Quarterly Investment Report

July 2026

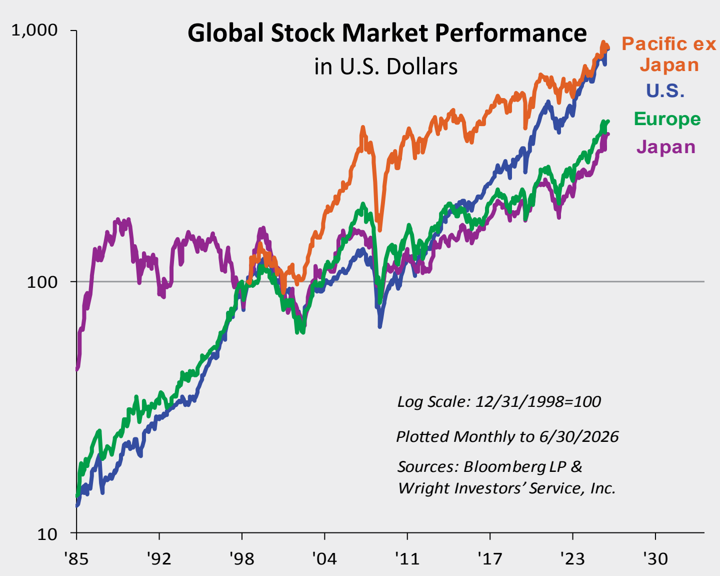
Simmons Bank
WEALTH MANAGEMENT

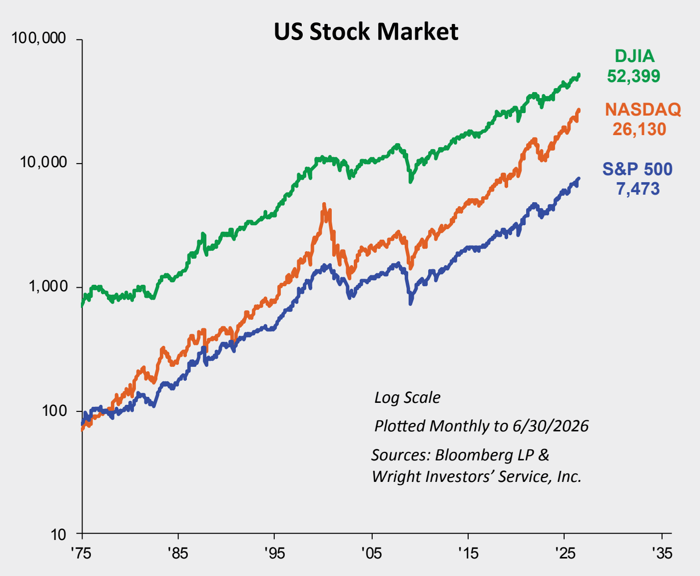
The second quarter of 2026 was a sharp reversal from the first quarter's weakness. After a period dominated by geopolitical stress, energy volatility, and recession concerns, investors moved back into risk assets. The S&P 500 advanced +15.20% for the quarter, the Nasdaq Composite rose +21.60%, the Dow Jones Industrial Average gained +13.40%, the S&P 400 MidCaps increased +14.50%, and the S&P 600 SmallCaps climbed +19.70%. The recovery was helped by strong earnings growth, artificial intelligence spending, resilient consumer demand, and fiscal support, but the strength leaves less room for disappointment. The quarter also marked a clear change in leadership. Information Technology surged +31.80%, while Energy fell -13.40% as crude oil prices reversed sharply from the first quarter spike. The market moved away from geopolitical shock and back toward growth, earnings leverage, artificial intelligence capital spending, and industrial activity. For the S&P 500, sales growth was +11.74%, while earnings growth was +28.78%. The margin effect was most visible and most important in Information Technology, where sales growth was +31.75%, and earnings growth was +55.23%. That helps explain why investors were again willing to pay up for technology leadership, even as valuation risk increased. The economy also remained stronger as growth continued to be supported by artificial intelligence spending, an industrial renaissance, and fiscal policy. Consumer spending has not slowed materially, and credit metrics have generally benefited from a stronger economy. However, inflation remains elevated, rates are likely to remain higher, and Fed funds futures moved toward pricing at least one rate hike by year-end. We do not believe the Federal Reserve is eager to tighten into a supply shock, but inflation is still too high for policymakers to declare victory.

