46 North Financial: Quarterly Thoughts

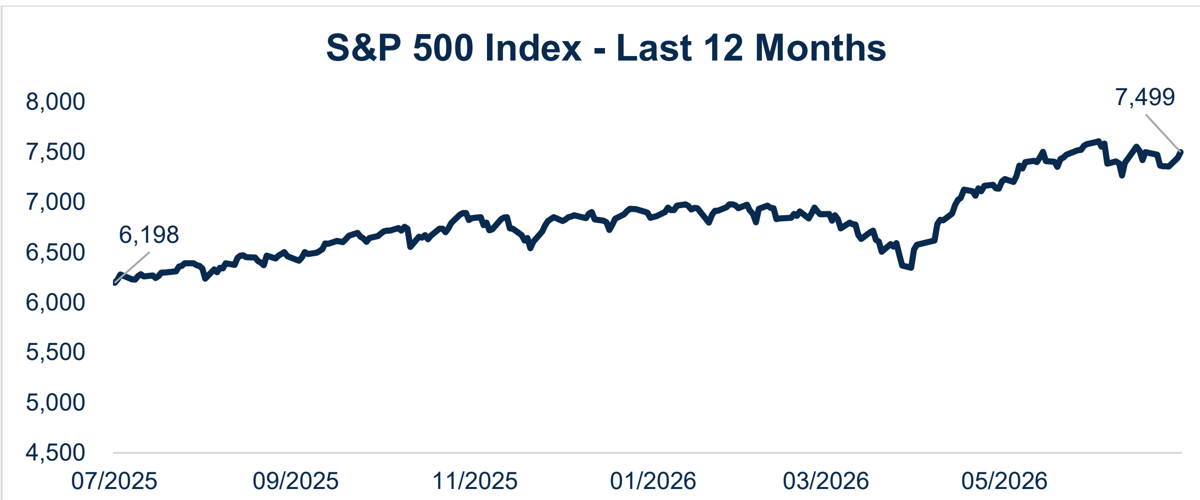
Q3 | June 30, 2026

1. Quick Stats: Q2 2026 Performance

- S&P 500 Index: up 10.19% YTD through Q2, up 22.29% over last twelve months Source, Invesco
- Bloomberg Aggregate Bond Index: up 0.62% YTD through Q2, up 3.23% over last twelve months Source: Invesco

2. A Note from 46 North

For those of you who are new, welcome to 46 North Financial! I hope this letter finds all of you well as we head into summer. My goal at 46 North Financial remains focused on your long-term financial health, goals and legacy.



Source

3. Q2 2026 Market Recap: Earnings Deliver, Sentiment Recovers

After a difficult start to 2026, the second quarter rose due to excellent corporate profits; the thing that matters most to the market over the long run. April alone delivered a +10.5% return for U.S. stocks — the 14th best single month since 1950. The earnings engine behind that recovery was broad: 84% of S&P 500 companies beat earnings estimates, 7 of 11 sectors posted double-digit earnings growth, and all 11 reported revenue gains — well above five-year averages.

Globally, the opportunity set widened. U.S. earnings are forecast to grow 23% in 2026, but Emerging Markets are projected at 49% — largely driven by AI chip demand. International developed markets outperformed the U.S. YTD through May (MSCI ACWI ex-USA +14% vs. S&P 500 ~10%), supported by attractive valuations and a weaker dollar. Meanwhile, despite fears of frothiness, U.S. price-to-earnings multiples actually compressed this year rather than expanded — **meaning the market is getting cheaper relative to earnings**, not more expensive.

Perhaps the most important shift: the AI build-out helping fuel an industrial buildout story, not just a software one. Caterpillar's construction division grew Q1 sales 38% on the back of data center buildout, for example, and NVIDIA's market cap reached $5.1 trillion — exceeding the combined value of the entire S&P 500 Energy, Materials, and Utilities sectors. Capital Group projects cumulative AI investment spending could exceed $30 trillion through 2032.

4. Looking Ahead: More Caution, Optimism, and Volatility

Here is how we are weighing the environment heading into Q3:

Reasons for Optimism:

• **Earnings Breadth Beyond Big Tech:** U.S. earnings projected to grow 23% in 2026 — and it is no longer just the largest tech names driving results. Healthcare, energy, industrials, and financials are all contributing. This breadth is healthier and more durable.

• **Global Growth, Not Just U.S. Growth:** International markets are outperforming. A weaker U.S. dollar, attractive valuations, and strong fundamentals could make international equity a compelling complement to domestic holdings.

• **Bonds Their Doing Job:** The Bloomberg U.S. Aggregate yields 4.67% — 2.7x higher than in early 2022 — with the Fed holding 350 basis points of room to cut. High-quality bonds are back as an income source and portfolio diversifier.

