points. Industrials, Health Care, Financials, and Utilities sectors rallied in June while Technology fell.[xiv]

The S&P 400 Midcap Index returned 14.5% during Q2 and the S&P 600 Small Cap Index returned 19.7% during the Quarter. Both picked up where they left off from Q1 and maintained their lead over the S&P 500 year-to-date. Both benefited from strong contributions from Technology stocks as well, but neither to the extent of the S&P 500.[xv] The S&P 400 Midcap and S&P 600 Small Cap indexes also saw strong contribution from Industrials, Health Care, Financials, and Real Estate.[xvi]

What we are looking at:

In our opinion, this feels like an unusual market environment with an interesting combination of fear and excitement. Whether the market feels weird or not, we believe sticking to fundamental principles of investing remains a reasonable approach.

For us, the most relevant principles today would be:

1. **Stick to your circle of competence.** This means understanding what you are investing in. If you can't explain what the company does or how it makes money, it probably isn't in your circle of competence.
2. **Seek to protect principal through disciplined security selection.** By this, we mean evaluating each investment with appropriate attention to both the price paid and the company's specific financial characteristics. First, your buy price matters, as purchase price and valuation can materially affect investment outcomes. Investing with a margin of safety in valuation may reduce—but cannot eliminate—the consequences of valuation errors or unexpected developments. We also consider balance-sheet strength, liquidity and debt obligations when evaluating a company's ability to navigate changing market and economic conditions.
3. **Invest in companies, not stocks.** This is a mindset more than anything. The question isn't "is the stock going up?" Instead, it is "is this a good company?". How does it stack up to its competitors? If it didn't exist today, would you start it?
4. **"Be greedy when others are fearful and be fearful when others are greedy." - Warren Buffet**[xvii] This one is tough in today's environment because it really depends on the industry and who you are talking to. Some are seeing an impending market crash and recession while others think we are at the beginning of an

unprecedented boom.[xviii] Still, it is a good gut check. Ask, "what is motivating me to do this?" If it is fear or fear of missing out, you might reconsider.

As we look ahead, we continue to believe U.S. equities offer attractive opportunities, but the equities you own that matter. Our belief is that a disciplined, company-specific approach remains especially important in the current environment.

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[i] LPL Research, *Market Insight Quarterly: Second Quarter 2026*, LPL Financial, 2026. Data as of June 30, 2026.

[ii] LPL Research, *Market Insight Quarterly: Second Quarter 2026*, LPL Financial, 2026. Data as of June 30, 2026.

[iii] S&P Dow Jones Indices, *Index Dashboard: U.S.*, June 30, 2026.

[iv] Meghan Bobrowsky, Drew An-Pham and Alana Pipe, "Big Tech's AI Push Is Costing a Lot More Than the Moon Landing," *The Wall Street Journal*, February 7, 2026.

[v] Bella Albrecht, "These Stocks Drove the Market's Losses in Q1 2026," *Morningstar*, April 1, 2026, https://www.morningstar.com/markets/these-stocks-drove-markets-losses-q1-2026.

[vi] Al Jazeera Staff, "Iran Denies Trump's Claim Iranian President Requested Ceasefire," *Al Jazeera*, April 1, 2026.

[vii] Matthew Adams, "Trump Announces 2-Week Ceasefire With Iran, Backing Down From Devastation Threat," *Stars and Stripes*, April 7, 2026.

[viii] Morningstar Direct. S&P 500 Index cumulative total return from April 1, 2026, through June 2, 2026.

[ix] Morningstar Direct. S&P 500 Semiconductors & Semiconductor Equipment Industry Group Index and S&P 500 Technology Hardware & Equipment Industry Group Index total returns for the quarter ended June 30, 2026. Data as of June 30, 2026.

[x] Micron Technology (MU), Intel Corp (INTC), Advanced Micro Devices (AMD), Applied Materials (AMAT), KLA Corp (KLAC), LAM Research Corp (LRCX), SanDisk Corp (SNDK), Seagate Technology Holdings (STX), Western Digital Corp (WDC)

[xi] Bloomberg and SRH Funds calculations. The nine companies included in the analysis were classified by the author as AI-infrastructure-related based on their business exposure to data-center components, semiconductor manufacturing equipment or related infrastructure. Beginning-of-quarter weights are as of March 31, 2026. Contribution-to-return figures cover April 1 through June 30, 2026. Figures are estimates, and totals may not sum due to rounding. The "AI-infrastructure-related" designation reflects the author's judgment and is not an official Morningstar, S&P Dow Jones Indices or GICS classification. This attribution analysis is based on estimates using SPY as a proxy for the S&P 500 Index and reflects the author's methodology. Different methodologies may produce different results

[xii] Bloomberg and SRH Funds calculations. The nine companies included in the analysis were classified by the author as AI-infrastructure-related based on their business exposure to data-center components, semiconductor manufacturing equipment or related infrastructure. Beginning-of-quarter weights are as of March 31, 2026. Contribution-to-return figures cover April 1 through June 30, 2026. Figures are estimates, and totals may not sum due to rounding. The "AI-infrastructure-related" designation reflects the author's judgment and is not an official Morningstar, S&P Dow Jones Indices or GICS classification.

