

LOOK AHEAD

Q3 2026

Everyone Feels Worse. Everything Keeps Working.



Phillips &
Company

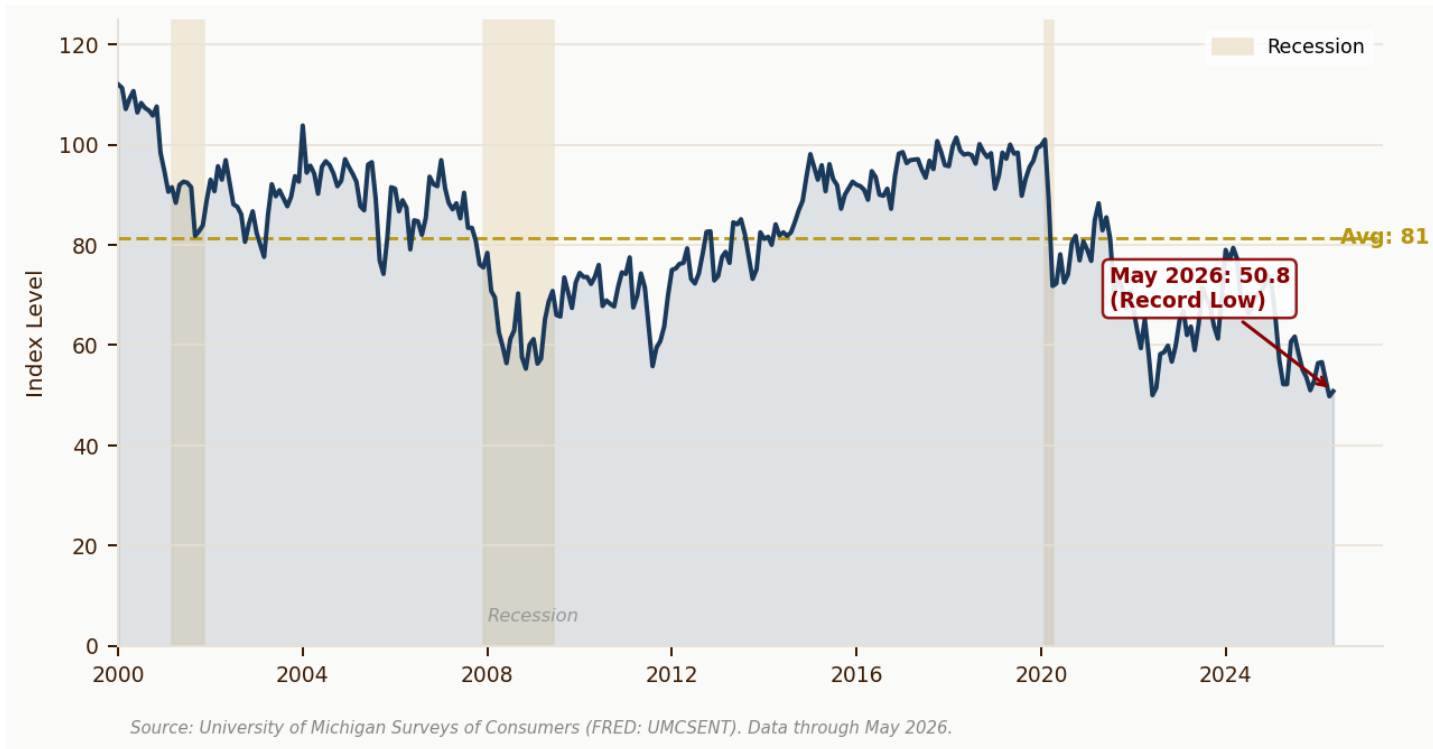
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The Confidence Recession

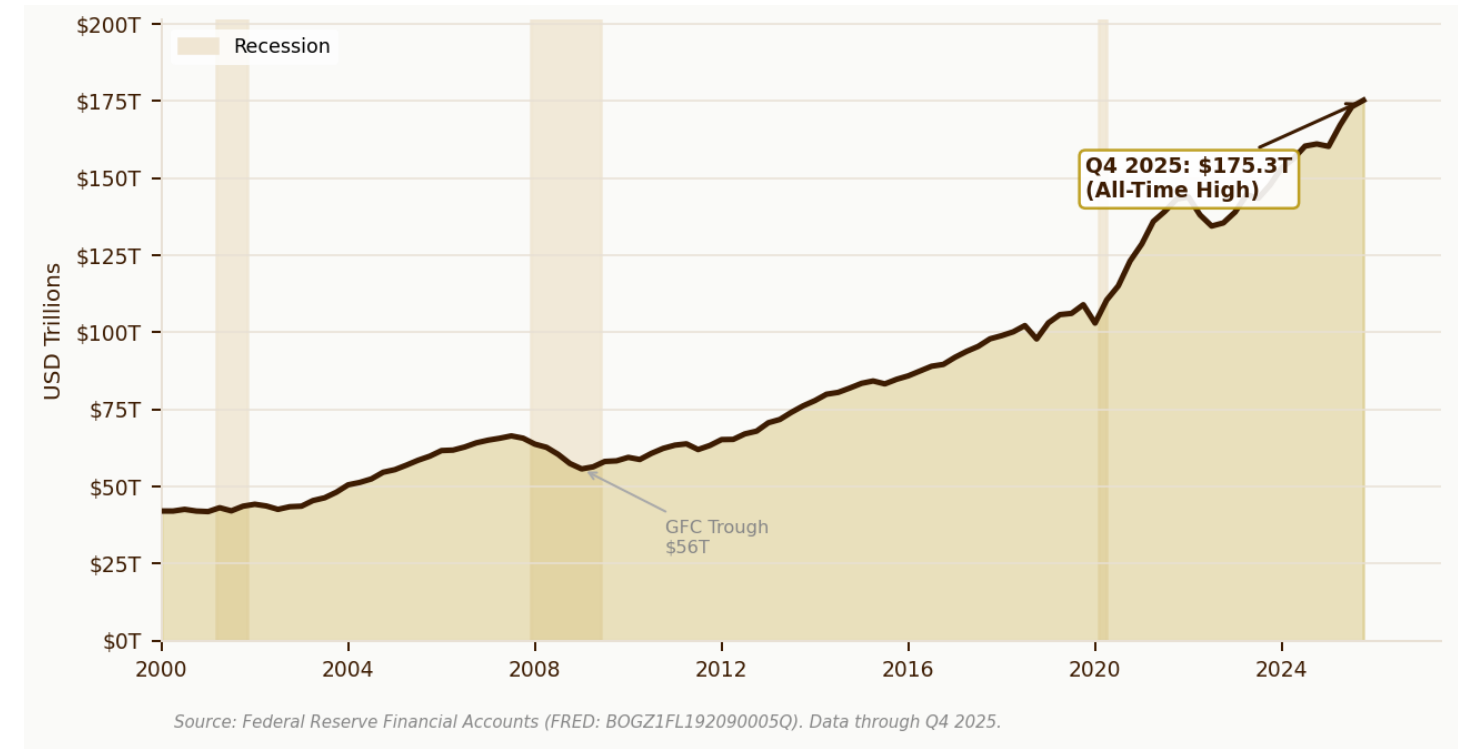
Americans feel worse. Companies earn more. Markets keep climbing.

University of Michigan Consumer Sentiment



Consumer sentiment remains near levels historically associated with recessions. Americans continue expressing concern about inflation, affordability, and the economic outlook.

U.S. Household Net Worth (Fed Z.1)



Household net worth remains near record highs, supported by rising home values, strong equity markets, and resilient consumer balance sheets. The data suggests a much healthier backdrop than sentiment alone would imply.

