



Market Outlook

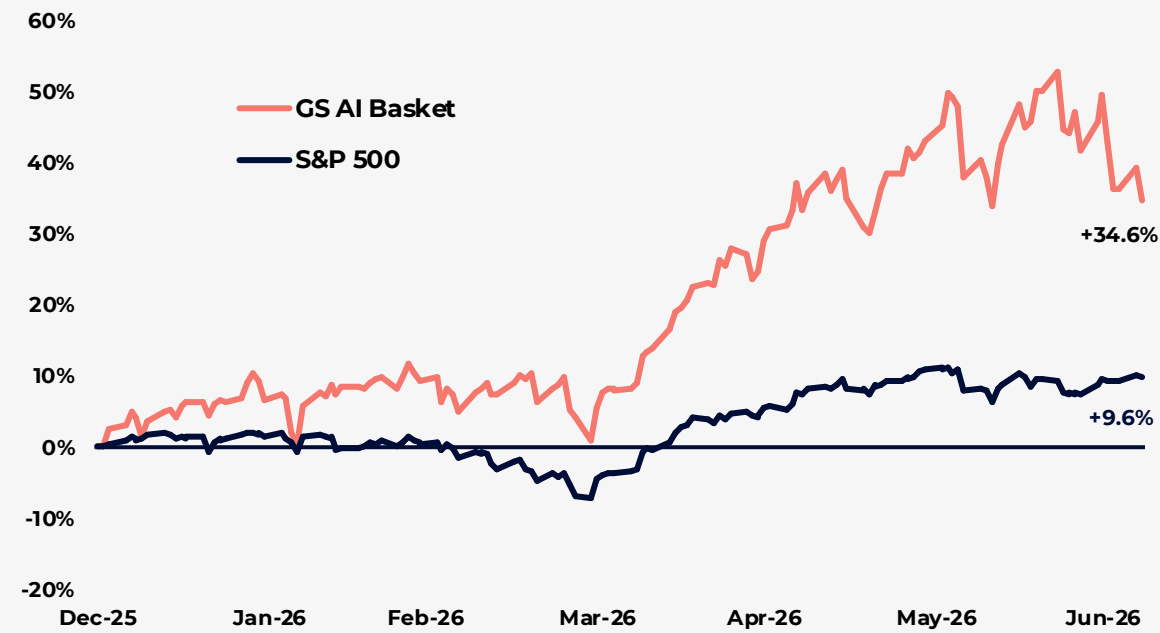
Q3 2026: Attached at the Chip



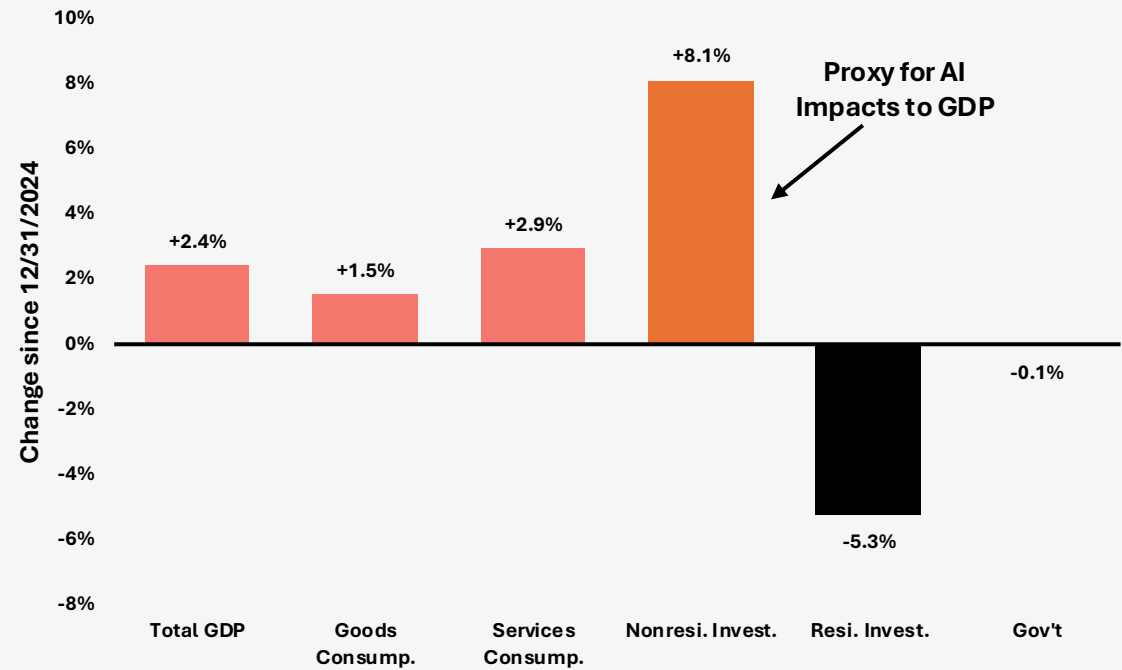
AI Was the Engine in the First Half

AI wasn't just a market story in the first half – it was an economy story, too. It drove both returns and real Gross Domestic Product (GDP) growth

AI Basket vs S&P 500 YTD Performance



AI capital expense (capex) has been driving Real GDP growth since 2024

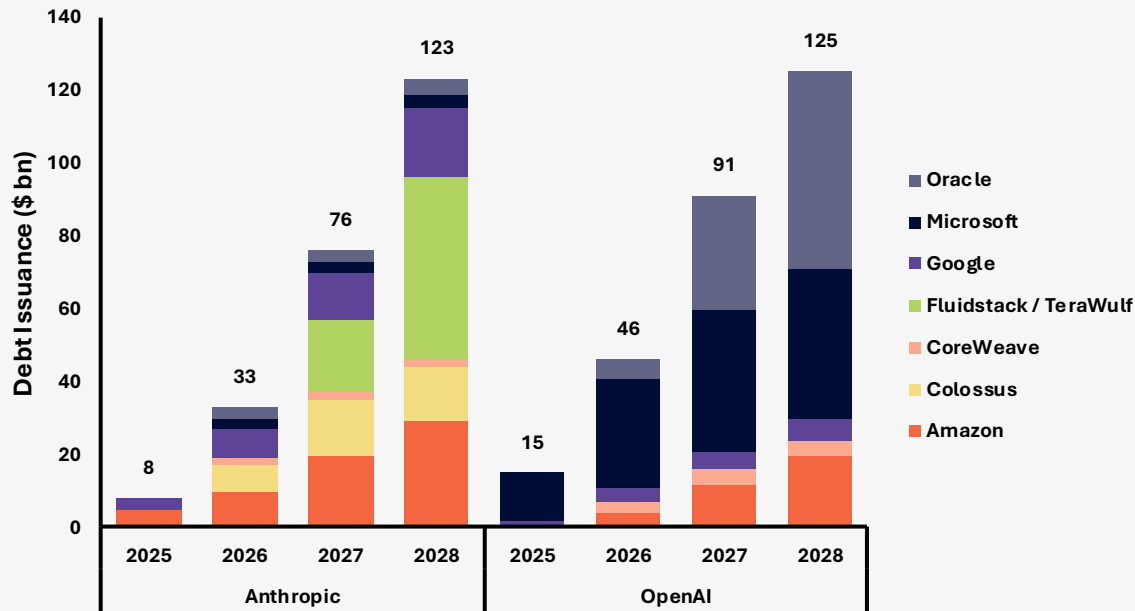


Two things were true in the first half. AI led the market, and AI led the economy. On the market side, names with exposure to the AI complex did most of the index's work. On the economy side, the capital expense (capex) to build AI infrastructure became one of the largest single contributors to real GDP growth. When one theme moves both the tape and the economic data, you pay attention.

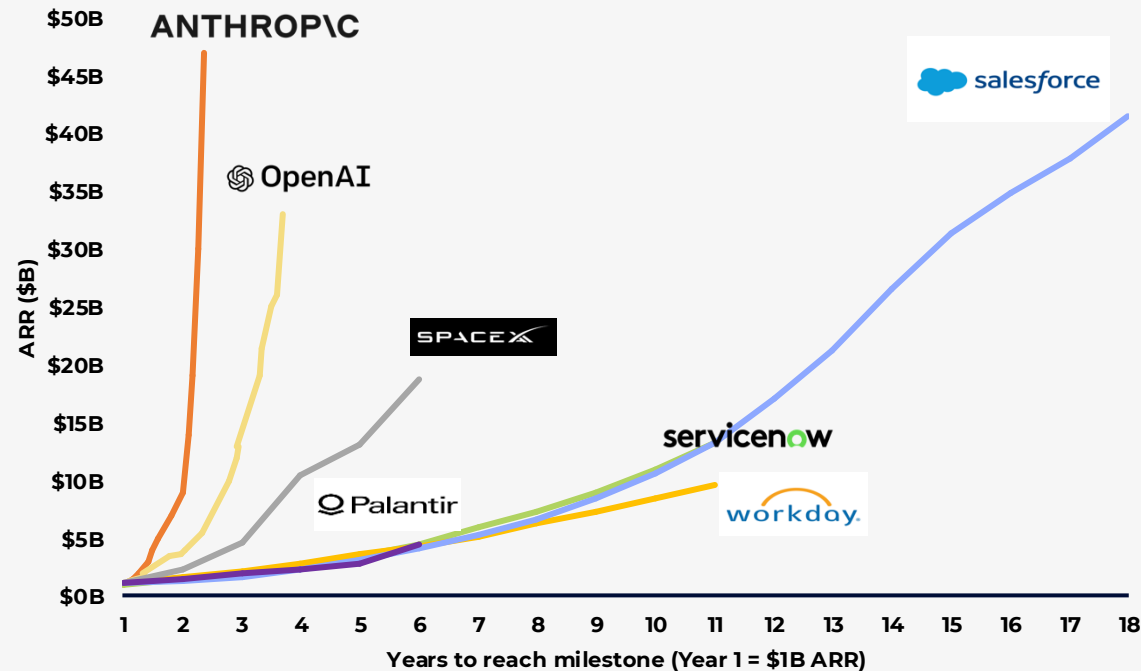
AI Drove Capital Expense (capex), Debt-Issuance, and Meaningful Revenue Growth

