

QUARTERLY LETTERS

Middle Coast Investing Q2 2026 Letter: Which Basket Is Up?

July 2, 2026

Q2 was the S&P 500's best quarter since Q2 2020, the immediate post-pandemic bounce. And yet, just beneath the surface, not much changed with the stock market. If we compare what we wrote in Q1 to this Q2 portfolio review, we find the same general theme: the market trading as much on baskets and trends as on the fundamentals of companies that we or other people own. Trends and fundamentals are not totally disconnected from one another. But when they conflict in 2026, the trends seem to win out.

This is strange, because a lot happened in Q2. The U.S. war with Iran ended, at least in theory. SpaceX launched the biggest and most highly valued initial public offering (IPO) in history. There are several more huge companies that either listed or are going to list in the U.S. market, always a sign of bullish sentiment. And we even got a rebalancing of market favorites over this quarter: mega-cap tech companies, ala the 'Magnificent Seven', did poorly. Semiconductor companies and other data center buildout related stocks soared. And boring value stocks, like many of the ones we own, recovered a bit in the last two weeks of the quarter.

Still, they say that the trend is your friend in investing, and the trend seems to have market participants playing new hunches, and fast. I am not nimble enough to jump on short-term trends as an investor. But I still find it useful to at least try to figure out the baskets of stocks tied to each trend. Through that we can understand what people around us are thinking as stocks move around, and maybe anticipate how they will come around to our way of thinking. It allows us to limit the feeling that, on a bad day, the market is explicitly ganging up on us and beating down all of our stocks. Or its cousin, the feeling on good days that we are the smartest investors around.

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Here are a few baskets, and which stocks of ours are included. Some of them qualify for multiple baskets, as we'll see.