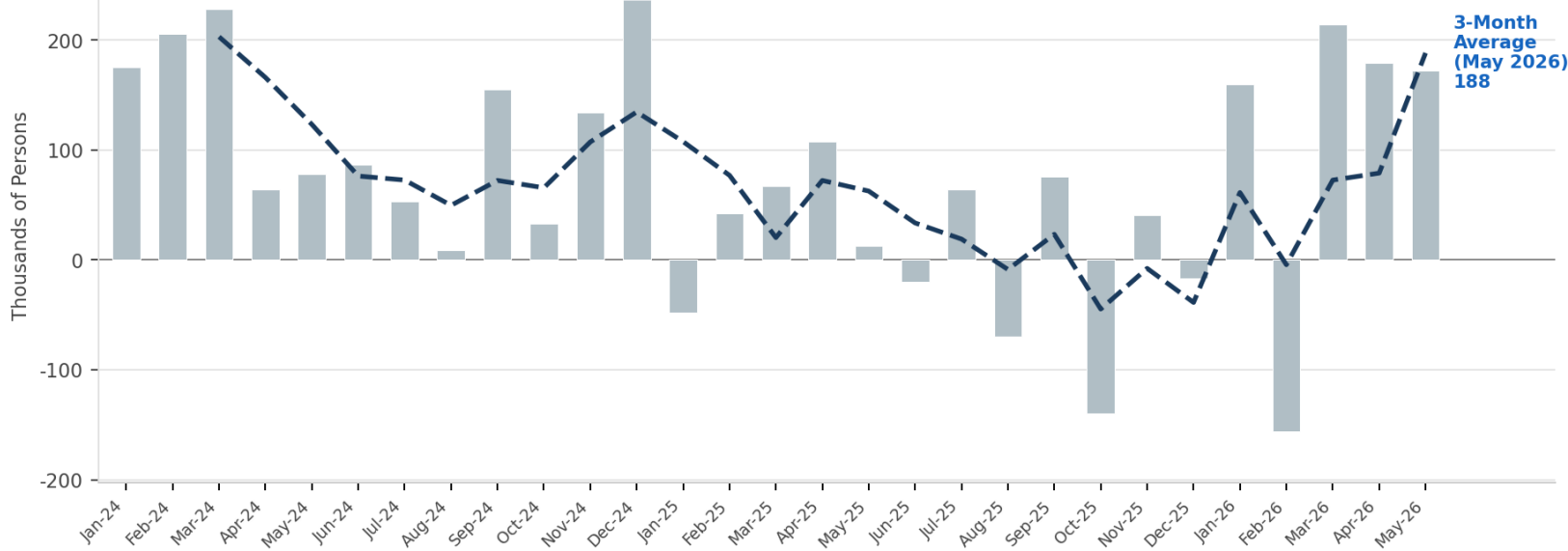
Consumer sentiment suggests recession.
Employment, spending, earnings, and household wealth suggest resilience.
Both cannot be true.
Yet today, they are.

The Labor Market Didn't Get the Memo

Payroll growth has accelerated to **188,000 jobs per month**, well above replacement levels.

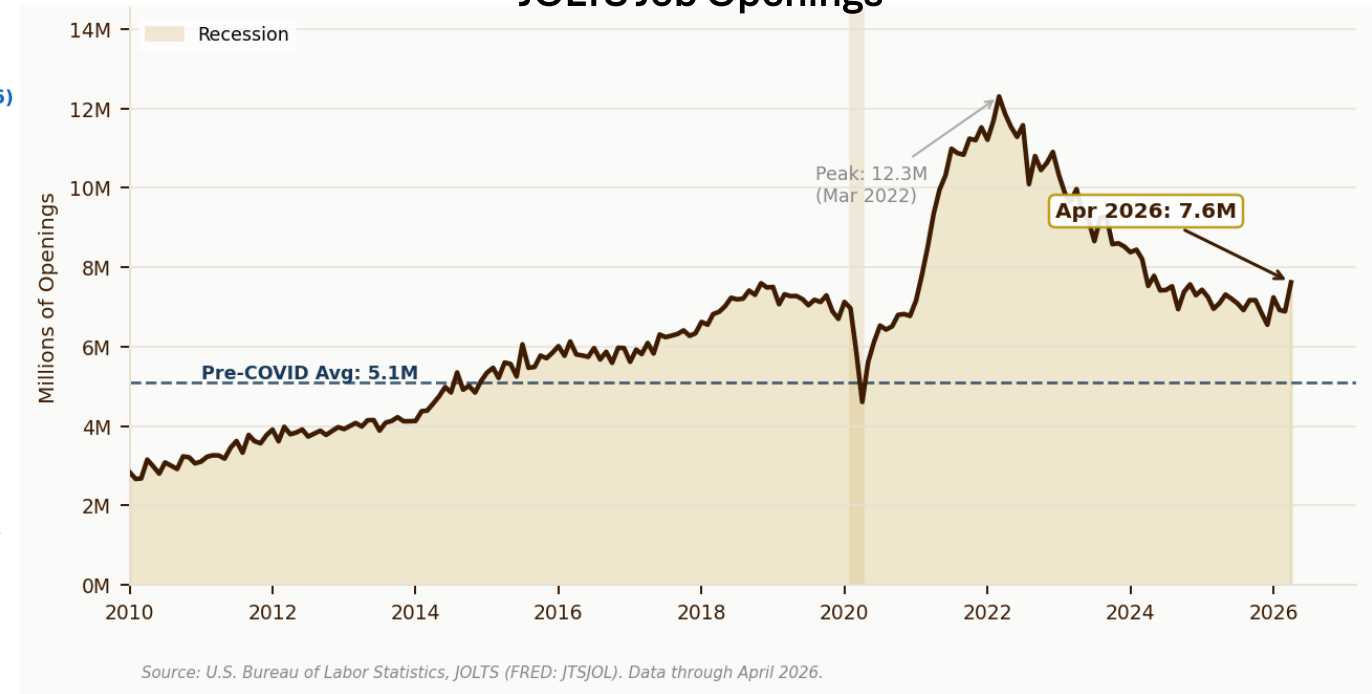
Job openings have normalized, and at **7.6 million** remain far above pre-COVID averages.

Monthly Nonfarm Payroll Gains



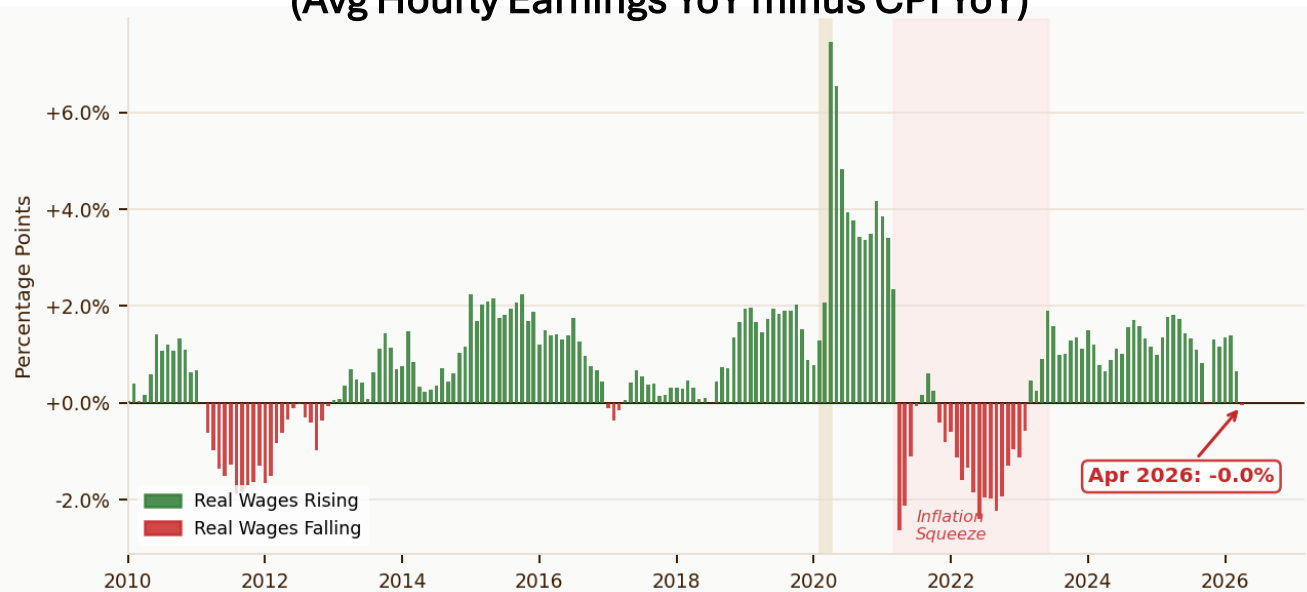
Data source: U.S. Bureau of Labor Statistics (FRED: PAYEMS). Dashed line = 3-month moving average. Data through May 2026.

