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Maclura Investments

2Q26 Review - A.I. Investment Spending Propels Market Higher

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The market shrugged off geopolitical concerns in the second quarter, rallying to achieve positive year-to-date returns and erasing the first quarter's losses. The Morningstar U.S. market index rose 10.7% over the first six months, fueled by a broad market rally and the best quarter for semiconductor and memory providers since 1993. AI investment remained the dominant theme, characterized by relentless compute demand and an unprecedented industry-wide surge in data center capacity spending.

Exhibit 1. Investment-Style Returns

	Morningstar Index Market Returns	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026 1st Qtr.	2026 2nd Qtr.	2026 YTD
Growth	U.S. Growth	29.52%	0.78%	35.90%	44.65%	24.79%	-36.70%	38.48%	23.42%	14.00%	-6.19%	23.49%	15.52%
	Large Growth	31.15%	2.94%	33.81%	38.86%	21.47%	-40.36%	47.26%	27.75%	19.64%	-12.76%	31.05%	14.33%
	Mid Growth	25.67%	-3.16%	36.01%	46.17%	14.97%	-32.37%	25.38%	20.33%	5.42%	-2.44%	29.93%	26.77%
	Small Growth	23.77%	-5.67%	27.60%	43.52%	-1.00%	-33.13%	26.65%	12.89%	14.12%	-1.42%	20.08%	18.38%
	US Market	21.47%	-5.05%	31.22%	20.99%	25.78%	-19.43%	26.44%	24.09%	17.35%	-4.18%	15.52%	10.69%
Value	U.S. Value	14.23%	-7.51%	25.09%	-1.31%	23.98%	-0.72%	11.98%	13.77%	17.24%	3.03%	5.54%	8.74%
	Large Value	15.09%	-5.90%	25.70%	-0.62%	21.49%	0.26%	11.82%	14.69%	18.18%	2.37%	5.00%	7.49%
	Mid Value	13.02%	-10.63%	24.81%	-3.76%	29.02%	-2.39%	10.94%	12.28%	15.93%	5.15%	5.46%	10.89%
	Small Value	8.40%	-16.61%	19.96%	1.01%	31.79%	-6.60%	14.58%	9.67%	11.84%	2.75%	10.85%	13.90%

Source: Morningstar

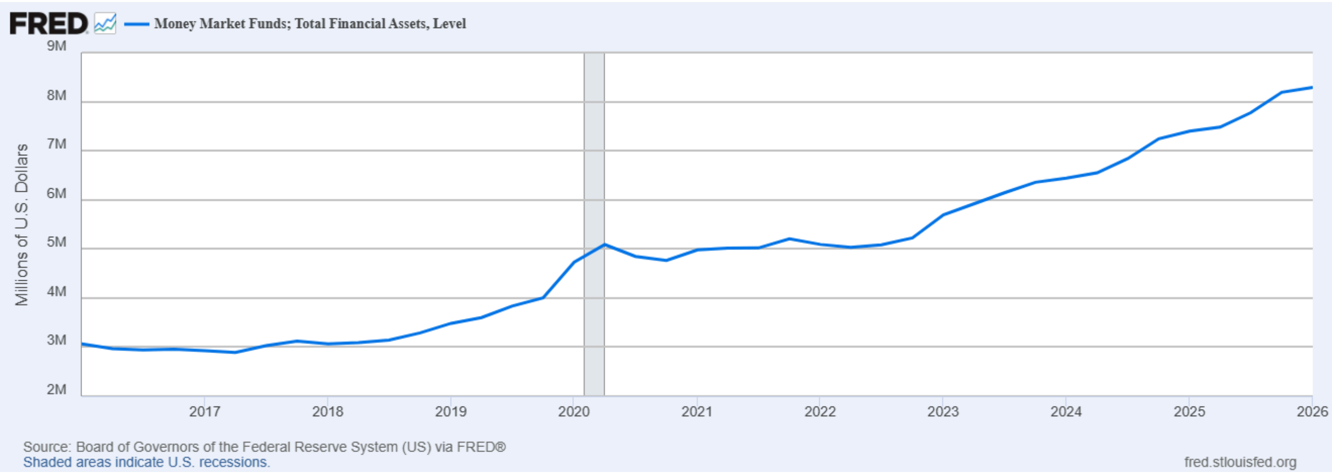
As AI infrastructure spending shifts from experimental to large-scale industrial deployment, investors are increasingly scrutinizing AI-themed stocks, questioning the long-term monetization and returns of these significant investments. Combined capital expenditures for major U.S. tech firms are projected to hit $800 billion this year, scaling to nearly $1.1 trillion in 2027 and $2.5 trillion in 2028.

To put this into perspective, the projected $1.1 trillion in 2027 infrastructure spending would account for approximately 3.2% of total U.S. GDP—surpassing the nation's projected defense budget. By 2028, the estimated $2.5 trillion annual expenditure would nearly equal the entire GDP of Canada, the world's 11th-largest economy.

Internal operating cash flows can no longer sustain these capital requirements. Consequently, IPO and debt markets are seeing heightened activity, highlighted by SpaceX's recent record-breaking $75 billion IPO. Similarly, major Large Language Model developers, OpenAI and Anthropic, are expected to debut on public markets before year-end. As the chart on the next page illustrates, over $8 trillion in money market funds remains available, providing significant "dry powder" to fuel continued investment in AI infrastructure. With the yield curve no longer inverted, capital that initially went into money markets seeking higher interest rates could be enticed to move into longer-duration bonds for higher yields.

However, this transition—whereby tech companies shift funding from internal cash flows to reliance on debt and equity markets—has raised concerns regarding shareholder returns. This tension has fueled volatility among AI infrastructure beneficiaries as the market weighs the competing views of bulls and bears.

Exhibit 2. Total Money Market Funds



According to Cleanview, a market intelligence firm, the U.S. currently hosts 1,162 operating data centers, with an additional 1,649 planned. While actual construction may fall short of these targets, the momentum is undeniable. After decades of modest 0.5% annual growth in electrical consumption, U.S. demand is now projected to surge by upwards of 5% annually, driven by the expansion of electric vehicles and data centers.

Beyond the AI-driven narrative, two secondary short-term factors are poised to influence market performance: the Federal Reserve's potential shift toward raising short-term rates to achieve its 2% inflation mandate and the persistent instability of the U.S.-Iran conflict. This prospective tightening of the Fed Funds rate represents a significant pivot from the beginning of the year, when the consensus anticipated further easing. Notably, the new Federal Reserve Chairman, Kevin Walsh, has signaled a strategic shift toward reduced transparency regarding future policy actions compared to the tenure of Jerome Powell. Nevertheless, any adjustments to the Fed Funds rate are expected to be incremental, moderated by the recent decline in crude prices from the peaks observed at the conflict's onset.

While diplomatic resolutions to the Iranian hostilities remain elusive, crude oil prices have retreated significantly, falling from highs exceeding $110 to approximately $70 per barrel. This price action closely mirrors the volatility witnessed during the initial stages of the Russia-Ukraine conflict four years ago. As a critical lever for global economic health, current energy pricing likely provides a constructive tailwind for global growth rather than a restrictive headwind.

Ultimately, the fundamental drivers of market trajectory remain tethered to the maturation of the AI economy. In this environment of heightening volatility and shifting narratives, maintaining a well-diversified portfolio remains a prudent strategy for long-term investors.

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