The Optimistic Investor®

Focus on What Really Matters

What Are We Missing?

As we enter the summer months, a quick scan of the headlines might give you a strong sense of déjà vu. Rising prices. Dejected consumers. Political gridlock. Global conflict. In many ways, it feels like we've been living the same narrative since the end of the pandemic.

Yet, against that familiar backdrop, broad equity markets just completed one of their strongest two-month stretches of all time. After struggling in March as the war with Iran broke out, the S&P 500 rose more than 16% in April and May.[1]

Investors can be forgiven for feeling confused. And it's no surprise that we're seeing clients express that confusion more often in recent weeks. Every few days, someone will ask us: with so many negative things going on right now, I've been surprised to see the stock market just keep on rising—am I missing something?

That's a fair question, and one with much more nuance than it may seem. What looks like a simple sanity check is actually something more important—a reminder of the limits of our perspective as investors. And it gives us an opportunity to explore how markets work and why putting our trust in them is the most reliable path to achieving our long-term goals.

A Little Humility Goes a Long Way

Let's start with a quick refresher on how markets set prices. We often talk about "the stock market" like it's a living thing with a will of its own. That can sometimes help streamline discussions, but it's important to remember that a market is just a forum where people looking to buy and sell shares of public companies can execute those transactions.

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[1] *Jack Pitcher, "The AI Trade Hits Overdrive, Powering Stocks to Historic Gains," Wall Street Journal, May 31, 2026, https://www.wsj.com/finance/stocks/ai-stocks-trade-e7b19a9f?mod=itp_wsj.*

Every day, millions of people trade billions of shares in equity markets around the world, which is what makes markets so powerful. Each individual comes to the marketplace with their own information and view on the value of what they're trying to buy or sell. The market then distills all of those viewpoints into a price that roughly balances buyers and sellers at any given moment. In that sense, the market price represents the collective knowledge of everyone looking to transact and generally captures all available information.

This is why humility is such a big part of successful investing. It's easy for any of us to read or experience something that stimulates an investment idea we perceive as unique. But the reality is that at least some of the millions of other people transacting in markets have already acted on that information and the idea has already been baked into the market price.

> Everybody may know something, but no individual is smarter than the market.
>
> Jack Bogle

That concept of "market efficiency" explains why it's so difficult for even professional investors to "beat" the market. A recent report from Morningstar highlighted that only 10% of U.S. large cap equity funds survived and beat the average index fund in the 10-year period that ended December 31, 2025.[2] As the founder of Vanguard, Jack Bogle, once said, "everybody may know something, but no individual is smarter than the market."[3]

That's not to say that markets are perfect. There are certainly historical examples of market sentiment disconnecting from underlying fundamentals (think dot.com bubble) or a lack of transparency distorting price setting (think Enron). But the point is that markets can do something that even the brightest and most capable human cannot—distill *all* available information into a price that's the best estimate of a company's value at any given point in time. With that in mind, let's turn back to our initial client inquiry: am I missing something?

Follow the Money (Earnings)

There's an old Wall Street saying that markets love to climb a "wall of worry." The phrase can sound cliché, but it captures an important truth: markets don't require a "perfect" environment to move higher; growth often occurs even when investors are anxious or pessimistic. That's helpful to recognize as a starting point.

It's also important to understand why broad markets have gone up over time. We know that premium returns have historically accrued to the owners of great companies, but why? The answer goes all the way back to our second edition (Investing in Innovation). Public companies are run by professional managers who are constantly striving to improve their businesses. Over time, the innovations they produce make many of those efforts successful. And, as innovation drives improvement, improvement increases profits, and larger profits result in higher values for the businesses earning them.

It's that link between profits and values that we want to focus on here, because it helps explain why broad markets have continued to rise in the face of the negatives we're all so aware of. In the short run, there are countless factors that impact share prices and broad market levels—geopolitical conflicts, natural disasters, and investor sentiment all make that list. In the long run, however, the primary driver of equity returns is the increase in collective corporate earnings that flows from innovation and the compounding of knowledge. As time passes, the noise fades—and what remains are great companies steadily finding ways to earn more for their owners.

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[2] *"Active/Passive Barometer – Year-End 2025," Morningstar, Feb. 18, 2026, https://www.morningstar.com/business/insights/research/active-passive-barometer.*

[3] *"Debriefing Jack Bogle," Forbes, Jan. 9, 2009, https://www.forbes.com/2009/01/09/intelligent-investing-bogle-debrief-Jan9.html.*

From this longer-term perspective, markets (or more precisely market participants) care less about today's headlines than they do about how those headlines will affect corporate profits. Or, said another way, the existence of a war in Iran or higher grocery prices or a disagreement in Congress don't necessarily matter in and of themselves; they matter to the extent they're expected to impact the future earnings of public companies.

