Phone:

There’s Gold in Them Hills 2Q 2026

DAVENPORT
BUILDING WEALTH TOGETHER
1863

2026 Second Quarter Stock Market Update

There’s Gold in Them Hills

July 2026

Equity indices posted exceptional gains in the second quarter.Negative investor sentimentat the end of Q1 planted the seeds foroutsized returns as the market backdrop improved. Corporate earningswere generally encouraging, conflict with Iran eased from a boil to a simmer, and investor fixation on artificial intelligence (AI)infrastructure reached a fevered pitch. The S&P 500® Index finishedthe quarter up 15.2% and the Russell 2000® Index advanced astaggering 21.5%. Year-to-date, the S&P and Russell finished thequarter up 10.2% and 22.6%, respectively. Of note, the top 12performing stocks in the S&P this year are technology stocks (and 16of the top 20).

There’s gold in them hills…or should we say there’s semiconductorsin them hills. Market gains were led by all things related to AIinfrastructure. Indeed, a gold rush mindset seemed to grip the marketas investors swarmed into all things tied to the AIcompute/infrastructure buildout. Much like the original gold rush,providers of picks and shovels have been big winners. Semiconductorshave been front and center. The semiconductor index[1] advanced 88%in the quarter (its best quarter ever) and is now up 102% for the year.The semi-industry now accounts for a record 19% of the S&P 500 byitself (the broader tech sector is now a record 38% of the S&P versus35% at the height of the dot-com bubble). Of note, the semiconductor industry now trades at roughly 11x next 12-monthsales (not profits), upfrom about 5x at the start of 2023.

Much like the gold rush, few are paying attention to what could go wrong here. It’s not that we doubt the power of AI or the need for compute. Let’s be clear, insatiable demand for computing power clearly bodes well for the AI infrastructure complex in the near-to-intermediate term. We are, however, wondering how many people are left to discover this story. Investor crowding into a narrow segment of the market is at unprecedented levels. At some point, there may be a “Wile E. Coyote moment” where the marginal buyer of these stocks runs off a cliff only to realize there’s no ground beneath them (this is a reference to an old cartoon for those under 40). There’s also the fundamental risk that the revenue pool from demand for AI models isn’t big enough to support the entire value chain. In other words, we are going to need a lot of dollars from consumers, enterprises and governmentsto support all of the various AI models being built. Bottom line: while there are currentlyfew if any cracks in the bull case surrounding AI infrastructure, we need to be vigilant andaware