Quarterly Investment Newsletter

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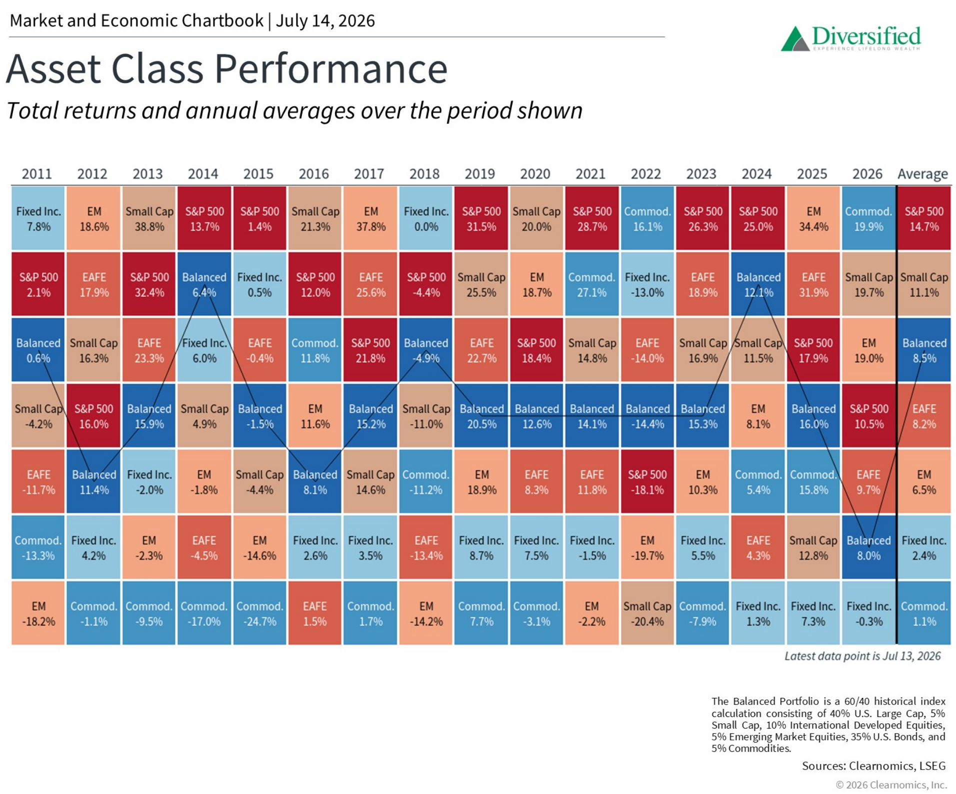
The Strength Beneath:
Why Fundamentals, Not Headlines,
Drive Long-Term Returns

The Strength Beneath

If you watched the financial headlines in the first half of 2026, you might think markets were under siege. Geopolitical conflict in the Middle East flared in late February, driving oil prices to their highest levels in four years. Brent crude surged above $110 per barrel. Consumer sentiment collapsed to 53.3, reaching multi-month lows. Economists debated whether weakness lurked ahead.

And yet, the S&P 500 reached 24 new all-time highs in the first six months of the year. Year-to-date returns were solid: the S&P 500 returned 10.21%, the Nasdaq 20.19%. Emerging markets surged 23.85%. Corporate earnings grew over 20% in the past twelve months. Asset classes that had lagged for years suddenly contributed meaningfully to portfolios.



