MORNINGSTAR

North America Market Outlook Q3 2026

After harvesting gains from growth, valuations now support an equal weighting.

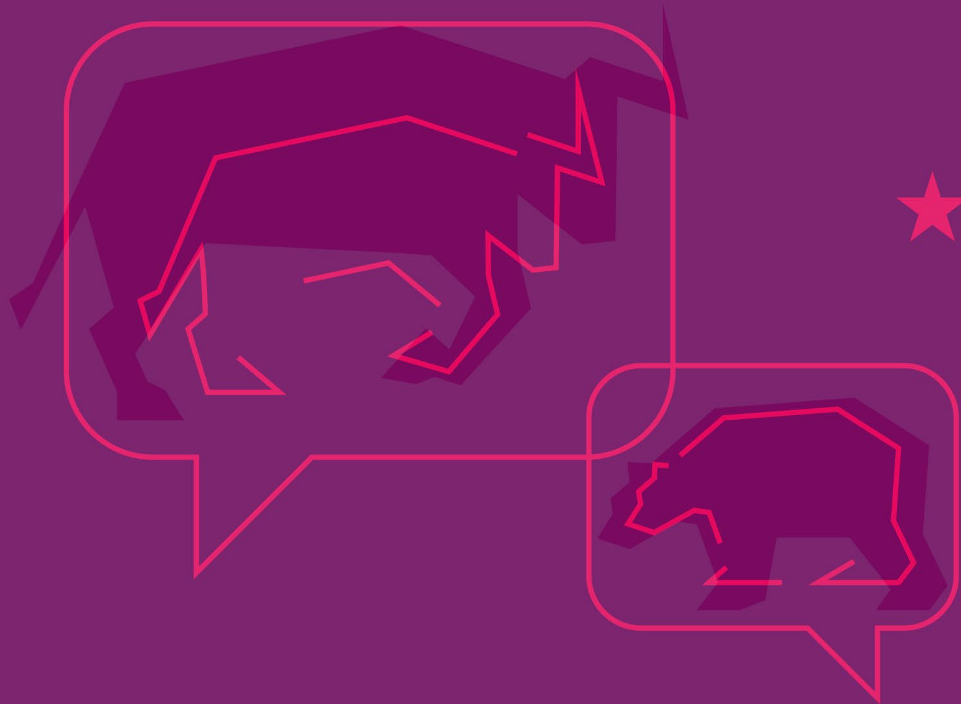

Table of Contents

Morningstar Equity Research

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US Equity Market Valuation Overview

US Equity Market Trading at an 8% Discount to a Composite of Our Fair Value Estimates

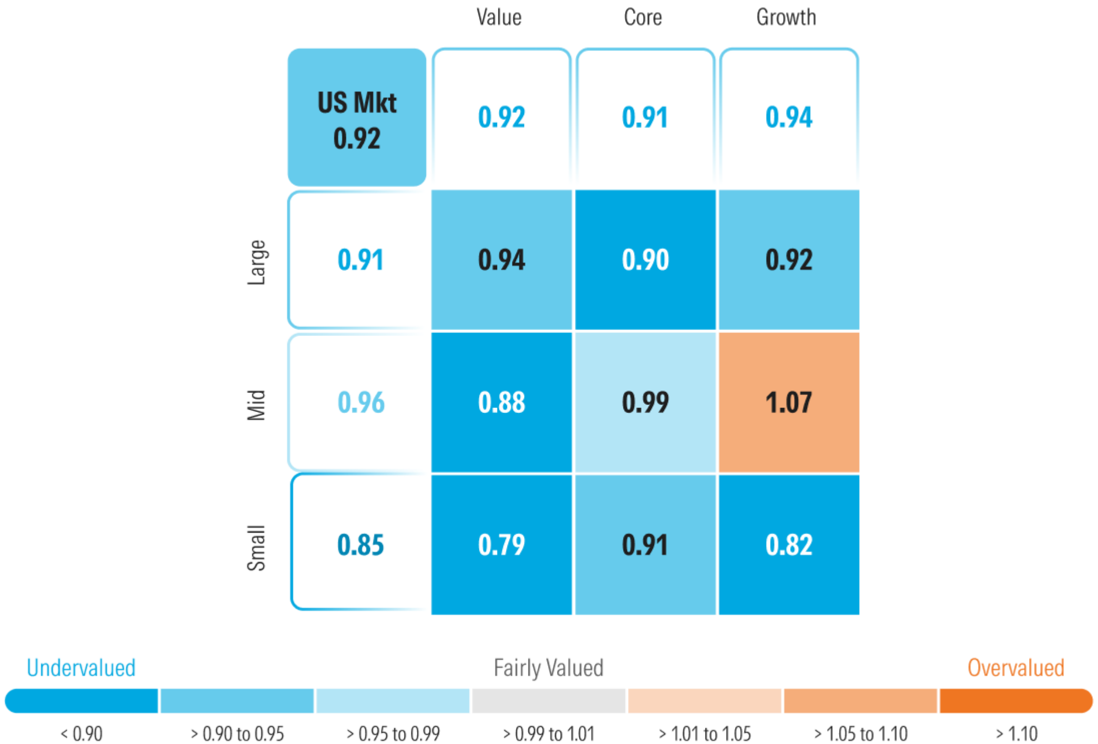
Overall, the U.S. stock market is trading at a slightly greater discount than at the beginning of the year, yet following significant rotations across style, capitalizations, and sectors, valuations have become more balanced. Based on a composite of our intrinsic valuations of the more than 700 stocks we cover that trade on US exchanges, as of June 30, 2026, we calculated that the US equity market was trading at a price/fair value estimate of 0.92. This indicates that the market is trading at an 8% discount to our fair value estimates.

In our 2026 Outlook, we noted numerous key reasons why we expected 2026 to be more volatile than 2025, and how investors should position their portfolio to take advantage of that volatility. We initially recommended a barbell-shaped portfolio, overweighting growth and value and underweighting core. Following a sharp sell-off, we advised investors to take gains in value and reinvest those proceeds in deeply discounted growth stocks. Growth staged a quick comeback, and as valuations rose toward fair value, we advised locking in those gains and moving back to a barbell-shaped portfolio.

At this point, valuations are broadly balanced by category, and we think investors should move to an equal weighting across value, core, and growth. By capitalization, even after registering its best first half performance in more than three decades and well outperforming the broad market, small-cap stocks remain the most undervalued part of the market.

US Stock Market Trading at Discount to Our Fair Value Estimates

Valuations of Morningstar's equity research coverage by equity style box.



US Stock Market Trading at Discount to Our Fair Value Estimates Data Table

Source: Morningstar. Data as of June 30, 2026.

US Stock Market Is Undervalued

While the US equity market is attractively valued at an 8% discount to our valuations, we do not think that is enough margin of safety to overweight equities above an individual investor's long-term asset allocation targets.

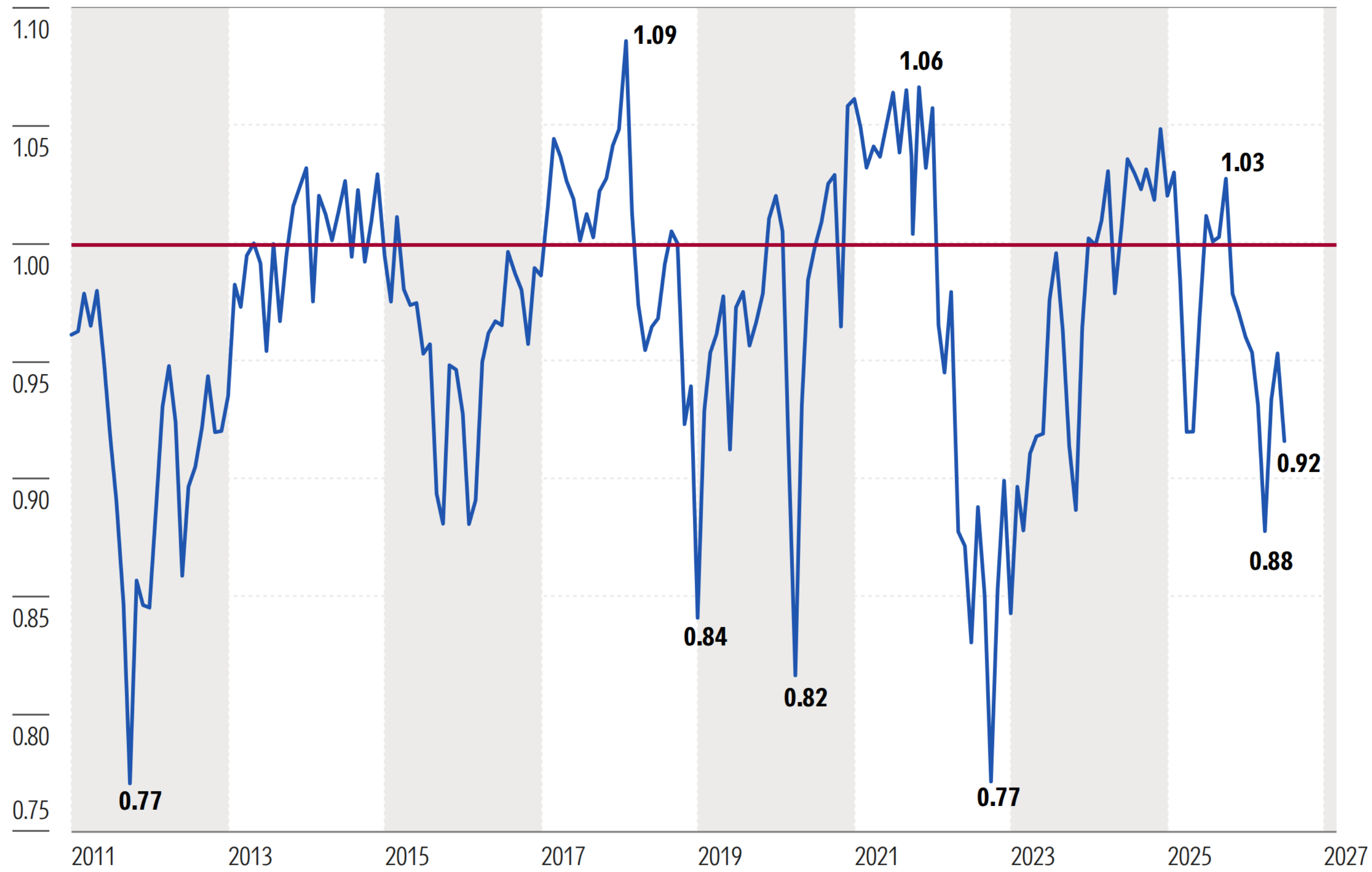
Looking ahead, while many of the risks we identified at the beginning of the year remain outstanding, risks appear more balanced heading into the second half.

On the macro-dynamic front, the market is pricing in at least one, if not two, hikes to the federal funds rate by year-end, and headline inflation will likely remain elevated in the short term until subsiding oil prices flow through. Yet, the economy continues to plod along within a range of +2% ± 0.5%, which we think is slightly below its long-term potential, and long-term interest rates appear range-bound for the second half of the year.

The greatest risk to the stock market remains the rate of spending on the AI buildout boom. Yet we continue to monitor cracks in the private credit markets that could spill over into the public markets. Internationally, we are keeping a close eye on the Chinese economy as well as the weakening of the Japanese yen.

Historical Morningstar US Equity Research Coverage Price/Fair Value Estimate at Month-End

Figures below 1 are undervalued, while those above 1 are overvalued.



Historical Morningstar US Equity Research Coverage Price/Fair Value Estimate at Month-End Data Table

Source: Morningstar. Data as of June 30, 2026.

AI Remains the Driving Force Across Market Returns

The Morningstar US Market Index surged 15.52% during the second quarter of 2026.

Returns across a handful of artificial intelligence-related stocks continue to drive broad market and category returns. After driving the market down in the first quarter, AI stocks propelled the market higher in the second quarter. By style, growth easily outpaced core and value, with the technology sector accounting for 68% of growth's return. Within the core category, the technology sector accounted for half of the return, whereas exposures to energy, consumer defensive, and utilities were each detractors to returns. Returns in the value sector were hampered by its weighting in the energy and communications sectors.

Within the large-cap category, an attribution analysis reveals that over 70% of the gain in large-cap can be attributed to just nine AI-related stocks. Outperformance by mid-cap stocks was predominantly driven by their exposure to memory semiconductor stocks that skyrocketed higher in the second quarter. Leading the way was SanDisk with a 258% return, followed by Marvell, Seagate, and Western Digital, which posted 201%, 147%, and 136% gains, respectively. At the individual stock level, returns were broadly diversified across small-cap stocks, although an attribution analysis reveals that by sector, technology and industrials drove half of the return, whereas energy and basic materials were detractors to returns.

Morningstar US Market Index Surged 15.52% During the Second Quarter

Rebound in growth after last quarter's sell-off trounces core and value.

		Value	Core	Growth
	US Mkt 15.52	5.54	15.23	23.49
Large	15.54	5.00	16.53	31.05
Mid	16.05	5.46	14.57	29.93
Small	14.00	10.85	11.81	20.08

Negative Returns — Positive Returns

< −8.0% | < 4 to −8 | < 0.0 to −4 | > 0.0 to 4 | > 4 to 8 | > 8.0

Morningstar US Market Index Surged 15.52% During the Second Quarter Data Table

Source: Morningstar. Data as of June 30, 2026.

Returns More Evenly Balanced During First-Half 2026

The Morningstar US Market Index rose 10.69% during the first half of 2026.

By style, growth easily outpaced core and value, with the technology sector accounting for 68% of growth's return. Nine of the 10 stocks that contributed the most to the return are all directly tied to the AI build-out boom. While the technology sector accounted for half of the return within the core category, stocks of companies whose business models may be at risk of disruption or displacement by AI, such as Microsoft, Salesforce, and Adobe, were detractors from the overall return. Returns in the value sector were bolstered by industrials tied to the buildout of data centers, partially offset by its weighting in the communications and consumer cyclical sectors.

After leading the market over the past three years, large-cap stocks lagged in the first half of 2026. Technology continues to account for the bulk of returns, and semiconductor stocks surged, but returns among mega-cap stocks such as Nvidia, Apple, and Amazon have lagged, with Microsoft falling significantly throughout the first half. Outperformance by mid-cap stocks was predominantly driven by their exposure to memory semiconductor stocks, which skyrocketed in the second quarter. Leading the way was SanDisk with an 858% return, followed by Marvell, Seagate, and Western Digital, which posted gains of 250%, 250%, and 270%, respectively. Small-cap stocks registered their best first-half performance over the past 30 years. Half of the return was driven by the industrials and technology sectors, especially from returns generated by stocks tied to the AI buildout boom.

Morningstar US Market Index Has Risen 10.69% Year to Date

Growth leads the broad market, but by less than it has in the recent past.