Stock Market

U.S. equities rebounded sharply in the second quarter. The S&P 500 rose +15.20%, the Nasdaq Composite gained +21.60%, and the Dow Jones Industrial Average advanced +13.40%. Mid-cap and small-cap stocks also participated, with the S&P 400 MidCaps up +14.50% and the S&P 600 SmallCaps up +19.70%. The breadth of the recovery mattered. Unlike the first quarter, when investors favored defensive and commodity-oriented areas, the second quarter reflected renewed confidence in growth, cyclical earnings, and the artificial intelligence investment cycle.

Sector performance showed a move back toward growth leadership. Information Technology led the market with a +31.80% return. Industrials gained +14.90%, Real Estate rose +9.50%, Consumer Discretionary advanced +9.30%, Financials gained +9.00%, Health Care rose +8.80%, and Telecoms increased +8.30%. Energy was the major outlier, falling -13.40% as crude oil prices declined from the first quarter's spike. Utilities declined -0.50%, while Consumer Staples were nearly flat, rising only +0.30%. This was not a defensive quarter. Investors rewarded earnings leverage, capital spending, and exposure to secular growth.





Earnings data help explain the market's behavior. S&P 500 sales growth was +11.74%, while earnings growth was +28.78%. That spread suggests that margins improved meaningfully. The strongest evidence came from Information Technology, where sales growth of +31.75% translated into earnings growth of +55.23%. Communication Services and Consumer Discretionary also showed strong earnings growth, while Financials benefited from solid revenue growth and improved profitability. Investors are still rewarding companies that can convert revenue growth into operating leverage.

Artificial intelligence remained the dominant investment theme. Spending continues, and demand appears to be exceeding supply across compute, data center capacity, electricity, cooling, equipment, and related infrastructure. Goldman Sachs Research estimated that large technology companies leading the artificial intelligence buildout could spend approximately $5.30 trillion from 2025 through 2030 on technology and data centers. That helps explain why the theme is affecting more than software and semiconductors. It is also influencing industrials, utilities, power infrastructure, real estate, and credit markets.

The key risk is that expected gains from artificial intelligence fail to materialize on the timeline investors now assume. The market is treating artificial intelligence spending as both a near-term growth driver and a longer-term productivity catalyst. If the revenue gains, margin improvements, or productivity benefits disappoint, the market would likely need to reprice not only technology stocks but also many of the businesses tied to the artificial intelligence infrastructure buildout.

International markets also rebounded. MSCI Developed World excluding the U.S. gained +10.20%, Japan rose +14.20%, Europe excluding the United Kingdom gained +13.00%, and Emerging Markets surged +24.10%. China remained weak, falling -6.60% for the quarter and -15.00%year-to-date. Broad international exposure helped, but country-level results remained uneven.