The spend is real and increasingly debt-funded, but AI lab revenue is ramping faster than anything we've seen

Debt Issuance for Compute Commitments



AI Companies are reaching milestones fast

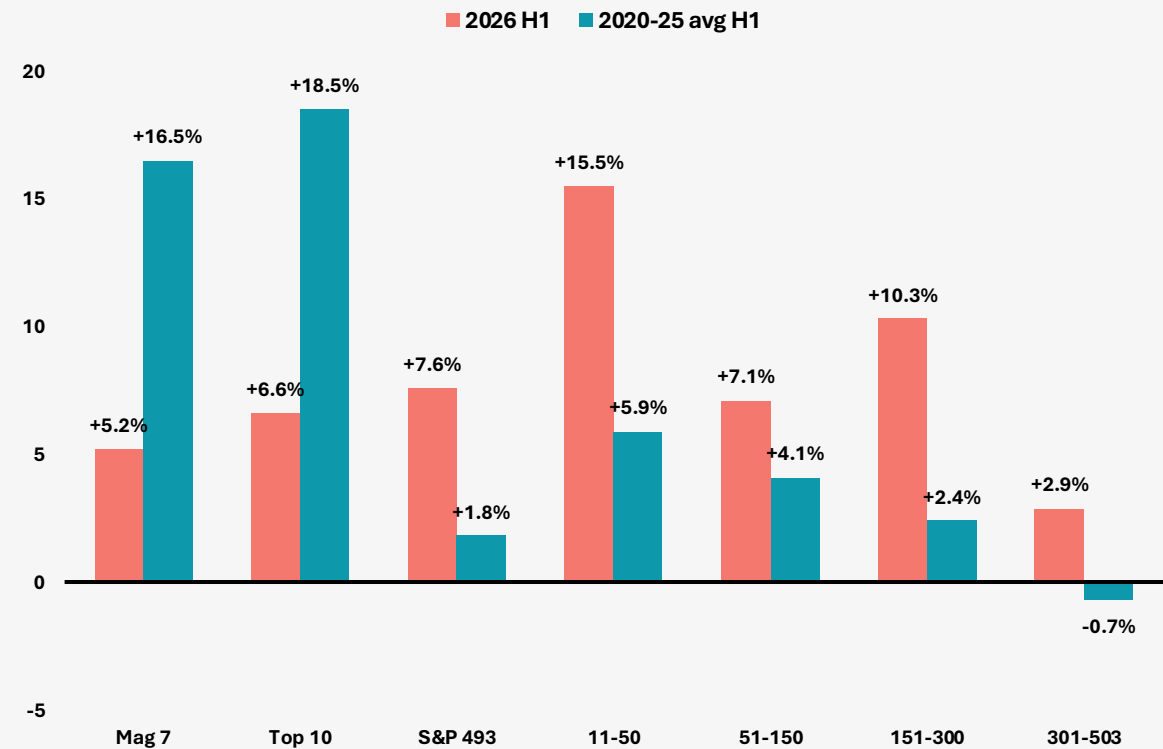


The scale is hard to overstate. Hyperscaler capex is running into the hundreds of billions and climbing, increasingly funded with debt as spending outruns cash flow. On the revenue side, the AI labs are ramping faster than any software company in history. OpenAI and Anthropic are adding revenue at a rate that took legacy software a decade to reach. Capex proves conviction, while annual recurring revenue (ARR) is highlighting demand.

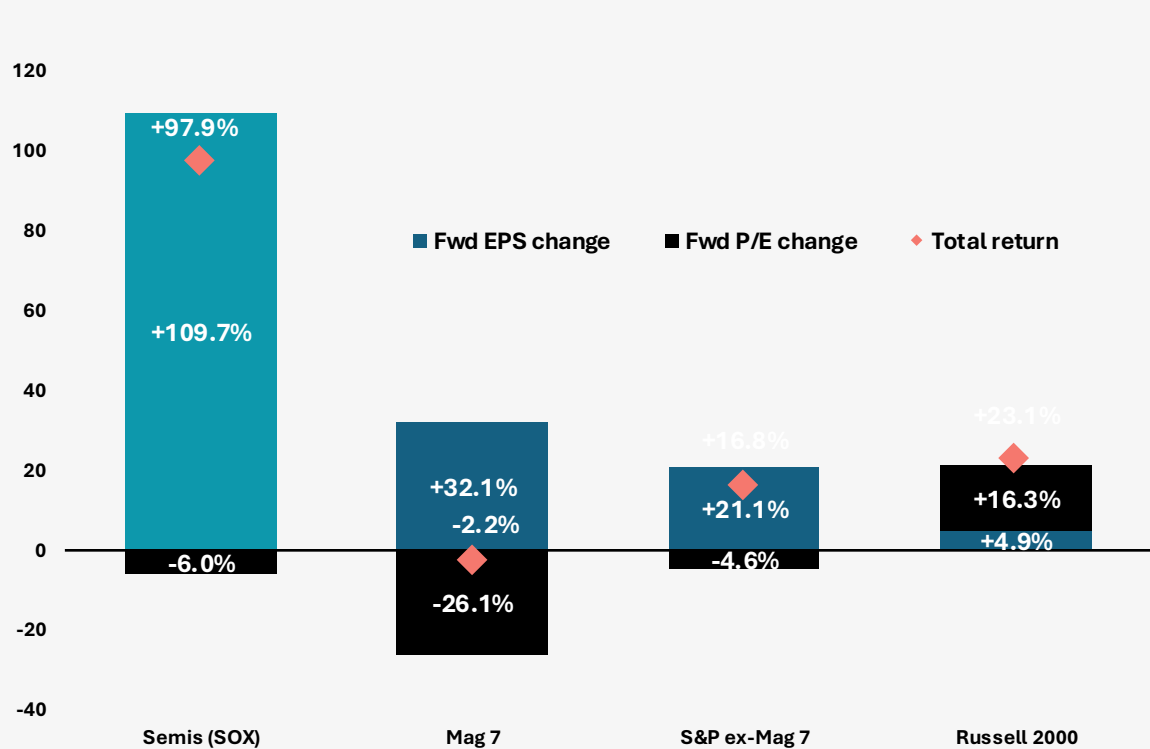
Market Reacted as New Leaders Emerged

Leadership rotated beyond the Magnificent 7 (Mag 7) during the first half and it's backed by fundamentals

Median H1 total return by S&P size bucket (%)



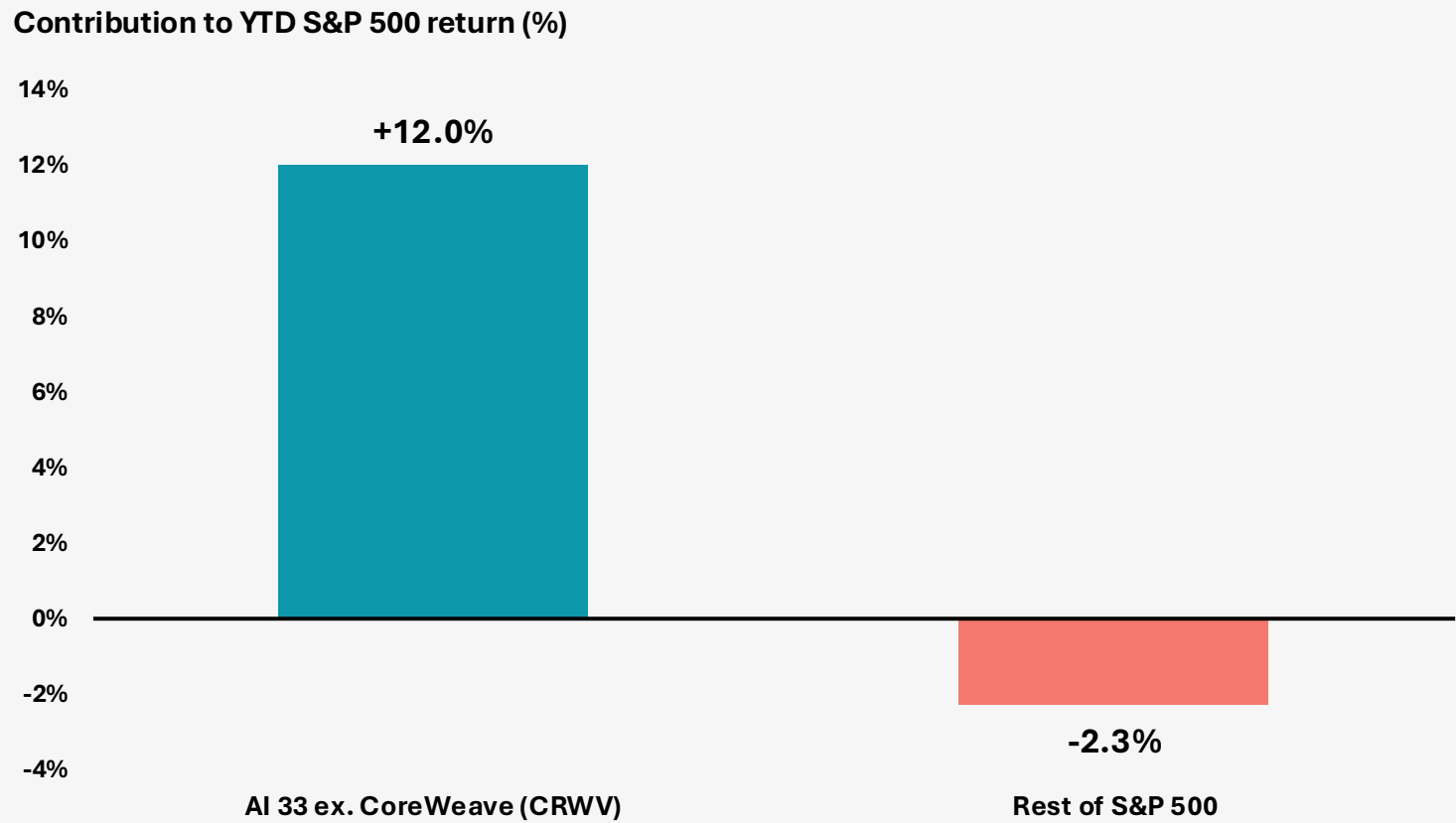
Earnings, not multiples are driving returns since Oct 2025 (%)