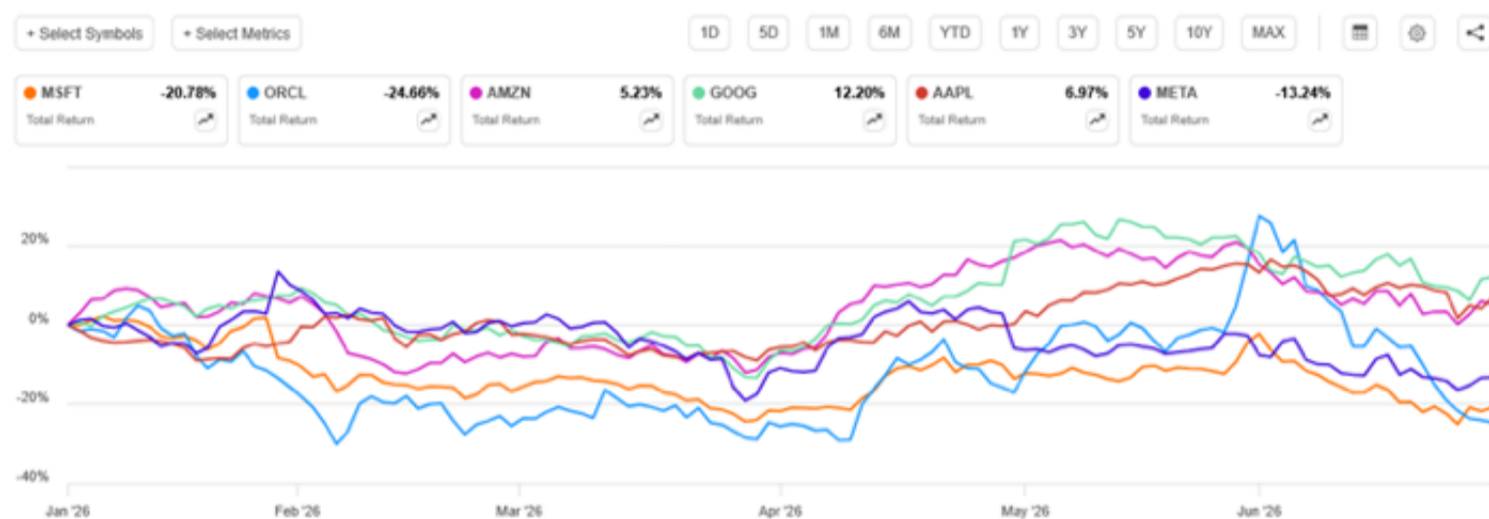


A Basket, symbolic of the market's trending in our Q2 portfolio review

A Basket of Baskets

Hyperscalers

These are, for now, the top of the line in the AI value chain: **Alphabet (GOOG)**, **Microsoft (MSFT)**, **Amazon (AMZN)**, Meta Platforms (META), plus OpenAI and Anthropic once they become public, and then a few companies on the fringes (Oracle (ORCL), SpaceX (SPCX) maybe, Alibaba (BABA), Tencent (TCEHY). They're the ones splurging to build out data centers to power their cloud and AI services. Their free cash flow levels are plummeting even as sales and earnings grow. They're among the first who will have to prove AI is actually profitable, and it appears the market is starting to doubt them.



I included **Apple (AAPL)** in the chart, but I would not include it in this bucket. Its capex is comparably tiny. For all the talk of it building out Siri to lead its AI, Apple seems content to know that whichever AI models we end up using, we'll stick to our iPhones to use them. We'll see if that changes when new CEO John Ternus takes over in September.

Relevant stocks in our portfolios: AMZN, GOOG, MSFT.

Data center / AI related basket

All that money the hyperscalers are spending? These are the beneficiaries. You could probably split this into the semiconductor basket and then everybody else – utilities, construction companies, power infrastructure suppliers. SOXX, a semiconductor ETF, rose 76% from March 31, 2025 to March 31, 2026, and another 95% from then until June 30th. There's an obvious link – as the capital expenditures appears to be more durable, these businesses seem more attractive. At the same time, they are most susceptible to the music stopping and the buildouts slowing.

Relevant portfolio stocks: **Everus Construction Group (ECG)**, **Broadcom (AVGO)**, **TD Synnex (SNX)**, **Ingram Micro (INGM)**, **Taiwan Semiconductor (TSM)**, **CDW Corp (CDW)**, **Axcelis (ACLS)**, **Nvidia (NVDA)**. (Note: the NVDA position is one of our smallest, and only owned in one client portfolio).

Perceived (and real?) AI Victims

As much as it seems like it, not everything is going up in today's market. Or not at the same time, at least. When the previous, data center basket is soaring, the companies most likely to be damaged or replaced by artificial intelligence – in the market's collective view – tend to drop.

We talked about software companies as a popular target for AI consequences. While the leading software companies have fended off the apocalypse for another quarter, there are plenty of other scrutinized industries. Any type of middleman business (like a marketplace), suppliers of possibly generic data, businesses whose edge is 'their people', and then at a second tier, businesses who provide services or supplies to these businesses (commercial real estate related businesses get hit from two angles, for example).

One funny footnote here is that Microsoft has drifted from hyperscaler AI winner to this basket due to its huge software business. It may not be a coincidence that we bought some shares in Microsoft to add big tech exposure for a couple clients this quarter.

Stocks in our portfolio affected – **HNI Corp (HNI)**, **Booking Holdings (BKNG)**, **TripAdvisor (TRIP)**, **Lyft (LYFT)**, **Charles Schwab (SCHW)**, **Gitlab (GTLB)**, **S&P Global (SPGI)**, **Duolingo (DUOL)**, CDW, MSFT

Consumer spending

These are stocks exposed to the broader economic trends, and beliefs about whether or not the average person has more or less money to spend. Inflation fears – most directly related to the war with Iran – have hit these stocks relatively harder, and as the war has tapered off, they have recovered.

Consumer spending is a little more complex than that at the individual company level. **Lululemon (LULU)** have problems far beyond high gas prices. But as a group, these stocks seem to trade based on sentimental currents more than actual results.

This isn't directly connected to the AI baskets, as the tie between AI spending, job cuts, and disposable income is yet to be proven.

