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Economics Weekly

Record Margins, the AI Capex Cycle, and the Warning Signs to Monitor

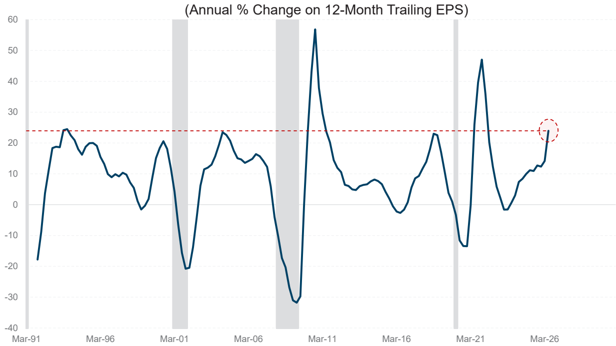
Please refer to important disclosures on pages 14 and 15. Analyst certification is on page 14.

Corporate profits and margins look stretched, but not yet low quality. Unlike the pre–global financial crisis period, today's margin expansion is still broadly supported by pricing power and productivity growth. The bigger concern among investors is that we may now be much later in the capex cycle, where returns start to disappoint and excess capacity begins to build. **In this *Economics Weekly,* we examine the quality of today's earnings, assess where we are in the AI capex cycle, and identify the signals that would suggest the recovery is becoming more fragile.**

Margins Are High, but Still Fundamentally Supported

Earnings growth for the S&P 500 has been astonishing over the last couple of quarters. Exhibit 1 shows that the annual rate of change in the second quarter increased by 23.9%; barring past rebounds from recessions, this is the highest level since a matching change in 2004 and prior to that in 1993 (exhibit 1).

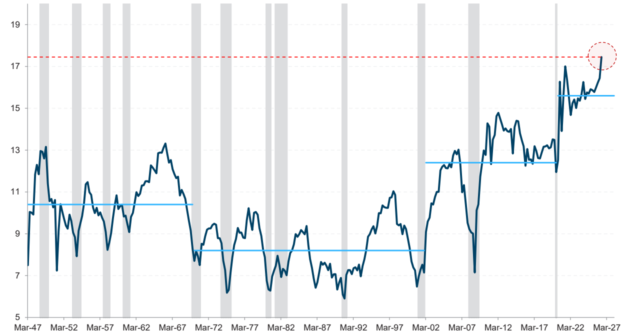
Exhibit 1
S&P 500 EPS Growth
(Annual % Change on 12-Month Trailing EPS)



Sources: I/B/E/S, William Blair Equity Research

Meanwhile, the National Income and Product Accounts (NIPA) corporate profit margins for all U.S. domestic corporate businesses have also increased to their highest level since the series began in 1947 (exhibit 2).

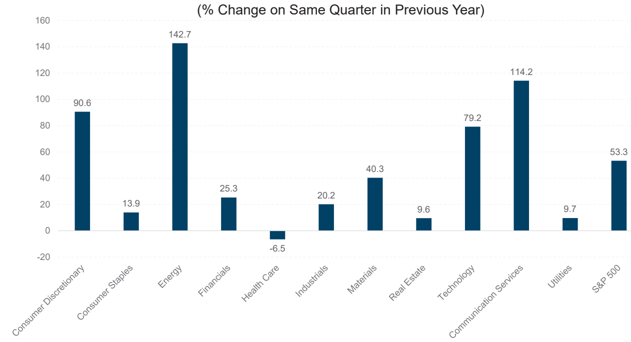
Exhibit 2
Net Profit Margin - Domestic Corporate Business
After-tax Domestic Corporate Profits with IVA & CCA as % of Gross Value Added for All Domestic Corporate Business



Sources: Bureau of Economic Analysis, NBER, William Blair Equity Research

Unsurprisingly, most of the profit growth is directly related to the AI boom, with the technology, communication services, and energy sectors accounting for the bulk of the increases. Plus, consumer discretionary earnings received a helpful assist from IEEPA tariff refunds over the past quarter (exhibit 3).

Exhibit 3
Annual Growth in S&P 500 EPS for 2Q 2026
(% Change on Same Quarter in Previous Year)



Sources: LSEG I/B/E/S, William Blair Equity Research

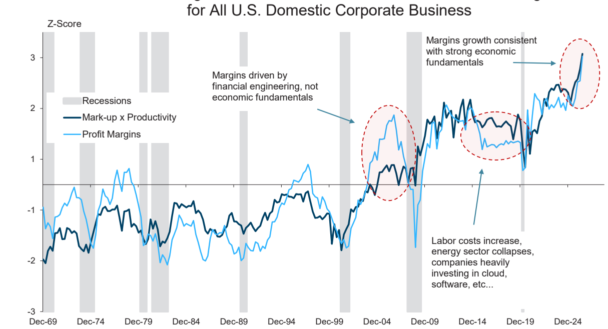
Probing the Quality of Margin Expansion

PULC Still Supports the Margin Story

A useful cross-check on margins is the ratio of selling prices to unit labor costs (PULC). This captures two core drivers of profitability: 1) mark-up, or the ability to raise prices above compensation costs, and 2) productivity, or the ability to generate more output per hour worked. When margins rise alongside PULC, the expansion is more likely to reflect real economic fundamentals rather than financial leverage or accounting effects.

Exhibit 4 plots profit margins against PULC from 1947 to 2026. The exhibit comfortingly shows that margins over the last few years have indeed been supported by solid economic fundamentals—stronger pricing power and faster productivity growth.

Exhibit 4
Ratio of Selling Prices to Unit Labor Costs vs. Pretax Profit Margins
for All U.S. Domestic Corporate Business



*PULC = (Implicit Price Deflator/ Unit Labor Costs) x (Output / Hours Worked) or, PULC = Mark-up x Productivity

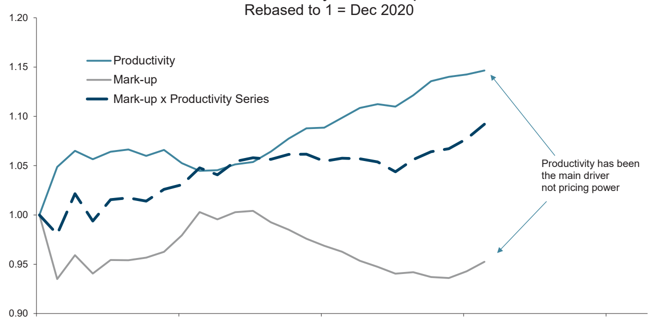
Source: Bureau of Labor Statistics, Bureau of Economic Analysis, William Blair Equity Research

Why the Lead-up to the GFC Was Different

The pre-GFC period provides a cautionary example. Margins continued to rise sharply even after PULC had flattened and then rolled over. This suggests that profitability was being driven less by pricing power or productivity and more by leverage, housing, and credit intermediation, resulting in a more fragile margin expansion.

Today's setup is different. Margins and PULC are still rising together, and the productivity contribution appears to be doing more of the work (exhibit 5).

Exhibit 5
Productivity & Mark-up
Rebased to 1 = Dec 2020



Mark-up = Implicit Price Deflator/Compensation per hour' Productivity = Output/Hours Worked
Source: BLS, Peter L. Berstein Inc., William Blair Equity Research

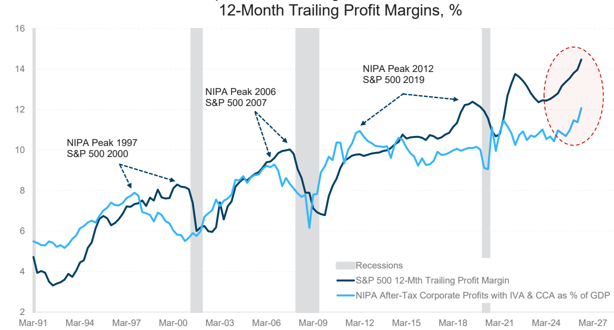
Why NIPA Margins Matter

Another point to note is that in these exhibits we have been using the NIPA margins for all U.S. domestic corporate businesses. This is important as the Bureau of Economic Analysis's measure calculates profits as earnings that are based on current production for all corporate businesses (i.e., private and public), which differs from the GAAP accounting measures used for the S&P 500.

