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The accelerating spending on AI and data centers has created a sharp divide in equity markets. Companies supplying the infrastructure have generally outperformed, including a handful of semiconductor producers who have seen outsized demand increase the price of their products exponentially, while many software companies have faced scrutiny over disruption to their business models. Energy prices fell as the war in Iran subsided and oil began flowing through the Straight of Hormuz again, although that situation remains fluid at the time of this writing. Gold and Bitcoin both lost mid-teen percentage points during the quarter, and small-cap stocks have rallied after a significant stretch of relative underperformance. While inflation concerns, knock-on effects from the war with Iran, and worries about the possibility of an AI bubble continue to weigh on investors' minds, midterms and geopolitical uncertainty will likely guide the markets for the remainder of the year.

Our Kirwan Capital Strategy portfolios gained 3.10% for the quarter**, versus the market as measured by the S&P 500 ETF*, which finished with a gain of 15.12%. The quarter's result leaves our average compound annual return after fees since Jan 1, 2013 at 12.42%, which would have turned a $10,000 investment into $48,571 in 13 1/2 years.

At the risk of sounding like a broken record, our top performers during the quarter were Alphabet, Nvidia, Apple, and Amazon. Our largest detractors were Chewy, Kroger, Chevron, and Hershey, the latter two being among the best performers during the previous quarter.

I think it's important to add perspective to the S&P 500's outsized performance during the 2nd quarter. The strong gains for the index were nearly entirely due to a handful of semiconductor producers and the exponential increase in the price of their products as demand outstripped supply. The top 5 performing stocks alone during the quarter added 10.2% to the index return! None of these firms carry a wide-moat Morningstar rating, as the semiconductors they manufacture are commodity-like products with little differentiation from the competition. There has simply become a shortage of certain microchips due to the unanticipated acceleration of data center spending worldwide, and expansion projects that have yet to come online. This, in turn, has sent prices and profits skyrocketing for the few producers of these cyclical products. The flipside to this current condition is that ANY slowdown or even a willingness to delay data center spending will likely turn profits into losses in an instant as billions of dollars of capacity expansion projects are currently underway. Obviously, this type of turnabout will have the same effect on the index in reverse. Demand will need to outstrip supply for a significant period for current valuations to prove resilient. For now, investors are soothing their concerns based on long-term agreements these firms have with purchasers, but these agreements cover only a minimal percentage of anticipated production. I have never seen such a divergence in stock returns based on such a small subset of an industry, and I warn against trying to chase these returns now after several years of abnormally strong growth in technology stocks and AI in particular vs. a long-term intrinsic value strategy as I think the odds favor this trade unwinding in the future.

In a final note validating how quickly the above-noted anomaly can reverse, the five stocks discussed are down an average of 5.72% this morning after falling 5.26% last week.

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* The benchmark I use against which to gauge our performance is the SPDR S&P 500 ETF (ticker symbol SPY). It's purpose is to closely track the stocks in the S&P 500 Index. Often cited as a proxy for the U.S. equity market, it is the most heavily traded security in the world. It can thus easily be purchased by any investor, as opposed to the oft quoted S&P 500 Index, which is simply a calculation, and does not include costs of ownership.

** Kirwan Capital Strategy quoted returns are calculated using the quarterly composite average of all accounts using the strategy in aggregate. Due to the individually managed nature of our accounts, not all accounts have similar performance. Factors such as available cash, tax considerations, and timing of previous purchases or sales can effect returns. Transactions noted may or may not have been made for all accounts. Past performance is not indicative of future results and investing entails a degree of risk and potential loss of principal. The Kirwan Capital Strategy uses fundamental analysis in an attempt to measure the intrinsic value of securities with the objective of buying undervalued securities and realizing dividends and capital gains over a long-term (at least one year) holding period.