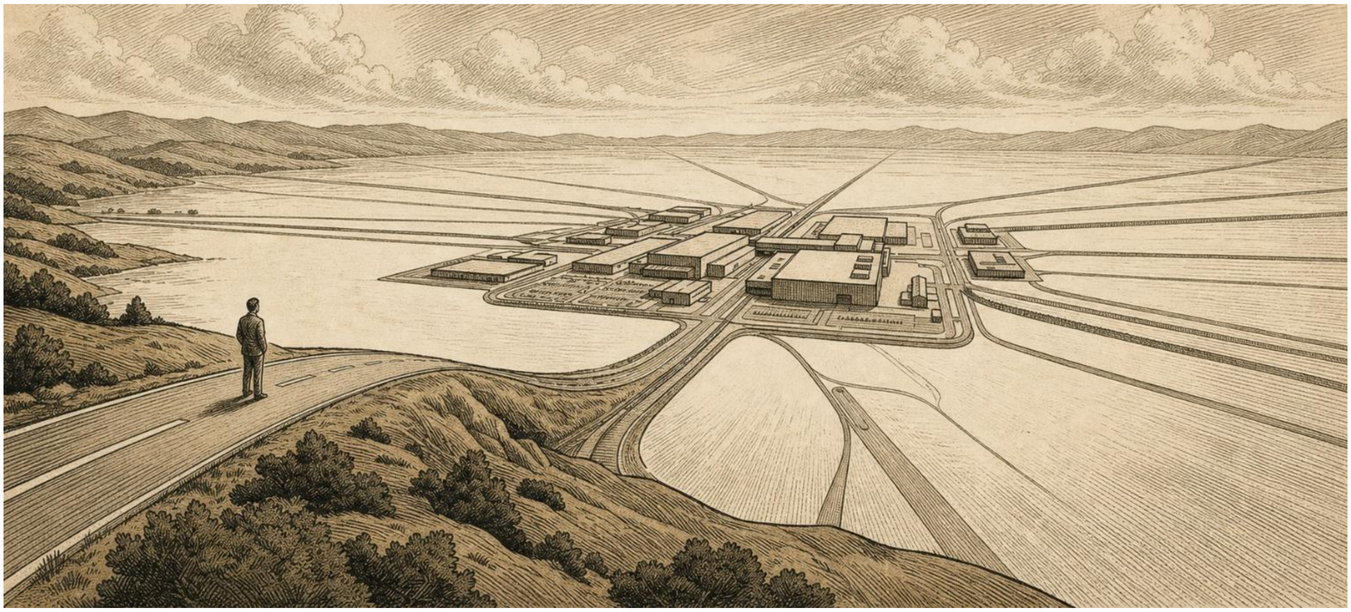
QUARTERLY MARKET NOTE · JULY 2026

Recovery Turned into Rally.

What drove the market in the first half of 2026 and what we are watching in the second half and beyond .



01 – MARKET SUMMARY

Historic Recovery.

Semiconductors and the AI theme pulled the US stock market to new highs in the first half of the year.

The first half of 2026 belonged to one industry. Semiconductor companies, the businesses designing and manufacturing the chips that power artificial intelligence, drove more than half of the S&P 500's gains year to date.[1] Global stock markets are up broadly, the headline growth numbers are real, but a careful read of what lies beneath reveals a rally that is narrower, more technically driven, and increasingly dependent on new investment driving continued spending on AI infrastructure.

This note covers these forces shaping equity markets in the first half of the year, the risks embedded in the current set up, and our view on what will define the second half and beyond. We end with current YTD performance, along with our positioning and outlook for client portfolios heading into the second half of 2026.

[1]Bloomberg, Lakewood Financial Group internal market analysis, June 2026.

02 – CHIP RALLY

The Chip Rally Driving the S&P 500 to New Highs.

One sector, driving over half of the market's return.

The stock market keeps climbing, driven primarily by one sector: chips. A single industry, semiconductor companies, the businesses that design and manufacture computer chips powering artificial intelligence, has accounted for over half of the S&P 500's gains so far in 2026. The market is up broadly. But that headline number tells only part of the story. [2]

S&P 500 GAIN (YTD)	CHIPMAKER CONTRIBUTION	MICRON SINGLE-DAY GAIN
+10.2%	~66%	+19.3%
S&P 500 Total Return YTD through June 2026	Share of that return from semiconductor companies	The largest single-day gain among chipmakers in 2026.

THREE THINGS TO UNDERSTAND ABOUT THIS RALLY

01 / WHY CHIPS, WHY NOW?

Running AI requires enormous computing power, and that power runs on chips. The companies building AI, including Microsoft, Google, Amazon, and Meta, need to spend heavily on chip infrastructure. That spending flows directly to chipmakers. In recent years, stock gains have been concentrated in the big platforms but have now shifted to their suppliers.

