



Fair Value Higher: We See More Gains

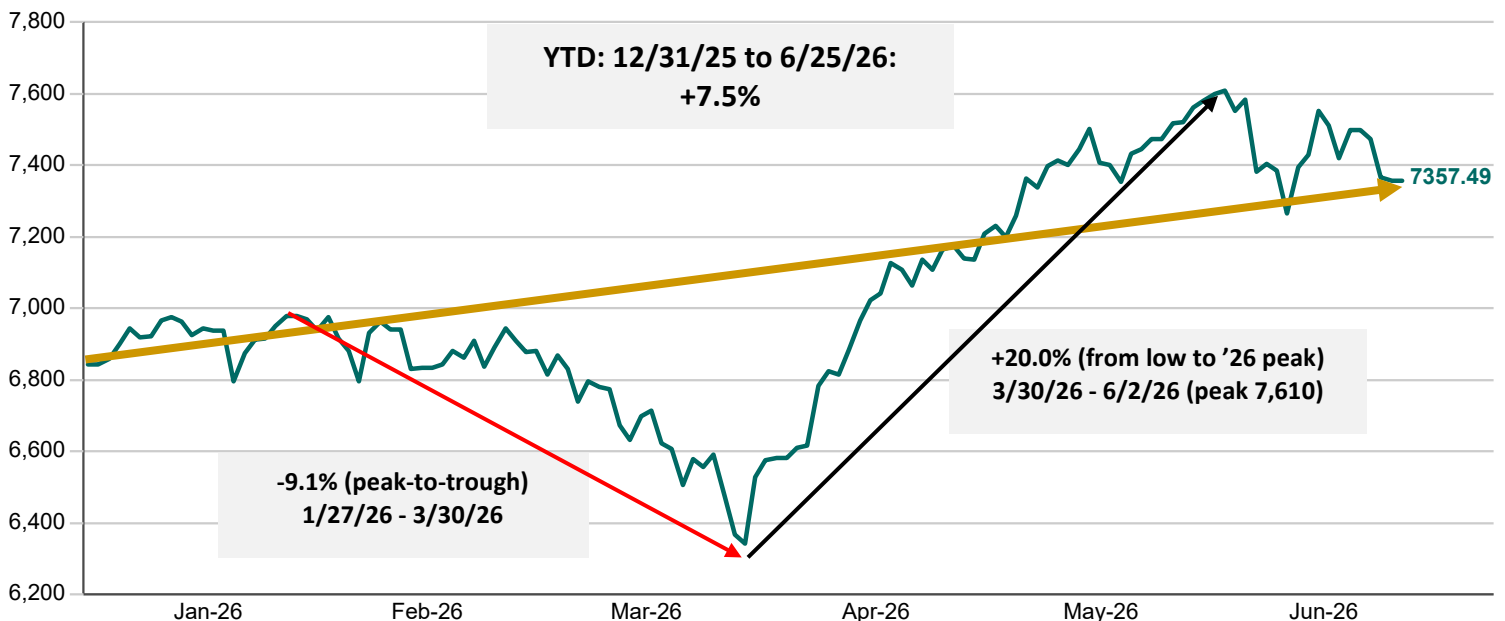
Major Equity Indices (price returns)	6/25/26	Year-to-Date 12/31/25 - 6/25/26	Q2-to-Date 3/31/26 - 6/25/26	Q1 12/31/25 - 3/31/26
U.S. Large Company Indices				
Equal Weight S&P 500	8,584	10.6%	10.4%	0.2%
Nasdaq Composite	25,359	9.1%	17.5%	-7.1%
S&P 500	7,357	7.5%	12.7%	-4.6%
Russell Indices				
Russell 2000 (small companies)	3,008	21.2%	20.5%	0.6%
Russell 1000 Value (large company value)	1,485	16.1%	14.3%	1.6%
Russell 1000 Growth (large company growth)	3,144	-0.2%	10.8%	-9.9%

Data Source: FactSet as of 6/25/26. Calculations use closing prices. Price return excludes dividends. Q2-to-date covers the period 3/31/26 to 6/25/26.

