KAR Wealth Advisors

Commentary

# "Semi-Everything"

## Market Review Commentary for the Second Quarter 2026

## Key Takeaways

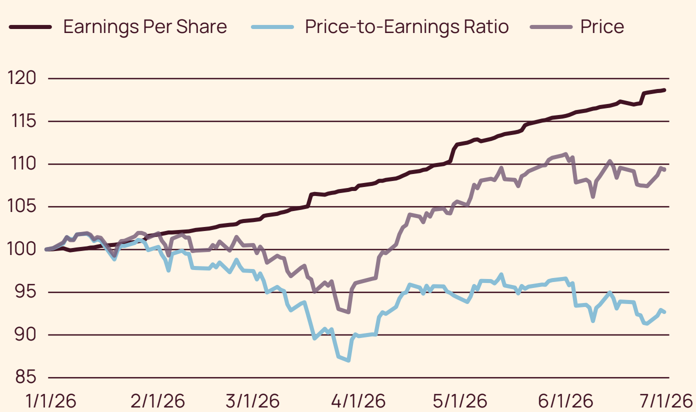
- Markets continue to broaden beyond a narrow group of large technology companies, although semiconductors remain a dominant driver of returns.
- Earnings, rather than multiple expansion, have been the primary contributor to equity market gains in 2026, supporting current valuations.
- Small-cap performance has been concentrated among a limited number of companies, though we believe valuations remain attractive relative to large caps.
- We remain constructive on international equities, particularly emerging markets, due to their growth profile and exposure to AI-related investment themes.
- As we see it, headlines surrounding direct lending and redemption activity may not fully reflect underlying fundamentals, which remain broadly supportive.
- From our perspective, manager selection remains increasingly important in private equity as performance differences between disciplined and less disciplined capital deployment become more apparent.
- While inflation and geopolitical uncertainty remain risks, sentiment, earnings, credit spreads, and market breadth continue to support a constructive outlook.
- Maintaining diversification across styles, regions, and investment approaches remains important as market leadership continues to evolve.

For our semi-annual commentary this year, falling close to the upcoming semiquincentennial celebration of the U.S., we are reminded of the resilience, optimism, innovation, and strength not only of the country, but also of its capital markets. Much of the focus last year centered on a “Sell America” trade, yet investors globally have once again witnessed the strength of the U.S. markets. While we continue to see a broadening across markets, one constant has been the strength of the semiconductor trade. Previous commentaries have highlighted periods of market extremes, and the past three- and six-month periods have been no exception, with narrow leadership, concentration in technology and AI, and large fluctuations and meaningful rotations across sectors and commodities. We continue to hear skepticism around how long markets can move higher, with comparisons to the late 1990s suggesting the need for prudence. At the same time, there remain reasons to be optimistic about the continuation of the current bull market. Today’s fundamentals differ meaningfully from those of the 1990s, even as markets contend with geopolitical uncertainty related to Iran and persistent inflation pressures.

Earnings continue to be a primary driver within semiconductors and the broader AI-related trade. In the first half of the year, returns have largely been driven by earnings rather than multiple expansion, signaling a warranted appreciation in company valuations. A key question for investors is whether the capital expenditure cycle can continue. Based on the commitments from hyperscalers, current indications suggest that it can. In both the large- and small-cap space, we are witnessing a trickle-down effect of CAPEX spending flowing through to companies that are putting that capital to work, as the buildout of AI infrastructure continues across traditional and alternative energy, industrials, and memory. Rotations have also begun to emerge, with capital moving beyond the Magnificent 7/8 and into other sectors and industries.

