NATIONAL FINANCIAL NETWORK

# Q2 2026 Client Newsletter

## Markets, Uncertainty, and the Limits of Prediction

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July 2026

> *"It's tough to make predictions, especially about the future."*
> *— Yogi Berra*

We open with Yogi every time it feels most relevant. This quarter, it feels especially relevant. Heading into 2026, the predictions were stacking up: The dollar was losing its reserve status, rate cuts were coming, gold was headed higher, and the AI spending boom was about to run out of road. As you'll see below, nearly every one of those calls missed. Markets have a way of humbling even the most confident forecasts.

Below is a look at what happened in the second quarter and the first half of 2026. Both the good news and the risks.

## Market Recap-Q2 & First Half 2026

The numbers were strong by almost any historical measure. Most major market indexes hit all-time highs during the quarter, with the S&P 500 and Nasdaq posting their best quarterly performance since the second quarter of 2020, in the middle of a pandemic, while navigating a war in the Middle East, one of the largest oil shocks in recent history, and persistent questions about whether the AI spending boom is sustainable.

A few numbers worth highlighting:

- About 85% of S&P 500 companies beat first-quarter earnings expectations, the highest percentage since 2021, according to FactSet.[1] Companies are now expected to report a 22% jump in second-quarter profits and 23% growth for the full year. Profit margins are near all-time highs.

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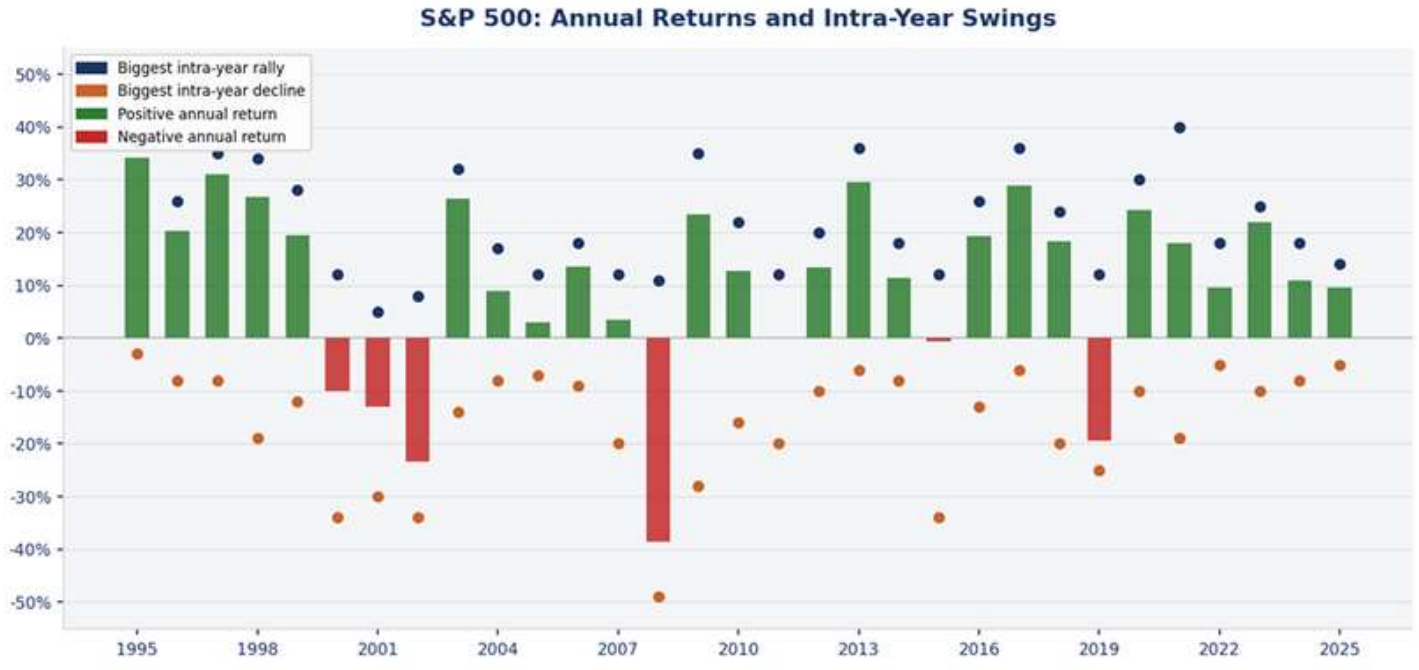
- Smaller U.S. companies had an exceptional first half. The Russell 2000, the benchmark index for smaller domestic stocks, posted its best first-half performance since 1991, gaining roughly 22%.[2] That suggests the rally is broadening well beyond the handful of AI giants that have driven most of the market's returns for the past two years. Earnings growth forecasts for smaller companies have climbed to 38% for 2026, up from 23% at the start of the year, according to Bank of America.[3]

