MARKET MUSINGS

July 14, 2026

FIRST HALF 2026 MARKET REVIEW: THE BULL MARKET BROADENS

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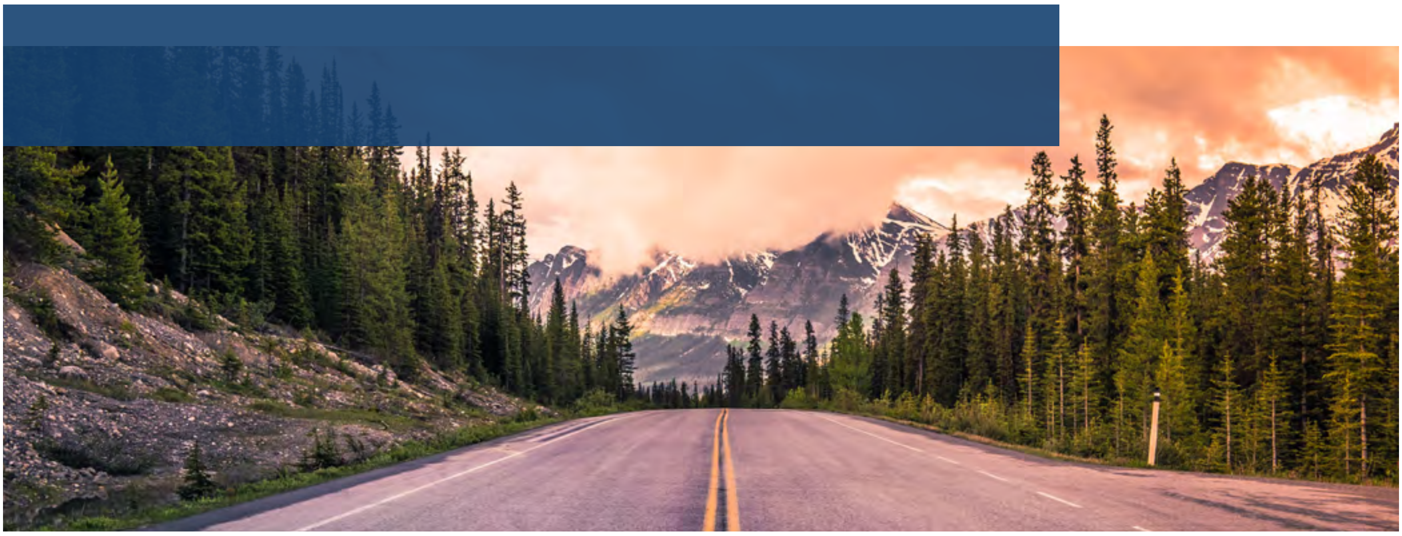

SUMMARY

- Despite renewed bubble concerns, today's technology sector still looks nothing like the dot-com era's. The Nasdaq's five-year gain is only about one-ninth of the late-1990s surge, and technology stocks are trading at valuations that remain far below the extremes reached in 2000.
- The bull market broadened significantly during the first half of 2026. Leadership expanded well beyond the Magnificent Seven as small caps, emerging markets, REITs, commodities, and the average S&P 500 stock all outperformed, suggesting a healthier and more durable rally.
- The market staged a strong second-quarter reversal and a solid—but not euphoric—first-half return. Historically, similar price action has led to additional gains, painting a picture more consistent with the middle of a bull market than the end of one.
- Our **micro**cast™ signal remains at a neutral allocation. Taken together, our tactical risk models continue to indicate a constructive backdrop for equities.

