ACCESS FINANCIAL SERVICES, INC.

July 13, 2026

Quarterly Review and Outlook

Second Quarter, 2026

Index Returns as of June 30, 2026	3 Mo.	6 Mo.	12 Mo.
US STOCKS			
S&P 500 Index TR (large-cap stocks)	15.20	10.21	22.46
S&P 500 Equal Weight TR	11.39	12.13	17.87
Dow Jones Select Dividend Index TR	4.17	12.68	20.22
NASDAQ 100 Index TR	21.60	13.13	30.55
Russell 2000 Index TR (small-cap stocks)	21.49	22.57	39.33
FOREIGN STOCKS			
MSCI EAFE Net Total Return Index (US$)	10.82	9.44	20.22
S&P Europe 350 Index Net TR Index (US$)	11.62	10.57	22.38
MSCI Japan Net Total Return Index (US$)	14.21	15.78	29.42
MSCI Emerging Markets Net TR Index (US$)	24.05	23.85	42.72
COMMODITIES & CURRENCIES			
US Dollar	1.23	2.91	4.45
Euro	(1.13)	(2.76)	(3.10)
Gold	(14.14)	(7.21)	21.34
Oil (West Texas Intermediate)	(19.86)	42.81	33.06
CME CF Bitcoin Reference Rate	(13.60)	(32.88)	(45.48)
BONDS			
Bloomberg US Aggregate Bond (inv. grade)	0.67	0.62	3.79
Bloomberg US Treasury 20+ Year	0.88	0.58	2.54
Bloomberg US Treasury Inflation Notes	0.71	1.33	3.64
Bloomberg Municipal Bond	2.50	2.32	7.03
Bloomberg US Corporate	1.40	0.86	4.34
Bloomberg US Corp. High Yield Bond	2.47	1.96	5.91
S&P International Sov Ex-US Bond TR USD	0.51	(0.93)	(1.59)

Source: Bloomberg

The world is changing rapidly. In just over a month, the world's most powerful country (the US) cut its losses on a geopolitical conflict in a way rarely seen before, a nuclear power (Russia) has seemingly accepted being attacked incessantly on its own territory by its non-nuclear adversary (Ukraine), and a new technological frontier (AI) produces headlines every day. Short of the US and Russia using nuclear weapons, geopolitics remains messy but secondary to macro fundamentals.

The second quarter began with the Strait of Hormuz closed, a regional war grinding through its second month, and Brent crude – a global oil price benchmark – trading at over $120 per barrel (its closing price on February 27 – the day before the US first struck Iran – was a bit over $70). It ended with the S&P 500 Index posting its best quarter since 2020 and oil trading at about the same price as the day the war started (Chart 1). The Philadelphia Semiconductor Index rose 88% – its best quarter since the index was created in 1994.

Had we been handed the quarter's headlines in advance – a naval blockade, mined shipping lanes, twenty thousand mariners stranded in the Persian Gulf, a new Fed Chair signaling rate hikes – and asked to guess the market outcome, not many of us would have guessed "best quarter in six years." But this is the market we have been describing for the past two years. In April I wrote:

"This has been the history of Middle East conflicts. They usually become contained and irrelevant to financial markets."

Chart 1: Brent Crude

Chart source: Access Financial Services using Bloomberg Software & Data

Contained and irrelevant is roughly what happened, though the road there has been rocky. The whipsaw in oil and the slow, irregular recovery of traffic through the Strait (Chart 2) underscores that the situation in the Middle East is far from resolved.

Chart 2: Daily Tankers Transiting Strait of Hormuz

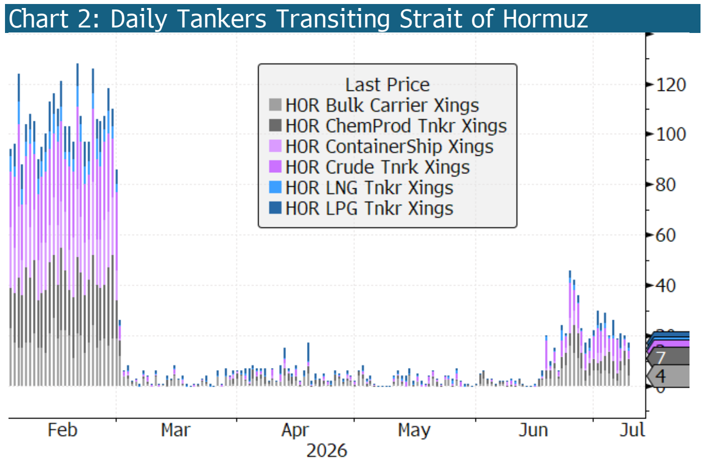


Chart source: Access Financial Services using Bloomberg Software & Data

During the process, the market has figured out that the world has far more supply-chain resilience than was previously thought. Repeated supply chain shocks have proven this, each proving transitory. This time around, Chinese stockpiling – no doubt for selfish national security and geopolitical reasons – allowed the world to overcome disruptions in Hormuz. China dramatically decreased imports (Chart 3), in a way prolonging the conflict by keeping oil prices within an acceptable price range.

Chart 3: China Crude Oil Import Volume (monthly data)

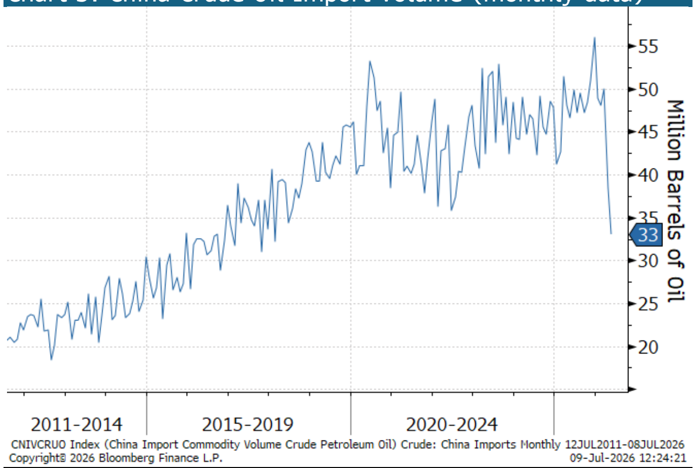


Chart source: Access Financial Services using Bloomberg Software & Data

There are now at least three sources of resilience that many narratives seem to miss when a geopolitical calamity surfaces.

First, in the bipolar and unipolar eras of the past, ideological and normative 'puritanism' often led to foreign policy decisions being rigidly implemented and enforced. In a multipolar environment, interests dominate norms and ideology. This means that countries quickly shift supply chains when the opportunity arises and geopolitics demand it.

For example, the West self-imposed an embargo on Russian energy in 2022 but made it easy for the rest of the world to buy it, allowing supply-chain adjustment to take place. A similar dynamic is now emerging with Hormuz tolling. Yes, it would be great if Iran abided by the international rules of maritime navigation, but it would have been better had the US not upended the geopolitical equilibrium in the region with its poorly planned military intervention. So, tolling it is.