		Value	Core	Growth
	US Mkt 10.69	8.74	10.78	15.85
Large	8.52	7.49	11.89	14.33
Mid	17.46	10.89	15.42	26.77
Small	14.01	13.90	10.38	18.38

Negative Returns — Positive Returns

< −20.0% | < −10 to −20 | < 0.0 to −10 | > 0.0 to 10 | > 10 to 20 | > 20.0

Morningstar US Market Index Has Risen 10.69% Year to Date Data Table

Source: Morningstar. Data as of June 30, 2026.

Volatility During First-Half 2026 Provided an Opportunity to Capitalize on Distortions

Market volatility provided opportunities to capitalize on valuation dislocations during the first half of 2026. To benefit from the heightened volatility we anticipated, we began the year recommending a barbell-shaped portfolio. After the March selloff, we advised taking gains in value and reinvesting in deeply discounted growth stocks. As growth rebounded and valuations approached fair value, we recommended locking in gains and returning to a barbell strategy. With valuations now broadly balanced, we believe investors should move to equal weightings. By capitalization, small-cap stocks remain the market's most undervalued segment, even after their strongest first-half performance in more than 30 years.

Change in Morningstar Equity Research Coverage Price/Fair Value Estimates

December 31, 2025

Size	All	Style: Value	Core	Growth
All	**0.96**	0.95	1.00	0.90
Large	0.96	0.97	1.00	0.86
Mid	0.98	0.90	1.02	1.04
Small	0.85	0.77	0.90	0.93

March 31, 2026

Size	All	Style: Value	Core	Growth
All	**0.88**	0.95	0.88	0.81
Large	0.87	0.98	0.86	0.79
Mid	0.93	0.88	0.97	0.92
Small	0.79	0.74	0.81	0.84

June 30, 2026

Size	All	Style: Value	Core	Growth
All	**0.92**	0.92	0.91	0.94
Large	0.91	0.94	0.90	0.92
Mid	0.96	0.88	0.99	1.07
Small	0.85	0.79	0.91	0.82

Change in Morningstar Equity Research Coverage Price/Fair Value Estimates Data Table

Source: Morningstar. Data as of June 30, 2026.

Shortages Driven by AI Buildout Boom Fuel Market Returns

In our last market outlook, we highlighted that technology had over-corrected to the downside and was the most undervalued sector at the end of March. AI stocks soared in the second quarter, especially those able to capitalize on shortages of semiconductors and related equipment.

Stocks tied to the construction of data centers and the electricity needed to run AI servers led the industrials sector higher. Leaders included Caterpillar, GE Vernova, Bloom Energy, and Vertiv.

Returns in financials and real estate were widespread, whereas returns in communications and healthcare were concentrated. For example, Alphabet's attribution was greater than the sector's, indicating that the number of stocks registering losses outpaced those with gains.

Last quarter, we noted that energy stocks had risen too far into overvalued territory following the military conflict with Iran. After the US reached a fragile détente with Iran, the sector retreated as oil prices subsided. Similarly, we noted that the flight to safety in the first quarter pushed the utility sector into overvalued territory, and the sector has struggled to break even since.

Returns by Sector: Q2 2026 (%)

Cyclical		Sensitive		Defensive	
Basic Materials	1.33	Communication Services	8.85	Consumer Defensive	0.25
Consumer Cyclical	9.07	Energy	−13.19	Healthcare	9.47
Financial Services	9.47	Industrials	16.78	Utilities	−0.40
Real Estate	9.31	Technology	32.07		

Negative Returns — Positive Returns

< −8.0% | < 4 to −8 | < 0.0 to −4 | > 0.0 to 4 | > 4 to 8 | > 8.0

Returns by Sector: Q2 2026 (%) Data Table

Source: Morningstar. Data as of June 30, 2026.

Companies Able to Capitalize on Secondary and Tertiary AI Buildout Plays Soar

The AI buildout boom continues unabated, but it's no longer just the stocks at the technological forefront of AI technology that have led the market, but those tied to the development of data centers and electric generation to satisfy the demand for electricity to run AI semiconductors.

For example, while the industrials sector has generated the greatest gain this year, that gain has been concentrated. For example, Caterpillar and GE Vernova have each risen over 80% this year, Vertiv has doubled, and Bloom Energy has risen almost 250%.

Within the technology sector, prices for memory semiconductors have risen substantially as the voracious demand for memory has led to a shortage. The resulting earnings growth has propelled SanDisk stock over 850%, Micron has surged over 300%, and Western Digital and Seagate have each risen over 250%. Yet, it's not just memory. Demand for the CPUs needed to manage AI data loads has risen. As such, both AMD and Intel have risen 170% and 278%, respectively.

Returns by Sector: H2 2026 (%)

Cyclical		Sensitive		Defensive	
Basic Materials	11.99	Communication Services	–0.01	Consumer Defensive	7.80
Consumer Cyclical	–0.86	Energy	19.87	Healthcare	4.12
Financial Services	–0.68	Industrials	24.72	Utilities	7.31
Real Estate	11.15	Technology	20.15		

Negative Returns — Positive Returns

< –20.0%	< –10 to –20	< 0.0 to –10	> 0.0 to 10	> 10 to 20	> 20.0

Returns by Sector: H2 2026 (%) Data Table

Source: Morningstar. Data as of June 30, 2026.

Attribution Analysis: Contributors Q2 2026

From the technological leaders in AI GPUs to the CPUs needed to orchestrate AI workloads to the commodity-oriented memory chips, stocks for semiconductors and the equipment needed to manufacture them were the greatest contributors to the market return.

While technology leaders in AI GPUs such as Nvidia and Broadcom were top-performing contributors, hyperscalers like Alphabet and Amazon, which are increasingly designing and using their own customized AI chipsets, bolstered the broader market return.

AMD and Intel have begun to benefit from increased demand for CPUs. To most efficiently manage workloads across multiple GPUs, data centers are deploying more CPUs to process and move data as well as manage memory, storage, and networking.

The sheer number of data center buildouts and the requirements to furnish these projects have created shortages across the entire semiconductor chain, driving strong demand for semiconductor manufacturing equipment from Applied Materials and Lam Research to build new semiconductor manufacturing capacity.

Top 10 Contributors to Market Return During Q2 2026

Name/Ticker	Index Weighting (%)	Q226 Return (%)	Contribution to Index Return (%)
Micron Technology MU	1.21	239.00	1.51
Alphabet GOOGL	5.74	24.28	1.22
Advanced Micro Devices AMD	0.97	165.20	1.01
Nvidia NVDA	7.09	14.73	1.00
Apple AAPL	6.19	14.02	0.86
Intel INTC	0.64	216.41	0.68
Broadcom AVGO	2.74	20.34	0.53
Applied Materials AMAT	0.53	103.24	0.50
Amazon.com AMZN	3.63	14.44	0.48
Lam Research LRCX	0.56	92.32	0.45

Source: Morningstar. Data as of June 30, 2026.

Attribution Analysis: Contributors' Valuations

Top 10 Stocks With Largest Contribution to Market Returns During the Second Quarter

Name/Ticker	Rating 3/31/26	Rating 6/30/26	Price ($) 3/31/26	Price ($) 6/30/26	Change (%)	Fair Value 3/31/26	Fair Value 6/30/26	Change (%)	P/FV 3/31/26	P/FV 6/30/26
Micron Technology MU	★★★★	★★	338	1,154	241.7%	455	850	86.8%	0.74	1.36
Alphabet GOOGL	★★★★	★★★★	288	357	24.3%	340	433	27.4%	0.85	0.83
Advanced Micro Devices AMD	★★★★	★★	203	581	185.6%	300	450	50.0%	0.68	1.29
Nvidia NVDA	★★★★	★★★★	174	200	14.7%	260	280	7.7%	0.67	0.71
Apple AAPL	★★★	★★★	254	289	14.0%	260	290	11.5%	0.98	1.00
Intel INTC	★★	★★	44	140	216.4%	32	90	181.3%	1.38	1.55
Broadcom AVGO	★★★★	★★★★★	310	378	22.0%	500	650	30.0%	0.62	0.58
Applied Materials AMAT	★★★	★★	342	723	111.5%	380	470	23.7%	0.90	1.54
Amazon.com AMZN	★★★★	★★★★	208	238	14.4%	260	280	7.7%	0.80	0.85
Lam Research LRCX	★★★	★	214	433	102.8%	200	220	10.0%	1.07	1.97

Source: Morningstar. Data as of June 30, 2026.

Attribution Analysis: Detractors Q2 2026

Detractors during the second quarter were more thematic than idiosyncratic. Exxon, Chevron, and ConocoPhillips stocks retreated as oil prices subsided following the truce between the US and Iran.

Stocks of those companies deemed at risk for disruption or displacement from AI, such as Intuit and Accenture, continued to slide.

Communications providers AT&T and Verizon slid as markets ratcheted back expectations and grew increasingly concerned about the possibility of new competition from satellite providers.

Pullback in Palantir stock was emblematic of several AI stocks whose valuations got ahead of themselves.

Netflix's sell-off was company-specific, as it failed to meet the market's expectations for continued elevated subscriber growth.

Top 10 Detractors to Market Return During Q2 2026

Name/Ticker	Index Weighting (%)	YTD Return (%)	YTD Contribution to Index Return (%)
Exxon Mobil XOM	0.93	(19.42)	(0.22)
Netflix NFLX	0.55	(25.74)	(0.17)
Chevron CVX	0.51	(19.88)	(0.12)
Palantir Technologies PLTR	0.45	(20.24)	(0.11)
AT&T T	0.26	(28.60)	(0.09)
Walmart WMT	0.79	(8.87)	(0.08)
Intuit INTU	0.14	(39.64)	(0.08)
Accenture ACN	0.16	(37.24)	(0.07)
ConocoPhillips COP	0.22	(21.24)	(0.06)
Verizon Communications VZ	0.29	(15.66)	(0.05)

Source: Morningstar. Data as of June 30, 2026.

Attribution Analysis: Detractors' Valuations

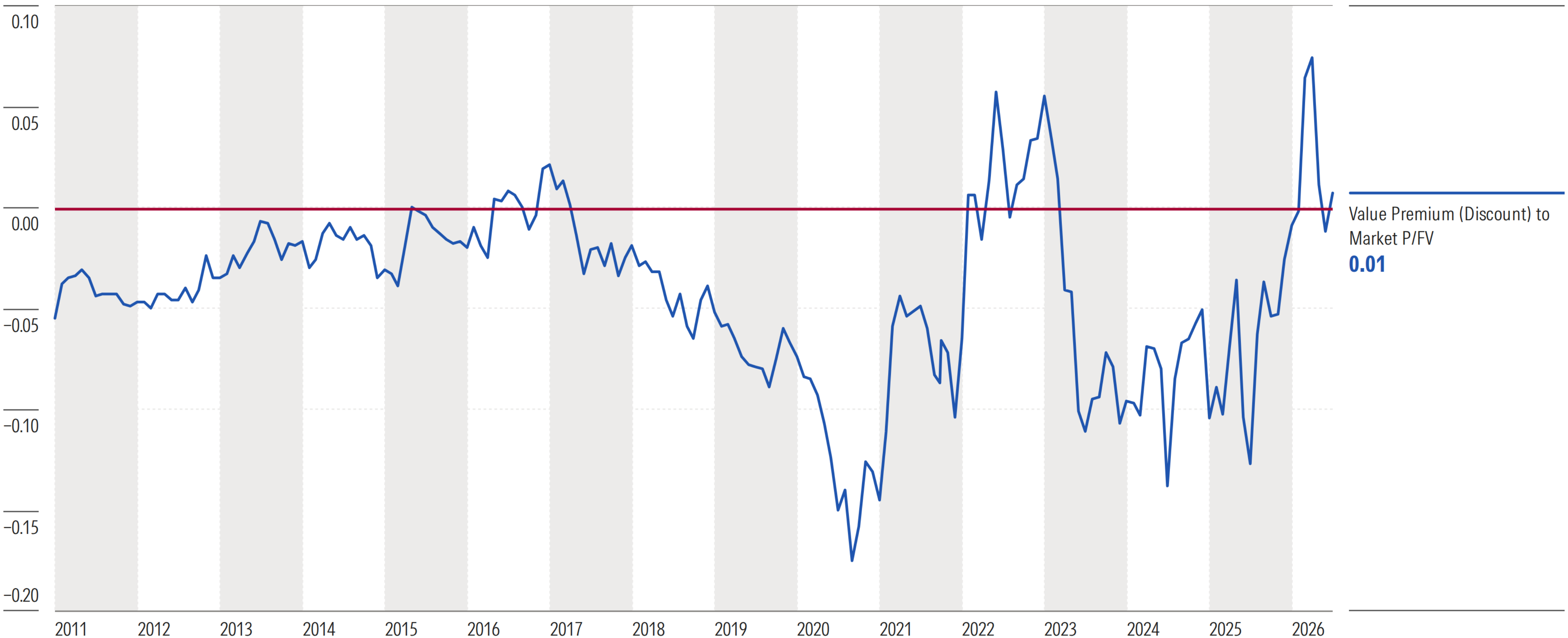
Top 10 Stocks That Detracted the Most from Market Returns During the Second Quarter

Name/Ticker	Rating 3/31/26	Rating 6/30/26	Price ($) 3/31/26	Price ($) 6/30/26	Change (%)	Fair Value 3/31/26	Fair Value 6/30/26	Change (%)	P/FV 3/31/26	P/FV 6/30/26
Exxon Mobil XOM	★★	★★★	170	137	-19.4%	142	156	9.9%	1.19	0.88
Netflix NFLX	★★	★★★	96	71	-25.7%	80	80	0.0%	1.20	0.89
Chevron CVX	★★	★★★	207	166	-19.9%	171	192	12.3%	1.21	0.86
Palantir Technologies PLTR	★★★	★★★★	146	117	-20.2%	153	153	0.0%	0.96	0.76
AT&T T	★★★	★★★★	29	21	-28.6%	27	27	0.0%	1.07	0.77
Walmart WMT	★	★	124	113	-8.9%	62	81	30.6%	2.00	1.40
Intuit INTU	★★★	★★★★★	432	261	-39.6%	495	455	-8.1%	0.87	0.57
Accenture ACN	★★★★	★★★★★	198	124	-37.2%	255	223	-12.5%	0.78	0.56
ConocoPhillips COP	★★	★★★	132	104	-21.2%	107	124	15.9%	1.23	0.84
Verizon Communications VZ	★★★	★★★★	50	42	-15.7%	53	53	0.0%	0.95	0.80

Source: Morningstar. Data as of June 30, 2026.

