

Market Review & Outlook

July 2026

What if the world's leading superpower initiated what could become its most consequential military conflict since World War II? And what if financial markets, after a brief bout of volatility, largely shrugged? That was effectively the backdrop for the second quarter, as geopolitical risk reasserted itself in dramatic fashion, only to be absorbed with surprising resilience by global equities and risk assets. At one point, the situation carried the hallmarks of a potential energy shock reminiscent of the 1973 oil crisis, with supply disruption risks that could have meaningfully altered the inflation outlook. Yet aside from a few weeks of elevated prices, oil failed to sustain a breakout, and gold – typically a reliable geopolitical hedge – confounded many by lagging expectations. While tensions remain unresolved and

ductor stocks took off like a rocket and had their best calendar quarter in history, with the Philadelphia Semiconductor Index gaining 88% during Q2. Memory and storage stocks also continued their remarkable performance, with SanDisk, Micron Technology, and Western Digital ranking as three of the four best-performing names in the S&P 500 during the first half of the year, with each gaining at least 270%. Over the 1-year period ending 6/30, SanDisk gained over 4,900%.

These outsized gains are being driven mainly by the AI-driven data center and infrastructure build-out, but it's not only that; it's the combination of AI demand, supply constraints, pricing power, and a broader "picks-and-shovels" narrative around compute, memory, storage, and equipment. Even so, the parabolic rise in this group of stocks does raise

questions about the sustainability of the move, given that chips and memory have historically been very cyclical businesses.

While leading AI firms such as OpenAI and Anthropic are now generating multi-billion-dollar revenues, leaked financials and investigative work suggest that current growth is being financed alongside substantial losses and unprecedented infrastructure spending, with long-term unit economics still a work in progress. At the same time, the hyperscalers (Microsoft, Alphabet, etc.) are deploying enormous AI-related capex, yet they do not break out 'AI revenue' as a distinct segment,

leaving investors to infer the contribution of generative AI from aggregate cloud and software results rather than explicit disclosure. We view these tensions not as a reason to dismiss AI outright, but as a reminder that today's optimistic narratives sit atop business models that are still evolving and may prove more cyclical or capital-intensive than headline growth figures imply.

One of the biggest stories of the past quarter was the widely anticipated SpaceX IPO. SpaceX's June IPO was the largest in history, pricing at \$135 per share and quickly rallying nearly 20% on its first

Index	June 2026	2nd Quarter	Year-to-date	One Year	Description (what the index is comprised of)
S&P 500	-0.95%	15.20%	10.21%	22.32%	Large Cap US Stocks
DJ Industrial Average	2.71%	13.38%	9.76%	20.65%	Large Cap US Stocks
Nasdaq Composite	-2.75%	21.60%	13.13%	29.48%	Large & Midcap US Tech Stocks
Russell 1000 Growth	-2.68%	16.74%	5.33%	17.71%	Large Cap US Growth Stocks
Russell 1000 Value	2.27%	13.87%	16.26%	27.12%	Large Cap US Value Stocks
Russell 2000 Growth	3.55%	25.71%	22.18%	38.74%	Small Cap US Growth Stocks
Russell 2000 Value	3.97%	17.19%	22.99%	43.01%	Small Cap US Value Stocks
MSCI EAFE	0.07%	10.82%	9.44%	20.23%	Foreign Developed Market Stocks
MSCI Emerging Markets	-1.41%	24.05%	23.85%	43.51%	Emerging Markets Stocks
S&P US High Yield Corporate Bd	0.25%	2.47%	2.00%	5.74%	US High Yield Corporate Bonds
Bloomberg US Aggregate Bond Index	0.24%	0.67%	0.62%	3.79%	US Treasuries, mortgage-backed, investment grade corporate bonds

the possibility of renewed kinetic escalation could still reprice energy and commodity markets, investors spent much of the quarter looking through the noise rather than reacting to it. For a more detailed look at how various asset classes performed over the past year, please refer to the table above.