Second, every time a geopolitical calamity occurs, stock market commentators become armchair international relations scholars. "The Trump tariffs are nonnegotiable and here to stay, just look at his statements from the 1980s!" Or: "The US has to eradicate the Iranian nuclear program or lose credibility with allies." Or: "President Putin was forced to take Ukraine up to the river Dnieper to extend Russia's buffer against NATO." The reality is each catastrophe was merely an opening round of bargaining and negotiations.

The mistake is that quickly applying a "new normal" narrative once a geopolitical calamity occurs (the pandemic in 2020, tariffs in 2025, Hormuz war in 2026), and then linearly extrapolating what the world will look like in 12 months. The calamity itself is simply an opening of a bargaining process. Policymakers adjust their behavior in the process.

Third is technology. We are not in the twentieth century anymore. LNG import terminals can be built in three months. New pipelines can be laid faster than people think (particularly through a flat desert). And nothing focuses the mind like material constraints.

The world has become a lot more resilient. Countries are flexible in terms of who they consider an ally and an enemy. Flexible in terms of what can be negotiable (seemingly everything... even World Cup red cards). And flexible in terms of what technology can do to help with the supply shocks.

The conflict in the Middle East is likely to continue, with the tension between Iran, the US, and Israel potentially never being resolved. Still, ships are likely to transit through Hormuz. Even as kinetic activity restarts once in a while. For the next six months, six years, or six decades.

Flexibility itself is a feature of multipolarity. Countries are increasingly becoming geopolitically 'promiscuous'. They are not sitting around patiently waiting for the global hegemon (the US) to resolve their supply-chain problems. They are cooperating without waiting for the US to bless the plans.

The bottom line is that global multipolarity is both the cause of intermittent supply shocks and the cure.

Diplomacy caught up to the markets in mid-June. After a spate of collapsed ceasefires, a US naval blockade of Iranian ports (April 13 through May 29), and a strait that "reopened" and re-closed depending on the day and the spokesman, the two sides agreed to new ceasefire conditions on June 12. On June 17, the presidents of the United States and Iran signed the Islamabad Memorandum – a memorandum of understanding that establishes a 60-day window to negotiate a final deal, toll-free transit of the Strait during that window, mine clearing by Iran, and the lifting of the US blockade.

The implementation has been messy. Iran's newly created Persian Gulf Strait Authority intends to begin charging "insurance" fees on transiting ships by mid-August – a toll by another name, and one the US says it will not accept.

Depending on the fee schedule, those tolls could be worth anywhere from a rounding error to several billion dollars per month in addition to Iran's roughly \$3.8 billion in monthly oil export income. A durable nuclear agreement is supposed to reach the UN Security Council by mid-August. Yeah, right.

Nevertheless, the shipping situation has improved. Saudi exports have recovered to roughly 90% of pre-war levels. The UAE – which quietly left OPEC during the conflict – has restored shipments via the pipeline that bypasses the Strait. Total ship transits are running around 25 to 30 ships per day against a pre-crisis baseline of about 84, while the average number of crude oil tankers has been seven per day since June 18 versus a pre-crisis average of 28 for the month of February. As noted last quarter, markets do not care about the number of ships. They care about the rate of change in the number of ships. This second derivative measure is now positive and has brought oil prices back down.

Last quarter I put 65-70% odds on the US ending its war with Iran and framed the choice as "escalation now or escalation later." The near term de-escalation call was right, but we should not confuse a ceasefire with peace.

The odds now are roughly 40% that the ceasefire fails during the third quarter – and roughly 60% that the conflict revives after the midterm election on November 3. This is when the White House no longer pays an electoral price for $5 gasoline. In other words, escalation later remains very much on the table, and the calendar tells us when to start to be concerned again.

For oil prices, this argues for a floor rather than a collapse. Every barrel of cheaper oil invites strategic buying. The International Energy Agency (IEA) released some 400 million barrels from reserves during the crisis, the US strategic petroleum reserve was already thin (Chart 4), and countries from India on down are eager to rebuild inventories against the next disruption.

Chart 4: DOE Strategic Petroleum Reserve

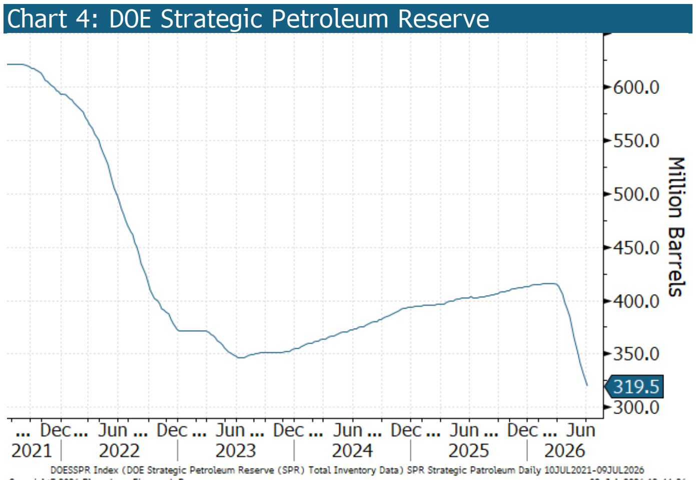


Chart source: Access Financial Services using Bloomberg Software & Data

The IEA does not expect Strait traffic to reach pre-conflict levels until early 2027. Crude in the high $60s to low $70s with 60% odds of renewed conflict within a year will probably not see pre-war levels anytime soon. We have research from credible sources that puts the risk case at $90-$100 Brent before the physical deficit fully clears. This seems reasonable if the situation in the Middle East re-escalates.

It is good (though not always pleasant) to grade the prior quarter's thinking and investment strategy – especially when the market has handed out an unusual exam.

What worked...

The Fed call worked. In January I wrote that markets could not keep pricing an outcome that was "not too hot to reinvigorate inflation, and not too cold to mean a collapse in job growth... but just the right temperature forever." That pricing broke this quarter in the direction we expected: the easing cycle is over for now. The June Fed dot plot[1] shows more committee members projecting hikes than cuts, and the two-year Treasury yield (interest rate) jumped to its highest level in over a year (Chart 5).

Chart 5: Two Year Treasury Bond Yield (Interest Rate)

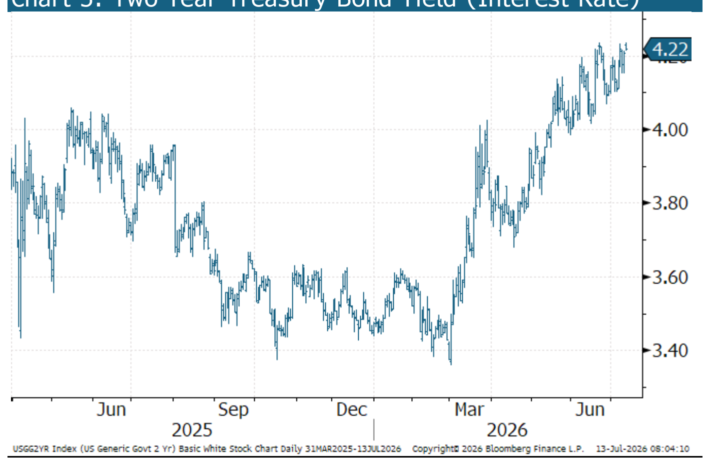


Chart source: Access Financial Services using Bloomberg Software & Data

The volatility call worked – rates, oil, and single stocks all delivered it, even if the index-level VIX[2] stayed strangely calm (more on that later) (Chart 6).