By only using profits from current production, the BEA effectively excludes any unrealized capital gains/losses, dividend income, and other financial flows, or the "other income," which is currently helping boost profits for the S&P 500's GAAP accounting version of margins. The *FT reported* recently that other income, or the gains these hyperscalers are earning from their investments in AI-related companies, such as Anthropic or SpaceX, increased by $160 billion in the last quarter as a result of valuation gains in the equity. These gains are clouding the earnings picture, making it difficult to distinguish earnings growth due to investment valuation gains, versus pure underlying demand growth for their products and services.

A further benefit of the NIPA margins is that they tend to lead S&P's more financially engineered margins by at least a year or more, again helping to act as an early warning sign of quality deterioration in corporate profitability (exhibit 6).

Exhibit 6
NIPA After-Tax Corporate Profit Margins for All U.S. Business vs. S&P 500
12-Month Trailing Profit Margins, %



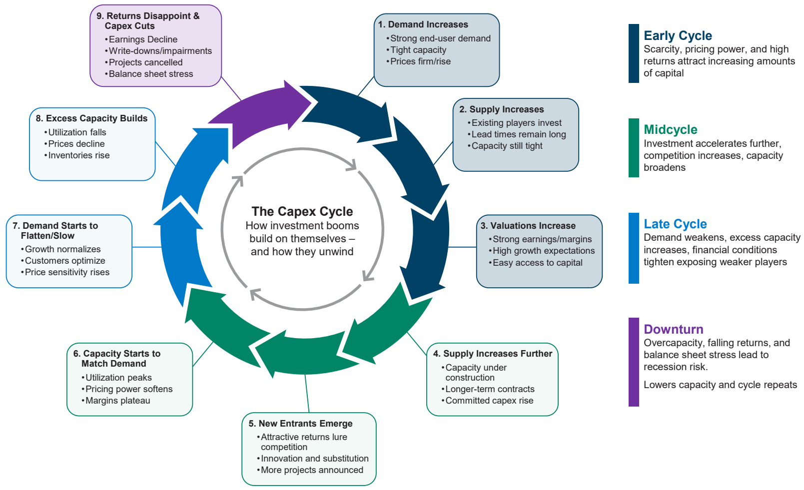
Sources: Bloomberg, Bureau of Economic Analysis, William Blair Equity Research

Where Are We in the Capex Cycle?

We do not believe this capex cycle will be fundamentally different from prior cycles. It will eventually end as excess capacity builds, spending slows, and returns start to disappoint. The question is timing. From today's vantage point, the evidence suggests we have now transitioned from the early cycle to midcycle.

In exhibit 7, we present a stylized version of the typical capital investment cycle. Today, we think the cycle sits somewhere between boxes 4 and 5: demand still outpaces available capacity, capital is still flowing in, but new entrants are beginning to increase competition and push down the price of compute.

Exhibit 7
The Circular Capex Cycle



Sources: William Blair Equity Research

This capex cycle also differs slightly compared to the textbook ones in that it has been sparked by innovation. Historically, a textbook non-innovation-driven capex cycle would start with lower interest rates expanding credit, increasing demand, and then company investment. Today, the expansion is being driven by a perceived existential race for AI dominance and scarcity of compute to get us there. This has meant that up to now companies have been keen to invest their own funds regardless of the level of interest rates.

Three Risks Investors Worry About

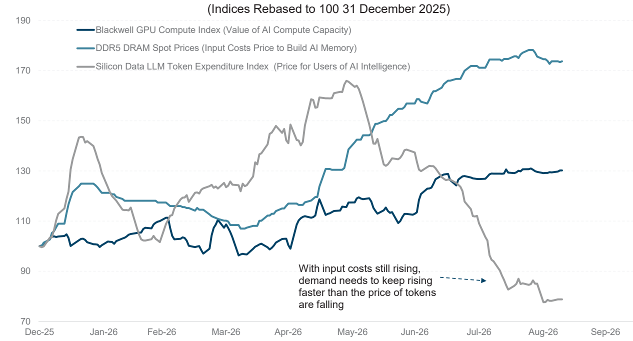
There is nothing inherently wrong with AI-related capex investment driving this cycle—in fact, it's exactly what should be happening in a dynamic capitalist economy. However, three major concerns are emerging among investors as the cycle matures.

1. Capacity Is Starting to Catch Up With Demand

The first is that given the pace and scale of investment to date, we may already be much closer to the end of the cycle—when investment returns start to wane and the risk of recession increases—than the beginning.

Exhibit 8 gets to the heart of the cycle; it shows input costs remain high or rising, while downstream prices are falling. That does not necessarily mean that demand is weak, but it does mean the business case increasingly depends on volume growth, higher utilization, and efficiency gains. This is consistent with the Jevons paradox, that when a resource becomes more efficient or cheaper, use increases.

Exhibit 8
Jevons Paradox In Motion
(Indices Rebased to 100 31 December 2025)



Sources: Bloomberg, William Blair Equity Research

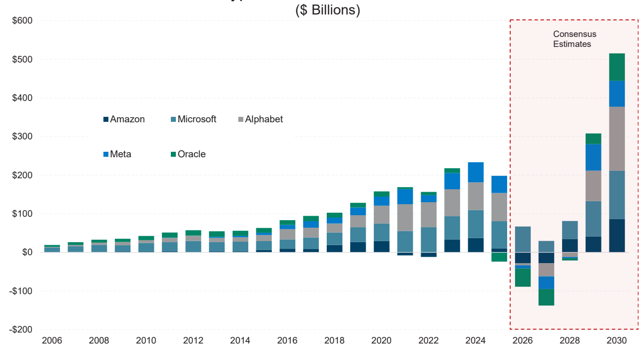
2. Funded Model Is Shifting From Internal Cash Flow to Credit

Another factor that helps reinforce this shift from early to midcycle is the fact that free cash flow is starting to turn negative, forcing the hyperscalers to turn toward the bond market to finance further investment—i.e., corporate debt issuance year-to-date as of August has already increased by $1.9 trillion, compared to $1.5 trillion over the same period last year (exhibit 9).

Exhibit 9

Hyperscaler Free Cash Flow

($ Billions)



Sources: Factset, William Blair Equity Research

Analysts' consensus expectations indicate that the hyperscalers' investment will soon pay off, and they will be able to better monetize that through greater use of cloud services, inference, and agents. These productivity enhancing tools will thereby allow revenue to catch up and free cash flow to reach new highs. While this seems likely to be true for some hyperscalers, the seemingly existential race for AI dominance suggests these companies do not see this as necessarily being the case for all.

The concern is not that the hyperscalers themselves are suddenly financially fragile. Most still have the balance sheets and revenue growth to service higher debt. Rather, the risk is second order, where their borrowing needs may raise the economy-wide cost of capital and crowd out weaker borrowers. In that sense, it may not be the Fed that removes the punch bowl this time around, but the AI capex boom itself.

3. AI Earnings Are Becoming More Circular

The third major concern among investors is that some of the recent profit growth within the AI ecosystem may be becoming increasingly circular. For example, Nvidia has invested in AI developers such as OpenAI, helping fund data center and model expansion. Those companies then purchase more Nvidia GPUs, boosting Nvidia's revenue, while the rising valuation of the AI companies increases the value of Nvidia's investment portfolio.

This risk is real. If end-demand disappoints, these firms could be hit twice: first through slower revenue growth and then through lower valuations on their AI-related investments. Nevertheless, the current reality is that spending is still building productive capacity, demand for compute remains strong, and investors have already shown some discipline through multiple compression across the technology sector, while also seeking portfolio diversification.

