Quarterly Recap

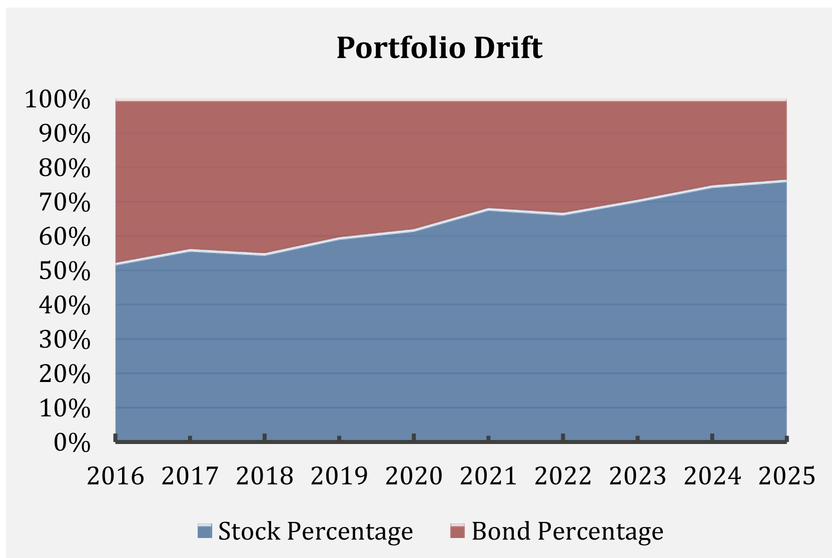
Q2 2026

Summary: Q2 started with a sharp recovery as tensions with Iran cooled. Since then, the market has hit a new high and launched the largest IPO in history. AI still dominates headlines, and some days you can easily gauge sentiment by watching whether AI infrastructure stocks are up 5% or down 5% in the early morning. One theme we have noticed gaining traction this quarter is that people are more likely to agree on AI's growth potential, but less likely to agree on what it is worth today. Market trends in both directions have moved the stock index characteristics meaningfully since we launched Belmont two years ago, and have prompted some adjustments to our model which we also discuss below.

Key Things to Know About Q2 2026

1. The Performance Trap

Since the start of 2023, the S&P 500 index has risen 95%, a three year stretch that is rare historically[1]. For anyone approaching retirement, it is particularly important to know how performance has reshaped your portfolio. A stock/bond mix originally set at 50%/50% can drift from its target if no one rebalances it (see graph below). Drift is sometimes acceptable, but for those approaching retirement, it could mean your portfolio has gotten too aggressive at the exact stage when you are about to depend on it the most.



Initial allocation 50% SPY, 50% AGG; performance data from YCharts

If you are unprepared when the market drops during the first years of retirement, selling stock at low prices to fund spending can create losses that you cannot recover from when the market rebounds[2]. On the other hand, you must also be prepared to capture great stock returns if they come early. Those early gains will be needed to weather downturns in the middle or late period of your retirement. We often talk about the "average return" you'll experience in a financial plan, but the order in which those returns come is arguably just as important.

Balancing these two concerns: the risk of losing money and the risk of missing opportunity, is difficult but not impossible. Working through the following questions is a good starting point:

1) What is your annual spending, and how much will come from guaranteed sources like Social Security, etc.?
2) What rate of return does your portfolio need to fill the "gap" in income from question 1?
3) What mix of stock & bonds provides that return with the least amount of market risk?

Most investors ask, "how much can my portfolio earn", when the better question is, "how much does my portfolio *need* to earn". In many cases, the return a retiree needs is lower than most think. The mix of stocks and bonds should come from math, not from what it happened to be last year, or from what the market has drifted it into.

2. Hyperscalers Issue New Stock to Fund Spending

For the last few quarters, we've discussed the evolving structure of how AI infrastructure is being financed, its sustainability, and whether or not it will pay off. Projections for 2026 top $800 billion in spending, which is twice that of 2025, and ten times more than 2019[3]. Data centers are projected to account for 12% of US electricity consumption by 2030[4]. According to JP Morgan, we are now rivaling the peak capital intensity of the telecom bubble.

Bond issuance (new debt) related to AI financing is expected to double this year[3], but a new aspect to the AI buildout worth mentioning this quarter is equity financing, i.e. companies selling new shares of stock. Alphabet sold $84B in new stock ($10B of which was purchased by Berkshire Hathaway)[10], Oracle also announced plans to sell stock, and Meta is allegedly considering it as well. The good news is that there is no repayment obligation like a bond, the bad news is that it dilutes ownership and investors' share in future upside.