While the market rally has broadened out in recent weeks and rotated into non-technology names, the strong April-May advance was largely driven by a narrow group of semiconductor, memory, and AI equipment stocks. Near the end of March, semicon-

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day of trading, which briefly pushed its market value above \$2 trillion and into the ranks of the world's most valuable companies. Since then, the stock has given back part of those initial gains, a pattern that's common in high-profile technology offerings as early investors rebalance and the market begins a more deliberate process of price discovery. Recent trading in SpaceX shares has been volatile, with the stock oscillating between its post-IPO highs and levels closer to the opening price but remaining above the original issue price. We view this as consistent with the normal consolidation phase after a blockbuster listing, rather than a clear signal about the company's long-term prospects.

Going forward, SpaceX's prospects will hinge on its ability to execute across multiple capital-intensive fronts – launch services, satellite connectivity, and AI infrastructure – while demonstrating that these platforms can support durable cash flows at the valuation implied by the IPO. No doubt, the company sits at the center of several secular growth themes, but investors should expect continued volatility as the market tests how much of that optimism is already reflected in the share price.

Another big story was the nomination of new Fed Chair Kevin Warsh. Based on his previous six-year stint as a Fed governor, expectations are that Warsh will be more of an inflation hawk than his predecessors, which are at odds with the President's stated desire to get interest rates down quickly. Given that the Consumer Price Index (CPI) has been above the Fed's 2% target for 62 consecutive months, and that May CPI was 4.2%, rate cuts were never a realistic short-term probability. Indeed, the futures market is signaling a decent probability of a rate hike later this year, even though the inflationary impulse in the economy has dissipated recently as the price of oil has come down to pre-war levels. This makes sense, and Mr. Warsh seems to agree. At the presser following the first FOMC meeting with his as chair, he concluded his brief comments saying, "the Committee will deliver price stability." Inflation hasn't been at 2% or lower since 2020 during the pandemic, so we shall see.

Looking ahead, major Wall Street firms are bullish as usual, with year-end forecasts for the S&P 500 clustering between current levels (7,483.24) up to the low 8,000 range. So, not overly bullish, but if the market finished the year at 8,000, that would tack on another ~7% gain when the S&P 500 is al-

ready up 10% this year on the heels of three years of strong market returns. To be fair, corporate earnings have been very strong this year, the best since the economy recovered from the pandemic in 2021. Most forecasts have the S&P 500 earnings growing at least 20% in 2026, lending credence to the bullish view. Nonetheless, by any measure, the US stock market is among the richest valued in history, and comparisons to the tech bubble of the late 1990s persist.

As we have stated numerous times in these missives, market valuations are by no means a market timing indicator, though they do provide insight into future returns. Historically, when markets were highly valued, 5–10-year forward returns were generally poor. The economy is mostly doing fine, which should be supportive of markets in the near term, but this is more a question of where you are in the income spectrum. The upper income cohort continues to do well, but lower income cohorts are struggling, with credit card and car loan delinquencies at the highest levels since the 2008-09 financial crisis. Aggregate prices have increased 25-30% since 2020, and this continues to weigh on consumer sentiment, the levels of which would have signaled a recession in the past. However, if stocks continue to chug along and bolster the wealth effect, there is no reason to believe a recession is imminent, even if the current prosperity is not broadly shared.

For any investors who may be nervous about a potential bubble concentrated in the US tech and large growth sector, we will point out that foreign, US large value, and small cap stocks continue to do well. These groups underperformed US large growth stocks for many years until recently. Foreign stocks outperformed US stocks by 15 percentage points last year and are ahead YTD again in 2026. US small cap stocks are up 23% as of 6/30 and can likely sustain this strength assuming the economy remains on solid footing. As always, we encourage you to review your portfolio and its risk level, especially the closer you are to retirement, and would be happy to assist.

Investing involves the risk of loss that clients should be prepared to bear. If you have a general administrative question about your account, please contact our customer service at 800-535-4253 option 1. If you would like to set up an investment consultation, please contact our customer service line or send us an email at advisors@wespac.net. We would be happy to schedule a call or Zoom meeting to discuss your portfolio.