SPECTRUM℠
INVESTMENT ADVISORS

Quarterly Newsletter

Third Quarter 2026

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Newsletter Snapshot:

Markets staged a rebound in the second quarter.

Earnings Growth has outpaced initial expectations this year, with earnings growth surpassing 20%

New Fed Chair Kevin Warsh has held rates steady; with inflation remaining elevated.

The S&P 500 gained 15% in the second quarter. It was the second highest three-month gain for the index in the last 10 years. The rally erased a spring decline and climbed to a 10.1% total return through July. International stocks (MSCI EAFE index) also rebounded to 11.6% year-to-date total return. The Bloomberg U.S. Aggregate Bond index stayed relatively flat with a -0.7% year-to-date total return through July 31, 2026.

Category	YTD Total Return
US Stocks	10.1%
International Stocks	11.6%
Bonds	-0.7%
Diversified 60-40	6.1%

Source: Morningstar as of 7/31/2026, Total Returns including dividends. US Stocks: S&P 500 Index, International Stocks: MSCI EAFE NR USD, Bonds: Bloomberg U.S. Aggregate Bond Index. Diversified 60/40: 42% S&P 500, 18% MSCI EAFE, 40% Bloomberg US Aggregate Bond. For illustrative purposes only, not indicative of portfolio returns.

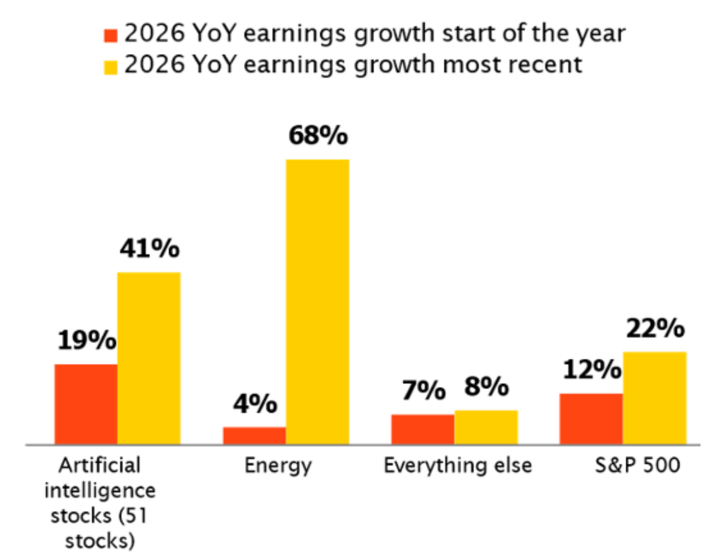
AI and Energy Boost Corporate Earnings

Markets tend to follow earnings and prospects for future earnings; this year earnings have grown at an accelerated rate, which has boosted investor optimism. For context, companies have historically grown earnings at roughly 9%. The chart to the right shows surprisingly strong earnings growth from AI and energy companies pushed 2026 S&P 500 expected earnings growth to 22% through May.

The positive earnings surprises were not just in large caps. Earnings expectations for S&P Small Cap 600 companies were also up significantly, helping small cap stocks become one of the best performing asset classes in 2026. Year to date through July, the S&P Small Cap 600 index had a total return of 21.5% versus the S&P 500 (large cap) index up 10.1%. It's another reminder to stay diversified.

Are stocks getting more expensive or "overpriced"? On an aggregate basis, that does not appear to be the case. The forward price-to-earnings ratio for the S&P 500 was 22.0 at the start of 2026. With earnings growing faster than stock prices, that ratio has actually gone down to 19.6 as of July.

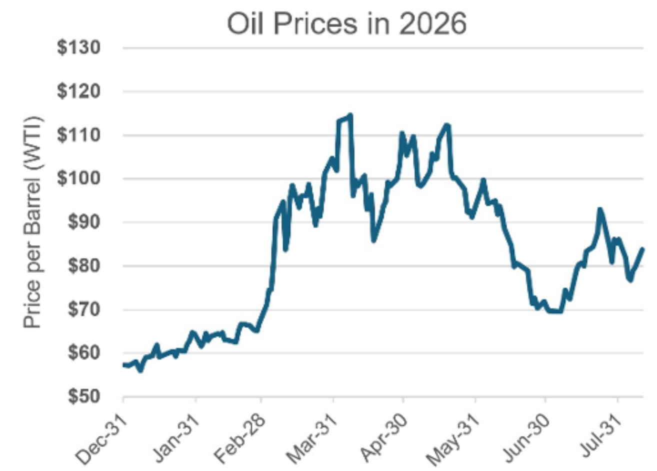
Earnings growth for 2026 versus 2025 broken out by artificial intelligence and energy stocks
S&P 500 stocks