- Oil, which spiked above $113 per barrel at the height of the Iran conflict, has retreated to near pre-war levels.[4] The U.S. is the world's largest oil and gas producer at about 22% of world supply, which is part of why the shock was absorbed faster than many expected.

- Tariffs, which rattled markets early in the year, have come down from a peak effective rate of around 11% in late 2025 to roughly 7% today, and were partially struck down by the courts.[5]

- The chart below captures something important about how markets work: every year, even strong ones, contain meaningful turbulence along the way. The red dots (the intra-year declines) are not the story. The green bars are.




Source: Standard & Poor's, Bloomberg Finance L.P., Fidelity Investments. Past performance is not a guarantee of future results.

On the other hand, this is not a market without risk. The same market that posted those strong numbers is also among the most expensive it has been since the dot-com era by several measures. A possible interest rate increase later this year is real, not theoretical - more on that below. In addition, the war with Iran remains a wildcard.

## On the Limits of Prediction

One of the most useful things we can offer is honesty about what nobody knows. This quarter gave us four vivid illustrations.

**Alan Greenspan and "Irrational Exuberance"**

We lost Alan Greenspan on June 22nd at the age of 100. He served as Federal Reserve Chairman for nearly 19 years and was known admiringly as "the Maestro." On December 5, 1996, he gave perhaps the most famous market warning in history, asking whether "irrational exuberance" had pushed stock prices dangerously high.[6]

Here is what happened next. The S&P 500 was at 749 when he gave that speech. Anyone who sold the next day forfeited a 105% return before the bubble ultimately collapsed more than three years later. The market gained 33% in 1997, 28% in 1998, and another 21% in 1999, more than doubling before it finally burst.[7] And here is the kicker: when the dust settled, the S&P 500 bottomed in 2002 at around 776, actually higher than where it stood when Greenspan sounded the alarm. Even the most connected economic mind of his generation couldn't time it.

**Eugene Fama: "Nobody Knows That"**

Barron's recently published an interview with Eugene Fama, 87, the University of Chicago economist who wrote the foundational theory of how stock prices work and is considered the intellectual father of index investing.[8] The University of Chicago's Booth School has produced more Nobel Prize winners in economics than any other business school in the world. The reporter asked Fama a simple question: Do you think the market is overvalued?

> *"Nooooo… Nobody knows that." — Eugene Fama, Nobel Laureate*

That is not a dodge. That is the honest answer from the man who spent his career studying exactly this question.

**Gold: When the Obvious Trade Goes Wrong**

Gold entered 2026 with everything seemingly going in its favor: a war in the Middle East, an ongoing conflict in Ukraine, and inflation running well above the Federal Reserve's target. It hit an all-time high of $5,602 per ounce in January.[9] And yet, gold is down roughly 5–6% year-to-date and nearly 20–25% from that peak. The reason is almost a paradox: today's inflation that should drive gold higher is also pushing the Fed to keep interest rates elevated, and when rates are high, investors earn meaningful returns from bonds and cash, making a non-yielding asset like gold less attractive by comparison. The setup looked obvious. The outcome was the opposite.


Source: Bloomberg. Past performance is not a guarantee of future results. Approximate figures for illustrative purposes.

**The Dollar: The Decline That Didn't Happen**

For much of 2025, the financial press was filled with headlines about the dollar losing its status as the world's reserve currency. The dollar fell over 10% in the first half of 2025, its worst performance for that period in over 50 years.[10] Countries looking to reduce their dependence on the dollar were supposedly building alternative payment systems. Today, the U.S. dollar has hit a 13-month high.[11] It still accounts for approximately 60% of global foreign exchange reserves.[12] Nobody who wrote those headlines in 2025 predicted this outcome.

## The Federal Reserve — A Surprise Reversal

Heading into 2026, markets were pricing in one, maybe two interest rate cuts. The thinking was straightforward: inflation was cooling, a new Fed chair was coming in who was expected to favor lower rates, and the economy seemed ready for some relief.