What to Monitor

Going forward, there are several areas we think investors should monitor closely. The first is the quality of earnings. If margins keep rising while PULC rolls over, it would suggest profits are becoming less anchored in pricing power and productivity, and more dependent on less durable supports. A similar warning would come from NIPA margins relative to S&P 500 margins, which tend to capture underlying profitability changes before some of the more financially engineered S&P margin measures. If NIPA margins begin to deteriorate, this would be another early sign that the profit cycle is weakening beneath the surface.

The second place to watch is whether the AI capex cycle can still pay for itself. Falling downstream prices are not a problem if the Jevons paradox still holds, i.e., they are offset by much higher volumes, better utilization, and productivity gains. However, these falling prices become more concerning if revenue growth slows while input costs remain high. Likewise, continued negative free cash flow among the hyperscalers would suggest the cycle is becoming more dependent on external financing through the bond market. Lastly, as interest costs increase, the risks of spillover for weaker players not benefiting from AI investment also increases.

Conclusion

Today's profit boom does not, by itself, indicate low-quality earnings, although investors are right to question its durability. Unlike the pre-GFC period, margins today are still being matched by improvements in pricing power and productivity, and NIPA-based profits do not yet show the same warning signs that appeared ahead of past downturns.

The AI capex boom has now moved from early-cycle scarcity to midcycle execution risk. Falling token prices, rising input costs, heavier borrowing, and more circular capital flows all raise the bar for future volume growth and monetization.

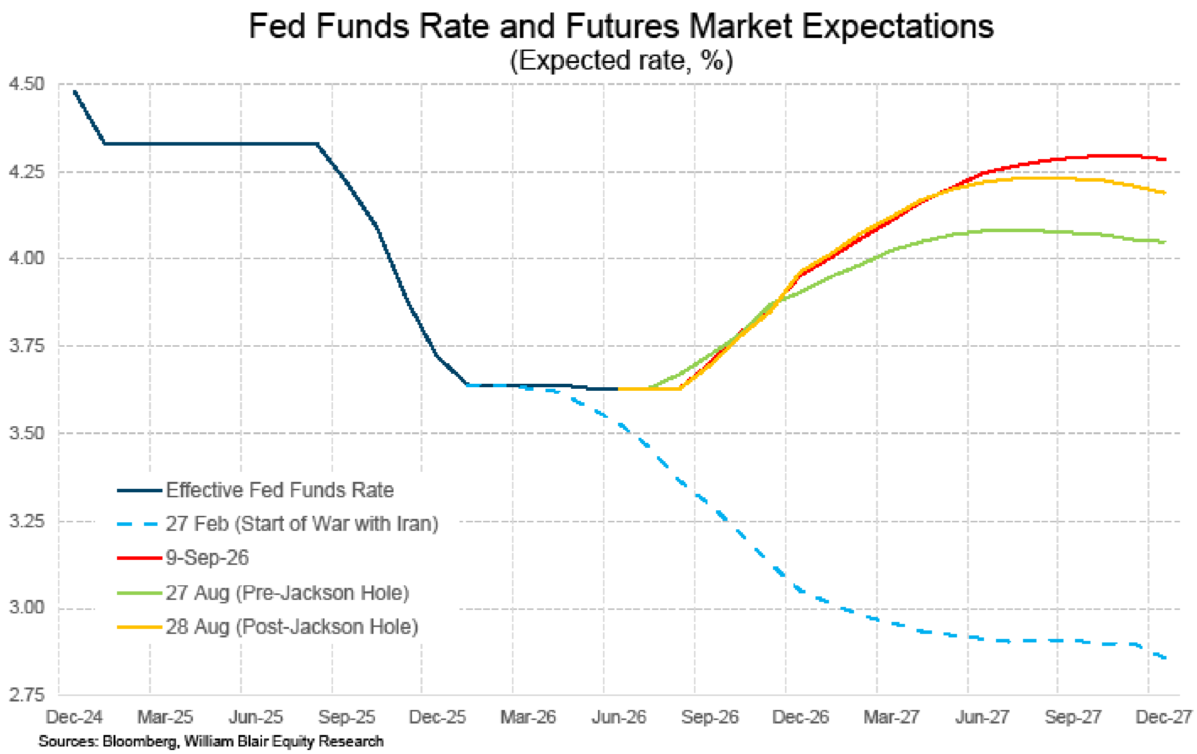
For now, that argues for vigilance. The cycle does not yet look like a credit-driven profits bubble, but the burden of proof is rising. The key signals to watch are PULC, NIPA margins, hyperscaler free cash flow, credit spillover, and the extent to which falling compute prices continue to be offset by genuine end-demand growth.

Highlights in the Week Ahead

Date	Time (ET)	Indicator	Last	Consensus	WB Estimate	Actual
16 Sep	8:30 a.m.	Advance Retail Sales (August)	-0.6%	0.8%	1.2%	
		Sales Less-autos	-0.3%	0.5%	0.8%	
16 Sep	2:00 p.m.	FOMC Meeting	3.75%	3.75%	4.00%	
17 Sep	8:30 a.m.	Housing Starts (August)	-12.4%	6.5%	8.2%	
		Building Permits	4.3%	NA	4.0%	
18 Sep	9:15 a.m.	Industrial Production (August)	0.2%	0.3%	0.1%	
		Capacity Utilization	76.3%	76.5%	76.4%	

Sources: Bloomberg, William Blair Equity Research

Indicators of the Week: FOMC Meeting



Economic Scorecard

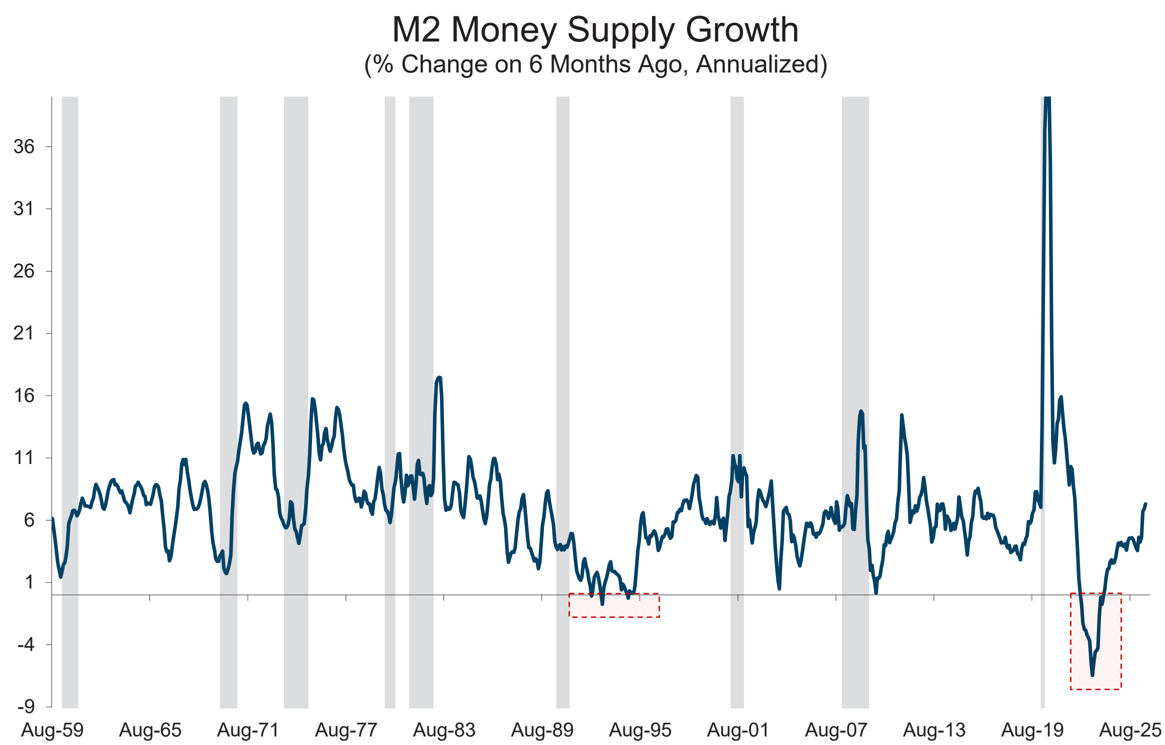
Rolling monthly heat map, % Change on Year Ago (unless otherwise noted)