JOLTS Job Openings



Source: U.S. Bureau of Labor Statistics, JOLTS (FRED: JTSJOL). Data through April 2026.

**Real Wage Growth
(Avg Hourly Earnings YoY minus CPI YoY)**



Source: U.S. Bureau of Labor Statistics (FRED: AHETPI, CPIAUCSL). Data through May 2026.

Real wages are still positive over inflation albeit showing some signs of stress. These modest gains are helping fuel consumption.

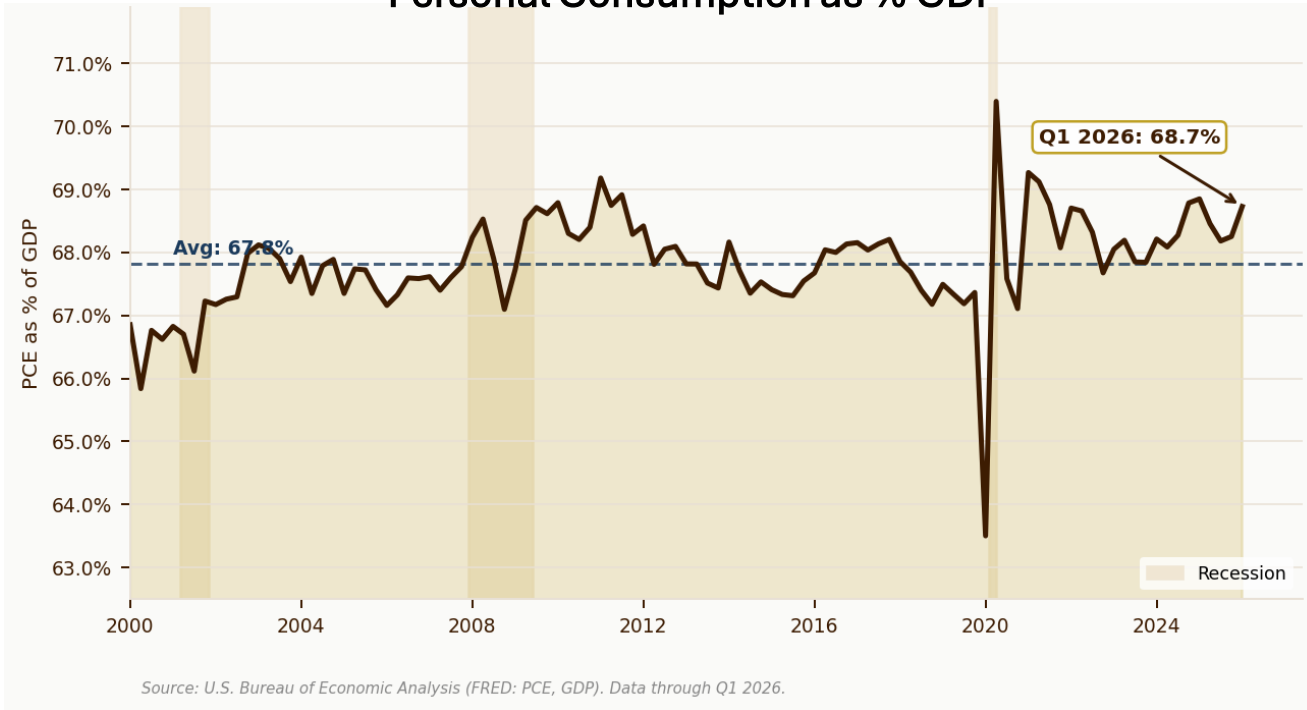
Consumers feel like they're in a recession. Employers are still hiring like they're in an expansion.

Consumers Keep Spending

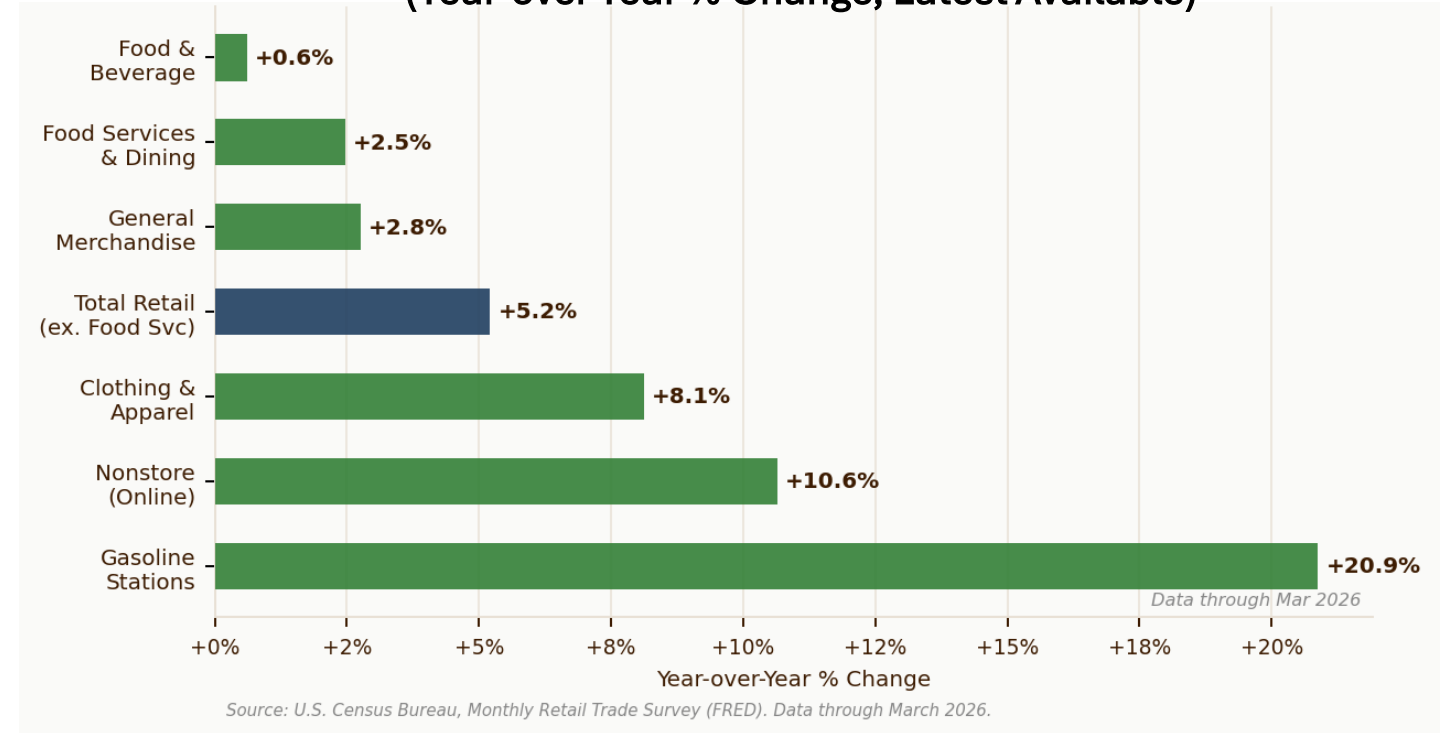
Consumer spending remains **above its long-term share of GDP**

Retail sales continue to grow across most major categories despite ongoing economic concerns.