The broadening stock market breadth thesis also worked. While the headlines belonged to the mega-cap stocks, the standard market capitalization-weighted S&P 500 actually peaked on June 2 while the equal-weighted index broke out to new record highs as the quarter ended. Small caps and value oriented benchmarks also made new highs. Industrials – where we are overweight – are the top-performing sector this year at roughly +20%.

[1] The Fed dot plot is a chart published quarterly by the Federal Reserve that visually maps out where individual policymakers expect short-term interest rates to be at the end of the current year, the next few years, and over the long term.

[2] The VIX (Cboe Volatility Index) is a real-time market index that measures the stock market's expectation of 30-day volatility.

What hurt...

Our defensive positioning hurt. Coming into the quarter I wrote that 30-35% odds of escalation in the Middle East had us "staying defensive heading into the second quarter" because the downside in the escalation scenario was far greater than the upside in the de-escalation scenario. The de-escalation scenario is the one that arrived, and it arrived with the best quarter for stocks in six years.

Chart 6: VIX Index

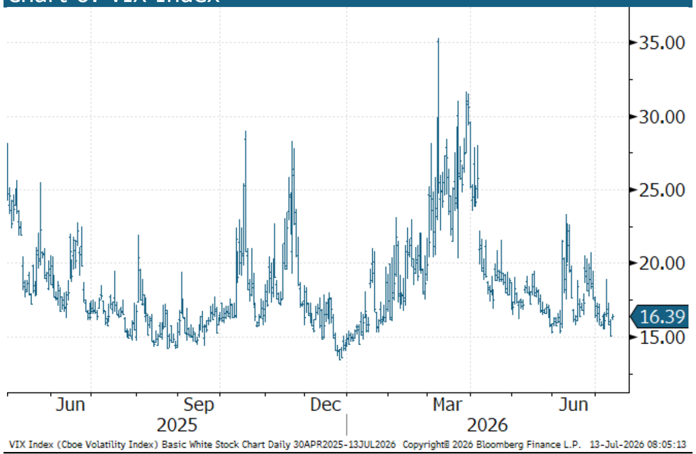


Chart source: Access Financial Services using Bloomberg Software & Data

Hedges cost performance in a +15% quarter and an underweight to the 10 largest stocks cost in relative performance as semiconductors gained 88%. Our energy overweight was also a headwind as crude fell 30%. This is what insurance looks like when the house does not burn down.

The year-to-date performance picture is more balanced than the quarter in isolation as our positioning outperformed meaningfully during the first quarter (Table 1).

Table 1: Client Returns

Second Quarter	US Stocks	Foreign Stocks	Fixed Income
Average Asset Class Return	12.05%	6.07%	0.88%
Index Return	15.20%	10.82%	0.67%
Difference	-3.15%	-4.75%	0.21%
Std. Dev. Of Sample	*1.37%*	*0.63%*	*0.23%*

Year-to-Date	US Stocks	Foreign Stocks	Fixed Income
Average Asset Class Return	11.53%	10.02%	1.67%
Index Return	10.21%	9.44%	0.62%
Difference	0.42%	0.58%	1.05%
Std. Dev. Of Sample	*1.08%*	*1.98%*	*0.32%*

One of the quarter's most consequential regime changes did not happen in the Persian Gulf.

Kevin Warsh was sworn in as the 17th Chair of the Federal Reserve on May 22. Outgoing Chair Jerome Powell is staying on as a governor, which is unusual. Warsh chaired his first Federal Open Market Committee (FOMC) meeting on June 17, and it was a departure from the past.

The Committee held the federal funds rate at 3.50-3.75% in a unanimous vote for the fourth straight meeting. The post-meeting statement was cut from 341 words to 130 – Warsh called it "curt" – and it dropped the language that had signaled a bias toward easing.

The Summary of Economic Projections (also known as the dot plot) was the real news. The median year-end 2026 projected fed funds rate rose from 3.4% to 3.8%, nine of eighteen participants penciled in at least one hike this year against a single member of the FOMC predicting a cut. Warsh declined to submit a dot at all, saying he did not find the exercise helpful. Markets got the message. The two-year yield jumped 0.16% to its highest level in over a year, the dollar had its best day in nearly twelve months, and gold fell more than 2%.

Fears that Warsh would arrive as the White House's tool to lower short term interest rates have, so far, not come true. He has kept the focus on price stability. At his first press conference at the Sintra central banking forum he said "we've all looked around, and we've seen that prices are too high."

Strangely, President Trump praised a Fed that just told markets to expect higher rates: "We have a very good guy over there now... I'm guided by what he wants."

I wrote a year ago that the next Chair would be politically pliable. On the evidence of one meeting, I was wrong about that, even if the truce between the White House and the Fed may only last until the next soft jobs report.

At this point, the market is pricing roughly one 0.25% short term interest rate hike by December, with September odds that have oscillated around 50% to 60% (Chart 7).

There is a case to be made that sticky commodity-driven inflation will force the Committee to lift rates, particularly once the midterms remove the political constraint.

The opposite case is built on labor market nuance. Payrolls look good, but the employment-to-population ratio has fallen all year and the unemployment rate is only stable in the 4% range because discouraged workers have left the labor force. Holding participation at its late-2025 level, the unemployment rate would be roughly 5.3%. Also, Warsh's preferred inflation gauge – trimmed-mean inflation, which strips out the volatile categories – keys off wage growth, and wage growth is slowing (Chart 8).

The July 2 jobs report landed squarely on the dovish side of that argument: 57,000 jobs, downward revisions to April and May, and an unemployment rate that fell to 4.2% for the wrong reason – participation dropped to its lowest level since 2021. Inflation, meanwhile, was 4.2% in May, the highest in three years, though almost entirely traceable to the energy shock that is now reversing.