Kevin Warsh, President Trump's preferred pick for Fed chair, who Trump had pushed for hoping rates would come down, was confirmed on May 13th.[13] His first Federal Open Market Committee meeting (the group of officials that sets U.S. interest rate policy) concluded on June 17th. The committee held rates steady at 3.50–3.75%, but the message pointed in the opposite direction of what markets had expected:

- The median Fed official now projects rates ending 2026 at 3.8%, implying at least one rate increase before year-end.[14]
- Nine of 18 officials project at least one increase; six project two.
- The Fed raised its year-end inflation forecast to 3.6%, up sharply from 2.7% just three months earlier.[15]

Warsh opened his first press conference with: "I am pleased to report that members of the FOMC are unambiguous and unanimous, this committee will deliver price stability." Price stability, in Fed language, means fighting inflation, not cutting rates. The president who wanted lower rates got a Fed chair who may raise them. Markets fell roughly 1% on the news.[16] Nobody predicted that outcome heading into the year.

# Is This a Bubble?

The comparison to 1999 is everywhere right now, and it is not entirely wrong. The five largest companies in the S&P 500 now account for 30% of the entire index, the greatest concentration in half a century.[17] Stock valuations by several measures are as stretched as they have been since the dot-com era. But the comparison has important limits:

- In March 2000, investors were paying roughly 60 times a company's expected annual earnings to own the Nasdaq. Today the S&P 500 trades at roughly 23 times expected earnings.[18] Expensive, yes, but not the same universe as 1999.

- The single biggest difference is who is leading the rally. In 1999, the largest gainers were companies promising future profits - Pets.com, Webvan, companies with no earnings and no clear path to any. Today's leaders - Microsoft, Nvidia, Apple, Google, are generating enormous real profits. Net margins for today's big five are 65% better than their 1999 counterparts, according to J.P. Morgan Asset Management.[19]

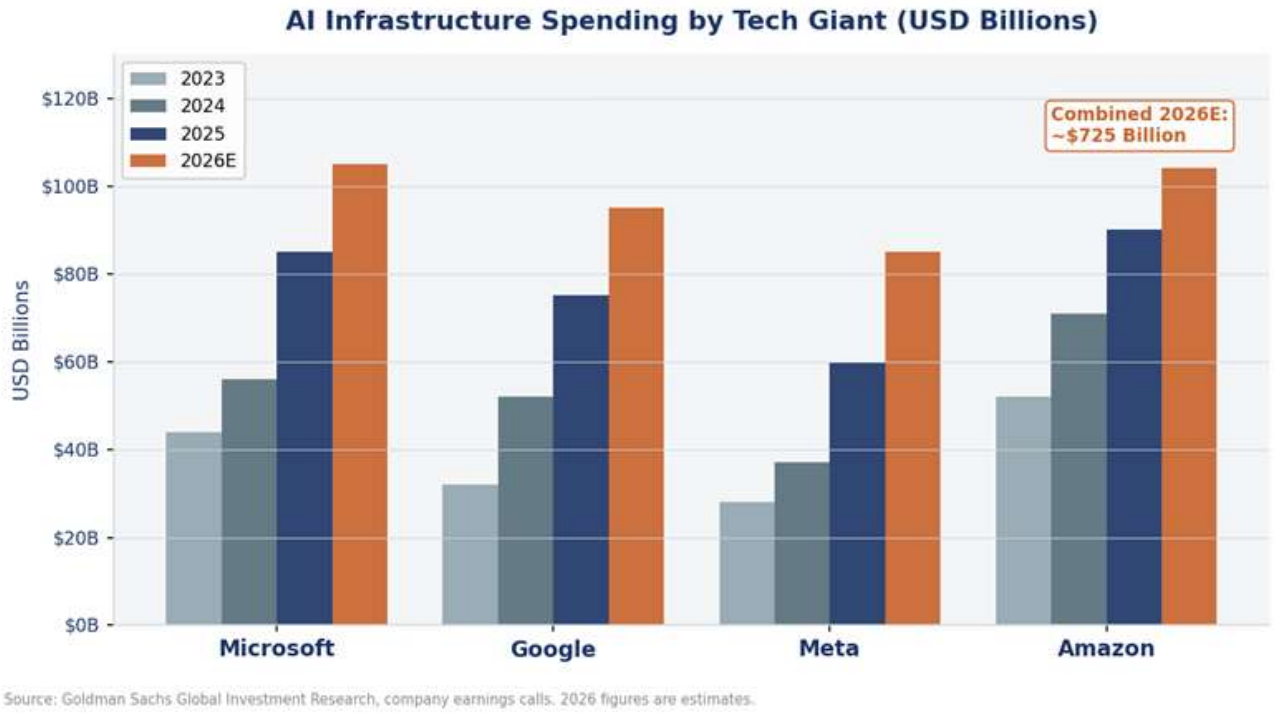
- Consider Nvidia versus Cisco in 1999. Cisco peaked at a price-to-earnings ratio of 472, meaning investors were paying $472 for every $1 of earnings. Nvidia, despite its extraordinary run, trades at a fraction of that, and unlike Cisco, its earnings growth has actually kept pace with its stock price.[20]