Personal Consumption as % GDP

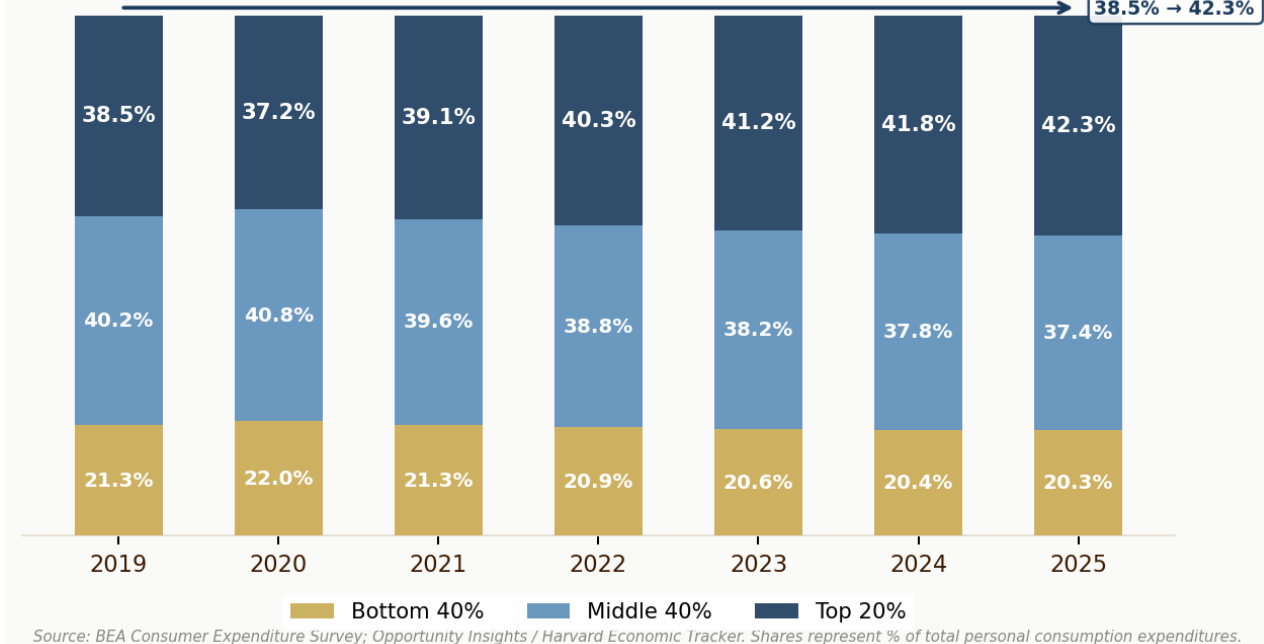


Retail Sales by Sector (Year-over Year % Change, Latest Available)



Who's Doing the Spending?

Share of Total U.S. Consumer Spending by Income Group



The **top 20% of households** now account for **over 42% of consumer spending**, a record share.

Consumption continues to drive nearly 70% of the U.S. economy. Confidence is weak. Consumption is not.

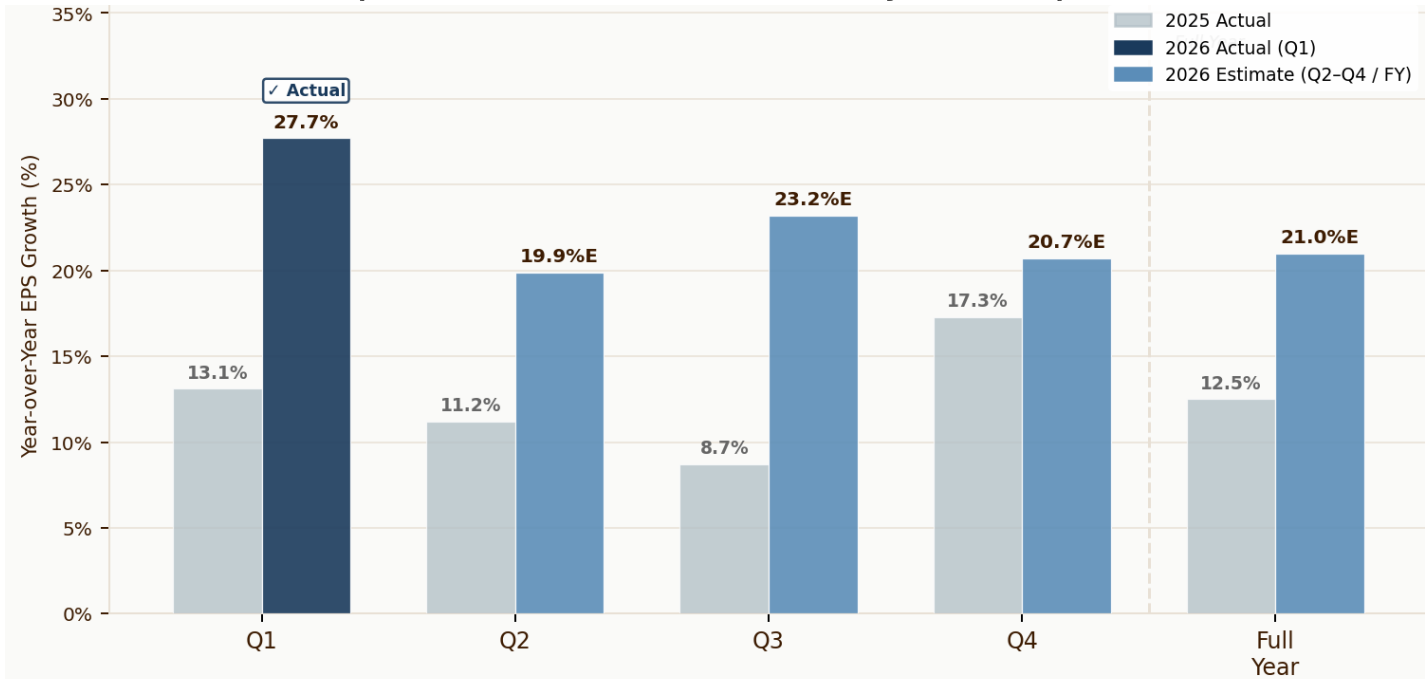
Americans may be worried about tomorrow, but they're still spending today.

Investors Say Stocks Are Expensive

Earnings growth is running above **20%**, one of the strongest periods of the last decade

Valuations have expanded, but not nearly as much as earnings.