Stocks in our portfolio affected – **Capital One Financial (COF)**, **Crown Holdings (CCK)**, **LYFT**, **Sonoco Products (SON)**, **Deckers Outdoor (DECK)**, **J.M. Smucker (SJM)**, **Trimas (TRS)**, **Pepsi (PEP)**, LULU.

Travel Stocks

Travel, which I talk about a lot, is a sub basket of Consumer Spending. In today's market, it gets a double dose of geopolitical concerns – war is bad for travel – and economic

concerns – war that raises the price of gas makes travel more expensive. And yet, investors underestimate the demand for travel at their portfolio's peril.

Stocks in our portfolio affected – **Grupo Aeroportuario Centro Norte (OMAB)**, BKNG, TRIP, LYFT, **Grupo Aeroportuario del Pacifico (PAC)**.

Aerospace Stocks

Aerospace stocks and travel stocks should trade more similarly. Global demand for air travel is the common driving factor. There's more nuance there – aerospace has some exposure to defense spending, not all travel is air travel – but not that much more.

In sort of an echo of the hyperscaler vs. data center buildout baskets, aerospace gets more credit. I presume this is the backlog in demand will take years to resolve. Temporary hiccups in travel spending due to the latest geopolitical issue doesn't deter that longer-term demand. The market is more willing to count on planes being built than it is that people will be flying in those planes when the time comes.

Stocks in our portfolio affected – **Astronics (ATRO/ATROB)**, **Aercap (AER)**, **Standard Aero (SARO)**.

Financial Stocks

Underlying all of this, financials are the 'well, how are things going?' sector. If the economy is working, we spend more, pay for more, invest more, put more on our credit card, and so on. If the market is worried that won't persist, the amount of debt in financials makes its stocks, in theory, riskier.

There are also technology disruptions at play here. Stablecoin, crypto, AI, deregulation all might affect these companies. Or at least, they might scare the market, leading to sell-offs.

Stocks in our portfolio affected – **Progressive Corporation (PGR)**, COF, **F&G Annuities & Life (FG)**, **Corpay (CPAY)**, SCHW, **Berkshire Hathaway (BRKB)**, **Pageseguro (PAGS)**, TFS **Financial (TFSL)**, **S&P Global (SPGI)**, **JP Morgan (JPM)**, **Travelers Cos (TRV)**.

An Entire Basket Case

Why do this analysis? Is this just a pile of cope? An appeal to the market gods to tilt our way? Am I just paranoid?

There's probably some of that, deep down. The market trading on trends while we focus on fundamentals makes us sound both righteous and not yet wrong. But, an investor who plans to survive on cope is better off becoming a passive index investor.

There are two better reasons for thinking about baskets. One is that big moves seem to happen much more often, both for stocks and for sectors. If we can figure out patterns behind this, we can at least know what is supposedly going on. This is the first step towards learning whether there is real news in the market that we should take into account.

The other is that it helps give context for when things don't happen. Corpay, for example, had a very good quarter. It beat analyst estimates for the prior quarter, its guidance for the current quarter was better than expected, and it raised its guidance for the full year. A triple beat. Not huge in magnitude, but real.

Corpay's stock jumped 12.5% after earnings. But, it will finish the quarter giving up about half of those gains, and only up about 15% for the quarter as a whole, just in line with the market. It's possible I am missing something about Corpay's core business that makes this muted stock performance reasonable. It's also possible that Corpay is just out of the winner's basket for the time being.

TripAdvisor is another example. The company announced it was selling The Fork, its restaurant booking platform, for \$700M to American Express. While some hoped for a higher price, it struck me as a fair price, and about what the company could expect. \$700M, mostly tax free, amounts to half of TripAdvisor's market cap at the time. And yet, the stock ended up only 1.2% the day of the news – also the day of Iran-U.S. ceasefire news. It crawled up another 9% before the end of the quarter, but it does not seem to me to be trading in line with its own news as much as with the bigger sector news.

