AMI INVESTMENT MANAGEMENT
Registered Investment Advisor

Quarterly Investment Commentary

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"To Boldly Go Where No Man Has Gone Before"

While issuing shares of stock in an initial public offering (IPO) is often viewed as a modern way for companies to raise capital, the first widely recognized IPO actually took place centuries ago. In 1602, the Dutch East India Company sold shares to the public, raising capital to build out its merchant fleets, finance multi-year voyages, establish trading posts, and ultimately control commerce between Europe and Asia. Investors back then weren't simply buying shares of a company, they were investing in a vision of profiting from the rise of global trade—all while never stepping foot on a ship.

Fast forward more than 400 years and investors were once again presented with an opportunity to finance an ambitious vision. SpaceX made its public market debut during the second quarter with one of the largest IPOs in history, raising capital to build out its next phase of commercial space exploration. Just as the Dutch East India Company expanded trade across the oceans, SpaceX aims to expand humanity's reach beyond Earth—or, as William Shatner famously said in *Star Trek*, "to boldly go where no man has gone before."

Perhaps the most interesting part of the public offering wasn't SpaceX itself, but rather the overall excitement surrounding the event. The enthusiastic response to the IPO reflects the eagerness of investors to back ambitious, long-term projects—ones that carry numerous risks but also the potential for profitable outcomes. While it's natural to question whether an ambitious business or technology can deliver on its lofty promises—history shows that periods of innovation often accompany heightened investor optimism and willingness to bet on bold projects. Although many of these projects ultimately reshape industries, enthusiasm can at times outpace the underlying business economics. For long-term investors, the challenge is not determining whether a technology will change the future, but whether the price being paid is already anticipating this future success—which is both important and difficult to gauge. It's a delicate balancing act of maintaining a level of optimism while also being disciplined about price.

CONTINUED ON PAGE 2

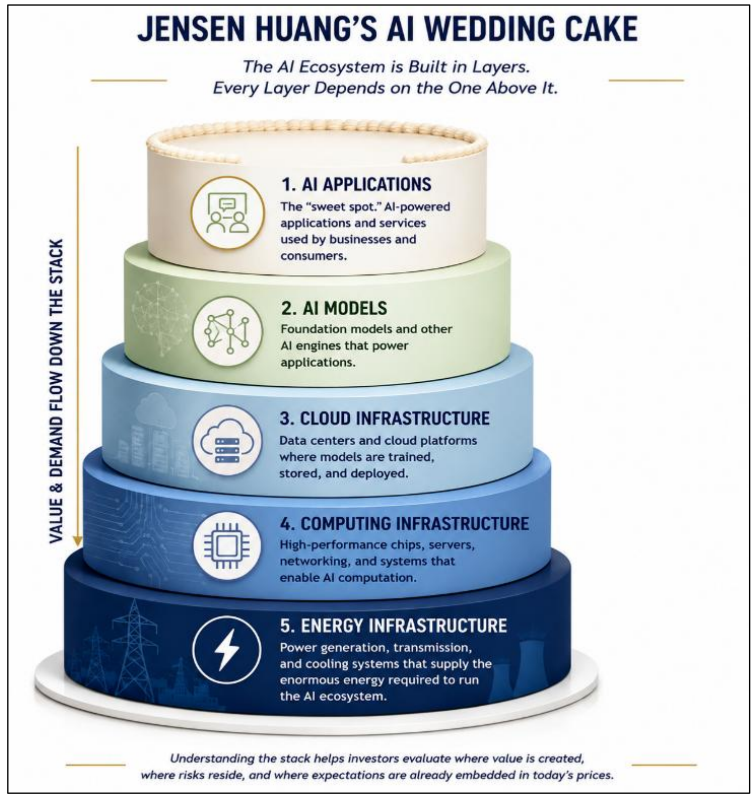
The current investor optimism was on display throughout most of the second quarter, with U.S. stocks advancing roughly 15% and international stocks gaining over 14% over the three-month period[1]. While participation in the rally has broadened beyond the “Magnificent Seven” stocks[2], leadership remained concentrated around the artificial intelligence (AI) theme—particularly semiconductor-related companies, which nearly doubled in value during the quarter[3]. The second quarter also saw retail investors increase their use of borrowing and directed record amounts into leveraged ETFs, which magnify daily gains and losses by 2-3X—further illustrating the growing appetite for risk.