Chart 7: Fed Funds Rate Expectations for September & December as Implied by the Fed Funds Futures Market

Chart source: Access Financial Services using Bloomberg Software & Data

Chart 8: Three Measures of Inflation

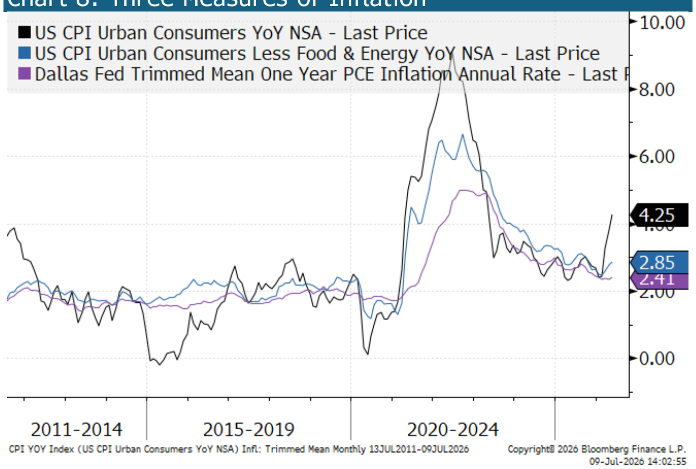


Chart source: Access Financial Services using Bloomberg Software & Data

My own view is that the next Fed move will be to cut interest rates. But whether the next move is up or down matters less for our clients' portfolios than the fact that the range of plausible outcomes – from renewed hikes to a 2027 easing cycle is quite wide. Either way, I am not looking for long term bonds to provide much shelter as both sticky inflation and the massive deficit will be headwinds for longer term bonds. The best case scenario for a strong Treasury bond market would - unfortunately - be a recession.

For the past year I have argued that consumer spending, which makes up 68% of GDP, is increasingly supported by gains in the stock market. The second quarter's data was consistent with this perspective.

Real consumption has outpaced real disposable income growth by roughly 2.6% annualized over the past thirteen months. The savings rate has fallen to 3% (Chart 9) - the lowest reading in the 67-year history of the series outside the run-up to the financial crisis and the post-pandemic reopening. Both of those episodes had special sources of fuel: home equity extraction in the first case, stimulus checks in the second. Today's fuel is the stock market itself. Household equity holdings have grown from $44 trillion in late 2023 to roughly $73 trillion today (a record 39% of total household financial assets according to the Fed's flow-of-funds report).

Chart 9: Personal Savings Rate as % of Disposable Income

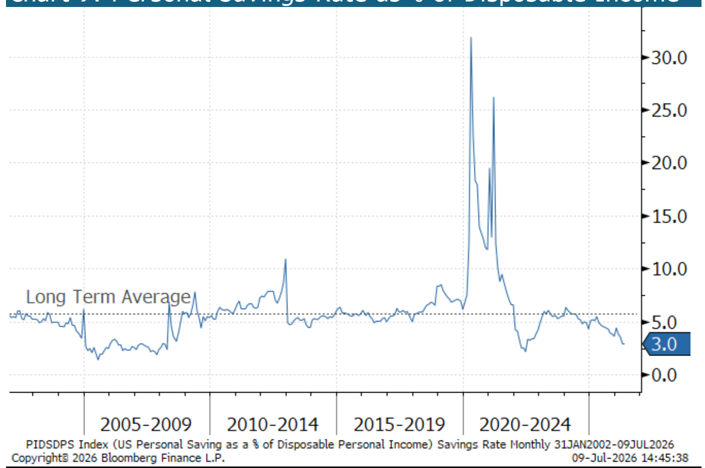


Chart source: Access Financial Services using Bloomberg Software & Data

In January I walked through the math using $65 trillion and the updated version is more dramatic. At three to five cents of spending per dollar of equity wealth, the rally since 2023 is supporting consumption to the tune of several hundred billion dollars a year. One research estimate puts consumer spending a full 4% above where it would be with flat stock prices. We can use the same math in reverse. A 10% market decline now subtracts roughly $7.3 trillion from household wealth and something like $250-350 billion from consumption demand, before any second-round effects on hiring.

There is, however, disagreement about whose wealth is doing the spending. One camp argues that the gains have been unusually democratic this cycle: since late 2019, equity holdings of the bottom half of the wealth distribution have compounded at roughly 20% annualized – nearly double the top half – with under-40 households leading and lower-income cohorts actually paying down non-mortgage debt. On that reading, the wealth effect is broad, potent, and reasonably durable.

The other camp sees a K shaped profile where roughly half of equity wealth sits with the top 1%, real spending by the bottom 80% of households has contracted over the past three years, real labor income is down about 2% annualized this year, consumer delinquencies are high and rising, and imports of everything except IT hardware are running at recessionary lows.

My own read is that the second story describes the flow (who is struggling paycheck to paycheck) and the first describes the stock (whose balance sheets improved), and the economy holds together only as long as the balance-sheet story keeps compensating for the paycheck story. The conclusion is that the stock market is now more important than ever from a spending perspective.

An interesting study on this came out of S. Korea. It found that the wealth effect depends not just on the size of equity gains but on their persistence. When markets turn volatile, households treat gains as temporary and the propensity to spend out of them falls meaningfully. In other words, the US consumer needs the market not merely up, but without a lot of volatility. Given what is spelled out later, that is not a small caveat.

Housing, the other pillar of household wealth, offers little help. The benchmarks I laid out in January – the mortgage/Treasury spread, purchase applications, housing starts, homebuilder and home-improvement stocks – still offer a fairly grim reading, and the fiscal policy cavalry has not arrived.

If the consumer depends on the stock market, what does market depend on? An unpleasant share of the answer is borrowed money.

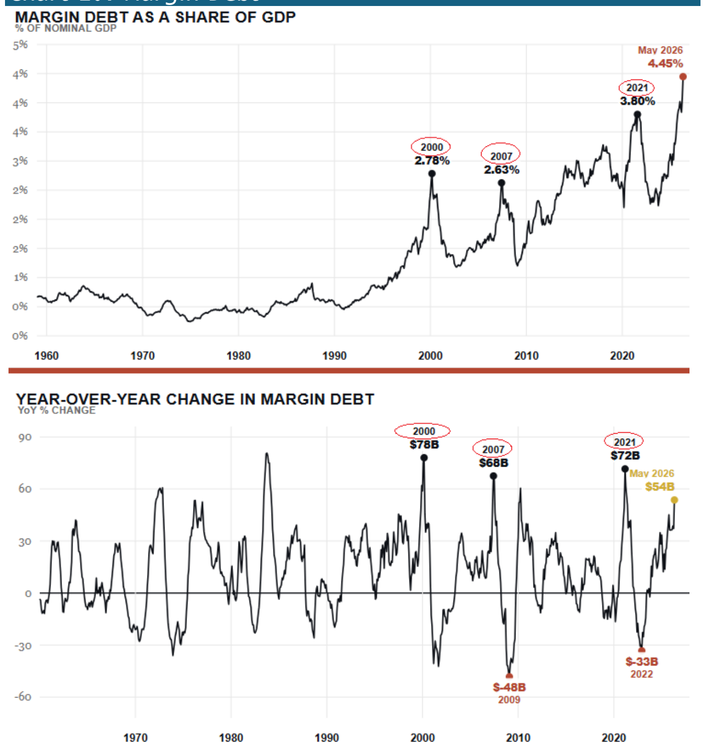
FINRA margin debt - the total amount of money investors have borrowed from their brokerage firms to purchase securities using their existing investments as collateral - reached a record $1.42 trillion in May – up 8.5% in a single month and 53.7% from a year earlier. Relative to GDP, margin debt now stands at roughly 4.4% (Chart 10) against a fifty-year median of about 1.5%. Levels are debatable, but rates of change are not. The last episodes when margin debt grew at anything like the current pace were 1999-2000 and 2007. The periods that followed were quite bad for investors - especially those employing leverage as part of their investment strategy.