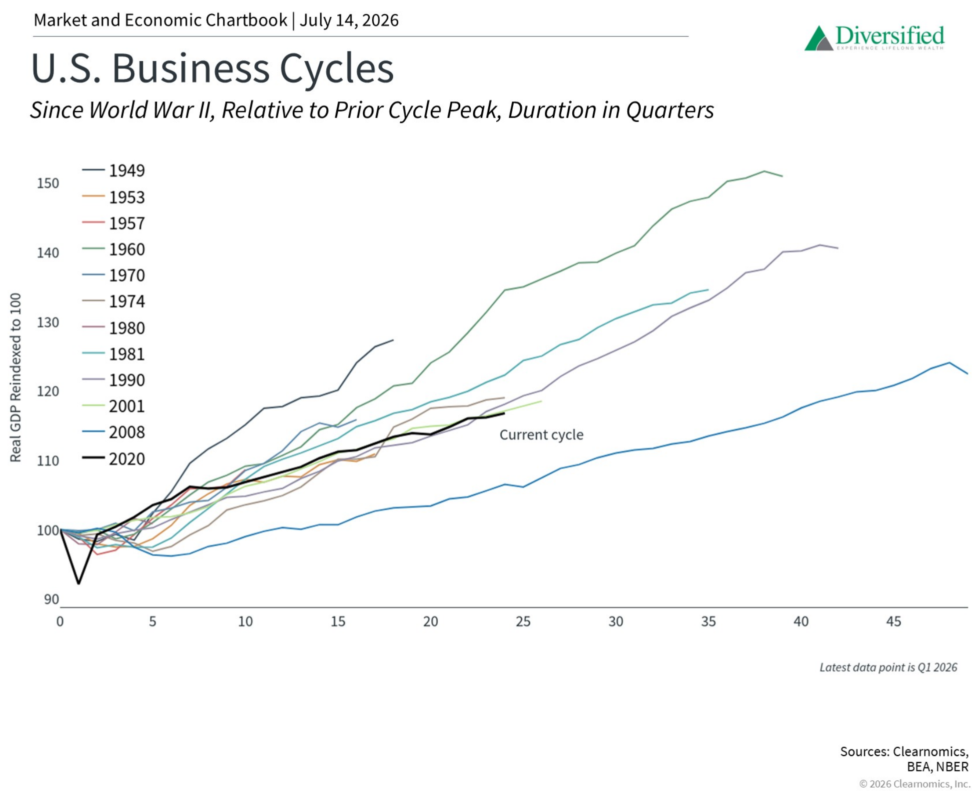
Asset Class Performance: Broad-based gains across all asset classes demonstrate the importance of diversification. Small caps, emerging markets, and commodities have rebounded strongly.

This contrast between headlines and actual portfolio performance is not unusual. It happens regularly throughout market cycles. What you read in the news and what actually drives long-term investment returns are often two different things. We call this the difference between *noise* and *signal.* Noise includes geopolitical shocks and sentiment swings. Signal includes earnings growth, economic health, and fundamental business strength. As fiduciaries, we pay attention to the signal.

A Cycle Coming of Age, Not Coming to an End

The current business cycle began in April 2020 and just turned seven years old in Q2. We are now approaching the fifth anniversary of the current market cycle as well.

When investors hear that a cycle is maturing, they often interpret it as a warning sign. But history tells a different story. Long business cycles are typically the strongest and longest-lived. The cycle after 2008 lasted over a decade. The 1990s dot-com boom extended nearly as long. Maturity does not equal imminent collapse.

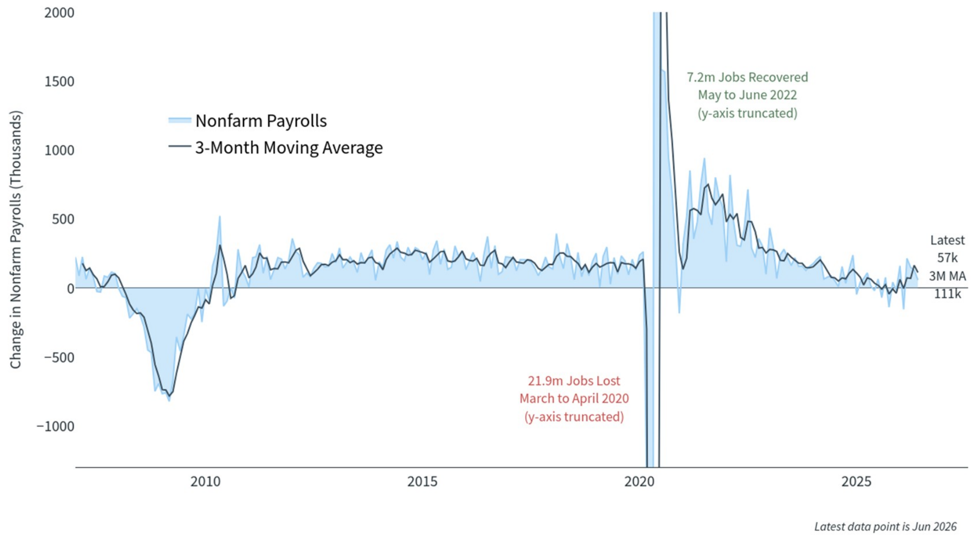


U.S. Business Cycles: Since World War II. The current cycle is in its seventh year but demonstrates healthy growth comparable to other mature cycles in history.

