ACROPOLIS®
INVESTMENT MANAGEMENT

PORTFOLIO INSIGHTS

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Acropolis was born from a simple idea:

In an industry where high quality, objective advice is hard to come by, we make a difference by putting the client's interests above our own.

INNOVATION & UNCERTAINTY

The second quarter was a contest between innovation and uncertainty. Given the remarkably strong returns across global markets, innovation won.

Concerns about the impact of the war in Iran proved mostly short-lived. Although the Strait of Hormuz remains an area of heightened tension, investors concluded, for now, that the conflict was unlikely to alter the long-term economic outlook.

Attention quickly returned to the forces that have driven markets for more than a year: artificial intelligence, corporate earnings, productivity growth, and an economy that has proven far more resilient than many expected.

At the end of last year, Wall Street expected the largest technology companies to spend about $515 billion on the AI buildout in 2026. To put that figure in perspective, we likened it to purchasing roughly 2,000 full-body commercial jets—about eight times the combined annual production of Boeing and Airbus.

Just six months later, that estimate had climbed to roughly $675 billion. The increase alone is equivalent to purchasing another 600 full-body commercial jets, or roughly two additional years of combined production.

Rather than question the accelerating pace of investment, investors embraced technology stocks despite considerable uncertainty about when, and to what extent, these expenditures will ultimately generate attractive returns.

That optimism extended beyond artificial intelligence. Investors also paid a substantial premium for shares of SpaceX, the most anticipated initial public offering in years.

The company finished the quarter with a market capitalization of roughly $2.25 trillion, while Elon Musk's ownership stake, together with his other holdings, including Tesla, made him the world's first trillionaire.

Innovation and uncertainty have always competed for investors' attention, and they always will. While the headlines will continue to change, our focus remains the same: building diversified portfolios designed to participate in long-term innovation while remaining resilient as uncertainty inevitably returns.

STOCK MARKET SUMMARY

By David Ott

Over the last decade, technology stocks have dominated the market, earning 26.5 percent annually, while the S&P 500 returned 15.5 percent. Excluding technology, the index would have earned just 9.7 percent. Industrials, the second-best sector, returned 10.9 percent annually.

In the second quarter alone, technology gained 31.8 percent compared to 15.2 percent for the S&P 500, accounting for roughly two-thirds of the index's gain.

Even more striking, a single industry within technology, semiconductors, accounted for 45 percent of the market's advance after rising 49.5 percent in just three months. The industry includes 20 companies, among them Nvidia, now the world's largest company by market value. Seven semiconductor companies more than doubled during the quarter, and two tripled.

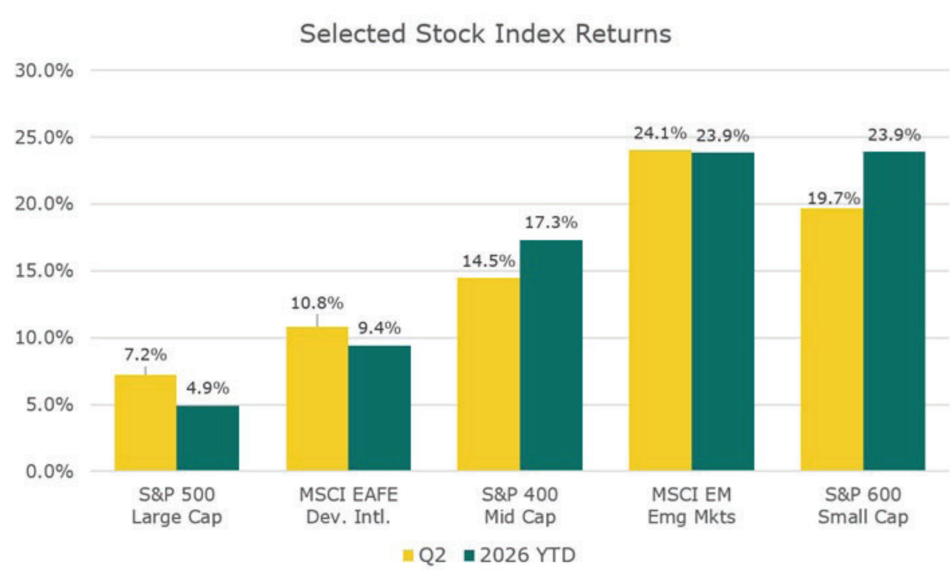
The rally was broad-based, fueled by accelerating AI infrastructure spending from hyperscale cloud providers, which continues to drive demand for advanced chips. Leadership also expanded beyond Nvidia to include memory manufacturers, networking suppliers, custom-chip designers, and companies benefiting from renewed investment in CPU and foundry capacity.

