MILLENNIUM FINANCIAL GROUP

2nd Quarter 2026 Client Letter

July 2026

Dear Client,

At the end of our last quarterly letter, after a discussion of the turmoil unleashed by the conflict in Iran and a rocky 2026 start for the stock market, we posited that the market may have found a bottom on March 30th. Outgoing Federal Reserve Chairman Jerome Powell had just provided a strong statement of confidence that U.S. economic conditions appeared stable. Shortly thereafter, a ceasefire (the first of many, as it turns out) was brokered between the U.S. and Iran. While the outlook was muddled enough at the time that we provided no forward guidance, we remained cautiously optimistic and ended our letter with a Warren Buffet quote on America's enduring economic strength.[1]

Little did we know. Q2 2026 delivered one of the largest rebounds in recent market history, with the S&P 500 advancing 15.2% and the Nasdaq surging 21.4%, the strongest quarter for both indices since the post-pandemic rebound of 2020.[2] The leaders in this rally, however, have not been concentrated in the mega-cap tech names that dominated most of the prior half-decade of the market (more on them later). What we have seen instead is a broadening out in stocks making significant advances. Small-cap stocks and emerging markets have handily outperformed large-cap stocks by nearly double year-to-date.[3] This has been an inversion of a longer-term trend over the last 3 years, when small cap indices dragged behind the S&P 500 by nearly 30% on a cumulative basis.[4]

This reversal of fortune has been particularly stark within the technology sector itself: The "Magnificent 7" tech giants (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia & Tesla) collectively entered negative territory for 2026, while smaller semiconductor stocks went into orbit, rising more than 70% for the quarter as a group.[5] Perversely, the same underlying theme appears to be driving both sides of this action, as it has most of the last couple of years: Artificial Intelligence (AI).

The buildout of datacenters to handle anticipated AI compute power has created a massive windfall for companies that make crucial components and equipment. Nowhere has this been more evident than in companies that make memory chips, an industry with only a handful of major manufacturers (U.S.-based Micron and South Korean companies Samsung & SK Hynix). With datacenters expected to consume around 70% of worldwide memory production, demand for these chips has exploded in a market with very limited supply.[6] Chip prices have thus skyrocketed, and the memory manufacturers have been able to capitalize by locking in multi-year supply contracts, a major win for a sector that typically operates in cycles.

Micron, until recently the only publicly traded of these companies in U.S. markets, closed up nearly 850% YTD on June 30th.[7] Samsung and SK Hynix pulled the Kospi (South Korea's

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benchmark index) up almost 100% through the end of Q2, and SK Hynix debuted a U.S. listing for the first time on July 10th, which closed up around 13% on its first day of trading.[8] Other smaller-scale beneficiaries of the datacenter trade have included drive & storage manufacturers (Sandisk, Seagate) and semiconductor testing and materials producers (Teradyne, Qnity). Even companies not typically thought of as tech names, such as Caterpillar and Corning, have had lights-out 2026s due to their adjacent datacenter exposure (Caterpillar supplies heavy equipment and generator solutions, Corning manufactures glass that goes into fiber optic cables and touch screens).

What all these companies had in common was an opportunity to immediately realize profits because of AI demand. The same is not true of most of the AI developers and hyperscalers, which face a much longer road to monetization as customers try to figure out what they want to use AI for and what they'll pay for it. In the meantime, the hyperscalers are burning billions of dollars in cash and issuing debt to fund AI infrastructure buildout – the money that has been going directly into their smaller contemporaries' pockets.

Wall Street appears to be growing increasingly skeptical of megacap tech's spending and uncertain path to profitability. Most of the Magnificent 7 stocks individually have underperformed vs. the S&P 500 in 2026 thus far.[9] Alphabet has been the lone consistent exception, possibly due to their perception as both a leader in AI development and superior cost controls (due to better vertical integration). Nvidia and Apple have held in better, though probably for different reasons (Nvidia also being a key supplier of AI chips, Apple ironically *not* having a very large AI footprint yet). Microsoft has been the worst performer by far, down nearly 20% YTD. We think this is more reflective of their enterprise software exposure – an area of technology many feel is directly threatened by AI competition. Indeed, its recent performance is much closer to major software contemporaries like Oracle, Salesforce and ServiceNow, which have had the tar knocked out them, than its Magnificent 7 brethren.

The Magnificent 7 companies represent more than a third of the S&P 500's total market cap, and current valuations look fairly cheap on a price-to-earnings multiple. The group has traded around a 30% premium for most of the 2020s; currently, it's closer to 10%.[10] Because these hyperscalers retain such a large hold over the market, continued advancement may depend on them demonstrating some return on their rapidly rising AI expenditures sooner than later. This upcoming earnings season should provide a clearer view of whether these trends will continue or if there's a broader leadership change occurring. What may be more important than earnings for the prior quarter are the forecasts for the rest of the year.

Continuing to look ahead, we're also watching the Federal Reserve's plans regarding interest rates. New Federal Reserve Chairman Kevin Warsh chaired his first committee meeting in June and has zeroed in on past Fed policy that he believes left the central bank too slow to react to inflation. With inflation still stubbornly above the Fed's 2% target, and Warsh's reputation as a hawk before his recent campaign to land the top Fed job, the bond market has been undergoing a significant repricing all year long: A January consensus of two rate cuts has now moved to an expectation of two rate hikes before year-end.[11] This could create significant friction with President Donald Trump, whose repeated calls for low rates led to a falling out with his first Fed Chair pick, Jerome Powell.

Inflation remains a sore point due in no small part to ongoing Iran war, with energy prices still meaningfully elevated since the conflict began. The U. S. and Iran signed a "memorandum of understanding" to set the framework for peace discussions and restart trade through the Strait of Hormuz. However, there appear to be lingering disagreements over how Hormuz traffic is managed while talks are ongoing, and the two sides have been reengaging in conflict as of this writing. A collapse back into open warfare and a closure of the Strait could reaccelerate energy inflation, while a durable, equitable peace agreement may relieve a great deal of energy pressure. As the narrative surrounding this continues to shift daily, we are not offering forward guidance on this point.

So given all this, despite the significant move in the market over the last 3 months, what we're thinking about and looking at actually has not changed all that much. We continue to hold and monitor our core positions and add cash as opportunities present themselves. We continue to look for good value in existing holdings or broadening out our growth exposure in new ones. We are keeping our fixed income purchases relatively short as we watch the Fed's next moves. While we remain cautious, we also think the U.S. is still a good place to invest, as the last quarter demonstrated one more time.

1. Millennium Financial Group, "1st Quarter 2026 Client Letter - The Seatbelt Sign Has Been Turned On," Apr. 2026

2, 5, 11. Kiplinger, "How the Stock Market Performed in the Second Quarter of 2026," Prem Patel, Jun. 30, 2026

3. Creative Planning, "Q2 2026 Market Commentary," Jamie Battmer, Jul. 1, 2026

4. T. Rowe Price, "Are U.S. small-caps finally back?" Timothy C. Murray, Feb. 2026

6. Tech Insider, "The 2026 Memory Chip Shortage," Marcus Chen, Mar. 19, 2026

7, 8. Yahoo! Finance, Market Data as of Jul. 12, 2026

9, 10. Yahoo! Finance, "The 'Magnificent 7' stocks are trading at their cheapest valuation in more than a decade," Brian Sozzi, Jul. 9, 2026

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