U.S. equities have surged in the second quarter (2Q26) to-date (through 6/25/26), leading to solid year-to-date gains following a weak first quarter. We see a positive environment for additional equity gains in 2026, boosted by economic growth, solid earnings, and positive sentiment from rapidly falling oil prices that should support lower prices for gasoline, jet fuel, and diesel. **An increase in 2026 and 2027 S&P 500 earnings estimates since the beginning of the year supports index gains, and we have increased our S&P 500 fair value estimate to 7,700 (from 7,100 previously) with a potential range of 6,700 to 8,100.** Our fair value estimate of 7,700 is +4.7% from the 6/25/26 closing index price of 7,357 and is up +12.5% from the end of 2025.

The second quarter equity rally began early in the quarter when investor sentiment surged on hopes for peace with Iran, as a ceasefire began on 4/8/26. A potential end to the war was a clear market driver, in our opinion, but we also credit two other material factors driving gains in equities. The first was impressive 1Q26 corporate financial results (mostly reported in April and May) that reflected S&P 500 year-over-year (Y/Y) revenue and earnings per share (EPS) growth of +12% and +28%, respectively. The second factor was strong business investment (non-residential fixed investment reported by the Bureau of Economic Analysis, BEA) that includes much of the artificial intelligence (AI) technology spending. In 1Q26, non-residential fixed investment increased +10.6% annualized from the previous quarter, the strongest quarter in three years and on top of relatively strong +4.1% business investment growth for all of 2025. We expect both trends to reflect ongoing strength in the second quarter as data is reported, creating a constructive second-half environment for equity investors. Equity market upside is not without risks, however, and we see potential headwinds from higher interest rates, stubborn inflation even as gasoline prices fall, hiccups in data center and technology spending, and U.S. mid-term elections this fall. This could lead to periods of volatility, even as the uptrend continues placing an emphasis on sector and asset class diversification, and portfolio rebalancing as needed.

