



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.

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.

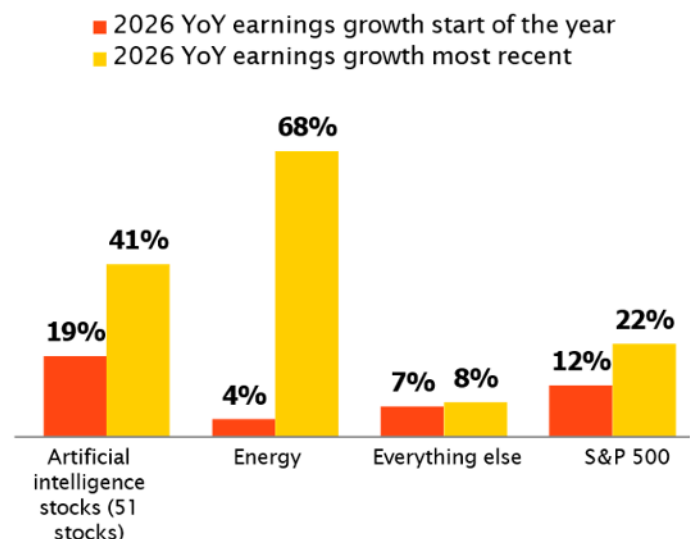
Are stocks getting more expensive or "overpriced"? On an aggregate basis, that does not appear to be the case. The forward price-to-earnings ratio for the S&P 500 was 22.0 at the start of 2026. With earnings growing faster than stock prices, that ratio has actually gone down to 19.6 as of July.

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.

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.

Renewed Inflation Concerns

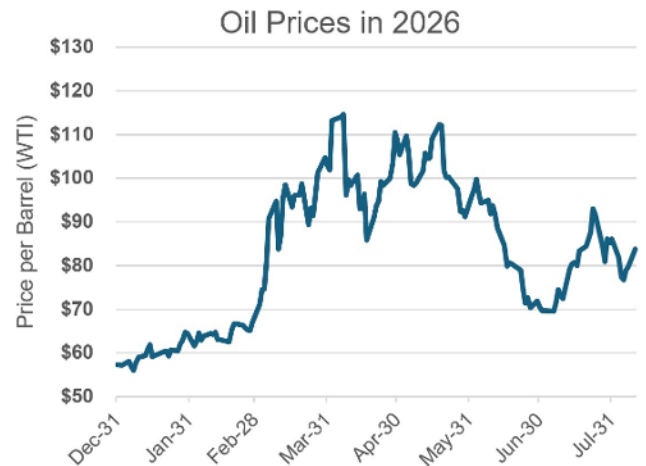
Higher energy prices (green bars in chart to the right) caused overall inflation to move higher on a year-over-year basis. The CPI (Consumer Price Index) rose to 4.2% in May. Inflation cooled somewhat to 3.4% through July as easing tensions with Iran helped oil and gasoline prices fall from peak prices 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.

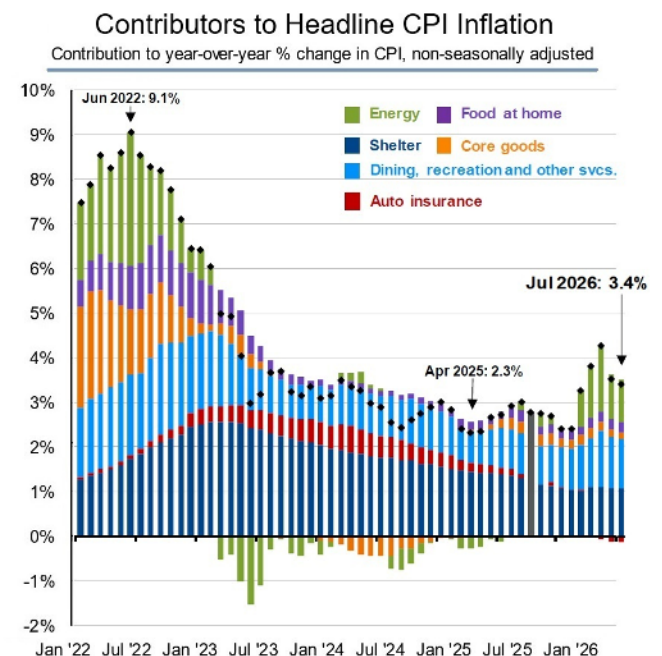
Rate Expectations Adjust to Higher Inflation

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.

