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2Q26 Investment Letter

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Law of Triviality

C. Northcote Parkinson was a dedicated civil servant - but also something of a contrarian observer. After sitting through countless committee meetings, he noticed a paradox: complex issues, like large budget decisions, were resolved quickly, while trivial matters - such as choosing refreshments - invited endless debate. We see this pattern everywhere. We agonize over small purchases, like clothing, yet devote far less scrutiny to decisions with far greater financial consequence, such as a mortgage or college tuition. Parkinson formalized this tendency as **The Law of Triviality** - our inclination to overweight the inconsequential while underweighting what truly matters. This bias remains highly relevant in today's investing landscape. The second quarter once again has illustrated how easily attention can be pulled away from issues of real consequence.

The Law of Triviality exposes an uncomfortable truth: our default is to zoom in when we would be better served by zooming out. This dynamic played out vividly as the war involving Iran and the closure of the Strait of Hormuz captured market attention. On February 28, WTI crude traded near $70 per barrel, before spiking above $100 as a conflict premium entered the market. The implications were clear - higher energy costs act as a regressive tax and ripple through the economy, raising input costs across industries from plastics to pharmaceuticals. Investors focused on these risks had a reasonable basis for a bearish outlook. But the market's subsequent performance was shaped by forces extending beyond these immediate risks.

> **"The time spent on any item of the agenda will be in inverse proportion to the sum involved."**
>
> **- C. Northcote Parkinson**
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> ***Parkinson's Law: And Other Studies in Administration* (1957)**

Despite bouts of volatility, most major indices delivered strong returns for both the quarter and year-to-date. The S&P 500 came close to a textbook correction on March 30, closing at 6,344 - down 9% from its February 19 high - but ultimately held firm. By the end of May, the index had recovered meaningfully, bringing its year-to-date return to 11.3%. Performance was even stronger across other segments of the equity market, supported by accelerating corporate earnings and continued investment in the AI ecosystem. The Russell 2000 Small Cap Index gained 16% through May, led by strength in technology and industrial shares. Meanwhile, the MSCI Emerging Markets Index (USD) advanced 26%, benefiting from key positions within the global semiconductor supply chain. While fixed-income returns remained largely flat, the broader picture was one of resilience - an outcome that defied a consensus view entering the quarter.

The prevailing view was that the digital revolution would prove more powerful than geopolitical conflict. Bulls embracing that thesis ultimately outmuscled bears focused on the Middle East. While markets today are heavily influenced by the AI narrative, it should not be viewed as an endpoint. Rather, when we zoom out, it represents the latest chapter in a longer story - an unrelenting pursuit of resilience and innovation embedded in American business. This entrepreneurial and competitive spirit endures. As Jeff Bezos put it:

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That force did not pause this quarter. It has been at work for years - sometimes in unexpected places.

Trainer, Pennsylvania

Most people drive past Trainer, Pennsylvania without a second thought. But from above, it tells a more interesting story. In June 2012, Delta Air Lines acquired an oil refinery in the suburban Philadelphia town for $180 million. The move was strategic, aimed at gaining greater control over the energy supply chain for its key hubs at LaGuardia and JFK. It didn't make major headlines at the time, but it remains highly relevant today. While the connection to oil is obvious, the deeper lesson is about how businesses invest to adapt and compete.

Though an airline, Delta shares common ground with companies as diverse as Amazon and Pfizer. Across industries, leaders are constantly investing to innovate and grow - even when the payoff isn't immediate. Delta's refinery acquisition came amid rising U.S. oil production during the shale boom, making the timing appear questionable. Today, however, it looks prescient, particularly with roughly one-fifth of global supply disrupted due to the ongoing Iranian conflict. The modern parallel is clear: infrastructure investment is shifting from physical energy to digital power. Computing capacity is the new oil.