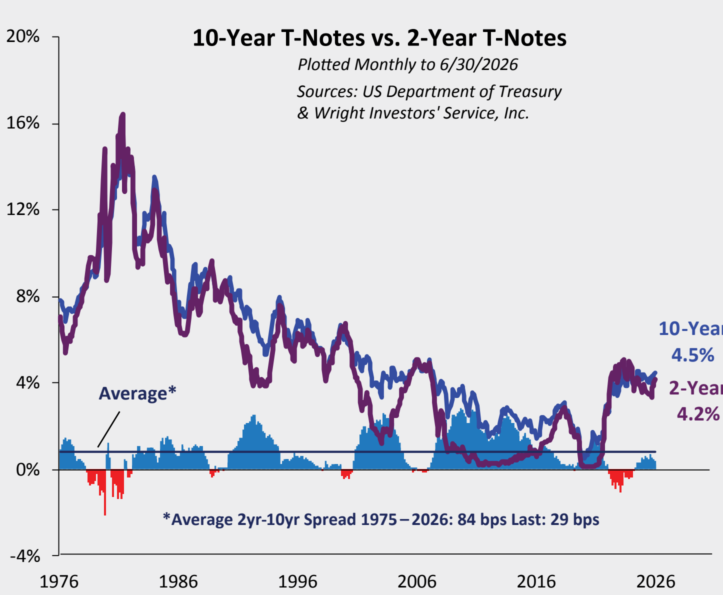
Bond Market

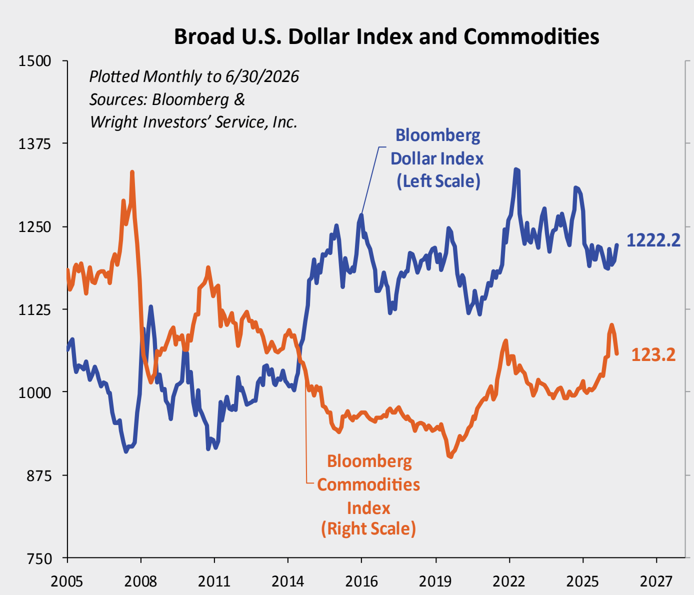
The Bloomberg U.S. Aggregate Bond Index rose +0.70% for the quarter, while the Bloomberg U.S. Credit Index gained +1.30%, the Bloomberg U.S. High Yield Bond Index rose +2.50%, and Bank Loans advanced +1.90%. Treasury bills continued to provide stable carry, with the Bloomberg U.S. 3 Month T-Bills Index up +0.90%. Credit performed well because the economy remained firm and default concerns did not broaden.

Treasury yields moved higher, particularly at the front and intermediate parts of the curve. The 2-year U.S. Treasury yield rose to 4.17% from 3.79% at the end of March. The 5-year increased to 4.23% from 3.94%, the 10-year rose to 4.47% from 4.32%, and the 30-year moved modestly higher to 4.95% from 4.91%. The curve reflected a market that expects rates to remain higher for longer. The 2-year TIPS yield rose to 2.17% from 0.55%, and the 10-year TIPS yield increased to 2.22% from 2.01%. That suggests the market was demanding a higher real return even as breakeven inflation rates eased.

Inflation remains the central constraint for policy. Headline CPI was +4.20% year-over-year in May, core CPI was +2.90%, PCE inflation was +4.10%, and core PCE inflation was +3.40%. Those readings are too high for the Federal Reserve to declare victory. However, the source of inflation matters. If the pressure comes from energy, supply disruptions, infrastructure bottlenecks, labor scarcity, and artificial intelligence-related demand for power and equipment, the Federal Reserve may be reluctant to tighten aggressively into that kind of supply shock.

Fed funds futures moved toward pricing at least one rate hike by year-end, although economists' forecasts remained more cautious and the Federal Reserve kept rates unchanged in June. The market is now debating whether resilient growth and sticky inflation could force another hike. Our view is that the Fed is unlikely to tighten aggressively unless inflation becomes more persistent and broad-based. However, the bar for rate cuts remains high.





Credit deserves a balanced interpretation. Public credit benefited from a stronger economy, with resilient earnings, solid employment, and stable consumer spending supporting credit spreads. Stronger growth improves borrowers' ability to service debt. However, within several semi-liquid private credit vehicles, redemption requests appear to have continued to exceed quarterly gates. This is not yet a broad credit event, but it is a liquidity signal that should not be ignored.

Alternatives

The Bloomberg Commodities Index declined -8.10% after surging earlier in the year. Crude oil fell -31.40%, ending the quarter at $69.50 per barrel, compared with $101.38 at the end of March. Gold declined -13.10%. Heating oil fell -20.30%, and unleaded gasoline declined -9.00%. Natural gas was the exception, rising +13.60%. Copper gained +10.30%, consistent with infrastructure, electrification, and industrial demand.

The oil reversal, from more than $100 per barrel back below $70, reduced pressure on consumers, transportation costs, and near-term inflation expectations. Still, the inflation story did not disappear. Refined fuels remain meaningfully higher year-to-date, and the cost of power, equipment, labor, and capital remains elevated.

Copper's +10.30% gain is worth noting. While energy prices reversed, copper remained supported by electrification, power infrastructure, artificial intelligence-related data center growth, and industrial activity.

U.S. Economy

The U.S. economy remained stronger than many expected. Growth was supported by artificial intelligence spending, an industrial renaissance, resilient consumption, and fiscal policy, including the One Big Beautiful Bill.

The bill is expected by some analysts to support nominal GDP, corporate earnings, and cash flow in 2026, although it may also worsen the longer-term deficit and debt path. The near-term effect can support growth, while the longer-term consequence may be more pressure on rates.