What matters is not the age of the cycle, but the underlying economic health. By most measures, the economy remains resilient. Inflation peaked in 2022 and has moderated significantly. While headline CPI rose 4.2% year-over-year in May (driven by the Middle East conflict), core CPI rose only 2.9%. As oil prices have stabilized, inflation pressure is easing.

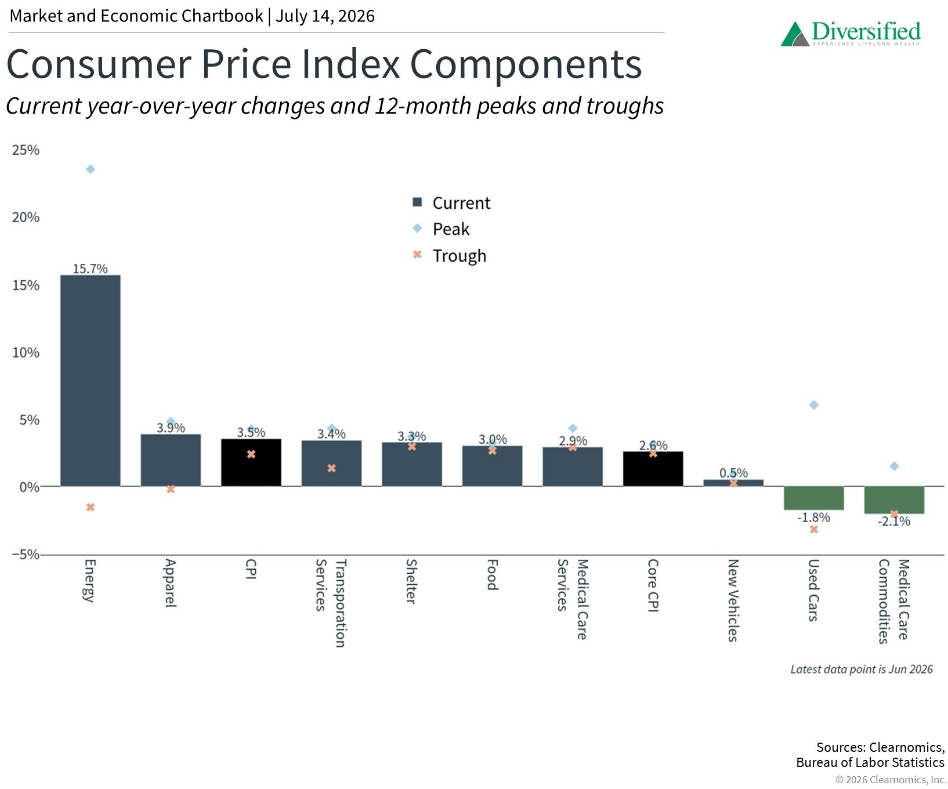
Payrolls Moving Average

Monthly change in non-farm payrolls and 3-month moving average



Sources: Clearnomics,
Bureau of Labor Statistics

Payrolls Moving Average: Job creation has moderated but remains positive at 111,000 (3-month average). This represents a labor market cooling toward normalization, not collapsing.



Consumer Price Index Components: Inflation has been concentrated in energy at 15.7%, while most other components have moderated significantly. Inflation has not spread broadly through the economy.

Business investment has accelerated, retail sales rebounded in Q1 and exceeded expectations, and household balance sheets remain strong with net worth at record levels. In summary: we are in a mature economic cycle, but not in recession, and recession does not appear imminent.