The same forces driving the rally also define its risks. Valuations across parts of the semiconductor industry have reached levels well above historical norms, leaving little room for disappointment if AI infrastructure spending slows. A market in which one industry generates nearly half of the overall gain is also less diversified beneath the surface than the headline index return suggests. Export controls, trade policy, and other geopolitical developments remain meaningful risks regardless of underlying demand.

None of this means the rally cannot continue. But the extraordinary concentration that fueled this quarter's gains is also the reason investors should pay close attention over the coming quarters.

"As a company grows, everything needs to scale, including the size of your failed experiments."

Jeff Bezos
Founder, Amazon
1964 -



Data Source: Bloomberg

BOND MARKET REVIEW

By Ryan Craft, CFA

The Bloomberg Aggregate Bond Index posted a total return of +0.7 percent for the second quarter of 2026. A decent return, but it understates the volatility throughout the quarter. Bonds took a full round trip, selling off hard as oil and inflation surged in April and May, then rallying back as a ceasefire in Iran collapsed the very oil premium that started the move.

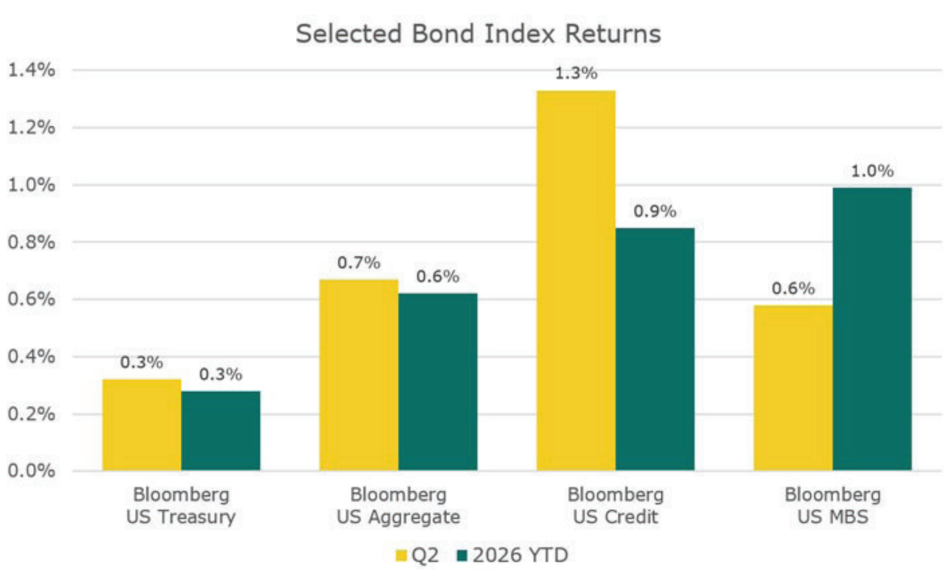
In a reversal from the first quarter, corporate bonds led at +1.3 percent. This was a rates-and-inflation event, not a credit event: credit spreads continued to tighten as equity markets moved higher. Treasuries lagged at +0.3 percent. Mortgages returned +0.6 percent, holding up despite the rate volatility that usually hurts the sector.