### Figure 1: Change in S&P 500® Index

Earnings Per Share, Price-to-Earnings Ratio & Price
Indexed to 100 on January 1, 2026




### Figure 2: Tied at the Hip: Stock Prices and Earnings Growth

S&P 500® Index Total Return vs. 12-Month Forward Earnings Growth Year-Over-Year

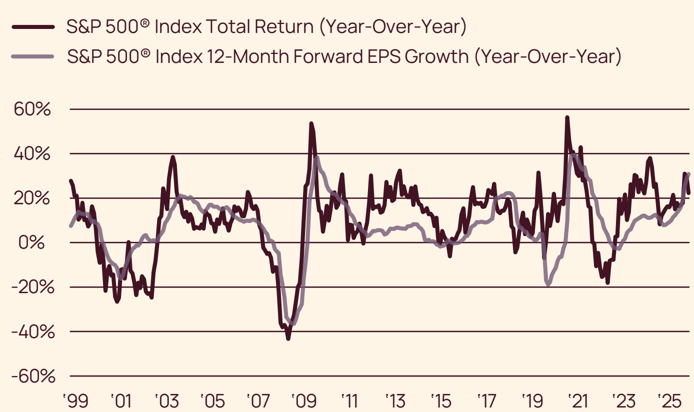
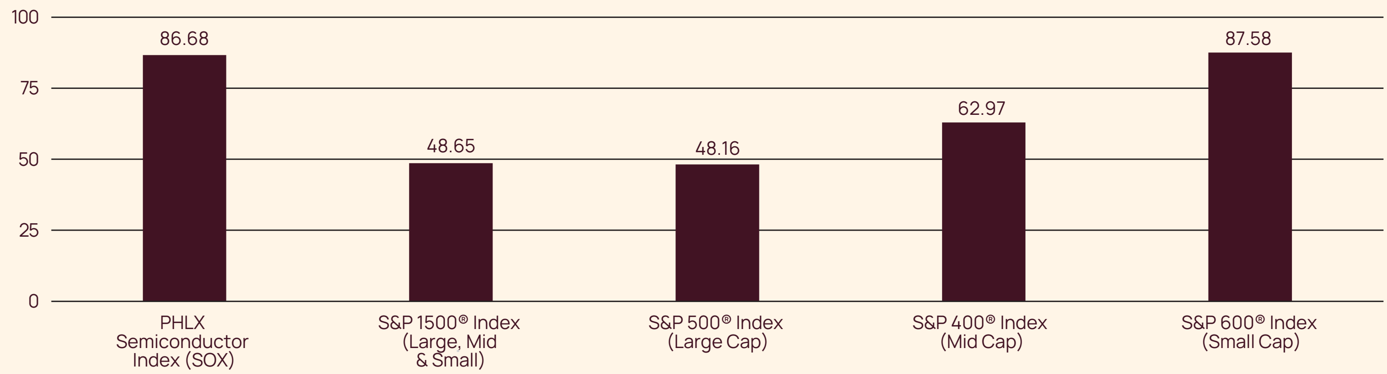



Figure 1 data as of July 2, 2026; Figure 2 data as of June 30, 2026. Source: Strategas, Bloomberg and Exhibit A. 12-Month Forward Earnings Growth (YoY): The expected year-over-year percentage increase or decrease in earnings over the next 12 months, based on analyst consensus estimates. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment. **Past performance is no guarantee of future results.**

Elevated conditions have persisted in the semiconductor space since late May. Leveraged ETFs have contributed to higher volatility as well as periods of pronounced outperformance of certain industries within compressed time frames. After a strong run in semiconductors, some profit taking appears to be underway. For portfolios with overweight exposure to semiconductors, we believe selectively trimming positions may be a prudent step within the context of overall portfolio management.

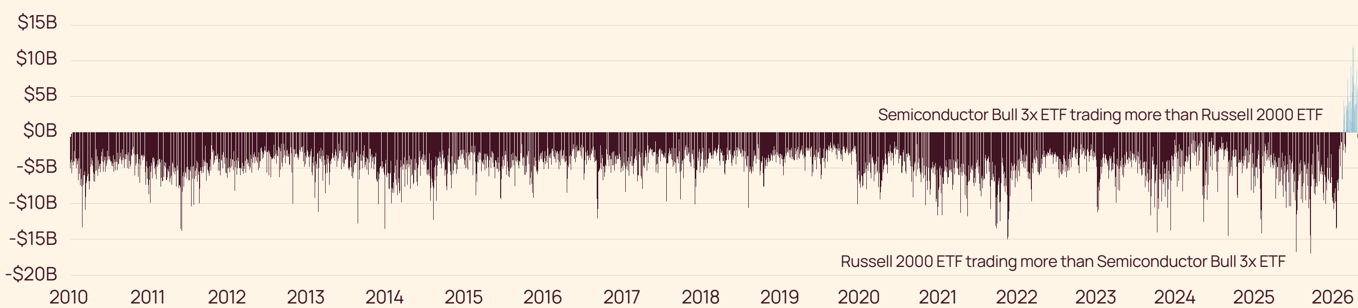
## Figure 3: Semiconductor Industry Index Performance in Q2 2026 (% Change)