As first-quarter earnings season progresses, we gain insight into how Corporate America's past investments are paying off. Delta, for example, beat expectations on both the top and bottom line. More broadly, of the 483 S&P 500 companies that reported as of the end of May, 87% exceeded earnings estimates, putting the index on track for roughly 28% year-over-year growth.[ii] But "quarterly" earnings season is something of a misnomer. Today's results are the product of decisions made years - if not decades - ago. Across sectors, prior investments in AI and technology are driving efficiency and productivity, underpinning current profitability. And companies are not slowing down.

As Blackstone's Jonathan Gray said on April 23, 2026, after the asset manager's latest earnings announcement:

"What is exciting today is we're seeing a 15-fold increase in large language model spending for our companies off of a small base. But I think it's still early days."

Blackstone's roughly 250 portfolio companies are already moving quickly - but the firm is pushing them to move faster. The race for computing power is far from over.

The digital revolution continues to be an anchor point for our portfolio construction. As we said in our last quarterly letter, we believe that the continued investment into the AI ecosystem would create a constructive backdrop for the financial markets.

That thesis still holds - both domestically and abroad.

Looking Overseas

From suburban Philadelphia to across the Atlantic, our investment approach looks globally for compelling opportunities amid this digital revolution. Europe, in many respects, is still playing

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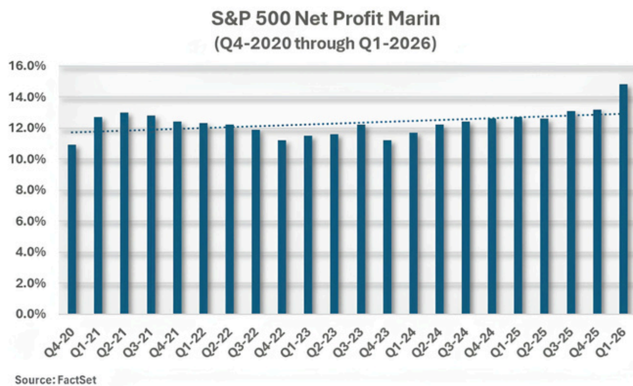

catch-up. In the United States, 43% of workers reported using AI at work - a figure estimated to be as much as 68% higher than in Europe.[iii] It is not the sole reason American businesses are operating more efficiently, but this embrace of AI is contributing to operating margins for S&P 500 companies reaching 14.8%, compared to roughly 10% for companies in the STOXX Europe 600.[iv] For U.S. companies, margins are at their highest level in 15 years.[v] Corporate America's ability to adapt is anything but trivial.

We see this profitability gap as an opportunity, and the context for a Europe-based software fund we capitalized earlier this year. While we are continually looking abroad for opportunities, European business leaders are looking at how to emulate American operating models. An additional tailwind emerged earlier this year when software stocks experienced indiscriminate selling, creating a likely favorable entry point for their private-company counterparts. As one of our platform asset managers noted:

"…for the FIRST TIME in the modern cloud computing era, the software industry is now trading at a discount to the S&P 500 on a cash flow multiple basis as well. Today that discount is 35%." [vi]

AI is best understood as a foundational layer within software. But many sold once an "end of software" narrative took hold earlier this year. Our broader belief is that the benefits of AI-driven investment have not been distributed evenly, and opportunities are surfacing as a result. This notion has been central to our investment thesis - so too are some historic economic principles.

Jevons Paradox

There were obvious reasons to avoid coal - yet in the 19th century, society relied on it more than ever. At the height of the Industrial Revolution, coal was the dominant source of energy despite its environmental costs. Then came the steam engine. Like Parkinson, William Stanley Jevons had a non-consensus take:

"It is a confusion of ideas to suppose that the economical use of fuel is equivalent to diminished consumption. The very contrary is the truth."[vii]

Despite its greater efficiency, the steam engine would ultimately drive even more coal consumption. What later became known as Jevons Paradox formalized the idea that when something becomes more efficient, new sources of demand emerge for it. The modern-day implication begins with AI.