02 / IS THIS A BUBBLE?

Unlike other tech-driven euphoric market rallies in history, today's chip rally is not obviously overpriced relative to expected profits. Micron, for instance, is less "expensive" compared to the average stock in the S&P 500 on a projected earnings basis, meaning investors are not paying an unusual premium. The growth in chip demand is real and well documented. If this demand slows down there will be repercussions for the semiconductor sector and market as a whole.

03 / KEY RISKS

The optimism built into chip stock prices depends on profit forecasts that have been revised sharply upward in a short period of time. If AI spending by large technology companies slows, or if the technology develops efficiencies faster than expected, those forecasts could prove too optimistic. The future expectations priced in deserve more scrutiny. For now, we are participating in client's Risk Capacity allocations and continue to hedge downside volatility in their Lifestyle allocations.

[2] Bloomberg, Lakewood Financial Group internal market analysis, June 2026.

03 – SPENDERS VS EARNERS

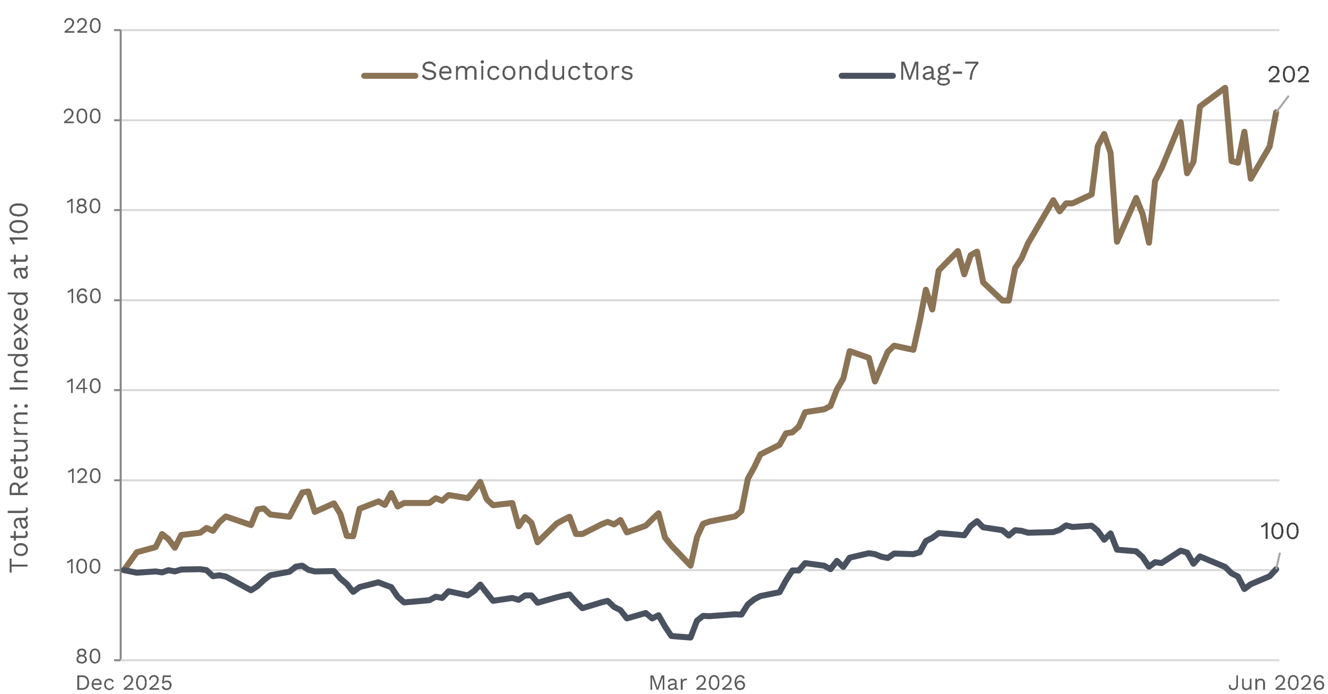
Two Sides of the Same Capex Story.

The hyperscalers are writing the checks. The chipmakers are cashing them.

The chip rally described above is really the visible half of a larger story: a transfer of capital from the companies funding the AI buildout to the companies supplying it. Microsoft, Meta, Alphabet, and Amazon have collectively committed several hundred billion dollars in 2026 capital expenditure, almost entirely directed at data centers, GPUs, and the memory and networking hardware inside them. That spending benefited the suppliers of this infrastructure. This year, it has landed disproportionately on semiconductor companies' income statements.

