Atlantic Retirement & Wealth Advisors LLC
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Earnings Driving Markets, Momentum and Concentration Risks Loom

“Focus on signal over noise. Don’t waste time on stuff that doesn’t actually make things better” - Elon Musk

While there are varying perspectives on Musk, he is hard to ignore, making noise himself as he took SpaceX public this quarter in one of the largest IPOs in history.

Have you ever instinctively lowered the volume on your car stereo when trying to spot street signs or landmarks as you drive through unfamiliar areas? You’re not alone. Noise and other sensory distractions make it harder to concentrate, and brain science confirms that removing noise to see better can be a sound strategy. Today’s world is noisy, especially considering the 24-hour constant news cycle. ARWA has turned down the volume and been continuing to focus on earnings, inflation, AI, infrastructure, power and consumer goods. The investment landscape has changed multiple times in the second quarter as momentum investing is playing a key role in daily volatility. Our portfolio themes have not changed but our focus is starting to shift as concentration risks and valuations in specific industries are showing warning signals.

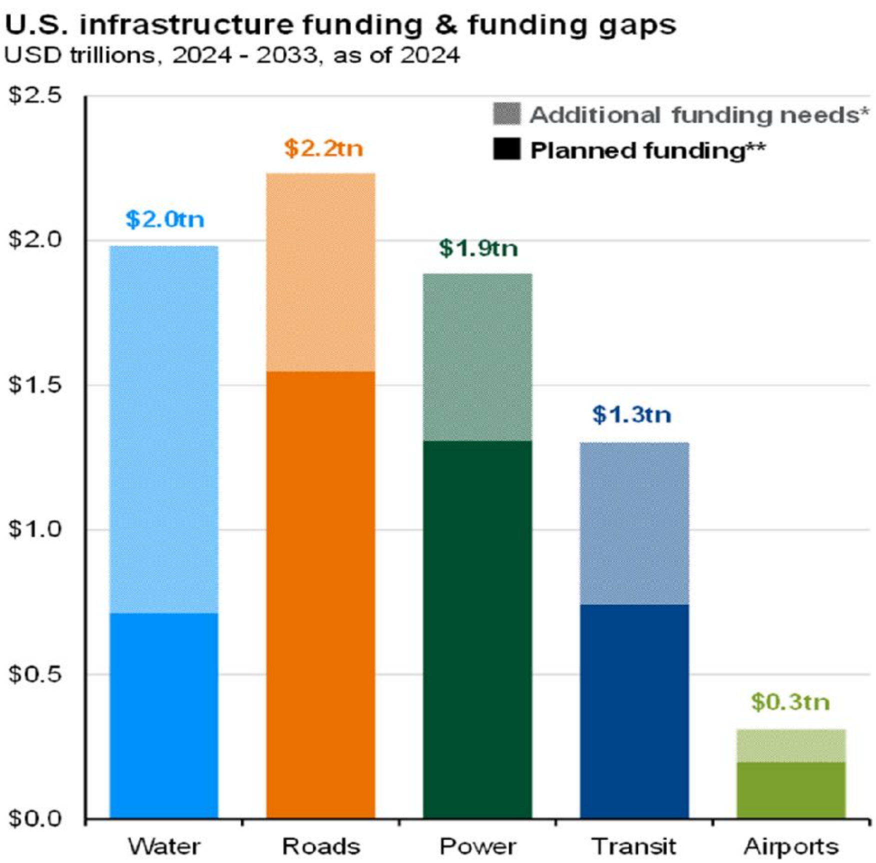
Focus Areas

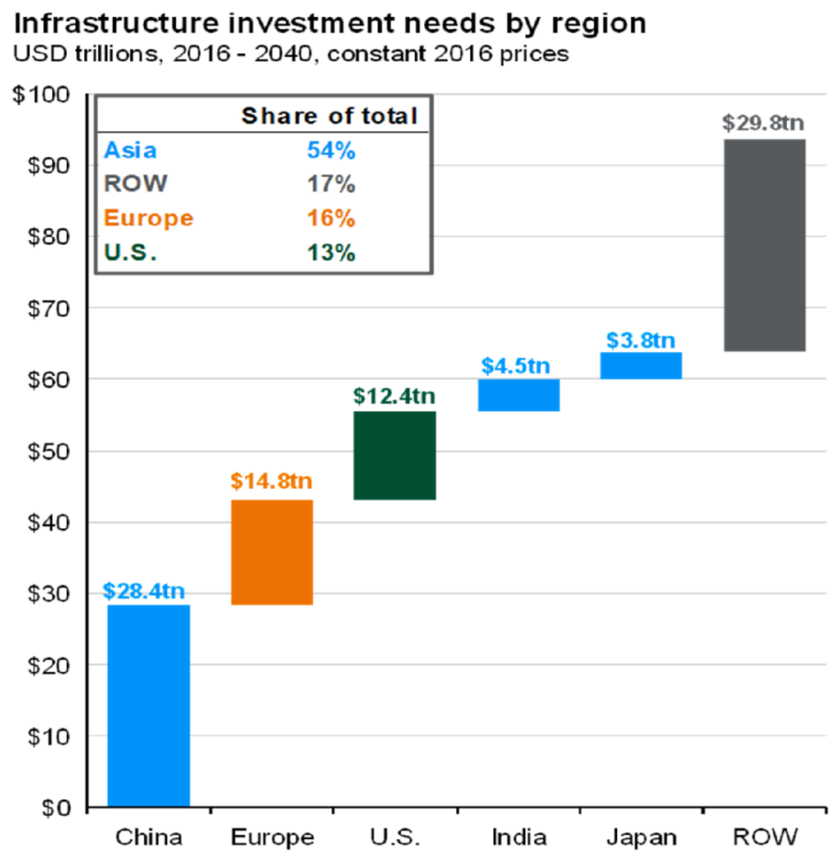
Earnings - Companies have been able to pass along price increases across the globe as inflation, the cost of doing business and structural supply chain challenges have become normalized. These increases, along with higher productivity, have significantly increased margins and profits.