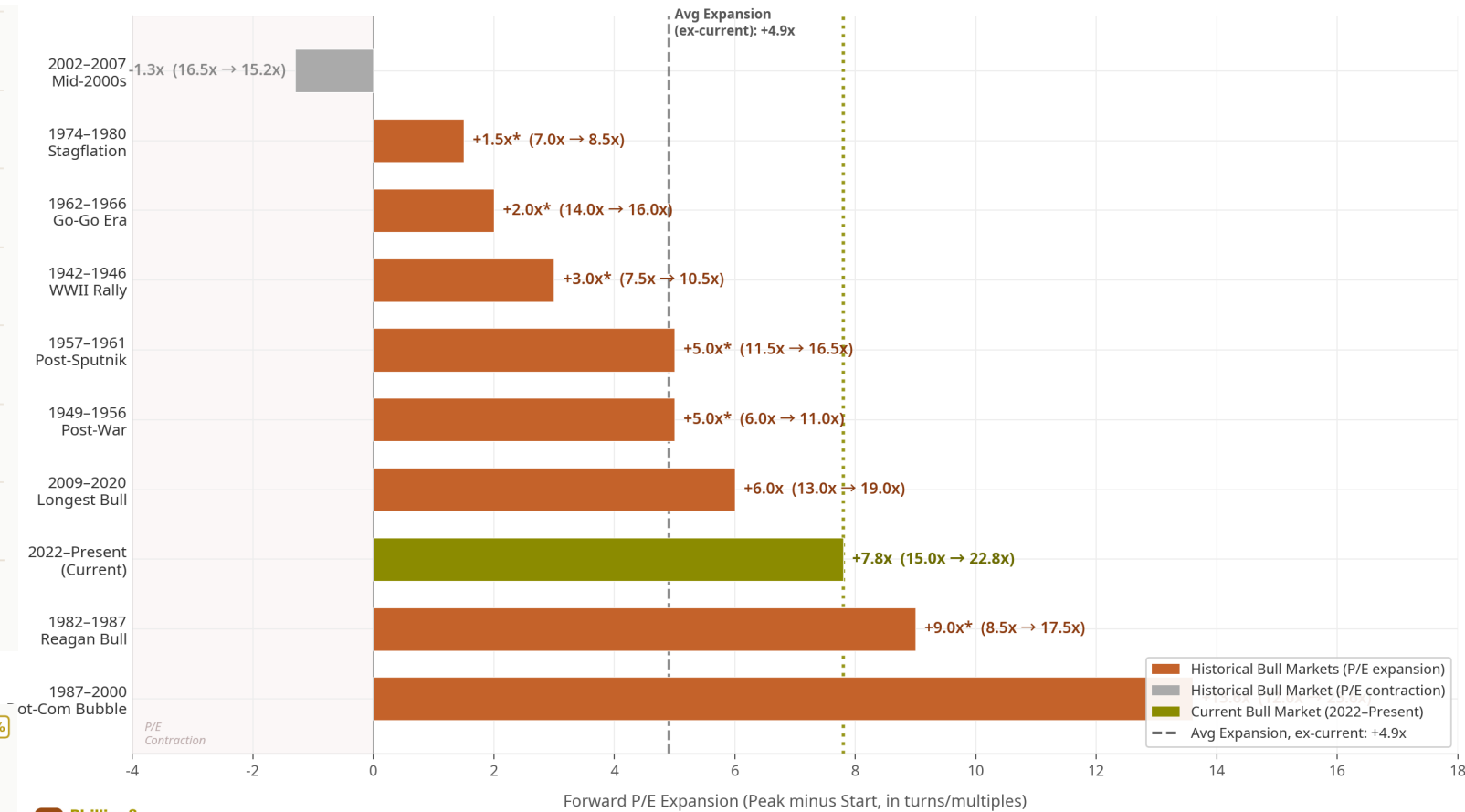
S&P 500 Earnings Growth: 2026 vs. 2025 (Year-over-Year EPS Growth by Quarter)



Source: FactSet Earnings Insight, May 8 & June 4, 2026. Q1 2026 blended actual (97% reported). Q2-Q4 and Full Year are consensus estimates.

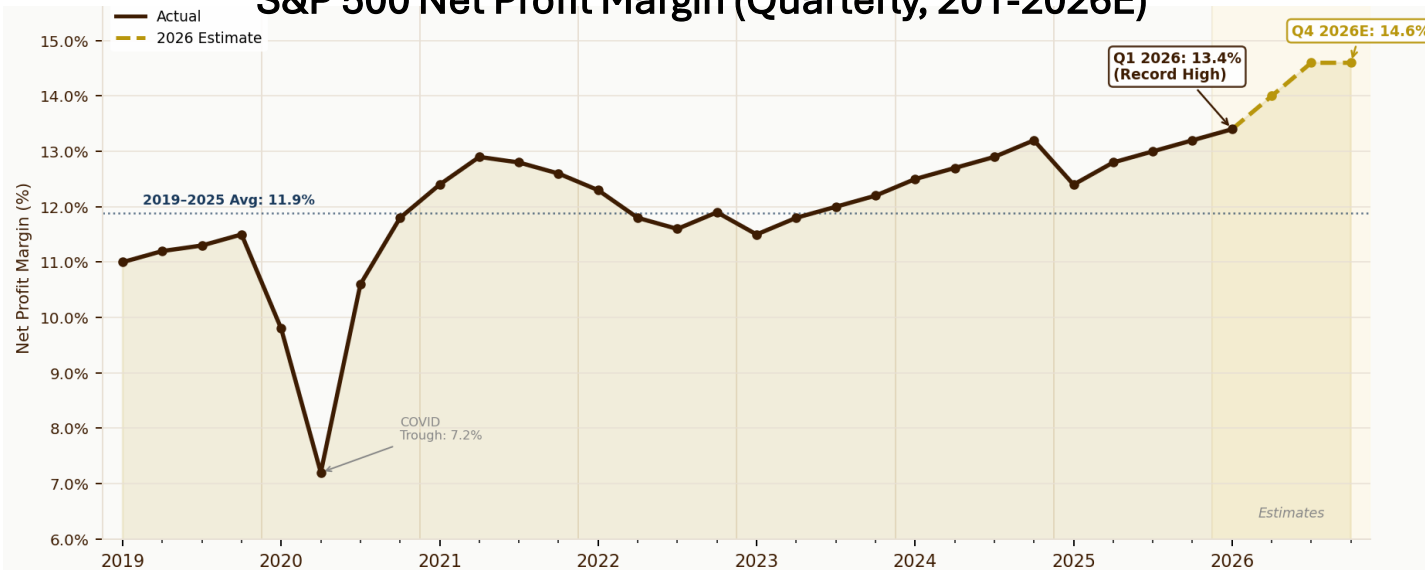
S&P 500 Bull Markets: Forward P/E Multiple Expansion

How many turns did the forward P/E expand from bear market low to bull market peak? | Sorted by expansion



Source: Yardeni Research, FactSet, JP Morgan, MacroMicro | Expansion = Peak Fwd P/E minus Start Fwd P/E | * Estimated (pre-1985) | As of May 29, 2026

S&P 500 Net Profit Margin (Quarterly, 201-2026E)