The result is a split market personality. The hyperscalers are the spenders in this cycle: their capex lines are expanding faster than their revenue line items. This has made investors more skeptical of the payoff and more attentive to free cash flow compression. The semiconductor companies are the earners: they are recognizing the spending as it happens, in the form of orders, pricing power, and in some cases the steepest margin expansion in the industry's history. That distinction; who is laying out cash versus who is collecting it, is doing more to separate winners from laggards in 2026 than the AI theme itself.[3]

EARNERS VS **SPENDERS**



Source: Bloomberg

[3]Bloomberg, Lakewood Financial Group internal market analysis, June 2026.

01/ WHY THE DIVIDE EXISTS

Hyperscaler capex is a forward bet. It shows up on the cash flow statement as spending today against revenue that may take years to fully materialize, which is why markets have started to question the return on that investment even as the underlying companies remain highly profitable.

02/ WHO HOLDS THE RISK

It is tempting to assume the hyperscalers, as the larger and more diversified companies, are the safer holding in this cycle. The opposite has been closer to true in 2026. Because their capex is so large relative to their existing cash generation, hyperscaler valuations have been more sensitive to any sign that AI monetization is slower than expected.

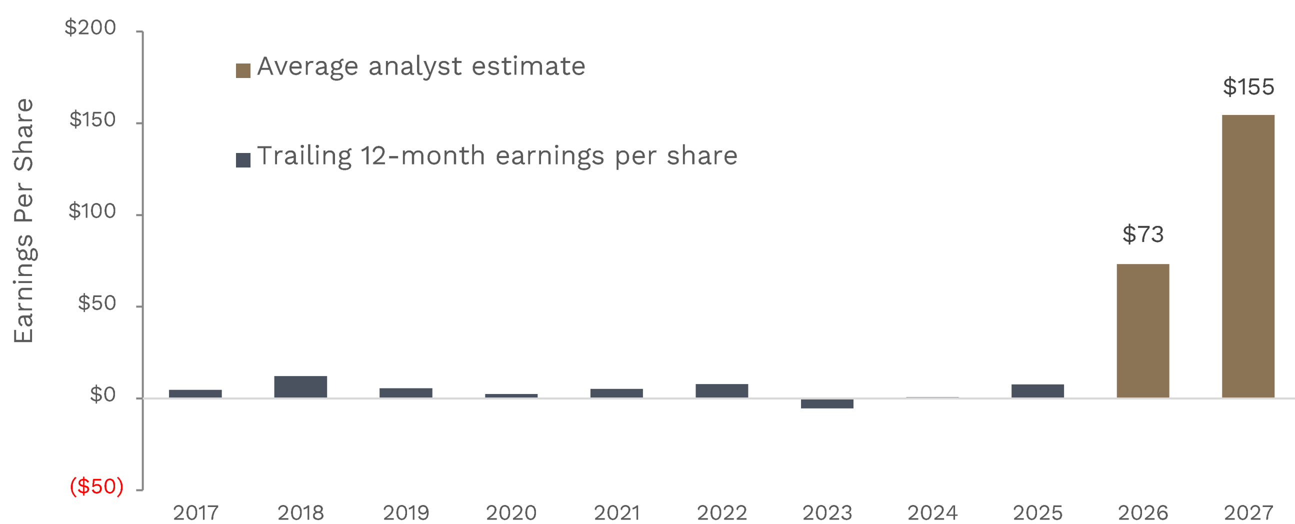
03/ WHAT BREAKS THE PATTERN

This dynamic holds only as long as hyperscaler capex keeps growing. If even one major spender signals a pause or a cut to its AI infrastructure budget, the earners' growth story is directly exposed, since their revenue is downstream of that spending. We are watching capex guidance from the four largest spenders each quarter as the single most important leading indicator for whether today's earners keep earning.

EXAMPLE - MICRON

The fundamental argument for the continued stock market rally is that we have not hit peak-valuations (the price paid for future earnings). That’s due in large part to the chip sector’s exploding earnings growth from AI infrastructure spending. This is best represented by Micron’s earnings expectations in the chart below.[4]

MICRON’S EARNINGS AND EXPECTATIONS



Source: Bloomberg

[4]Bloomberg, Lakewood Financial Group internal market analysis, June 2026.

04 – GROWING CONCERNS

Familiar Patterns are Emerging.

Capex booms, market concentration, retail speculation.

We do not believe the equity rally is over. The economic tailwinds are in full force with the three growth engines described above continuing to positively impact the US economy. Earnings for the companies at the center of the AI investment cycle remain strong, and revisions have been directionally positive. The pain trade still points higher in the near term, as retail investors have a larger impact on the US stock market and institutional investors who have been cautious or underweight continue to re-risk into a market that keeps making new highs.

What has changed from the first half is the risk profile. As this market continues to rally, the risks of a disruption to the above backdrop become more ominous. Below we identify many of the historical "peak" conditions that presented themselves during previous market cycles are starting to solidify in today's environment.