The Mag 7 has stopped being the only story. Leadership has moved on, led by the chipmakers, but the important part is why. When we decomposed the move, we found that it's earnings doing the work, not just multiples inflating. As an example, Semiconductors delivered Earnings Per Share (EPS) growth that more than justified its price performance. The Mag 7, by contrast, retraced from their valuation premium even though earnings remained robust, highlighting the market's changed views on the group. We believe that a broadening driven by fundamentals is a much healthier rotation, and one that can and will persist over time.

New Voice up Front, AI Still on Drums

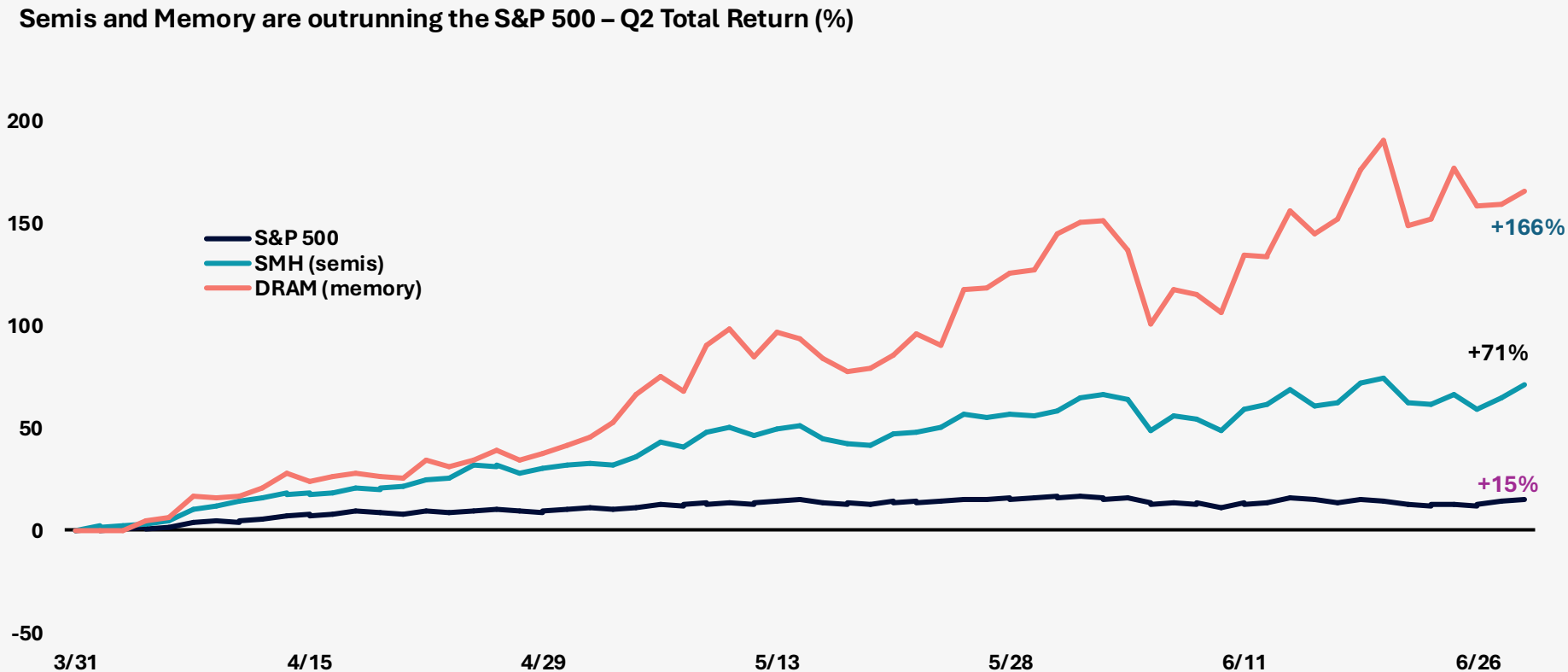
Even as breadth widens and new leadership emerged, strip out AI and the index goes nowhere



Here's the tension to hold. Breadth is improving, but returns are still overwhelmingly an AI story. Take the AI names out of the S&P 500 and what's left was down YTD. Both things are true: the market is broadening underneath, and AI is still doing the heavy lifting up top. That's the two-sided setup in a nutshell.

The Market Found the Shortage in Memory and Semis

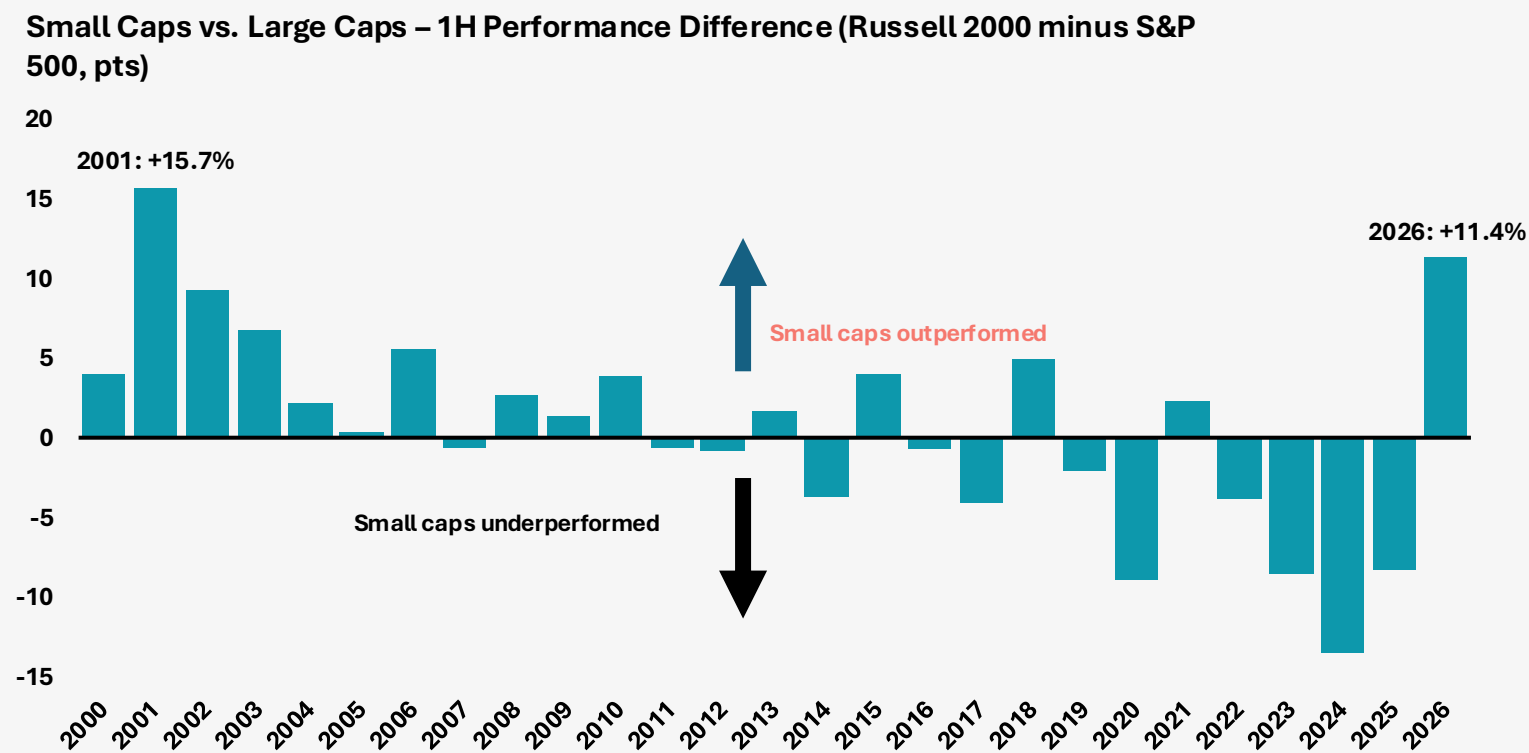
Semis and memory ran nearly straight up as investors priced the compute shortage



The clearest expression of the AI trade in Q2 was in the physical layer. Semis and memory went parabolic as the market woke up to where the real shortage sits. It's not just logic chips. High-bandwidth memory became one of the tightest links in the AI supply chain, and the stocks reflected it. Memory was up over +166% in Q2, with names like Micron (MU) rallying over +240%.