S&P 500 Price: 12/31/2025 - 6/25/2026

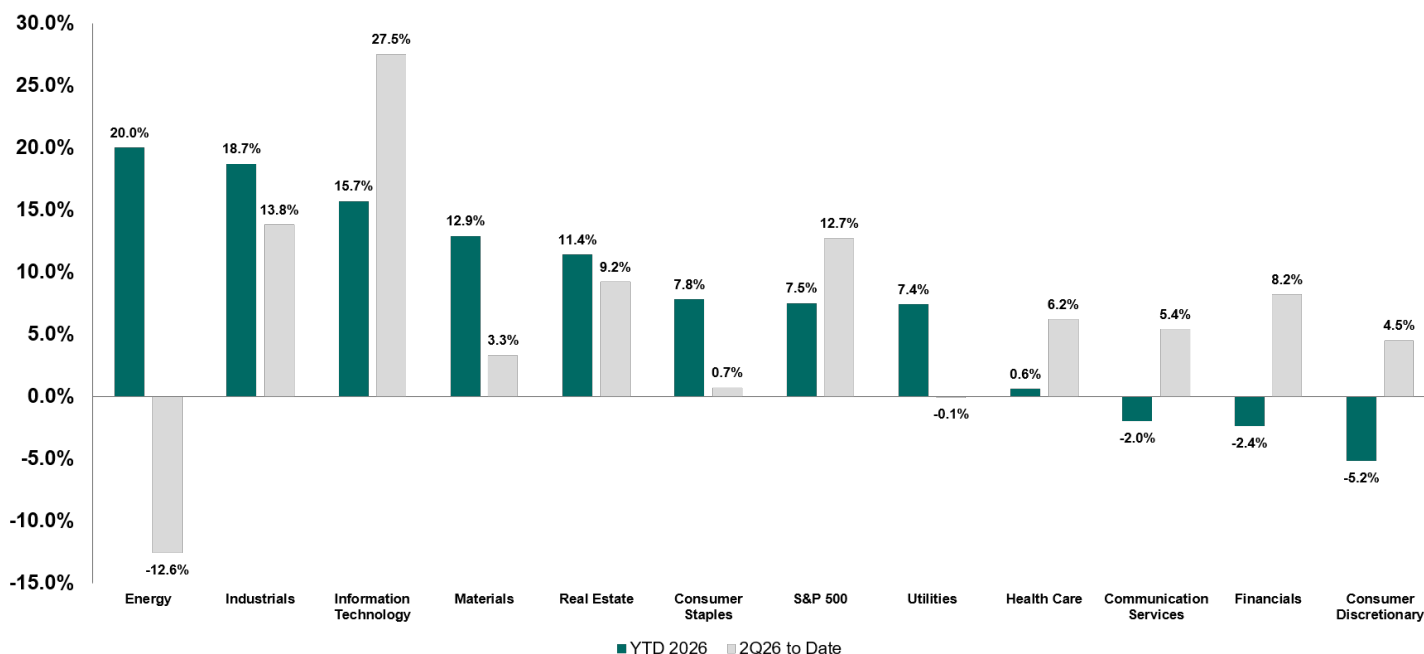


Data Source: FactSet and S&P 500 closing prices, as of 6/25/26 (price returns, does not include dividends).

The first half of 2026 reflected significant volatility, particularly for growth stocks, as growth-dominant indices and sectors moved lower in the first quarter, then rebounded strongly in the second quarter, adding up to solid year-to-date (YTD) gains. Among the most widely followed growth indices, the Nasdaq Composite decreased -7.1% in 1Q26, but in 2Q26 to-date (through 6/25/26) had increased +17.5%, bringing the YTD gain to +9.1%. The S&P 500 index is weighted toward growth with the combined weights of three growth sectors – Technology, Communication Services, and Consumer Discretionary – comprising 57% of the total index value (as of 6/24), and it decreased -4.6% in 1Q26, and gained +12.7% in 2Q to-date for a YTD price gain of +7.5%. Several indices have outperformed the S&P 500 YTD return, with gains led by the Russell 2000 (small companies) up +21.2%, the Russell 1000 Value Index up +16.1%, and the Equal Weight S&P 500 (EWSP) up +10.6%. We believe that the relatively stronger performance of these broad sectors, especially the Russell 2000 and EWSP, reflect widening participation in gains, changing market leadership, and better representation from the average stock. This is an important point, in our view, because we sense a perception that market gains have become more concentrated in 2026. This may be true within sectors (in Technology, the semiconductor subindustry has surged, while software has traded lower), but the average stock has traded higher in 2026, especially in June.

S&P 500 sector gains are better than many realize. In 2Q26 through 6/24, nine of eleven S&P 500 macro sectors (as measured by MSCI's Global Industry Classification Standards, or GICS) posted positive returns (Energy was lower and Utilities was essentially flat). A popular 2Q26 narrative was that strong gains in AI and semiconductor stocks dominated index returns at the expense of the broader market. To some extent, this was true as the Technology sector increased +27.5% 2Q to-date (gray bars) and was the only sector to outperform the broader market (S&P 500 +12.7%), but multiple other sectors delivered solid quarterly returns. Technology powered the overall index higher, but overall gains were relatively broad. This was evident in the YTD returns (green bars) as through 6/25, six sectors beat the S&P 500's +7.5% price increase, and a 7th, Utilities +7.4%, nearly matched the index. In our view, this does not represent a concentrated market. Another factor supporting our view that gains have broadened is that the vaunted "Magnificent 7" cohort of stocks has, on average, declined -6.5% in 2026 YTD, and yet the S&P 500 is higher.

S&P 500 Sector Price Returns (%) YTD 2026 vs 2Q26 to Date (as of 6/25/26)



Data Source: FactSet as of 6/25/26. Price returns reflect the change in index closing prices and do not include dividends. The eleven sectors are the Global Industry Classification Standards (GICS) from MSCI. YTD is year-to-date, 12/31/25 to 6/25/26. Second quarter-to-date is 3/31/26 to 6/25/26.

