

# Economic and Market Outlook

3Q26

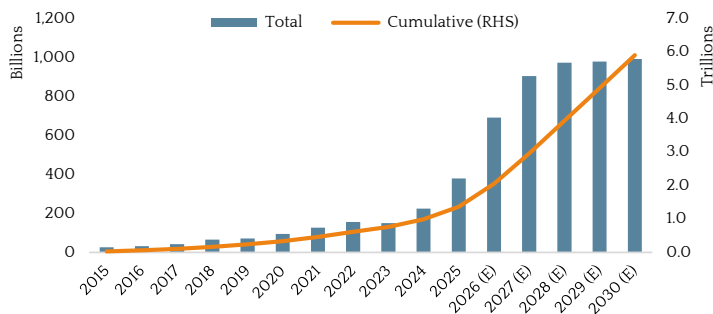
## KEY TAKEAWAYS:

1. AI investment remains a powerful economic tailwind, with hyperscalers expected to spend nearly \$1 trillion this year on data centers and related infrastructure.
2. The U.S. economy continues to show resilience, supported by healthy consumer spending, strong corporate balance sheets, and double-digit earnings growth.
3. Investor sentiment has shifted rapidly from fear to optimism, fueling market gains but also increasing the risk of heightened volatility and stretched expectations.
4. We believe diversification remains critical as AI reshapes industries, creating significant opportunities while increasing concentration and valuation risks.

Former Federal Reserve Chairman Alan Greenspan believed much economic activity was driven by “animal spirits,” the idea that emotional factors can significantly influence economic outcomes. This notion is particularly relevant today – for both our economy and the stock market.

Animal spirits are driving the massive data center and artificial intelligence investment. In past decades one could observe trends in the housing, automobile, or manufacturing sectors to gauge economic vitality. Now, hyperscalers (e.g. Meta, Alphabet, Microsoft, etc.) are racing to build the most robust data centers – in essence huge, energy sucking warehouses to hold various forms of computers and related equipment. In aggregate, the hyperscalers are expected to spend close to \$1 trillion this year, equivalent to 4% of gross domestic product, with over \$4 trillion in cumulative estimated spend from 2026 - 2030. The instinct to be the “biggest,” “fastest,” or “best” is likely to continue.

**Hyperscaler<sup>1</sup> Capex Spending  
2015 - 2030**

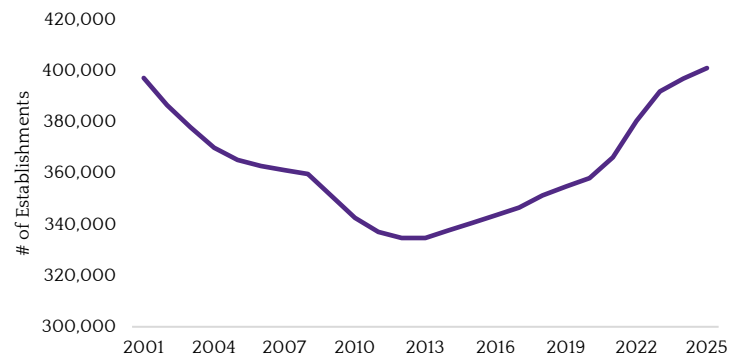


Sources: Congress Asset Management, Bloomberg, <sup>1</sup>Microsoft, Amazon, Google, Meta, and Oracle

Animal spirits are also evident in the stock market. Stock investors have vacillated between fear and greed intermittently since the “liberation day” tariffs were introduced in April 2025. As fears of a tariff induced recession never materialized, stocks recovered supported by strong corporate earnings. Over the past four months, investors have swung from fear, with the Iran war, to a euphoric excitement with SpaceX’s initial public offering.

The impetus to invest in data centers, related technologies, and energy infrastructure investments is merely one propellant to our economic engine. Consumer spending, the most important component of economic growth, remains strong as wealth accumulation and higher income consumers offset weakness in lower income cohorts. Inflation, the cause of much economic angst, should see some reprieve as oil prices have receded close to the level before the Iran war was launched. Domestic manufacturing is rebounding and company balance sheets are strong, suggesting funds for future investments will be available.