However, not all areas of technology or AI have attracted the same level of investor enthusiasm. Software companies and the large data center or cloud providers—also called "hyperscalers"—have generally underperformed this year as investors have begun to focus more on the enormous spending on AI infrastructure and fears of potential disruption risk from the technology.

The AI Wedding Cake

To help explain how the AI network operates, and why certain segments have benefited more than others—Nvidia’s founder and CEO, Jensen Huang, has compared the AI ecosystem to a wedding cake, with each layer representing a distinct segment of the value chain. At the top sits the "sweet spot"—the AI applications that businesses and consumers ultimately purchase and use. After that, each successive layer provides the infrastructure needed to support the one above it.

While Jensen's wedding cake analogy is a simplified framework for the AI ecosystem, it also highlights an important investment principle.



Each layer ultimately depends on the success and spending of the one above it. The further a company resides from the consumer, the more layers of uncertainty exist above it. If businesses and consumers embrace AI applications, demand flows down through the entire stack. If AI adoption falls short or there is a pause in spending from the top layers, the ripple effects become more impactful for those companies further down the stack.

Many companies represented in the lower layers of the AI Wedding Cake have delivered remarkable returns this year. At this point, those gains have largely been supported by a surge in earnings, which is driven by the massive spending from the layers above. Those earnings are very real, but they are also highly dependent on the extraordinary level of capital spending currently taking place throughout the AI ecosystem. The key question for investors is whether those earnings represent a permanently higher level of profitability or are benefiting from an unusually strong period of capital investment that will eventually moderate.

CONTINUED ON PAGE 3

[1] The S&P 500 Index is used as a proxy for U.S. stock returns while the ACWI ex-USA is used for International returns from 3/31/26-6/30/26.
[2] Magnificent Seven is the term used for the seven largest technology-related companies (Alphabet/Google, Amazon, Apple, Meta/Facebook, Microsoft, Tesla, Nvidia)
[3] Returns are measured using the iShares Semiconductor ETF (SOXX)

Looking Ahead

The current bull market is approaching its fourth year, and despite elevated investor optimism—which argues for caution—the fundamental backdrop remains reasonably supportive. Corporate earnings continue to grow, unemployment remains low, and interest rates, while higher than many anticipated at the beginning of the year, are not overly restrictive. An easing of the conflict with Iran could also help support lower inflation and stabilize interest rates over the foreseeable future.

What will continue to hang over the markets are the unknowns surrounding the transition from AI infrastructure investment to widespread commercial adoption. If businesses and consumers broadly embrace AI applications, today's investment cycle may continue and justify elevated valuations. If adoption proves slower than expected, earnings growth for many companies further down the AI value chain could normalize even if the technology eventually fulfills its promises.

Periods of rapid advancement have always required extraordinary amounts of capital—whether it’s financing merchant fleets in the 1600s, railroads in the 1800s, the internet in the 1990s, or AI and space exploration today. The market’s role has remained fairly consistent during these cycles, and over time will distinguish between the winners and the losers. Our role as a fiduciary is not to avoid, or go “all-in” on this technology, but to participate thoughtfully—balancing optimism with the risks.

The future rarely unfolds exactly as investors expect. Maintaining optimism about the future while remaining disciplined on valuation, diversification, and portfolio rebalancing has served investors well through many cycles—and we believe it remains the appropriate approach today.

AMI Updates

As we officially welcome another summer season and join the celebration of our nation's 250th birthday, we'd like to share a few firm milestones and updates.

- Congratulations to Shelby Holsinger on her 10-year work anniversary, and to Victoria Kugler and Ben Shively on their five years with AMI. We appreciate their dedication to our clients and the many contributions they've made to AMI over the years.
- We're also pleased to welcome Isla Kugler, our summer intern. Isla has been assisting with a variety of projects while gaining firsthand experience to the investment management profession. We're grateful to have her with us this summer.

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