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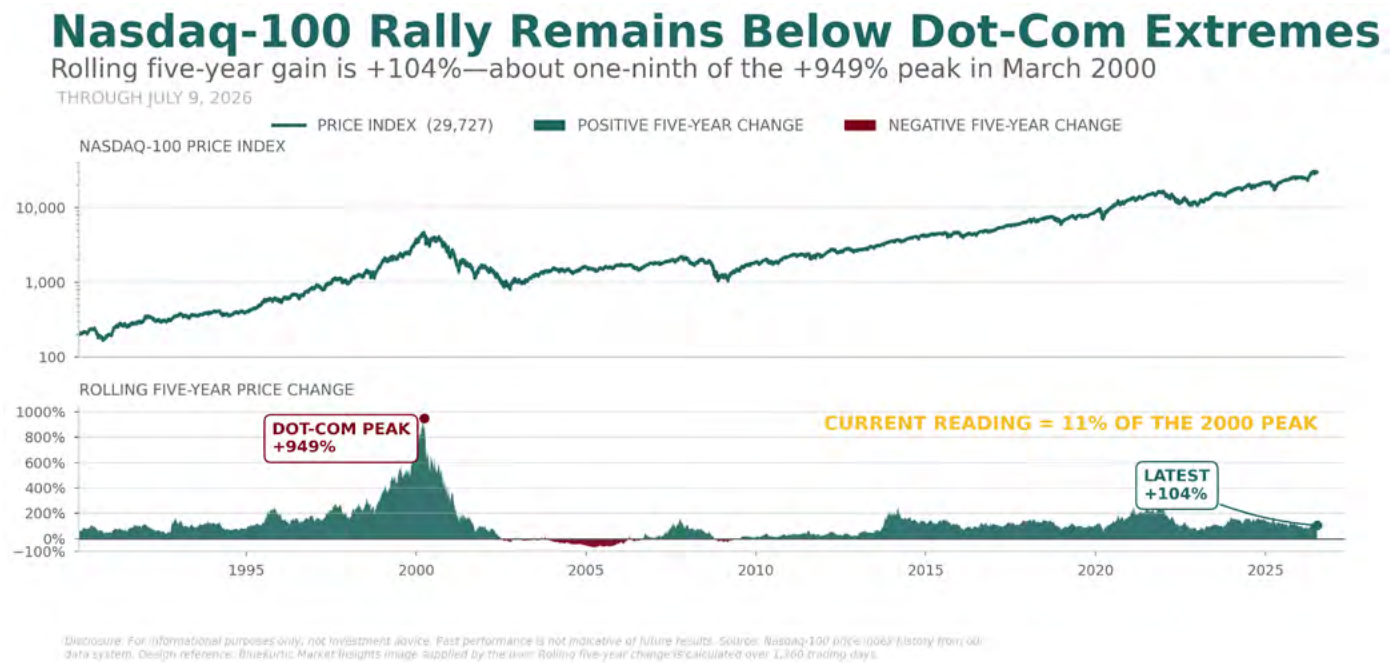
See content within for additional information on the summary items discussed above

MARKET BUBBLE WATCH:
STILL NOWHERE NEAR DOT-COM LEVELS

Today's Nasdaq rally is nowhere near as extreme as that of the dot-com bubble. While the Nasdaq-100 has gained an impressive 104% over the past five years, that is only about one-ninth of the roughly 949% advance leading up to the 2000 peak (chart from Bluekurtic):



That distinction is critical, as investors and financial media continue to compare today's enthusiasm for AI-driven technology stocks with the late-1990s bubble. **Based on five-year price gains, the current rally still bears little resemblance to the blowoff that preceded the dot-com crash.**

What about valuations? Tech valuations also remain well below dot-com extremes. Technology stocks trade at around 22 times expected earnings—roughly 60% below the 55x multiple reached at the peak of the bubble in 2000.

What about the broader market? The valuation gap between tech and the broader market is also far narrower than during the dot-com bubble. Today, the S&P 500 trades at about 20 times expected earnings, versus roughly 25 times at the 2000 peak. This leaves tech at a modest 9% premium to the broader market, compared with roughly 120% at the height of the bubble (data from Yardeni Research):