Value Stock Valuations Vs. Broad Market Valuation

Valuations for Value Stocks Now In Line With Broader Market

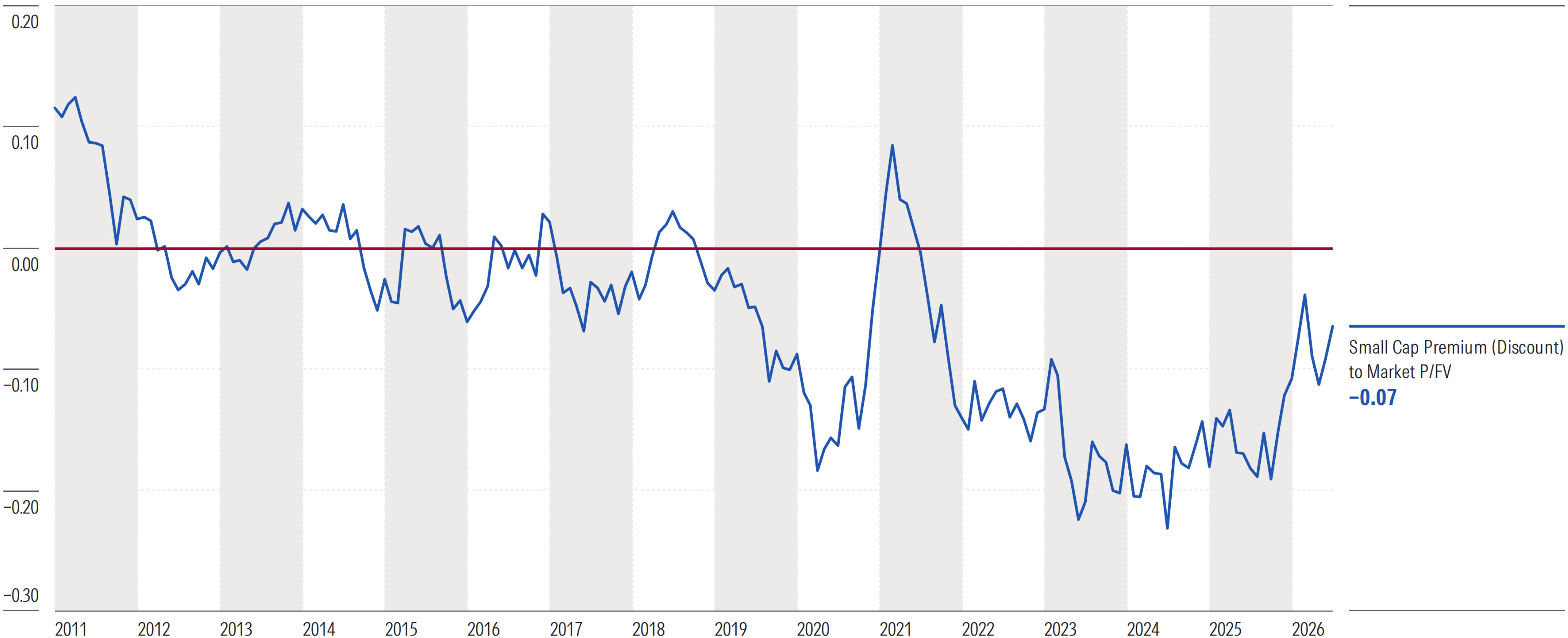


[Valuations for Value Stocks Now In Line with Broader Market Data Table]

Source: Morningstar. Data as of June 30, 2026.

Small-Cap Stock Valuations vs. Broad Market Valuation

Small-Caps Still Most Undervalued Part of Market, But No Longer as Undervalued On Relative Value Basis



Small-Caps Still Most Undervalued Part of Market, But No Longer as Undervalued On Relative Value Basis Data Table

Source: Morningstar. Data as of June 30, 2026.

Second-Half 2026 Risks

Key Risks in Second-Half 2026

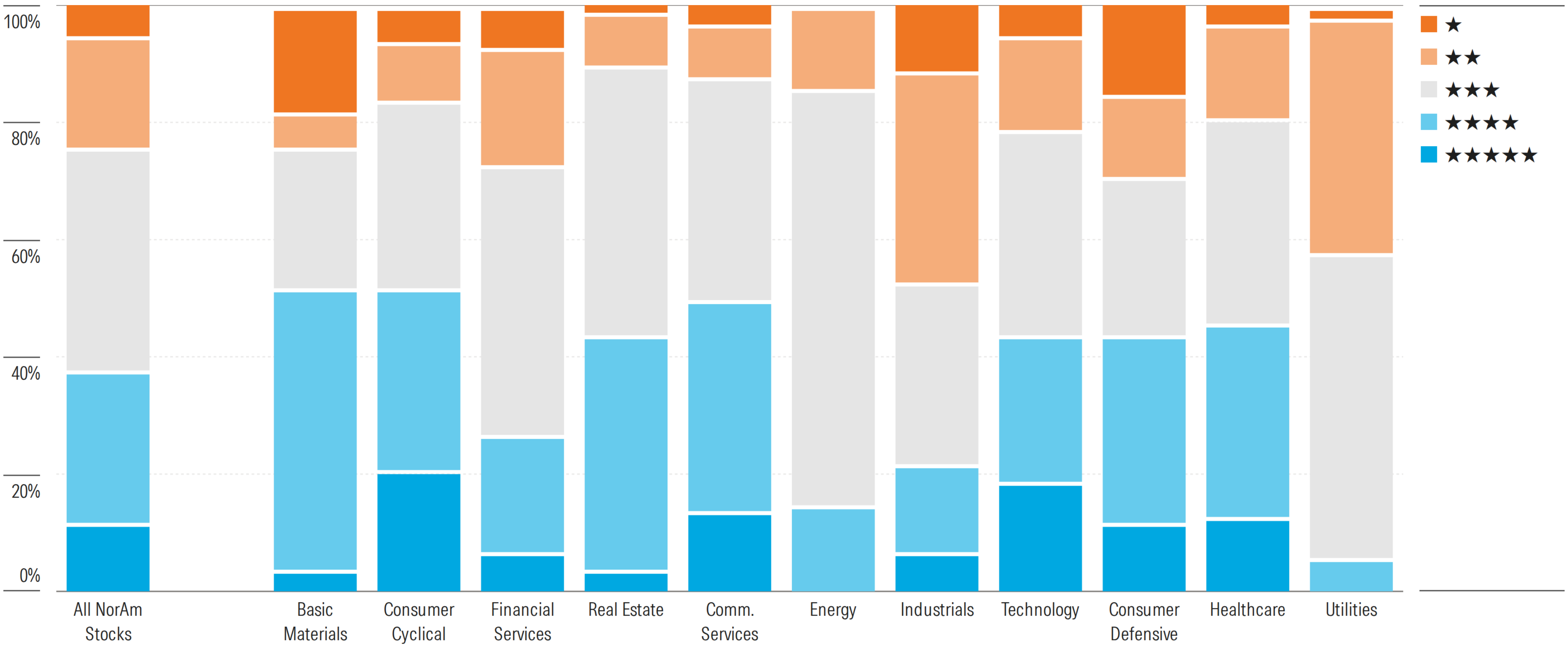
- AI stocks require even greater growth to support high valuations
- High oil prices lead to stagflation: Slowing economic growth/higher inflation
- Impending midterm elections
- Resumption of trade and tariff negotiations
- Weakening fundamentals in private credit markets
- Chinese economy weaker than expected/deceleration accelerating
- Weakening JPY leading to unwinding of carry trade

Source: Morningstar. Data as of June 30, 2026.

Sector Valuations and Top Picks

Percentage of Undervalued Stocks by Sector Becoming More Balanced

Morningstar Equity Star Ratings by Sector

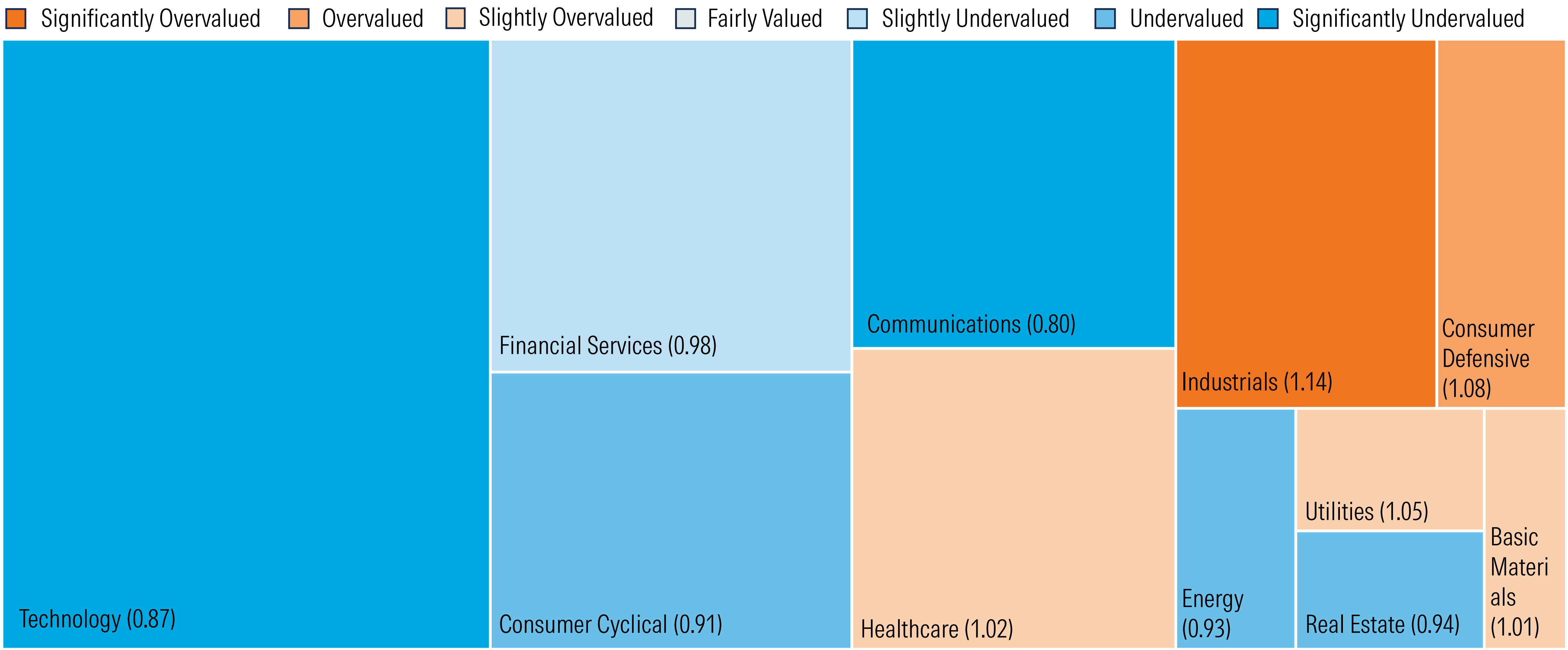


Morningstar Equity Star Ratings by Sector Data Table

Source: Morningstar. Data as of June 30, 2026.

Heatmap of Sector Valuations Across Morningstar US Market Index by Capitalization

By Market Capitalization, Sector Valuations Have Trended Toward Our Valuations



By Market Capitalization, Sector Valuations Have Trended toward Our Valuations Data Table

Source: Morningstar. Data as of June 30, 2026.

Over Past Quarter, Most Sector Valuations Have Trended Closer to Fair Value

At a 20% discount, the communication sector is the most undervalued. One of the greatest differentials in our view versus the market is Meta Platforms, which accounts for 19% of the sector market capitalization and trades at a 34% discount. Technology is the second-most undervalued. Within the sector, we see the most attractive valuations within the software sector. Consumer cyclical is at a 9% discount, but that discount is skewed downward by Amazon which constitutes 35% of the sector market cap and its trading at a 15% discount. Excluding Amazon, the sector only trades at a 4% discount.

Last quarter, we noted that energy had swung too far to the upside and was the most overvalued. Following 13% loss last quarter, energy is now at a 7% discount.

At a 14% premium, the industrials sector is the most overvalued. Where we see the most overvaluation is in those stocks that are tied to the construction of data centers and those that manufacture and supply electrical equipment.

Morningstar Price/Fair Value Estimate Metric by Sector Weighted by Intrinsic Value

Figures below 1 are undervalued, while those above 1 are overvalued.

Cyclical		Sensitive		Defensive	
Basic Materials	1.01	Communication Services	0.80	Consumer Defensive	1.08
Consumer Cyclical	0.91	Energy	0.93	Healthcare	1.02
Financial Services	0.98	Industrials	1.14	Utilities	1.05
Real Estate	0.94	Technology	0.87		

Undervalued			Fairly Valued			Overvalued
< 0.90	> 0.90 to 0.95	> 0.95 to 0.99	> 0.99 to 1.01	> 1.01 to 1.05	> 1.05 to 1.10	> 1.10

Morningstar Price/Fair Value Estimate Metric by Sector Weighted by Intrinsic Value Data Table

Source: Morningstar. Data as of June 30, 2026.

Cyclical Sectors: Best Picks

Corteva's wide moat comes from its strong pricing power in its patented and differentiated seeds. Ecolab is our top pick to invest in specialty chemicals producers' ability to pass along cost inflation. Linde is well-positioned to capitalize on SpaceX's ambitious launch cadence and transition to more propellant-intensive Starship rockets. Nike has lost share to rivals, yet in the long run, we think Nike can return to midteens EBIT margins as it increases full-price selling, releases new merchandise, and raises sales in high-margin markets. Schwab has been battered by fears regarding AI enabled cash management tools, a still hypothetical risk that fails to hold water when considered against a handful of practical realities.

Best Picks From Our Directors Across the Cyclical Sectors

Name/Ticker	Rating	Price ($)	Fair Value ($)	P/FV	Economic Moat	Uncertainty	Sector
Corteva CTVA	★★★	85	90	0.94	Wide	Medium	Basic Materials
Ecolab ECL	★★★	279	300	0.93	Wide	Medium	Basic Materials
Linde LIN	★★★★	519	540	0.96	Wide	Low	Basic Materials
Gildan Activewear GIL	★★★★★	52	95	0.54	Narrow	Medium	Consumer Cyclical
Lululemon Athletica LULU	★★★★★	114	280	0.41	Narrow	High	Consumer Cyclical
Nike NKE	★★★★★	41	97	0.42	Wide	High	Consumer Cyclical
Bank of America BAC	★★★★	57	65	0.88	Wide	Medium	Financial Services
S&P Global SPGI	★★★★	407	530	0.77	Wide	Medium	Financial Services
The Charles Schwab SCHW	★★★★	92	117	0.79	Wide	Medium	Financial Services
Invitation Homes INVH	★★★★	30	38	0.80	None	Medium	Real Estate
Kilroy Realty KRC	★★★★	37	51	0.73	None	High	Real Estate
Park Hotels & Resorts PK	★★★★	14	20	0.73	None	High	Real Estate

Source: Morningstar. Data as of June 30, 2026.

Economically Sensitive Sectors: Best Picks

Antero's long-haul transport contracts give it priority access to LNG export pricing; so, it should benefit from soaring overseas demand for US natural gas. The market is pricing Lennar ss if homebuilding margins will not improve from the current levels, which we think is excessively pessimistic. Vontier's near-term growth is being pressured by cyclical weakness but appears positioned for a return to modest organic growth as macroeconomic conditions normalize.

