

Red Cards, White Noise, and Blue Chips: Insights for America's 250th Anniversary

In a year marked by America's 250th anniversary and the excitement of co-hosting the 2026 World Cup, global markets have offered no shortage of red cards and white noise. From geopolitical uncertainty to the daily barrage of market moving headlines, investors have navigated an environment characterized by heightened volatility and evolving opportunities. Through it all, the enduring principles of portfolio diversification – spanning U.S. and international markets, value and growth investment strategies, and steady consistency from prominent blue chips have remained a reliable foundation for long-term investors.

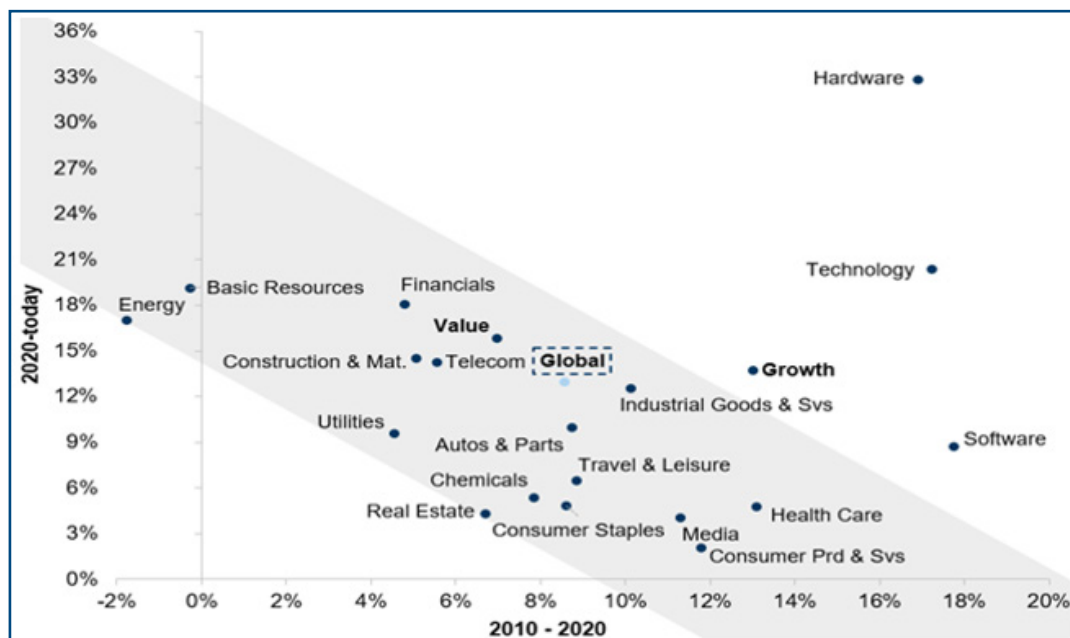
The New Higher-Rate Baseline

The environment that shaped much of the post-financial-crisis era - falling interest rates and modest inflation and growth created a powerful tailwind for longer-duration growth assets. For years, that backdrop favored U.S. equities, much of the technology sector and other growth-oriented investments.

Today, the landscape is notably different. Inflation has proven more persistent, supply-side constraints remain relevant, and the real cost of capital has once again become an important consideration. While growth remains a key driver of long-term returns, valuations, cash flow generation, earnings quality and sustainable growth have become increasingly important. In an environment of heightened volatility and less accommodative financial conditions, market leadership is likely to broaden across sectors and styles and companies with durable growth will be well positioned to outperform.

A pattern of reversal can be seen when comparing the decade after the financial crisis with the post-pandemic period.

Chart 1: Total Return Performance (Annualized) – World Sectors & Styles



Source: DataStream, Goldman Sachs Investment Research, data through 6/15/26

The Broadening Market Leadership

The changing interest rate environment has coincided with a gradual broadening of market leadership.

Technology remains an important part of the story, but even within the sector, the sources of strength have shifted. Hardware-related companies have led more recently, while software has not enjoyed the same level of dominance it held in the prior cycle.