01/ RETAIL FLOWS & LEVERAGE

Retail trading volumes in May reached record levels, tracking nearly +10% above the prior record set in January 2021, and June is tracking +9% over May's record.[5] When retail and institutional activity converge in the same direction, the resulting momentum can extend further than fundamentals alone would imply. It can also reverse more abruptly.

That retail intensity has been visible in leveraged product demand as well. Leveraged bets on SpaceX generated over $1 billion in trading volume on their debut day, as investors rushed to amplify wagers on the largest IPO in history. Roughly a dozen leveraged and inverse single-stock ETFs tied to the name launched simultaneously, one of the busiest first days on record for a batch of single-stock leveraged products.[6]

02/ INFLATION & INTEREST RATES

Like 2021, we are seeing inflation rise and interest rates respond higher. May CPI rose to an annual inflation rate of 4.2%, impacted heavily by energy prices due to the Iran conflict. However, we are seeing Core inflation (excluding food and energy) also rise. The Federal Reserve's response will impact the stock market in the second half of the year.

> *Once the system has been pushed into a new state, reversing the initial impulse does not reverse the consequences it set in motion...We see a growing risk that the US inflation process is shifting toward a hysteretic equilibrium, in which more sustained price pressures may persist even after the initial energy shock fades. – Citadel Securities* [7]

[5] Citadel Securities, June 17, 2026, "Global Market Intelligence - July", LINK
[6] Bloomberg, June 16, 2026, "A Billion Dollars of Leveraged SpaceX Bets Hit ETFs in One Day", LINK
[7] Citadel Securities, June 16, 2026, "Hysteresis May Set Up a September Hike", LINK

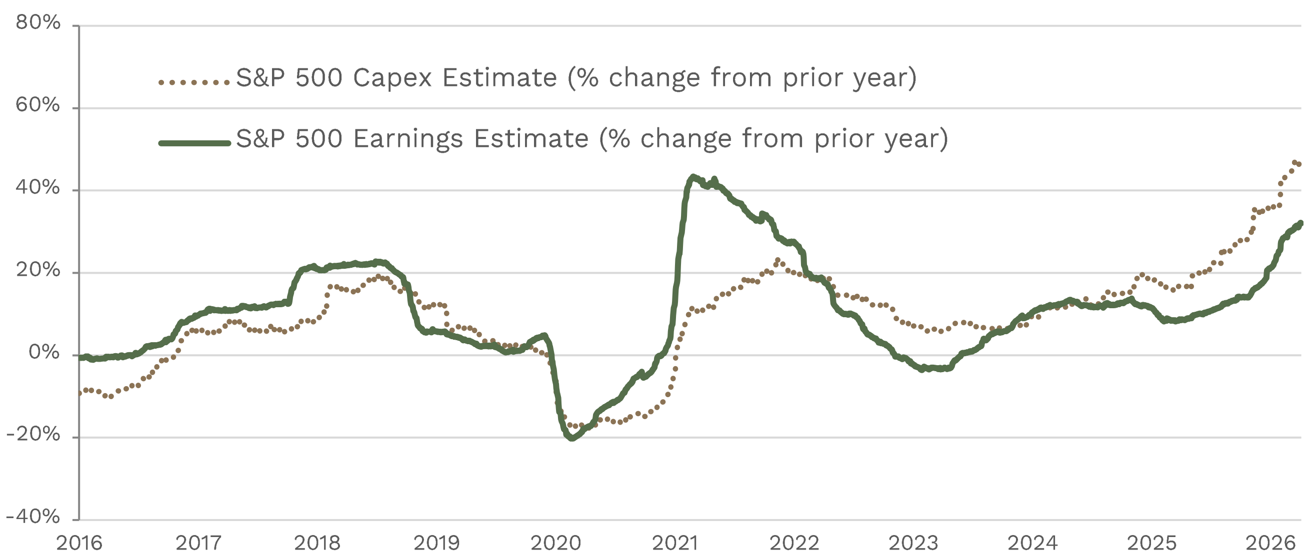
03/ CAPEX BOOM LEADING HIGH EXPECTATIONS

Goldman Sachs published a note on June 11, 2026 warning that hyperscaler capital expenditure estimates for 2027, already elevated, are likely too conservative. Consensus currently sits at $920 billion for 2027. Goldman's own analysis, drawing on historical precedent from prior infrastructure buildouts such as railroads and automobiles, points to a more realistic figure closer to $1.1 trillion, with an extreme upside scenario reaching $1.4 trillion. The market, in other words, may be underpricing how much capital this buildout still requires.[8]