	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26
Growth																			
US Leading Indicators	-3.3	-4.1	-3.7	-3.8	-3.4	-3.5	-3.2	-3.1	-3.7	-3.7	-3.6	-3.1	-3.0	-1.6	-1.4	-1.2	-1.1		
US Coincident Indicators	1.8	1.8	1.1	1.1	1.4	1.2	1.2	1.0	0.8	0.6	0.9	0.8	0.3	0.3	0.6	0.7	0.5		
US Lagging Indicators	-0.6	-0.8	-0.1	-0.3	-0.5	-0.4	0.2	0.3	0.3	0.7	0.9	0.6	1.1	1.3	0.7	0.7	1.2		
Consumer																			
Total Retail Sales	5.2	5.1	3.1	3.9	4.1	5	4.1	3.2	3.2	2.4	3.3	4.2	4.2	5.1	7.2	6.8	5.0		
Personal Income	5.2	5.6	4.5	4.3	4.8	5.1	5.1	4.5	4.4	4.2	4.1	3.5	3.3	2.7	4	3.9	3.7		
Real Disposable Personal Income	2.3	2.8	1.5	1.2	1.7	1.8	1.8	1.3	1	0.8	1.4	0.8	0	-1	0.1	0.5	0.5		
Real Personal Consumption	3.2	3.1	2.5	2.5	2.6	2.8	2.4	2.5	2.2	1.6	2	2.4	1.9	1.9	2.4	2.6	2.1		
Personal Saving Rate (%)	5.1	5.5	4.9	4.6	4.5	4.4	4.3	3.9	3.8	3.6	4.4	3.8	3.5	2.9	2.8	2.6	3		
Consumer Confidence (Conference Board)**	93.9	85.7	98.4	95.2	98.7	97.8	95.6	95.5	92.9	94.2	89	91	92.2	93.8	90.6	92.2	90.2	89.4	
Employment																			
Employment Growth	0.6	0.6	0.6	0.5	0.5	0.5	0.4	0.3	0.2	0.1	0.2	0.1	0.2	0.2	0.2	0.3	0.2	0.4	
ASA Temporary Staffing Index	-8.7	-6.4	-5.8	-5.3	-0.8	-0.9	0.8	1.5	4.5	7.3	2.3	3.2	6.1	5.4	5.1	6.5	2.5	6.3	
ISM Employment Index Manufacturing*	44.4	46.2	46.1	45.1	44.9	44.3	45.4	45.8	44.1	44.8	48.1	48.8	48.7	46.4	48.6	49.7	52.8	51.2	
ISM Employment Index Services*	46	49.2	50.4	47.7	46.9	46.9	47.6	48.1	48.7	51.7	50.3	51.8	45.2	48	47.9	51.2	47.4	47.8	
Unemployment Rate, %	4.2	4.2	4.3	4.1	4.3	4.3	4.4		4.5	4.4	4.3	4.4	4.3	4.3	4.3	4.2	4.1	4.1	
Average Hourly Earnings	4.2	3.9	4	3.9	4	4	3.8	3.9	3.9	3.7	3.7	3.7	3.4	3.6	3.3	3.4	3.2	3.1	
Initial Jobless Claims (avg. wkly. chg. '000s)	223	226	233	239	222	231	234	226	221	219	213	216	208	208	215	223	199	208	
Jop Openings	-15.3	-5.7	-6.1	-2.9	-4.5	-8.0	3.3	-2.8	-9.5	-10.2	-2.6	-4.4	-0.9	6.9	3.1	-0.3	2.6		
Layoff Announcements	204.8	62.7	47	-1.6	139.8	13.3	-25.8	175.3	23.5	-8.3	117.8	-71.9	-78	-20.9	3.4	-4.5	-46.1	-38.5	
Housing Market																			
Housing Starts	3.8	1.5	-3	4.6	12.8	-7.4	-2.8	-7.1	1.5	-7.8	2.4	-9.7	13.1	1	-8.3	2.6	-13.5		
New Home Sales	-3.7	-0.7	-7.2	-2.6	-11.5	1.6	-0.1	3.2	13.2	3	-13.4	-1.7	0.5	-8.6	1.3	2	-6.3		
Existing Home Sales	-2.7	-1.5	-0.5	0.5	0.8	2.3	4.4	2.2	-1.2	1.9	-1.7	-0.5	-0.3	0.5	3.7	3.8	0.7		
Median House Price (Existing Homes)	-5.4	-0.4	2.5	-1.2	-7.4	3	-1	-5.2	1.2	1.4	-3.1	-0.7	-3.4	0.5	-2	-1.5	-0.9		
Existing Homes Inventory (Mths' supply)	4.2	4.2	4.3	4.3	4.3	4.3	4.3	4.3	4.2	4	4.2	4.3	4.3	4.3	4.2	4.3	4.2		
New Homes Inventory (Mths' supply)	9.3	8.6	9.7	9	9.2	8.5	8.2	9	7.7	7.9	9.9	9.3	8.7	9	9.3	8.5	9.6		
NAHB Homebuilder Sentiment*	39	40	34	32	33	32	32	37	38	39	37	37	38	34	37	36	34		
Inflation																			
Consumer Price Index	2.4	2.3	2.4	2.7	2.7	2.9	3		2.7	2.7	2.4	2.4	3.3	3.8	4.2	3.5	3.4		
CPI Less-food & energy	2.8	2.8	2.8	2.9	3.1	3.1	3		2.6	2.6	2.5	2.5	2.6	2.8	2.9	2.6	2.5		
Producer Price Index	3.2	2.4	2.7	2.4	3.2	2.7	3	2.8	3.1	3.1	3.1	3.4	4.3	5.7	5.9	5.6	4.8	5.4	
PPI Less-food & energy	3.8	3.1	3.2	2.7	3.5	2.9	3	3	3.2	3.4	3.7	3.8	3.9	4.9	4.5	4.8	4.3	4.6	
PCE Price Index	2.4	2.3	2.5	2.6	2.6	2.7	2.8	2.7	2.8	2.9	2.9	2.9	3.5	3.8	4.1	3.7	3.7		
PCE Prices Less-food & energy	2.7	2.6	2.8	2.8	2.9	2.9	2.8	2.8	2.8	3.0	3.1	3.0	3.3	3.3	3.5	3.3	3.3		
Business Activity - US																			
Industrial Production	0.6	0.9	0.1	0.6	1.9	1.2	1.9	1.8	1.8	1.2	1.0	0.8	0.7	1.4	1.5	1.3	1.1		
New Cap Gds Orders less-aircraft & parts	2.2	0.5	2.2	4.5	4.4	2.5	5.3	6.2	4.1	8	2.9	5.9	10.8	11.1	10	14.9	13.2		
Business Inventories	2.2	2.5	2.1	1.7	1.6	1.4	1	1.3	1.3	1.2	1.5	1	1.2	2.1	2.8	3.2	3	0	
ISM Manufacturing PMI*	48.9	48.8	48.6	49	48.4	48.9	48.9	48.8	48	47.9	52.6	52.4	52.7	52.7	54	53.3	55.6	54.6	
Markit US Manufacturing PMI*	50.2	50.2	52	52.9	49.8	53	52	52.5	52.2	51.8	52.4	51.6	52.3	54.5	55.1	53.9	53.9	53.9	
ISM Services Index*	50.8	51.6	50.2	50.8	50.5	51.9	50.3	52	52.4	53.8	53.8	56.1	54	53.6	54.5	54	54.1	55.4	
Markit US Services PMI*	54.4	50.8	53.7	52.9	55.7	54.5	54.2	54.8	54.1	52.5	52.7	51.7	49.8	51	50.7	51.2	54.6	56.5	
Business Activity - International																			
Germany Manufacturing PMI Markit/BME*	48.3	48.4	48.3	49	49.1	49.8	49.5	49.6	48.2	47	49.1	50.9	52.2	51.4	50.1	50.3	52.2	54.3	
Japan Manufacturing PMI Jibun Bank*	48.4	48.7	49.4	50.1	49	49.7	48.5	48.2	48.7	50	51.5	53	51.6	55.1	54.5	54.8	54.5	54.9	
Caixin China Manufacturing PMI*	51.2	50.4	48.3	50.4	49.5	50.5	51.2	50.6	49.9	50.1	50.3	52.1	50.8	52.2	51.8	51.7	50.9	51.5	
China Manufacturing PMI*	50.5	49	49.5	49.7	49.3	49.4	49.8	49	49.2	50.1	49.3	49	50.4	50.3	50	50.3	49.2	49.8	
UK Manufacturing PMI Markit/CIPS*	44.9	45.4	46.4	47.7	48	47	46.2	49.7	50.2	50.6	51.8	51.7	51	53.7	53.9	52.5	51.9	51.7	
France Manufacturing PMI Markit*	48.5	48.7	49.8	48.1	48.2	50.4	48.2	48.8	47.8	50.7	51.2	50.1	50	52.8	49.7	51.2	49.8	51.1	
Currencies* **																			
Euro (EUR/USD)	0.2	6.2	4.6	10.0	5.4	5.8	5.4	6.0	9.7	13.4	14.4	13.9	6.8	3.6	2.7	-3.1	1.0	-0.6	
Renmimbi (USD/CNY)	0.5	0.4	-0.6	-1.4	-0.4	0.6	1.5	0.0	-2.4	-4.3	-4.0	-5.7	-5.0	-6.1	-6.0	-5.3	-6.2	-5.8	
Yen (USD/Yen)	-0.9	-9.3	-8.4	-10.5	0.5	0.6	3.0	1.3	4.3	-0.3	-0.3	3.6	5.8	9.4	10.6	12.9	4.4	8.6	
Sterling (GBP/USD)	2.3	6.7	5.6	8.6	2.7	2.9	0.5	2.0	3.9	7.7	10.4	7.2	2.4	2.1	0.0	-3.4	2.1	0.3	
Canadian $ (USD/CAD)	6.3	0.2	0.8	-0.5	0.3	1.8	2.9	0.5	-0.2	-4.6	-6.4	-5.7	-3.3	-1.6	0.4	4.3	1.2	0.8	
Mexican Peso (USD/MXN)	23.6	14.4	14.3	2.3	1.4	-5.4	-7.0	-7.4	-10.2	-13.5	-15.6	-16.2	-12.4	-11.0	-10.7	-6.7	-8.1	-8.9	
US Equities																			
S&P 500	6.8	10.6	12.0	13.6	14.8	14.4	16.1	19.9	13.5	16.4	14.9	15.5	16.3	29.4	28.2	20.9	18.1	19.0	
S&P 400 Midcap	-4.2	-0.3	0.6	5.9	1.7	5.3	4.5	4.8	-1.7	5.9	6.1	15.5	15.7	27.6	24.1	24.2	19.3	15.6	
S&P 600 Smallcap	-5.0	-3.6	-3.4	2.8	-6.3	1.8	1.9	3.8	-4.0	4.2	7.0	15.9	18.5	36.6	31.2	35.3	31.5	22.1	
Russell 2000	-5.3	-0.5	-0.2	6.2	-1.9	6.7	9.3	12.9	2.7	11.3	14.3	21.7	24.1	42.6	41.3	39.0	32.5	24.9	