AI – The “hyper scalers” (those building AI cloud businesses and models) are spending trillions in a race to win the AI generation. The backbone of this spending is in semiconductor chip companies and their support vendors. With some firms showing margins around 85%, one can argue that we are at the peak earnings and pricing cycle. However, it’s still unclear how long this will last given mixed outlooks on spending and returns. As an investor, we realize that the rate of growth, thus the rate of change, is one of the key market inputs to stock valuations (not just the actual dollar earnings).

Consumer Goods and healthcare – These sectors have lagged over the last couple of years given the focus on technology. However, this is starting to change and we believe some of these firms will be the largest users of AI. The enhanced productivity, marketing and speed of new products could be significant. There clearly will be winners and losers as AI could expose those that are not adding value or products that consumers need or want.

Infrastructure and Power – As shown in the US chart below, funding for infrastructure and power is set to break records. This is caused by under investment over the last couple of decades along with the increasing demands of new technology and population growth. The global picture is even worse when you consider the needs in Asia and Africa. There are two significant hurdles around this theme; most governments have debt challenges and consumers don't want to pay more for these services, and the ability to manufacture and deliver solutions is constrained. We still believe this theme will last for many years if not decades. ARWA will watch for future solutions that disrupt this sector as prices will drive innovation in many areas.





Second Quarter Performance Observations

- Most stock indexes had a strong return during the quarter, with emerging markets leading the rally. South Korea played a critical role with a return of over 68%. South Korea leveraged single stock ETFs (such as semiconductor SK Hynix with over $13 billion in assets) which pushed up returns but is also currently causing worries that there is a bubble forming. As long-term investors, we are reminded that the dot.com market correction in 2000 started in South Korea, three months prior to the US correction. Currently we are not forecasting a significant correction as earnings are still very strong in specific industries. However, we would like to see a broadening out to other international markets.
- US stocks also had a strong quarter helped by large, mid-cap and small cap earnings. Some of the large tech names had negative returns as investors began to worry about cap-ex spending and future cash flow needs. Software technology firms continue to struggle as AI fears have reduced some stock valuations by 25-40%. Sector, industry and market cap selection is important in today's investment landscape.
- Fixed income / bonds showed a small return as rates started to increase with inflation remaining elevated and the prediction of Federal Reserve interest rate cuts being eliminated by some strategists. At this time, we expect the Federal Reserve to hold rates steady until later this year. We are still penciling in one or two cuts in 2026-27 based on weak employment numbers we see on the horizon.
- Geo-political events continue to move markets by the day, sometimes by the hour. It is our view that this is just short-term noise. One caveat is if the middle east goes back into a war environment, we would consider this as a sell signal as we might see a longer-term earnings and GDP correction given current market dynamics.

Overall Landscape

We continue to focus on long-term results, client outcomes and objectives. Our goal is to match our portfolios to our clients' goals, risk levels, timeframe, market opportunities and dynamics as well as current valuations and thoughts. These are never static given all the variables included in our analysis as well as our clients' life changes.

Index Returns

Index – US Equities	Q2 2026	YTD 2026
Dow Jones Average (TR)	13.38%	9.76%
S&P 500 (Price)	14.87%	9.55%
S&P 500 (TR)	15.20%	10.21%
Morningstar US Mid Cap Core (TR)	14.57%	15.42%
Morningstar US Small Cap Core (TR)	11.81%	10.38%
Morningstar US Large Cap (TR)	15.54%	8.52%
Morningstar Large Cap Value	5.00%	7.49%
Morningstar Small Cap Value	10.85%	13.90%
Vanguard Russell 1000 Growth TR	16.67%	5.24%

Index - International	Q2 2026	YTD 2026
MSCI ACWI All cap NR	14.89%	11.75%
MSCI Emerging Markets GR	24.15%	24.02%
MSCI EAFE	10.82%	9.44%

Index – Fixed Income	Q2 2026	YTD 2026
Bloomberg US Bond Aggregate (TR)	.67%	.62%
Bloomberg US Corporate A Inter (TR)	.82%	.62%
BBGBARC Muni Inter-short 1-10 (TR)	1.22%	1.08%
Bloomberg High Yield Muni (TR)	3.35%	4.09%
BBGBARC Muni 10 Yr 8-12 TR US	1.90%	1.09%

S&P Target Risk Models	Q2 2026	YTD 2026
S&P Target Risk Conservative (PR)	3.88%	2.87%
S&P Target Risk Moderate (PR)	5.15%	4.00%
S&P Target Growth Aggregate (PR)	7.70%	6.28%
S&P Target Risk Aggressive (PR)	10.26%	8.55%

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