The “Little Engine That Could” – A Great First Half for Small Caps

Small caps just printed their best first half in 25 years

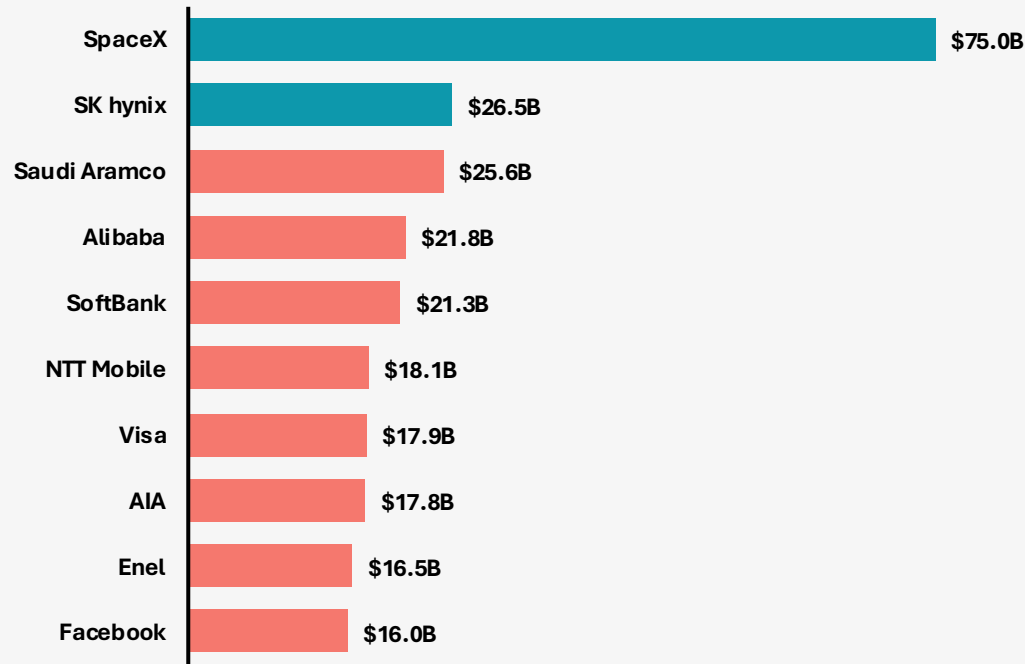


The broadening showed up most clearly in small caps. The Russell 2000 returned 21.4% in the first half, its best first half in over 25 years, and outpaced the S&P 500 by over +11%, the widest first-half gap since 2001. Despite fears about higher rates and fears about zombie companies, the market realized that there could be a wider set of AI beneficiaries beyond the builders. This is the breadth story with a number on it.

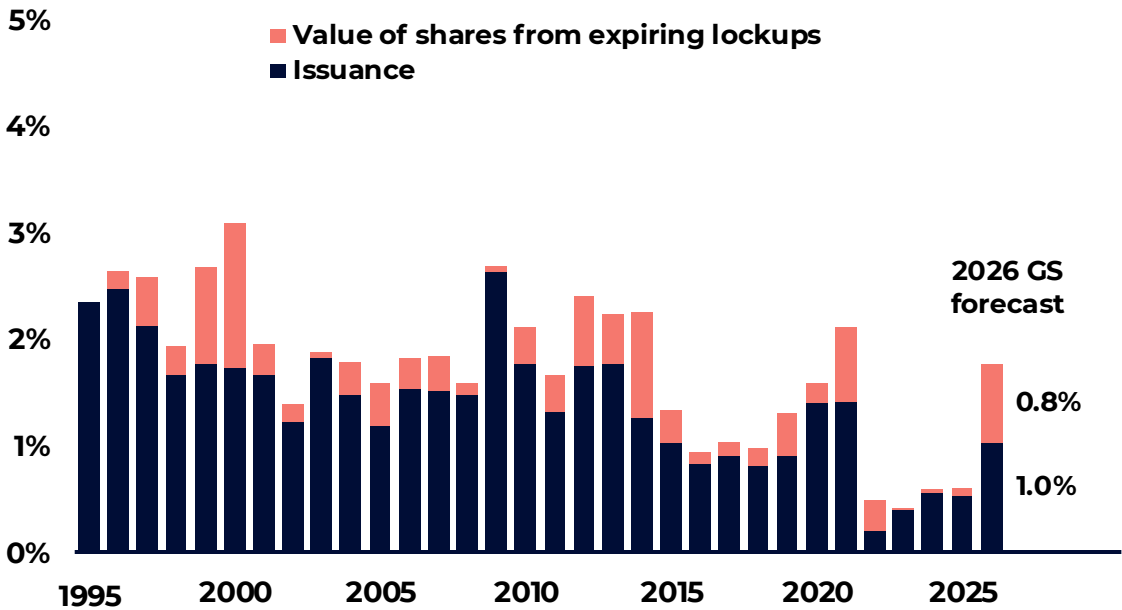
The IPO Market Roared Back

The IPO market reopened in force, with over \$115B of new paper priced in under two weeks in June

Top 10 largest global IPOs ever (\$B)



Annual US equity issuance and corporate demand as % of Russell 3000 market cap

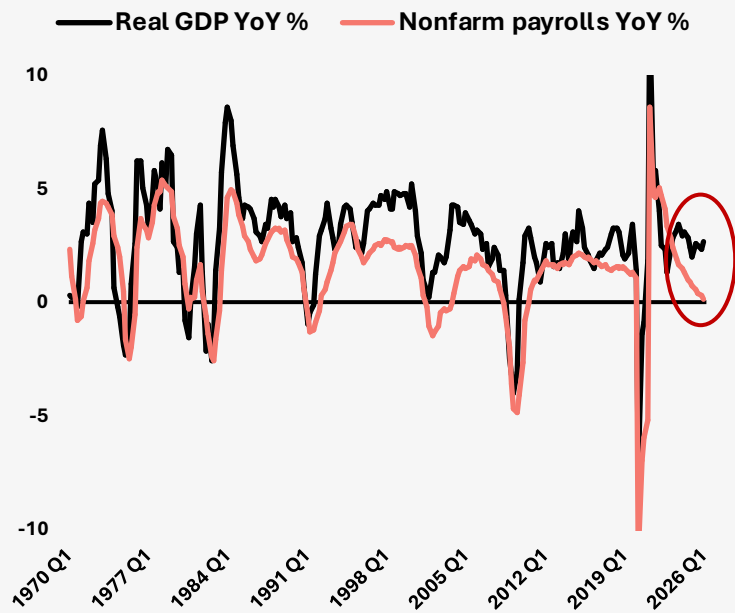


June brought a wave of primary issuance, led by Google's \$40B secondary raise on 6/3, and SpaceX's \$75B IPO on 6/12. The market took it in stride, with the S&P 500 closing June just over 1% away from its all-time high. And while expected gross supply for 2026 is large in absolute terms, it is modest against the size of the overall market at just under 2% of the Russell 3000 market cap.

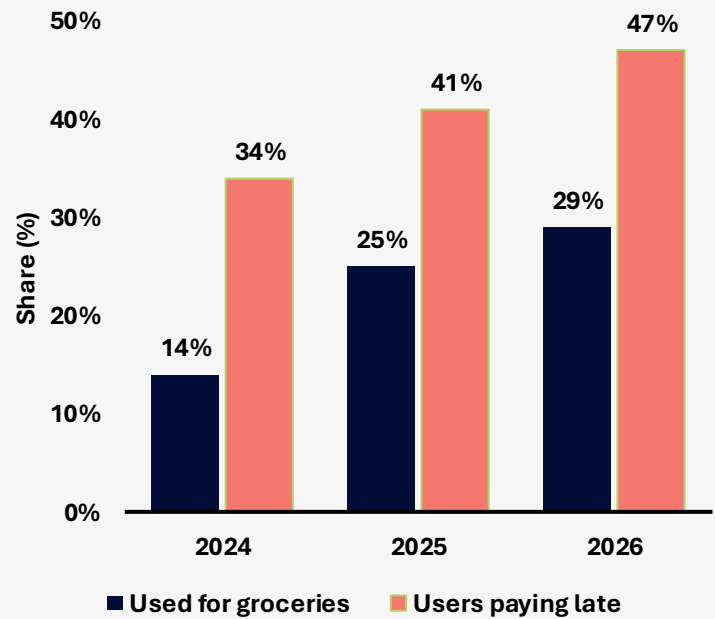
Labor and Consumer Are Flashing Early Warning Signs

Labor is decoupling from Gross Domestic Product (GDP) growth and the low-end consumer continues to be squeezed

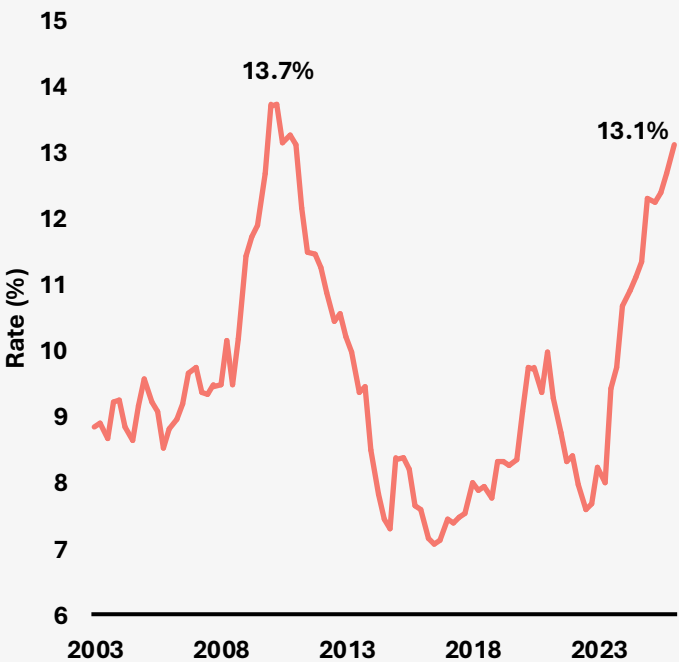
Hiring has decoupled from growth: real GDP vs. payrolls, YoY %