Another new aspect this quarter is that AI investment is eating up close to 100% of hyperscaler free cash flow (think Microsoft, Amazon, Google, etc.)[3]. In other words, they think AI is a huge growth opportunity, and are betting the house to secure a position at the top. On one hand, this is exactly what you want to see as a growth investor. Tech companies grow by recognizing new opportunities, investing heavily in themselves, and constantly innovating. On the other hand, the concentration and magnitude of the investment can ruin large companies if it doesn't pay off as expected.

The same lesson applies to individuals. The highest performing portfolios are likely those concentrated in the most recent trend. But concentrated bets magnify the upswings and downswings. Fortunately, you don't have to invest like a tech company to achieve good returns. Our model, for example, has a fraction allocated to tech companies so that the portfolio performs well in good times, and not too poorly in the bad times.

"We've never had people in a more gambling mood than now"

- Warren Buffet -

Berkshire's Annual meeting May 2026

3. SpaceX Completes a Record-Setting Initial Public Offering (IPO)

SpaceX began trading in June with the stock price near $150/share. Within a few days it surpased $225/share at a $3 Trillion valuation, and briefly replaced Microsoft as the fourth most valuable company in the world[1]. According to their S-1 filing, SpaceX will be using its record setting $80B+ cash haul mostly to pay off debts and distribute to third party investors rather than to fuel growth, however media and underwriters called it a resounding success.

As part of the IPO process, SpaceX released its Q1 earnings statement and reported a quarterly loss of -$4.27B. This itself is not a red flag, as many companies go public before they are able to show a profit. What is unusual, is its valutation quickly surpasing companies earning over $60B-$100B in profit. Even ignoring profit comparisons, SpaceX trades at over 115x its revenue, roughly ten times its Mag7 counterparts[1]. This reminds us of an idea attributed to Howard Marks: *It's not what you buy, it's what you pay for it.* The

"There is simply no credible financial model that can support what is at the time of this writing, a roughly $2 trillion valuation. Our own certainly does not."

-Julie Zhu-
Moffett Nathanson analyst

growth story behind SpaceX is real…but it doesn't equal buy-at-any-price. Sometimes fundamentals are ignored; as price increases, so does risk.

The old adage "IPO stands for It's Probably Overpriced" was given some credibility recently when Truist's Keith Lerner compiled a list of thirty major IPOs in the softare and tech space, including Facebook, Twitter, Alibaba, Palantir and CoreWeave. He found the average maximum price drop within twelve months of IPO was -55%. In other words, many of the recent high profile IPOs saw their stock price fall by half at some point in the first year of trading. A similar decline would cut SpaceX stock price to roughly $75.

4. Model Rebalance

Over the last two years the global stock market has changed meaningfully in terms of sector, geography, and style (value vs. growth). In response to these changes, we are rebalancing our internal stock models to make sure we are representing the market. Below are the most notable changes we found: *(data sourced from YCharts)*

I. Sector
   - Many global benchmarks passively increased their technology exposure by anywhere from 10% in the US to 50% in emerging markets.
   - Healthcare and financials fell out of favor, resulting in benchmark exposure dropping by between 10-30% across different markets.

II. Geography
   - The US share of the global stock market remained at roughly 65%, but European stocks lost market share to Asian stocks, mainly a result of the South Korea and Taiwan semiconductor industry. South Korea makes up about 24% of the Emerging markets index, nearly doubling its share from 2024.

III. Style
   - Morningstar changed its formula for weighting value and growth characteristics, making portfolios look less growth oriented despite owning the same stocks as before the re-classification. This is an important structural change that went more under-the-radar than it should.

Two of our core tenets of investing are involved: embrace the market, and be disciplined. Embracing the market tells us to allocate globally to capture performance across all stock markets, like Taiwan's stock index doubling in the last twelve months[1]. Discipline would suggest not blindly following every move the market makes. An extreme version of this would be letting our Japan exposure grow to nearly half the model, the way Japan became almost half the global index during its 1980's boom[8]…that's far beyond our considerations today, but the same concept applies to how we look at our model after Q2.

5. Social Security

It's becoming more common to read about Social Security's pending demise, and claims that the trust fund will run out in 2032[6]. It's a story that generates fear and grabs your attention, but it's not the full story. What these articles rarely mention is when they say social security "runs out", it doesn't mean the benefit checks stop.

