

THE CAPITAL MARKETS

New Covenant Trust Company

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MARKET UPDATE AT A GLANCE

The Dow Jones Industrial Average (DJIA) finished June at 52,319, up +12.90% for the quarter, up +8.85% year-to-date. The S&P 500 closed June at 7,499, up +14.87% for the quarter, up +9.55% in 2026. The NASDAQ Composite gained +21.41% in the second quarter, up +12.79% YTD. Small-company stocks, as measured by the Russell 2000, gained +21.15% in Q2, up +21.86% year-to-date. Technology (+37.23%) was the best-performing sector in Q2.

MID-YEAR MARKET REVIEW: AI OPTIMISM DRIVES MARKETS TO FRESH RECORDS

The S&P 500 gained +14.9% in the second quarter, ending June up +9.5% year-to-date. Despite a drawdown of around -8% from record highs in March, markets have since shrugged off fears of persistent disruption from the war in Iran and have turned their attention to renewed optimism around the seemingly endless capital investment in AI infrastructure in the United States.

The so-called “Magnificent Seven,” the seven U.S. tech companies seen as leaders in the AI race in various ways, have given way to the “Parabolic Seven” in 2026. These companies, all chip makers, are being viewed as the beneficiaries of the global shortage of memory and chips — and their recent performance has made the Magnificent Seven’s run in 2023-2024 look pedestrian.

For example, in the six months ending June 30, the performance of Sandisk, Micron, Intel and Marvell was +858%, +304%, +278% and 250%, respectively. Over the same period, however, software companies Intuit, Adobe, Salesforce and ServiceNow were down -61%, -41%, -40% and -35%, respectively. This dynamic is showing that, even within the technology sector, winners and losers from AI are beginning to take shape.

The shifts have been both large in magnitude and fast in their timing. This illustrates, in our view, the continued rotational nature of this market, and the importance of broad diversification and balance in portfolios in an

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“The S&P 500 and Nasdaq have notched 24 and 20 record closes in 2026, most recently driven by the artificial-intelligence boom that has fueled eye-popping gains in shares in chip makers supplying the build-out.”

The Wall Street Journal, June 30, 2026

(Continued from previous page)

environment that can change quickly. Rotation is likely to continue, in our view, as more industries and sectors begin seeing more use cases for, and potential efficiencies from, the use of AI.

There have already been some moves in certain logistics and trucking companies on AI news, and implications for health care, financial services and other areas are eventually likely. While investors are likely happy to see markets up yet again, on track for seven out of the last eight years since 2019, as price levels continue to increase, the margin of error for markets become slimmer.

Below are three key factors we'll be watching in the second half of 2026.

AI will remain key, though infrastructure spending will need to bear fruit eventually.

The dynamics between the Magnificent Seven hyperscalers (buyers of chips for data centers) and the Parabolic Seven (sellers of chips for data centers) in 2026 has been this — markets have loved the chip sellers, not liked the chip buyers, and are forecasting the buyers will never stop spending.

This is clearly unlikely to happen over the long term, but the fact is, for now, most memory and chips are sold out for six months. Where the equilibrium is, or at what point the hyperscalers will need to cut back on spending, is critical to the optimistic forecasts driving markets.

Eventually, the data center builders will need to see benefit from all the capital investment, and it's not clear every dollar spent will always yield a positive return forever.

Global diversification matters more than ever.

The pandemic and recent geopolitical developments have

led to an intentional deglobalization around the world. The countries with access to critical materials and resources are benefiting, while the countries needing to import such resources are struggling. The recent oil shock illustrates this well, as does the ongoing shortage of memory chips.

The South Korean stock market, for example, which includes leading exporters of chips, is up +108% YTD through June. Germany's market, however, a leading economy in Europe, is down -0.72%. Diversification when investing globally will remain essential as these developments continue.

Inflation may be stickier than preferred.

An ironic aspect to AI so far is that, with the chip shortage, it's proven inflationary for items like smart phones, laptops and gaming systems. While it's vacillated widely, energy prices have also driven inflation in 2026.

With inflation now firmly above trend since 2021, and with additional upward pressures persisting from here, consumers may begin adjusting their expectations longer term. The likelihood of pre-pandemic level inflation is now viewed as unlikely, and the effects of a longer-term higher inflation rate, for example from 2% to 3%, may not be fully known.

PLANNING FOR THE LONG TERM

A highly valued, rotating and quick-to-change market dynamic, in our view, speaks to the importance of balance and diversification in portfolios. Both across industries and countries, the winners and losers are rotating swiftly, and we would advise investors against trying to predict short-term moves.

A diversified portfolio across thousands of securities, allocated efficiently based on time horizon and goals, and committed to in a written, long-term investment policy, remains the evidence-based approach to long-term investment success.

"The market has defied expectations for some time, but keeping up its breakneck gains would mean overcoming certain challenges. Investors remain skeptical that the billions of dollars funneled into AI will produce blockbuster profits that justify that spending. The rally has left stocks looking historically expensive. And while the U.S. and Iran recently agreed to end fighting around the Strait of Hormuz, where 20% of the world's crude oil once flowed, it is unclear when or if shipping traffic will return to normal."

The Wall Street Journal,

June 30, 2026



Market Metrics

Index or Metric	Close as of 3/31/2026	Close as of 6/30/2026	Change Previous Quarter End	2026 YTD % Change
Dow Jones Industrial Average	46,341.51	52,319.20	+5,977.69	8.85%
S&P 500	6,528.52	7,499.36	+970.84	9.55%
NASDAQ Composite	21,590.63	26,213.72	+4,623.09	12.79%
RUSSELL 2000	2,496.34	3,024.37	+528.03	21.86%
Fed Funds Rate	3.50% - 3.75%	3.50% - 3.75%	UNCHANGED	
2-Year Treasury	3.79%	4.14%	+0.35%	
10-Year Treasury	4.33%	4.44%	+0.11%	
Crude Oil \$ per Barrel	\$101.38	\$69.50	-\$31.88	21.04%
Gold \$ per Troy oz.	\$4,678.60	\$4,038.50	-\$640.10	-6.97%
UK Point in U.S. \$	\$1.3187US=1£	\$1.3273US=1£	\$ WEAKER	-1.32%
Euro in U.S. \$	\$1.1522US=1	\$1.1433US=1	\$ STRONGER	-2.65%
Canada \$ per U.S. \$	\$1.39555C=\$1.00US	\$1.41875C=\$1.00US	\$ STRONGER	3.50%
Japan Yen per U.S. \$	156.09¥=\$1.00US	162.525¥=\$1.00US	\$ STRONGER	3.69%