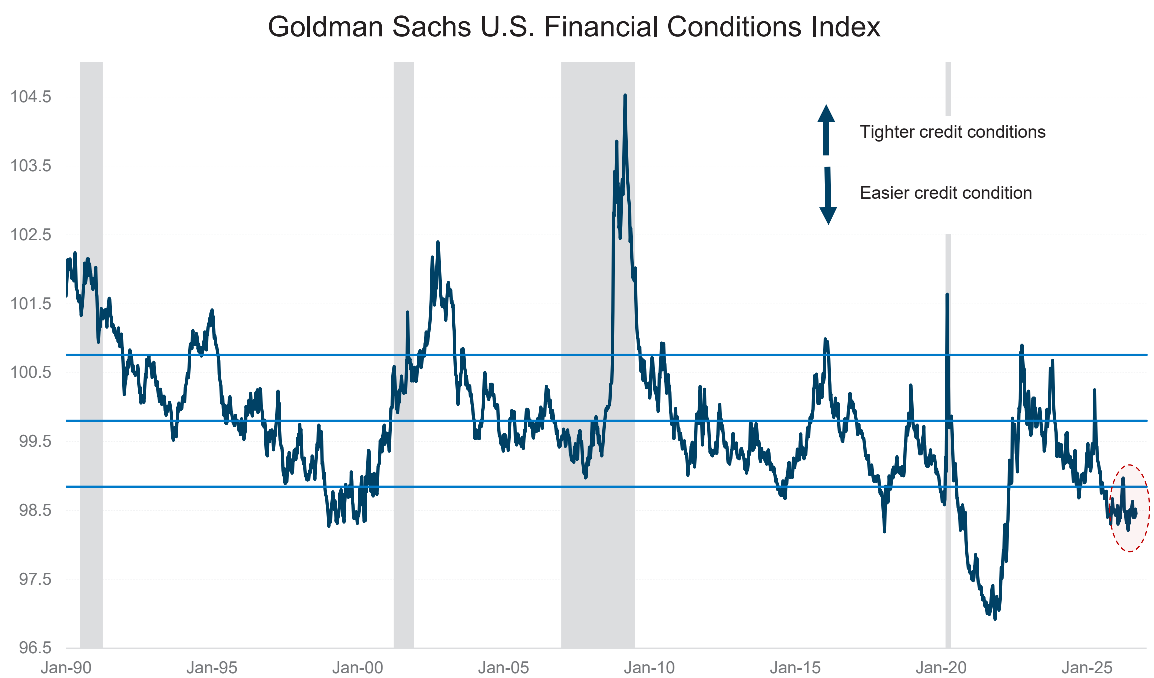
* Diffusion Index, **1985=100, ***Currencies - green/red = strengthening/weakening foreign currency vs dollar

Source: ISM, Federal Reserve, Census Bureau, Bureau of Labor Statistics, Conference Board, Bloomberg, William Blair