Data as of June 30, 2026. Source: Bespoke Investment Group. The indices are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment. **Past performance is no guarantee of future results.**

## Figure 4: 3x Semis Trade More than Small-Caps Now

Daily Semiconductor Bull 3x ETF vs. Russell 2000 ETF

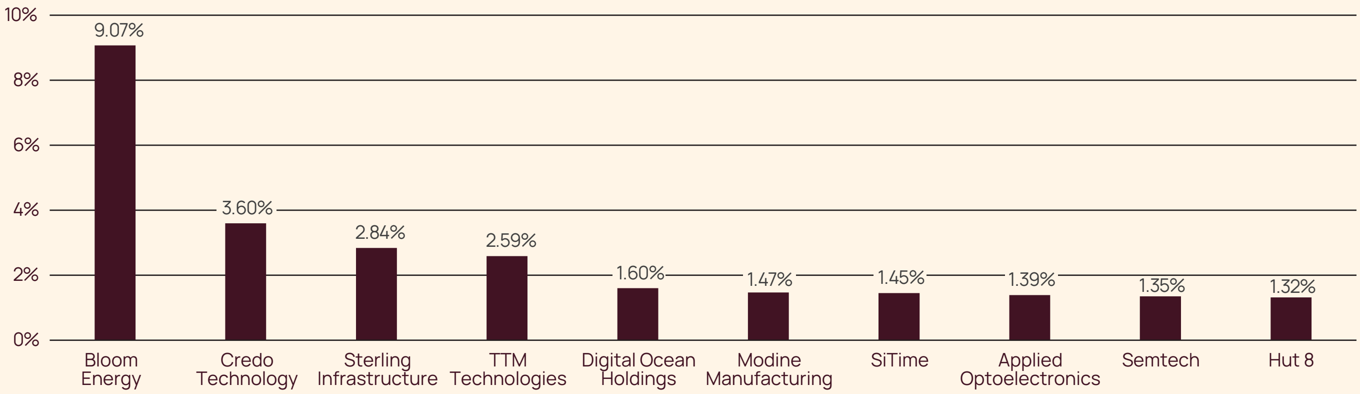



Data as of June 30, 2026. Source: Strategas, Bloomberg. The Daily Semiconductor Bull 3x ETF is based on an ETF that tracks the NYSE Semiconductor Index and the small-cap ETF is based on a widely held ETF that tracks the Russell 2000 Index. The chart above illustrates that trading activity in a leveraged semiconductor ETF has recently exceeded that of a broad small-cap ETF, highlighting unusually elevated investor participation in semiconductor-related trading. The ETFs were selected based on objective, non-performance-based criteria and should not be considered to be a recommendation to purchase or sell the securities mentioned. **Past performance is no guarantee of future results.**

Shifting to small caps, market concentration has remained evident, like what we have seen in large caps. Small caps have outperformed large-cap indexes, though in a highly industry-specific manner tied broadly to AI. The top ten constituents of the Russell 2000 have accounted for approximately 25% of the index's return. Additionally, companies at the higher end of the small-cap market capitalization spectrum have accounted for nearly half of the index's return. Following the most recent semi-annual reconstitution of the Russell 2000, we expect many of these year-to-date leaders to be added to larger-cap indexes.

