



June 3, 2026

Dear Valued Investor,

Equity markets have continued their advance in recent weeks, with the S&P 500 near a record high following a rare nine-week winning streak on strong AI-driven earnings and prospects for an Iran agreement. While the macro backdrop remains mostly constructive, valuations are elevated by most traditional metrics, and oil remains near \$100 with the Strait of Hormuz still closed. Is the stock market pricing in too much good news?

To answer this question, we suggest not putting much emphasis on valuation. Valuation metrics such as the price-to-earnings ratio (P/E) are helpful in assessing long-term return potential and downside risk, but they are historically poor market timing tools. The S&P 500's P/E near 21 can be justified by solid earnings growth and a resilient U.S. economy, although further expansion will require continued cooperation from key drivers such as inflation (oil prices) and interest rates. Unless these macro inputs improve, returns in the second half of the year are likely to be modest, potentially with some bumps along the way.

Against this backdrop, the role of AI remains central. Technology companies, particularly the mega cap hyperscalers, have continued to deliver compelling earnings growth, even as skepticism around the magnitude of investment and timing of eventual returns persists. Results have continued to point to accelerating investment and demand for computing resources. Some big moves in semiconductor and IT hardware companies over the past week suggest the market has not quite caught up to the magnitude of these investments – expected to exceed \$750 billion this year and up about 50% since 2026 began.

While valuations appear elevated at the index level and speculation in certain market segments may have gone too far, parts of the technology sector may actually be undervalued relative to their growth potential. Skepticism about the productivity gains AI will bring remains widespread, leaving room for potential upside surprises. At the same time, heavy AI-related capital expenditures have depressed free cash flow, which introduces risk if anticipated productivity gains fail to materialize.

Looking ahead, the market narrative will continue to hinge on the intersection of valuations and AI-driven earnings growth. Elevated multiples and sticky inflation suggest more limited upside from higher valuations, placing greater importance on earnings to come through. AI remains a powerful tailwind for both economic activity and corporate profits, supporting the case for staying invested. The promise of what AI can bring is exciting, but the optimism may be getting ahead of what the technology can deliver. As a result, maintaining discipline around diversification and risk management takes on greater importance.

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All data is provided as of June 1, 2026.

All index data from FactSet.

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