I do best focusing on what's happening at individual companies. But, knowing what's happening at a sector or basket level is valuable. It helps us know when to readjust portfolios, whether because we're riding a lucky tailwind or totally running against the crowd. It makes sense out of otherwise random stock moves. And, most importantly, it allows us to cope with what's happening in a fascinating but not always easy to manage market, without losing our heads. Which is the key to not dropping our baskets over the years.

Q2 2026 Performance

	Q2 2026	YTD 2026	2025	2024	2023	2022	2021
U.S. portfolios	12.5%	7.7%	16.9%	15.1%	47.0%	-13.4%	16.8%
S&P 500	14.9%	9.6%	16.4%	23.3%	24.2%	-19.4%	26.9%
Core							

U.S. portfolios	11.8%	7.5%	20.4%	11.2%	47.0%	-13.4%	16.8%
Russell 2000	21.2%	21.9%	11.3%	10.0%	15.1%	-21.6%	13.7%
S&P 600	19.2%	22.9%	4.2%	6.8%	13.9%	-17.4%	25.3%
Nasdaq	21.4%	12.8%	20.4%	28.6%	43.4%	-33.1%	21.4%
European Portfolios	6.7%	3.6%	23.9%	10.9%	13.4%	-15.3%	4.5%
Euro Stoxx 50	13.6%	9.3%	18.3%	8.3%	20%	-11.7%	21.0%
DAX	10.2%	2.1%	23.0%	18.8%	19.2%	-12.3%	15.8%

Disclaimers and notes:

- See [performance disclosures](#) for more details on performance.
- These results are net of fees and include reinvested dividends or the cash received.
- Core portfolios exclude a portfolio with outsized Amazon and Apple positions.
- All calculations are done by me and subject to error.
- Portfolio performance represents the collective results of Middle Coast Investing equity portfolios. We manage accounts separately, and individual accounts may have slightly different portfolio makeups or objectives.
- Portfolio performance is only for equity-focused portfolios managed by Daniel Shvartsman. ETF portfolios managed by Jonathan Liss are tracked independently.

Portfolio stats

- Our portfolio level price to earnings for trailing 12 months (TTM) was 18.1. This compares to 18.3 P/E at end of Q1. (Note: these calculations are not to be relied upon and are based on best efforts.)
- Cash and equivalents (the ETFs MINT, JPST, ICSH SGOV, and BIL, the money market fund SNOXX, and short-term U.S. T-bills) was 13.7% of our quarter end portfolio, with an estimated average yield of 2.1%. This compares to 15.5% of our portfolio and 2.1% yield at the end of Q1. We also had a bond/fixed income ETF portfolio that accounts for 2% of the total portfolio size compared to 2.9% at end of Q1, and a hedge position of 1.1% of the portfolio as compared to 1.4% at end of Q1.
- We sold 11% more equity positions than we bought in Q2.

Our top 15 equity positions as of July 1, 2026:

- Amazon.com (AMZN) – 10.4% of our portfolio
- Apple (AAPL) – 6.1%
- Astronics (ATRO) – 5.9% *
- Grupo Aeroportuario del Centro Norte (OMAB) – 5%
- Progressive Corporation – 4.2%
- Capital One Financial (COF) – 4%
- HNI Corporation (HNI) – 3.15%
- Everus Construction Group (ECG) – 3%
- AerCap (AER) – 3%
- Crown Holdings (CCK) – 2.9%
- Booking Holdings (BKNG) – 2.8%
- F&G Annuities & Life (FG) – 2.5%
- Corpay (CPAY) – 2.3%
- TripAdvisor (TRIP) – 2.25%
- Broadcom (AVGO) – 2.2%

*Astronics did a 6 for 5 stock split that entailed receiving ATROB shares. I'm including these in with ATRO shares for performance purposes as well as position sizing details.

Q2 Winners / Losers

Winners	% Gain*	Losers	% Loss*
Astronics	2%	Lululemon	-0.2%
Amazon	1.4%	Gogo (GOGO)	-0.1%
Everus Construction Group	0.9%	PagSeguro	-0.1%
TD Synnex	0.8%	ProShares Short Russell 2000 (RWM)	-0.1%
Apple	0.8%	Pepsi	-0.1%

* % gain or loss in this table is of our total U.S. portfolio value (including non-core). Lululemon dropped 24.6%, causing a 0.2% decrease in total portfolio value, for example

New buys

CDW Corporation

CDW is a tech distributor. Instead of buying from Apple, Amazon, or HP directly, you

might work through CDW. That gives you IP support along with the right array of hardware and software.