**Number of Private Manufacturing Establishments in the U.S.  
2001 - 2025**



Sources: Congress Asset Management, US Bureau of Labor Statistics

The economy’s resilience is reflected in double digit corporate earnings growth, and is one reason stock returns, despite volatility, remain positive. Earnings growth driven by higher revenue and solid margin profiles is expected to continue this year. Combined, the economy’s resilience and earnings growth trends should be a positive harbinger for stock prices.

Economic underpinnings are too strong to ignore. Nevertheless, animal spirits as related to financial markets can be fickle and there are some cautionary signals that may impact stock prices as the summer progresses. The future course of the U.S. – Iran peace agreement is paramount. The financial markets are anticipating a durable peace, even as skirmishes seem to be increasing. Additionally, earnings estimates for the year are elevated and reflected in larger

stock market indices, which remain near all-time highs. Any suggestion of a slowdown in earnings would negatively impact stocks. There are other intermediate risks as well.

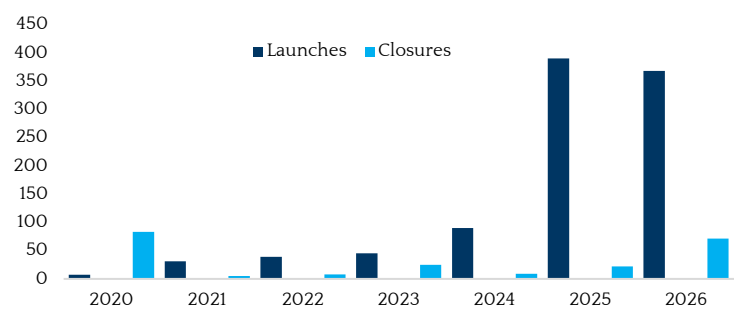
First, Kevin Warsh the new Chairman of the Board of Governors of the Federal Reserve System, brings an ambitious agenda, creating five new task forces to study federal reserve system operations. He is likely to scale down the Fed's breadth, potentially increasing future interest rate volatility. He is also likely to reduce the visibility into Fed decision making, which could create additional volatility around data releases.

Second, much has been made about SpaceX's remarkable initial public offering. SpaceX has great potential but is a few years from turning a profit. In an era of great liquidity, its IPO is emblematic of three things: investors are hungry for new, promising technologies; astute company managements are taking advantage of animal spirits; and perception of market risks has been lowered.

In the second quarter, SpaceX and Alphabet raised \$146 billion in capital with Alphabet poised to raise another \$50 billion. This continues the capital raise trend of large technology companies over the last few quarters. Those driving the data center boom are taking advantage of animal spirits in a quest to be one of the dominant players over the next decade. In addition, co-investments in data center projects and semiconductor infrastructure have created a circular loop that increases inter-party risk which is not easily transparent to outside investors.

Finally, advances in technology, lower trading costs, and a more accommodating regulatory regime have fostered the democratization of financial assets. Opportunities abound for the intrepid with exotic options contracts, private debt vehicles, and single stock ETFs. Positively, some newer vehicles can be used to build long-term wealth or hedge other assets. In practice, we are seeing a growing number of single stock leveraged ETFs that are increasingly short lived and designed to enrich their creators rather than investors. These instruments, en masse, can raise the potential for stock prices to become increasingly disconnected from underlying fundamentals.

US Single Stock/Levered ETF Launches & Closures by Year 2020 - 2026



As of May 2026. Sources: Congress Asset Management, Morningstar Direct

We are witnesses to, and participants in, a fascinating era. Technological advancements are driving growth and investment and offer the promise of societal advancement. Profound change, as we are experiencing, does not come without risk. As tech giants battle for supremacy, not all can win, and ultimately the benefits of AI will accrue to companies across sectors. Maintaining a diversified portfolio of companies that can grow in this changing environment is more important than ever.

### Investment Oversight Committee

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