

2Q 2026 U.S. EQUITY MARKET COMMENTARY

The discipline to stay boring

June 30, 2026

“Investing should be more like watching paint dry or grass grow. If you want excitement, take \$800 and go to Las Vegas.” — Paul Samuelson, Nobel Prize winning economist

Before writing these quarterly commentaries, I always reread my most recent editions. Unfortunately, much of what I wrote last quarter still applies. Through June 30, our U.S. value equity strategy has been essentially flat for the year, trailing double-digit gains for both the S&P 500 and the Russell 1000 Value Index. As in the first quarter, index returns were driven by a sector we don't own—a small group of high price-to-earnings (P/E), cyclical technology companies, currently benefiting from increased AI spending. Here is a list of the year-to-date top performers in the Russell 1000 Value Index:

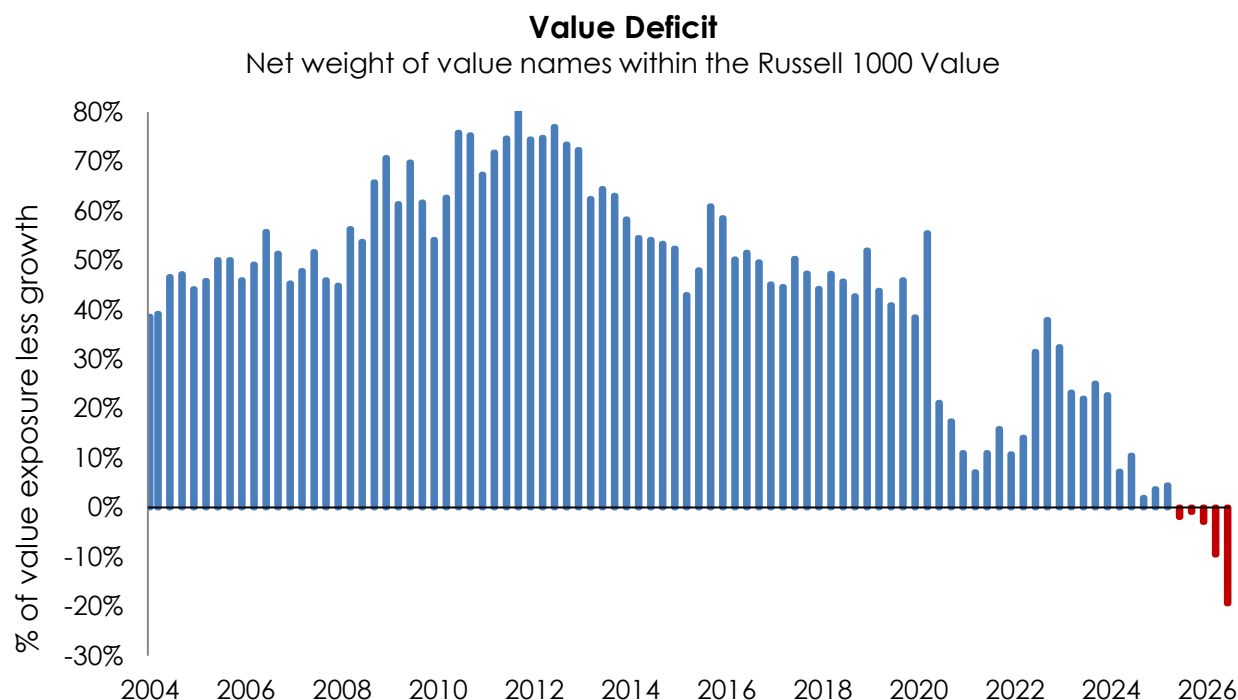
Top 10 Russell 1000 Value Performers	Ticker	YTD Return	2025 P/E, as of 12/31/25
Sandisk Corporation	SNDK	781%	100x
Micron Technology, Inc.	MU	297%	25x
Intel Corporation	INTC	278%	95x
Dell Technologies, Inc. Class C	DELL	245%	14x
Western Digital Corporation	WDC	241%	28x
Iridium Communications Inc.	IRDM	219%	15x
Marvell Technology, Inc.	MRVL	214%	32x
MKS Inc.	MKSI	179%	21x
Flex Ltd.	FLEX	168%	20x
Corning Inc	GLW	153%	37x

Source: FactSet, as of 6/30/2026. Past performance is no guarantee of future results. Chart is for informational purposes only and does not depict the performance of any Harris | Oakmark strategy or product. Returns shown reflect the period during which each security was a constituent of the Russell 1000 Value Index. Following the index reconstitution effective 6/26/2026, certain securities shown above are no longer members of the index. Price-to-earnings ratios represent the average consensus trailing twelve-month (LTM) P/E ratio for each security as of 12/31/2025.