Source: Morningstar and Bloomberg as of 5/31/26. U.S. stocks represented by the S&P 500 Index. AI companies were identified using an objective holdings-based screen: S&P 500 constituents were classified as 'AI' if, as of May 30th, 2026, they were held in at least one of the five largest (by AUM) U.S.-listed AI-themed ETFs, selected based on stated AI-focused investment objectives/strategy. The resulting AI basket includes 51 S&P 500 companies. Energy represents S&P 500 companies in the GICS Energy Sector. Everything Else represents the S&P 500 excluding the AI-classified and Energy constituents. Index performance is for illustrative purposes only. Index performance does not reflect any management fees or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future returns.

Oil Prices

Oil prices remain elevated due to the ongoing war in Iran. High oil prices may slow the economy, but are not likely to cause a recession on their own. Since 2000, the US economy has had seven quarters where oil averaged over $100 per barrel for a full 90 day period. The good news is the overall economy continued to grow in all but one of those quarters. The economy grew by 1.5% from April through June while oil averaged just under $100 per barrel (real gross domestic product). down from 2.1% in the first quarter. The bigger picture is the impact higher oil prices will have on inflation and interest rates.

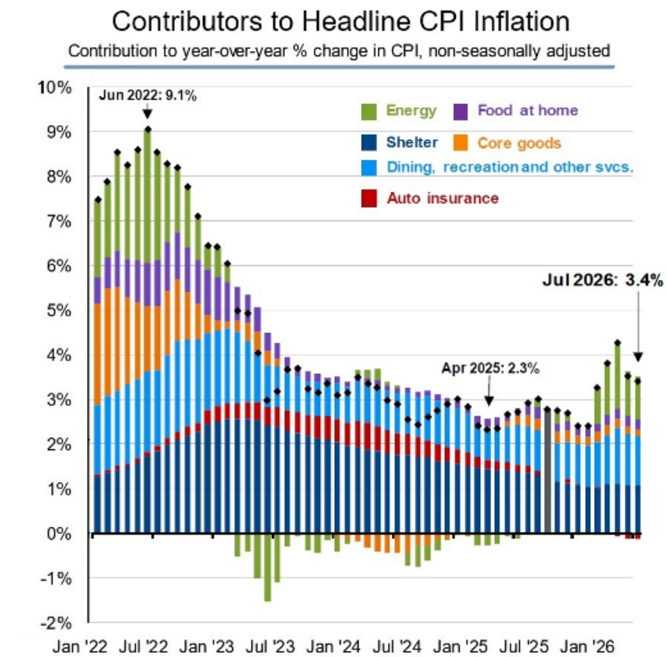


Source: Ycharts, Energy Information Administration. Through 8/10/26.

Renewed Inflation Concerns

Higher energy prices (green bars in chart to the right) caused overall inflation to move higher on a year-over-year basis. The CPI (Consumer Price Index) rose to 4.2% in May. Inflation cooled somewhat to 3.4% through July as easing tensions with Iran helped oil and gasoline prices fall from peak prices experienced in May. This relief should continue to show up in inflation data through the summer, barring any further setbacks in Iran.

Dr. David Kelly from JP Morgan expects inflation to decline. His current estimate calls for inflation to land near 2% sometime in 2027 as core inflation measures are slowly grinding lower. One reason is fading tariff impacts due to the Supreme Court ruling earlier this year. He believes the administration will be less aggressive with new tariffs going into the midterm elections.

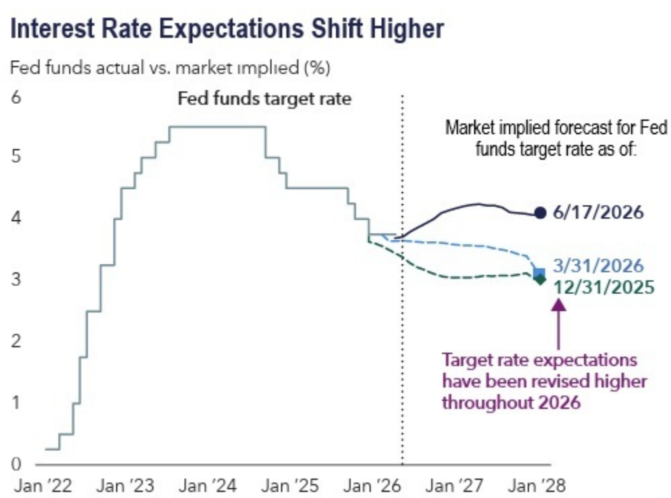


Source: JPMorgan, BLS - table 7 of the CPI report. Values may not sum to headline CPI figure due to rounding. Shelter includes owners' equivalent rent, rent of primary residence and home insurance. Food at home includes alcoholic beverages. Guide to Markets June 30, 2026. **Updated August 20, 2026 with July Data.**

Rate Expectations Adjust to Higher Inflation

Kevin Warsh was sworn in as the 17th Chairman of the Federal Reserve on May 22nd. He held his first two policy meetings in June and July and kept the Fed funds rate unchanged as expected. Fed members were split on the path forward for rates this year. Largely due to the effects of higher oil prices, market expectations shifted from two cuts in 2026 to potentially two hikes by year-end.