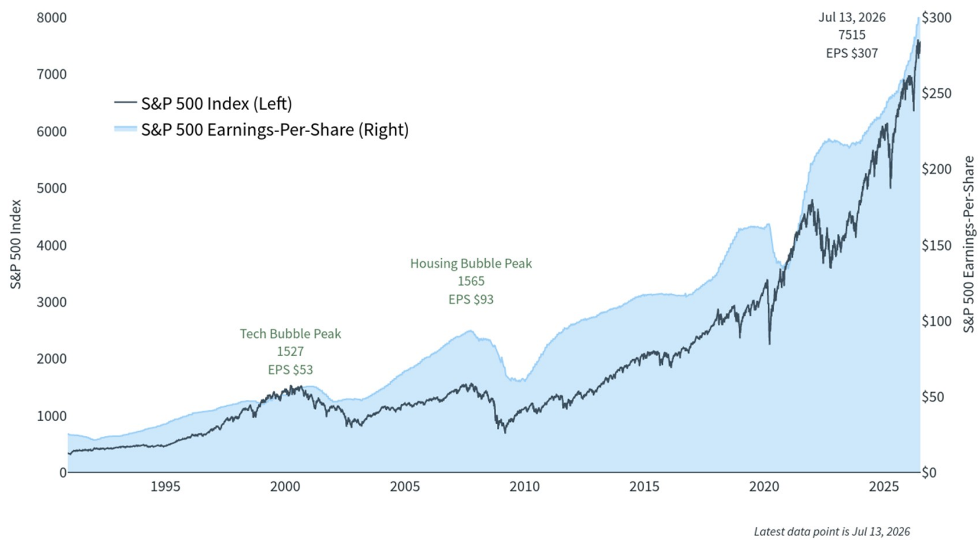
Earnings Drive Markets, Not Headlines

Long-term stock market returns are driven by corporate earnings, not by geopolitical events or sentiment surveys. In Q2, S&P 500 companies delivered strong results. Earnings per share grew over 20% in the past twelve months, well above historical averages. Revenue growth was broad-based. Information Technology led with upward guidance. Communication Services showed double-digit growth. Health Care performed well. Nearly all sectors posted year-over-year gains.

Market and Economic Chartbook | July 14, 2026

The Stock Market and Earnings

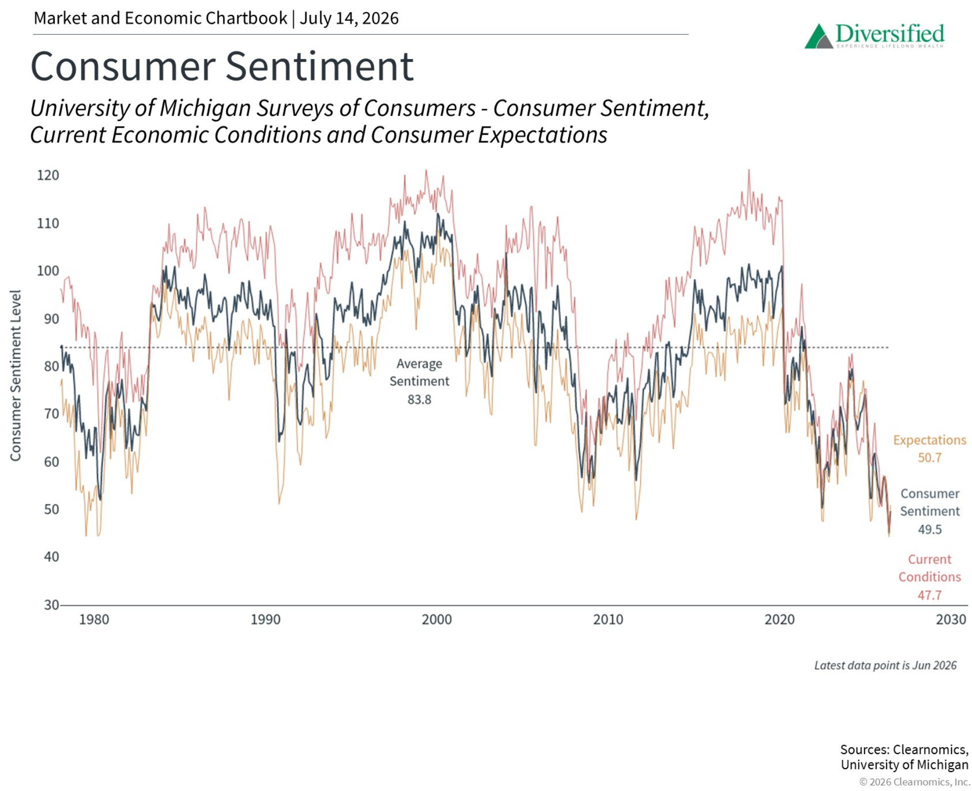
S&P 500 Index price and trailing earnings-per-share since 1990