The story of the quarter was oil. The conflict that erupted at the end of the first quarter sent oil to roughly $112 a barrel by April, choking off close to a fifth of global supply through the Strait of Hormuz. Headline CPI hit 4.2 percent in May, the hottest reading since 2023, exactly the risk we flagged last quarter, as oil feeds CPI directly and through the costs companies pass along. The June ceasefire reopened the strait, causing oil to fall nearly 40 percent to $70, and the spike proved as transitory as most.

The Fed, under the new leadership of Chair Kevin Warsh, held the overnight rate at 3.50–3.75percent for a fourth straight meeting. The tone and the outlook shifted significantly. The new chair foreshadowed big changes in Fed communication, moving back toward the tight-lipped Greenspan era rather than the more vocal Fed in recent years.

The yield curve told the same short-versus-long story as last quarter, only louder. The 2-year yield climbed as markets priced in additional rate hikes, while the 10-year ended little changed.

For the rest of the year, the question has shifted from “when do they cut” to “will they hike.” However, the drivers remain the same. Oil prices and AI spending, and their influence on inflation, will determine the Fed’s next step. Expect the volatility to carry into the second half of the year.



Data Source: Bloomberg

> **“The least initial deviation from the truth is multiplied later a thousandfold.”**
>
> *Aristotle*
> *Greek Philosopher*
> *384 - 322 BCE*

THE MATH BEHIND THE MARKET

By David Ott

In the January edition of Portfolio Insights, I introduced a model for understanding past market returns.

The model isn't my invention, but it provides a remarkably clean framework for understanding where returns came from and where they might go next.

The model is simple: dividend yield, earnings growth, and the change in the price-to-earnings (P/E) multiple explain nearly all of the return variation in broadly diversified domestic equity indexes, with exchange rates serving as the additional factor for foreign markets.

The accompanying chart decomposes the returns for the S&P 500 and its related growth and value indexes.

Ten years ago, the dividend yield on the value index was 2.7 percent, about 0.5 percent higher than the S&P 500 and 0.9 percent higher than the growth index. That advantage, however, was more than offset by stronger earnings growth in the other indexes.

While value stocks grew earnings at 6.4 percent annually, the S&P 500 grew earnings at 9.5 percent and the growth index grew earnings at 11.6 percent.

That gap compounded meaningfully over the decade and overwhelmed value's modest yield advantage.

These two factors, the dividend yield and earnings growth, represent what Jack Bogle, founder of Vanguard, called the "fundamental return."

The third element is what Bogle called the "speculative return": what investors are willing to pay for those earnings, reflected in the P/E multiple.

The chart shows that investors were willing to pay higher multiples for higher growth stocks, presumably because they expected growth stocks to continue delivering superior earnings growth.

Higher valuations may be justified if superior earnings growth persists. The question is how much of that future growth is already reflected in today's prices.

To answer that question, begin with the dividend yield on the S&P 500, which stood at 1.1 percent at the end of May.

Next comes earnings growth. Over the past 25 years, rolling ten-year earnings growth has ranged from 2.1 percent to 10.9 percent. The last decade ranked in the 89th percentile at 9.5 percent.

The median was 6.9 percent, while the middle 50 percent ranged from 5.2 to 8.1 percent. Although earnings could exceed that range, a more reasonable assumption is that growth eventually reverts toward it.

Under that assumption, the fundamental return, in Bogle's terms, would be between 6.3 and 9.2 percent. Now for the hard part: the speculative return.

The P/E multiple on the S&P 500 stood at 27.9 at the end of May, placing it in the 96th percentile over the last 25 years.