Best Picks From Our Directors Across the Economically Sensitive Sectors

Name/Ticker	Rating	Price ($)	Fair Value ($)	P/FV	Economic Moat	Uncertainty	Sector
Comcast CMCSA	★★★★★	25	41	0.60	Narrow	Medium	Communication Services
The Walt Disney DIS	★★★★	96	125	0.77	Wide	Medium	Communication Services
Omnicom Group OMC	★★★★	73	115	0.63	Narrow	High	Communication Services
Antero Resources AR	★★★★	46	53	0.86	None	Medium	Energy
Devon Energy DVN	★★★★	41	55	0.75	Narrow	High	Energy
Energy Transfer ET	★★★★	19	24	0.80	None	Medium	Energy
CarMax KMX	★★★★★	53	96	0.55	Narrow	High	Consumer Cyclical
Lennar LEN	★★★★	90	124	0.73	None	High	Consumer Cyclical
Vontier VNT	★★★★★	29	48	0.60	Narrow	Medium	Technology
Broadcom AVGO	★★★★★	378	650	0.58	Wide	High	Technology
Microsoft MSFT	★★★★★	373	600	0.62	Wide	Medium	Technology
Nvidia NVDA	★★★★	200	280	0.71	Wide	Very High	Technology

Source: Morningstar. Data as of June 30, 2026. Note: Vontier is categorized in the technology sector, but is covered by our industrials analyst team.

Defensive Sectors: Best Picks

The market is pricing in elevated cost inflation and lagging profitability as structural at Campbell's, however, we expect inflationary headwinds to moderate and the firm to unlock efficiencies, supporting improved profitability. Kraft returns to the best picks list as its strategic playbook, centered on increasing brand spending and enhancing its competitive standing, should enable 2% average annual sales growth. Medline shares have traded down following weak first quarter margins, but we see these as largely transitory and continue to believe strong fundamentals remain unchanged. Utility sector remains broadly overvalued and few undervalued opportunities exist.

Best Picks From Our Directors Across the Defensive Sectors

Name/Ticker	Rating	Price ($)	Fair Value ($)	P/FV	Economic Moat	Uncertainty	Sector
Campbell's CPB	★★★★★	22	56	0.40	Wide	Medium	Consumer Defensive
The Clorox Company CLX	★★★★★	95	163	0.59	Wide	Medium	Consumer Defensive
The Kraft Heinz KHC	★★★★★	24	42	0.56	Narrow	Medium	Consumer Defensive
GE HealthCare Technologies GEHC	★★★★	64	88	0.73	Wide	Medium	Healthcare
IQVIA IQV	★★★★★	193	268	0.72	Narrow	Medium	Healthcare
Medline MDLN	★★★★	39	48	0.82	Narrow	Medium	Healthcare
American Electric Power Company AEP	★★★	137	141	0.97	Narrow	Low	Utilities
DTE Energy DTE	★★★	152	157	0.97	Narrow	Low	Utilities
Edison International EIX	★★★	74	81	0.92	Narrow	Medium	Utilities

Source: Morningstar. Data as of June 30, 2026.

Valuation by Economic Moat

Wide-Moat Stocks Even More Undervalued

No-moat stocks became even further overvalued. In fact, no moat stocks are as overvalued as in mid-2021, just prior to the market correction that began in early 2022.

Overvaluation is concentrated in several commodity-oriented tech hardware stocks. The rush to build AI data centers has led to shortages in the equipment needed to deploy AI chipsets, including memory semiconductors, networking gear, connectors, and even the CPUs to orchestrate AI workloads. Shortages have led to substantial price increases, thus driving record margins and earnings growth. Stocks such as Micron, SanDisk, and Seagate have risen to levels well in excess of our valuations. While we forecast substantial earnings growth this year and next, we expect new supply to come online in 2028, which will dampen earnings growth thereafter.

Conversely, wide moat stocks are trading at even greater discounts. We think investors are undervaluing the long-term cash flow generation potential of AI leaders such as Nvidia, Broadcom, and Alphabet. In addition, we think the market is overly penalizing software providers for potential for AI to disrupt or displace their businesses.

Price/Fair Value Estimate by Economic Moat Rating Across Size and Style

Figures below 1 are undervalued, while those above 1 are overvalued.

Moat		Size			Style		
		Large	Mid	Small	Value	Core	Growth
None	1.16	1.35	1.02	0.90	0.96	1.14	1.38
Narrow	0.94	0.94	0.94	0.84	0.87	0.96	1.12
Wide	0.88	0.88	0.97	0.74	0.97	0.89	0.83

Undervalued | Fairly Valued | Overvalued

< 0.90 | > 0.90 to 0.95 | > 0.95 to 0.99 | > 0.99 to 1.01 | > 1.01 to 1.05 | > 1.05 to 1.10 | > 1.10

Price/Fair Value Estimate by Economic Moat Rating Across Size and Style Data Table

Source: Morningstar. Data as of June 30, 2026.

Undervalued Large-Cap Stocks With Wide Economic Moats

Examples of Large-Cap Companies With Long-Term, Durable Competitive Advantages at Discounts to Our Estimate of Intrinsic Valuation

Name/Ticker	Rating	Price ($)	Fair Value ($)	P/FV	Economic Moat	Uncertainty	Sector
Broadcom AVGO	★★★★★	378	650	0.58	Wide	High	Technology
Microsoft MSFT	★★★★★	373	600	0.62	Wide	Medium	Technology
Meta Platforms META	★★★★	563	850	0.66	Wide	High	Communication Services
Nvidia NVDA	★★★★	200	280	0.71	Wide	Very High	Technology
The Walt Disney DIS	★★★★	96	125	0.77	Wide	Medium	Communication Services
The Charles Schwab SCHW	★★★★	92	117	0.79	Wide	Medium	Financial Services
Pepsico PEP	★★★★	135	169	0.80	Wide	Low	Consumer Defensive
Alphabet GOOGL	★★★★	357	433	0.83	Wide	Medium	Communication Services
Blackstone BX	★★★★	118	140	0.84	Wide	High	Financial Services
Booking Holdings BKNG	★★★★	178	211	0.84	Wide	High	Consumer Cyclical
Amazon.com AMZN	★★★★	238	280	0.85	Wide	Medium	Consumer Cyclical
Bank of America BAC	★★★★	57	65	0.88	Wide	Medium	Financial Services
Thermo Fisher Scientific TMO	★★★★	501	560	0.90	Wide	Medium	Healthcare
McDonald's MCD	★★★★	270	300	0.90	Wide	Low	Consumer Cyclical

Source: Morningstar. Data as of June 30, 2026.

Undervalued Mid-Cap Stocks With Wide Economic Moats

Examples of Mid-Cap Companies With Long-Term, Durable Competitive Advantages at Discounts to Our Estimate of Intrinsic Valuation

Name/Ticker	Rating	Price ($)	Fair Value ($)	P/FV	Economic Moat	Uncertainty	Sector
Nike NKE	★★★★★	41	97	0.42	Wide	High	Consumer Cyclical
Zoetis ZTS	★★★★★	72	140	0.51	Wide	Medium	Healthcare
Veeva Systems VEEV	★★★★★	177	287	0.62	Wide	High	Healthcare
Intercontinental Exchange ICE	★★★★★	123	174	0.71	Wide	Low	Financial Services
Autodesk ADSK	★★★★	194	268	0.73	Wide	Medium	Technology
Mondelez International MDLZ	★★★★	58	75	0.77	Wide	Low	Consumer Defensive
CME Group CME	★★★★★	221	285	0.77	Wide	Low	Financial Services
Honeywell Aerospace HONA	★★★★	221	285	0.78	Wide	Medium	Industrials
Northrop Grumman NOC	★★★★	509	640	0.80	Wide	Medium	Industrials
The Hershey HSY	★★★★	175	218	0.80	Wide	Low	Consumer Defensive
Kenvue KVUE	★★★★	19	23	0.83	Wide	High	Consumer Defensive
Agilent Technologies A	★★★★	133	159	0.84	Wide	Medium	Healthcare
Airbnb ABNB	★★★★	143	170	0.84	Wide	High	Consumer Cyclical
AutoZone AZO	★★★★	3,196	3,700	0.86	Wide	Medium	Consumer Cyclical

Source: Morningstar. Data as of June 30, 2026.

Undervalued Small-Cap Stocks With Wide Economic Moats

Examples of Small-Cap Companies With Long-Term, Durable Competitive Advantages at Discounts to Our Estimate of Intrinsic Valuation

Name/Ticker	Rating	Price ($)	Fair Value ($)	P/FV	Economic Moat	Uncertainty	Sector
Campbell's CPB	★★★★★	22	56	0.40	Wide	Medium	Consumer Defensive
MarketAxess Holdings MKTX	★★★★★	113	250	0.45	Wide	High	Financial Services
Guidewire Software GWRE	★★★★★	123	220	0.56	Wide	High	Technology
Tyler Technologies TYL	★★★★★	292	500	0.58	Wide	High	Technology
The Clorox Company CLX	★★★★★	95	163	0.59	Wide	Medium	Consumer Defensive
Bentley Systems BSY	★★★★★	30	43	0.70	Wide	Medium	Technology
PTC PTC	★★★★	114	160	0.71	Wide	Medium	Technology
Domino's Pizza DPZ	★★★★	296	412	0.72	Wide	Medium	Consumer Cyclical
Brown-Forman BF.B	★★★★	27	37	0.72	Wide	High	Consumer Defensive
Huntington Ingalls Industries HII	★★★★	280	379	0.74	Wide	Medium	Industrials
Jack Henry & Associates JKHY	★★★★	138	180	0.77	Wide	Medium	Technology
McCormick & Company MKC	★★★★	50	65	0.78	Wide	Medium	Consumer Defensive
Allegion ALLE	★★★★	140	170	0.83	Wide	Medium	Industrials
A. O. Smith AOS	★★★★	63	72	0.87	Wide	Medium	Industrials

Source: Morningstar. Data as of June 30, 2026.

US Economic Outlook

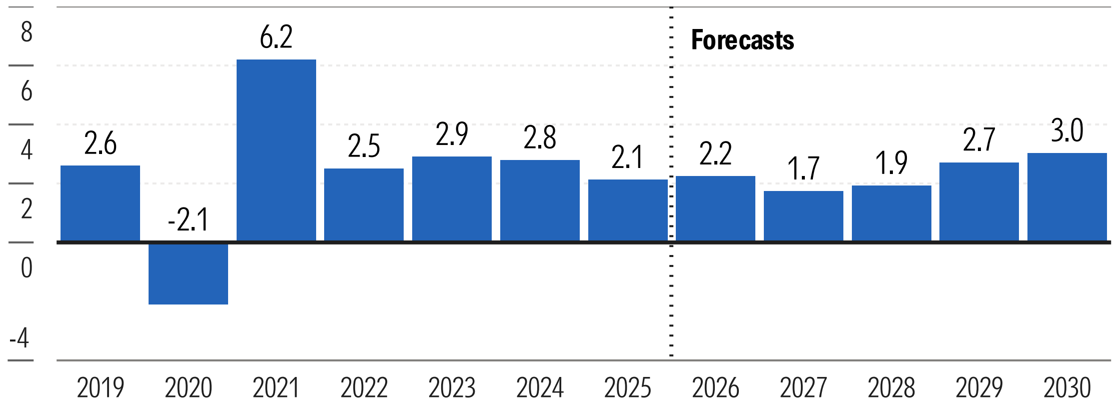
Growth to Slow Until Monetary Policy Loosens

GDP Growth to Slow Further Through 2027

GDP growth has been trending down, posting at 2.1% in 2025, 0.7 percentage points lower than the 2022-24 average of 2.8%. One theme is policy change, including the impact of tariffs and lower population growth via immigration. Another driver is the lingering effect of high interest rates.

We expect these headwinds to persist. Meanwhile, the boost to GDP growth from AI will diminish as spending grows at a more reasonable pace. That causes GDP growth to dip a bit further over 2027-28. Easing monetary policy, rebounding population growth, and other factors should drive a rebound in GDP growth in the later years of our forecast. See our latest US Economic Outlook for more details.

US Real GDP Growth Annual Averages

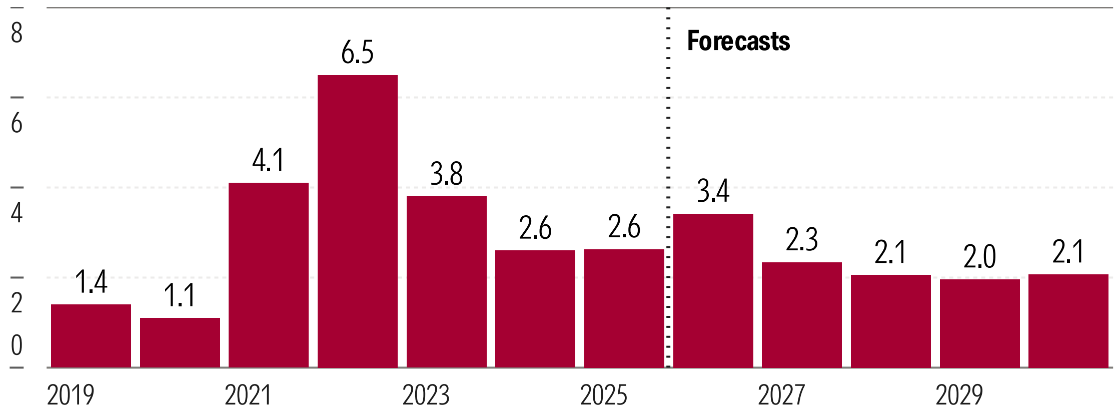


US Real GDP Growth Data Table

Inflation to Resume Falling After 2026

In 2026, inflation rises to 3.4%. The main driver is the Iran war, as higher oil prices contribute about 0.6 percentage points to our 2026 inflation forecast. But we expect inflation to fall in the coming years. Receding energy prices will be reflected in a negative impulse to inflation in 2027. The tariff impact should also cease going forward. Moreover, wage growth has slowed considerably, which should help push services inflation back to normal. Housing inflation also continues to trend down.

US Inflation (%, PCE)[1] Annual Averages



US Inflation (%, PCE) Data Table

[1] Our inflation measure is the Personal Consumption Expenditures Price Index.

Source: Morningstar.

