GRIFFIN ASSET MANAGEMENT

INVESTMENT COMMITTEE

Thomas Famigletti
Company Founder &
Vice Chairman

Douglas Famigletti, CFA
Managing Partner &
Portfolio Manager

Michael Jamison
Managing Partner &
Portfolio Manager

John Carey
Managing Director &
Portfolio Manager

Carl Morganstein
Managing Director &
Portfolio Manager

Thomas Loizeaux
Managing Director &
Relationship Manager

Brian Famigletti
Managing Director &
Head of Marketing

Joseph LoBue, CIPM
Head Trader

Q2 Market Review
Earnings Windfall

****

The second quarter of 2026 marked a dramatic turnaround for U.S. equity markets as investors regained confidence following the broad market selloff during the previous quarter. Major indices posted their strongest quarterly gains since the post-pandemic recovery in 2020, as the S&P 500 advanced 15.2%, while the Nasdaq Composite and the Dow Jones Industrial Average rose roughly 21.4% and 12.9% respectively. The broad rally was primarily driven by strong first-quarter corporate earnings and renewed optimism surrounding artificial intelligence. Technology stocks once again led market returns, as continued investment in semi-conductors and AI infrastructure fueled strong investor demand. Industrials, Financials, and Healthcare also posted favorable performance leading to a market broadening beyond technology. Although geopolitical tensions in the Middle East and elevated oil prices continued to create periods of heightened volatility during the second quarter, investors largely viewed these events as temporary disruptions and remained focused on the positive earnings outlook and the resilience of the U.S. economy. As we head into the third quarter, we feel that the U.S. equity market has positive momentum, but we’re mindful of potential headwinds that include elevated equity valuations, ongoing geopolitical concerns, persistent inflation, and uncertainty over the Federal Reserve's interest rate path.