Retail sales advanced +0.90% in May, personal spending rose +0.70%, and real personal spending increased +0.30%. Those numbers are not consistent with a consumer who has stopped spending. They do, however, hide a divide between higher-income and lower-income households. Higher-income households continue to benefit from employment, asset values, and accumulated wealth. Lower-income households remain more exposed to elevated prices, borrowing costs, rent pressure, and weaker savings cushions.

The labor market also remained solid. Nonfarm payrolls increased by +172,000 in May, the unemployment rate was 4.30%, and average hourly earnings were up +3.40% year-over-year. The 3-month average payroll gain was +188,000, still consistent with a growing economy. As long as employment remains firm, consumer spending is likely to remain more resilient than sentiment surveys suggest.

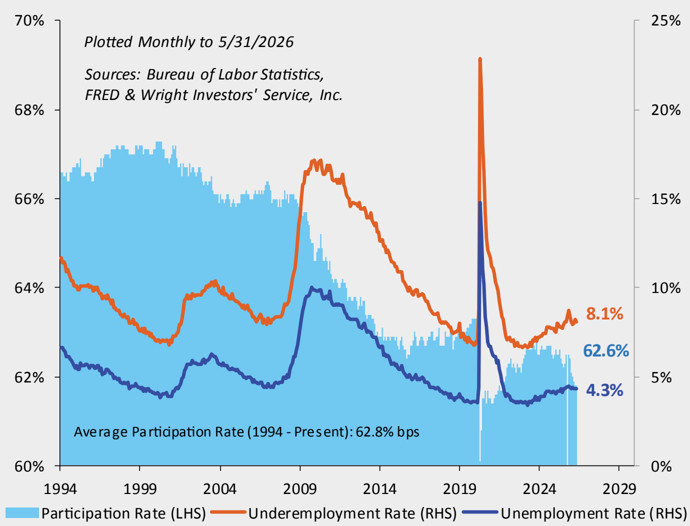
Business indicators were constructive, although not uniformly strong. ISM Manufacturing was 54.00 in May, and ISM Services was 54.50. Factory orders rose +4.80% in April. Durable goods orders fell -4.50% in May after a strong April reading, but core capital goods orders excluding aircraft rose +1.60%, suggesting business investment remained firmer beneath the headline decline. These data points support the view that the industrial side of the economy is benefiting from capital spending, reshoring, infrastructure, defense, energy, and technology investment.

The U.S. Economy 2023–2026

		% Change In			End of Period Rates	
		Real GDP*	PCE Core Deflator*	Profits from Operations#	90-Day T-Bills	10-Year T-Notes
2023	Q1	**2.9%**	**4.7%**	**4.9%**	**4.7%**	**3.5%**
	Q2	2.5%	4.0%	2.0%	5.3%	3.8%
	Q3	4.7%	2.4%	-1.3%	5.4%	4.6%
	Q4	3.4%	2.1%	-0.8%	5.3%	3.9%
2024	Q1	**0.8%**	**4.0%**	**0.5%**	**5.4%**	**4.2%**
	Q2	3.6%	2.9%	2.7%	5.4%	4.4%
	Q3	3.3%	2.4%	6.7%	4.6%	3.8%
	Q4	1.9%	2.7%	7.6%	4.3%	4.6%
2025	Q1	**-0.6%**	**3.3%**	**10.5%**	**4.3%**	**4.2%**
	Q2	3.8%	2.6%	11.8%	4.3%	4.2%
	Q3	4.4%	2.9%	12.0%	3.9%	4.2%
	Q4	0.5%	2.7%	12.9%	3.6%	4.2%
2026	Q1	**2.1%**	**4.4%**	**12.3%**	**3.7%**	**4.3%**
	Q2 e	2.5%	3.3%	15.9%	3.8%	4.5%
	Q3 e	1.9%	3.3%	78.2%	3.6%	4.4%
	Q4 e	2.0%	3.2%	83.0%	3.6%	4.4%

e: Bloomberg Consensus Estimates; *: Quarter-Over-Quarter Annual Rates; #: Year-Over-Year Change in S&P500 EPS Sources: Bloomberg LP, Wright Investors' Service, Inc.

U.S. Employment



Investment Outlook

The second quarter improved the market's technical and earnings backdrop but did not remove the main risks. The S&P 500's +15.20% quarterly gain shows that investors were willing to look past first-quarter geopolitical stress and focus again on earnings, artificial intelligence, industrial activity, consumer resilience, and fiscal support. That is encouraging, but the speed and scale of the rebound create vulnerability. The market is again placing weight on a narrow set of assumptions: that artificial intelligence spending will remain strong, earnings growth will continue, margins will hold, inflation will not force a more aggressive Fed, and private credit stress will remain contained.