If you look at the last two months from this viewpoint, it makes sense that broad equity levels have risen significantly. Financial reporting for the first quarter of 2026 is nearly complete, and the collective earnings of the S&P 500 increased 28.6% from the first quarter last year.[4] As you would probably expect, that surge in profits has boosted expectations for future profits as well. And that's a big part of why equity markets have fared well in the face of ongoing inflation and geopolitical strife.

What's less obvious, but also noteworthy, is that earnings growth has actually made the S&P 500 cheaper than it was at the end of 2025. And that's despite strong returns so far this year. Through the end of May, the S&P 500 is up 11.27% for 2026, but its valuation has declined from 22.0x to 21.2x forward earnings (*i.e.*, projected earnings over the next 12 months).[5] In other words, share prices have risen—but profits have risen even more.

There are plenty of negatives to fill up the media headlines, but the great companies of the world are doing *very* well.

So, are we missing something? Perhaps. There are always unknowns and the possibility that events won't unfold the way markets currently expect. But that's always true and precisely the point. Successful investing requires the humility to recognize the limits of our own knowledge and the discipline to trust a process that has historically rewarded patient owners of great businesses.

The future will bring new challenges and uncertainties. It always does. But we'll be here to help you navigate those hurdles and keep your plan on track. And as long as great companies continue to innovate—and innovation continues to drive earnings growth—long-term investors like you will be well positioned to share in the wealth those businesses create.

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[4] *Based on actual results from 97% of S&P 500 companies. See "Earnings Insight," FactSet, May 29, 2026, https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_052926A.pdf.*

[5] *JP Morgan Weekly Market Recap for June 1, 2026 (current NTM multiple); JP Morgan Guide to the Capital Markets for December 31, 2025 (12/31/25 NTM multiple).*

Innovation and Good News

1. A recent study showed that a small radioactive brain implant nearly doubled survival rates and largely eliminated tumor regrowth in brain cancer patients. The implant, which is roughly the size of a postage stamp, is cut to line the cavity where a tumor has been removed, and it ultimately dissolves into the brain because it's made mostly of collagen. It allows radiation to occur immediately after tumor removal (rather than waiting for surgical site healing to occur), which seems to result in much better outcomes. A remarkable example of innovation.

2. In another major step forward in the fight against cancer, a new drug has shown great promise in treating pancreatic cancer. Data from ongoing clinical trials suggests it too can double survival times (relative to chemotherapy alone) and prevent further tumor growth for periods exceeding eight months. As a result, many oncologists consider the drug a "revolutionary" step forward in treating the disease.

3. A startup called Quaise Energy is building the first power plant that will use "superhot" geothermal energy. The company's innovation is the use of millimeter wave energy (essentially microwaves) to vaporize rock instead of drilling through it. In theory, this will allow it to reach much greater depths where temperatures are much hotter and power output is much greater.

4. Also in energy-related news, a British startup that began at Oxford University has developed a coating for solar cells that increases their power generation by 20%. At a time when traditional energy prices are rising, innovations like this are especially valuable.

5. The UAE is expediting the development of a second pipeline to bypass the Strait of Hormuz. The new pipeline should become operational next year and will allow the UAE to export an additional 1.8 million barrels of oil per day. This is a great example of the kind of adaptation that drives progress over time.

6. And speaking of progress, the productivity of American workers has been rising at the fastest rate in decades. Output has been increasing at 2% per year for the past five years (roughly double the rate from the 2010s), and those gains do not yet reflect the benefits that many economists expect from artificial intelligence.

Team Kooman Corner

A lot of exciting things are happening in the lives of our team members and their families.

Congratulations to Amy Delauter's daughter, Madison, on her graduation from Bishop Carroll Catholic High School! Madison will be very busy this summer. Her FC814 Energy soccer team has advanced to the US Youth Soccer National Championships, which will take place in Tennessee this July. And this fall Madison will continue her soccer journey at Seton Hill University, where she plans to major in Exercise Science and enroll in the Doctor of Physical Therapy program. We're all proud of Madison's accomplishments and are sure more great things lie ahead.

Jackson Boyer and his wife, Maggie, are expecting twins this summer! The gender of the twins was the subject of much discussion (and an office pool), and we recently learned Jackson and Maggie will have a boy and a girl. We'll be sure to let you know when the twins arrive and we promise to include pictures.

Kyle Moerschbacher is now engaged! We're excited to celebrate with Kyle and his fiancée, Vy, as they begin their journey together.

KOOMAN & ASSOCIATES

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- If there are any changes in your personal/financial situation or investment objectives, so we can review, evaluate and/or revise our previous recommendations as needed; or
- If you would like to impose, add or modify any reasonable restrictions on our investment advisory services.

Unless and until you notify us, in writing, to the contrary, we will continue to provide services as we do currently.

Please also remember to advise us if you have not been receiving account statements (at least quarterly) from your account custodian.