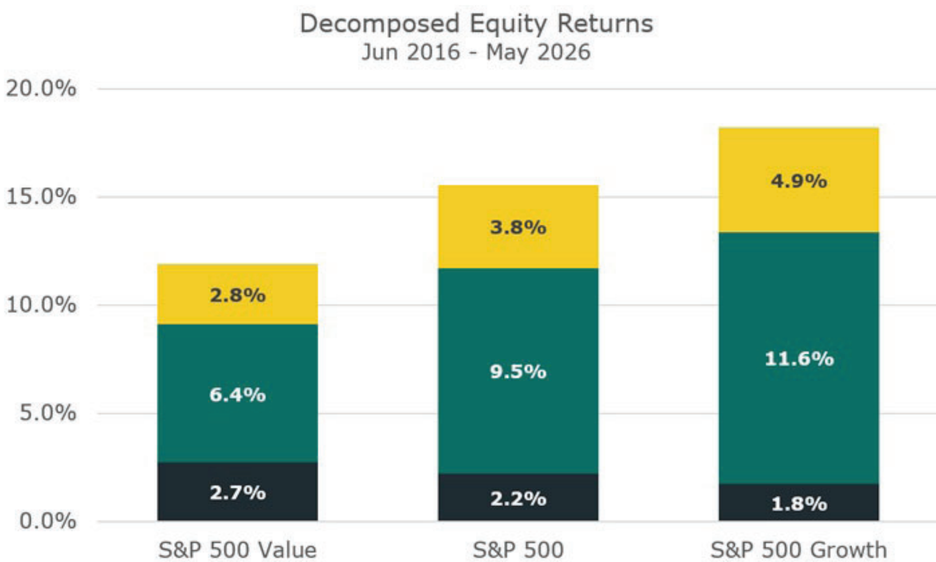
The median was 18.8, while the middle 50 percent ranged from 16.3 to 22.0.

Because valuation changes compound just as earnings growth does, a decline in the P/E multiple can materially reduce returns. If the multiple were to revert to its median over the next decade, that contraction would subtract roughly 3.9 percent annually.

Layering that drag onto the fundamental return range of 6.3 to 9.2 percent

"The Gilded Age was called 'gilded' because it looked like gold on the outside, but was cheap metal underneath."

Mark Twain
American Writer &
Humorist
1835 - 1910



produces an expected return between 2.4 and 5.3 percent annually, which is a sobering range compared with the 15.6 percent annual return of the past decade.

The P/E multiple does not have to fall all the way to its median. If it declined only to 22.0, the historical 75th percentile, the annual drag would be approximately 2.3 percent, producing expected returns between 4.0 and 7.0 percent.

Of course, investors may still earn 8-10 percent annually over the coming decade. If the P/E multiple falls to its historical median, however, earnings would need to grow by 10.7 percent annually, about 1.2 percent faster than during the exceptional past decade.

That could happen if AI delivers on its promise, but such growth would rank in roughly the 97.5th percentile of the past 25 years. A 10 percent annual return would require earnings growth of 12.7 percent, something that has not occurred in that time.

No one knows how quickly corporate earnings will grow over the next decade, nor what valuation investors will ultimately place on those earnings. Those two variables will determine whether returns exceed or fall short of these estimates.

Still, starting valuations matter. Today's elevated P/E multiple suggests that investors should expect more modest returns from U.S. large-cap stocks than they enjoyed over the past decade unless earnings growth proves truly extraordinary.

The encouraging news is that this is not true across all asset classes. None of the major equity asset classes have kept pace with U.S. large-cap stocks over the past decade, and their valuations reflect that. Their fundamental returns weren't as strong, but their speculative returns were substantially lower, leaving them at more attractive starting points today.

While no one can predict which asset class will lead next, beginning with a more attractive valuation has historically improved the odds of earning a satisfactory long-term return. As always, the key is diversification.

"I believe in two principles: Your attitude is more important than your capabilities. Similarly, your decision is more important than your capabilities!"

Jack Ma
Chinese Businessman
1964 -

INSIDE THE ECONOMY: FED FUNDS

By: David Ott

One of the most widely followed forecasts in financial markets isn't produced by economists or the Federal Reserve.

Instead, it comes from Fed funds futures, where investors collectively express their expectations for the path of short-term interest rates.

The chart illustrates just how quickly those expectations can change.

At the end of 2025, markets priced in a series of cuts over the following eighteen months. By the end of the first quarter, that view had flattened. Just three months later, investors had reversed course, expecting rates to rise well into 2027.

