Quarterly Market Commentary

Second Quarter 2026

To Infinity and Beyond

DBR &CO

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"There seems to be no signs of intelligent life…anywhere…"

- Buzz Lightyear, Toy Story

Markets are priced on the basis of earnings, hopes, and dreams. When I started at DBR & CO in 2010, investors appeared to be so bearish that they placed a negative value on hopes and dreams – despite earnings per share growth of nearly 94% that year, the stock market traded with an average P/E multiple of 15.5x, well below the index's long-term average multiple of about 17x. With SpaceX providing the largest Initial Public Offering (IPO) in history this past June, investors are finally able to express all the themes that have captured their imagination: artificial intelligence, space exploration, datacenters, humanoids, robotaxis, etc. The value placed on "hopes and dreams" has come a long way since 2010, as the market multiple placed on earnings is currently estimated to be about 25x[1].

"Applying yesterday's valuation of the old Standard Oil shares the market worth of the company's original stock was almost $2,000,000,000, and John D. Rockefeller became a billionaire overnight," wrote the New York Tribune on September 29, 1916. At the time, Rockefeller's net worth amounted to 2.5% of GDP. With the SpaceX IPO, Elon Musk's net worth skyrocketed to nearly $1.1 trillion – which equates to 3.7% of US GDP. 4,400 of SpaceX's employees own stock – and are now millionaires.

In addition to the execution of SpaceX's historic IPO, the second quarter afforded investors several tailwinds, including strong earnings results and business momentum out of corporate America, a cease fire between the US and Iran, and the introduction of a new Federal Reserve President. These factors and more led to a robust rebound in asset prices following first quarter weakness caused by the conflict in Iran.

QTD & YTD Capital Market Returns

Quarter To Date as of June 30, 2026[2]	
S&P 500 Total Return Index	15.2%
Dow Jones Industrial Average	13.4%
Nasdaq Composite Index	21.4%
Russell 2000 Index	21.5%
MSCI EAFE Index	11.1%
MSCI Emerging Markets Index	22.9%
Bloomberg Aggregate Bond Index	0.7%

Year To Date as of June 30, 2026[3]	
S&P 500 Total Return Index	10.2%
Dow Jones Industrial Average	9.8%
Nasdaq Composite Index	12.8%
Russell 2000 Index	22.6%
MSCI EAFE Index	9.8%
MSCI Emerging Markets Index	22.7%
Bloomberg Aggregate Bond Index	0.6%

Strong Business Momentum

The most important tailwind for markets during the second quarter was not simply optimism, but the continued ability of corporate America to deliver. Earnings results broadly outpaced expectations, and management teams generally described business conditions as healthier than many investors had feared earlier in the year. Revenue growth, profit margins, capital spending, and demand across several major industries all held up better than expected. This was particularly notable given the concerns present entering the year surrounding tariffs, inflation,

[1] FactSet

[2] Black Diamond
[3] Black Diamond

geopolitical uncertainty, and a potentially slowing consumer.

The strength was not confined to a handful of technology companies. While artificial intelligence, data centers, semiconductors, and automation remain important contributors to growth, earnings resilience broadened into industrials, financials, small-cap companies, and more cyclical areas of the market. Companies continue to invest heavily in productivity, supply-chain resiliency, energy infrastructure, and technology, creating a more durable foundation for growth than investors may have anticipated only a few months ago.

Markets can tolerate elevated valuations when earnings continue to rise. That does not mean valuations are irrelevant—at 25x estimated earnings, expectations are undeniably high—but stronger profits help support the market's current optimism. The second quarter reminded investors that the economy is not merely being carried by hopes and dreams; many companies are producing real earnings growth to help justify at least part of the enthusiasm.

Hopes of Abating Political Risk

The cease fire between the United States and Iran provided an important, if fragile, source of relief for global markets. Geopolitical events often create uncertainty far beyond the immediate conflict, particularly when they involve energy markets, shipping lanes, inflation expectations, and the possibility of broader regional escalation. Earlier in the year, investors were forced to consider the risk that the conflict could disrupt oil supplies, reignite inflationary pressures, and place an additional burden on an already uncertain global economy.