Social security is a pay as you go system, meaning today's workers fund today's retirees rather than each person withdrawing from a private account set aside in their own name. So, even if the trust fund reaches zero, incoming payroll taxes would still cover about 78 cents of every dollar in promised benefits[6,7]. Brookings Institute and the Urban Institute, both leading monetary and economic policy consultants in DC, have shown how combining a few of the following levers would close the remaining 22 cent gap:

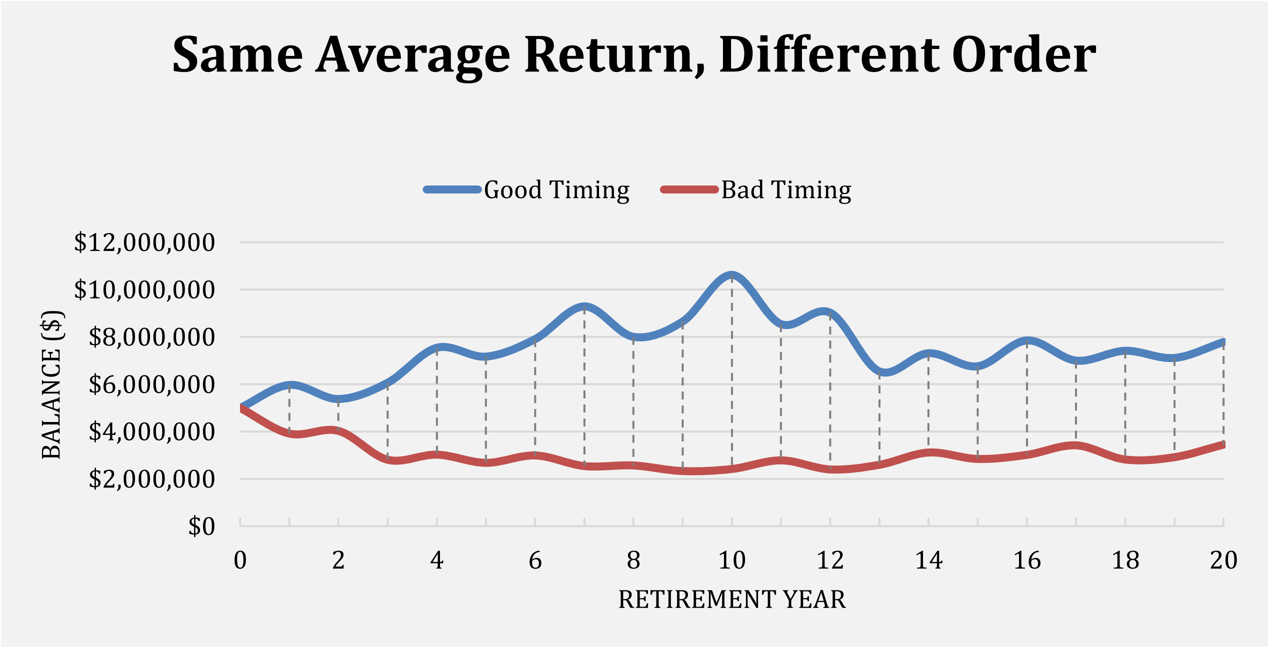
- Raise the taxable wage base - Social security tax does not currently apply to wages over $184,500.
- Raise the retirement age gradually for younger workers by starting benefits later.
- Increase existing payroll taxes slightly for all workers and employers.

On top of this, social security recipients are among the country's most reliable voters, and cutting their checks to 78 cents on the dollar would be a political disaster[9]. That doesn't guarantee a fix…but it does add pressure to keep benefits fully intact.

While we don't think it's likely that benefits will be cut, that doesn't mean we should ignore the possibility. Prudence suggests making sure your financial plan works even during the less-likely scenarios.

Chart of the Quarter: How the sequence of returns matters in retirement

Given the past few years of above average return, we wanted to highlight a how the timing of returns matter when you start taking withdrawals. Two portfolios earning the same average return of 5% over 20 years, can end with dramatically different values depending on the order of the same twenty returns. If bad returns are bunched in the first half of reitrement, or what we call "bad timing" below, there is a greater risk of running out of money. Preparing for this scenario with a financial plan and a withdrawal strategy can help mitigate this risk.



Assumptions: withdrawals = $200k annual; Geometric mean: 5%, Stdv: 15%

We can make reasonable assumptions of average return over a long period, but predicting if the next few years will be good is much more difficult. Even if the good timing scenario is what happens, it doesn't mean it was more likely to happen, or that it was smart to be agressively invested. In other words, plan for bad timing and hope for good, that way you can succeed in either scenario.

Sources

[1]YCharts, [2]Wade Pfau, [3]JPMorgan, [4]DOE, [6]SSA, [7]AARP, [8]Reuters, [9]US Census Bureau, [10]Forbes

Disclosures