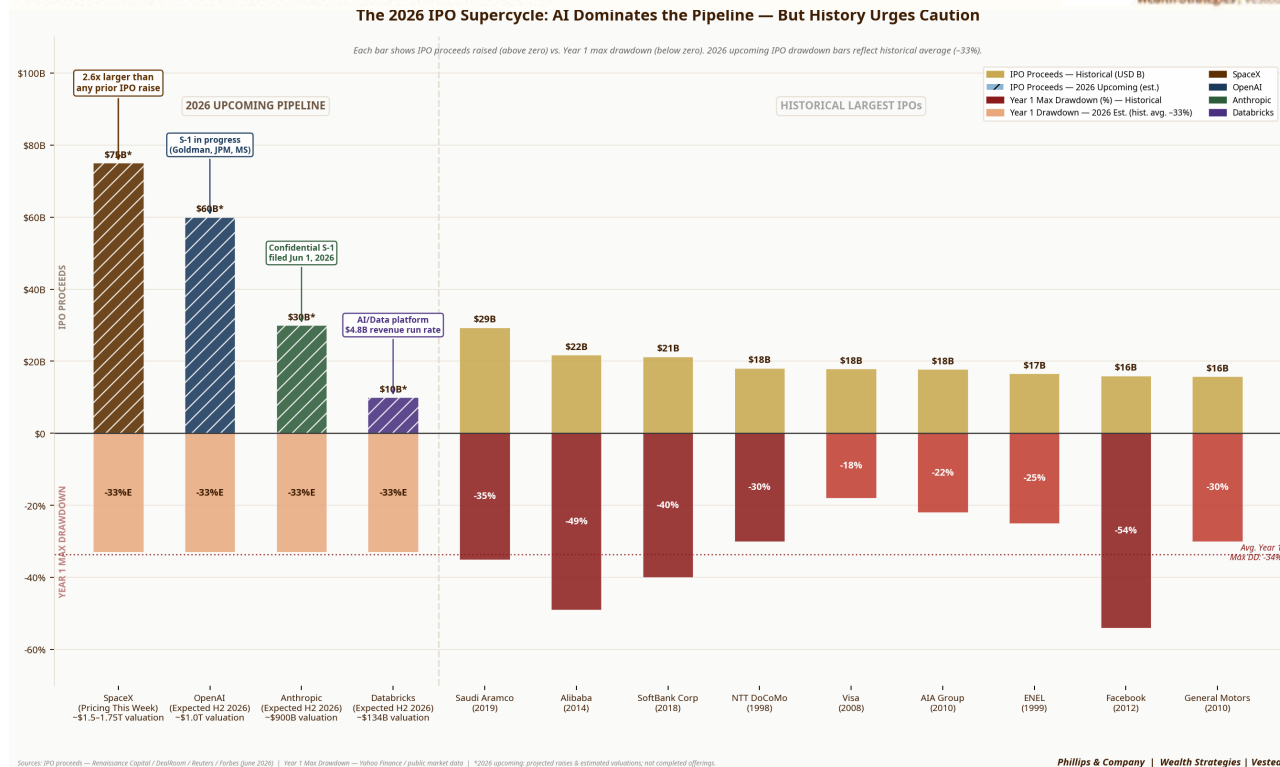
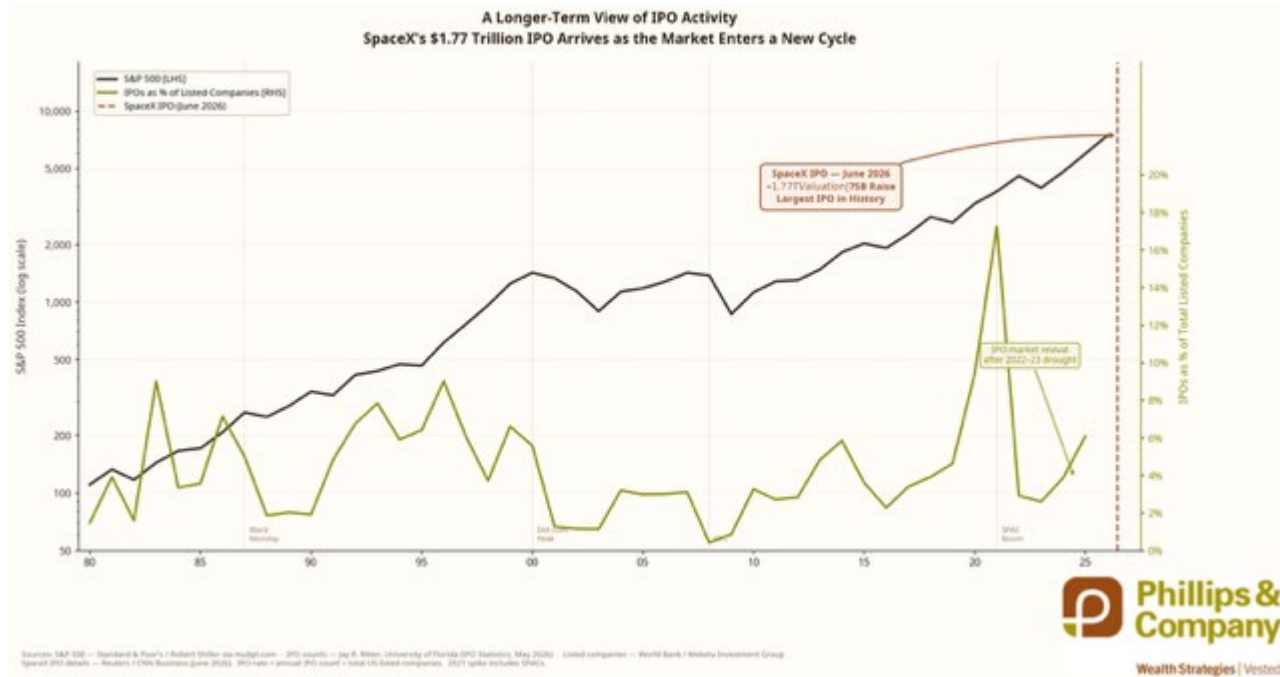
Source: FactSet Earnings Insight (John Butters), April 27 & June 4, 2026. Q1 2026 blended actual. Q2-Q4 2026 are consensus estimates. Record high since FactSet began tracking in 2009.

S&P 500 profit margins are at **record highs** and still expanding.

The market isn't paying up for hope. It's paying up for results.

Everyone Wants a Piece

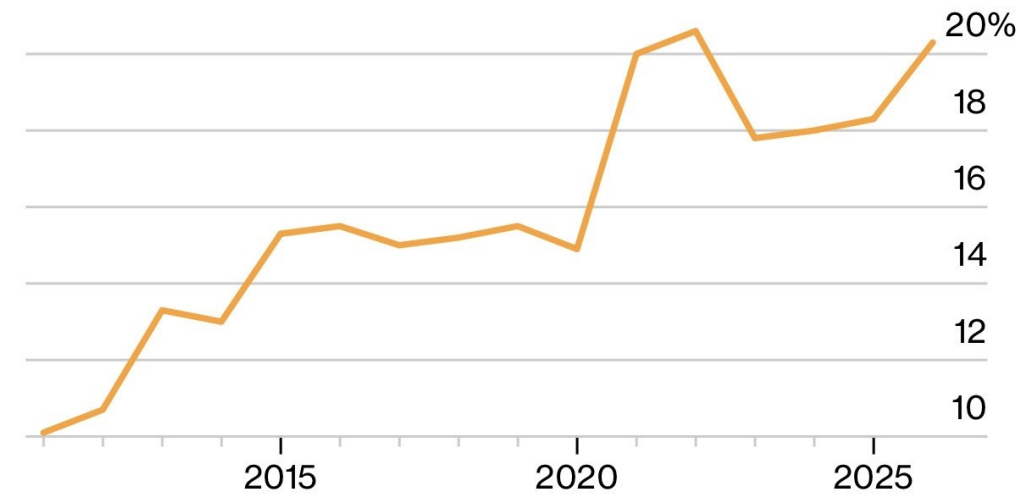
IPO activity is picking up again as stronger markets reopen the door for new issuance.



Retail Trading Boom

Individual investors' share in stock trading has doubled since 2010

Retail trading as % of equity market's total volume



Source: Bloomberg Intelligence

Bloomberg

AI remains the dominant investment theme, attracting record corporate spending and investor attention.

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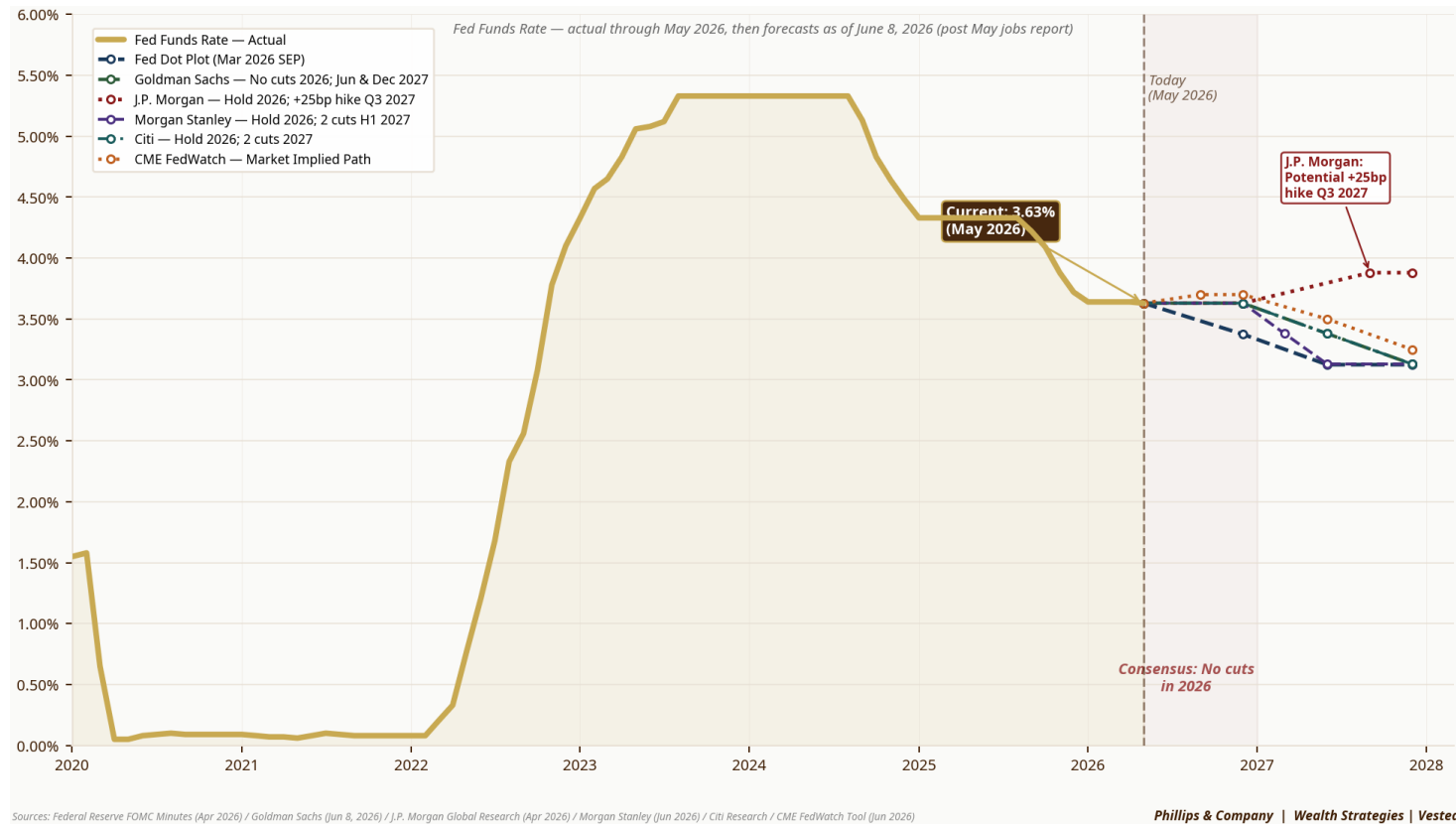
Innovation creates opportunity. Valuation determines returns.