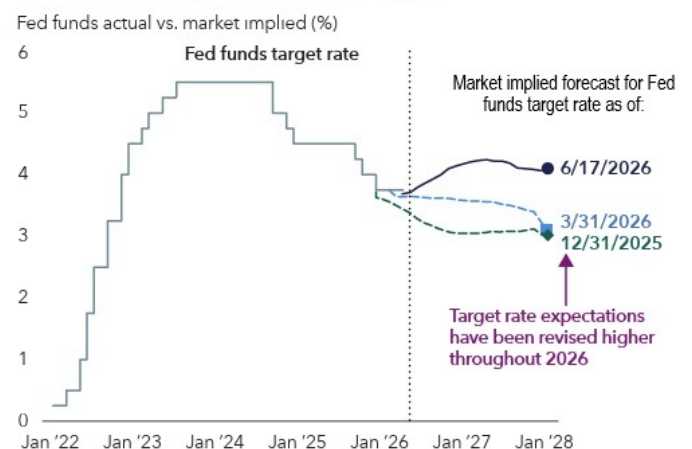


Source: Ycharts, Energy Information Administration. Through 8/10/26.



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.

Interest Rate Expectations Shift Higher



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.

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

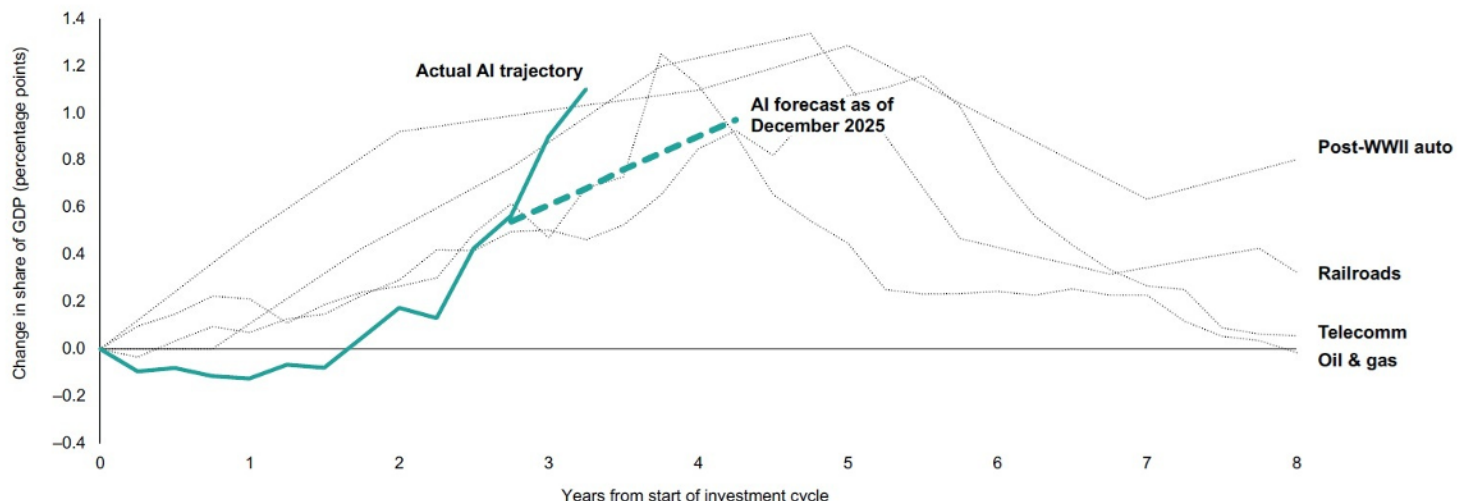
Since January of 2020, we have experienced a global pandemic, 50 year highs in inflation, soaring interest rates, and the highest tariff rates in 100 years. During that period the S&P 500 had an annualized return of 15.3% in spite of three pull backs of over 20%. We don't know what the future will bring 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.