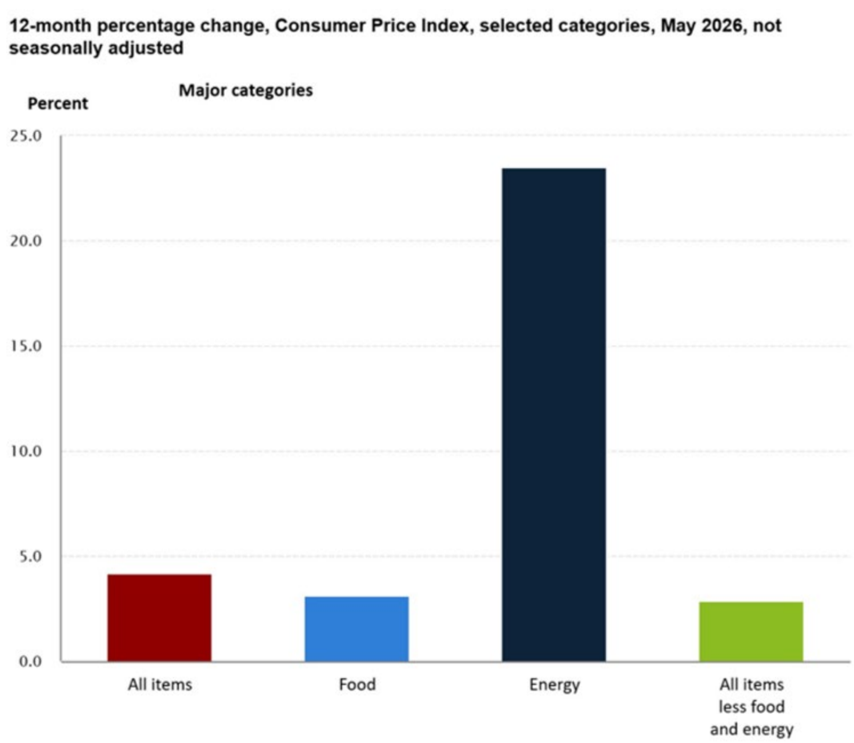
The Economy

The U.S. economy continued to expand at a moderate pace during the second quarter with real GDP expected to increase at an annualized rate of 2.1%. Labor market conditions remained relatively healthy, with unemployment holding near 4.4% and payroll growth continuing at a modest pace. Consumer spending and business investment remained supportive of growth despite facing an environment characterized by elevated inflation and higher energy prices. For the second half of 2026, the Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters anticipates a gradual moderation in economic activity. Forecasters reduced their full-year real GDP growth projection to 2.2%, with quarterly growth expected to slow to 2.2% in the third quarter and 1.6% in the fourth quarter. Inflation is expected to remain above the Federal Reserve's long-term 2% target through year-end, although price pressures are projected to ease considerably after the second quarter energy-driven spike. The unemployment rate is expected to remain stable at around 4.5%, which suggests continued labor market resilience. Overall, the U.S. economy's expansion is expected to continue through the remainder of 2026, despite an increased probability of below-trend economic growth due to persistent inflation and continued geopolitical uncertainty.

Inflation, Interest Rates, and Yogi

About inflation, Yogi Berra famously said, "a nickel ain't worth a dime anymore," meaning that the cost of living had gotten so high that a small amount of money no longer bought what it used to. This yogi-ism accurately reflects the