More Federal-Funds Rate Cuts Still Coming, but Delayed

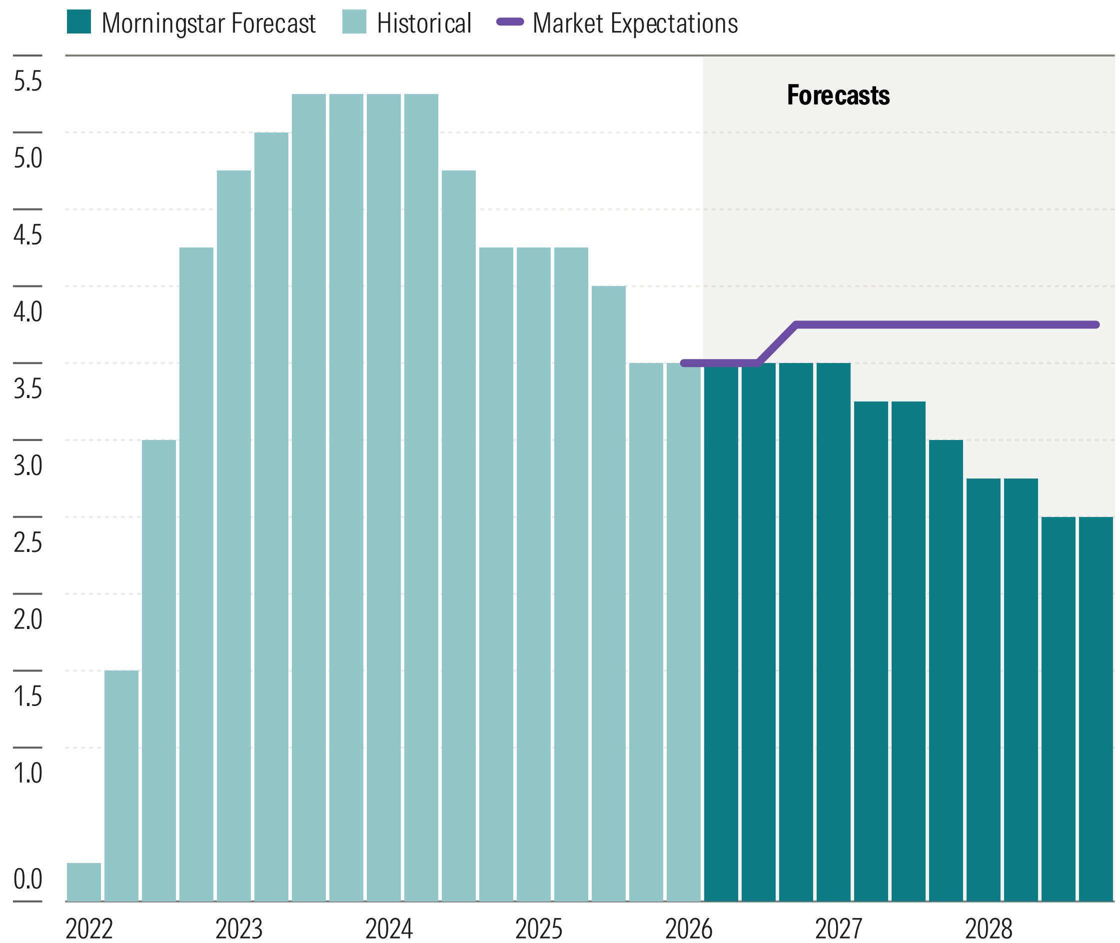
By End of 2028, Our Projections Are 125 Basis Points Below Market Expectations
In line with the futures market, we expect no federal-funds rate cuts in 2026. But based on our forecasts for receding inflation and slowing growth, we expect the Fed to return to cutting. We expect two cuts in 2027 and two more in 2028, for a cumulative 1 percentage point. That will bring the fed-funds rate to a target range of 2.50%-2.75% at the end of 2028, down from 3.50%-3.75% currently.

The market expects the fed-funds rate to be hiked in 2027 and then kept constant afterward. That translates into a federal-funds rate 1.25 percentage points above our forecast by the end of 2028. That divergence is also paralleled in the 10-year Treasury yield (remember, long-term bond yields reflect the market's expectation of the future federal-funds rate). We expect the 10-year Treasury yield to drop to 3.5% in 2029 and beyond, well under its current yield of 4.5%.

In our view, substantial further interest rate cuts will be needed to drive longer-run borrowing rates down, thereby supporting continued, robust economic growth.

(%) Annual Avg	2024	2025	2026	2027	2028	2029	2030
Fed-Funds Rate	5.14	4.21	3.60	3.41	2.79	2.60	2.60
10-Year Treasury	4.21	4.29	4.40	4.00	3.65	3.50	3.50
30-Year Mortgage	6.73	6.60	6.30	5.80	5.40	5.25	5.25

Federal-Funds Rate Expectations, %
Bottom of target range



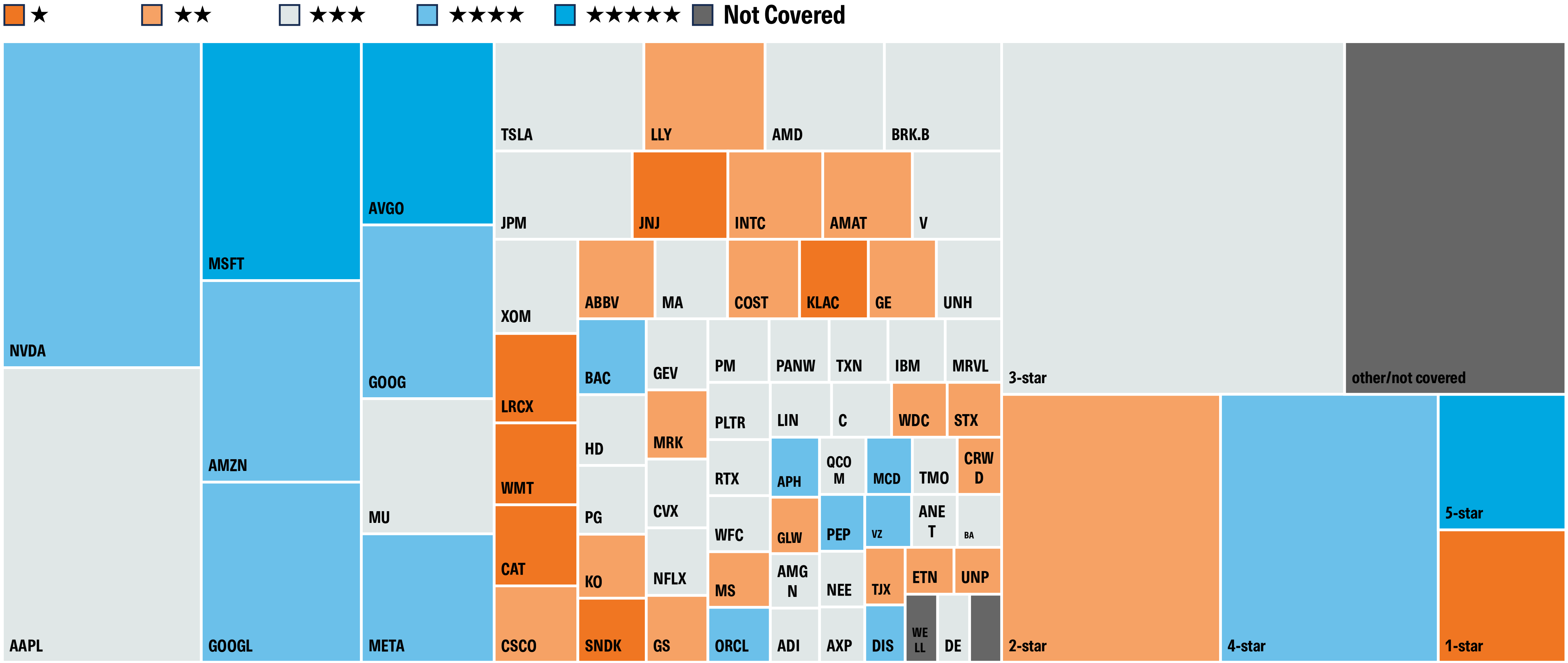
Federal-Funds Rate Expectations, % Data Table

Source: Chicago Mercantile Exchange, Federal Reserve, Morningstar.

Spotlight | Mega-Cap Stocks

Heatmap of Star Ratings Across Morningstar US Market Index by Capitalization

Significant Proportion of Undervaluation Is Concentrated in a Handful of Stocks



Significant Proportion of Undervaluation Is Concentrated in a Handful of Stocks Data Table

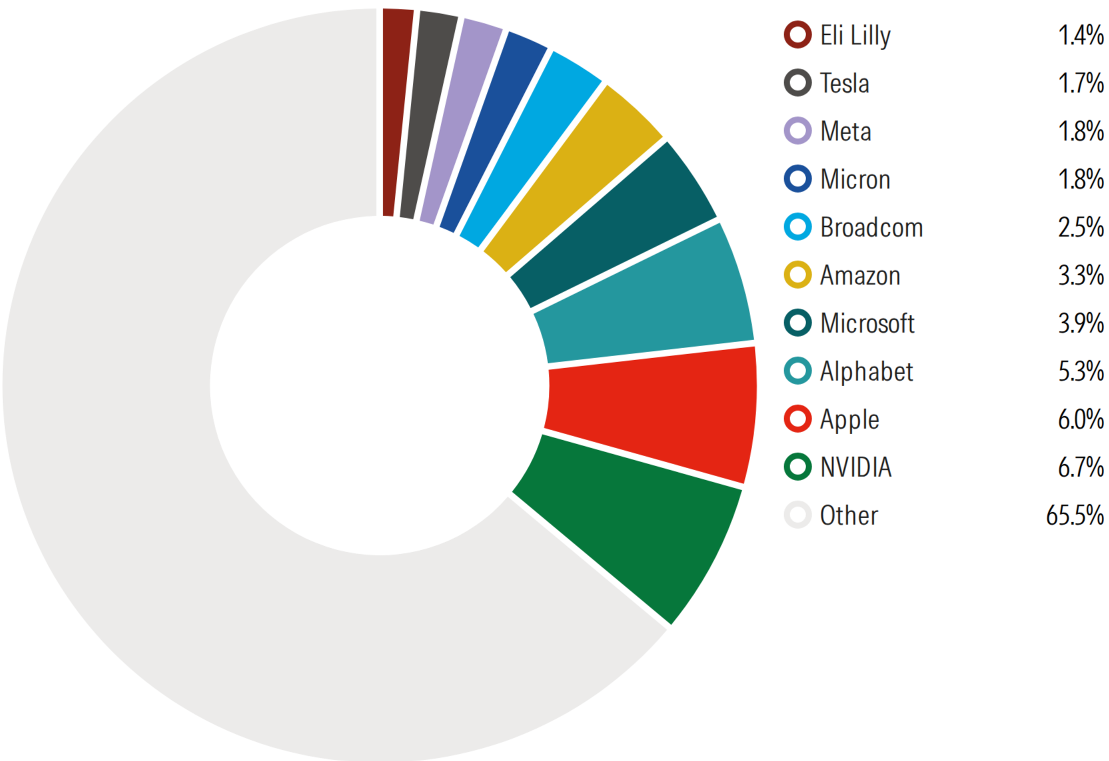
Source: Morningstar. Data as of June 30, 2026.

US Market Concentration

Concentration risk has increasingly grown as the market rewards those spending greater amounts of capital expenditures on building out artificial intelligence. As such, even diversified index allocations have outsized risk exposure to just a few stocks.

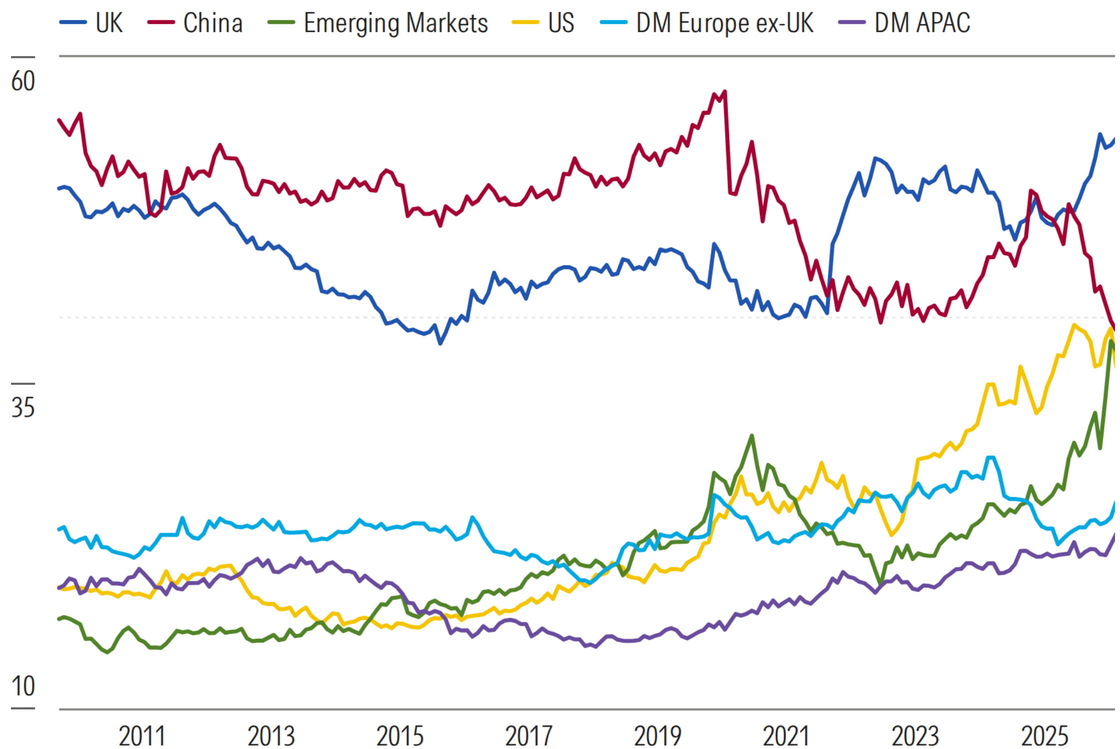
Concentration in the US market has continued to climb to new heights, especially over the past two years as the AI buildout boom sends AI-related stocks to new historical highs.