Reasons for Caution:

• **Inflation: Sticky Beneath the Surface:** Shelter inflation, inflation related to housing, remains high at 4.2% and core services are still elevated. While tariff rates have come down and headline CPI has moderated from its 9.1% peak, energy costs and geopolitical pressures continue to make the Fed's job harder.

• **The Fed's Tricky Situation:** The war is keeping inflation above target while simultaneously weighing on non-AI business investment and consumer demand. The new Fed Chair, Kevin Warsh, is expected to move cautiously. As Capital Group Bond manager Chitrang Purani put it: 'That combination increases the risk of a more pronounced slowdown in growth.'

Expect Volatility:

The midterm election cycle, a new Fed Chair, an active Iran conflict, and ongoing tariff uncertainty mean the second half of 2026 is unlikely to be quiet. That is not a reason to exit — it is a reason to ensure your allocation is properly aligned and we are executing your financial plan.

> *"Ultimately, diversification is not about maximizing returns in any single regime; it is about increasing the probability of meeting objectives across regimes, especially when the future mix of shocks — growth, inflation, geopolitics and technological disruption — is unknowable."* — *Capital Group 2026 Midyear Outlook*

5. Personal Finance – the humbling realities of market timing

• A study published in The Economist this June tested a seemingly unfair advantage: what if you knew tomorrow's news headlines before the market did? Researchers at Elm Wealth gave both human investors and leading AI models advance access to the next day's Wall Street Journal front page, then asked them to bet on stocks and bonds. The results were sobering — roughly half of human participants lost money, one in six went bust, and the average gain across 60,000+ players was just 3.2%. Even the AI models only predicted market direction correctly about 60% of the time. The harder problem was how much to bet: both humans and AI consistently over-leveraged, running real risks of catastrophic loss. The only consistent winners were five professional macro traders, who averaged a 130% return — not through better information, but by varying their position sizes based on conviction. **The lesson: if sophisticated investors with perfect foresight still struggle to time markets, the more reliable path is a diversified portfolio sized to the risk you can actually sustain.**

6. Capabilities to Consider

Here are some areas where other clients have been seeing great value:

Direct Indexing:

Instead of buying a broad fund, we buy individual stocks within an index.

• **Use Case:** This allows for granular Tax-Loss Harvesting to offset capital gains — particularly valuable during the increased volatility we expect this year. With individual sector movements widening, the harvesting opportunity set is expanding. If you have a taxable account and expect future capital gains, let's have a conversation.

7. Reminders

• **Contact Info:** Please update your records with our email: nick@46northfinancial.com and phone: 303.335.9632.

• **Google Reviews:** Your feedback is our greatest compliment. If we've helped you this quarter, please consider leaving us a review on **Google**.

8. Feedback

Was this recap helpful? Are you curious about how Direct Indexing might fit into your strategy? Please reply and let us know.

9. Interesting Reads

- **Busting the AI Youth Unemployment Myth** *https://www.apolloacademy.com/busting-the-ai-youth-unemployment-myth/*
- **$20 Bills Falling, $100 Bills Rising** *https://www.apolloacademy.com/20-bills-falling-100-bills-rising/*
- **Tech Valuations Back to Pre-AI Boom Levels** *https://www.apollo.com/wealth/the-daily-spark/tech-valuations-back-to-pre-ai-boom-levels*

- **4 Lasting Impacts of the Iran War** *https://www.capitalgroup.com/advisor/insights/articles/4-lasting-impacts-iran-war.html*
- **Wages Are Picking Up Again** *https://www.apollo.com/wealth/the-daily-spark/wages-are-picking-up-again*
- **AI's Most Exposed Industry Keeps Hiring** *https://www.apollo.com/wealth/the-daily-spark/ais-most-exposed-industry-keeps-hiring*
- **In Credit Markets, Things Are Getting Better, Not Worse** *https://www.apollo.com/wealth/the-daily-spark/in-credit-markets-things-are-getting-better-not-worse*
- **The Jobs Apocalypse: A (Very) Short History** *https://www.economist.com/finance-and-economics/2026/05/14/the-jobs-apocalypse-a-very-short-history*
- **To Understand European Voters' Anger, Look at Their Rent Bills** *https://www.economist.com/europe/2026/05/14/to-understand-european-voters-anger-look-at-their-rent-bills*
- **Three Forces Pushing Rates Higher Across the Curve** *https://www.apollo.com/wealth/the-daily-spark/three-forces-pushing-rates-higher-across-the-curve*
- **The Impact of AI on the Economy and Markets** *https://www.apollo.com/wealth/the-daily-spark/the-impact-of-ai-on-the-economy-and-markets*
- **With Households Feeling Pressure, Why Is the Stock Market Booming?** *https://advisor.zacksim.com/l/376582/2026-06-01/5vhpbn*
- **Countries for Old Men: An Analysis of the Age Pay Gap** *https://www.nber.org/papers/w32340*
- **Monetary Lapse of Reason** *https://www.carlyle.com/carlyle-compass/a-monetary-lapse-of-reason*
