

Large Cap Quality Growth: 2Q26 Portfolio Review & Outlook

Portfolio Review

Growth stocks surged in the second quarter of 2026 as resilient earnings and continued investment in artificial intelligence helped investors look past an oil shock, geopolitical tensions, and a more hawkish Federal Reserve. The Russell 1000 Growth Index advanced 16.7%, its strongest quarterly gain in several years, as investors regained confidence in corporate fundamentals and AI-related spending. The portfolio outperformed (+17.3%) in the rally as the evolving AI trade led to a broadening of the market that rewarded less crowded trades.

Technology was the portfolio's largest exposure and the strongest source of relative performance as AI leadership broadened beyond the Magnificent Seven toward semiconductor and memory companies. KLA Corporation was the standout contributor, surging more than 100% as investors embraced the strength of semiconductor capital spending and the company's exposure to increasingly complex chip manufacturing. Alphabet and Amazon also performed well as investors continued to recognize the earnings potential of AI infrastructure and cloud computing, while Fortinet benefited from strong demand for cybersecurity.

The portfolio saw negative contribution from several financial and communications stocks that struggled despite generally healthy market activity. CME Group and Cboe Global Markets declined as investors reassessed valuations and the outlook for trading and interest-rate sensitive businesses, while Comcast faced continued concerns surrounding the structural challenges facing traditional media and pay television. United Therapeutics and ResMed also detracted as investors took profits in health care holdings that had previously performed well.

Market Outlook

The second quarter reinforced that markets remain willing to reward companies delivering durable earnings growth, but investors are becoming increasingly selective about how they value AI-related opportunities. While investment in AI infrastructure continues to accelerate, scrutiny surrounding monetization, capital allocation, and competitive positioning is also increasing. At the same time, higher interest rates, expanding equity issuance, and ongoing geopolitical uncertainty remind investors that even strong markets can encounter unexpected hazards. As the road ahead becomes more crowded, companies with consistent earnings growth and tangible AI catalysts are likely to remain in the driver's seat. Keeping an eye out for blind spots created by speculative narratives should help investors avoid the inevitable AI fender benders.

What Helped:

- Increasing demand from memory helped equipment makers skyrocket: **Applied Materials, KLA Corporation,**
- AI exposure outside of hyper-scalers did well: **AMD, Broadcom, Fortinet**

What Hurt:

- Industry headlines wounded financial exchange stocks: **CME Group, Cboe Global Markets**
- Concerns over diminishing catalysts affected health care pics: **Zoetis, United Therapeutics, ResMed.**