TD Synnex and Ingram Micro usually trade for lower price-to-earnings ratios than CDW. They are more focused on the raw distribution of computers, hardware, and actual gear than CDW. That has changed in 2026, though, as TD Synnex has soared, in large part due to its Hyve business unit. Hyve helps companies set up data center infrastructure, in the chain with SuperMicroComputer (SMCI), Dell (DELL), and similar beneficiaries of the AI boom.

CDW distributes more software, which is out of favor, and is increasingly viewed as a commodity. I think that's overshoot the mark. The stock sold off 27% after the company more or less reported in-line earnings. Which perhaps confirmed that it is not as hot as SNX and others. But we bought at less than 10x earnings. Since then, the stock has popped back up 35% or so, and our mistake was making this only a small position.

Ingram Micro, by the way, lacks a unit like Hyve, but SNX's distribution business did really well in the last quarter too. Ingram has the quirk of its private equity backer still owning too much of the company and looking to distribute shares, but the company is performing well.

S&P Global (SPGI) and Mobility Global (MBGL)

S&P Global is the company behind the S&P 500 and the Dow Jones Industrial Indices. It is also a major ratings agency, responsible for rating the debt of corporations around the world. Together, those are two sterling businesses.

S&P Global also owns three data businesses, and it's here that the market has started doubting the company, leading it to trading for a 'normal' multiple at the price we bought. One of those data businesses is centered on energy, and is based on proprietary data and viewed as fairly safe from AI.

Another is based on cars, including primarily CarFax. S&P Global is spinning this off as Mobility Global, and depending on how this trades after its July 1st spin-off, we may buy more of those shares.

The last is market intelligence, which is viewed as the Achilles' heel.

I'm cautious of continuing to bet against AI with the AI losers basket trade. I have a fondness if not a weakness for that basket. S&P's good businesses are so good, though, and the threat from AI is at this stage still theoretical, and so I think it's worth investing in. The one unfortunate bit about S&P Global is that its good businesses do go up and down with the market, by definition, so it won't be counter-cyclical. For this to work, S&P Global will need to continue outgrowing the market to compound earnings growth, while also earning a bigger multiple again.

Sells

Air Lease was officially bought out, exiting our portfolio with a small merger arbitrage gain. I sold our shares of Hurco (HURC), which was a low-conviction position (alas, it jumped a decent bit after we sold). I sold First Citizens (FCNCA), which ultimately felt less attractive as a risk-reward compared to our other financial stocks.

We sold Meta Platforms from one client's portfolio where they have better tech exposure.

And we closed our Apogee Enterprises position. Apogee was in a bucket for us with Lululemon, Gogo, and **Portillo's (PTLO)** as zombie positions. We've mostly kept them to claim tax losses or as lottery stubs, but our theses have been proven wrong in each of those cases.

We trimmed positions and/or booked gains in Taiwan Semiconductor, TD Synnex, Alphabet, Astronics, and Broadcom.

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Disclosure: I am long all bolded companies mentioned in this letter. I may change positions at any time. I have no immediate plans to make major changes. This is not investment advice. Investing is risky. Any investing decisions are your own responsibility and should be taken after speaking with an advisor or at your own risk. This is not a solicitation to buy or sell anything. Past performance is of course no promise of future results.

Disclaimer: *I calculate performance and all portfolio figures manually, so it may be prone to error. The accounts I manage may deposit or withdraw money over the course of a quarter. I account for that in my calculations by adding/subtracting that money to/from the starting amount at the beginning of the period. This means withdrawals intensify performance and deposits dampen it. For half-year, 9-month, and full-year performance, I multiply quarterly performance by one another to control for deposits/withdrawals.*

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