> *Looking forward, Goldman anticipates lower-cost competition will start to eat into the growth and margins of the incumbents. The upside potential of AI capex should drive further upside to earnings and share prices of AI infrastructure companies in the near term, but Goldman does emphasize that "rapid price appreciation, elevated valuations and crowded positioning increase the risk of volatility." – Goldman Sachs, Dow Jones & Co. MarketWatch*

The chart below lines up two forward-looking estimates: the expectation for companies to grow capex, and the expectation for companies to grow earnings, both measured as year-over-year change. For most of the past decade, the two moved together, rising and falling in step, which makes sense: companies earning more can fund more spending. That relationship has now decoupled. Capex expectations are racing higher and pulling earnings expectations up with them, which means today's elevated earnings estimates carry a specific vulnerability: they depend on the buildout continuing at its current pace. This is one of the dynamics we are watching most closely. If a major hyperscaler signals a pullback in AI infrastructure spending, we would expect the market to reward that capital discipline. But that reward would be a cost to the companies supplying the infrastructure, which is where today's earnings growth is concentrated, and positioning is most crowded and levered.

HIGH CAPEX ESTIMATES DRIVING EARNINGS EXPECTATIONS



Source: Bloomberg

[8]Goldman Sachs Global Investment Research. "AI Capital Expenditures and S&P 500 Return Risk." June 11, 2026. Reported via Morningstar. [LINK]

04/ FUNDING THE BOOM[9]

These companies have exhausted their capacity to fund the AI expansion from their cashflow. They are now coming to investors for additional capital to spend on their AI infrastructure plans.

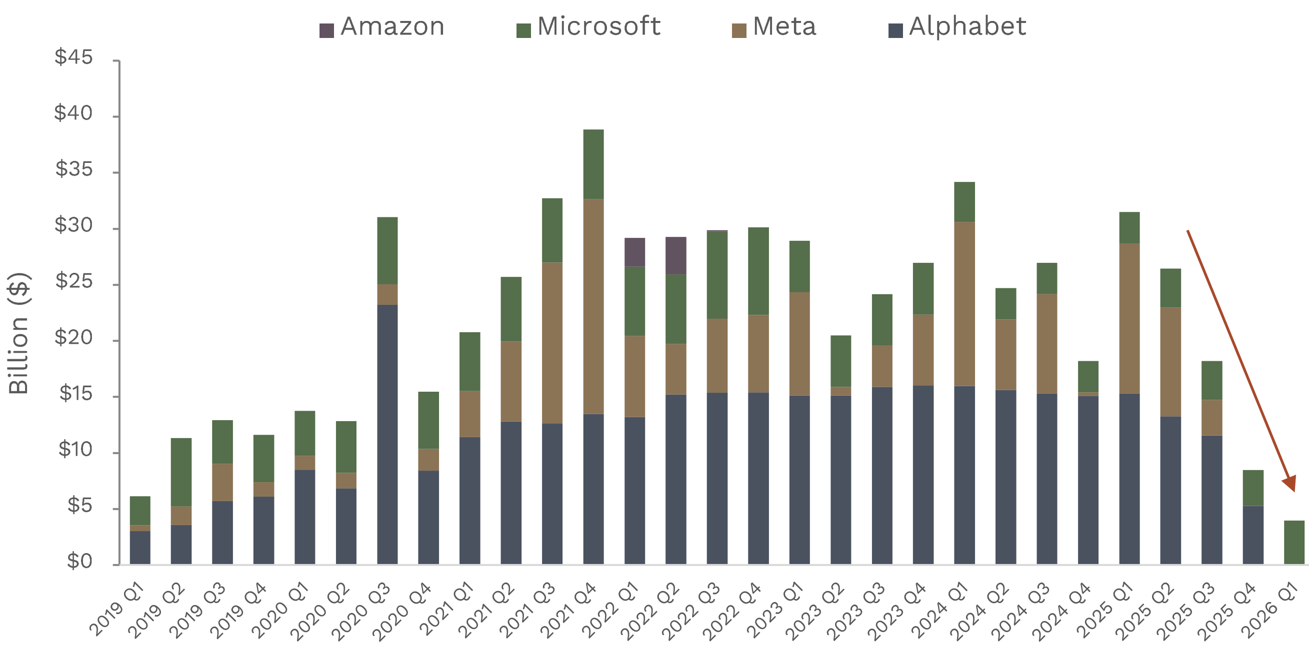
Historically, a consistent tailwind for the stock market was large companies using their excess cash to buy back their own stock. That is disappearing. Between Alphabet, Microsoft, Meta, and Amazon, only Microsoft repurchased shares in the first quarter of 2026. Alphabet, historically the most aggressive repurchaser of the group announced a $80 billion equity sale, its first in twenty years, and Meta is reportedly weighing a similar offering of tens of billions of dollars. SpaceX which completed the largest IPO in history in June 2026, raised $75 billion at a $1.8 trillion valuation (Lakewood's thoughts published here ahead of the SpaceX IPO). OpenAI and Anthropic are expected to follow.