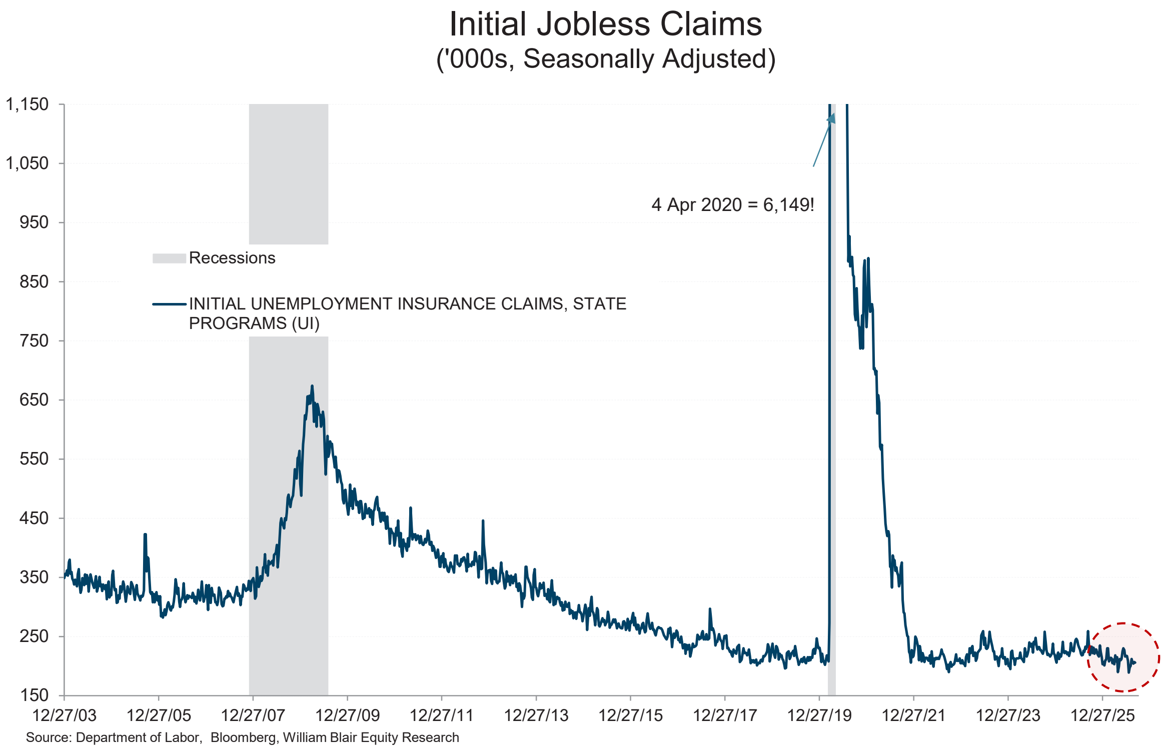
Other Economic Indicators

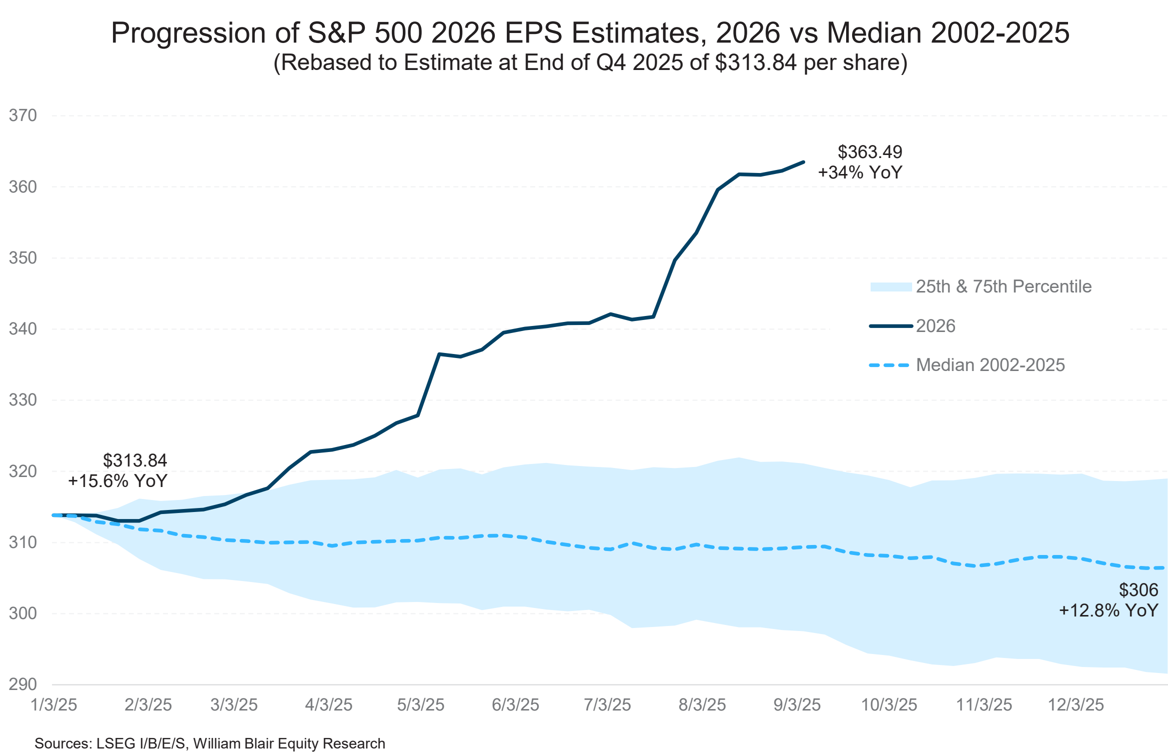


Sources: Federal Reserve, William Blair Equity Research

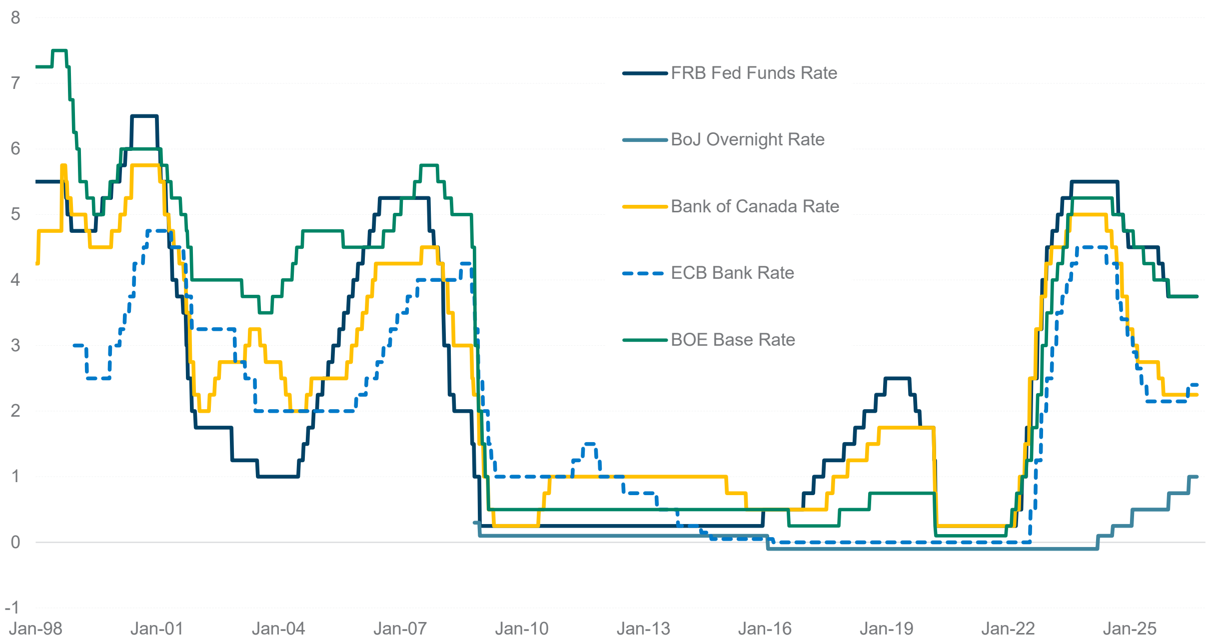


Sources: Bloomberg, William Blair Equity Research


Initial Jobless Claims
('000s, Seasonally Adjusted)
1,150
1,050
950
850
750
650
550
450
350
250
150
Recessions
INITIAL UNEMPLOYMENT INSURANCE CLAIMS, STATE PROGRAMS (UI)
4 Apr 2020 = 6,149!
12/27/03
12/27/05
12/27/07
12/27/09
12/27/11
12/27/13
12/27/15
12/27/17
12/27/19
12/27/21
12/27/23
12/27/25
Source: Department of Labor, Bloomberg, William Blair Equity Research