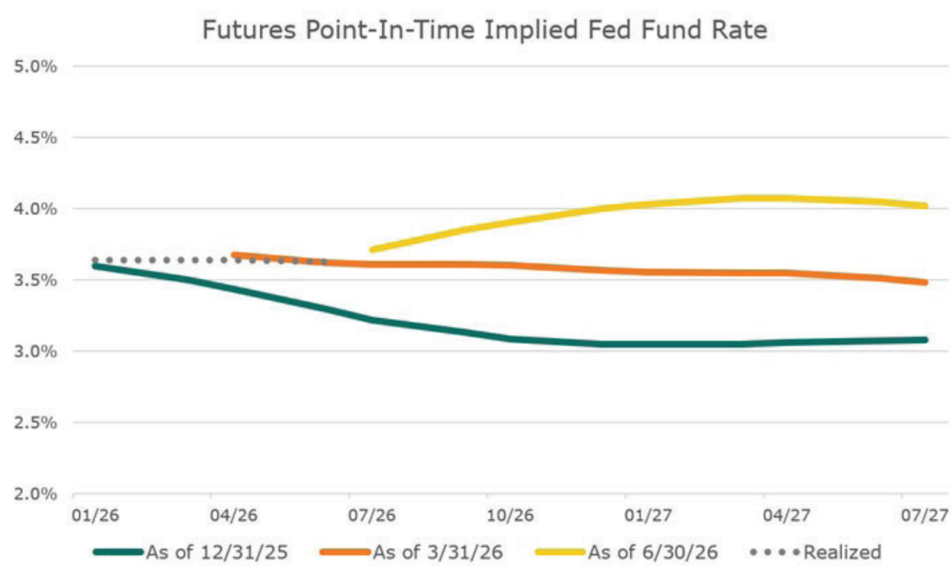
What changed? Not the Federal Reserve's long-term objectives.

Inflation remained above target, economic growth proved more resilient than expected, and the job market picked up. Rising oil prices raised the risk of renewed inflation, which had never been fully tamed to begin with. And markets now expect new Fed Chair Kevin Warsh to lean more hawkish than his predecessor, Jerome Powell.

The lesson extends well beyond monetary policy. Financial markets continuously incorporate new information, and today's consensus often looks very different just a few months later. Even professional investors with access to the same data routinely revise their expectations as the outlook evolves.

That is one reason we place relatively little emphasis on forecasting the exact path of interest rates. While the market's expectations influence bond prices in the short run, history shows that even those expectations are constantly changing.

Rather than trying to predict the next move by the Federal Reserve, we believe investors are better served by building portfolios that can succeed across a wide range of interest rate environments. The future rarely unfolds exactly as expected, and the market's own forecasts are a reminder of just how uncertain that future can be.



Data Source: Bloomberg

"The scoreboard said I lost today, but what the scoreboard doesn't say is how much I've grown."

Andre Agassi
American Tennis Player
1970 -

WHEN INDEXES DISAGREE

By: David Ott

One of the small but important details in international investing is that not all index providers classify countries the same way.

South Korea is the best current example. FTSE classifies South Korea as a developed market, while MSCI classifies it as an emerging market.

The difference stems largely from methodology. FTSE concluded years ago that South Korea's economy and capital markets are consistent with developed markets, while MSCI continues to cite market accessibility and currency considerations in keeping it in the emerging market category.

For portfolios that use FTSE-based ETFs, South Korean stocks generally appear in developed international holdings.

Acropolis, however, uses MSCI benchmarks, where those same stocks appear in emerging markets. As a result, a developed markets fund can appear to outperform its benchmark when South Korea performs well, while an emerging markets fund can appear to underperform for the same reason.

This has been especially relevant because South Korea is home to several large semiconductor and technology companies, which have been important contributors to global equity returns this year. Because of that strength, its classification has had a meaningful effect on benchmark returns. Under FTSE, South Korea boosts developed market performance but has no impact on emerging markets. Under MSCI, the opposite is true.

The combined international exposure is similar in either case, but the developed and emerging market components can look materially different simply because the indexes define the country differently.

