QUANTITATIVE ASSET MANAGEMENT, LLC
Investment & Advisory Services

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Index	Q2 2026 Closing Level	Q2 Net Gain	YTD Net Gain (through Jun. 30)
Nasdaq Composite	26,213.72	+21.4%	+21.3%
Dow Jones Industrial Average	52,495.32	+13.0%	+12.4%
S&P 500	7,499.36	+14.9%	+9.5%

The second quarter of 2026 marked a dramatic turnaround for equity markets. After a volatile first quarter, the S&P 500 rebounded strongly, gaining 14.9% during Q2 and recovering earlier losses to finish the quarter near record highs. While this performance reflects renewed investor optimism, it also masks an increasingly narrow market advance that warrants careful attention.

Several factors contributed to the market's recovery. Geopolitical tensions in the Middle East began to ease as ceasefire negotiations reduced concerns over prolonged supply disruptions, allowing oil prices to retreat from their April highs. At the same time, another round of exceptionally strong corporate earnings from leading technology companies reinforced investor confidence in the artificial intelligence (AI) investment cycle. Together, these developments fueled a powerful rally led primarily by large-cap technology and semiconductor companies.

Semiconductor stocks delivered one of the strongest quarterly performances in modern market history, with the Philadelphia Semiconductor Index (SOX) rising nearly 88% during the quarter—its best performance since the index was created in 1994. Investor enthusiasm surrounding AI infrastructure, memory chips, and data center spending drove extraordinary gains across the sector.

Although headline index performance appeared exceptionally strong, the broader market told a more nuanced story.

Market leadership became increasingly concentrated, with roughly 60% of the S&P 500's quarterly gains generated by only ten stocks. Technology remained the dominant contributor to index performance, accounting for a disproportionate share of year-to-date returns. Excluding the technology sector, the S&P 500's gains were significantly more modest, highlighting how dependent overall market performance has become on a relatively small group of companies.

This concentration resulted in one of the weakest measures of market breadth observed in decades. Even as the S&P 500 reached new all-time highs, an unusually large number of its individual components simultaneously fell to 52-week lows. Historically, this combination of record index levels alongside deteriorating internal participation has occurred near several important market turning points, including the technology bubble in 2000, the Global Financial Crisis in 2007, and the market peak preceding the 2022 bear market.

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History does not repeat perfectly, but it often provides valuable perspective. Previous periods characterized by increasingly narrow leadership—including the "Nifty Fifty" era of the early 1970s, the dot-com boom of the late 1990s, and the market environment of 2021—shared similar characteristics before broader market corrections eventually followed. While today's market has its own unique drivers, these historical comparisons remind investors that strong headline returns can sometimes conceal weakening market fundamentals.

We want to be careful not to overstate this: divergences like this can persist, and markets can broaden out and heal rather than break down. Encouragingly, June brought early signs of exactly that – value, equal-weight, and cyclical sectors such as industrial and financials began outperforming mega-cap technology. But given how rare and historically significant this kind of split has been, it's a dynamic we believe warrants genuine attention rather than dismissal.

Looking ahead, several key themes are likely to influence markets over the coming months.

The path of inflation and energy prices remains uncertain despite recent improvements in geopolitical conditions. The durability of corporate spending on artificial intelligence will continue to be closely watched, particularly after the extraordinary gains experienced within semiconductor stocks. In addition, investors will be monitoring whether improving market breadth develops into a more sustainable rotation beyond the handful of companies that have dominated recent performance.

Seasonal and historical patterns also suggest investors should prepare for potentially higher volatility during the third quarter. Midterm election years have historically experienced meaningful market corrections as political uncertainty and monetary policy expectations evolve.

While optimism has returned to financial markets, elevated valuations, concentrated leadership, and increased speculative activity suggest that disciplined portfolio management remains especially important. Maintaining appropriate diversification, focusing on long-term objectives, and preserving liquidity can provide valuable flexibility should market conditions become more volatile. As Warren Buffett has famously observed, successful investing often requires patience rather than constant action: "The stock market is a no-called-strike game. You don't have to swing at everything—you can wait for your pitch."

As always, we remain focused on managing portfolios with a disciplined, long-term perspective while adapting thoughtfully to changing market conditions. We appreciate the trust you place in us and look forward to helping you navigate the opportunities and challenges that lie ahead.

Have a great Summer! Feel free to reach out to us with any questions.

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