S&P 500 earnings estimates for 2026 and 2027 have moved higher.

In 2025, S&P 500 earnings per share (EPS) increased +13% from 2024 to \$270 (market capitalization weighted EPS of all S&P 500 constituents). As of 12/31/25, the consensus estimates for 2026 were \$308 (+14% from 2025) and for 2027 were \$355 (+15% from 2026). But following strong corporate financial results in 4Q25 and 1Q26, consensus earnings estimates were revised higher. The 2026 S&P 500 EPS estimate as of 6/24/26 was \$355, +9% higher than the December estimate and now reflects +24% year-over-year (Y/Y) growth (2026 vs. 2025). Similarly, the 2027 consensus EPS estimate moved +10% higher to \$390, reflecting +16% Y/Y growth. Since the start of the year, S&P 500 earnings estimates have increased more than the index itself. This has driven the market valuation lower.

S&P 500 Earnings Per Share

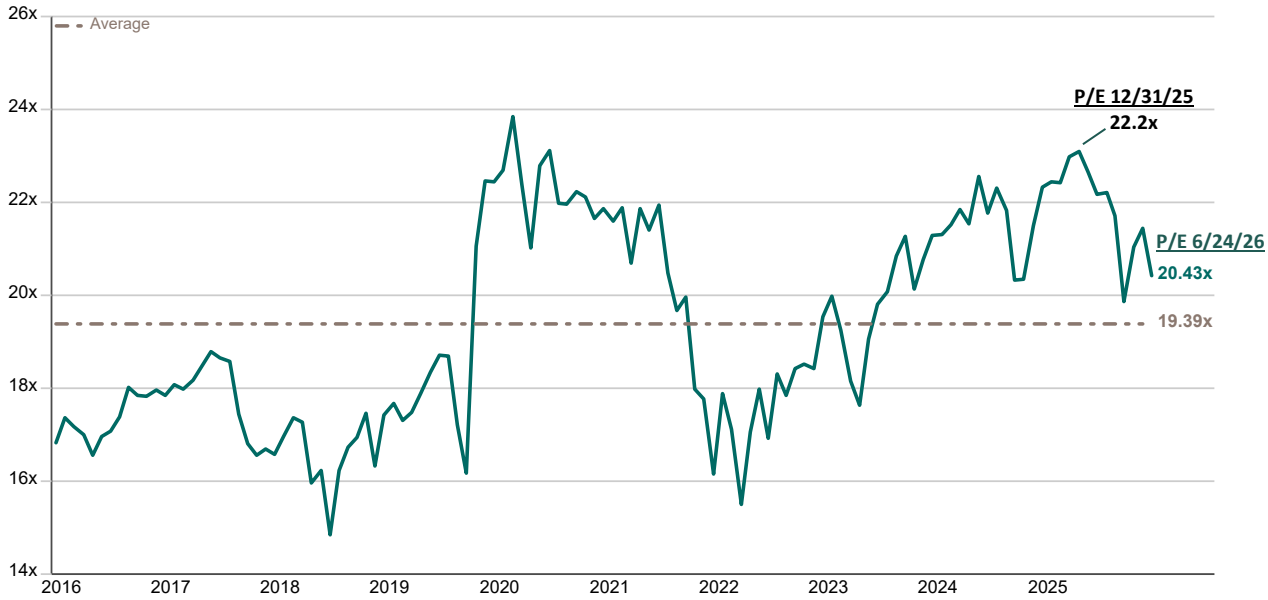
2025 actual, 2026 & 2027 consensus estimates

	2025 A	2026E	2027E
as of 12/31/25	\$270	\$308	\$355
old growth rate		14%	15%
as of 6/24/26	\$270	\$336	\$390
new growth rate		24%	16%
change in estimate since 12/31/25		+9%	+10%

Data Source: FactSet consensus EPS estimates from Wall Street analysts, as of 6/24/26.