‘Buy Now, Pay Later Usage’ is accelerating



Credit Card Delinquencies 90D+

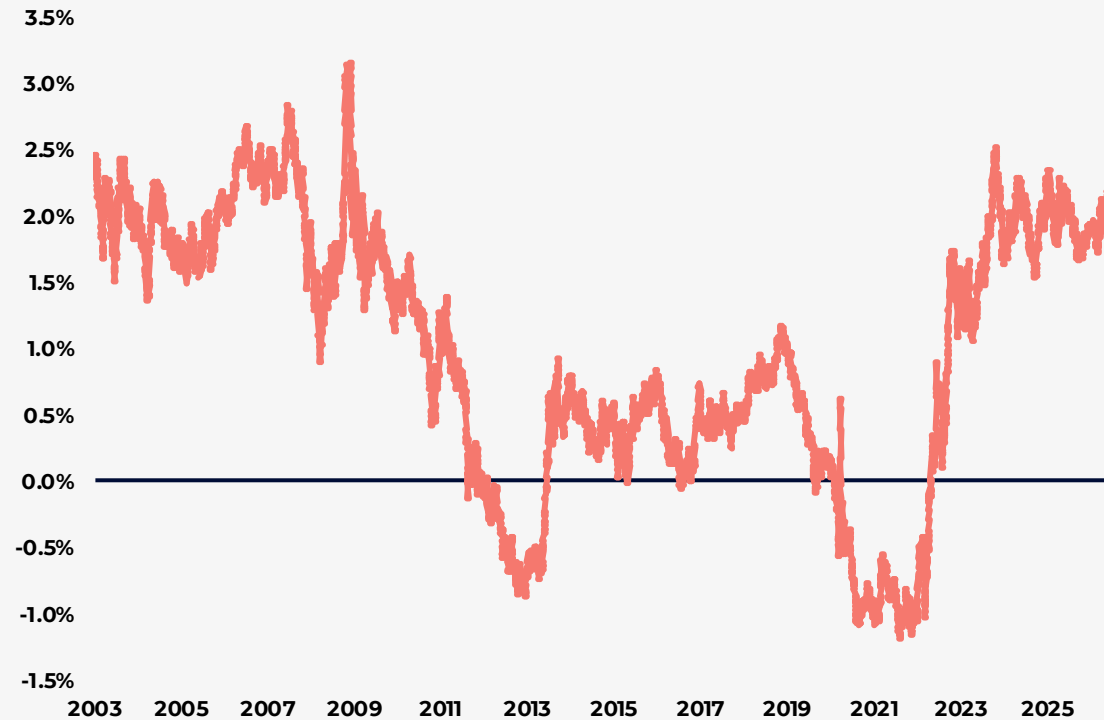


Under the surface, softer data is showing in labor and the consumer. Hiring has decoupled from growth, something that hasn't happened in over 50 years. And the lower-income consumer is leaning harder on credit. The aggregate still looks fine as the top is still leading the way, which is exactly the point. The average is hiding real strain underneath. We're not calling a downturn. We're flagging two indicators that have potential to change the story, and we'll come back to these later in the year.

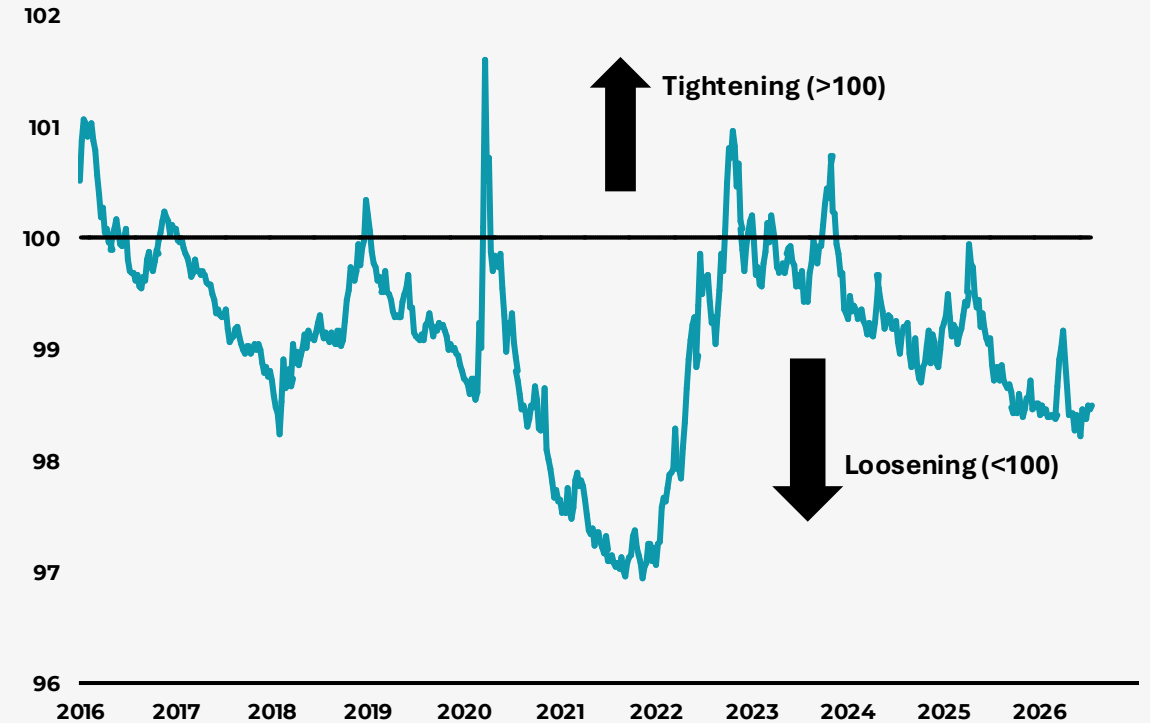
Rates Say Stop. Conditions Say Go.

The real rate headwind is real but it's not tight enough to choke the rally yet

US 10Y real yields are a pressure on risk



US Financial conditions have stayed loose

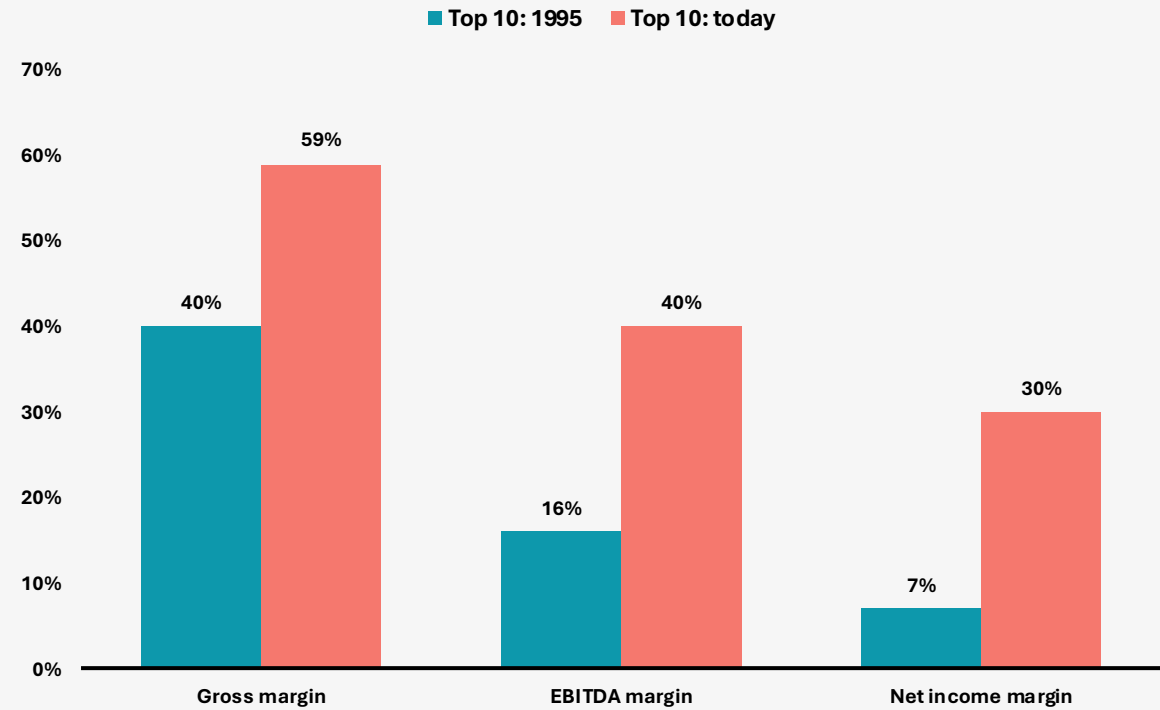


Real rates went the wrong way in the first half and they sit on valuations. But zoom out and financial conditions overall stayed favorable: credit spreads tight, liquidity ample, equity markets open. So, the setup is nuanced. Rates are a headwind to multiples, but the broader plumbing is still supportive. That combination is part of why the second half can still see upside, even if it's not a full steam ahead rally.