Additionally, the industry of providing leveraged investing has surged. Exchange traded funds (ETFs) using leverage to amplify returns (both to the upside and downside) have seen their assets reach roughly $273 billion as of July 10 (Chart 11). More than 30% of newly launched equity ETFs over the past six months carry embedded leverage, and this high fee category of ETFs is attracting a record share of industry inflows.

Traditionally, ETFs own a diversified portfolio of securities. While this is true for many of the leveraged ETFs available to investors, there are now 281 single stock ETFs (the purpose of these funds are to gain leveraged exposure to a single stock) - most of which employ leverage of 2x.

The cost of leverage has also increased. The financing spread investors pay banks for levered S&P 500 exposure is now above 100 basis point (1%) over the Secured Overnight Financing Rate (SOFR) (currently 3.6%) – the highest since late 2024.

Chart 10: Margin Debt



Source: https://realinvestmentadvice.com/

Chart 11: Total Assets of Leveraged ETFs ($ Billion)

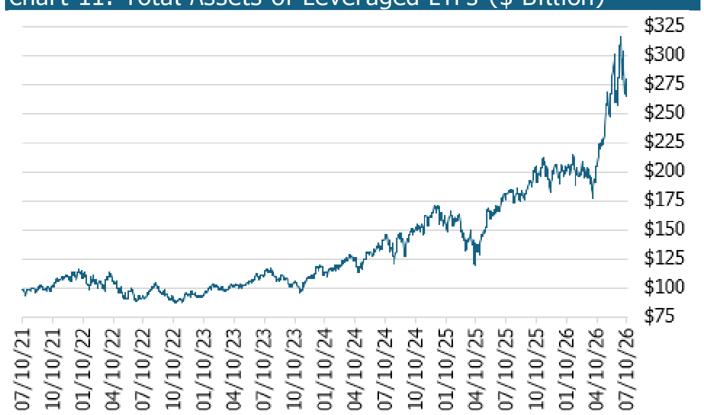


Chart source: Access Financial Services using Bloomberg & Data

Traditionally, higher financing spreads are the result of banks rationing their balance sheets. Now, higher spreads are due to increased investor demand for leverage.

Meanwhile the machinery itself has become a market force. Nomura estimates that leveraged ETFs now generate about $9 billion of mechanical, must-trade rebalancing flow for every 1% move in the market – buying strength and selling weakness, by design, every afternoon.

A good example of where this road has led is in S. Korea. A Hong Kong-listed 2x ETF tied to SK Hynix (a S. Korean memory chipmaker at the heart of the AI trade) ballooned to $13 billion in nine months and on volatile days can account for two-thirds of all trading in SK Hynix, a $1.2 trillion company.

Traders now front-run the ETFs' daily rebalance as a routine strategy and the Fund has begun to move the stock it was built to track – it's the tail wagging the dog. The cost that banks pay for protection against a crash in the shares has more than tripled since March, and when the Korean Kospi index fell 10% in a single late-June session, the forced selling helped drag the Nasdaq index down 3% half a world away.

Korean margin loans have doubled in a year. More than 90% of the investors in these products are retail. Korea's own regulator has expressed regret for approving them.

American retail investors, for their part, have also jumped on the bandwagon. Flows into US equity ETFs topped $150 billion in a single month – the second highest on record. Historically, when retail investors go all-in, it has marked the later innings of a rally.

US Stock concentration adds to the picture. The ten largest stocks (all technology related) represent roughly 39% of the S&P 500 (Table 2) – nearly double the weight of a decade ago. They also sport an average price to earnings ratio premium of more than 50% over the other 490 companies in the index. To be fair, these ten companies do generate about a third of index earnings, and the second quarter's rally was fueled by genuinely spectacular results – analysts raised Q2 earnings estimates by 3.4% during the quarter, when the normal pattern is a 2% decline. The leverage is amplifying something real.

Table 2: S&P 500 Top Ten Stocks

Company	Index Weight
NVIDIA Corp	7.9%
Apple Inc	7.0%
Alphabet Inc (Google)	6.1%
Microsoft Corp	5.1%
Amazon.com Inc	4.1%
Broadcom Inc	3.3%
Meta Platforms Inc (Facebook)	2.1%
Tesla Inc	1.9%
Micron Technology Inc	1.7%
	39.2%

Source: Access Financial Services using data from Bloomberg

The VIX index mentioned earlier is the traditional measure of S&P 500 index volatility. More precisely, it measures investors' expectation of 30 day forward-looking volatility in the S&P 500. It is derived from the prices of S&P 500 index options. It can be thought of as the cost of buying downside protection against a decline in the S&P 500. In almost all cases, it rises and falls along with the volatility of the S&P 500 individual constituent stocks.

During the quarter, the VIX index declined while individual constituent stock volatility moved higher. The dispersion between the two measures has never been wider (Chart 12). The fuel is one-sided: investors are chasing upside in AI names using leverage through call options while put demand – the price of fear – sits at extreme lows.

Chart 12: Implied Volatility & Constituent Volatility

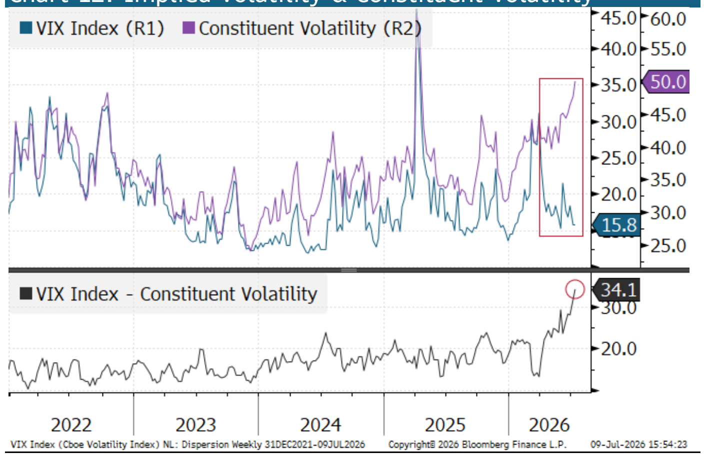


Chart source: Access Financial Services using Bloomberg Software & Data

Actual correlation of individual stock returns is near record lows (Chart 13). This is also true at the sector level (Chart 14). Low correlation mathematically suppresses overall stock market volatility no matter how volatile the individual stocks get.