Sources: Clearnomics, LSEG, Standard & Poor's

The Stock Market and Earnings: S&P; 500 Index price and trailing earnings-per-share since 1990. Over the long run, the stock market follows earnings. When earnings are rising as they are today, current valuations are justified.

Now contrast this with sentiment. The University of Michigan Consumer Sentiment Index fell to 49.5 in Q2, near recession-warning levels. Consumers worry about inflation, job security, and geopolitical risk. On a sentiment basis, conditions look grim.

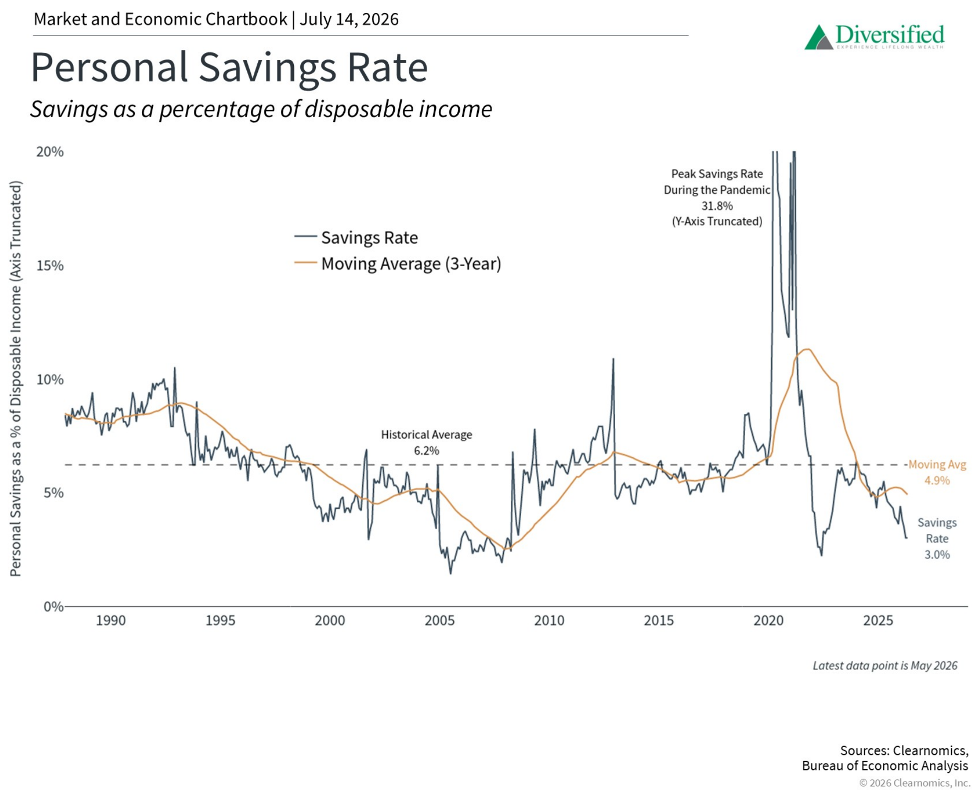


Consumer Sentiment: All three indices have declined sharply. This historical disconnect from actual economic data has often preceded strong market recoveries.

But here's what matters: companies are making more money, and consumers are still spending. Retail sales exceeded expectations. Household balance sheets show net worth at record levels. Debt servicing costs remain below long-term averages. Sentiment is weak, but fundamentals remain strong. Historically, this combination has produced strong market returns.

