Talbot Financial – Second Quarter 2026 Review

Please find attached your Talbot Financial Second Quarter 2026 portfolio review to supplement your monthly account statements available from Schwab. The report compares the performance of your investment portfolio with the S&P 500 Total Return Index ("Index"), Talbot Financial's benchmark, and lists your portfolio holdings by industry sector.

Investment Summary

The Index increased 15.2% for the second quarter and is up 10.2% year-to-date through the end of June. In both periods, the top performing industry sectors were Technology and Industrials. Both sectors are direct beneficiaries of the Artificial Intelligence (AI) boom. Within Technology, semiconductor companies are benefiting because their semiconductor chips form the foundational backbone for AI models stored in large data centers. Industrials companies are also benefiting because those same data centers require extensive electrical equipment, wiring, power generators, and cooling systems. We expect this demand to continue as consumers and businesses require increasing amounts of computing power well into the future.

Drivers of Long-Term Appreciation

When analyzing companies for ownership in client portfolios, we differentiate between short- and long-term drivers of stock performance. In the short term, stock prices are often driven by market sentiment, shaped by human emotion, news headlines, and psychological trends. Market sentiment cannot be accurately measured, is often volatile, and helps explain why stock prices sometimes move wildly in the short term. In the long term, stock values are driven by a company's ability to grow earnings and cash flows. As a company systematically increases profits and cash flows over time, that growth is reflected in the company's higher intrinsic value. Put another way, in the short term the market can be fickle and irrational, while in the long term the market is rational and rewards companies that drive sustained earnings growth.

A focus on earnings growth guides our approach to selecting companies for inclusion in your investment portfolio. Our view is we are in the midst of a favorable earnings growth cycle for the following reasons:

- In 2024 and 2025, earnings for the approximately 500 large-cap companies in the Index grew by an average of 10% and 13%, respectively.
- Index earnings grew 28% in the first quarter of this year, the strongest growth rate since the fourth quarter of 2021, compared with a consensus estimate of approximately 13%.

- Average net profit margins for companies in the Index reached nearly 15% during the first quarter of 2026. This figure is the highest on record since the Index began tracking the metric in 2009. Margin strength was widespread, with the Technology, Industrials, Financials, and Health Care sectors reporting at or near record profit margins. The broad-based strength highlights the underlying resilience of U.S. based large-cap companies.
- Most importantly, the outlook for sustained growth remains robust with Index earnings expected to increase 24% in 2026, 17% in 2027 and 15% in 2028.

Accordingly, our conviction in equities remains high given expectations for continued earnings growth in the years ahead.

Schwab Resources for Avoiding Cybersecurity Threats

As the use of AI becomes more prevalent, the cybersecurity risks associated with it are also increasing. As these threats grow, we encourage you to bolster your online security by using stronger passwords, enabling multifactor authentication, and staying alert to suspicious messages. Schwab is an excellent resource for learning about how to avoid and manage cybersecurity risks.

The following Schwab resource provides useful information on keeping your online accounts safe and secure: 10 Ways to Protect Against Cybercrime | Charles Schwab

We welcome the opportunity to review your portfolio in person, by phone or via Zoom. Please contact us to schedule a review or if you have any questions about your portfolio.

Sincerely,

Talbot Financial, LLC

www.talbotfinancial.com