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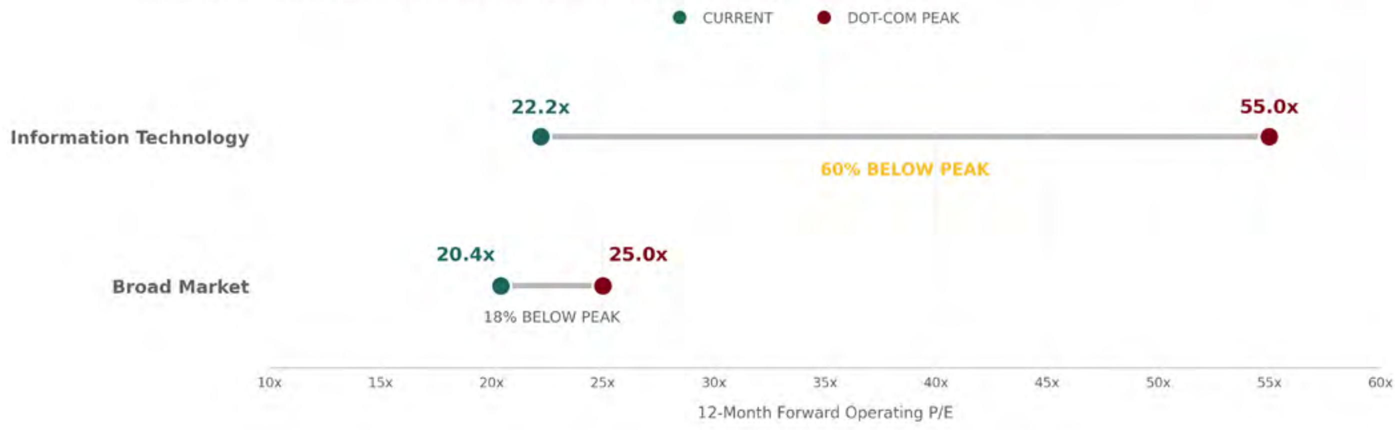
Tech Valuations Remain Below Dot-Com Extremes

Technology trades at 22.2x forward earnings versus 55.0x in 2000 — about 60% below the peak

TECH PREMIUM TO BROAD MARKET: 9% NOW | 120% AT THE DOT-COM PEAK | JULY 2, 2026



While valuations remain elevated and leave less margin for error, **the data once again does not support the view that today's technology sector is priced anywhere near dot-com levels.**

FIRST HALF 2026 **ASSET CLASS REVIEW**

The following table highlights major asset-class returns during the second quarter and the first half of the year:

Asset-Class Performance

Second-quarter and year-to-date 2026 returns

Performance through June 30, 2026

ASSET CLASS	BENCHMARK	Q2 2026	YTD 2026
U.S. Large-Cap Stocks	S&P 500 Total Return Index	15.2%	10.2%
U.S. Small-Cap Stocks	Russell 2000 Total Return Index	21.5%	22.6%
International Developed Stocks	MSCI EAFE Net Total Return Index	10.8%	9.4%
Emerging Market Stocks	MSCI Emerging Markets Net Total Return Index	24.1%	23.8%
U.S. Bonds	U.S. Aggregate Bond Total Return Index	0.7%	0.6%
Treasury Inflation-Protected Securities	U.S. Treasury Inflation Notes Total Return Index	0.9%	1.2%
High Yield Bonds	U.S. Corporate High Yield Total Return Index	2.5%	2.0%
International Developed Bonds	International Treasury Bond ETF (price-return proxy)	-1.2%	-3.8%
Commodities	S&P GSCI Total Return Index	-11.4%	24.1%
REITs	Dow Jones U.S. Select REIT Total Return Index	12.4%	17.6%
Gold	Gold Spot Price (USD per ounce)	-14.2%	-7.0%
Oil	West Texas Intermediate Crude Oil Spot (USD per barrel)	-31.4%	23.2%

Disclosure: For informational purposes only; not investment advice. Past performance is not indicative of future results.
Source: Actual daily market data from our system. Index rows use total returns; gold and oil use spot-price returns. International developed bonds use an investable price-return proxy because the exact index series was unavailable.

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Some additional insights from the above table:

1. The first half of the year rewarded almost everything except the market's former leaders. While the S&P 500 gained a strong 10.2%, it was outperformed by small caps, emerging markets, REITs, and commodities. Other measures told the same story: value, mid-caps, small-cap value, dividend stocks, and the average S&P 500 stock all outperformed. This wasn't a move away from equities—it was a broadening of the bull market beyond the handful of mega-cap stocks that have led in recent years.

