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First Half Review and Investment Outlook

July 2026

As we enter the second half of the year, global economies and stock markets have remained resilient despite heightened uncertainty, a historic oil shortage, and concerns about an artificial intelligence (AI) bubble. After a volatile start that saw a decline of almost 5% through the end of the 1st quarter, the S&P 500 index rebounded swiftly and delivered strong first-half returns. The recovery has been supported by stable employment, tax refunds, and strong earnings driven by technology infrastructure investment. Continued AI-related capital spending remains a key driver of market gains, helping offset inflationary pressures, higher than expected interest rates, and labor market concerns.

While technology remains the primary driver of earnings growth, gains have broadened across sectors, with S&P 500 earnings projected to rise nearly 25% this year, according to FactSet[1]. Should this earnings level be achieved, it would represent a steep increase from the 13% profit growth recorded in 2025.

Major Asset Class Indices[2]	Total Return First Half 2026	Total Return Last 12 Months
S&P 500 (U.S. Large Cap Stocks)	+10.2%	+22.3%
MSCI EAFE (Foreign Developed Large Cap Stocks)	+9.4%	+20.2%
Bloomberg Aggregate Bond Index (U.S. Investment Grade Bonds)	+0.2%	+2.7%
US Short-Term Treasury Bills (Money Market Fund)	+1.8%	+3.8%

Outside the U.S., broad international equity markets delivered solid first-half returns, with foreign stocks performing roughly in line with U.S. equities, supported by steady growth, attractive valuations, and exposure to the AI semiconductor supply chain. Heavy investment by the so-called technology hyperscaling companies continues to drive demand for chips and data center infrastructure, benefiting foreign markets such as Japan, Taiwan, and South Korea.

Investors should keep in mind that capital investment cycles have unique characteristics resulting in, at the aggregate index level, an accounting mismatch between the timing of hardware sales recognized by the semiconductor and memory chip markets and the fact that investment spending at hyperscalers is not fully expensed today but rather capitalized over an extended period. These and other factors can result in an earnings bubble. Not surprisingly, thus far in 2026, momentum and high-beta stocks (including many cyclical semiconductor stocks) have driven gains in the U.S. equity market, outperforming on a relative basis other factors — including those we favor as fiduciary investors, such as lower volatility, diversification, and defensiveness – which still delivered solid positive returns.

In the United States, real GDP is projected to grow by 2.3% this calendar year, supported by strong productivity gains and significant capital investment. Consumer spending remains resilient, bolstered by a relatively healthy labor market and the impact of recent corporate and personal tax cuts. At the same time, investors continue to debate whether AI-related spending —and, by extension, the U.S. and several foreign stock markets— constitutes an investment bubble[3]. By most reasonable measures and in the context of prior surges in investment, AI capital expenditures have likely entered bubble territory. However, financial exuberance can persist for extended periods, and predicting when it will reverse course is

[1] FactSet Earnings Insight Report from July 10, 2026.

[2] The S&P 500 Index is a broad measure of U.S. large capitalization stocks; the MSCI EAFE Index (Net) is a broad measure of mid-large capitalization stocks in developed international markets; the Bloomberg U.S. Aggregate Bond Index is a broad index of U.S. investment grade bonds; the 90-Day U.S. Treasury Bill represents short-term government money market funds. Returns are provided by sources deemed to be reliable but are subject to change or revision.

[3] "Disappointment in returns could trigger a sudden pullback in financing and turn the capex [capital expenditure] boom into a protracted investment bust, with potential knock-on effects on financial conditions." Bank of International Settlements Economic Report, June 28, 2026

exceptionally difficult. Research from Rockefeller International (among others) suggests that rising interest rates[4] are the primary catalyst for investment bubbles to unwind.

For this reason, we are particularly attuned to Federal Reserve policy under its new chair Kevin Warsh and movements in the benchmark 10-year U.S. Treasury Note (USTN). Mr. Warsh stated during his first press conference as chair that inflation remains too high and has repeatedly expressed concerns that the Federal Reserve's balance sheet is too large. Meanwhile, the yield on the 10-year USTN fell briefly to just under 4% at the end of February before closing June at 4.4%. This increase reflects bond investors' concerns that inflation may remain elevated and that the Federal Reserve could raise short-term interest rates to address it.

Investors collectively appear to view these risks as manageable or perhaps simply beyond the increasingly short time horizon of the current momentum-driven investment climate. Because U.S. large cap stocks have performed extremely well, expectations, valuations, and earnings are all now high. When any investment delivers exceptionally strong returns[5] – especially over an extended period – it is easy to get caught up in the excitement. Balancing the transformative potential of AI against the risk of a correction in AI-related spending remains one of the most important challenges for equity investors.

We remain moderately cautious about economic and equity prospects for several reasons. Elevated expectations continue to depend heavily on AI-driven spending, growth, and returns, while moderate- to low-income households continue to face financial pressure, and there is unlikely to be a repeat of the recent level of fiscal and monetary stimulus any time soon. In addition, inflation remains above central bank targets across much of the developed world.

We believe that over the long-term successful investors keep an eye firmly on two things. The first is valuation, as studies have shown that the price one pays for a stock (as expressed as a multiple of earnings) is a good predictor of long-term returns. The second is risk. As share prices rise, they become increasingly vulnerable, and disappointments more difficult for the stock market to tolerate.

Within individual stock portfolios (where appropriate) our approach is to maintain disciplined (and not overly concentrated) exposure to leading beneficiaries of the AI trend, emphasizing high-quality companies with strong balance sheets and cash flows. While we recognize that this positioning may lag relative benchmarks in the short term, we believe our risk framework and approach necessitate it.

We expect volatility to remain elevated and believe investors should moderate return expectations while taking advantage of attractive lower-volatility alternatives, including U.S. Treasuries and money market funds. Our investment approach, centered upon risk-management, has in this market cycle led to strong absolute, but more modest relative returns. Nevertheless, we believe this is prudent given that risks have increased materially. Long-term success depends upon managing risk, protecting capital, and maintaining valuation discipline. Above all, we remain focused on our goal of participating in market rallies while limiting exposure to significant declines.

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[4] Ruchir Sharma, President, Rockefeller International, appearing on the *Financial Times* Unhedged Podcast, June 23, 2026.

[5] Looking at the intermediate to longer-term, we do not believe that the next decade is likely to see a repeat of the 15% annualized return produced by the S&P 500 over the last ten years, nor of the recent outsized gains of a concentrated set of technology stocks.