Companies that built their reputations on capital-light, high-margin, "spend a little, earn a lot" business models are now issuing stock and leaning on debt markets to fund spending that could reach $725 billion across the group this year. This is the mechanical version of the spender/earner divide we outlined above: the cash that used to flow back to hyperscaler shareholders through buybacks is now flowing into chipmakers' order books instead, which is a direct, visible channel for why semiconductor earnings have been so strong while hyperscaler free cash flow has compressed.

The chart tells the story in one image: a steady $20 to $30 billion per quarter in combined buybacks from these four companies for most of the past six years, collapsing to single digits in Q1 2026. That capital has not disappeared. It has been redirected to AI infrastructure.

BIG TECH STOCK BUYBACKS

Total value of shares repurchased



Source: Bloomberg

[9]Bloomberg, "Big Tech Stock Buybacks Vanish as AI Spending Spree Eats Up Cash", June 18, 2026 - LINK

05 – ENGINES OF GROWTH

Infrastructure & Fiscal Tailwinds.

Three structural tailwinds supporting U.S. economic growth.

The AI theme & chip sector are currently the headline drivers for the stock market. However, there are larger tailwinds under the surface that are propelling strong economic growth providing air cover for investment growth.

01 / DATA CENTER & ENERGY INFRASTRUCTURE

There are approximately 4,000 operating data centers in the United States today. Announced and under-construction facilities number roughly 3,000 more.[10] The investment required to build, staff, and power that capacity flows directly into GDP. Torsten Slok, chief economist at Apollo Global Management, estimates that AI-driven productivity and infrastructure investment alone will contribute approximately one percentage point to U.S. GDP growth in 2026.[11] In an economy that normally grows at 2%, that is a meaningful positive impact.

02 / INDUSTRIAL RENAISSANCE

Bipartisan policy support for domestic semiconductor manufacturing, pharmaceutical production, and defense capacity has been building for several years and is now translating into actual capital deployment.

03 / FISCAL POLICIES

Fiscal stimulus is flowing from the recently enacted One Big Beautiful Bill (OBBB) tax legislation. Retroactive tax rate reductions generated meaningful household refunds, averaging approximately $1,000 more per household than last year. With more than 130 million households, the consumer spending tailwind over the back half of the year is material. Corporate provisions for accelerated depreciation are adding a parallel stimulus to business investment. Both effects are locked in by law and will flow through the economy on a predetermined schedule.[12]

WHAT THIS MEANS FOR YOUR PORTFOLIO

This stock market rally is supported by these structural tailwinds. They have created an intentional capital spending and investment boom, and your portfolio is participating through our diversified public equity allocation including the technology sector. However, these factors are beginning to manifest in rising inflation pressures. Interest rates have risen this year, creating a headwind to our fixed income allocations which are roughly flat on a total return basis in 2026.

[10] Slok, Torsten. Apollo Global Management presentation, June 2026 (see note 6). Data center inventory: approximately 4,000 operating U.S. data centers; approximately 3,000 announced or under construction.

[11] Slok, Torsten. "AI, the Industrial Renaissance, and the One Big Beautiful Bill." Apollo Global Management Chief Economist presentation. Bloomberg Odd Lots Podcast, live recording, June 2026. Apollo estimate of AI-driven productivity contribution to U.S. GDP, 2026. Ibid. Apollo estimate of AI-driven productivity contribution to U.S. GDP, 2026.

[12] U.S. Congressional Budget Office. Estimated budgetary effects of the tax legislation ("One Big Beautiful Bill"), 2025. Retroactive rate reduction, household refund estimates, and GDP impact projections.

06 – OUR VIEW

What the Second Half Requires.

The stock market is not broadly expensive. It is very optimistic about the AI theme.

Several of the conditions present in 2021, a period that ended in accelerating inflation, the Federal Reserve hiking rates, and a sharp equity drawdown in 2022, are becoming visible again. The 2022 bear market was ultimately caused by the Federal Reserve responding to inflation with a hiking cycle of historic speed and magnitude. The critical difference today is profitability: in 2021, earnings rose due to a recovery from an artificially depressed COVID-19 base. In 2026, earnings are genuinely strong. The companies driving this rally are generating real cash flows.

These are not necessarily a signal of an imminent market top. It is a signal that future returns are becoming increasingly dependent on execution. When valuations and expectations are already elevated, companies must continue delivering extraordinary earnings growth to justify current prices. The margin for disappointment has become very small. That observation is particularly relevant today because the market's entire growth narrative rests on a single variable: whether AI delivers the productivity and earnings acceleration investors currently expect.