These 10 companies, out of an index containing 863, accounted for nearly half the index's gain through the first half of 2026. They began the year with a median trailing P/E ratio of 27x, significantly higher than even the S&P 500. By comparison, our U.S. value strategy, with an estimated 2026 portfolio P/E of only 12x, looks much more like a traditional value approach. That hasn't helped our recent relative performance. If you exclude AI-related stocks and the energy companies powering them, the S&P 500 would be down year to date.

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An interesting aside: In last month's Russell Index rebalance, Apple and Microsoft became new members of the Russell 1000 Value Index. As part of that rebalance, Amazon's Russell value score rose from 27% to 92%. As a result, a significantly larger share of its market capitalization was included in the index, making Amazon the index's largest holding. Using Russell's own classification of whether a stock is value or growth shows just how much the market has changed. For most of the past 25 years, stocks Russell deemed value comprised the overwhelming majority of the Russell 1000 Value Index. Today, the majority is growth. The extraordinary increase in AI infrastructure spending is pushing all but the "growthiest" growth companies into the Russell Value Index.



Source: FactSet; iShares Russell 1000 Value (IWD) and Russell 1000 Growth (IWF) ETFs; quarterly data, January 2004 through June 2026. Holdings of the Russell 1000 Value Index are classified as value or growth using the three characteristics underlying the Russell style methodology (book-to-price, two-year forecast earnings growth, and trailing five-year sales growth), combined into a single style score. The score is measured against a fixed standard set at the January 2004 starting point and held constant thereafter, so movement over time reflects changes in the index rather than in the definition. Holdings that fall between the value and growth thresholds are divided equally between the two categories, with results adding to 100%. The difference between those categories is the graphed "net value" % or weight of value less growth.

Given the obvious parallels between today's AI-driven market and the Internet market 27 years ago, we are increasingly asked whether we expect a repeat of the dot-com bust. Anyone answering that with certainty is suffering from overconfidence. There are clear similarities: a once-in-a-generation technological advance, extraordinary gains concentrated in a narrow part of the market, newly minted fortunes and widespread concern about how the new technology may reshape the economy. Perhaps just as important is the similarity in investor behavior.

In more typical markets, conversations with clients and prospective clients focus on the companies we've purchased. Today, it is nearly impossible to interest someone in why we believe Corebridge Financial, trading at less than 6x next year's expected earnings, could reasonably be worth 9x. Instead, most conversations quickly turn to why we didn't buy companies such as Dell, Micron or Intel that are now widely viewed as the obvious beneficiaries of AI.

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I've noticed the same shift outside the investment industry. One tech industry friend discovered that employee stock options he had long since written off had become worth more than \$1 million on paper. When I congratulated him and asked whether he had locked in some of that life-changing gain, he looked at me as though I'd missed the point: why sell something that goes up every day? So far, he's been right. At a charity dinner, I met someone who told me he was leaving his job to trade ETFs full-time after four years of earning more than 30% annually. Curious, I asked what strategy he followed. "I only own the funds," he explained, "on the days when it's obvious they'll go up."

This growing belief that exceptional stock market returns are easy to achieve feels familiar. When we're all within "six degrees of separation" from a SpaceX billionaire, it's hard to feel satisfied compounding wealth at a "mere" 10% per year, our strategy's approximate trailing five-year return.

Although investor behavior may be reminiscent of the dot-com era, we believe there are also important differences. Many of the market's biggest winners in the late 1990s were newly formed companies, with little or no profitability, whose valuations depended almost entirely on future possibilities. Today's leaders are mostly established, highly profitable businesses. In fact, if we were to extrapolate their growth for just a few more years, they would trade at valuation multiples below the broader market.

The difficult question is how long today's environment can persist. Will AI chips remain a near monopoly a decade from now? Will historically cyclical industries such as memory, semiconductors and computers continue to enjoy shortages and unusually high profit margins? Or will we eventually look back on today's profitability as a cyclical peak? Perhaps these businesses have permanently changed, much as Apple rose above the boom-bust cycles of the consumer electronics industry. Or maybe this resembles oil stocks when crude reached \$150 per barrel, and many argued that \$200 was the new normal.

We haven't been able to answer those questions with enough confidence to justify owning the AI hardware stocks. That doesn't mean we believe they're wildly overvalued. It simply means we cannot conclude they are selling at prices that provide the margin of safety we require relative to the future cash flows they are likely to generate.