Rates Stayed High. The Economy Adapted.

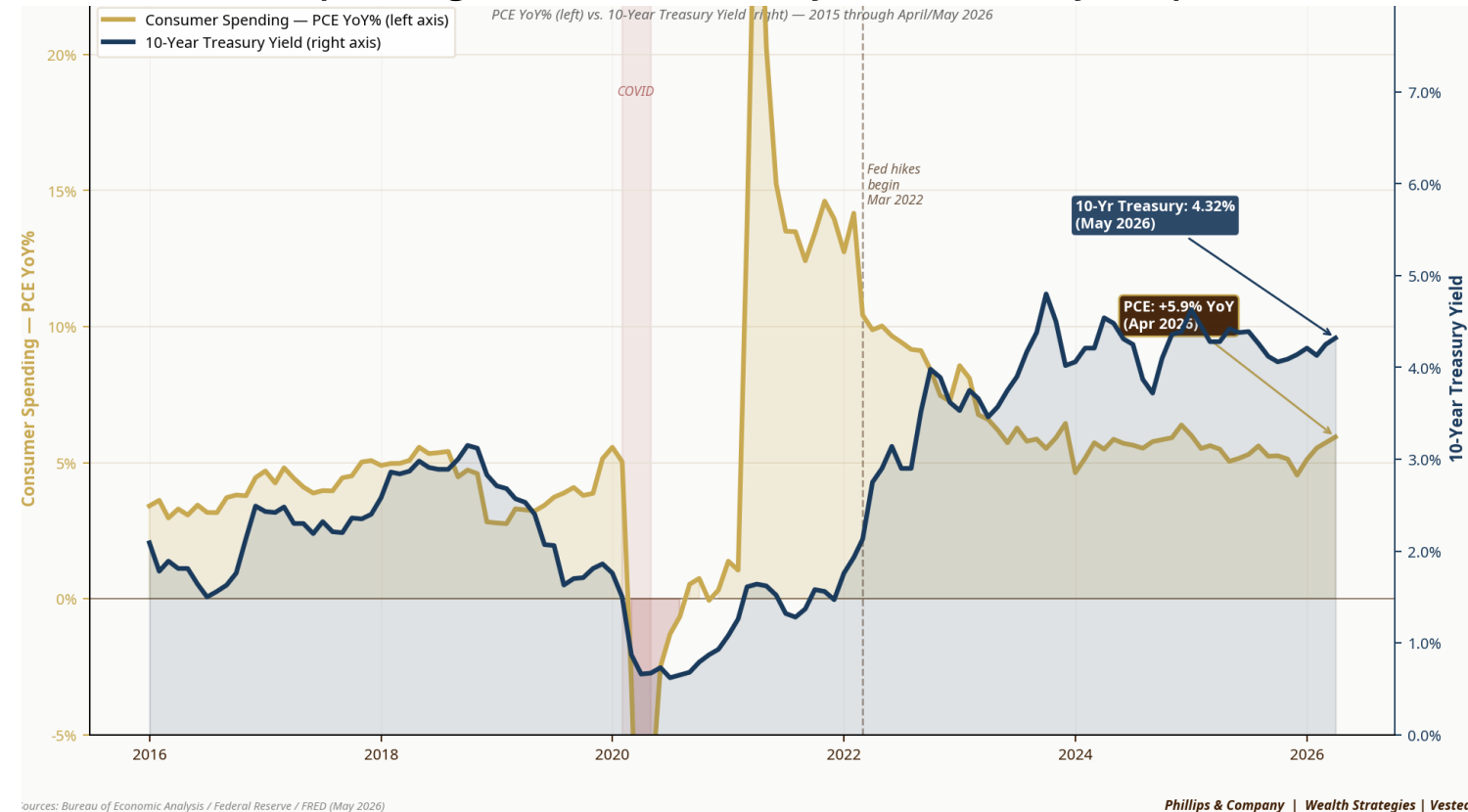
Wall Street expected multiple rate cuts. Those expectations continue to be pushed further into the future.

Long-term Treasury yields remain near 20-year highs despite expectations for additional Fed easing. Higher rates have persisted far longer than most investors anticipated.