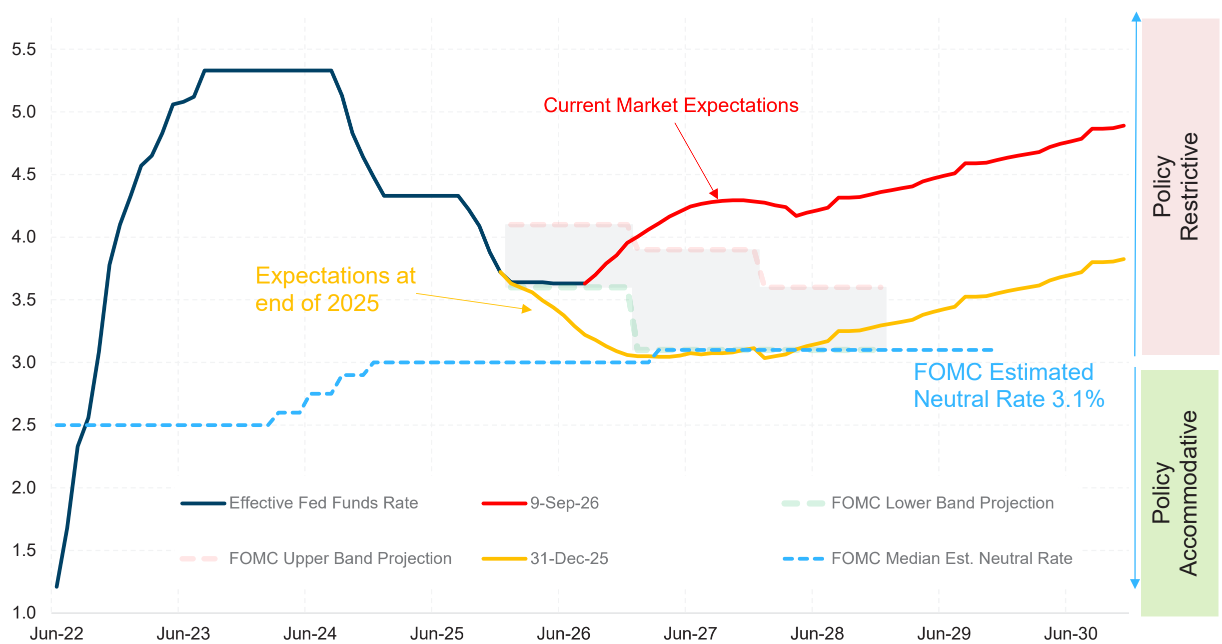

Progression of S&P 500 2026 EPS Estimates, 2026 vs Median 2002-2025
(Rebased to Estimate at End of Q4 2025 of $313.84 per share)
370
360
350
340
330
320
310
300
290
$363.49
+34% YoY
25th & 75th Percentile
2026
Median 2002-2025
$313.84
+15.6% YoY
$306
+12.8% YoY
1/3/25
2/3/25
3/3/25
4/3/25
5/3/25
6/3/25
7/3/25
8/3/25
9/3/25
10/3/25
11/3/25
12/3/25
Sources: LSEG I/B/E/S, William Blair Equity Research

Central Bank Target Short-Term Interest Rates, %



Sources: Bloomberg, William Blair Equity Research

Fed Funds Rate Futures Market Expectations & FOMC Projections, %



Sources: Bloomberg, William Blair Equity Research

S&P 500 Sector Performance

Global Industry Classification System	Current Weight* 10-Sep-26	Week Ago 03-Sep-26	Month Ago 10-Aug-26	Qtr-to-Date 30-Jun-26	Year-to-Date 31-Dec-25
S&P 500 Index	**100.00**	**-2.01**	**-2.08**	**1.23**	**10.90**
S&P 400 MidCap Index		**-2.55**	**-4.85**	**-4.38**	**11.45**
S&P 600 SmallCap Index		**-2.39**	**-4.57**	**-4.86**	**16.96**
Dow Jones Industrials		**-3.02**	**-3.54**	**-0.49**	**8.32**
Nasdaq Composite		**-1.89**	**-1.97**	**-0.50**	**12.22**
Communication Services	**9.65**	**-1.22**	**-2.27**	**0.14**	**0.58**
Advertising	0.18	-1.52	-6.47	-12.33	-35.70
Broadcasting	0.05	-4.13	4.02	21.57	-12.45
Cable & Satellite	0.04	-3.24	-3.69	-6.52	-26.22
Integrated Telecommunication Services	0.67	-2.52	4.98	16.61	7.22
Interactive Home Entertainment	0.06	1.32	-14.44	-10.34	-11.23
Interactive Media & Services	7.46	-0.50	-3.13	-1.54	3.29
Movies & Entertainment	0.89	-4.96	0.72	6.44	-12.42
Publishing & Printing	0.02	-5.20	2.51	17.92	11.98
Wireless Telecommunication Svcs	0.27	-5.78	-0.58	5.62	-12.75
Consumer Discretionary	**9.33**	**-3.55**	**-6.69**	**-3.01**	**-4.08**
Apparel Retail	0.30	-3.79	-17.57	-10.02	-6.78
Apparel & Accessories & Luxury Goods	0.07	-8.37	-25.38	-18.37	-24.16
Auto Parts & Equipment	0.01	-1.81	-8.27	-25.57	-30.98
Automobile Manufacturers	2.24	-3.27	8.44	-11.66	-16.90
Automobile Retail	0.24	-3.01	-6.34	-4.22	-12.01
Broadline Retail	3.95	-2.67	-9.30	5.44	9.33
Casinos & Gaming	0.07	-3.15	-8.33	-10.15	-23.43
Computer & Electronics Retail	0.03	0.69	6.87	16.09	31.62
Consumer Electronics	0.08	-1.80	-13.08	14.59	34.19
Distributors	0.03	-2.52	-0.28	13.71	8.57
Footwear	0.08	-5.53	-14.11	-12.74	-39.30
Home Furnishings	0.01	-5.66	-8.41	2.40	13.67
Home Improvement Retail	0.59	-3.56	-12.16	-12.68	-13.23
Homebuilding	0.13	-6.19	-7.82	-14.80	-10.76
Hotels, Resorts & Cruise Lines	0.71	-6.49	-12.34	-5.97	-5.72
Leisure Products	0.02	-3.06	-4.59	9.16	9.95
Restaurants	0.71	-5.14	-4.24	-2.06	-6.39
Other Specialty Retail	0.06	-3.54	-2.72	12.95	-22.16
Consumer Staples	**4.85**	**-2.12**	**-2.35**	**-0.62**	**6.06**
Agricultural Products	0.09	3.21	8.72	14.60	47.74
Brewers	0.01	-5.25	-9.59	-1.33	-17.65
Consumer Staples Merchandise Retail	2.08	-3.14	-5.41	-3.66	1.49
Distillers & Vintners	0.04	-3.94	-6.88	-8.96	-8.05
Food Distributors	0.06	1.52	-1.86	-1.52	11.70
Food Retail	0.08	-9.34	-12.76	-8.83	-7.86
Household Products	0.67	-3.27	-4.08	-3.46	1.40
Packaged Foods & Meats	0.29	-1.36	-1.95	3.01	-1.36
Personal Care Products	0.08	-5.40	-0.15	3.20	-1.68
Soft Drinks	0.99	-1.83	0.23	2.98	12.77
Tobacco	0.59	1.09	2.83	2.12	18.60
Energy	**3.42**	**0.68**	**7.17**	**22.03**	**43.97**
Integrated Oil & Gas	1.67	1.40	5.40	23.60	38.52
Oil & Gas Equipment & Services	0.25	-4.06	0.93	12.99	36.96
Oil & Gas Exploration & Production	0.65	0.80	7.10	18.43	33.83
Oil & Gas Refining & Marketing & Transportation	0.46	2.24	21.65	51.38	125.53
Oil & Gas Storage & Transportation	0.32	-1.14	3.50	2.55	27.85