Some have suggested that this makes us "AI bears." We don't see it that way. First, we think many of our portfolio companies stand to benefit from AI, and their management teams agree. Capital One is using AI to reduce the cost of credit authorization and customer service. AIG is applying AI to improve and expedite underwriting decisions. Alphabet continues to invest heavily in Gemini and Google Cloud while Amazon Web Services is seeing growth accelerate from AI demand. We expect many of our portfolio companies to become more valuable because of AI.

Second, we don't define portfolio risk by what we don't own. It has become increasingly popular to think about risk in terms of how much a portfolio differs from an index. If you view risk as performing differently than an index, then "I don't know" means defaulting to the index weight. We see risk differently. We look at risk company by company and ask, "What is the probability our thesis could be so wrong that this company's business value falls to less than its stock price?" The outcome we are trying to avoid is generating investment returns that end up meaningfully on the wrong side of zero. Of course, we believe that over long periods, this approach will lead to higher returns than an index fund, but we don't believe that lagging behind a high-performing index, even for a few years, is evidence our approach no longer works.

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So, what should you expect from us as AI usage continues to advance? You will never see us buy an AI company—or any other company—simply because it is popular or heavily represented in an index. Likewise, we won't avoid an AI company simply because it has become fashionable.

To us, there is no difference in how we evaluate an insurer, an industrial manufacturer or an AI-related company. We will estimate the stock's fair value based on estimated future cash flow and will only buy if the market price is at a large discount. We will also evaluate management teams and will only invest if they are focused on maximizing long-term, per-share business value. Whether that ultimately leads us to more or less AI exposure than other investors is unimportant to us because we don't believe it materially changes the likelihood of achieving long-term financial goals.

We believe the “boring” companies we own represent the genuine “value” portion of the Russell Value Index today, an exposure that is minimal for most index funds. Staying focused isn't easy when others appear to be making effortless money. When someone doubles their money betting on red in roulette, we instinctively understand that black was just as likely. The risk of loss is less obvious when looking at winning stocks. We stay grounded by following the operating performance of the businesses we own rather than the share prices of the businesses we don't.

We welcome the opportunity to discuss our approach in more detail. If you have questions about our U.S. equity strategy or would like to schedule a conversation with our investment team, please contact us at updates@harrisassoc.com

Thank you for your continued interest in Harris | Oakmark.

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Important Disclosures

The securities mentioned above comprise the following approximate percentages of the representative account's total assets as of 6/30/2026: Alphabet Cl A 2.3%, Amazon.com 1.3%, American Intl Group 2.2%, Apple 0%, Applied Materials 0%, Capital One Financial 2.5%, Corebridge Financial 0.9%, Corning 0%, Dell Technologies Inc. Class C 0%, Flex Ltd. 0%, Intel 0%, Iridium Communications 0%, Marvell Technology, Inc. 0%, Micron Technology 0%, Microsoft 0%, MKS Inc. 0%, Sandisk Corporation 0%, SpaceX 0% and Western Digital Corporation 0%. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities.

ANNUALIZED TOTAL RETURNS (%) for period ending June 30, 2026

	QTD*	YTD*	1 yr	3 yrs	5 yrs	10 yrs	Since inception
U.S. Large Value Composite (Gross)	2.13	-0.07	8.53	14.62	10.72	14.56	13.53
U.S. Large Value Composite (Net)	1.94	-0.45	7.72	13.78	9.93	13.76	12.44
Russell 1000 Value Index	13.87	16.26	27.12	17.79	11.17	11.52	10.33
S&P 500 Index	15.20	10.21	22.32	20.61	13.41	15.51	10.95

* Not annualized

Past performance is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. All returns reflect the reinvestment of dividends and capital gains and the deduction of transaction costs.

To obtain a full list of current representative holdings or additional information about this strategy, please contact your Harris | Oakmark relationship manager.

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The price-to-earnings ratio ("P/E") compares a company's current share price to its per-share earnings. It may also be known as the "price multiple" or "earnings multiple" and gives a general indication of how expensive or cheap a stock is. Investors should not base investment decisions on any single attribute or characteristic data point. Reference to portfolio-level P/E is based on the weighted average P/E of underlying portfolio holdings.

The S&P 500 Index is a float-adjusted, capitalization-weighted index of 500 U.S. large-capitalization stocks representing all major industries. It is a widely recognized index of broad U.S. equity market performance. Returns reflect the reinvestment of dividends. This index is unmanaged and investors cannot invest directly in this index.

The Russell 1000® Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® companies with lower price-to-book ratios and lower expected growth values. This index is unmanaged and investors cannot invest directly in this index.

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