Strong demand for call options (upside leverage) forces the dealers who sold the calls to investors to buy the underlying stock as the stock price rises in order to hedge the call options they sold against a move higher in the underlying stock thereby chasing the stock higher in what is known as a gamma squeeze – self-reinforcing on the way up, and requiring no bad news whatsoever to reverse once the hedging runs its course.

Chart 13: S&P Constituent Correlation – Realized & Implied

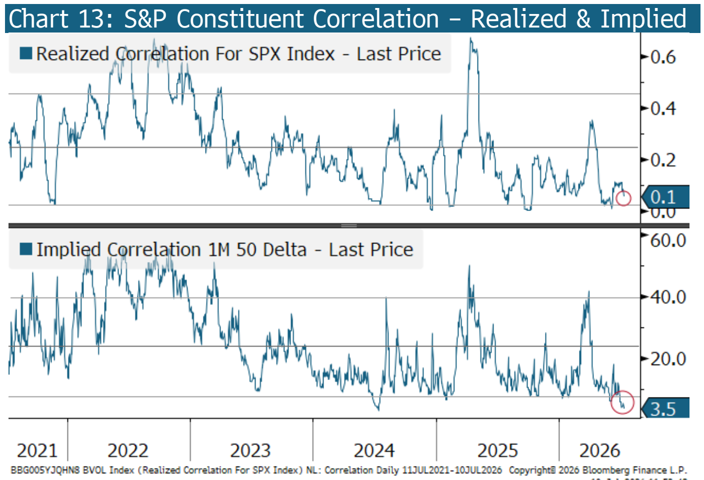


Chart source: Access Financial Services using Bloomberg Software & Data

Clients may recall that a positive volatility-price correlation is the same red flag I raised last September, two quarters before the February-April selloff. The same warning light is flashing again – it has simply migrated from the index down to the individual stocks underneath it. Low index volatility built on record-low correlation is not calm; it is fragility wearing calm's clothing, and it can break on nothing more than the market's own plumbing.

Chart 14: S&P 500 30 Day Sector Pairwise Correlations

Chart source: Bloomberg

While investors have been borrowing to buy stocks, corporate America quietly switched sides of the trade.

For most of the past 15 years, US companies were the market's largest net buyer of stocks. Corporate stock buybacks so consistently exceeded new issuance that the supply of shares shrank year after year, a silent tailwind under every dip.

That regime looks to have ended. Federal Reserve flow-of-funds data show net equity supply flipped from a negative $216 billion annualized pace in late 2025 to positive $124 billion in the first quarter – the first positive reading since 2021 (Chart 15). The historical record on such flips is short and unkind. Issuance waves crested alongside the market peaks of 2000, 2008, and 2021.

SpaceX went public on June 12 in the largest initial public offering (IPO) in history. Roughly $75 billion was raised against reported demand above $250 billion, with an unprecedented ~30% of the deal sold to retail investors. OpenAI and Anthropic have both filed confidentially for IPOs. SK Hynix sold $26.5 billion of stock in the form of US American depository receipts (ADRs) this month. Its shares immediately traded 15% above their offering price and a premium of about 18% over the closing price of the Seoul-listed common stock. This, too, is among the largest listings ever.

Add Alphabet's roughly $85 billion stock sale and an estimated $500 billion of IPO lockups[3] expiring this year (Chart 16), and investors need to absorb well over half a trillion dollars of new and newly freed equity in a single year. The previous full year record for US IPO proceeds was 2021's $156 billion. Insider selling, which had gone quiet (it is bad form to dump stock ahead of your own offering), is likely to resume as lockups roll off.

Chart 15: Net Equity Supply is Positive Again ($ Billion)

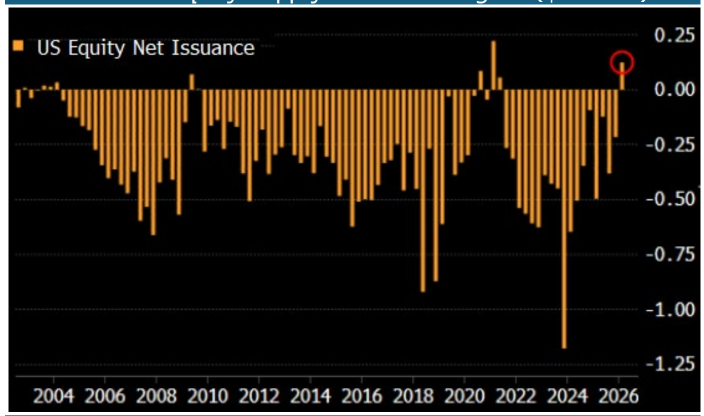


Chart source: Bloomberg

Chart 16: Equity Supply from IPOs and Value of Shares from Expiring Lockups ($ Billion)

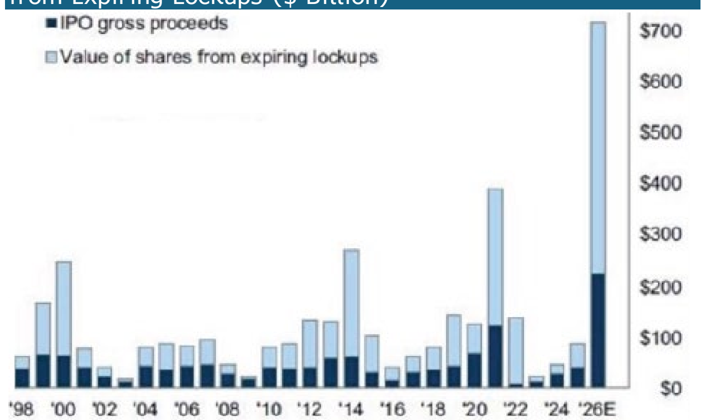


Chart source: Goldman Sachs

Early returns are interesting. SpaceX's shares initially soared, then fell by roughly a third from their post-IPO peak (Chart 17); OpenAI is now reported to be weighing a delay of its listing into 2027 because its advisers doubt the market's appetite. Bitcoin – the most liquid source of speculative dry powder – fell about 20% around the listing window as US spot Bitcoin ETFs suffered their worst month of outflows on record, which hints at where some of the SpaceX money came from. The market swallowed the first mega-deal and is already chewing slowly.

It is worth considering who absorbs the rest. Household equity allocations are at all-time highs across every sector of the flow-of-funds accounts. So, the traditional marginal buyer may be all-in at this point.

Bulls point, fairly, to roughly $8 trillion parked in money market funds. Bears note that index inclusion simply recycles the pressure: when the Nasdaq-100 fast-tracked SpaceX, index funds bought billions of it by selling what they already owned. This is similar to the capital cycle I described last October – too much capital flooding a hot industry, ending in oversupply – except this time the oversupply may be of stocks themselves.

[3] An IPO lockup company prevents insiders such as founders, employees, executives, and early private investors from selling their shares for a set timeframe (typically 90 to 180 days) after a company's initial public offering.

It is possibly no coincidence that Berkshire Hathaway, whose cash hoard has historically swelled a year or two before issuance booms end badly, is sitting on more cash than ever.