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 Price 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

The AI investment cycle is ramping up faster than expected

Change in share of GDP (percentage points)



© 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 of William & Mary, 2014, available at economics.wm.edu/wp/cwm_wp153.pdf. Notes: This chart 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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Benchmark Disclosures: Morningstar Category Averages: Morningstar classifies mutual funds into peer groups based on their holdings. The Category Average calculates the average return of mutual funds that fall within the category during the given time period. The following indexes and their definitions provide an approximate description of the type of investments held by mutual funds in each respective Morningstar Category. One cannot invest directly in an index or category average. Index returns do not reflect trading, advisory and other fees and expenses which are incurred in your actual investment accounts and would reduce your returns. Intermediate-Term Bonds: Bloomberg US Agg Bond Index-Measures the performance of investment grade, US dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS, ABS and CMBS. Allocation 50%-70% Equity-These funds invest in both stocks and bonds and maintain a relatively higher position in stocks. These funds typically have 50%-70% of assets in equities and the remainder in fixed income and cash. Large Cap Value: S&P 500 Value Index-Measures the performance of value stocks of the S&P 500 index by dividing into growth and value segments by using three factors: sales growth, the ratio of earnings change to price and momentum. Large Cap Blend: S&P 500 Index-A market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenue are based in the US. Large Cap Growth: S&P 500 Growth Index-Measures the performance of growth stocks drawn from the S&P 500 index by dividing it into growth and value segments by using three factors: sales growth, the ratio of earnings change to price and momentum. Mid Cap Value/Mid Cap Growth: S&P MidCap 400 Index-A market cap weighted index that covers the complete market cap for the S&P 400 Index. All S&P 400 index stocks are represented in both and/or each Growth and Value index. Mid Cap Blend: S&P MidCap 400 Index-Measures the performance of mid-sized US companies, reflecting the distinctive risk and return characteristics of this market segment. Small Cap Value: Russell 2000 Value Index-Measures the performance of small-cap value segment of Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. Small Cap Blend: Russell 2000 Index-Measures the performance of the small-cap segment of the US equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. Foreign Large Cap Blend: MSCI EAFE NR Index-This Europe, Australasia, and Far East index is a market-capitalization-weighted index of 21 non-US, developed country indexes. International Developed Stocks: MSCI EAFE NR Index. Emerging Stocks: MSCI Emerging Markets Index-captures large and mid cap representation across 24 Emerging Markets (EM) countries. Small Cap Growth: Russell 2000 Growth Index-Measures the performance of small-cap growth segment of Russell 2000 companies with higher price-to-value ratios and higher forecasted growth values. Real Estate: DJ US Select REIT Index-Measures the performance of publicly traded real estate trusts (REITs) and REIT-like securities to serve as proxy for direct real estate investment. Natural Resources: S&P North American Natural Resources Index- Measures the performance of US traded securities classified by the Global Industry Classification Standard (GICS) as energy and materials excluding the chemicals industry and steel but including energy companies, forestry services, producers of pulp and paper and plantations. MSCI ACWI Index - captures large and mid cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. Past performance is no guarantee of future results. This report is for informational purposes only and should not be construed as a recommendation or solicitation to buy or sell any security, policy or investment. PE Ratio is the measure of the share price relative to the annual net income earned by the firm per share.