Morningstar US Market TR Index Portfolio Concentration



Morningstar US Market TR Index Portfolio Concentration Data Table

Concentration Compared With Peers

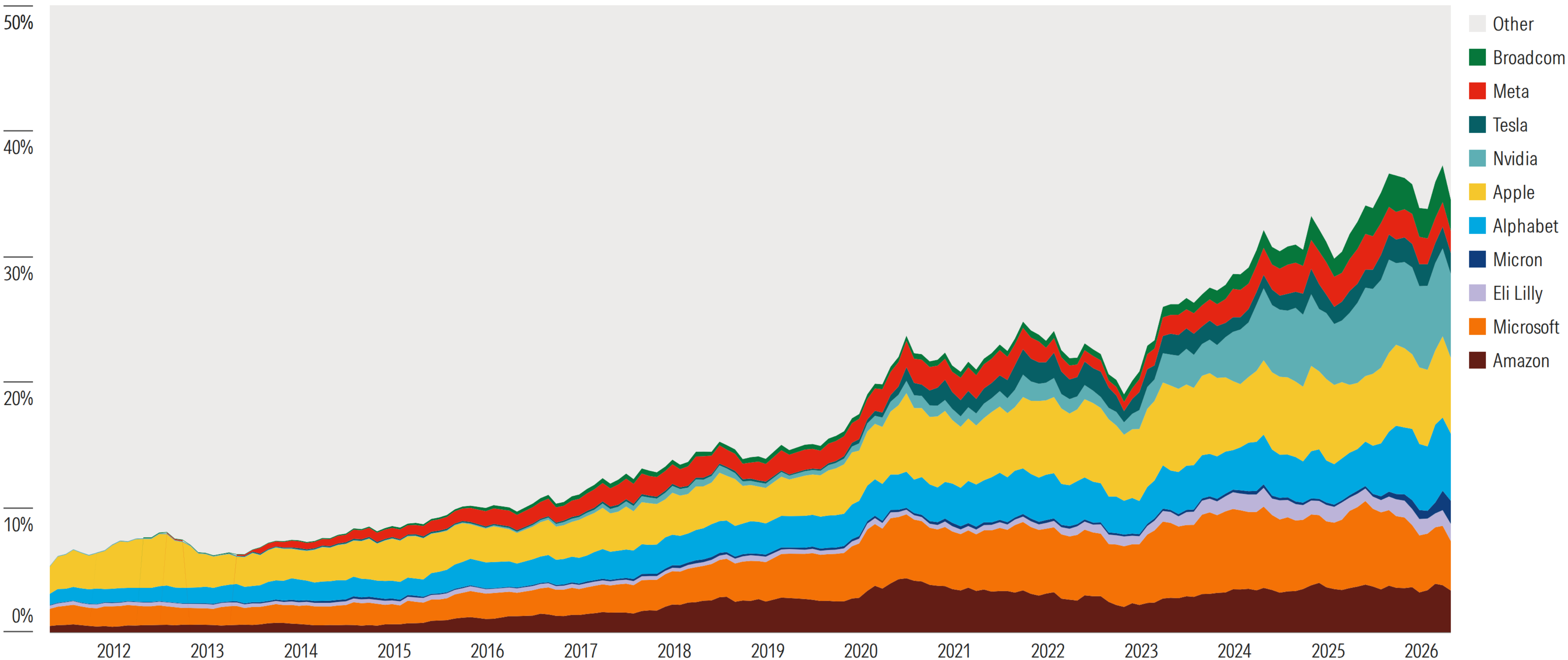


Concentration Compared With Peers Data Table

Source: Morningstar. Data as of June 30, 2026.

Mega-Cap Stocks Remain Near Historically Highest Percentage of Index

Current Top 10 Stock Weights in the Morningstar US Market Index Over Time



[Current Top 10 Stock Weights in the Morningstar US Market Index Over Time Data Table]

Source: Morningstar. Data as of July 6, 2026. The chart is scaled to 50%, omits “Other” 50%. Share classes for Alphabet are combined.

Undervalued Mega-Cap Performance in Q2 2026

Undervalued Mega-Caps Generally Performed Well With Only a Few Misses

Name/Ticker	Rating 3/31/26	Rating 6/30/26	Price ($) 3/31/26	Price ($) 6/30/26	Change (%)	Fair Value 3/31/26	Fair Value 6/30/26	Change (%)	P/FV 3/31/26	P/FV 6/30/26
Nvidia NVDA	★★★★	★★★★	174	200	14.7%	260	280	7.7%	0.67	0.71
Microsoft MSFT	★★★★★	★★★★★	370	373	0.8%	600	600	0.0%	0.62	0.62
Amazon.com AMZN	★★★★	★★★★	208	238	14.4%	260	280	7.7%	0.80	0.85
Broadcom AVGO	★★★★	★★★★★	310	378	22.0%	500	650	30.0%	0.62	0.58
Meta Platforms META	★★★★	★★★★	572	563	**-1.5%**	850	850	0.0%	0.67	0.66
Advanced Micro Devices AMD	★★★★	★★	203	581	185.6%	300	450	50.0%	0.68	1.29
Oracle ORCL	★★★★	★★★★	147	147	**-0.4%**	220	207	**-5.9%**	0.67	0.71
Bank of America BAC	★★★★	★★★★	49	57	16.9%	58	65	12.1%	0.84	0.88
UnitedHealth Group UNH	★★★★	★★★	271	416	53.6%	427	427	0.0%	0.63	0.97
International Business Machines IBM	★★★★	★★★	242	281	16.0%	325	260	**-20.0%**	0.75	1.08
Pepsico PEP	★★★★	★★★★	155	135	**-12.8%**	169	169	0.0%	0.92	0.80

Source: Morningstar. Data as of June 30, 2026.

Overvalued Mega-Cap Performance in Q2 2026

Half of Overvalued Mega-Caps Fall During Second Quarter, Offset by Surges in Intel and Caterpillar

Name/Ticker	Rating 3/31/26	Rating 6/30/26	Price ($) 3/31/26	Price ($) 6/30/26	Change (%)	Fair Value 3/31/26	Fair Value 6/30/26	Change (%)	P/FV 3/31/26	P/FV 6/30/26
Walmart WMT	★	★	124	113	**-8.9%**	62	81	30.6%	2.00	1.40
Intel INTC	★★	★★	44	140	216.4%	32	90	181.3%	1.38	1.55
Johnson & Johnson JNJ	★	★	244	254	3.9%	182	190	4.4%	1.34	1.34
Caterpillar CAT	★★	★	708	1,065	50.3%	620	680	9.7%	1.14	1.57
Costco Wholesale COST	★	★★	996	935	**-6.1%**	650	740	13.8%	1.53	1.26
Chevron CVX	★★	★★★	207	166	**-19.9%**	171	192	12.3%	1.21	0.86
GE Vernova GEV	★★	★★★	873	1,175	34.6%	600	1,000	66.7%	1.45	1.17
Netflix NFLX	★★	★★★	96	71	**-25.7%**	80	80	0.0%	1.20	0.89
The Goldman Sachs Group GS	★★	★★	846	1,011	19.5%	700	730	4.3%	1.21	1.39
RTX RTX	★★★	★★★	193	190	**-1.6%**	179	200	11.7%	1.08	0.95

Source: Morningstar. Data as of June 30, 2026.

Updated List of Undervalued Mega-Cap Stocks

Alphabet Returns Following Fair Value Estimate Increase; Palantir's Stock Fell Enough to Become Attractive; Amphenol Makes Debut

Name/Ticker	Rating	Price ($)	Fair Value ($)	P/FV	Economic Moat	Uncertainty	Sector
Nvidia NVDA	★★★★	200	280	0.71	Wide	Very High	Technology
Alphabet GOOGL	★★★★	357	433	0.83	Wide	Medium	Communication Services
Microsoft MSFT	★★★★★	373	600	0.62	Wide	Medium	Technology
Amazon.com AMZN	★★★★	238	280	0.85	Wide	Medium	Consumer Cyclical
Meta Platforms META	★★★★	563	850	0.66	Wide	High	Communication Services
Broadcom AVGO	★★★★★	378	650	0.58	Wide	High	Technology
Oracle ORCL	★★★★	147	207	0.71	Narrow	Very High	Technology
Bank of America BAC	★★★★	57	65	0.88	Wide	Medium	Financial Services
Palantir Technologies PLTR	★★★★	117	153	0.76	Narrow	Very High	Technology
Amphenol APH	★★★★	176	190	0.93	Wide	Medium	Technology

Source: Morningstar. Data as of June 30, 2026.

Updated List of Overvalued Mega-Cap Stocks

Market Rally Leads to Significant Increase in Number of Overvalued Mega-Cap Stocks After Receding During First Quarter

Name/Ticker	Rating	Price ($)	Fair Value ($)	P/FV	Economic Moat	Uncertainty	Sector
SpaceX SPCX	★	171	62	2.75	Narrow	Very High	Industrials
Micron Technology MU	★★	1,154	850	1.36	None	Very High	Technology
Lilly USA LLY	★★	1,199	900	1.33	Wide	High	Healthcare
Advanced Micro Devices AMD	★★	581	450	1.29	Narrow	Very High	Technology
Walmart WMT	★	113	81	1.40	Wide	Medium	Consumer Defensive
Intel INTC	★★	140	90	1.55	None	Very High	Technology
Johnson & Johnson JNJ	★	254	190	1.34	Wide	Low	Healthcare
Applied Materials AMAT	★★	723	470	1.54	Wide	High	Technology
Lam Research LRCX	★	433	220	1.97	Wide	High	Technology
Caterpillar CAT	★	1,065	680	1.57	Wide	Medium	Industrials
Cisco Systems CSCO	★★	117	90	1.31	Wide	Medium	Technology
AbbVie ABBV	★★	252	200	1.26	Wide	High	Healthcare
Costco Wholesale COST	★★	935	740	1.26	Wide	Medium	Consumer Defensive
KLA KLAC	★	302	150	2.01	Wide	High	Technology

Source: Morningstar. Data as of June 30, 2026.

Updated List of Overvalued Mega-Cap Stocks

Updated List of Overvalued Mega-Cap Stocks (continued)

Name/Ticker	Rating	Price ($)	Fair Value ($)	P/FV	Economic Moat	Uncertainty	Sector
GE Aerospace GE	★★	374	307	1.22	Wide	Medium	Industrials
Arm ARM	★	355	150	2.36	Wide	High	Technology
Coca-Cola KO	★★	81	74	1.10	Wide	Low	Consumer Defensive
Sandisk SNDK	★	2,274	1,000	2.27	None	Very High	Technology
Morgan Stanley MS	★★	209	165	1.27	Wide	High	Financial Services
Merck & Co. MRK	★★	129	111	1.16	Wide	Medium	Healthcare
The Goldman Sachs Group GS	★★	1,011	730	1.39	Wide	High	Financial Services
Marvell Technology MRVL	★★	298	235	1.27	Narrow	High	Technology
Western Digital WDC	★★	639	415	1.54	None	High	Technology
Corning GLW	★	255	155	1.65	Narrow	High	Technology
Sandisk SNDK	★	2,274	1,000	2.27	None	Very High	Technology

Source: Morningstar. Data as of June 30, 2026.

Fixed-Income Outlook

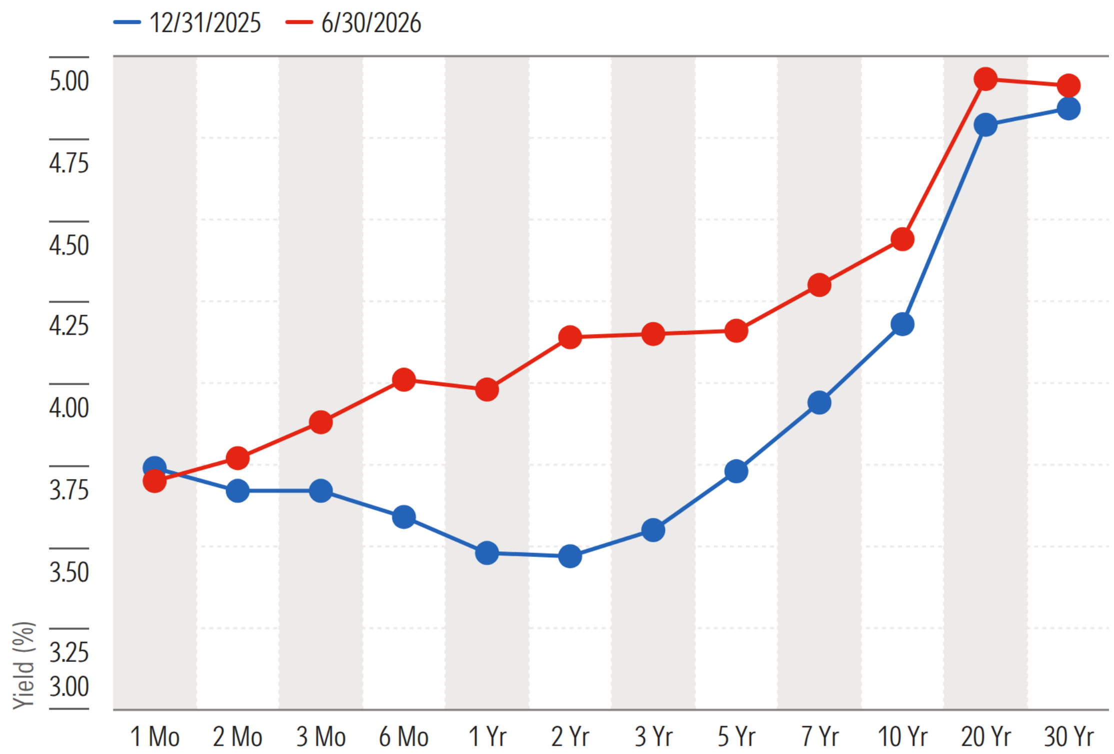
Rising Rates Across the Curve Mute Fixed-Income Returns

The Morningstar US Core Bond Index, our broadest proxy for the bond market, only rose 0.66% during the second quarter. The decrease in bond prices, driven by rising interest rates across the yield curve, offset much of the yield carry. Short-term rates rose faster as rising oil prices boosted inflationary metrics, and the market-implied probability of the Fed hiking interest rates rose. The yield on the 2-year US Treasury bond rose 35 basis points to its highest yield since the beginning of 2025. In the longer end of the curve, the 10-year US Treasury rose 13 basis points as longer-term inflation measures such as the 5-Year, 5-Year Forward Inflation Expectation Rate rose.

Morningstar US Fixed Income Index Returns (%)

Morningstar Index	Effective Yield	Duration	2024	2025	Q2 2026	YTD 2026
ABS	4.99%	2.2	5.87%	5.71%	0.86%	1.42%
CMBS	4.80%	3.6	4.73%	7.49%	0.51%	0.86%
Core Bond	4.72%	5.9	1.36%	7.12%	0.66%	0.76%
Corporate Bond	5.19%	7.0	2.13%	7.56%	1.41%	1.00%
High-Yield Bond	6.98%	3.0	8.20%	8.66%	2.44%	1.88%
MBS	4.97%	5.6	1.34%	8.33%	0.61%	1.20%
TIPS	2.10%	4.3	2.08%	6.89%	0.86%	1.30%
Treasury Bond	4.37%	5.8	0.76%	6.17%	0.32%	0.43%

US Treasury Yield Curve



US Treasury Yield Curve Data Table

Source: Morningstar. Data as of June 30, 2026.