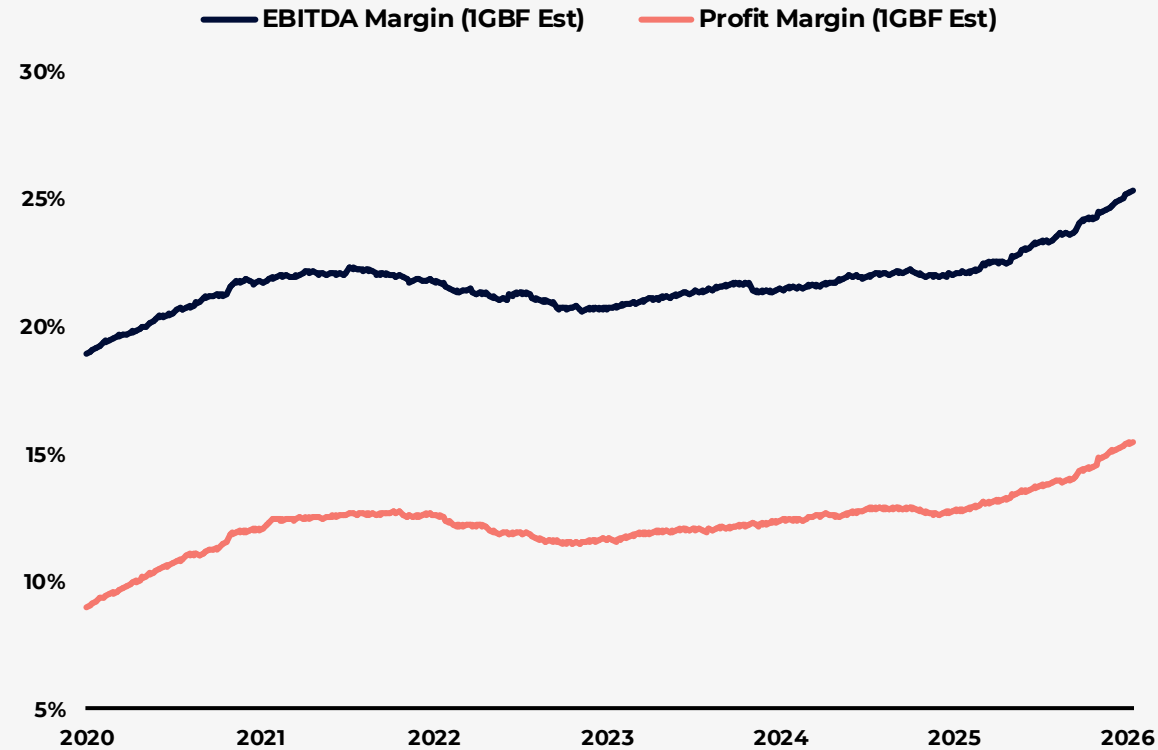
It's All About the Fundamentals

The counterweight to elevated valuations are that today's fundamentals are higher quality than the leaders at prior peaks

Top 10 S&P companies: 1995 vs. today – companies are performing better now



SPX Margins are improving



Elevated valuations are easier to underwrite when the businesses behind them are this strong. Compare the top 10 companies today to the top 10 in 1995 and the difference is stark: higher margins, stronger balance sheets, real cash generation, and more reasonable multiples on those fundamentals. This is the single best argument that today is not a repeat of prior peaks. The concentration is real, but so are the earnings behind it.

Second Half 2026 House View

PUBLIC MARKETS · EQUITIES

AI is still the trade

Stay attached and own the compute stack, where the value is migrating

Earnings back the market

Profit growth is real and broadening as the S&P 493 begins to contribute

Stay active

Dispersion is high. Selection is doing more work than beta this year

Fed regime shift

Less transparency, more question marks

Midterm risk percolating

The AI build is drawing political heat heading into November

Consumer wild card

Resilient at the top, strained underneath. The key domestic risk

PRIVATE MARKETS

Alts under pressure

Redemptions accelerated in Q2, with managers holding 5% gates

Wealth channel reshaping the landscape

New sources of capital are changing fund dynamics and access

Marks and liquidity in focus

Hold periods are extending and DPI matters more than IRR

Alpha earned, not given

Value creation over multiple capture, with the illiquidity premium rising

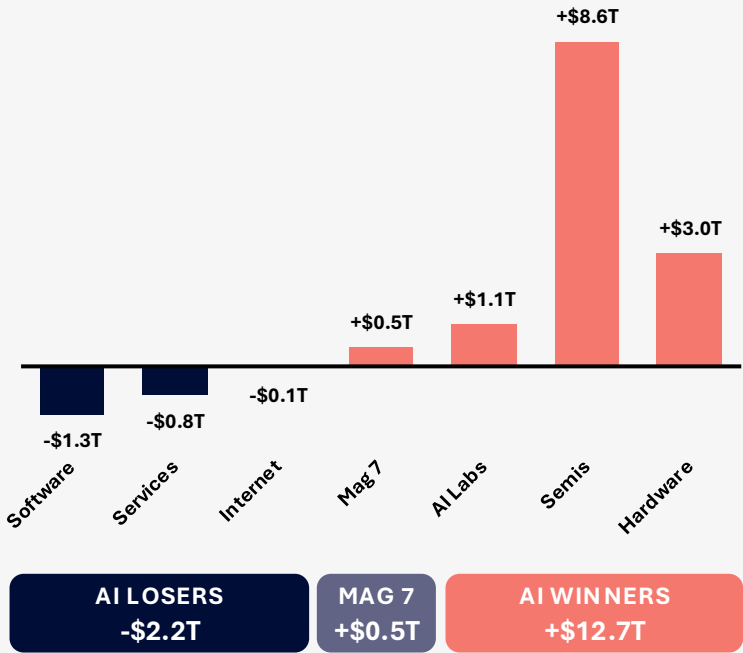
The Song Remains the Same

Stay invested in the theme that's working and own the part of the stack where the value is migrating

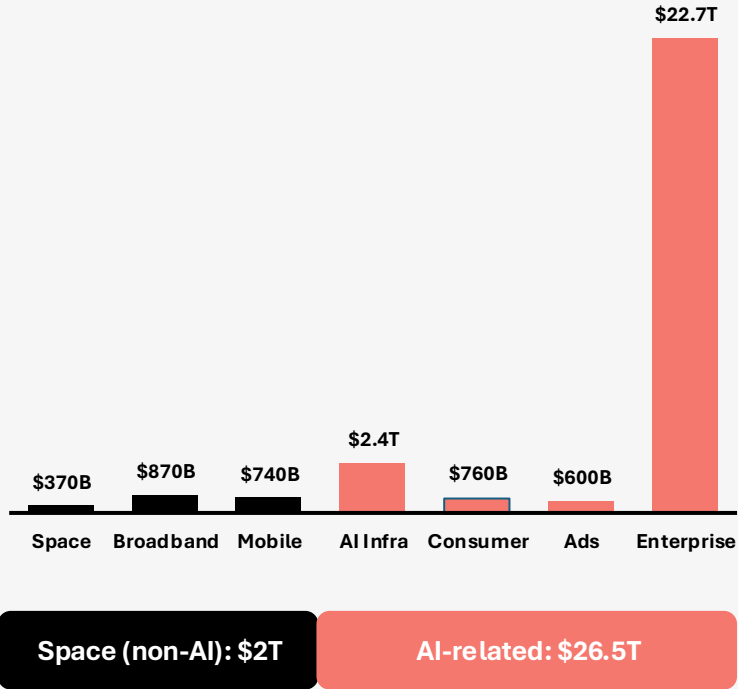
The Mag 7 has become the Mag 15

#	Company	Mkt cap
1	Nvidia	\$5.1T
2	Apple	\$4.4T
3	Alphabet	\$4.5T
4	Microsoft	\$2.8T
5	Amazon	\$2.6T
6	SpaceX	\$2.4T
7	TSMC	\$2.4T
8	Broadcom	\$2.0T
9	Tesla	\$1.5T
10	Meta	\$1.5T
11	Samsung	\$1.4T
12	Micron	\$1.3T
13	SK Hynix	\$1.3T
14	Anthropic	\$1.0T
15	OpenAI	\$0.9T

Market cap has shifted to compute (2026 YTD, \$T)



SpaceX defined TAM = 90% AI (\$T)

