

A Strong Foundation | 06.15.2026

It was a relatively choppy week for the S&P 500, though the broader trend remains firmly positive. Despite a handful of sharp daily swings, the index remains up roughly 8.4% for the year and more than 17% above its March 30 low. The more interesting story may be what is happening beneath the surface of the market.

For much of the last year, a relatively small group of companies tied to artificial intelligence (AI) and semiconductor demand has driven a disproportionate share of market returns. That leadership remains intact. Semiconductor and semiconductor equipment companies still account for roughly 65% of the S&P 500's total return this year. However, over the past few weeks, more companies have joined the market's gains. Broadcom, a major chipmaker tied to AI and data centers, delivered another exceptional earnings report, yet the stock's reaction was surprisingly modest. Since mid-May, the average stock has outperformed the cap-weighted S&P 500, while the contribution from the index's ten largest holdings has fallen to roughly 25% of total market returns. Investors appear increasingly willing to look beyond the market's largest winners.

Part of that shift can be traced back to the economy. May's employment report exceeded expectations, job openings have increased, and unemployment claims remain subdued. As a result, investors are now moving from asking when the Federal Reserve might lower interest rates to whether it might need to raise them again. Higher interest rates are not necessarily bad for stocks when they reflect stronger economic growth. However, they often benefit a different set of companies than investors have been used to over the past decade.

Importantly, the same economic strength that has pushed interest rate expectations higher has also continued to support corporate earnings. Analysts have steadily raised their expectations for company profits as businesses benefit from resilient demand, ongoing investment activity, and improving productivity. Consensus estimates now call for earnings per share growth of more than 25% in 2026 and another 16% in 2027, underscoring how dramatically expectations have improved over the past several months.

That earnings strength helps explain one of the market's most surprising developments. Many investors assume the market is expensive after the strong rally of the last three and a half years. Yet the S&P 500's PEG ratio, which compares valuation to expected earnings growth, recently fell near its lowest level in roughly three decades. Earnings expectations have risen faster than stock prices, so even though prices have risen, valuations actually look more reasonable when you consider how much growth is expected. Put differently, investors are paying more, but receiving considerably more growth in return.

Meanwhile, the framework agreement reached between the United States and Iran over the weekend appears to validate what markets had anticipated for some time. Investors largely moved beyond fears of a worst-case outcome weeks ago, as energy prices stabilized and supply disruptions remained limited. Attention has increasingly shifted back toward earnings, economic growth, and business investment. While geopolitical events can create short-term volatility, financial and economic trends tend to have a much greater influence on long-term investment returns once the risk of escalation begins to fade.

The combination of resilient economic growth, rising earnings expectations, and improving market participation continues to support a constructive outlook. At the same time, higher interest rates, geopolitical uncertainty, and the approaching midterm election cycle could contribute to greater volatility in the months ahead. For long-term investors, however, the fundamental backdrop remains considerably stronger than many headlines suggest.

Thanks,
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