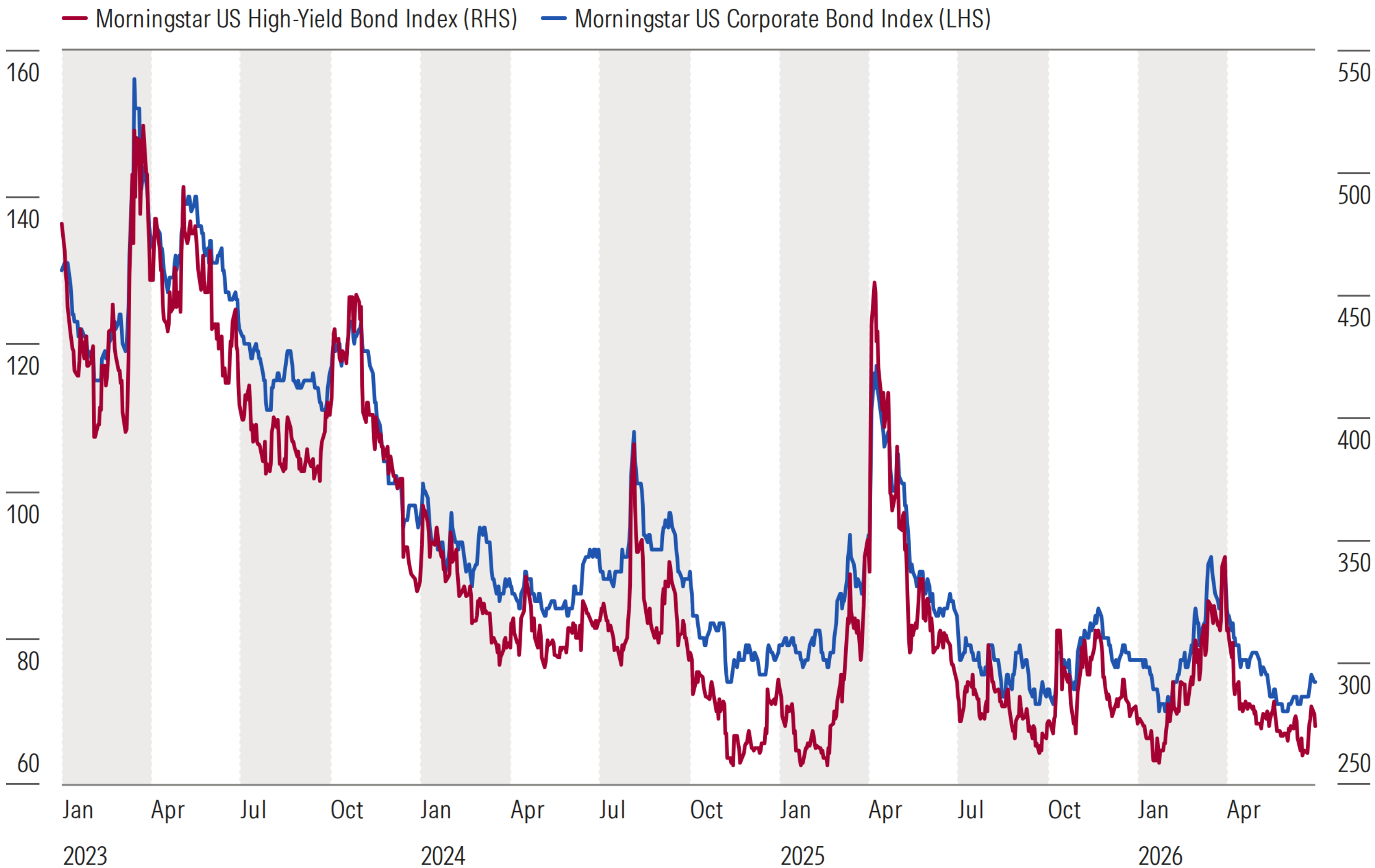
Corporate Bond Market

During the second quarter, the average spread of the Morningstar US Corporate Bond Index tightened 13 basis points to +74, and in the Morningstar US High-Yield Index, spreads tightened 51 basis points to +274. Over the past 25 years, rarely have investment-grade and high yield bonds traded at such tight levels.

We continue to think the risk is greater that credit spreads will widen, as current levels are not wide enough to adequately compensate for credit risk. In fact, in the private credit market, Morningstar DBRS noted that it saw "a sharp increase in the pace of rated private middle market borrower defaults during May. Generally, middle market private credit fundamentals have continued to weaken, reflecting margin pressure, uneven revenue growth, and higher debt servicing costs.

In addition, many private credit funds have implemented redemption gates and prorated withdrawal requests after redemption demand has substantially exceeded quarterly liquidity limits. As sponsors look to sell paper to meet redemption requests, we expect prices to decline to attract new buyers. Contagion from these lower prices and wider spreads will spread into the high-yield market.

Corporate Credit Spreads

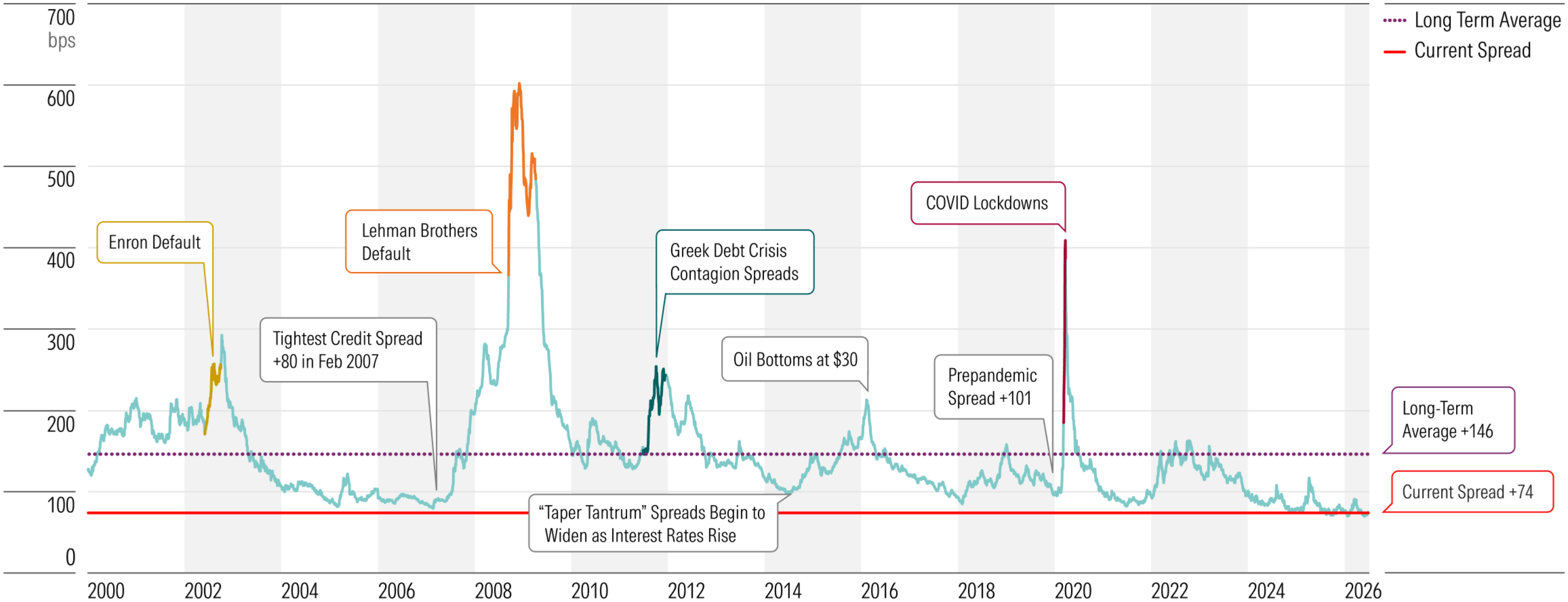


Corporate Credit Spreads Data Table

Source: Morningstar. Data as of June 30, 2026.

Long-Term Average Credit Spread for Investment-Grade Corporate Bond Market

Morningstar US Corporate Bond Index Average Credit Spread

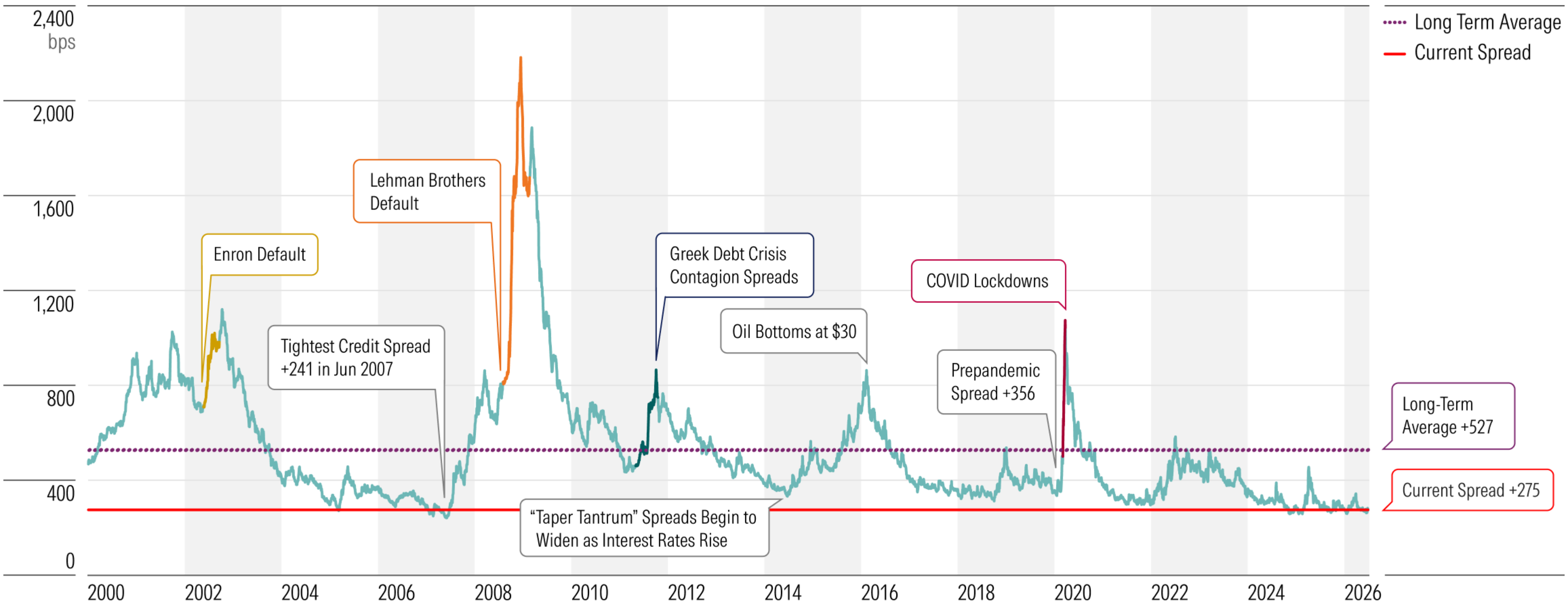


[Morningstar US Corporate Bond Index Average Credit Spread Data Table]

Source: Morningstar. Data as of June 30, 2026.

Long-Term Average Credit Spread for High-Yield Corporate Bond Market

Long-Term Average Credit Spread for High-Yield Corporate Bond Index



Long-Term Average Credit Spread for High-Yield Corporate Bond Index Data Table

Source: Morningstar. Data as of June 30, 2026.

Basic Materials

Seth Goldstein, CFA | seth.goldstein@morningstar.com

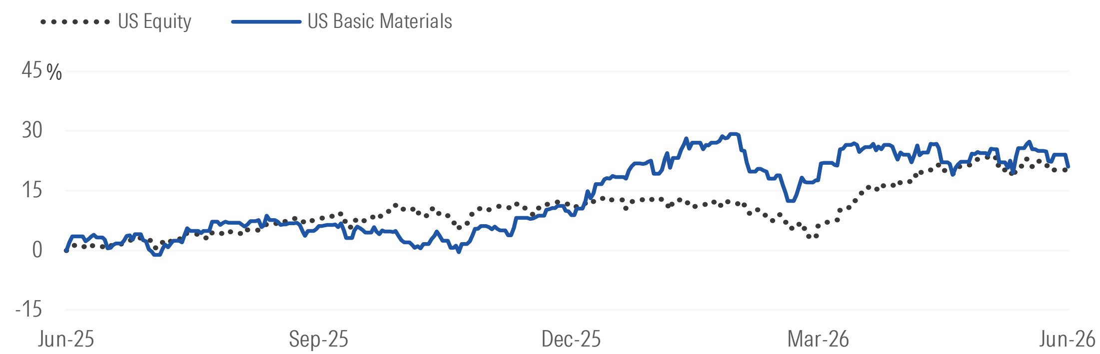
Basic Materials Sector Rises but Underperforms, Leaving Opportunities in Chemicals and Agriculture

The Morningstar US Basic Materials Index rose during the second quarter but underperformed the US market index. This reversed the strong outperformance during the first quarter. Yet over the past 12 months, the Morningstar US Basic Materials Index has slightly outperformed the broader US market. Most of the sector is now fairly valued or overvalued. No names currently trade in 5-star territory, and a little over 45% of the sector trades in 4-star territory. We see some opportunities in chemicals and agriculture, which are the two industries with the most undervalued stocks among our coverage.

In specialty chemicals, producers are seeing cost inflation from their commodity chemicals inputs because of the supply shock from the Middle East conflict. Using the industrial chemicals producer price index, commodity chemicals prices are at levels last seen during the postpandemic inflationary period, though still below the 2022 peak. Specialty chemicals producers sell differentiated products, which are often necessary to their customers. This results in pricing power that allows specialty producers to raise prices to pass along cost inflation, though sometimes at a lag depending on contracts. While the market focuses on potential near-term cost inflation weighing on profits, specialty producers should be able to recover all cost inflation over the long term.

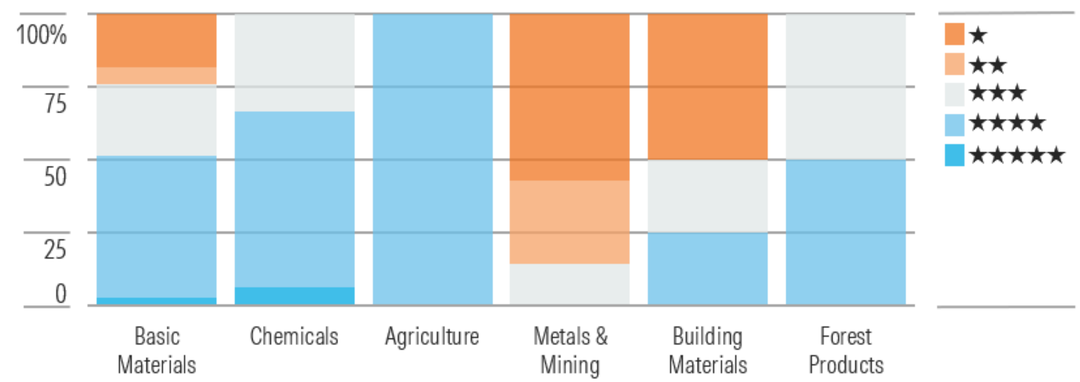
In agriculture, seeds and crop chemical producers are also experiencing higher input costs. Like specialty chemical producers, these rising costs can be passed along through price increases. For seed producers, farmers are generally less price-sensitive, as this is a crucial input that can have one of the largest effects on farmers' crop yields.