[xiii] LPL Research, *Market Insight Quarterly: Second Quarter 2026*, LPL Financial, 2026. Data as of June 30, 2026.

[xiv] S&P Dow Jones Indices, *Index Dashboard: U.S.*, June 30, 2026.

[xv] LPL Research, *Market Insight Quarterly: Second Quarter 2026*, LPL Financial, 2026. Data as of June 30, 2026.

[xvi] S&P Dow Jones Indices, *Index Dashboard: U.S.*, June 30, 2026. The S&P MidCap 400 Index returned 14.47% during the second quarter and 17.34% year to date. The S&P SmallCap 600 Index returned 19.70% during the second quarter and 23.90% year to date, compared with respective S&P 500 returns of 15.20% and 10.21%.

[xvii] Bibhu Pattnaik, "Warren Buffett's Investment Philosophy: 'Be Fearful When Others Are Greedy and Be Greedy When Others Are Fearful,'" Yahoo Finance, January 25, 2026, https://finance.yahoo.com/news/warren-buffetts-investment-philosophy-fearful-213107548.html

[xviii] Bank for International Settlements, "Progress and Peril," *Annual Economic Report 2026*, June 28, 2026. The report discusses the risk that a reversal in AI-related investment could produce an investment bust, market correction and broader recessionary effects.
J.P. Morgan Global Research, "Mid-Year Market Outlook 2026: The Tug of War Continues," July 1, 2026. The report describes the global economic expansion as being on solid ground and maintains a constructive outlook for equities, supported in part by resilient consumption and AI-driven capital spending.

Definitions

Artificial Intelligence (AI): Computer systems and technologies designed to perform tasks that commonly require human intelligence, including learning, reasoning, pattern recognition and language processing.
AI Infrastructure: For purposes of this commentary, data centers, computing equipment, semiconductors, semiconductor manufacturing equipment, networking equipment, power systems and related technologies used to develop, train or operate artificial-intelligence systems. "AI-infrastructure-related" is an author-defined classification and is not an official Morningstar, S&P Dow Jones Indices or GICS classification.
Capital Expenditures: Funds used by a company to acquire, construct or improve long-term physical or technological assets, such as data centers, equipment and infrastructure.
Contribution to Return: An estimate of how much a security, industry or sector added to or detracted from an index's or portfolio's overall return during a specified period. Contribution is influenced by both the investment's weight and its return.
Industry Group: A collection of companies engaged in similar or related business activities. An industry group is generally a more narrowly defined classification than an economic sector.
Information Technology Sector: A sector composed generally of companies involved in software, technology hardware, semiconductors, semiconductor equipment and technology-related services.
Margin of Safety: The difference between an investor's estimate of a security's intrinsic value and its market price. Estimates of intrinsic value are subjective, may be incorrect and do not prevent investment losses.
Percentage Point: The arithmetic difference between two percentage values. For example, an increase from 10% to 15% is an increase of five percentage points.
S&P 500 Index: A market-capitalization-weighted index designed to measure the performance of 500 leading large-capitalization companies in the United States.
S&P MidCap 400 Index: An index designed to measure the performance of mid-capitalization U.S. companies.
S&P SmallCap 600 Index: An index designed to measure the performance of small-capitalization U.S. companies.
Sector: A broad classification of companies that participate in a similar segment of the economy.
Total Return: Investment performance that reflects both changes in value and the reinvestment of dividends or other distributions during the measurement period.

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Past performance does not guarantee future results. Index performance is shown for illustrative purposes only. Indexes are unmanaged, do not reflect management fees, transaction costs or other expenses, and are

not available for direct investment. One cannot invest directly in an index. Total returns assume the reinvestment of dividends and other distributions.

The indexes discussed differ in their market-capitalization exposure, constituents, sector allocations, construction methodologies and risk characteristics. Accordingly, comparisons among indexes may not represent the results of a particular investment portfolio or investment strategy.

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The designation "AI-infrastructure-related" reflects the author's judgment regarding companies believed to have meaningful exposure to data centers, computing equipment, semiconductors, semiconductor manufacturing equipment or related infrastructure. It is not an official Morningstar, S&P Dow Jones Indices or GICS classification. Other analysts may classify the same companies differently.

Contribution-to-return figures are estimates based on security or sector weights and returns during the periods presented. Results may differ depending on the data source, calculation methodology, weighting convention and treatment of dividends, corporate actions and rounding.

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