The cease fire did not eliminate those risks; however, it reduced the probability of the most damaging outcomes. As a result, markets responded favorably as investors began to price in a lower likelihood of a sustained energy shock or a broader military conflict.

Markets do not require a world free from conflict to move higher, but they do respond positively when uncertainty declines and worst-case scenarios become less likely. The second-quarter rally reflected a renewed willingness by investors to look through the noise and focus on the resilience of the economy and corporate profits. That said, geopolitical risk remains a variable that can change quickly, reinforcing the importance of diversification and discipline rather than assuming today's calm will last indefinitely.

Dreaming of an Accommodative Fed

The introduction of Kevin Warsh as the next Federal Reserve President added another tailwind to markets during the quarter. Investors quickly began anticipating a more accommodative approach to monetary policy, particularly if inflation continues to trend lower and economic growth moderates from its recent pace. Expectations for future rate cuts helped improve sentiment across equities, with small-cap stocks and other rate-sensitive categories that tend to benefit from easier financial conditions receiving the largest boost.

Lower interest rates can support markets in several ways. They reduce borrowing costs for households and businesses, ease pressure on highly leveraged companies, improve housing affordability, and can make future corporate earnings more valuable when discounted back to the present. Rate cuts also tend to provide a meaningful boost to smaller companies, which are often more dependent on bank financing and more sensitive to changes in interest expense. The strong second-quarter performance of small-cap stocks may reflect, in part, a growing belief that the rate environment will become more favorable.

Still, the Federal Reserve's path is unlikely to be straightforward. A new Fed President does not eliminate the challenge of balancing inflation, employment, growth, and financial stability. Markets may be pricing in a smoother and more aggressive easing cycle than the data ultimately allows. The

encouraging development is that inflation pressures appear more manageable than they did earlier in the year, giving policymakers greater flexibility. For investors, the key takeaway is not to rely on a specific number or sequence of rate cuts, but rather to recognize that the prospect of less restrictive monetary policy has become a meaningful support channel for the economy and asset prices.

Hopes and Dreams

In the years following the Great Financial Crisis, investors demanded proof before committing capital to the market. Valuations were modest, skepticism was widespread, and companies had to demonstrate durable revenue growth and expanding profitability before investors were willing to reward them. It was, in many respects, a "prove it" phase of the cycle.

Nearly two decades later, the market has evolved. Earnings profiles still matter—and the second quarter provided ample evidence that corporate America remains in good shape—but investors are increasingly willing to place substantial value on what businesses *may become* rather than simply *what they are today*. A compelling story, particularly one attached to artificial intelligence, robotics, data centers, space exploration, or other transformational technologies, can now command a meaningful premium.

The "hopes and dreams" of today are not without substance. Artificial intelligence may prove to be one of the most consequential developments in the history of capitalism, with the potential to reshape productivity, business models, scientific discovery, and the human experience. Space exploration may similarly create industries and opportunities that are difficult to fully envision today. Much like the internet before it, these advancements may ultimately exceed even the most ambitious forecasts.

The investment question, however, is not whether these themes matter. They almost certainly do. The more difficult question is how much of that future is already reflected in current prices. It is possible that AI, robotics, and space exploration will produce extraordinary economic value over the coming decades. It is also possible that markets, in their enthusiasm, have already discounted a substantial portion of that progress.

We do not pretend to know precisely how this will unfold. The future may exceed expectations, or it may fall short of them. What we can do is remain disciplined: evaluate the data, assess valuations, separate durable business momentum from speculation, and position portfolios with an appreciation for both opportunity and risk. Our responsibility is not to predict every turn in the market, but to make thoughtful decisions as the evidence evolves.

As always, if you have any questions or concerns, please do not hesitate to reach out. We hope you enjoy your summer.

Respectfully,

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