The S&P 500 price-to-earnings (P/E) valuation has moved lower in 2026 but remains above its 10-year average level. As of 6/24/26, the S&P 500 traded at 20.4x the consensus earnings estimate over the next four quarters (3Q26 to 2Q27). This compared to 22.2x earnings estimates as of 12/31/25. The P/E has moved lower even as the S&P 500 has gained +7.5% YTD due to the increase in earnings estimates. Over the past 10 years, the P/E has traded in a rough range of 15x to 23x with an average valuation of 19.4x. Although the S&P 500 is “cheaper” today on a P/E valuation basis compared to the beginning of the year, the index still trades at a 5% premium to the 10-year average P/E. In our view, a modest premium remains warranted due to sustained above-trend earnings growth results and healthy U.S. economic growth trends.

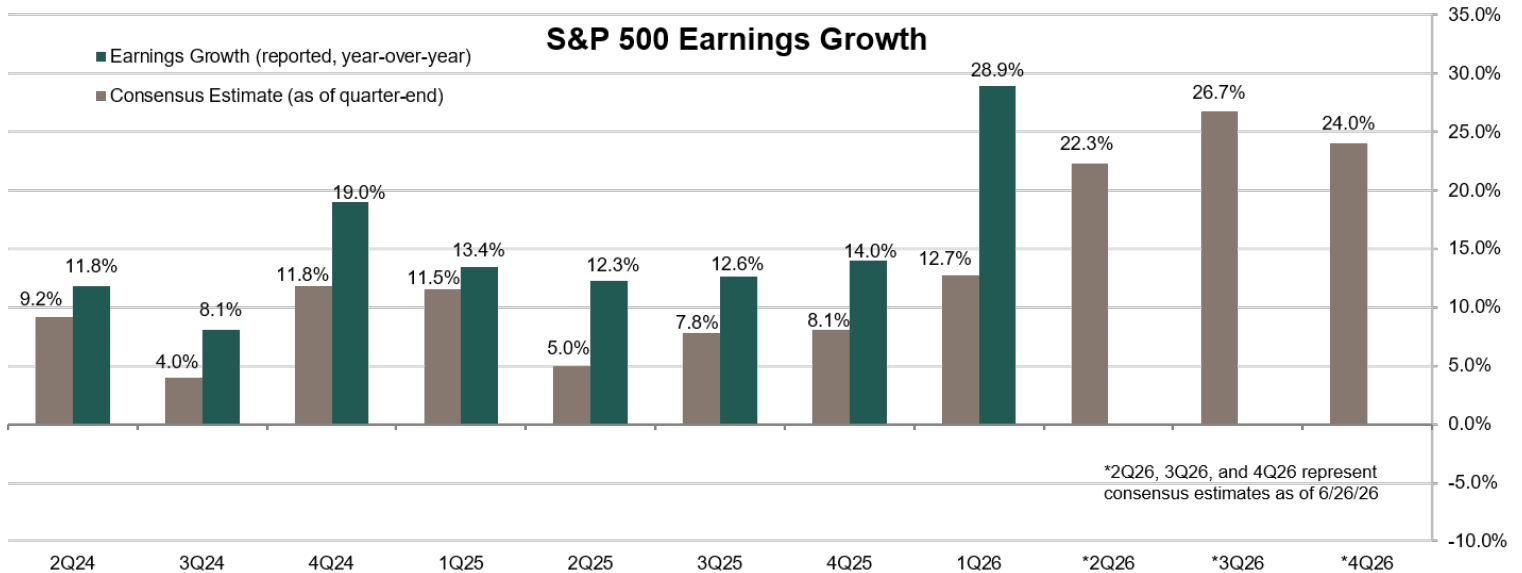
S&P 500 Next Twelve Months P/E



Data Source: The forward S&P 500 price-to-earnings ratio (P/E) is a valuation measure, calculated by dividing the price of the S&P 500 index over the weighted average earnings per share (EPS) estimate of each company in the index. Earnings are based on “forward” consensus estimates expected over the next 12 months (NTM) as compiled by FactSet. The gray dotted line is the average P/E from 5/31/16 to 6/24/26.