2. Small caps went from perennial laggard to the best-performing major U.S. equity asset class. The Russell 2000 index gained 22.6% during the first half of the year—more than twice the S&P 500's return—and posted a remarkable 21.5% gain in the second quarter alone. Still, small caps remain the highest-risk version of the broadening trade: their earnings are more cyclical, they carry more floating rate debt, and their performance is more sensitive to economic growth and financing conditions.

3. Emerging markets ripped higher despite headwinds from a stronger dollar. Emerging-market stocks gained 23.8%, making them the best-performing equity category in the table. Technology-heavy markets like South Korea and Taiwan benefited from the widening AI investment cycle, while commodity-oriented markets also participated. That tech exposure runs deeper than many investors realize—the MSCI Emerging Markets index now carries roughly 45% in tech versus 37% for the S&P 500. International diversification is increasingly a sector allocation decision as well as a geographic one.

5. Oil prices made a round trip. Despite falling 31% in the second quarter, oil still finished the first half of the year up 23% because its first-quarter rally was so dramatic. This is also a reminder that year-to-date returns can mask tremendous volatility beneath the surface.

6. Gold failed precisely when many investors expected it to succeed. Gold declined 14.2% in the second quarter and finished the first half down 7.0%, despite renewed geopolitical conflict. A strengthening dollar and rising bond yields outweighed gold's traditional safe-haven appeal. This is an important reminder that gold is not automatically a mechanical hedge against war or uncertainty. It tends to perform best when uncertainty is accompanied by falling real yields, currency weakness, or concern about the financial system—not just when headlines become more worrying.

7. Bonds provided stability, but almost no return. The Bloomberg Aggregate Bond Index gained just 0.6% during the first half as inflation concerns and uncertainty surrounding the Fed kept Treasury yields elevated. Despite starting from much higher yields than a few years ago, bonds have yet to deliver the sustained rebound many investors anticipated.

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FIRST HALF MARKET PERFORMANCE **SUGGESTS THE RALLY STILL HAS ROOM TO RUN**

The market staged a powerful reversal in the second quarter, and history suggests those reversals often have further to run. After falling 4% in the first quarter, the S&P 500 rallied 15% between April and June. Historically, years with a negative quarter followed by a double-digit rebound typically saw additional gains in the quarters ahead. Remarkably, this is already the fourth time the market has experienced this pattern during the 2020s (data for the next two charts from 3Fourteen):

Every Down-Then-Up Quarter Since 1950

A negative quarter followed by a gain above 10% has historically produced strong follow-through

CURRENT SETUP Q1 -4.3% Q2 +15.2% QUALIFYING PATTERN NEGATIVE, THEN ABOVE +10% HISTORICAL CASES 17

Signal Quarter	Down Quarter	Rebound Quarter	Next 3 Months	Next 6 Months	Next 12 Months
1968 Q2	-5.7%	+11.2%	+3.9%	+5.9%	+1.2%
1970 Q3	-18.0%	+16.9%	+10.4%	+21.0%	+20.5%
1980 Q2	-4.1%	+13.4%	+11.2%	+21.7%	+20.5%
1982 Q3	-0.5%	+11.4%	+18.2%	+30.0%	+44.2%
1985 Q4	-4.1%	+17.1%	+14.0%	+20.7%	+18.6%
1998 Q4	-9.9%	+21.3%	+5.0%	+12.4%	+21.0%
1999 Q4	-6.2%	+14.9%	+2.3%	-0.4%	-9.1%
2001 Q4	-14.7%	+10.7%	+0.3%	-13.2%	-22.1%
2003 Q2	-3.1%	+15.4%	+2.6%	+15.1%	+19.1%
2009 Q2	-11.0%	+15.9%	+15.6%	+22.6%	+14.4%
2010 Q3	-11.4%	+11.3%	+10.8%	+17.3%	+1.1%
2011 Q4	-13.9%	+11.8%	+12.6%	+9.5%	+16.0%
2013 Q1	-0.4%	+10.6%	+2.9%	+8.3%	+21.9%
2019 Q1	-13.5%	+13.6%	+4.3%	+6.1%	-7.0%
2020 Q2	-19.6%	+20.5%	+8.9%	+22.2%	+40.8%
2023 Q4	-3.3%	+11.7%	+10.6%	+15.3%	+25.0%
2025 Q2	-4.3%	+10.9%	+8.1%	+11.0%	+22.3%