Chart 17: SpaceX Share Price History

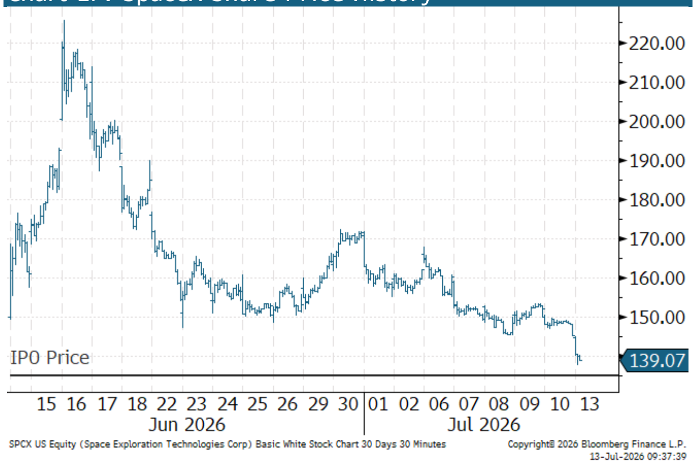


Chart source: Access Financial Services using Bloomberg Software & Data

Every quarter the AI question gets asked with more money riding on the answer. What changed this quarter is that the debate finally narrowed to a single, answerable question: are technology earnings real, or are they an accounting artifact?

The bear case now runs through the income statement rather than the valuation. When Nvidia sells a GPU or Micron sells a memory chip, the seller books immediate revenue, but the buyer does not book an expense. The buyer capitalizes the purchase and depreciates it over years. Aggregate earnings therefore increase even while aggregate cash flows do not. Since 2019, S&P 500 forward profit margins have risen 3.8 percentage points – over 11 points in the IT sector – and at 2019 margins, today's index would trade at roughly 26.5 times forward earnings rather than 20 times.

This is the mirror image of the depreciation math I walked through in January. The $400 billion annual depreciation bill I described arriving on the hyperscalers' income statements is the same profit currently being booked, today, by their suppliers. One analyst's earnings bubble is another's deferred expense. Layered on top is the rate-of-change problem. Hyperscaler capex intentions remain enormous – around a trillion dollars over the next two years – but GDP growth doesn't care about levels, it cares about rate of change. The growth rate of AI capex is rolling over even as the level plateaus at a very high level. AI related investment contributed about one percentage point of the second quarter's 3.8% annualized GDP growth – still the largest single engine, but a far cry from the stretch last year when it was effectively the only engine.

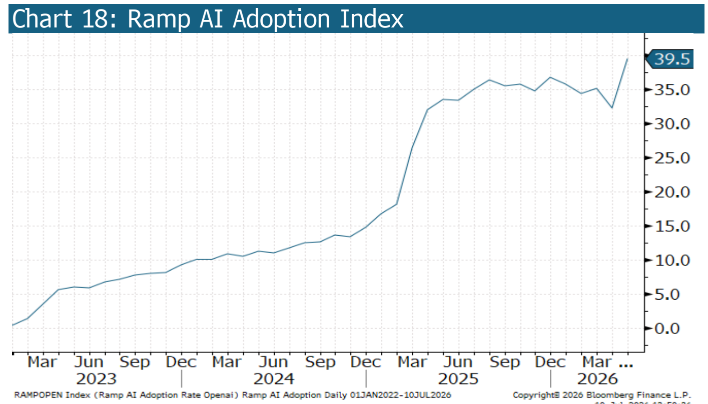
The bull case deserves a fair hearing because it has been right all year. On earnings quality, the hyperscalers' 17% share of S&P market capitalization is roughly in line with their share of index operating profits – unlike 1999, the market cap has followed the income, not the story. On valuation: adjust fair value for technology's structurally larger share of the economy and, on at least one respected framework, the S&P at 20 times forward earnings screens as cheap, with bubble anxiety itself suppressing the multiple.

On the second derivative: chip sales, electronics imports, rock bottom data center vacancy rates, and the compute appetite of the new agentic tools all point to IT capex growth accelerating, not fading. One of our more quantitative research provider's models gives 80% odds on the S&P being higher a year from now, with a one-in-four chance of an outright melt-up. Notably, they put a worst case for the S&P 500 in the low 6000s (the current level is 7570), down about -20%.

Looking at corporate AI adoption, the Census Bureau revised its survey question in November (from AI use "in producing goods or services" to use "in any business function"), which roughly doubled the measured rate. On the new basis, about one in five US businesses now uses AI – up roughly four points from late last year. And the recent gains are coming from lower adoption, blue collar industries, suggesting the technology is moving into operational workflows rather than plateauing among the usual suspects. Score this as progress. The gap between aspiration and reality I flagged in January has begun to close, though the level remains modest and the trend only a few quarters old.

Chart 18 updates the Ramp AI Index Adoption Rate index from last quarter. It measures the share of US businesses with paid subscriptions to AI models, platforms, and tools.

Chart 18: Ramp AI Adoption Index



Note: The index measures the share of US businesses with paid subscriptions to AI models, platforms, and tools.
Chart source: Access Financial Services using Bloomberg Software & Data

Turning to the capital cycle in memory, prices are still rising (Chart 19) and memory stocks led the entire market this quarter. Micron, SK Hynix, Samsung and others are all racing to add capacity. Chinese producers are pushing upmarket.

In the past, the memory chip industry was highly cyclical – similar to commodities. Commodity capex booms have always ended the same way and memory chips will probably become a commodity at some point as more production comes online.

Chart 19: Memory Prices

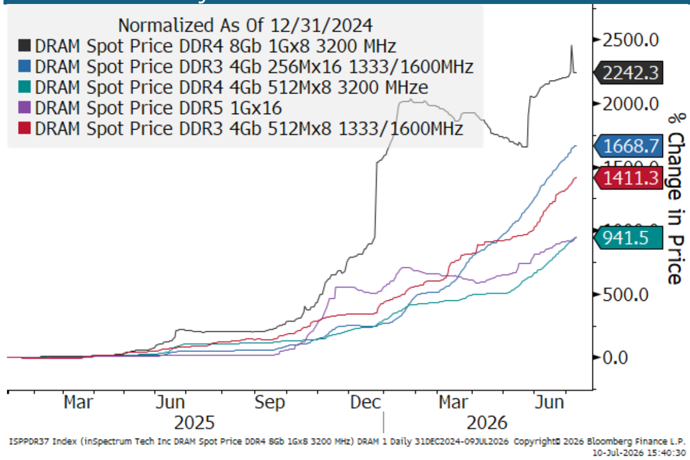


Chart source: Access Financial Services using Bloomberg Software & Data

Pricing and usage: Token prices – the unit cost of using AI models – are falling as customers migrate to cheaper and open-source alternatives. Model providers are shifting from flat-fee to usage-based pricing to push their capex bill onto customers. Falling prices with decelerating unit growth is not what unassailable pricing power looks like.

