A Broad Turn | 02.06.2026

Market performance this year has been stronger than headline index returns might suggest. While the S&P 500 is up just 1.3%, the equal-weight index has gained more than 5.5%, pointing to a meaningful improvement in market breadth. After several years in which returns were concentrated among the market's largest companies, leadership is beginning to broaden. This shift is worth watching, as wider participation often signals a more resilient market.

This broadening started in late 2025 as investors grew more discerning about the sustainability of the extraordinary pace of AI-related investment. Artificial intelligence remains a powerful long-term theme, but investors are taking a closer look at the upfront costs and the time it may take for those investments to pay off. Attention is shifting toward businesses positioned to deploy these technologies, where productivity gains can translate more directly into earnings growth. Supported by a resilient, gradually improving economic backdrop, profit expectations for businesses outside the largest mega-cap companies are beginning to accelerate.

At the same time, AI developments are driving meaningful changes within the technology sector itself. Anthropic, a leading AI firm, recently introduced a tool designed to automate complex legal workflows, underscoring how quickly these capabilities are advancing. Several established software providers saw their stock prices decline amid concerns that new AI-enabled tools could begin cutting into parts of their business once viewed as secure. This serves as a reminder that technological shifts rarely affect all companies equally, often creating both winners and losers, even within the same industry.

As enthusiasm surrounding the digital economy eases, investors are paying more attention to opportunities in more traditional, everyday industries. Transport companies and regional banks are often viewed as reliable barometers of economic expectations, and both groups have recently pushed to new highs. Markets are increasingly focused on the possibility that government spending and Federal Reserve policy may both work in the same direction to support growth in 2026. Expected interest rate cuts and possible tax breaks could improve consumer confidence and help boost profits for industries that depend heavily on overall economic conditions.

There are certainly risks to consider. Midterm election years are historically among the most volatile of the presidential cycle, with markets often gaining clarity once the outcome is known. Geopolitical tensions have also risen in the early weeks of the year, including U.S. actions in Venezuela and increased military assets near Iran. Events like these can disrupt the market's normal rhythm. Against this backdrop, defensive sectors tied to essential goods and services have shown relative strength. Health care and consumer staples, which have lagged in recent years, are now helping more of the market move higher.

Overall, more companies across different parts of the market are participating, creating opportunities in both fast-growing and economically sensitive industries. While midterm uncertainty and geopolitical risks remain, sticking to a thoughtful plan and focusing on company basics remains important for making investment decisions.

Thanks,
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