The key point is that this is not necessarily a problem with the ETFs. The underlying economic exposure may be quite similar across the combined international allocation, even if the attribution looks different when developed and emerging markets are reviewed separately.

That perspective also prompted us to reevaluate our benchmarks. After careful consideration, we decided to continue using MSCI for our international and emerging markets benchmarks, but to make one improvement to our developed markets benchmark. The benchmark change will begin July 1 and first be reflected on third quarter statements.

Historically, we have used the MSCI EAFE Index, which stands for Europe, Australasia, and the Far East. It has served investors well for decades, but it excludes Canada. Although the difference is modest, Canada is a meaningful developed market and belongs in a broad international benchmark.

Going forward, we will use the MSCI World ex USA Index for developed international stocks. It is very similar to EAFE but includes Canada, providing a more complete comparison for our developed international allocation.

Given our decision to retain MSCI benchmarks, we will likely align the underlying funds over time, when appropriate, not because we missed out on South Korean returns, but to make performance comparisons clearer.

"If you can't afford it, you can't have it."

Margaret Thatcher
Former UK Prime Minister
1925 - 2013

Major Equity Indexes	2026 YTD
Dow Jones	9.8%
S&P 500	10.2%
S&P 400 Mid-Cap	17.3%
S&P 600 Small-Cap	23.9%
MSCI EAFE (Intl)	9.4%
MSCI Emerging Mkt	23.9%

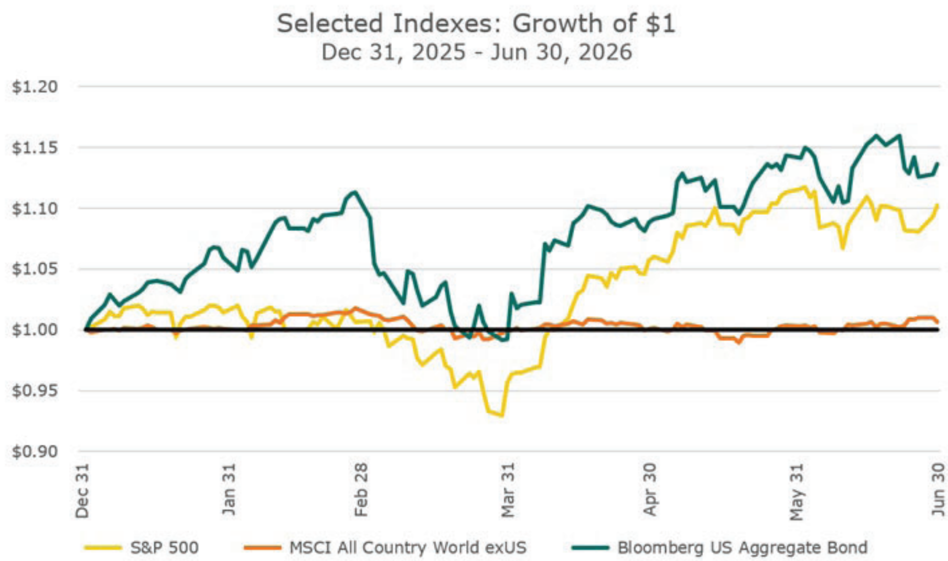
Equity Styles	2026 YTD
S&P 500 Growth	12.0%
S&P 500 Value	8.0%
S&P 500 Quality	21.0%
S&P 500 Momentum	36.1%

S&P Sectors	2026 YTD
Basic Materials	12.0%
Communications	0.8%
Consumer Discretion.	-0.8%
Consumer Staples	8.0%
Energy	19.7%
Financials	-1.3%
Healthcare	-3.5%
Industrials	20.2%
REITs	11.5%
Technology	19.8%
Utilities	7.7%

Interest Rates	2026 Q2
Fed Funds	3.75%
Prime Rate	6.75%
3-mo. Treasuries	4.18%
2-yr. Treasuries	4.18%
5-yr. Treasuries	4.23%
10-yr. Treasuries	4.47%

All Data as of 06/30/26

THE BIG PICTURE



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