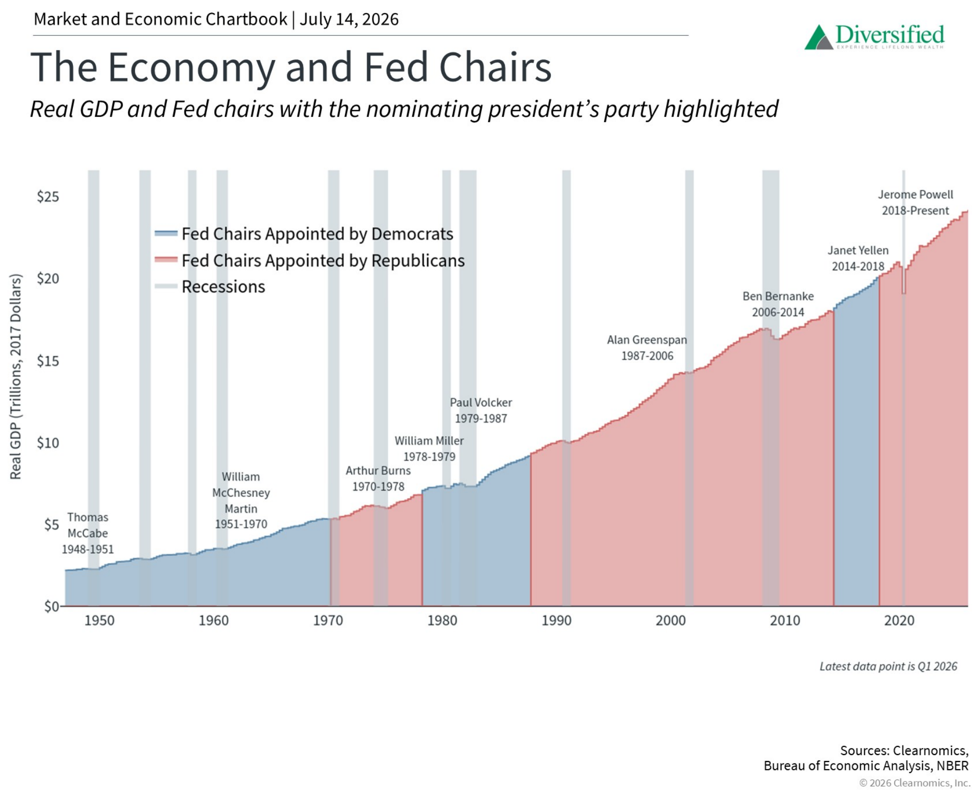
What About Geopolitical Risk?

The Iran conflict that began in late February was significant. Oil prices peaked just under $120 per barrel, their highest level since Russia's invasion of Ukraine in 2022. Market volatility ticked up. The S&P 500 pulled back 4.33% in Q1.



Middle East Conflicts and Markets: Major events and their impact on the S&P; 500 since 2010. While geopolitical events create volatility, they have rarely derailed markets over longer timeframes.

By early April, ceasefire headlines emerged. Oil prices fell. By June, they returned to near pre-conflict levels. The market staged a powerful recovery, with the S&P 500 returning 15.20% in Q2. This pattern is historically typical. Initial reactions are often negative. But once investors gain clarity on economic impact, attention shifts back to fundamentals.



Volatility and Forward Returns: Periods of elevated volatility have often preceded strong returns. When the VIX is high, it reflects fear that can create opportunity. Current VIX of 16 is below the long-term average of 18.4.

Temporary shocks, while uncomfortable, have historically been short-lived events. Over longer timeframes, they have rarely derailed markets.

Portfolio Positioning: Discipline in a Mature Cycle

At Diversified, our job is not to predict crises, time market highs and lows, or chase the latest narrative. Our job is to help you build a portfolio aligned with your long-term goals and maintain discipline through periods of uncertainty.

We maintain a U.S. overweight while acknowledging elevated valuations. The U.S. benefits from strong fundamentals, innovation, supportive policy, and deep capital markets. We emphasize quality companies with strong balance sheets, stable cash flows, and consistent earnings. In mature cycles, quality holds up better.

We have modestly increased international exposure. Developed and emerging markets offer attractive valuations and exposure to the global AI supply chain including semiconductor manufacturing and electronic components essential for future infrastructure.