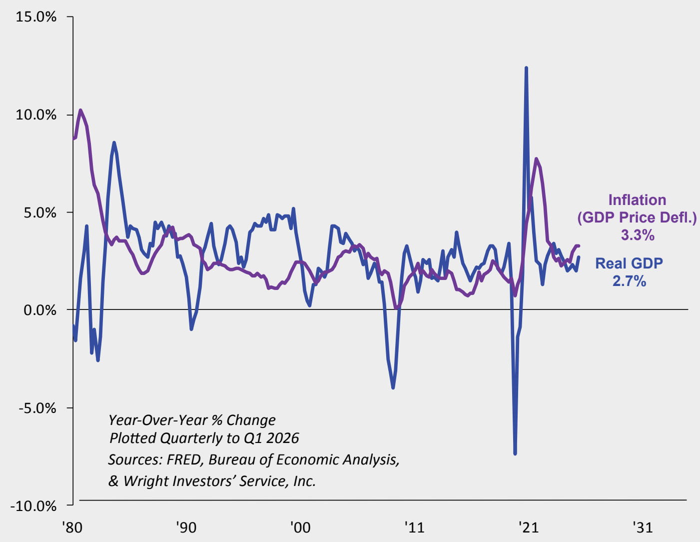
Our unease is not based on a belief that the economy is weak. It is based on the possibility that expectations have moved faster than the evidence. Artificial intelligence spending remains large, and demand appears to exceed supply across several critical areas. But the key risk is that productivity gains, revenue opportunities, and returns on capital fail to materialize on the timeline investors now expect. If that happens, the market will need to reprice not only technology stocks but also parts of industrials, utilities, power infrastructure, private credit, and data center financing that have benefited from the same theme.

Rates are also likely to remain higher. Inflation is still elevated, real yields have risen, and Fed funds futures suggest the market is at least pricing the risk of another hike by year-end. We do not believe the Federal Reserve is eager to tighten into a supply shock, but the bar for rate cuts remains high. That means investors should not assume lower rates will quickly rescue overleveraged balance sheets or highly valued long-duration assets.

Credit deserves continued attention. Strong growth is helping many borrowers, and public credit markets performed well, but the stress points are visible. Private credit redemption requests remain a liquidity issue, not a broad credit quality issue, but liquidity pressure can still change behavior. Managers may slow deployment, become more selective, or mark down vulnerable sectors. Highly leveraged software companies remain at risk where artificial intelligence threatens pricing power, customer retention, or recurring revenue durability.

The second quarter was constructive, but not conclusive. The market recovered because growth held up, earnings improved, artificial intelligence spending remained powerful, and the consumer continued to spend. Those are real positives. At the same time, the bull market now requires a great deal to go right. In this environment, discipline remains essential. Quality balance sheets, durable cash flows, reasonable valuations, diversified sources of return, and flexibility to rebalance remain the right anchors. The market has regained momentum, but the margin of safety has narrowed.

Real GDP vs. Inflation



Global Investment Returns In U.S. Dollars

	Q2 2026		Trailing 12 Months	
	Stocks	Bonds	Stocks	Bonds
U.S.	**15.2%**	**0.7%**	**21.5%**	**3.8%**
Canada	6.0%	-0.2%	26.9%	-1.6%
Mexico	3.0%	3.2%	32.3%	9.6%
Japan	**14.2%**	**-3.3%**	**29.1%**	**-16.9%**
Pacific ex Japan	3.7%	2.2%	12.4%	3.8%
Australia	5.1%	3.8%	11.1%	6.3%
China	-6.6%	3.0%	-4.9%	6.6%
Hong Kong	-6.2%	-0.7%	10.5%	2.3%
Europe	**10.9%**	**1.2%**	**18.6%**	**-0.9%**
France	8.7%	0.5%	9.6%	-1.2%
Germany	8.1%	0.6%	0.3%	-2.4%
Italy	14.5%	1.8%	27.3%	1.7%
Netherlands	36.0%	0.8%	58.5%	-1.8%
Spain	15.1%	1.2%	42.1%	-0.1%
Switzerland	12.2%	-0.1%	19.7%	-0.2%
U.K.	4.1%	2.9%	20.3%	-0.3%
World	**13.8%**	**0.9%**	**21.3%**	**0.6%**
World ex U.S.	10.2%	1.0%	21.0%	-1.9%

Sources: MSCI Stock & Bloomberg Barclays Bond Indexes as of 6/30/2026