The bottom line: Valuations deserve respect, and concentration is a real risk. But the companies driving this market are profitable and cash-generative in ways that 1999's dot-coms simply were not. The greater near-term risk is whether earnings hold up, and historically, earnings fall when the economy tips into recession, which is not the current base case.

# AI: A Historic Spending Wave and Three Landmark IPOs

### What the Tech Giants Are Spending

Microsoft, Google, Meta, and Amazon will spend roughly $725 billion on AI infrastructure in 2026, up 77% from approximately $410 billion in 2025, nearly double the year before, according to Goldman Sachs.[21] To put that in context: the entire dot-com era telecom buildout, all of Lucent, Nortel, WorldCom, and the rest, deployed roughly $500 billion between 1996 and 2000, measured in today's dollars. The current AI buildout will exceed that in a single year.




This spending is also contributing to inflation in ways that are easy to overlook. Meta, for instance, has attributed a significant portion of its 2026 spending increase to rising chip and component prices.[22] When the largest companies in the world experience that kind of cost increase, it does not stay contained. The central question markets have not fully answered: are these companies spending ahead of real demand, or racing to keep up with it? For now, the demand appears real. Microsoft has $80 billion in cloud orders it cannot yet fulfill.[23] But at $725 billion per year, a slowdown in how quickly businesses actually adopt AI, currently only about 19% of U.S. companies have deployed it, would create a significant problem.

This is also one reason we generally favor broad-based funds and exchange-traded funds over individual stock positions. When a single company stumbles, or when a wave of new listings pulls institutional money away from existing holdings, diversification means no single name can derail a portfolio.

**Three IPOs That Could Reshape the Market**

The coming months will bring one of the most consequential waves of companies going public in financial history. Three companies, collectively valued at roughly $3.6 trillion, are preparing to list on public markets within a relatively short window of each other:

- SpaceX (Nasdaq: SPCX) went public in June at a $1.75 trillion valuation, nearly double Walmart's value, yet while SpaceX has yet to turn a profit, Walmart made over $22 billion last year. The stock surged initially but has since pulled back meaningfully from its highs, a reminder that even the most anticipated listings carry risk once public investors set the price.

- OpenAI, the maker of ChatGPT, filed preliminary paperwork to go public in June but is now considering waiting until 2027 for its listing, according to the New York Times.[25] The company generates over $2 billion in monthly revenue but is expected to operate at a loss through the end of the decade. CEO Sam Altman has made clear he will not accept a valuation below $1 trillion, and is willing to wait for markets to come to him.

- Anthropic, the maker of Claude, filed in June and is targeting a late 2026 listing at a valuation of approximately $965 billion following a major funding round.[26]

For scale: the entire U.S. stock market raised just $45 billion in new listings in all of 2025.[27] These three offerings alone could demand multiples of that from investors. When large institutional investors buy into major new listings, they often raise the cash by selling existing holdings, which could create some headwinds for current large technology positions, even for investors who never buy a single share. Again, this is where broad diversification through funds does its work quietly.

And tying back to our opening theme: OpenAI is targeting a $1 trillion valuation while projecting losses through the end of the decade. Whether that holds up in public markets is a question nobody can answer with confidence. Not Fama. Not Greenspan. Nobody.