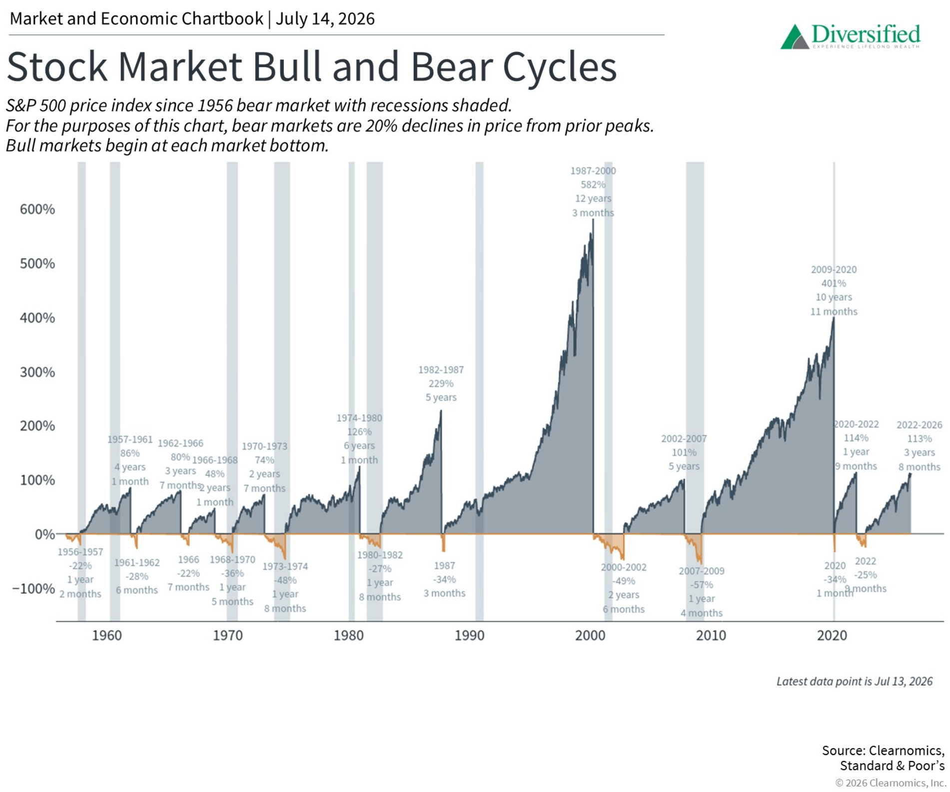
We incorporate Treasury Inflation-Protected Securities (TIPS) into fixed income allocations. While inflation has moderated, geopolitical shocks remind us that supply-side pressures can emerge quickly. TIPS provide protection while maintaining diversification.

We emphasize dividend-paying stocks and balanced portfolios. In a mature cycle with sentiment weakness, reliable income becomes more valuable. Balanced allocations (typically 60/40 stock-bond) provide smoother returns through cycles. These decisions reflect our commitment to your long-haul success, not tactical bets for the next quarter.

Our Commitment to You

As fiduciaries, our job is to act in your interest, not chase headlines, react emotionally to volatility, or propose solutions in search of problems. Our job is to understand your goals, build a portfolio to achieve them, and maintain discipline.

The first half of 2026 tested that discipline. Instead of panic, we remained focused on what matters: earnings are growing, the economy is resilient, and fundamentals supporting your wealth remain intact.