Positive earnings surprises in recent quarters bolster the growth outlook. Actual S&P 500 earnings results (as measured by the quarterly Y/Y earnings growth rate) have exceeded the pre-report consensus estimates every quarter since 2Q25 (8 quarters). In 2025, quarterly Y/Y growth averaged +12.5%, well above the average estimate of +6.8%. Solid earnings growth continued even as companies navigated tariff uncertainty, weak consumer confidence, and even a six-week government shutdown (budget impasse) in the fourth quarter. Results were bolstered by solid revenue growth (resilient consumer, business investment) and operating efficiencies driving higher profitability (margin improvement). The upside surprise in 1Q26 accelerated as S&P 500 earnings increased +28.9%, compared to the consensus estimate +12.7%.

S&P 500 Earnings Growth



Data Source: FactSet using FactSet consensus estimates, as of 6/26/26. S&P 500 earnings estimates are calculated using individual quarterly forward earnings estimates for all 500+ S&P 500 constituents, which are then weighted by the relative market capitalization of each of those constituents. Consensus S&P 500 EPS estimates (Wall Street analysts) in gray. Percentage change from same quarter the prior year. Past quarters were the estimate at the end of the reporting quarter. Green bars are the actual reported Y/Y growth in earnings, 2Q24 to 1Q26.

Earnings growth upside in the first quarter was helped by the Technology sector (as investment in data centers and AI surged) as well as strong earnings from the “Magnificent 7” (several of those stocks are not in the Technology sector). But upside was much broader than that as earnings exceeded estimates for 10 of the 11 S&P 500 GICS sectors (Energy missed estimates) and 10 of 11 sectors posted positive earnings growth. Now that earnings estimates have increased to more than +20% in 2026, the bar is higher, and we don’t expect dramatic surprises to continue, but in 2Q26 all but one sector (Health Care) are estimated to post Y/Y earnings growth. Sustained earnings growth for the balance of the year will be highly dependent on the Technology sector again as sustained technology spending is the main driver, for now, of upside both for earnings and the U.S. economy. However, when we look at 2026 sector earnings estimates in late June compared to 12/31/25, the estimates have increased for 10 of the 11 sectors (2026 earnings estimates for Health Care have moved lower since the beginning of the year). The largest earnings increases since the start of 2026 are for Energy, Technology, Materials, and Communication Services.

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, publicly owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Russell 1000 Growth index includes the Russell 1000 companies that exhibit relatively higher price-to-book ratios, and higher expected earnings and sales growth. The Russell 1000 Value index includes the Russell 1000 companies that exhibit relatively lower price-to-book ratios and lower than average expected earnings and sales growth. The S&P 500 Equal Weight Index is the equal-weight version of the S&P 500, which is weighted by market capitalization. In the Equal Weight version, each company is assigned an equal weight, about 0.2%, and is rebalanced quarterly.

Other Disclosures:

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data on a year-over-year percentage change from the same period one year prior. Major components of GDP include personal consumption expenditures, non-residential fixed investment, residential investment, government expenditures, and adjustments for inventories and net exports (imports). Both information technology equipment and software are sub-categories within non-residential fixed investment. In 2Q25, inflation-adjusted (real GDP) increased +3.8% on an annualized basis (subject to revision). The 1Q26 increase was +2.1%, and the 4Q25 increase was +0.5%. Consumer spending is measured by personal consumption expenditures (PCE). We track business investment through non-residential fixed investment. The most recently released (6/25/26) [BEA GDP report is here](#). Subcategories within non-residential fixed investment include information processing equipment, software, and research and development. This includes some, but not all, of the data center and information technology investment across the economy. Full-year 2025 GDP, adjusted for inflation, increased +2.1%.

FactSet is a data aggregation software utilized by D.A. Davidson's Investment Management & Research. The FactSet consensus refers to the aggregate of all analyst estimates from firms that submit estimates to FactSet for a given financial metric.