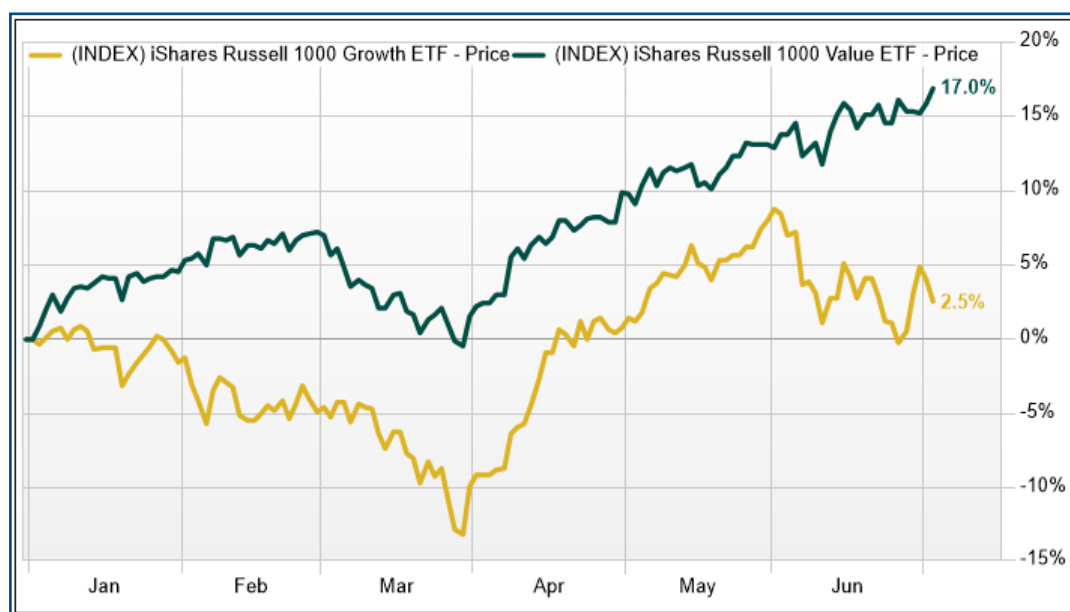
This shift is also visible beneath the surface of global equity markets. Returns are no longer concentrated in the same narrow set of winners. Country-level performance has become more varied, and dispersion across global indices remains elevated. In other words, the “average” market return may mask meaningful differences among individual stocks, sectors, and regions.

For investors, this type of environment can create both challenges and opportunities. Diversification may play a more important role than it did during a period dominated by a relatively narrow group of market leaders. At the same time, wider dispersion may create a more favorable backdrop for active management, as selectivity becomes increasingly important.

As we look toward the second half of the year, we remain focused on navigating this dynamic market environment with disciplined portfolio construction, thoughtful diversification, and a continued emphasis on risk-adjusted returns.

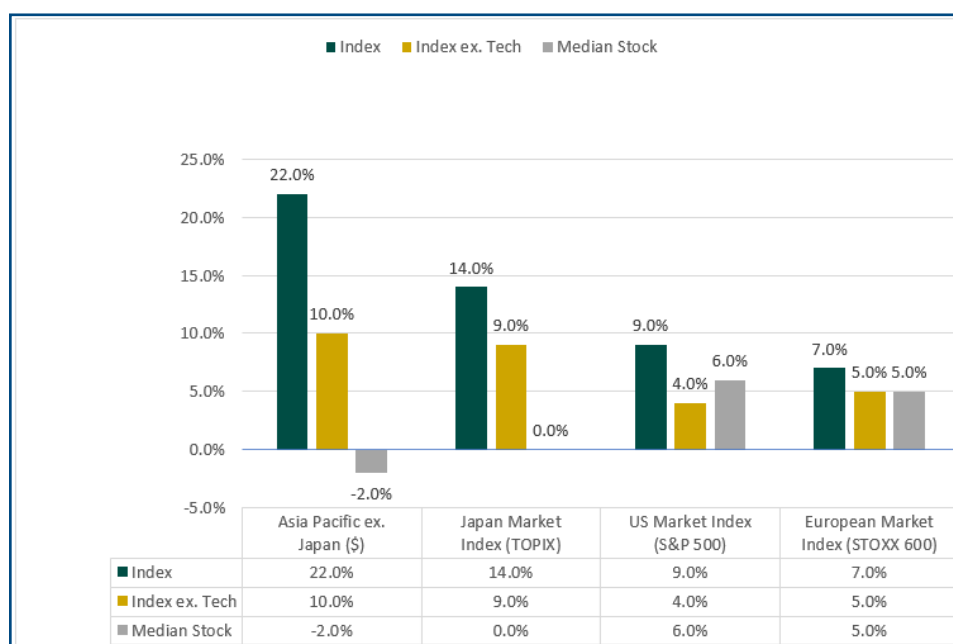
Value outperforming growth by healthy margin in first half of 2026.

Chart 2: YTD % Change of Russell 1000 Value and Growth ETFs



The median stock in each region has experienced smaller returns this year.

Chart 3: Price Return in 2026; Local Currency (APXJ in USD)



Capital Investments & Earnings Momentum

Artificial Intelligence and capital spending have remained one of the defining investment themes of 2026. The current “CapEx” cycle has extended beyond data centers into energy, industrials, materials, and infrastructure, suggesting AI-related demand is supporting a broader investment cycle across the economy that will expand productive capacity in numerous supply-constrained end markets.

