



Quarterly Market Review

A Quarter of Resilience - The second quarter of 2026 reminded investors that markets often recover well before uncertainty disappears. Following a volatile first quarter marked by geopolitical tensions in the Middle East, elevated energy prices, and renewed inflation concerns, financial markets staged an impressive rebound. Strong corporate earnings, continued investment in artificial intelligence infrastructure, and easing energy prices helped restore investor confidence despite an environment that remained far from risk-free.

The advance was broad enough to lift most major equity indices significantly higher during the quarter, although technology and semiconductor companies once again provided much of the leadership. At the same time, market participation broadened as financials, industrials, and select healthcare companies also contributed to performance, a constructive sign for the durability of the bull market.

Earnings Continue to Drive Markets - Corporate fundamentals remained healthy throughout the quarter. Analysts entered earnings season expecting one of the strongest year-over-year profit growth rates since 2021, supported by resilient consumer spending, continued business investment, and ongoing demand for AI-related infrastructure. While expectations have risen considerably, earnings growth—not expanding valuations alone—has increasingly become the primary driver of equity returns.

As always, elevated expectations create a higher hurdle for companies to exceed, which may contribute to increased volatility as earnings reports are released during the third quarter.

Interest Rates and Inflation - Inflation remained above central bank targets, preventing policymakers from signaling an aggressive easing cycle. Although energy prices moderated late in the quarter following improvements in Middle East supply conditions, underlying inflation pressures and a still-resilient labor market suggest that monetary policy is likely to remain restrictive for longer than many investors anticipated earlier this year. Higher interest rates continue to create both challenges and opportunities. While they place pressure on highly valued growth companies and interest-

sensitive sectors, they also allow investors to earn attractive yields in high-quality fixed income for the first time in many years.

Fixed Income - After several difficult years for bond investors, fixed income continues to regain its role as both an income generator and portfolio stabilizer. Investment-grade corporate bonds and intermediate-term Treasuries offer yields that remain attractive by historical standards, providing investors with meaningful income while helping diversify equity risk. Credit fundamentals have generally remained healthy, although careful security selection remains important as economic growth gradually moderates.

Geopolitics and Oil - Commodity markets experienced significant volatility during the second quarter as geopolitical tensions in the Middle East temporarily disrupted energy markets and reignited inflation concerns. Oil prices spiked sharply following fears of supply disruptions through the Strait of Hormuz before retracing much of those gains as supply concerns eased toward quarter-end. The episode served as a reminder that energy remains one of the quickest channels through which geopolitical events can influence global inflation expectations and capital market returns.



Investment Strategy & Outlook

As we enter the second half of the year, the investment landscape remains constructive but increasingly balanced. Several positives support the outlook, including: (1) Corporate earnings continue to grow, (2) AI-related capital spending remains a powerful secular growth driver, (3) Consumers and businesses have demonstrated surprising resilience, and (4) Bonds continue to provide meaningful diversification and current income.

However, there are several risks that deserve monitoring as well, including: (1) Elevated equity valuations leaving less room for disappointment, (2) Geopolitical developments remain unpredictable, (3) Inflation could prove more persistent than expected, and (4) Monetary policy may remain restrictive longer than markets currently anticipate.

Market Valuations and the AI Investment Theme - One of the defining characteristics of today's market is the

growing divergence between market averages and the valuations of individual companies. Broad equity indices continue to trade at above-average valuation multiples, driven in large part by a relatively small group of companies that have delivered exceptional earnings growth and continue to dominate investment in artificial intelligence infrastructure.

The enthusiasm surrounding AI is understandable. Unlike many technological trends that have generated excitement before producing meaningful profits, artificial intelligence is already driving substantial capital spending. Hyperscale cloud providers, semiconductor manufacturers, networking companies, and electric utilities are investing hundreds of billions of dollars to expand computing capacity, modernize data centers, and build the infrastructure necessary to support increasingly sophisticated AI applications. Many believe this investment cycle represents one of the most significant capital spending initiatives since the commercialization of the internet.

At the same time, history reminds us that transformative technologies do not eliminate the importance of valuation. The internet ultimately reshaped nearly every aspect of the global economy, but many of the highest-flying technology companies during the late 1990s failed to deliver satisfactory long-term investment returns because expectations had become disconnected from fundamentals. Successful investing requires distinguishing between technologies that change the world and investments that are priced to generate attractive long-term returns.

Today, we continue to see compelling opportunities within the AI ecosystem, but we also recognize that enthusiasm has driven valuations to levels that leave little room for disappointment in some areas of the market. As a result, our focus remains on identifying businesses that combine durable competitive advantages, strong free cash flow generation, and reasonable valuations rather than simply pursuing the most popular themes.

Importantly, the long-term beneficiaries of AI will extend well beyond the companies building the technology itself. Businesses that successfully integrate AI to improve productivity, enhance customer service, streamline operations, and expand profit margins may ultimately create significant shareholder value without commanding the premium valuations currently assigned to many AI infrastructure leaders. Over time, the productivity gains from widespread AI adoption are likely to be felt across industries ranging from healthcare and financial services to manufacturing and logistics.

This broader opportunity reinforces our investment philosophy. Rather than attempting to predict short-term winners, we seek to own high-quality businesses with sustainable competitive advantages, disciplined management teams, and the financial flexibility to invest in innovation while continuing to return capital to shareholders. We believe this approach positions portfolios to benefit from the long-term evolution of artificial intelligence while maintaining the valuation discipline necessary to manage risk across market cycles.

Long-term wealth is created by owning exceptional businesses purchased at reasonable valuations and allowing time, earnings growth, and rising dividends to work on behalf of investors. Like the legendary search for the Fountain of Youth, investors seeking shortcuts to create wealth have often found themselves lost in the wilderness.

Our portfolios remain focused on companies with durable competitive advantages, consistent cash-flow generation, strong balance sheets, and demonstrated commitments to growing shareholder income. We continue to favor a disciplined, low-turnover approach that emphasizes dividend durability, dividend growth, and valuation rather than reacting to short-term market narratives.

As always, thank you for the confidence you have in our firm. We are grateful for the opportunity to serve as your financial partner and to help you pursue your long-term financial goals.

 **Capital Markets Scorecard**

Benchmark Description	Q2	YTD
U.S. Treasury 3 Month T-Bill	0.90%	1.77%
Barclays Aggregate Bond Index	0.67%	0.62%
Bloomberg US High Yield Bond	2.47%	1.96%
S&P 500 Index Total Return	15.20%	10.21%
S&P 500 Equal Weight Index Total Return	11.39%	12.13%
NASDAQ Composite Total Return	21.60%	13.13%
S&P U.S. Dividend Growers Total Return	10.52%	8.61%
Russell 2000 Index Total Return	21.49%	22.57%
Alerian MLP Index Total Return	1.39%	18.48%
MSCI Emerging Markets Index	24.22%	26.85%
China SCI 300 Index Local Currency	12.80%	8.63%
U.K. FTSE 100 Index Local Currency	4.04%	7.60%
Japan Nikkei 225 Index Local Currency	37.35%	40.35%

Performance data as of 06/30/2026. Stokes Capital Advisors, LLC is a Registered Investment Adviser. This market commentary is solely for informational purposes. Advisory services are only offered to clients or prospective clients where Stokes Capital Advisors, LLC and its representatives are properly licensed or exempt from licensure. Past performance is no guarantee of future returns. Investing involves risk and possible loss of principal capital. No advice may be rendered by Stokes Capital Advisors, LLC unless a client service agreement is in place.