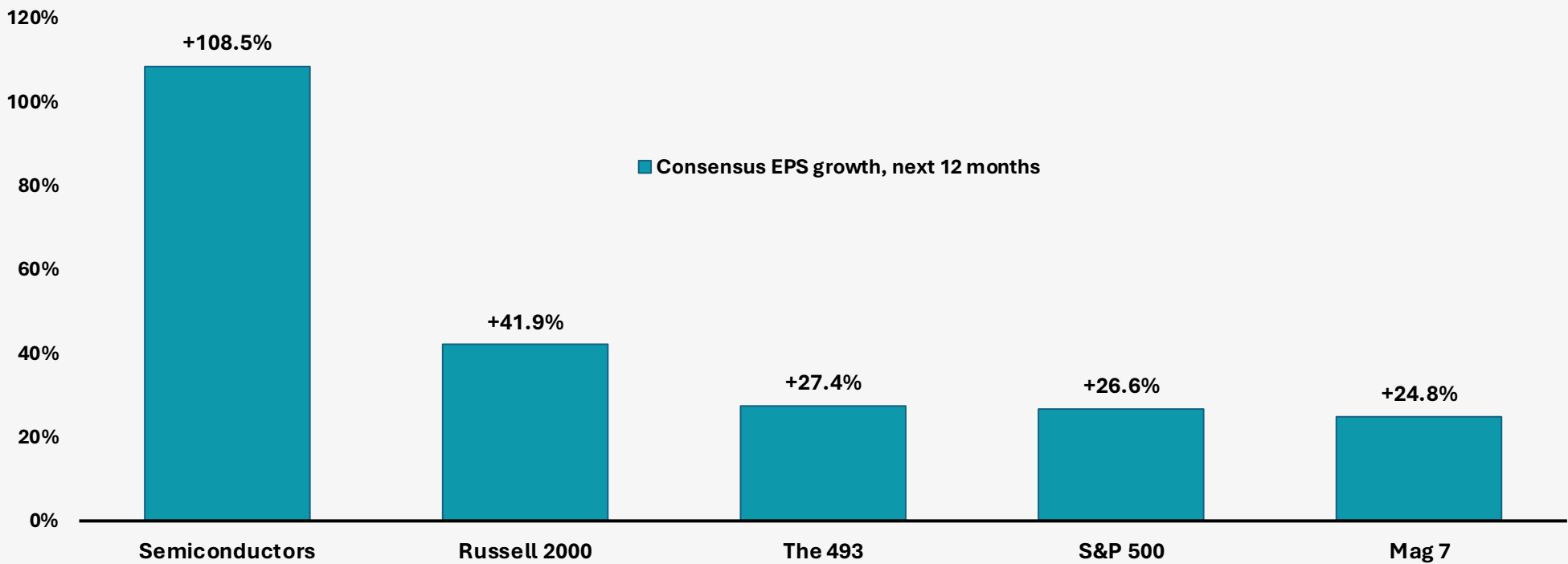


We're not fighting the AI trade. The demand for compute is real, the supply is constrained, and the value keeps migrating down the stack to the builders. Leadership is broadening from the Magnificent 7 to a wider Magnificent 15, market cap is shifting toward compute, and tokens are becoming the unit of value, the new oil. Stay attached to the theme.

Earnings Are Doing the Real Work

Profit growth is real, and it's broad enough to matter

1-year forward EPS growth estimates remain strong

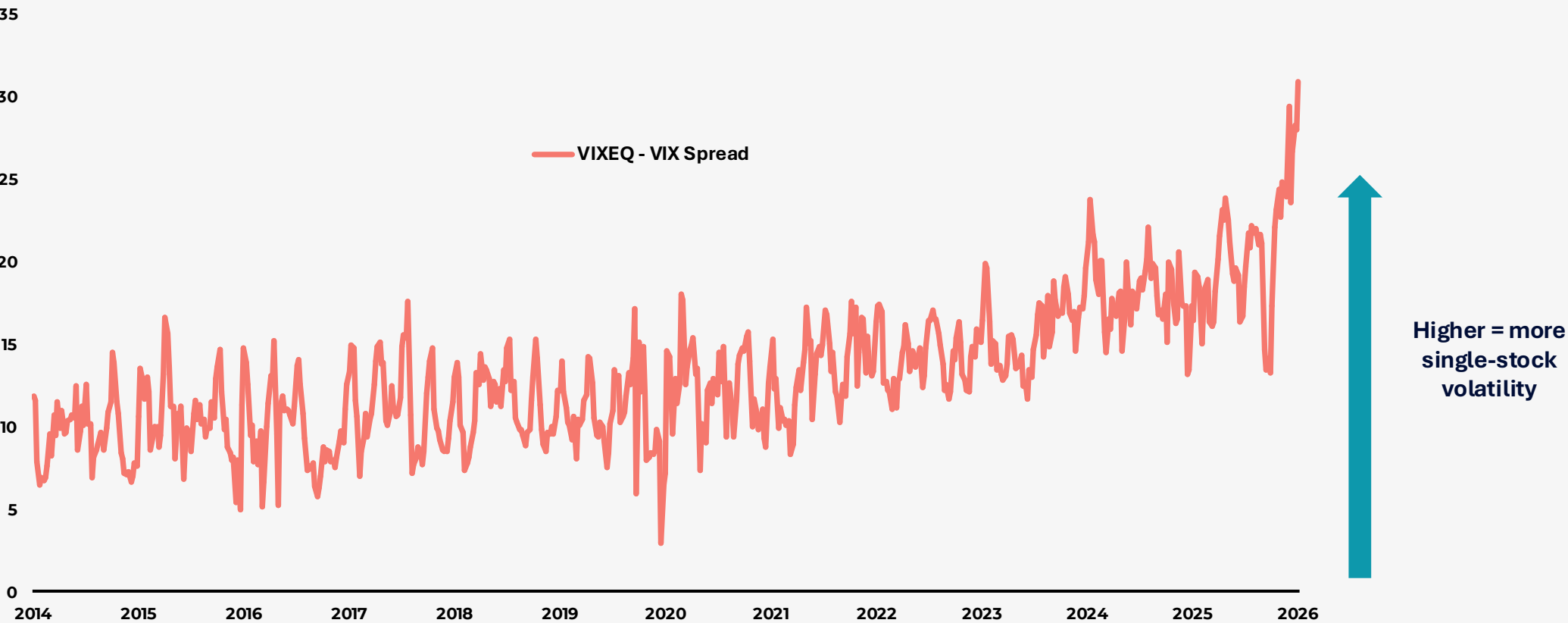


The reason we can stay constructive at these valuations is earnings. Profit growth remains strong at the top and is improving underneath, with the S&P 493 finally contributing. This is not a faith trade. The companies leading the market are delivering the numbers, and the gap between the leaders and the rest is closing from the right direction.

Sharpen Your Pencils

Single-name volatility is high even when the index is calm, so selection is doing more work than beta

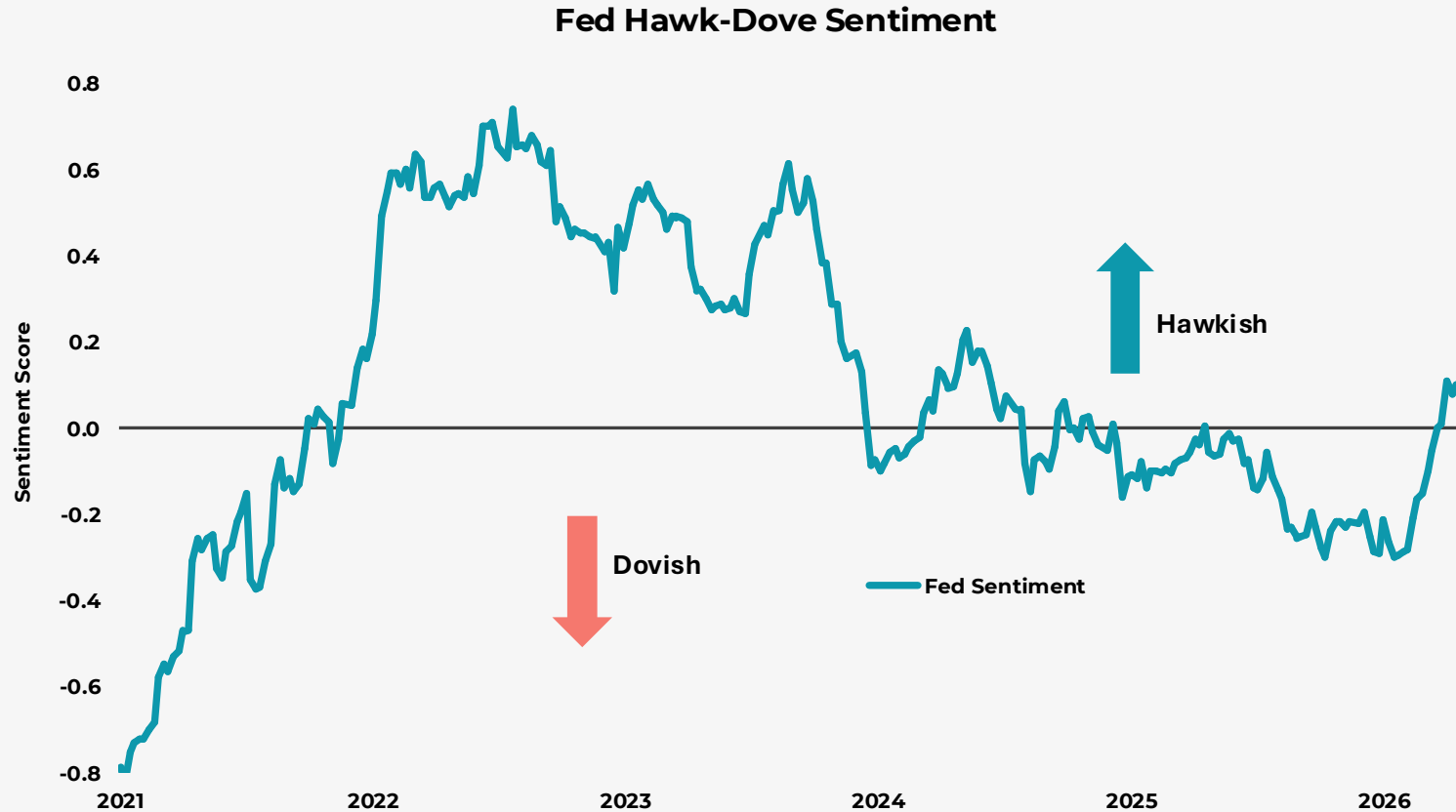
Single Stock Volatility Defines the Importance of Staying Active



When single-name volume runs near three times the index level, as it does today, what you own matters more than how much market you own. That has been the case all year and we expect it to continue. The dispersion that defined the first half continues to be the opportunity in the second.