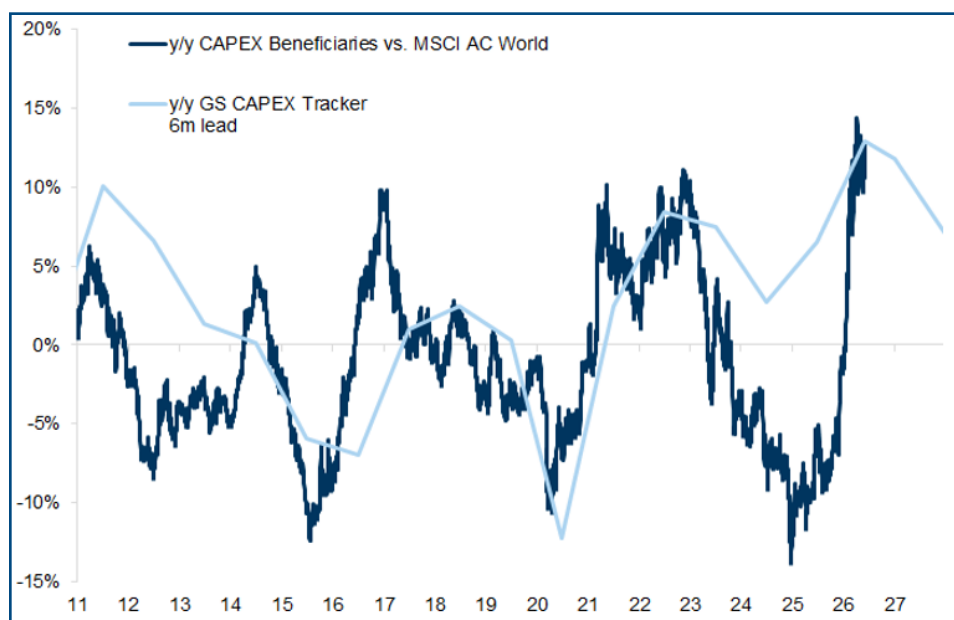
This spending is increasingly translating into earnings growth. Historically, the performance of CAPEX beneficiaries has led the broader capex cycle by several quarters, and current readings remain constructive. Since the beginning of the year, consensus earnings among CAPEX beneficiaries are up 25% year-over-year, underscoring that this current spending cycle is translating into reported profit growth rather than simply higher investment outlays.

In a higher cost-of-capital environment, where expanding valuation multiples is less relied upon to drive future returns, this distinction matters. The durability of the AI and capex theme will likely depend on continued earnings delivery. Encouragingly, the evidence so far is constructive: investment remains robust, demand continues to broaden across end markets, and earnings revisions remain positive.

As we enter the second half of 2026, the market environment increasingly rewards balance, diversification, and selectivity. After years of returns being driven by a relatively narrow group of companies and investment styles, leadership has broadened meaningfully across regions, sectors, and businesses benefiting from one of the most significant capital investment cycles in decades. From infrastructure and industrials to energy, materials, and technology hardware, investors are finding opportunities in a wider range of markets supported by tangible earnings growth and rising capital expenditures. Against this backdrop, we believe diversification remains as important as ever, helping portfolios participate in evolving sources of market leadership while managing risk across changing economic conditions. We also believe the current environment highlights the value of active management, as greater dispersion in company, sector, and regional returns creates opportunities to identify durable earnings growers, avoid weaker fundamentals, and allocate capital more selectively. As always, our focus remains on building resilient portfolios designed to achieve attractive risk-adjusted returns through disciplined asset allocation, thoughtful diversification, and active investment oversight.

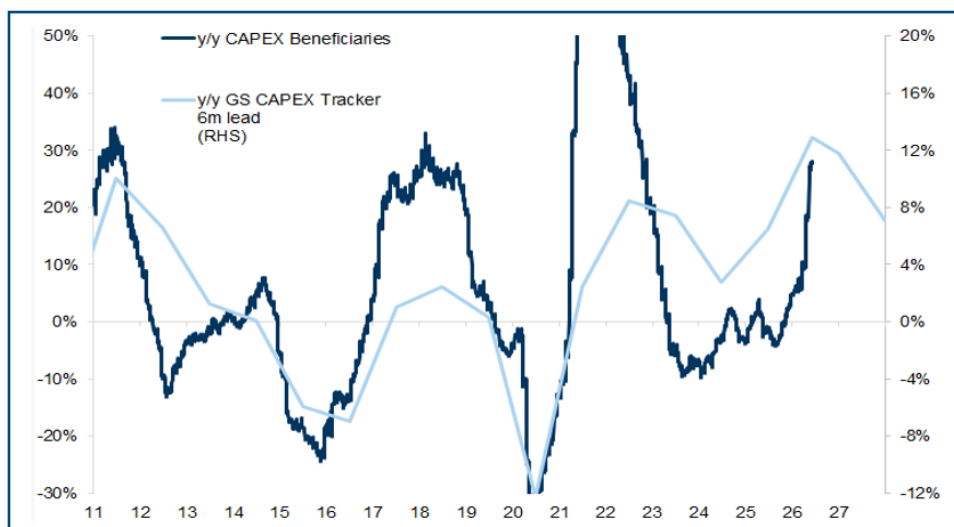
The performance of CAPEX Beneficiaries tends to lead the global capex cycle by several quarters.

Chart 4: Relative Performance YoY



Earnings Growth of CAPEX Beneficiaries is highly correlated with global CAPEX

Chart 5: YoY Change in EPS



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