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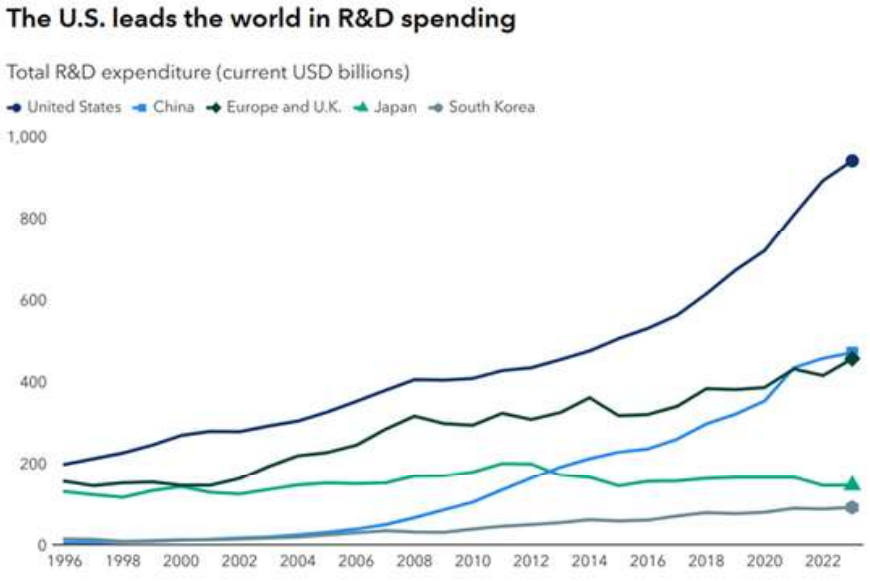
# America at 250 — Still the World's Innovation Engine

As the country marks its 250th birthday, it is worth stepping back from the daily noise to note something that often gets lost in the headlines: by almost every measure that matters for long-term investors, the United States remains the world's dominant economic and innovation force, and in several important areas, the gap is widening.

For several years, a chorus of voices warned that U.S. exceptionalism was ending. The dollar was losing its reserve status. China was closing the gap. It didn't last. In 2024, the U.S. seized the top spot for startup funding again, outpacing all other countries combined, and last year the gap grew wider.[28] The top 10 global AI investors directed $96 billion into U.S. AI companies last year, compared with just $1.9 billion across all other countries combined, according to the Wall Street Journal.[29]

**Reason 1: The U.S. Leads the World in Research Spending**

U.S. research and development spending now approaches nearly $1 trillion annually, roughly double what China spends and more than double Europe and the U.K. combined, according to the World Bank.[30] That gap has widened every single year since 1996. The reasons are structural: the world's deepest capital markets, elite universities that produce and attract global talent, and an ecosystem that moves ideas from a lab to a funded company faster than anywhere else.




Sources: Capital Group, World Bank: World Development Indicators. Figures shown are annual from 1996 to 2023, using latest available data as of June 30, 2026. Research and development (R&D) spending includes both capital and current expenditures across business enterprise, government, higher education and private nonprofit sectors.

**Reason 2: Americans Adopt New Technologies Early and Always Have**

There is a second reason the U.S. tends to win technology races that does not show up in any spending chart: Americans adopt new technologies faster than almost anyone else, and that early adoption creates the feedback loops, real customers, real revenue, real iteration, that allow American companies to scale before foreign competitors reach the starting line.

The pattern runs through U.S. history. The country built out its railroad network faster than any other nation in the 19th century. When the telephone arrived, Americans were among the first to wire their homes. When the personal computer emerged from Silicon Valley in the late 1970s, it was American households and businesses that drove mass adoption. AI is following the same script. Over 61% of American adults have used AI tools in the past six months, nearly one in five every single day.[31] The three companies preparing the largest stock market debuts in history are all American. The four companies spending $725 billion on AI infrastructure this year are all American.

Betting against American innovation has been a losing trade for 250 years. There is no compelling evidence that is about to change.

# Looking Ahead

The second half of 2026 will be defined by a few key questions. Can earnings growth justify current valuations? Will the Fed raise rates, and if so, by how much? How do new major stock listings affect capital flows across the broader market? Does oil stay contained, or does the situation near the Strait of Hormuz re-escalate?

We do not know the answers. Neither does anyone else. What we do know is that portfolios built for a range of outcomes, rather than a single confident prediction, tend to navigate uncertainty better than those positioned around a specific call.

Yogi had it right. Predictions are hard, especially about the future. The job is not to predict. The job is to be prepared.

If anything in this letter prompts a question about your specific situation, please reach out.

# Your Advisory Team

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# Disclosures

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Market data provided by: J.P. Morgan Asset Management, Wall Street Journal, Barron's, Standard & Poor's, The Economist, Capital Group.

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