That brings us to the capex cycle analog. The pattern from 1998 to 2001, when S&P 500 earnings rose 30% over two years driven by technology capital spending and then dropped 40% in a single year when order books were pulled, is not a prediction of what will happen. It is a description of the mechanism by which capex-driven earnings booms can unwind quickly. The range of outcomes is genuinely wide and therefore so are the risks to portfolios. Although it feels like a stock market that is unstoppable, we feel it is a market setting itself up for disappointment if any of the risks mentioned above become solidified over the coming quarters.

We are also watching the Federal Reserve's posture carefully. The combination of structurally higher growth, persistent inflation, and bond issuance is exerting upward pressure on interest rates from multiple directions. An environment where rates stay higher for longer because of inflationary growth is one where bond returns will struggle and equity valuations may normalize lower.

For our clients, none of these changes the architecture of the portfolio. It reinforces it. Your Lifestyle Protection allocation was designed specifically for diversification and equity exposure that hedges the potential for negative downside scenarios. We will add downside hedges in this allocation as the stock market rally continues to push towards extremes.

The Risk Capacity allocation was designed to compound capital through cycles, including cycles where short-term volatility is elevated, without forcing a sale at the wrong time. Our alternative income allocation is designed to seek positive returns relative to bonds if interest rates continue to rise.

The most important observation for the second half: the market is not broadly expensive. It is pricing a very optimistic future, and the path of the stock market depends almost entirely on whether those expectations can be met with continued earnings growth. Our job is to ensure you participate when they do and are protected when they do not. That is your portfolio architecture, and it remains intact.

07 – PERFORMANCE

Market Snapshot Performance.

End of June 2026

MARKET SEGMENT	BENCHMARK TICKER	MTD	QTD	YTD
US Aggregate Bond	[AGG]	+0.3%	0.7%	0.7%
Multi-Strat / Market Neutral	[QDSRX]	-1.4%	0.6%	3.8%
Defined-Outcome / Buffered Equity	[FDEC]	0.0%	9.5%	6.4%
Global Equity	[ACWI]	-0.4%	14.2%	11.6%
Option Overlay Equity	[SPUC]	-0.4%	14.7%	9.0%
Diversified Income	[BINC]	+0.4%	2.1%	1.3%
S&P 500	[SPY]	-1.0%	15.1%	10.2%
Core 60/40 Balanced Allocation	[AOR]	-0.2%	8.5%	7.4%

As of 06/30/2026. These are unmanaged funds shown to illustrate the market environment discussed in this note. They are not Lakewood strategies and do not represent any Lakewood account, composite, or actual client performance, which will vary materially. Source: Bloomberg. US Aggregate Bond [AGG ETF], Multi-Strat/Market Neutral [QDSRX MF], Defined-Outcome / Buffered Equity [FDEC ETF], Global Equity [ACWI ETF], Diversified Income [BINC ETF], Option Overlay Equity [SPUC ETF], S&P 500 [SPY ETF], Core 60/40 Balanced Allocation [AOR ETF].

08 – LAKEWOOD POSITIONING

Tactical Allocation Changes.

Positioning:

- Added a new market-neutral fund to increase manager diversification in our Absolute Return allocations.
- Exited our value-focused dividend strategy and reinvested those proceeds into a strategy providing exposure in line with the broader stock market with enhanced dividends.
- Exited commodity index exposure, since energy prices keep easing gradually following the resolution of the Iran conflict. We still hold our gold exposure unchanged.

At a Glance:

▲ **Increased:** Index Equity Exposure, Absolute Return Long/Short and Trend/Momentum

▼ **Decreased:** Commodity Index Exposure, Value Equity Exposure

09 – YOUR TEAM AT LAKEWOOD

The Partners.

FROM THE PARTNERS

“The market is telling two stories at once this year. One is a real story; earnings are strong, the AI infrastructure buildout is funding actual demand, and the companies at the center of it are generating real cash flow. The other is a tale of: prices moving well ahead of that story, and history is clear about what happens when expectations run ahead of execution. We've seen this pattern before. Our answer isn't to predict which story wins. It's to make sure your Lifestyle Protection allocation doesn't need to guess correctly, and your Risk Capacity allocation is positioned to benefit if it does. That's the architecture working as designed, not a forecast we're hoping comes true.”