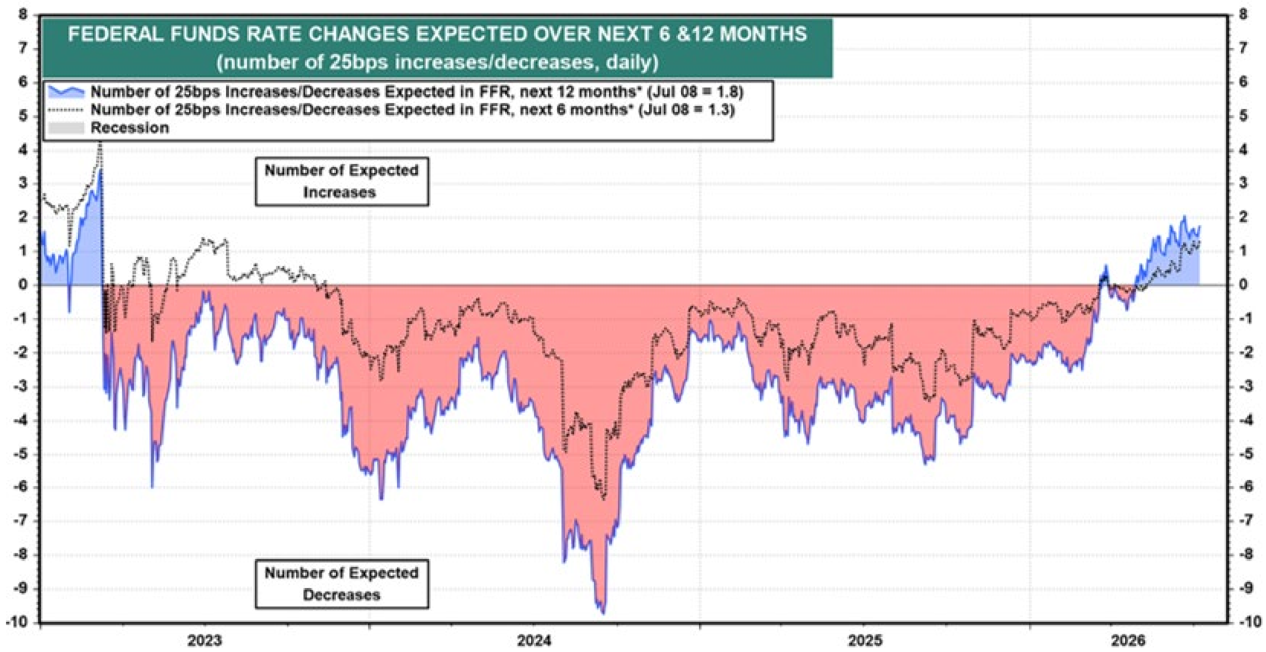
Figure 1



Source: U.S. Bureau of Labor Statistics

second quarter of 2026 as consumer prices accelerated after several quarters of moderation. According to the U.S. Bureau of Labor Statistics, the Consumer Price Index (CPI) increased 4.2% over the twelve months ending in May 2026, marking the first time annual inflation exceeded 4% since 2023. Per *Figure 1*, much of the renewed inflationary pressure was driven by higher energy prices, which increased by 23.5% from the previous year and accounted for more than 60% of the monthly increase in overall CPI. With inflation remaining well above the Federal Reserve's long-term 2% objective, policymakers kept interest rates elevated, increasing borrowing costs for consumers and businesses while helping to moderate demand across the economy. The higher rates continued to weigh on specific sectors such as housing and commercial real estate by keeping mortgage and financing costs elevated. Despite these challenges, the broader economy remained resilient, and investors increasingly viewed the combination of elevated interest rates and gradually moderating core inflation as evidence that the economy could continue expanding without requiring additional monetary tightening. Heading into the 2nd half of 2026, analysts such as Ed Yardeni (*Figure 2*) believe the Federal Reserve will continue to increase rates, though it's important to note that all future policy decisions will remain heavily dependent on incoming inflation data.

Figure 2



Source: LSEG Datastream and Yardeni Research

The U.S. Consumer

The University of Michigan's monthly survey (*Figure 3*) reported that consumer confidence improved during June 2026, increasing roughly 10% from May as gasoline prices declined and concerns surrounding the Iranian conflict eased. The improvement was widespread, occurring across all income levels, wealth groups, and political affiliations.

According to the survey's director, Joanne Hsu, "Consumers also became significantly more optimistic about the long-term outlook, with expectations for business conditions over the next five years rising 16%." Even with these gains, overall sentiment remained relatively weak, measuring 13% below its February 2026 level before the Iran conflict began and nearly 20% lower than it was one year earlier. High living costs continued to be the dominant concern for

Figure 3

Final Results for June 2026

	Jun 2026	May 2026	Jun 2025	M-M Change	Y-Y Change
Index of Consumer Sentiment	**49.5**	44.8	60.7	+10.5%	-18.5%
Current Economic Conditions	**47.7**	45.8	64.8	+4.1%	-26.4%
Index of Consumer Expectations	**50.7**	44.1	58.1	+15.0%	-12.7%

Source: LSEG Datastream and Yardeni Research

households, with more than half of respondents reporting for the third consecutive month that elevated prices were negatively affecting their personal financial situation. Although consumers' inflation expectations eased slightly in June, they continued to signal concern about future price increases. Expectations for inflation over the next year declined from 4.8% in May to 4.6% in June but remained well above the 3.4% level recorded in February before the start of the Iran conflict. Overall, the June survey indicated that while consumers were becoming more confident in the economy's long-term prospects, they continued to view inflation and the higher cost of living as meaningful challenges to their household.

The U.S. Stock Market

The U.S. equity market staged a recovery during the second quarter of 2026, reversing the losses experienced in the first quarter. Strong earnings reports, improving profit forecasts, and resilient economic data helped drive stocks to new record highs despite periodic volatility stemming from geopolitical tensions in the Middle East and uncertainty surrounding the Federal Reserve's interest rate policy. Per *Figure 4*, market leadership shifted during the quarter, with Information Technology (+43.40%) emerging as the clearest outperformer as semiconductor manufacturers and AI infrastructure companies produced exceptional returns. Industrials (+14.50%), Financials (+8.60%), Healthcare (+8.20%), Real Estate (+7.80%), and Consumer Discretionary (+7.60%) also produced strong returns and expanded the market's breadth. In contrast, Energy (-13.30%) became one of the weakest-performing sectors after leading the market during the first quarter, as oil prices retreated from their earlier highs. Communication Services (-3.40%) and Utilities (-1.20%) also lagged the broader market as investors sensed growing risk in both industries. Overall, the second quarter represented a decisive rotation back toward growth-oriented investments, with technology once again serving as the primary driver of the S&P 500's advance.