Where Are Rates Headed? Wall Street Pushes Cuts Further Out



Consumer Spending vs. 10-Year Treasury: The Economy Adapted

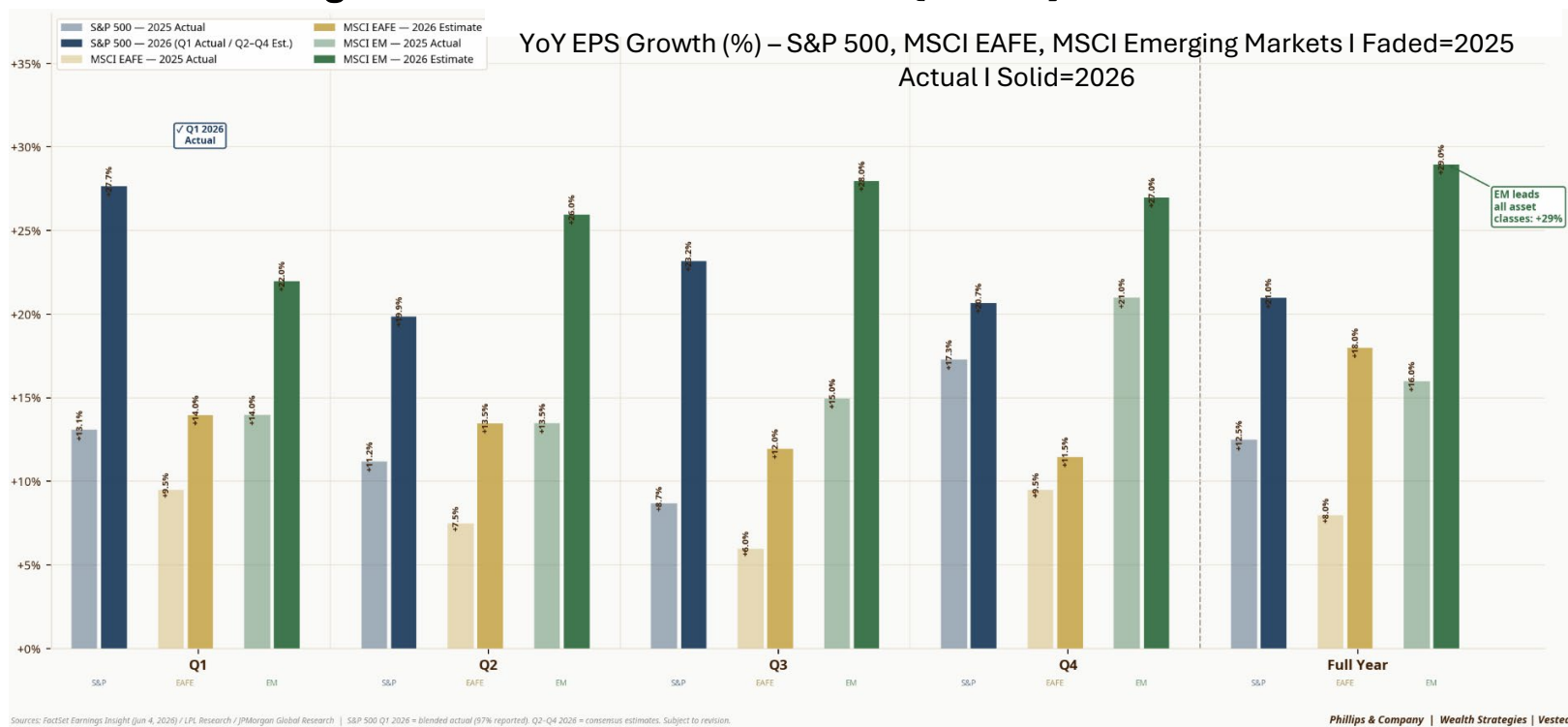


The most anticipated recession in history never arrived.

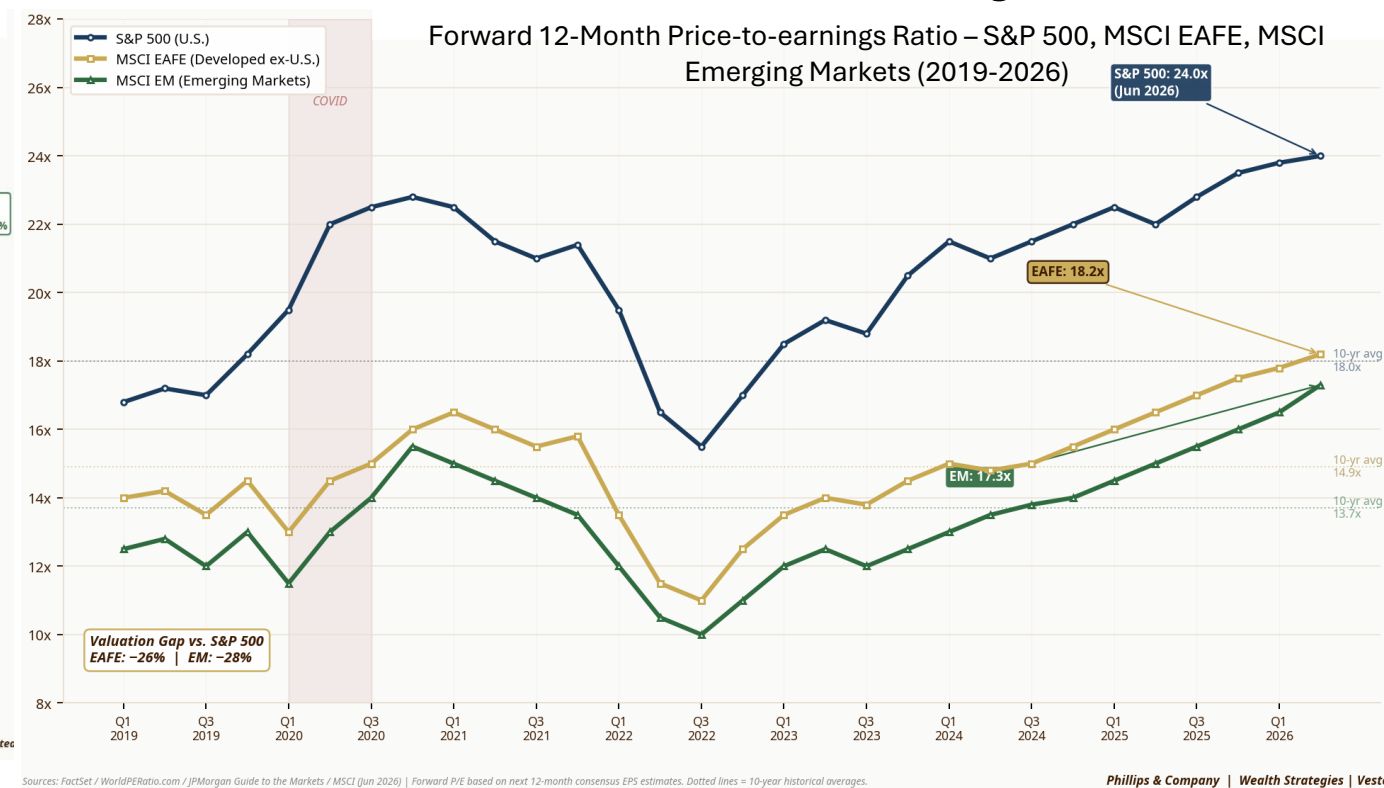
Every year since 2022 investors expected lower rates. What they got instead was a more resilient economy.

Earnings Over Narratives

Earnings Growth: 2025 Actual vs. 2026 Quarterly Estimates



Valuations: International Markets Still Trade at a significant Discount



- U.S. earnings remain exceptional.
- Emerging Markets are expected to deliver the strongest earnings growth in 2026.
- International earnings growth is no longer materially lagging the U.S.

- The S&P 500 trades near **24x forward earnings**.
- EAFE trades near **18x**.
- Emerging Markets trade near **17x**.
- Investors are paying roughly **35–40% more** for U.S. earnings despite a much smaller growth advantage.

Investors are paying a premium for certainty and receiving a discount for looking elsewhere.
The U.S. may remain the world's best market. It doesn't have to remain the world's cheapest.

Mean Reversion Dashboard

Data as of 6/26/26

Style Forward P/E as a % of 20-Year Average

Size	Style		
	Value	Blend	Growth
Large	121.2%	131.0%	142.8%
Mid	105.5%	105.6%	127.3%
Small	111.2%	115.0%	107.8%

Regions & Countries Forward P/E as a % of 20-Year Average

Regions			
World	Developed Markets	Emerging Markets	Frontier Markets
127.9%	106.1%	88.8%	69.6%

Countries					
United States	Germany	United Kingdom	China	Brazil	India
149.1%	102.4%	89.7%	82.2%	64.8%	147.9%

Sector Forward P/E as a % of 20-Year Average

Sectors										
Energy	Materials	Industrials	Consumer Discretionary	Consumer Staples	Health Care	Financials	Technology	Telecom	Utilities	Real Estate
106.0%	130.8%	162.6%	178.2%	140.6%	125.4%	113.0%	178.9%	143.7%	118.1%	230.1%

Q3 2026 Portfolio Discipline

Turning Contradiction Into Opportunity



Stay Invested

- Earnings remain strong.
- The economy continues to outperform expectations.
- Don't let sentiment drive investment decisions.



Stay Diversified

- International growth is improving.
- Valuation opportunities are expanding outside the U.S.
- Diversification is becoming a return driver again.



Focus on Quality

- Innovation creates opportunity.
- Durable earnings and strong balance sheets matter.
- Valuation discipline remains essential.



Use Volatility — Don't Fear It

- Pullbacks create opportunities.
- Rebalance strategically.
- Upgrade quality when markets overreact.



Bottom Line

- The economy remains more resilient than expected.
- Opportunities are expanding beyond a narrow group of market leaders.
- Process, patience, and discipline remain the investor's greatest advantages.

Thank You

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