AI is accelerating the same dynamic Jevons identified 160 years ago: efficiency gains are not reducing demand for computing power - they are multiplying it. As AI adoption spreads across

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Corporate America, productivity gains are unlocking new applications ranging from autonomous vehicles to space infrastructure. And as investment into the ecosystem accelerates, so will the number of use cases demanding even greater computing capacity.

The implications are not exclusively positive. AI also introduces meaningful long-term risks, including labor displacement and broader societal disruption. But from an investment perspective, both outcomes point in the same direction: demand for digital infrastructure is likely still in its early stages.

Another governing economic force - laws of supply and demand - will also come into focus soon. SpaceX filed its S-1 on May 20, 2026, unveiling a valuation of approximately $1.75 trillion. The leading force in the burgeoning space economy is attempting to raise up to $75 billion through this IPO. It would rank as the largest IPO ever as, at its pre-money valuation, it would represent 2.7% of the total U.S. equity market. Prior to this, the previous three largest U.S. IPOs were: Ford in 1956 was 1.1% of the overall stock market, Visa in 2008 was 0.8%, and Facebook in 2012 was 0.7%.[viii] Other high-profile companies are poised to follow highlighted by OpenAI at a suggested valuation of $852 billion.[ix] Massive future equity supply may create valuation pressure even amid technological optimism. Risks remain, including ones grounded in basic economic principles.

Personal Finance

As Peter Lynch wrote in *One Up on Wall Street*:

"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves." [x]

In assembly-line fashion, new concerns will continue to emerge - geopolitical conflict, inflation scares, valuation debates, or the coming wave of equity issuance. There will always be reasons to retreat into short-term pessimism. But there is a key distinction between wanting to sell and needing to.

On April 1, the AAII Sentiment Survey reported a bearish reading of 51.4%, which was one of the more pessimistic readings of the year and well above the long-term bearish average (~31%).[xi] Those fixating on the headline issues to start the quarter would find plenty of reasons to want to sell. But not only is our broader market perspective one that zooms out, so too is our portfolio construction framework. Risk is often defined as market volatility or adverse market events. While those are important considerations, we place particular emphasis on a different risk: being forced to sell during those moments. We routinely map out liquidity needs in advance and allocate them to conservative assets to avoid this. This planning process is dynamic, evolving alongside both markets and client circumstances. As Tim Maurer put it:

"Personal finance is more personal than it is finance." [xii]

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In Parting

Short-term market results can obscure the more consequential forces shaping the investment landscape. Our perspective remains grounded in long-term forces while tailoring portfolios to each client's unique liquidity and risk needs. This current quarter was no exception.

As always, our priority is helping you navigate these forces with foresight and steadiness. Please reach out to your relationship team to discuss how these themes are incorporated into your portfolio.

If you would like a copy of Peter Lynch's *One Up on Wall Street* - an insightful read on the virtues of disciplined investing -please let your Relationship or Investment Manager know and we will gladly send one.

We deeply value your trust and partnership, and we are grateful for it.

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[i] Interview at the Washington Post Live conference, 2016
[ii] FS Insights (May 29th, 2026)
[iii] Mind the Gap: AI Adoption in Europe and the U.S., Federal Reserve Bank of St. Louis (March 2026)
[iv] LSEG I/B/E/S Estimates, FactSet Earnings Insight (May 21st, 2026)
[v] S&P 500 Reporting Highest Net Profit Margin in Over 15 Years, FactSet (November 17th, 2025)
[vi] LeadEdge,4Q25 letter
[vii] William Stanley Jevons, *The Coal Question* (1865)
[viii] FS Insights (May 21st, 2026)
[ix] OpenAI Is Preparing to File for an IPO Very Soon, Wall Street Journal (May 20th, 2026)
[x] Peter Lynch, *One Up On Wall Street* (1989)
[xi] Sentiment Survey Historical Data, American Association of Individual Investors
[xii] As quoted in Morgan Housel's, *The Art of Spending Money* (2026)

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