George McAuliffe – Second Quarter 2026 Commentary

Dear Clients,

After a largely sideways Q1 where earnings and productivity were overshadowed by valuation concerns, Fed new chair uncertainty, and rising Iran tensions, Q2 saw a rebound. As earnings continued to prove resilient, the Fed leaned towards stability, and the Iran situation appeared (only for a short time as we now know) to have calmed, we also saw a broadening market as economic activity seemed to be spreading to a broadening market base. But this only lasted until June, when Iran tensions resumed, and valuation, cyclic, and fundamental concerns again took the spotlight.

These competing forces have been driving much volatility of late. Holding up the market, we have continuing good earnings, decent employment, a stable Fed, continuing AI capex and productivity, and some big IPO's finally coming to market. Pushing down the market, there is Iran and the Strait of Hormuz, fear that valuations remain on the higher side (probably true), fear that earnings and margins growth have peaked (possibly true, but slowing growth and stable margins are still positive), fear that AI capex growth will slow (probably true, if for no other reason that the cost of capital will rise — but as companies change focus to using their investments, productivity should increase), and still Ukraine.

All of the above may indicate a stock market more in some sort of balance, if constantly teetering to one side or the other as marginal opinions change, or as individual companies have individual results and the market tries to interpret these as read-throughs for an entire sector. For example, consider the computer memory space, with underinvestment since at least a few years, and a fairly sudden ramp in demand. One day, this is good, and the chip manufacturing and equipment players should continue doing well. The next day, it is a bubble driven by AI, and remains a cyclical industry. The truth, as usual, is probably somewhere in the middle, though as a longtime technophile and technology user, I lean to some degree towards the positive interpretation — nevertheless, some of these stocks, and we are talking about large companies with deep long-term order books, have recently seen large price swings on little real news.

So it would hardly be surprising if this is a summer of markets staying in a sideways, if volatile, range for a while. Only once earnings catch up a bit or not (valuation fears), or AI productivity and monetization become more compelling or not (AI overinvestment fears), or geopolitical issues either fade or more seriously affect trade, commodities, and energy (inflation and supply chain fears) — only once some of these things settle down a bit as clearer trends less open to daily subjective re-interpretation, will the markets do the same.

Faced with this, what is one to do? Lighten up because "things might look a little toppy"? Rotate to defensives? No. Such actions are, in my view, those of short-term traders trying to time the market. And over the longer term, this is inevitably a Quixotic quest, as eventually one is, un-timely, on the sidelines when the market does eventually rally. Instead, I am going to continue doing what I have always advocated — be a disciplined long-term investor and stick with the quality companies I have found, and unless something about their prospects has fundamentally changed, continue holding them through the peaks, troughs, and sometimes erratic bits in-between. Thank you for your confidence, and I wish everyone a very pleasant remainder of summer!

As always, I would be happy to discuss further with anyone interested.

Thank you,

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