Jon Kline, Panos Grivakis, Alex Lippitt, CFA · Managing Partners, Lakewood Financial Group

LAKEWOOD’S PARTNERS

Jon Kline
Managing Partner, Advisory
Former Executive Director,
JPMorgan Equity Derivatives
Carnegie Mellon, BS Finance
kline@lakewoodfg.com

Panos Grivakis
Managing Partner, Advisory
Former Executive Director,
JPMorgan Equity Derivatives
Michigan State, BA Finance
panos@lakewoodfg.com

Alex Lippitt, CFA
Managing Partner, Portfolio Management
Former Derivatives Trader,
Transamerica Multi-Asset Trading
University of Chicago, MS Financial Mathematics
alippitt@lakewoodfg.com

INDEPENDENT RIA - FEE-ONLY FIDUCIARY - NAPFA MEMBER

CRD #339568 - LAKEWOODFG.COM

DISCLAIMER

This document is provided for informational purposes only and does not constitute investment, tax, or legal advice, a recommendation, or an offer to buy or sell any security or investment product.

Lakewood Financial Group is registered as an investment adviser with the Commonwealth of Pennsylvania (CRD #339568).

GENERAL INVESTMENT & PERFORMANCE DISCLOSURES

The information contained in this presentation is not intended as investment advice and should not be relied upon as the basis for any investment decision. Any investment decision should be based on an investor's objectives, financial situation, investment experience, liquidity needs, time horizon, and risk tolerance. Lakewood Financial Group is a registered investment advisor and owes a fiduciary duty to its clients. However, this presentation is being provided on an informational basis only and does not establish an advisor-client relationship. Past performance does not guarantee future results. All investments involve risk, including the potential loss of principal. There can be no assurance that any investment strategy will achieve its objectives or avoid losses. Unless otherwise noted, performance returns are calculated net of strategy fees and expenses. Returns are based on time-weighted calculations and may include reinvestment of dividends and distributions. Performance figures may be based on unaudited data and are subject to revision. Benchmark comparisons are provided for informational purposes only and may not reflect the same investment strategy, holdings, or risk profile. Any hypothetical, model, or backtested performance results have inherent limitations. Hypothetical results do not represent actual trading and may not reflect the impact of material economic and market factors. Model portfolios may not reflect actual client holdings or performance. Backtested results are based on historical data and do not guarantee future performance. Performance may be presented on a composite basis. Not all clients will achieve the same results. Individual account performance may vary significantly from composite results due to client-specific factors, timing of contributions/withdrawals, and customization.

DATA SOURCE & BENCHMARK DISCLOSURES

Third-Party Data. Market data, economic statistics, and other information are obtained from sources believed to be reliable but are not guaranteed for accuracy or completeness. Third-party data providers include but are not limited to: Bloomberg, Morningstar, FactSet, S&P Global, and various custodial platforms. Lakewood Financial Group does not independently verify all third-party data and disclaims responsibility for any errors or omissions. Historical data may be limited for certain investments, particularly alternative investments and private markets. Some performance data may be estimated or interpolated when complete data is unavailable. Currency conversions, if applicable, are based on prevailing exchange rates and may impact returns. Data cut-off dates are noted where applicable; more recent information may be available. Benchmark indices are unmanaged and cannot be invested in directly. Index returns do not reflect fees, expenses, or trading costs. Benchmark composition and methodology may change over time. Custom benchmarks, if used, are created for illustrative purposes and may not represent investable strategies.

SPECIFIC INVESTMENT RISKS

All securities are subject to market fluctuations and may lose value. Market conditions, economic factors, and geopolitical events can significantly impact investment performance. Portfolios that are concentrated in specific sectors, asset classes, or geographic regions may experience higher volatility and risk. Some investments may be difficult to sell quickly or at fair value, particularly during market stress or for alternative investments. International investments are subject to currency fluctuation risk that may impact returns when converted to the investor's base currency. Alternative investments, including hedge funds, private equity, and real estate, involve additional risks including limited liquidity, higher fees, less transparency, and complex tax implications. Options trading requires separate account approval and is subject to regulatory requirements, financial suitability standards, and custodian approval. The strategies described in this document are not available to all investors and will not be implemented without a prior determination of suitability for each individual investor.

REGULATORY AND COMPLIANCE DISCLOSURES

Lakewood Financial Group is registered as an investment advisor with the state of Pennsylvania. Registration does not imply a certain level of skill or training. Lakewood Financial Group and its employees may have positions in securities discussed. Detailed conflict disclosures are available in our Form ADV Part 2, available upon request. Client information is maintained in accordance with our privacy policy, available on our website or upon request. Any projections, forecasts, or forward-looking statements are based on current expectations and assumptions that may not prove to be accurate. Actual results may differ materially from those projected. This presentation does not constitute tax advice. Tax implications vary by individual situation. Investors should consult with qualified tax professionals regarding their specific circumstances. Certain investments discussed may only be suitable for accredited investors or qualified purchasers as defined by federal securities laws. Investment minimums and suitability requirements apply. A copy of our current Form ADV Part 2 (Firm Brochure) is available upon request and contains important information about our services, fees, conflicts of interest, and disciplinary history.