## Figure 5: Top 10 Companies in the Russell 2000® Index

By Year-to-Date Return Contribution




Data as of June 18, 2026. Source: Strategas, Bloomberg. The chart above illustrates the year-to-date return contribution of the top 10 Russell 2000 companies as of the date noted. The companies shown are constituents of the index and do not represent any portfolio managed by the Adviser. The information is provided for market context and illustrative purposes only and should not be considered to be a recommendation to purchase or sell the securities mentioned. The index is unmanaged, its returns do not reflect any fees, expenses or sales charges, and it is not available for direct investment. **Past performance is no guarantee of future results.**

Over the past several years, we have observed the relative valuation discount in the small-cap universe compared with large caps. Following this most recent semi-annual rebalance, the Russell 2000 Index is expected to take on a more cyclical and value-oriented profile, which may represent a more contrarian positioning within the broader market. From our perspective, the coming period will be important in determining whether this rotation is supported by earnings. For clients who may feel underallocated to small caps following a period of relative underperformance, structured products may represent one approach for gaining exposure to the asset class while seeking to manage downside risk.

## Figure 6: Small Caps Trade at a Discount Relative to Large Caps

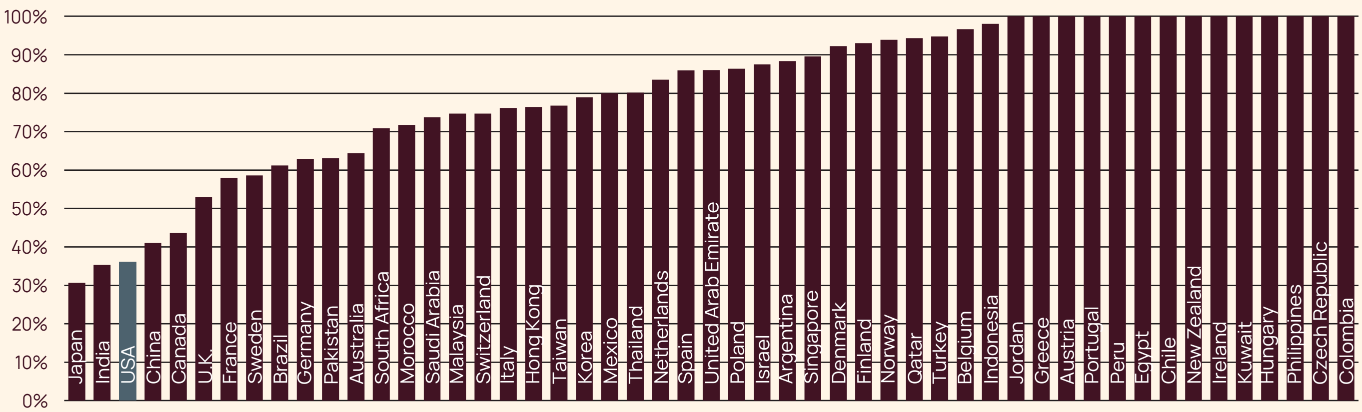
S&P 600® Index vs. S&P 500® Index Price-to-Earnings Ratio, Next 12 Months


Data as of June 30, 2026. Source: Strategas, FactSet Research Systems. The indices are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment. **Past performance is no guarantee of future results.**

Internationally, we maintain a positive outlook on allocations to both developed and emerging markets, especially for emerging markets given their growth profile and exposure to AI-related themes. Earnings remain strong and continue to trend higher. Developed markets may provide diversification to the AI-related trade, though they could lag in the near term in a continued tech/AI-fueled rally. While concerns around market concentration in the U.S. remain common, relative to global markets, concentration levels are comparatively lower.

**Figure 7: Equity Market Concentration: the U.S. is Actually at the Lower End**

Top Ten Company Share of Country Equity Index Market Capitalization in the S&P 500® Index




Data as of June 15, 2026. Source: Bloomberg, JP Morgan Asset Management. The indices are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment. **Past performance is no guarantee of future results.**

Semi-liquid evergreen funds continue to receive headline attention related to elevated redemption requests, as softer sentiment continues to drive outflows. Notable managers in the direct lending space have seen elevated redemption requests and many have maintained gate provisions while adhering to stated tender limits. Redemption requests appear to be higher than actual liquidity needs, as investors and portfolio managers may request full redemptions with the expectation that distributions will most likely be pro-rated. As a result, headline redemption figures may overstate underlying pressure.