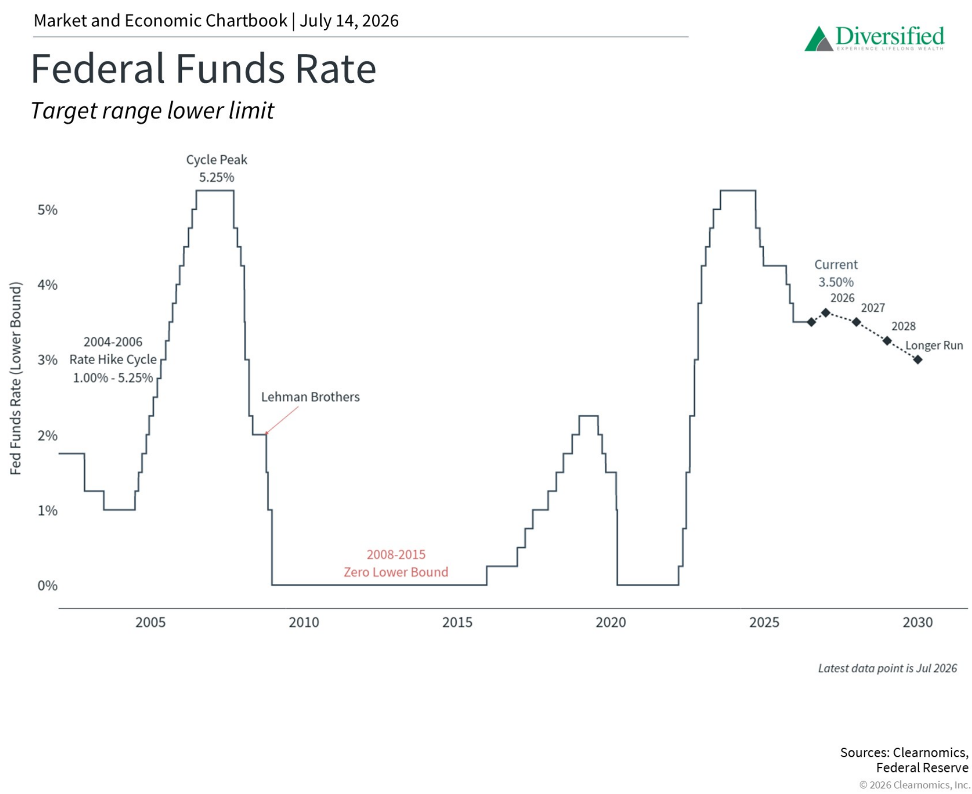


Stock Market Bull and Bear Cycles: S&P; 500 since 1956. While bear markets are inevitable, they are temporary. Bull markets consistently last longer and deliver much larger returns, rewarding patient investors.

For investors focused on true long-term goals, history provides powerful evidence. Since 1956, the average bear market lasted 1 year and 2 months with a 36% decline. The average bull market lasted 5 years and 9 months with 192% returns. Investors who remain disciplined and stay invested capture these extended periods of wealth creation. Those who exit during uncertainty often lock in losses and miss the recovery.

The Path Forward

The second half of 2026 will bring new developments. There will be unexpected events and days when headlines create fear. This is the nature of markets.



Federal Funds Rate: Current target at 3.50%-3.75%. The Fed appears likely to maintain rates or move gradually lower as inflation moderates.

For investors who maintain perspective, focus on fundamentals, and stay committed to a well-constructed long-term plan, the outlook remains constructive. Earnings are growing. Economic growth is positive. Policy remains supportive. Your portfolio is positioned to benefit from these strengths while managing risks appropriately.

If you have questions about your portfolio or financial plan, please reach out. We are committed to helping you navigate uncertainty with clarity and keeping you focused on your long-term goals.

In Summary

Market Performance: S&P 500 +10.21% YTD, Nasdaq +20.19% YTD, emerging markets +23.85% YTD. The S&P 500 reached 24 new all-time highs. Q1 returns: S&P 500 -4.33%, Nasdaq -5.87%, EM -0.17%. Q2 returns: S&P 500 +15.20%, Nasdaq +27.68%, EM +24.05%.

Earnings & Growth: S&P; 500 earnings per share +20% past 12 months. Broad-based revenue growth. Double-digit growth in Technology, Communication Services, and Health Care.

Economic Health: Unemployment low. Job creation solid. Inflation moderating (headline 4.2%, core 2.9%). Consumer spending resilient.

Fed Policy: Federal funds rate 3.50%-3.75%, unchanged through H1. Balanced approach between growth and inflation risks.

Positioning: S&P 500 at 20x earnings (vs. historical 16x). Quality tilt, U.S. overweight, modest international increase, TIPS exposure, dividend focus.

Outlook: Mature cycle with healthy fundamentals. Geopolitical shocks historically short-lived. Earnings growth supports valuations. Stay invested, maintain discipline, focus on long-term goals.

Important Disclosures

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