From Tailwind to Question Mark

New leadership, new reaction function – Kevin Warsh’s Fed will have less transparency, and that’s not a bad thing



The new Federal Reserve (the Fed) leadership came in with less forward guidance and a more divided committee. Coming into the year, we viewed the Fed to be a tailwind, but we’re not sure that’s still the case. The real question for the back half is whether the Fed becomes enough of a headwind to cap things, or just a governor at the margin. We think the market is too aggressive in pricing Warsh’s hawkishness – but do believe he will follow the data.

More Rhetoric Than Risk

Politics is starting to find the AI trade

POLITICS • POLICY

Maine Lawmakers Pass Ban on Large Data Centers

The bill, which blocks centers that draw over 20 megawatts of power until late 2027, heads to Democratic Gov. Janet Mills

By [Alyssa Lukpat](#)
April 14, 2026 8:52 pm ET

49 Listen (2 min)



ENERGY & ENVIRONMENT

Pallone, top Energy Democrat, backs AI data center moratorium

BY RACHEL FRAZIN - 06/24/26 4:25 PM ET

POLITICS MAY 13, 2026

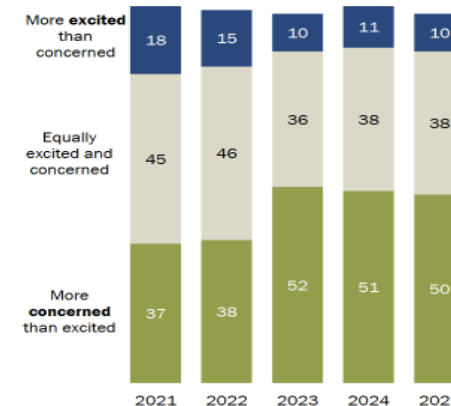
Americans Oppose AI Data Centers in Their Area



BY JEFFREY M. JON

50% of Americans are more concerned than excited about the increased use of AI in daily life

% of U.S. adults who say the increased use of artificial intelligence (AI) in daily life makes them feel ...



Note: Respondents who did not give an answer are not shown.
Source: Survey of U.S. adults conducted June 9-15, 2025.
"How Americans View AI and Its Impact on People and Society"

PEW RESEARCH CENTER

AI's Invasion of Politics Will Make for Messy Midterms

A deluge of ads is reshaping campaigns — and testing voters' trust.



ad featuring Thomas Massie, using AI. Source: AdImpact Politics

[ua Green](#)

2026 at 4:00 /

BUSINESS + AI +

The Growing Political Power of Anti-Data Center Activists

ADD TIME ON GOOGLE

by [Andrew R. Chow](#)
CORRESPONDENT

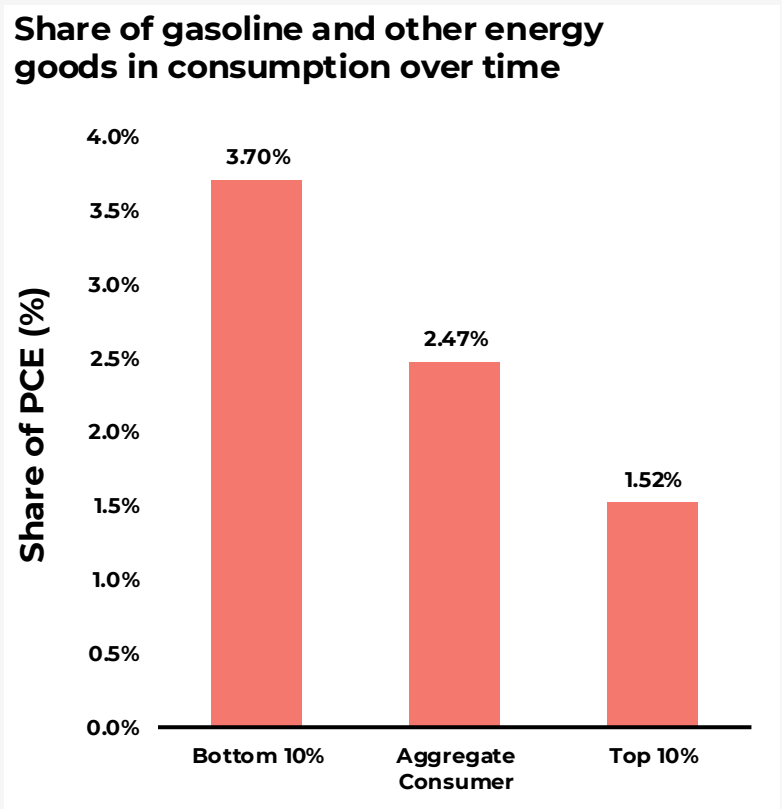
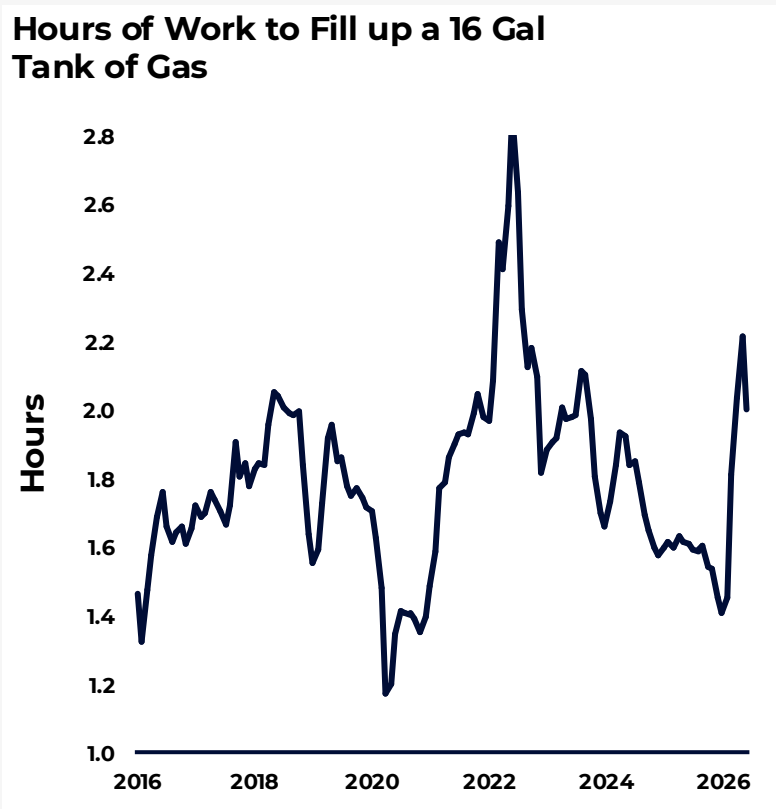
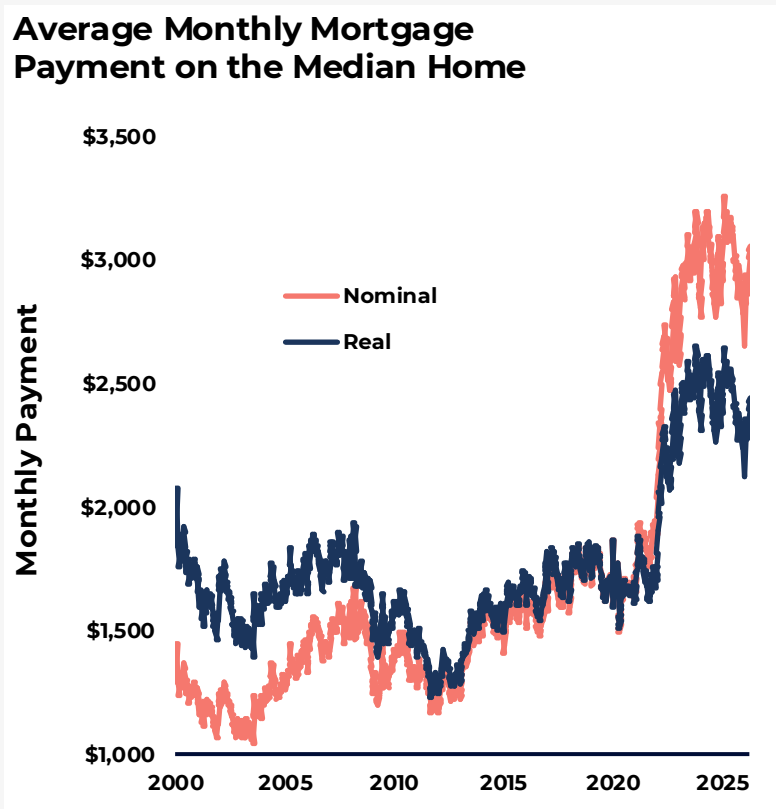
JUN 19, 2026 7:30 AM ET



Two things to watch into November. First, the AI build is drawing political heat, including calls in the House for a national pause on new data centers. Legislative risk is low right now, as a 60-vote Senate and a veto make real curbs unlikely, but the rhetoric and state-level pressure will build. Second, normal midterm-year seasonality tends to mean choppy markets into the election. This is the biggest risk in the AI trade right now.

A Two-Speed Consumer

Resilient at the top, strained underneath



The consumer has been remarkably resilient, but the strength is top-heavy. The lower-income cohort is stretched, credit use is rising, and the cash-flow boost from tax changes is fading. If the top of the K rolls over, the whole story changes. This is the domestic risk we're watching most closely into year-end, and it pairs with the labor signals flagged earlier.

What's Next?



“It’s too soon to talk about an IPO
on a first date.”

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