Volatility looks at to what degree and how quickly prices move over a given span of time. In the stock market, increased volatility, in the form of rapidly falling prices, is often a sign of rising uncertainty.

S&P 500 earnings growth reflects the year-over-year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index. Fair value refers to a valuation method based on our view of the intrinsic value of an asset or index, determined by macroeconomic factors and earnings expectations rather than current market prices. This is our view of intrinsic value as of the date of this report.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the sub-industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

When we discuss "growth stocks", we are referring to companies that generate expected earnings growth (over a multi-year period) that is above expected earnings growth for the overall market (typically the S&P 500 index). The largest sector weights (by market capitalization) in the Russell 1000 growth index (as of 12/31/25) were Information Technology, Consumer Discretionary, and Communication Services. "Value" stocks are characterized by companies that trade at discounted valuations to an index, sector, and/or a peer group. The largest sector weights in the Russell 1000 value index (as of 12/31/25) were Financials, Industrials, and Health Care.

Defensive sectors include companies that are historically less sensitive to economic cycles as product demand remains relatively more consistent across the business cycle. Cyclical sectors include companies that are more exposed to the business cycle such that growth accelerates when economic growth is above trend and decelerates when the economy slows.

The consumer price index (CPI) is a measure of average change over time in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics. An alternative measure of consumer inflation is the personal consumption expenditure (PCE) price index. PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE). The index is published monthly by the U.S. Bureau of Economic Analysis.

Generative artificial intelligence (GenAI): We think of artificial intelligence as using advanced computers to process large amounts of data to ultimately approach human problem-solving and decision-making. Early versions were often called "machine learning" and could sift through

large data sets and accurately predict single outcomes. Now, generative AI goes further to utilize all forms of inputs. While still predictive models, generative AI can give detailed responses, much better than a search engine, which does a good job of telling the user where to go to find additional information. As generative AI systems access more data, they become larger and learn to make better decisions. At each iteration, the system gains knowledge, enhancing its predictive (reliable) capabilities and ability to produce original content. Generative AI systems become more robust as they are used as all new data can be trained into the system, creating new challenges and opportunities.

U.S. oil prices are often described using the price per barrel of West Texas Intermediate (WTI). This is a high quality low density crude oil grade sourced primarily from the Permian basin. Futures contracts and spot prices are traded on the New York Mercantile Exchange (NYMEX). Data on the economics of oil price changes on the retail price of gasoline can be found from the Federal Reserve Bank of St. Louis and the U.S. Energy Information Administration (EIA).

The Strait of Hormuz is located in the gulf between Oman and Iran. According to the U.S. Energy Information Administration, an estimated 20 million barrels per day are transported on ships through the Strait on a daily basis. This includes liquified natural gas (LNG) as well and is an essential waterway for Gulf energy exports.

The Automobile Club (AAA) monitors daily fuel prices in the U.S., which can be tracked at: gasprices.aaa.com.

As of 6/20/26, President Trump signed a Memorandum of Understanding with Iran, discussing the outline of a 14-point peace agreement. Much work is yet to be done to complete that agreement, which could take 60 days or more.

The International Energy Agency (IEA) has monitored shipping and supply disruptions through the Strait of Hormuz. They have published key facts on the disruption with links to other reports as well.

The term "Magnificent 7" was first used in early 2023 by Bank of America. It referred to seven publicly traded stocks that at the time were the most highly valued companies in the S&P 500 index ranked by equity market value. The seven stocks were: Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta, and Tesla.

The 2026 U.S. national mid-term election will be held on 11/3/26. While this is the middle of the Presidential four-year term, all of the U.S. House of Representatives will be on the ballot (two-year terms) and about 1/3 of the U.S. Senate (six-year terms). In recent mid-term elections (since 2000), political party control of one or both houses of Congress have flipped to the opposing party. In 2026, Republicans have narrow majorities in both the House of Representatives and Senate. In addition to the national election, 34 of 50 State Governor elections will be held on the same day.