

2ND QUARTER 2026 MARKET OVERVIEW

"I know you think you understood what you thought I said, but I'm not sure you realize that what you heard is not what I meant." Alan Greenspan, Chairman of the Federal Reserve, 1987–2006

YOUR FED CHAIRMAN

A nod to the remarkable life of Alan Greenspan following his passing.

Greenspan served as Chairman of the Federal Reserve for nearly twenty years, from 1987 through 2006. His tenure coincided with one of the most prosperous periods in modern financial history. Like any influential public figure, his legacy has been debated. Many critics contend that his accommodative monetary policy helped fuel the rapid expansion of mortgage lending that ultimately contributed to the Financial Crisis. Yet his influence on monetary policy is undeniable.

For a government bureaucrat, he was unique in his belief that people are intrinsically moral and that government is fundamentally coercive. Greenspan's philosophy shaped his approach to the Federal Reserve. Rather than attempting to guide markets with detailed forecasts, he intentionally revealed very little about future policy, believing investors should interpret economic data for themselves. Hence the famous quote above.

His successors adopted a very different philosophy. The Federal Reserve gradually shifted toward providing increasingly transparent forward guidance, explaining not only what it was doing but what it was likely to do next. During the Financial Crisis and the subsequent economic upheaval, that transparency served an important purpose by calming markets during periods of extraordinary uncertainty.

More recently, however, it has become evident that the Federal Reserve itself has evolved into something investors attempt to game. Rather than interpreting economic data, market participants increasingly focused on predicting how the Fed would react to the same information.

Last month, Kevin Warsh became Chairman of the Federal Reserve. In his opening remarks, widely described as signaling a "new sheriff in town," Warsh paid tribute to his mentor, Alan Greenspan, and indicated that the Fed would return to a philosophy of allowing markets to interpret incoming economic data rather than relying on constant policy guidance. Markets initially reacted with unease. The S&P 500 declined nearly 3% following his remarks, and despite a strong recovery during the second quarter, June ultimately finished slightly negative.

Ironically, after a year of President Trump's criticism of Jerome Powell for not lowering interest rates, Warsh now assumes the chairmanship with what appears to be a considerably more hawkish stance.

If Warsh follows through on his early comments, the Federal Reserve appears prepared to continue placing inflation control ahead of economic stimulus. Interest-rate increases designed to return inflation below 2% now seem increasingly possible, creating a more challenging backdrop for equities during the second half of 2026.

HOW DO PEOPLE GET THESE JOBS?

The backgrounds of the nation's most influential financial policymakers have always fascinated me.

Kevin Warsh is 55 years old. He attended Stanford University before earning his law degree from Harvard. While at Stanford, he met his wife, Jane Lauder, granddaughter of Estée Lauder. Jane's personal fortune has been estimated in the billions of dollars.

Warsh began his career in investment banking at Morgan Stanley before joining the administration of President George W. Bush as an economic advisor and later serving as a Governor of the Federal Reserve. For the past fifteen years he has been a professor at Stanford.

Whether acknowledged or not, connections matter in Washington. Warsh's marriage into the Lauder family placed him within one of America's most influential business circles. It is reasonable to believe those relationships enhanced his visibility and standing as his career progressed from Wall Street to the White House and ultimately to the chairmanship of the Federal Reserve.

Talent and intelligence undoubtedly played an important role in his success. But access, relationships, and made-for-TV face often matter just as much in reaching positions of national influence.

THE CRAZY INFLUENCE OF LEADING STOCKS

Micron Technology has been one of the market's great success stories over the past two years. By the end of March, its market capitalization had reached approximately \$337 billion, driven largely by explosive demand for memory products essential to artificial intelligence.

Then, during just the past three months, the company's market value surged beyond \$1.3 trillion—an extraordinary increase by any historical measure. The appreciation during the second quarter alone exceeded the entire market value of every publicly traded company except nine.

For additional perspective, the S&P 500 gained 9.4% during the first half of 2026, and roughly one-fifth of that advance came from a single stock: Micron.

What should we make of stocks like Micron and the market leaders of recent years?

Micron's nearly 920% advance over the past year is remarkable, but Wall Street has always produced periods in which a handful of companies dramatically outperform. In 2023 it was Nvidia with a 239% gain. In 2024, AppLovin (722%) and Palantir (346%) captured investors' attention. In 2025, SanDisk (560%), Western Digital (283%), and Micron again (239%) became the new favorites.

History also reminds us that extraordinary advances are inevitably reversed.

As enthusiasm reaches unsustainable levels, even exceptional companies eventually experience significant corrections. Nvidia, for example, climbed to \$153 per share in late 2025 before falling to \$86 in March of this year. Similar declines followed many of the market's previous leaders. Micron now appears to be entering that same period of consolidation.

BIG STOCKS BECOME THE ATM FOR INVESTING

When market leaders like Micron or Nvidia generate enormous gains, they effectively become an ATM for institutional investors.

Portfolio managers often harvest a portion of those profits and redeploy the proceeds into other areas of the market. Increasing evidence suggests that this rotation is now well underway. The celebrated "Magnificent Seven" have been largely flat during 2026, while capital has steadily migrated toward smaller and previously overlooked companies. The Russell 2000 has gained approximately 20% this year, substantially outperforming both the S&P 500 and the Nasdaq. It represents the strongest period of relative performance for smaller companies in nearly a decade. The effects are becoming increasingly visible.

Travelers Insurance surged roughly 20% during June despite little change in its operating outlook. Logistics company Old Dominion advanced more than 40% between March and June—even as markets grappled with geopolitical uncertainty surrounding the war.

As investors continue harvesting gains from the largest technology companies, many of those dollars appear to be finding their way into areas of the market that remain attractively valued. The broadening of market leadership may prove to be one of the most important investment themes during the remainder of 2026.

PEREGRINE STRATEGY

The current investment environment argues for looking beyond the AI and technology boom. This does not necessarily suggest that technology stocks are entering a prolonged decline. Rather, it reflects the reality that many other areas of the market now offer more attractive valuations and, in our opinion, better risk-adjusted opportunities.

Our emphasis continues to be on companies that demonstrate resilient business models and the ability to perform through varying market conditions. During June's market weakness, clients likely noticed that several of our holdings advanced even while the major indices declined.

A more hawkish Federal Reserve and stretched valuations among many large-cap leaders could temper overall market returns during the second half of the year. At the same time, the broadening of market leadership creates attractive opportunities for active management and careful security selection.

As always, our objective remains unchanged: to position client portfolios where we believe the greatest opportunities exist while maintaining the discipline to adapt as market leadership evolves.

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