

Stegent Equity Advisors, Inc. Investment Letter

Market Review

July 2026

Markets staged an impressive rebound in the second quarter as a surge in tech-related corporate earnings growth combined with rising hopes for a U.S./Iran ceasefire to push stocks sharply higher, as the major U.S. averages hit new all-time highs.

Markets received positive news almost immediately in the second quarter as, on April 7th, President Trump announced a two-week ceasefire with Iran, ending direct hostilities between the two countries. That news (and the subsequent move lower in oil prices) helped stocks recoup the geopolitically driven March declines, but it was really a stellar first-quarter earnings season that fueled the market rally in April. Annual earnings growth surged to approximately 15% for the S&P 500 following the Q1 results, a number nearly double the long-term average. While AI-linked tech companies posted some of the stronger earnings growth on booming data center demand, a broad swath of companies and sectors posted strong financial results as more than 80% of the companies reporting during the Q1 season beat Wall Street estimates. That AI-led earnings growth, along with the U.S./Iran ceasefire, helped fuel the strong rebound in stocks.

Market gains accelerated in May and were driven by the same factors that drove the April rally: Strong earnings and expectations for a U.S./Iran ceasefire. Earnings in May, while not as plentiful as the April reporting season, were similarly strong with major tech companies such as Nvidia, Intel, Dell, Snowflake and others posting strong results that reinforced the simply massive demand for AI infrastructure. But while the tech sector again posted some of the strongest results, earnings on the whole in May were impressive with Walmart producing solid results and pushing back on fears that higher prices were hurting consumer spending. Meanwhile, surges in demand for data center components such as memory and semiconductors led to massive gains in certain tech stocks through the end of May, as the S&P 500 hit multiple new all-time highs during the month. Geopolitically, while there was no official U.S./Iran ceasefire, markets firmly believed there would be no material escalation either, so the lack of an official agreement didn't weigh on stocks.

The rally continued in early June thanks initially to reported progress on a U.S./Iran ceasefire agreement, which was signed by President Trump and Iranian leaders in mid-June. Anticipation for the SpaceX IPO (the largest IPO in history) also helped to further support the tech sector and AI-linked investments, as the S&P 500 hit another new all-time high mid-month. However, also in mid-June, investors received a surprise from new Federal Reserve Chairman Kevin Warsh. The Fed made no change to interest rates in June, as expected, but the meeting statement and Warsh press conference were viewed as "hawkish," and the probabilities for a rate hike later this year rose sharply. That deviation from previous Fed policy expectations caused some market volatility. However, stocks generally proved resilient as falling oil prices (which dropped back to pre-war levels) led investors to believe the current inflation spike will be temporary.

In sum, the stock market completed an impressive rebound from the steep declines of late March, as much-better-than-expected earnings growth (powered primarily by AI-linked tech stocks), continued solid economic activity, and the signing of a U.S./Iran ceasefire helped send the S&P 500 to new all-time highs.

Second Quarter Performance Review

The gains in the S&P 500 in the second quarter were broad, but the impact of the AI boom was evident across and throughout markets.

By market capitalization, small caps outperformed large caps thanks to a combination of strong economic growth (which can disproportionately benefit smaller company earnings), falling oil prices and the “trickle down” of AI optimism towards small-cap tech and AI infrastructure companies.

From an investment style standpoint, growth outperformed value but not as much as one would think given the strength in AI-linked tech stocks in the second quarter. Growth styles benefited from a surge in AI infrastructure stocks such as memory and semiconductor manufacturers while value strategies received a boost from industrials.

On a sector level, 10 of the 11 S&P 500 sectors finished the second quarter with positive returns. The best performing sector in Q2 was, by a very wide margin, the technology sector as it benefited from huge rallies in memory stocks such as Micron and SanDisk as well as continued gains in the semiconductor stocks. Industrials also logged strong gains as companies in that sector were poised to benefit from increased AI data center construction as well as more defense spending. Finally, real estate also posted strong returns on anticipated data center demand, as several tech and AI-linked REITs posted very strong gains in the second quarter.