Fed Chair Warsh is ushering in some changes to how the Fed operates. For one, he hinted the Fed may reduce the amount of forecasts or projections it publishes. His rationale is markets are more efficient long term when they are making the estimates than relying on a government entity. Warsh emphasized one thing that will not change; the Federal Reserve will remain politically independent.



Source: Capital Group, Bloomberg, US Federal Reserve. Target rate reflects the upper bound of the FOMC target range as of June 17, 2026

U.S. Economic Update

The first half of 2026 tested the economy's resilience; an energy shock, a new Fed chair, and shifting tariffs all hit within months. The economy held up better than the headlines suggested. GDP growth is estimated at 2.1% for the year, in line with 2025, and unemployment ticked up modestly to 4.4% but remains healthy.

Inflation is the bigger story: the 2026 estimate rose to 3.4% from 2.1%, mainly on the energy spike tied to the Iran conflict. Regardless of what the Fed does, market based interest rates have moved higher. Both the 10-year Treasury yield (4.7% as of Aug. 20) and average 30-year mortgage rate (6.7% as of Aug. 20) have risen 0.5% in 2026.

Economic Data	2024	2025	2026 Est.
Tariff Rate	2.3%	15.6%	10.4%*
GDP Growth	2.8%	2.1%	2.1%
Inflation	2.9%	2.7%	3.4%
Unemployment Rate	4.1%	4.4%	4.3%
Fed Funds Rate	4.3%	3.5%	3.6%
Avg. 30Y Mortgage Rate	6.9%	6.2%	6.6%*

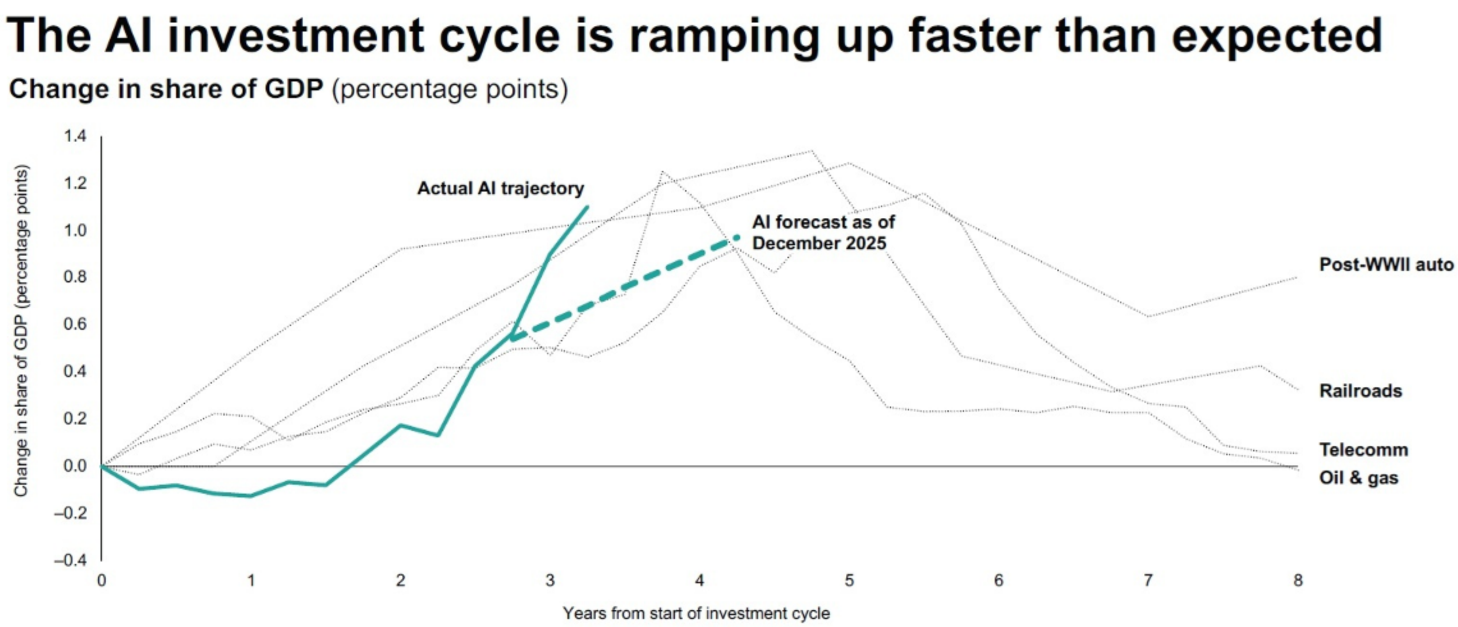
2026 estimates: July 2026 Wall Street Journal Survey of Economists **Tariff Rate**: Average effective tariff rate applied to imports into the United States. **GDP Growth**: Gross domestic product year over year growth. **Inflation**: Consumer Prince Index (CPI) year over year. **Unemployment Rate**: % of unemployed in the workforce. **Federal Funds Rate**: Midpoint of the range set by the Federal Reserve. **Avg. 30 Year Mortgage Rate**: an average from the Primary Mortgage Market Survey by Freddie Mac. Source: Ycharts, JPMorgan Guide to the Markets, BLS, BEA. *No Estimate provided, Rate as of 7/31/2026