Figure 4

Sector	Q2 '26 Performance	Q2 '26 Sector Weight
Basic Materials	1.70%	1.80%
Communication Services	-3.40%	9.70%
Consumer Discretionary	7.60%	9.30%
Consumer Staples	1.30%	4.60%
Energy	-13.30%	3.00%
Financial Services	8.60%	11.80%
Healthcare	8.20%	8.90%
Industrials	14.50%	8.90%
Real Estate	7.80%	1.80%
Technology	43.40%	38.00%
Utilities	-1.20%	2.20%

Source: Telemet

Earnings Projections

Analysts steadily increased their earnings estimates throughout the second quarter of 2026. According to FactSet's *Earnings Insight* report shown in *Figure 5*, the estimated year-over-year earnings growth rate for the S&P 500 rose from 18.80% on March 31 to 23.10% by June 26, representing an increase of more than four percentage points. Historically, analysts tend to reduce earnings expectations during a quarter, but the fact that earnings expectations moved higher was instead a reflection of improving economic fundamentals and continued investor optimism surrounding artificial intelligence, capital expenditures, and resilient consumer demand. FactSet also noted that the increase in expected earnings was driven by actual upward revisions to corporate profit estimates rather than merely favorable comparisons to prior-year results. Per *Figure 6*, aggregate estimated S&P 500 earnings increased from $697.6 billion at the beginning of the quarter to approximately $716.9 billion by mid-June, an increase of roughly 2.8%. Five sectors experienced upward revisions to earnings forecasts, led by Energy, Information Technology, Materials, Financials, and Industrials, while only six sectors experienced modest downward revisions. Another encouraging signal was corporate management guidance. FactSet reported that 63 S&P 500 companies issued

Figure 5

Revisions to Q2 2026 Earnings Expectations

Date	Estimated S&P 500 Earnings Growth (YoY)	Commentary
31-Mar-26	18.80%	Initial estimate entering Q2
5-Jun-26	21.70%	Technology estimates revised higher
18-Jun-26	22.00%	Energy and Information Technology revisions led gains
26-Jun-26	23.10%	Highest estimate before earnings season began

Source: FactSet

positive earnings guidance for the second quarter compared with only 48 companies issuing negative guidance. Historically, companies issue substantially more negative guidance than positive guidance, making this trend particularly noteworthy. At the same time, the S&P 500 traded at a forward price-to-earnings ratio of 20.1x, slightly above both its five-year average of 19.9x and ten-year average of 19.0x. This data reinforces a key point that the market's optimism in mid-2026 was not simply the result of lofty expectations. It was supported by a measurable pattern of upward estimate revisions throughout the quarter. That is one reason many strategists, including John Butters at FactSet, views earnings growth as the primary catalyst for equity performance during the second half of 2026.

Figure 6

Indicators Supporting the Bullish Outlook

Metric	Q2 2026
Expected S&P 500 Earnings Growth	23.10%
Earnings Estimate at Start of Quarter	18.80%
Increase in Estimated Dollar Earnings	$697.6B → $716.9B (+2.8%)
Companies Issuing Positive EPS Guidance	63
Companies Issuing Negative EPS Guidance	48
Forward S&P 500 P/E Ratio	20.1x
5-Year Average Forward P/E	19.9x

Source: FactSet

Q3 Outlook

Following an "Earnings Windfall" which resulted in a stronger-than-expected first half of the year, Wall Street analysts continue to project robust double-digit profit growth extending into the second half of the year. The continued expansion of artificial intelligence infrastructure spending, accelerating cloud computing investment, and persistent consumer demand have provided a favorable backdrop for corporate America. In addition to stronger earnings expectations, we believe that there are several factors to support this position including a broadening of sector earnings, increased AI-related investment, and supportive monetary policy. Despite these favorable fundamentals, it is important for investors to recognize that equity markets are entering the second half of the year with higher expectations and limited room for disappointment. Elevated equity valuations leave less margin for error if earnings growth moderates. Morgan Stanley's Lisa Shalett has cautioned that "much of the market's advance continues to be driven by a relatively narrow group of companies benefiting from artificial intelligence spending." Should capital expenditures slow, earnings expectations soften, or long-term interest rates continue to move higher, equity valuations could face renewed pressure. In addition, geopolitical tensions, persistent inflation, and uncertainty surrounding Federal Reserve policy remain meaningful risks that could increase market volatility throughout the remainder of 2026. For long-term investors, maintaining diversified exposure while emphasizing high-quality companies with durable earnings growth remains the most prudent strategy as the market enters the final two quarters of 2026.