Turning to the sector laggards, energy was the only sector to post a negative return for the quarter. The energy sector was pressured primarily by falling oil prices as they were sharply higher at the start of April before the U.S./Iran ceasefire process started. The communication services sector was the other clear laggard in the third second quarter (that sector saw only a small gain) as weakness in the legacy internet and mobile providers weighed on the sector (the IPO of SpaceX reminded investors Starlink and other satellite internet providers are legitimate threats to those legacy business models).

US Equity Indexes	Q2 Return	YTD
S&P 500	18.57%	10.21%
DJ Industrial Average	16.20%	9.76%
NASDAQ 100	32.12%	20.31%
S&P MidCap 400	17.76%	17.34%
Russell 2000	25.69%	22.57%

Source: YCharts

International market performance was also influenced by tech/AI as emerging markets handily outperformed the S&P 500 in the second quarter thanks to an extreme rally in South Korean shares, as they benefited from the boom in memory companies. Foreign developed markets, however, lagged the S&P 500 as they received little AI performance-related boost compared to the S&P 500.

International Equity Indexes	Q2 Return	YTD
MSCI EAFE TR USD (Foreign Developed)	11.55%	9.84%
MSCI EM TR USD (Emerging Markets)	22.84%	24.02%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	14.83%	14.01%

Source: YCharts

Commodities saw moderate declines in the second quarter, thanks primarily to the drop in oil prices due to reduced geopolitical tensions. Oil prices were volatile but ended the quarter solidly lower on a combination of increased ship transit through the Strait of Hormuz and the U.S./Iran ceasefire agreement. Gold prices also fell during the quarter on the aforementioned decline in geopolitical concerns and a stronger U.S. dollar, which hit a one-year high in June on rising rate hike expectations.

Commodity Indexes	Q2 Return	YTD
S&P GSCI (Broad-Based Commodities)	-11.84%	24.09%
S&P GSCI Crude Oil	-31.90%	21.97%
GLD Gold Price	-11.03%	-7.27%

Source: YCharts/Koyfin.com

Switching to fixed income markets, the leading benchmark for bonds (Bloomberg U.S. Aggregate Bond Index) realized a modest positive return for the second quarter as falling commodity prices reduced inflation concerns.

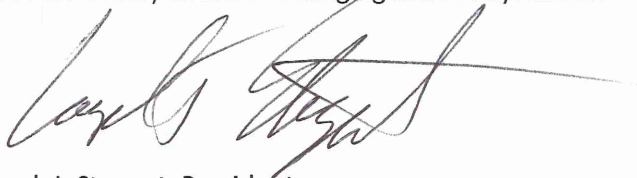
Looking deeper into the fixed income markets, shorter-duration bonds again outperformed longer-duration fixed income as some inflation statistics hit multi-year highs and ended Q2 far above the Fed's 2.0% target.

Turning to the corporate bond market, both investment grade and lower quality but higher-yielding bonds posted solidly positive quarterly returns. High-yield bonds outperformed investment grade debt, as generally resilient economic growth and falling geopolitical risks prompted investors to reach for higher yield despite greater credit risks.

US Bond Indexes	Q2 Return	YTD
Bloomberg US Aggregate Bond Index	0.87%	0.62%
Bloomberg 1-3 Month U.S. Treasury Bill Index	0.93%	1.81%
ICE US Treasury 7-10 Year Index	0.29%	0.03%
Bloomberg US Mortgage Backed Securities Index	0.89%	0.99%
Bloomberg Municipal Index	2.72%	2.32%
Bloomberg US Corporate Index	1.75%	7.77%
Bloomberg US Corporate High Yield Index	3.09%	8.62%

Source: YCharts

As we move forward, we remain committed to our core principles: focusing on after-tax, after-inflation, and risk-adjusted returns. We will maintain a disciplined portfolio construction process and continuously evolve our process to stay ahead of changing market dynamics.



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