Profit margins outside tech: The promise of AI remains that it lifts everyone's margins. So far, the margin miracle remains confined to the sellers of the technology. This item stays unresolved, and it is still, to my mind, the one that ultimately decides whether the infrastructure becomes productive capital or stranded assets.

I wrote last October that the final inning of a bull market is often the most lucrative part of the cycle and that it seemed early to get overly defensive. We then spent a quarter being early. The framework has not changed – participate through breadth and quality rather than concentration, own the volatility rather than pay for it late, and watch the scoreboard rather than the crowd noise.

Turning back to geopolitics, domestic issues have already led to substantial upsets in recent elections and the upcoming midterm elections are serving as a source of restraint for President Trump. This is holding the world's flashpoints in check.

His focus needs to be on Americans' standard of living. The White House needs quiet in the Persian Gulf, gasoline under $4, and continued support for the AI investment boom with its outsized impact on economic growth until the polls close.

After the elections, the administration regains its freedom to pursue the denuclearization and freedom-of-navigation outcomes it did not achieve. Iran knows this, which is why it is spending the interim rearming, entrenching its grip on Hormuz, and preparing to charge tolls.

However, a new Congress – with consensus odds of Democrats taking both chambers around 40% and climbing – will arrive in January with a mandate built on affordability anger and a populist eye on the technology giants profiting from the AI boom.

Two risks deserve attention because they are not on the November calendar. The first is Russia. The stalemate that has let investors ignore Ukraine since 2023 is coming undone. Russia's casualties are staggering, its energy revenues are falling with oil prices, the ruble is sagging, and its own elites are urging an end.

A cornered Russia is more likely to negotiate than consensus believes. That said, on the way to any ceasefire it is likely that Moscow will manufacture a crisis with NATO first in the form of infrastructure sabotage, border provocations, nuclear brinksmanship, or something else.

I wrote in April that "President Trump's stance will encourage Russia to stage some sort of provocation against NATO" and that a failed American response would breach alliance trust – a Russian strategic goal. That risk has grown. The market translation of a NATO crisis would likely result in much higher European bond yields (defense spending on top of already-strained budgets) and an equity market correction – disruptive, but probably a correction rather than a bear market.

The second is Taiwan. Our geopolitical research sees a one-in-three chance of China using some military force within twelve months. Most of that probability is assigned to "gray zone" actions, such as seizing a small outlying island, aimed at shaping Taiwan's November 28 local elections rather than starting a war.

I bring this up because of what was described earlier. Korea and Taiwan make up half the emerging-markets index (Tiawan: 27.7%; S. Korea: 21.5%), the semiconductor complex drove the second quarter rally, and the leverage machinery described earlier sits most heavily on those stocks. A Taiwan incident is the scenario in which that machinery runs in reverse. The probability is not high, but the situation is worth paying attention to.

Finally, increased taxes over the next few years are on our radar. Political analysts we follow think the odds of a significant US tax increase at essentially zero today, roughly 25% once the new Congress is seated in January, and 40-60% by 2028 driven by deficits, bond market pressure, and a populist consensus that will outlast any single election. AI backlash feeds the same current as seven in ten Americans now oppose data center construction in their own area, and proposals to tax AI profits have moved from the fringe to the Senate floor. None of this impacts strategy through year end, but all of it involves long-term planning consideration.

Bringing it all together, we subscribe to several high end research services. This quarter they disagree with one another more than usual. One respected firm's models put 80% odds on the S&P 500 being higher a year from now, with a one-in-four chance of an outright melt-up. Another believes an earnings bubble is developing in the AI related space that will eventually unwind taking equities down 30-50%. A third expects a blow-off rally into the midterms followed by Fed hikes and, in their words, calamity in 2027. On the Fed's expected path over the next year, the spread is also wide. The market is pricing a single rate hike at this point; one service expects several hikes; another puts just 36% odds on any hike at all and expects the next big move to be cuts in short term interest rates.

When smart people armed with the same data reach such differing conclusions, I tend to focus on where the agreement is: a consumer whose spending now leans on a rising and calm stock market; record leverage amplifying whatever the market does next; a historic wave of equity supply meeting a buyer base that may already be fully invested; an inflation-versus-employment fork that will force the Fed to disappoint someone; and a geopolitical calendar that reactivates in November. Every one of them, bullish and bearish alike, expects the second half to be more volatile than the first. Direction is the debate; dispersion is the consensus. For now, our strategy reflects where the agreement is.

Rather than predictions, here is the scoreboard we will be watching between now and year-end:

The rate of change in Hormuz transits, and the mid-August deadlines – Iran's transit tolls and the nuclear agreement that is supposed to reach the UN Security Council.

Trimmed-mean inflation and the labor force participation rate – the two series that will decide whether the Warsh Fed hikes, holds, or (the market's least-priced outcome) cuts.

Net equity supply and the market's digestion of it. SpaceX trading below its post-IPO peak is the canary; whether OpenAI proceeds or delays is the tell.

Margin debt's rate of change, and whether the leveraged-ETF complex passes its first real stress test. The Census Bureau's AI adoption series and, above all, profit margins outside the technology sector – still the arbiter of whether this infrastructure becomes productive capital or stranded assets.

The housing dashboard from January – mortgage spreads, purchase applications, starts, and the related equities – which will tell us whether the consumer gets a second pillar back before the cycle demands one.

Coming into the third quarter, our clients' portfolios remain positioned for the environment described above rather than for a directional bet.

Within US stocks, we remain underweight the largest handful of index names – now closing in on 40% of the S&P 500 – and continue to favor higher quality companies and the broader market that finally began outperforming as the quarter closed.

We maintain the exchange-traded structures that protect against a meaningful decline in the S&P 500. With the VIX suppressed by record low stock correlations, the cost of protection is low. With July historically the calmest month of the year, index protection is about as inexpensive as this market will offer it – and as the prior section described, cheap for reasons that should make investors want more of it, not less.

We are maintaining our energy holdings on the view that crude's downside is limited by restocking demand and 60% odds of renewed conflict, while acknowledging that energy equities never fully priced the war and may lag if the peace holds.

Abroad, we remain committed to foreign and emerging-market stocks, but with two amendments to the rationale I laid out in January. The dollar has stabilized rather than continued falling, removing – at least for now – the currency tailwind that drove 2025's foreign outperformance. And the emerging markets index has become, in effect, a leveraged semiconductor position: Korea and Taiwan are half its weight and increasingly move with the S&P rather than against it.

In fixed income, the short-duration overweight was the right call again and we are keeping it. Corporate credit looks priced for perfection, with spreads implying a default rate well below today's actual rate, just as AI-related debt issuance doubles. Our higher-yielding alternative credit exposure continues to earn its place on income grounds, shorter maturities and credit selection.

We are positioned for a market that broadens, a world that stays noisy, and a second half in which volatility – not direction – is the highest-confidence forecast we can make.

As always, we thank you for the confidence you have placed in us. Please do not hesitate to contact me if you would like to discuss any of this in more detail.

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