AI Build-out In Context

The chart below compares the AI infrastructure build-out to other historic examples of comparable scale. It also shows that the pace has been faster than expected (according to Vanguard). Joe Davis, Vanguard's Chief Global Economist, believes this should continue and is expecting 3.0% GDP growth in 2027, which is above consensus. He does caution that there has never been a transformative boom of this size that didn't see a subsequent pullback. Typically there is a handoff from the producers to the end users of the new technology. For example, it will be a challenge for new job creation related to AI to match the potential jobs taken away. Those handoffs don't often happen in perfect harmony.

Conclusion

Since January of 2020, we have experienced a global pandemic, 50 year highs in inflation, soaring interest rates, and the highest tariff rates in 100 years. During that period the S&P 500 had an annualized return of 15.3% in spite of three pull backs of over 20%. We don't know what the future will bring but having a diversified portfolio can help keep your long-term goals as the drivers of your investment decisions and avoid urges to react based on the latest news headlines.



© The Vanguard Group, Inc., used with permission. Sources: Vanguard calculations based on data from U.S. Bureau of Economic Analysis as of 4/30/26. Railroad data from Pereira, Hausman, Pereira, Railroads and Economic Growth in the Antebellum United States, The College or William & Mary, 2014, available at economics.wm.edu/wp/cwm_wp153.pdf. Notes: This cart shows the change in the total size of different investment cycles as a share of real GDP. The period starting points are 1Q 1850 (railroads), 1Q 1946 (post-WWII auto), 1Q 1980 (oil & gas), 2Q 1995 (telecomm), 3Q 2022 (AI).

Spectrum Investor® Update

As of June 30, 2026

Morningstar Category Averages		3 Month	1 Year	3 Year
	Intermediate-Core Bond	0.73%	**3.77%**	**4.25%**
	Moderate Allocation	8.22%	14.28%	12.54%
	Large Cap Value	9.64%	21.21%	16.13%
	Large Cap Blend	14.21%	20.23%	18.52%
	Large Cap Growth	18.98%	18.29%	**21.52%**
	Mid Cap Value	9.93%	21.46%	14.29%
	Mid Cap Blend	14.59%	23.75%	15.83%
	Mid Cap Growth	17.39%	16.06%	14.29%
	Small Cap Value	15.40%	32.27%	15.60%
	Small Cap Blend	19.68%	33.88%	16.49%
	Small Cap Growth	**24.47%**	33.31%	16.04%
	Foreign Large Cap Blend	10.44%	21.46%	16.72%
	Real Estate	11.21%	14.97%	9.75%
	Natural Resources	**-2.17%**	**37.66%**	12.70%

Source: Morningstar, 3 yr return is annualized. Morningstar classifies categories by underlying holdings and then calculates the average performance of the category. Past performance is not an indication of future results. Returns in Blue = Best, Returns in Red = Worst. Please see Benchmark Disclosures below.

Data as of 6/30/26 unless otherwise noted. The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors. The S&P 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. Barrel of Oil: West Texas Intermediate. Inflation Rate: CPI. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index. Indices cannot be invested into directly.

To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

As of June 30, 2026

DOW: 52,319

NASDAQ: 26,214

S&P 500: 7,499

Barrel of Oil: $69.50

10 Yr T-Note: 4.44%

Inflation Rate: 3.5% (June, 2026)

Unemployment Rate: 4.2% (June, 2026)

Source: Yahoo Finance, bls.gov, eia.gov

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