Financials	**11.57**	**-2.88**	**-1.76**	**5.74**	**3.57**
Asset Management & Custody Banks	0.97	-4.59	-3.58	10.58	3.94
Consumer Finance	0.53	-4.32	-5.24	-1.66	-13.53
Diversified Banks	3.07	-1.30	-1.08	6.18	10.01
Diversified Financial Services	6.69	-3.39	-1.46	6.54	0.91
Financial Exchanges & Data	0.80	-6.57	1.31	13.35	-8.43
Insurance Brokers	0.38	-7.01	-8.21	3.66	-7.94
Investment Banking & Brokerage	1.40	-3.01	0.53	5.51	13.98
Life & Health Insurance	0.28	-3.14	-2.97	5.68	13.23
Multi-Sector Holdings	1.01	-0.22	-4.23	1.32	0.86
Property & Casualty Insurance	0.87	-2.81	-2.34	1.38	4.90
Regional Banks	0.26	-1.76	-4.12	-0.87	7.63
Reinsurance	0.02	-3.94	0.31	3.86	9.34
Transaction & Payment Processing	1.88	-3.59	0.33	8.85	0.81
Health Care	**8.84**	**-4.43**	**-1.80**	**4.08**	**6.74**
Biotechnology	1.66	-5.98	2.97	8.15	17.28
Health Care Distributors	0.33	-4.65	-0.44	10.71	5.64
Health Care Equipment	1.26	-5.45	-8.12	3.10	-21.43
Health Care Facilities	0.14	2.83	1.52	8.97	-11.31
Health Care Services	0.37	-2.62	-0.70	-2.33	16.19
Health Care Supplies	0.05	-11.90	-14.42	-8.40	-11.99
Life Sciences Tools & Services	0.82	-3.66	-1.31	12.62	2.23
Managed Health Care	0.74	-2.44	-2.47	-3.22	22.43
Pharmaceuticals	3.42	-4.07	-1.80	1.98	15.36
Industrials	**7.81**	**-2.30**	**-7.76**	**-8.16**	**9.72**
Aerospace & Defense	1.96	-3.39	-12.16	-7.55	-0.26
Agricultural & Farm Machinery	0.26	-2.37	11.27	6.87	45.62
Air Freight & Logistics	0.27	-2.32	-2.43	-3.48	14.34
Building Products	0.40	-1.85	-8.09	-12.11	7.23
Cargo Ground Transportation	0.12	-1.74	-10.27	-14.35	22.21
Construction & Engineering	0.26	0.27	-6.18	-15.18	47.57
Construction Machinery & Heavy Trucks	0.80	0.31	-5.68	-19.94	30.61
Data Processing & Outsourced Services	0.03	-5.96	-2.98	22.85	-24.61
Diversified Support Svcs	0.15	-3.46	-0.45	14.38	-3.98
Electrical Components & Equipment	0.67	-1.16	-7.47	-10.80	14.14
Environmental & Facilities Services	0.28	-2.97	-2.95	-1.47	-5.45
Heavy Electrical Equipment	0.35	-1.90	-6.76	-21.36	41.36
Human Resource & Employment Services	0.21	-6.29	-3.01	18.79	4.35
Industrial Conglomerates	0.24	-2.97	-13.00	-3.60	4.40
Industrial Machinery	0.56	-3.11	-10.67	-6.55	-0.83
Passenger Airlines	0.15	-1.00	-13.13	-19.83	2.78
Passenger Ground Transportation	0.21	-4.47	-7.01	0.56	-11.20
Railroads	0.48	-0.87	-2.41	4.04	23.70
Research & Consulting Svcs	0.11	-6.89	-5.30	8.10	-18.77
Trading Companies & Distributors	0.31	-1.27	-9.36	-7.81	21.40
Information Technology	**35.98**	**-1.06**	**-0.37**	**2.01**	**21.82**
Application Software	1.68	-8.41	-3.57	14.91	-19.32
Communications Equipment	1.28	0.13	-6.75	-3.32	38.92
Electronic Components	0.57	3.96	-2.77	-22.58	36.17
Electronic Equipment & Instruments	0.14	-0.65	-7.11	-3.48	41.95
Electronic Manufacturing Services	0.19	-1.26	-7.52	-17.42	-4.96
Internet Software & Services	0.08	-2.33	-2.35	6.05	5.72
IT Consulting & Services	0.52	-3.82	-1.04	0.14	-27.08
Semiconductor Equipment	1.50	3.21	-7.61	-35.29	67.94
Semiconductors	14.94	-0.53	-0.88	-2.95	32.35
Systems Software	6.94	-3.08	-3.15	25.75	5.40
Technology Distributors	0.03	-7.35	4.52	1.39	4.69
Technology Hardware, Storage & Peripherals	8.13	0.27	7.05	8.18	33.21
Materials	**1.69**	**-3.60**	**-4.37**	**-0.05**	**11.03**
Commodity Chemicals	0.06	-1.65	-0.66	13.96	35.47
Construction Materials	0.18	-3.63	-11.64	-16.03	-23.12
Copper	0.15	-1.86	0.99	13.23	40.20

Fertilizers & Agricultural Chemicals	0.12	-3.62	10.45	6.66	32.60
Gold	0.19	-3.29	7.57	35.05	26.33
Industrial Gases	0.40	-4.08	-5.90	-8.65	10.59
Metal & Glass Containers	0.02	-5.07	-4.54	-4.26	12.78
Paper Packaging	0.13	-4.67	-10.65	-4.42	1.15
Specialty Chemicals	0.30	-3.98	-7.92	-5.29	2.34
Steel	0.13	-3.02	-8.73	10.37	50.23
Real Estate	**1.70**	**-2.80**	**-3.09**	**-2.04**	**7.44**
Data Center REITs	0.24	-1.50	-2.36	0.10	28.20
Health Care REITs	0.34	-2.35	-0.19	2.54	23.91
Hotel & Resort REITs	0.02	0.68	-2.34	-6.62	28.59
Industrial REITs	0.18	-2.85	-3.13	-0.78	5.29
Multi-Family Residential REITs	0.00	-1.55	-3.53	-7.04	-1.54
Office REITs	0.01	-6.62	-6.15	-3.91	-5.58
Other Specialized REITs	0.09	-2.61	-6.25	-8.98	9.55
Real Estate Service	0.07	-7.15	-4.64	2.83	-30.00
Retail REITs	0.23	-3.01	-4.88	-6.56	9.31
Self-Storage REITs	0.12	-3.48	-8.62	-6.92	10.02
Single-Family Residential REITs	0.12	-3.48	-8.62	-6.92	10.02
Telecom Tower REITs	0.19	-3.48	1.52	3.21	-6.38
Timber REITs	0.02	-4.56	-13.05	-8.15	-7.18
Utilities	**1.91**	**-1.28**	**-1.89**	**-6.79**	**-1.01**
Electric Utilities	1.25	-1.31	-2.45	-6.50	-1.63
Gas Utilities	0.04	-2.55	-1.85	-4.33	-1.68
Independent Power Producers & Energy Traders	0.09	1.62	2.47	-5.88	-6.84
Water Utilities	0.04	-0.75	3.24	6.27	7.16
Multi-Utilities	0.49	-1.63	-1.55	-8.71	1.08

*Current Weight is market cap based, based on calculations by William Blair Intl. Ltd.

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DOW JONES: 52064.10
S&P 500: 7591.70
NASDAQ: 26081.70

Additional information is available upon request.

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Coverage Universe	**Percent**	**Inv. Banking Relationships ***	**Percent**
Outperform (Buy)	72	Outperform (Buy)	15
Market Perform (Hold)	28	Market Perform (Hold)	4
Underperform (Sell)	1	Underperform (Sell)	0

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