Forward Period	Next 3 Months	Next 6 Months	Next 12 Months
Average Return	+8.3%	+13.3%	+14.6%
Median Return	+8.9%	+15.1%	+19.1%
Positive Outcomes	100%	88%	82%
Best	+18.2%	+30.0%	+44.2%
Worst	+0.3%	-13.2%	-22.1%

Source: S&P 500 total return index from our data system. Historical cases identify consecutive calendar quarters since 1950 where the first quarter was negative and the next quarter gained more than 10%; forward returns begin at the rebound quarter-end. The June 30, 2026 setup is shown for context and excluded because forward periods are incomplete. For informational purposes only, not investment advice. Past performance does not guarantee future results.

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The exceptions are notable. While the market was generally higher over the following 3- and 6-month periods, there were three instances where the market was lower a year later. The first two cases occurred around the peak of the dot-com bubble and the 9/11 attacks. The most recent case occurred before the pandemic, when the rally stalled out in the first quarter of 2020 before recovering strongly for the next year and a half.

The strong second-quarter rebound isn't the only encouraging sign. The market's overall first-half return has also historically pointed to further upside. Whenever the S&P 500 was up between 7.5% and 12.5% through June, it finished the second half higher every time—a reminder that solid, but not euphoric, gains have typically been followed by more upside rather than signaling the rally has run its course.

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Every Moderate First-Half Gain Since 1950

Prior 7.5%–12.5% first-half gains were followed by positive six- and twelve-month returns every time

CURRENT SETUP FIRST HALF +10.2% QUALIFYING RANGE +7.5% TO +12.5% HISTORICAL CASES 12

Midyear	First-Half Return	Next 3 Months	Next 6 Months	Next 12 Months
1950	+8.9%	+11.9%	+11.9%	+27.8%
1952	+7.9%	-0.4%	+9.5%	+2.3%
1963	+11.7%	+4.1%	+9.9%	+21.5%
1964	+10.5%	+3.8%	+5.4%	+6.2%
1971	+9.9%	-0.6%	+4.0%	+10.7%
1979	+10.0%	+7.6%	+7.7%	+17.2%
1980	+8.8%	+11.2%	+21.7%	+20.5%
1996	+10.1%	+3.1%	+11.7%	+34.7%
1999	+12.4%	-6.2%	+7.7%	+7.2%
2003	+11.8%	+2.6%	+15.1%	+19.1%
2012	+9.5%	+6.4%	+6.0%	+20.6%
2017	+9.3%	+4.5%	+11.4%	+14.4%

Forward Period	Next 3 Months	Next 6 Months	Next 12 Months
Average Gain	+4.0%	+10.2%	+16.8%
Median Gain	+3.9%	+9.7%	+18.2%
Positive Outcomes	75%	100%	100%
Best	+11.9%	+21.7%	+34.7%
Worst	-6.2%	+4.0%	+2.3%

Source: S&P 500 total return index from our data system. Historical cases include years since 1950 when the January-June total return was between 7.5% and 12.5%, inclusive; forward returns begin at June month-end. The June 30, 2026 observation is shown for context and excluded because forward periods are incomplete. For informational purposes only; not investment advice. Past performance does not guarantee future results.

In summary, the first half of the year offered several reasons for optimism. The rally broadened beyond the Magnificent Seven, market leadership expanded across asset classes and sectors, and historical price patterns continue to support the case for further gains. Valuations remain elevated, but the evidence still falls short of the speculative extremes that have historically preceded major market tops. As always, we'll continue to monitor the data and adjust our outlook and positioning as the evidence changes.

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