Direct lending has continued to generate positive year-to-date performance, reflecting some portfolio markdowns. Markdowns are a normal part of the process for managers, and one reason we remain optimistic is that these unrealized losses can be reversed as underlying investments recover. Institutional capital continues to flow into the space at larger allocations, reflecting a perceived disconnect between market sentiment and fundamentals. Direct lending continues to outperform the Bloomberg Aggregate Index, public high yield, and leveraged loans, underscoring the role of starting yields as a cushion during periods of volatility.

Private equity performance continues to reflect a distinction between pre- and post-2021 and 2022 vintage holdings. Managers who deployed capital more selectively during that period have generally experienced less impact from the repricing associated with the shift away from a zero-interest rate environment. In our view, the bifurcation among managers is becoming more apparent as newer vintage funds begin to generate track records and the benefits of more disciplined capital deployment become evident.

Given the strength in the markets and the broader economy, we believe the consumer remains generally strong and resilient, although lower-income consumers continue to feel the pressure of rising inflation. Despite these concerns, several factors continue to support the current bull market. 1) Sentiment remains relatively low, providing a healthy dose of caution. We are not currently near the levels seen just after the pandemic, and when we see extreme greed, it can be an indicator of excessive optimism in the market. 2) Credit spreads remain low and do not show signs of stress. 3) Flows are elevated in areas such as short-duration fixed income and non-U.S. markets, while flows into defensive sectors remain limited. 4) Earnings continue to be robust and are being revised higher. 5) The rally has broadened beyond the Mag 7 into other areas of the market, with small caps reaching new highs. 6) Semiconductors do appear somewhat stretched, but the remainder of the market appears to be more balanced. Inflation remains a concern for investors and bond markets, but so far markets have been able to withstand these pressures and absorb higher costs.

We continue to believe in maintaining a balance within large-cap allocations, where both value and growth can play an important role as the market continues to broaden. From our perspective, a balance between active and passive management also remains important, as strength in lower-quality companies can persist. To complement allocations where traditional strategies rely on fundamentals to drive performance, systematic, quantitative, and rules-based approaches can adapt allocations more quickly to changing market conditions. These allocation shifts may provide a complementary balance to a high-quality portfolio, which we believe will remain a persistent driver of long-term performance.

## Andrew Grant

Director of Manager Research & Investment Solutions

Mr. Grant began his career in the wealth management industry in 2003. Before joining Kayne Anderson Rudnick in 2023, Andrew was the Director of Portfolio Management at IDA, an RIA based in San Diego. Prior to that, he worked for LPL Financial as an Analyst and Trader, and at Morgan Stanley as a Financial Advisor and Analyst. Andrew earned a B.A. in Political Science from the University of New Hampshire.



**The S&P 500 Index** is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. **The S&P Mid Cap 400 Index** provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500, is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment. The index is calculated on a total return basis with dividends reinvested. **The S&P Small Cap 600 Index** seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable. The index is calculated on a total return basis with dividends reinvested. **The S&P 1500 Composite Index** combines three leading indices, the S&P 500®, the S&P MidCap 400®, and the S&P SmallCap 600®, to cover approximately 90% of U.S. market capitalization. It is designed for investors seeking to replicate the performance of the U.S. equity market or benchmark against a representative universe of tradable stocks. **The PHLX Semiconductor Index (SOX)** is a capitalization-weighted index comprising the 30 largest U.S.-traded companies primarily involved in the design, distribution, manufacture, and sale of semiconductors. **The Russell 2000 Index** is a free float-adjusted market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. **The NYSE Semiconductor Index** is a rules-based, modified float-adjusted market capitalization-weighted benchmark designed to track the performance of the 30 largest U.S.-listed semiconductor companies. The indices are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.