The Basic Materials Index Underperformed the Broader Market but Rose During Q2



The Basic Materials Index Underperformed the Broader Market but Rose During Q2 Data Table

Less than 50% of Basic Materials Stocks Trade at 4 Stars, With None at 5 Stars



Less than 50% of Basic Materials Stocks Trade at 4-Stars with None at 5-Stars Data Table

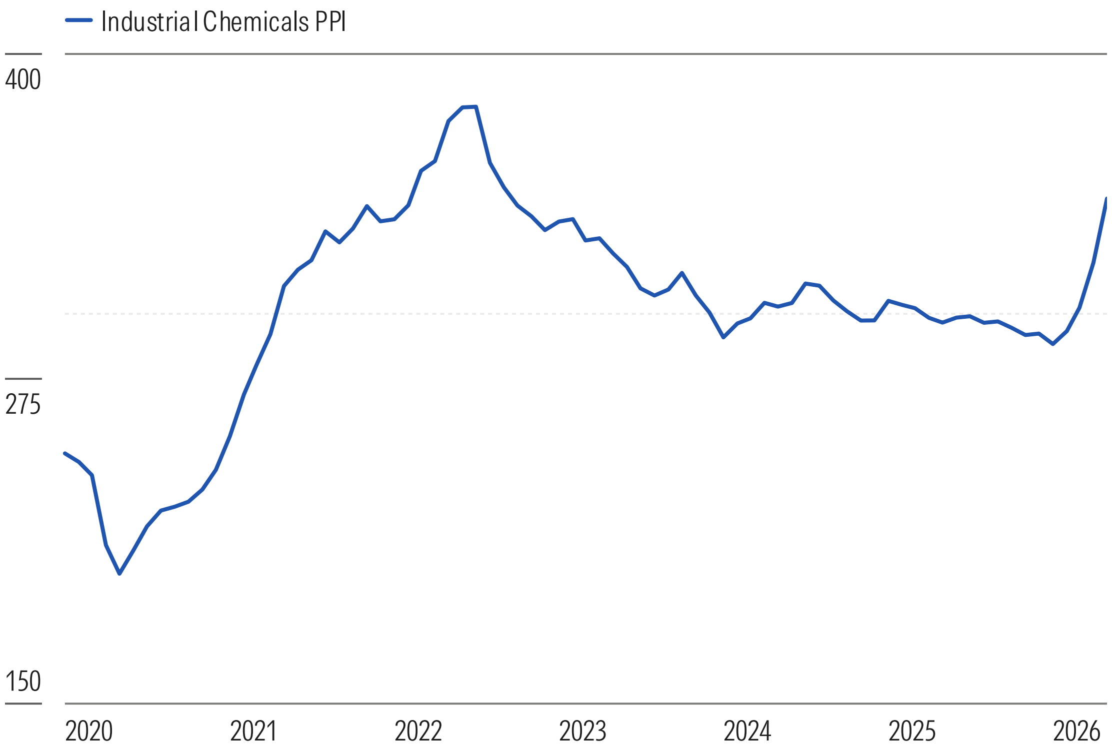
Source: Morningstar, Federal Reserve Bank of St. Louis.

Industrial Gas Producers Should Benefit From the Commercial Space Boom From Soaring Liquid Oxygen Demand

The SpaceX IPO has put a spotlight on the rocket launch supply chain, sparking investor interest in companies with exposure to the commercial space boom. We see industrial gas firms as a low-risk play on the commercial space race. Although we estimate that the space end market currently accounts for only a low-single-digit percentage of revenue for the three industrial gas firms we cover, we expect it to become a meaningful driver of revenue growth over at least the next 15 years.

Rising Industrial Chemicals Prices Lead to Cost Inflation for Specialty Producers

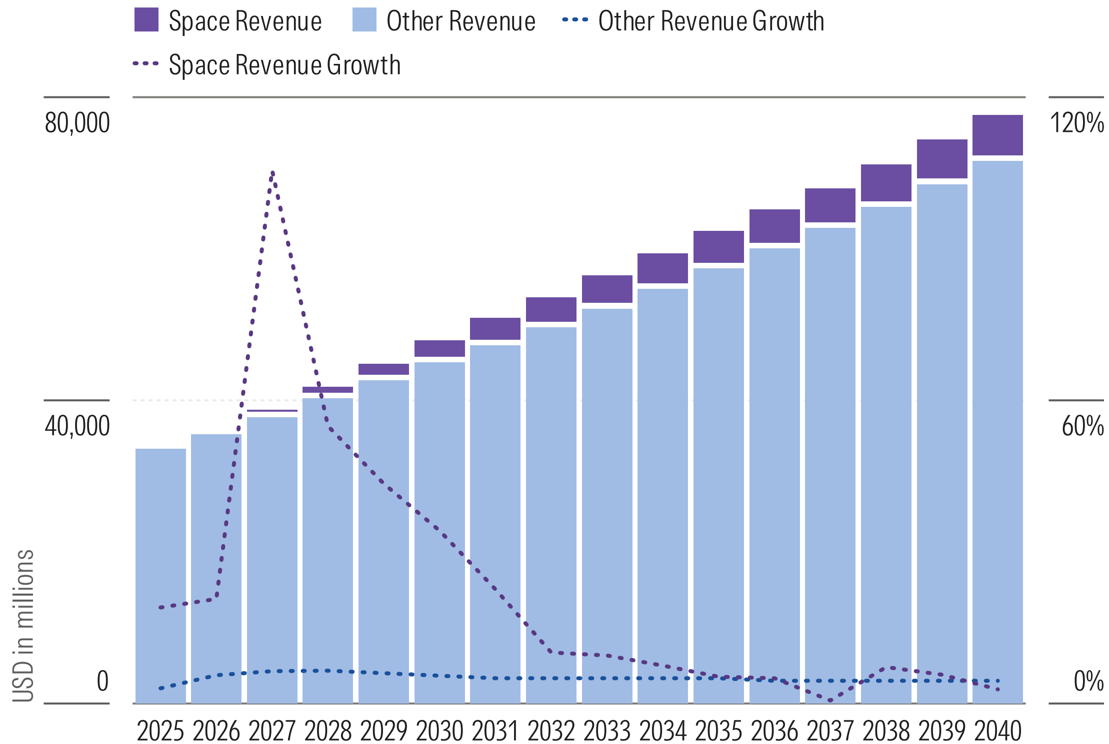
Industrial chemicals producer price index (1982 = 100), 2020-26



Rising Industrial Chemicals Prices Lead to Cost Inflation for Specialty Producers Data Table

We Expect Linde to Capitalize on SpaceX's Accelerating Launch Cadence

We forecast Linde's space revenue increasing sevenfold over the next five years.



We Expect Linde to Capitalize on SpaceX's Accelerating Launch Cadence Data Table

Source: Federal Reserve Bank of St. Louis, Morningstar estimates. Data as of June 2026.

Basic Materials Top Picks

Name/Ticker Ecolab (ECL)		**Rating** ★★★	Ecolab is our top pick to invest in specialty chemicals producers' ability to pass along cost inflation. The stock trades at a discount of about 10% to our $300 fair value estimate. Ecolab's wide-moat rating comes from switching costs , as its direct selling model facilitates building products and services and a razor-and-blade products model that becomes an integral part of its customers' process. This allows Ecolab to use cost inflationary periods to not only raise prices to pass along cost inflation, but also to upsell customers to new products or add higher-margin digital services. As a result, we see strong long-term growth for the company.
Price (USD) 278.60	**Fair Value (USD)** 300.00	**Uncertainty** Medium	
Market Cap (USD B) 78.4	**Economic Moat** Wide	**Capital Allocation** Exemplary	
Name/Ticker Corteva (CTVA)		**Rating** ★★★★	Corteva is our top pick to invest in seeds and crop chemicals. The stock trades around 10% below our $90 fair value estimate. Corteva's wide moat comes from its strong pricing power in its patented and differentiated seeds and crop chemicals portfolio, as farmers will pay up for these inputs. Seeds generate the majority of profits, and we expect strong profit growth in both seeds and crop chemicals in 2026, driven by new product launches. Corteva is spinning off its seeds business by the end of this year, which will be a publicly traded company named Vylor. Current shareholders will end up with shares of Corteva and Vylor.
Price (USD) 83.37	**Fair Value (USD)** 90.00	**Uncertainty** Medium	
Market Cap (USD B) 55.8	**Economic Moat** Wide	**Capital Allocation** Exemplary	
Name/Ticker Linde (LIN)		**Rating** ★★★★	Linde is our top US industrial gas pick. The stock trades roughly 5% below our $540 fair value estimate. We assign Linde a wide moat based on switching costs and intangible assets. The company benefits from a resilient business model with contractual mechanisms that shield it from volatility in energy prices and global industrial production. We believe Linde is well-positioned to capitalize on SpaceX's ambitious launch cadence and transition to more propellant-intensive Starship rockets. Although we estimate Linde's current space exposure at only around 1% of revenue, we expect it to increase 7 times over the next five years.
Price (USD) 511.06	**Fair Value (USD)** 540.00	**Uncertainty** Low	
Market Cap (USD B) 236.3	**Economic Moat** Wide	**Capital Allocation** Exemplary	

Source: Morningstar. Data as of June 30, 2026.

Communications Services

Michael Hodel, CFA | michael.hodel@morningstar.com

SpaceX Has Renewed Uncertainty Across the Communications Sector, Especially Telecom Services

The SpaceX IPO in mid-June has fueled rampant speculation about the future of the communications services sector. While the firm is best known for launching rockets, its Starlink service has rapidly gained broadband customers globally, generating solid profits. Starlink also promises to provide seamless wireless service directly to traditional phones using spectrum licenses it plans to acquire from EchoStar, the firm behind the Boost Wireless business. The excitement around SpaceX has added to the pressure on shares of Comcast and Charter, which have struggled in recent years to grow their broadband customer bases, while also pushing AT&T, Verizon, and T-Mobile to multi-year lows. However, we don't expect Starlink to radically alter competitive dynamics in broadband or wireless, serving instead as a complementary offering in both markets.

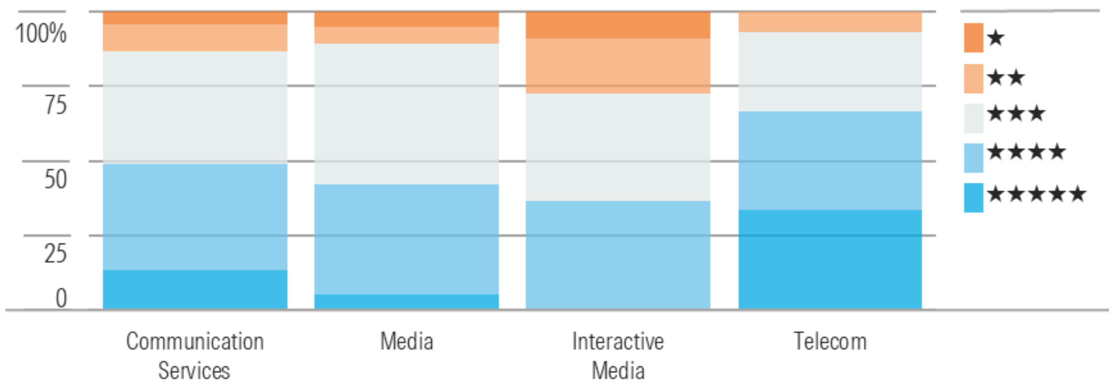
In broadband, we estimate Starlink has captured about 3 million customers in the US. While impressive, we believe the vast majority of these customers live in rural areas and that most have migrated from inferior satellite offerings, like Hughesnet, or very slow-speed DSL service. Looking forward, we expect Starlink's capacity limitations, while improving, will restrict the number of customers it can serve well, as terrestrial networks continue to deliver very high-quality service.

Starlink's plans to offer wireless service directly to customers have sparked fears that it will soon go head-to-head with the major US carriers. We think that proposition is highly unlikely. Satellite coverage is best suited to low-density outdoor areas, but customers demand service wherever they go. So, Starlink will need a terrestrial network to fill in coverage gaps.

Meta and Alphabet Dictate Sector Returns; Both Have Lagged Recently

Meta and Alphabet Dictate Sector Returns; Both Have Lagged Recently Data Table

Telecom Services Stocks Have Been Pummeled Over the Past Quarter



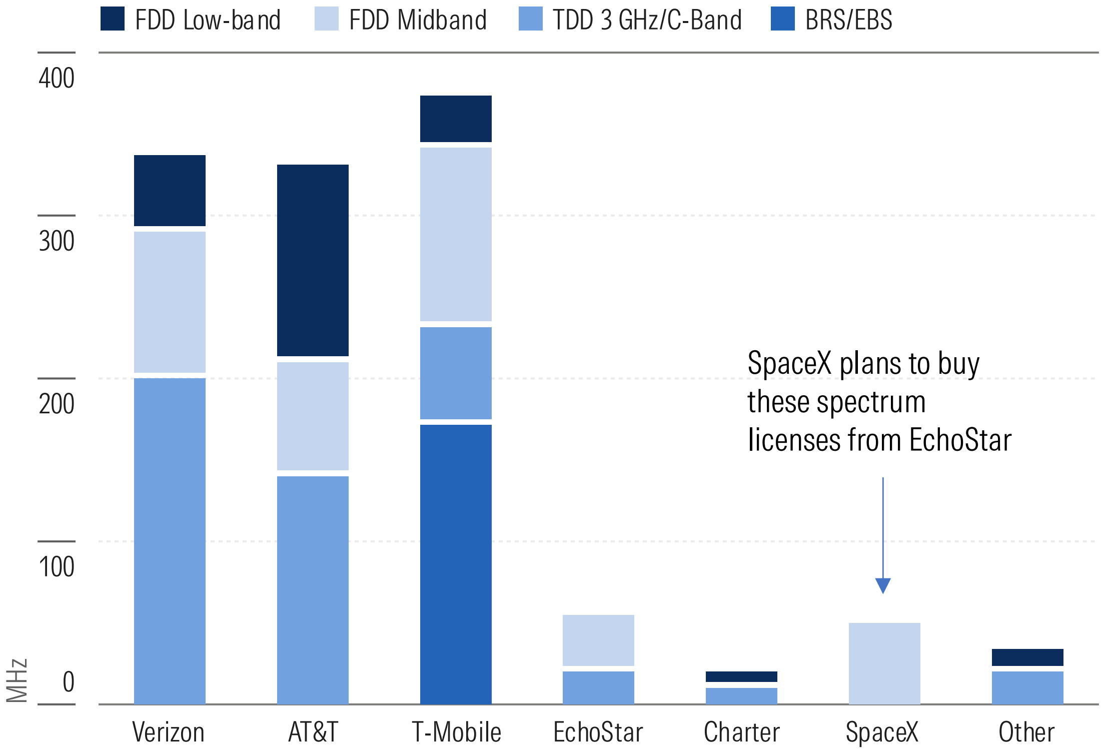
Telecom Services Stocks Have Been Pummeled Over the Past Quarter Data Table

Entering the Wireless Business Would Require Massive Investment to Compete in a Very Mature Market

Building a network from scratch would be extremely difficult, as the firm would need to spend billions acquiring spectrum licenses and building infrastructure. The wireless business is already highly mature and competitive, so the prospects of earning an attractive return on investment are weak. In addition, AT&T, Verizon, and T-Mobile have all said they are not interested in providing wholesale network access to SpaceX. The three firms have also formed a venture to jointly manage their relationships with all satellite companies, including SpaceX, likely ensuring none of them breaks ranks.

New York Spectrum License Holdings: The Big Three Carriers Have a Huge Lead

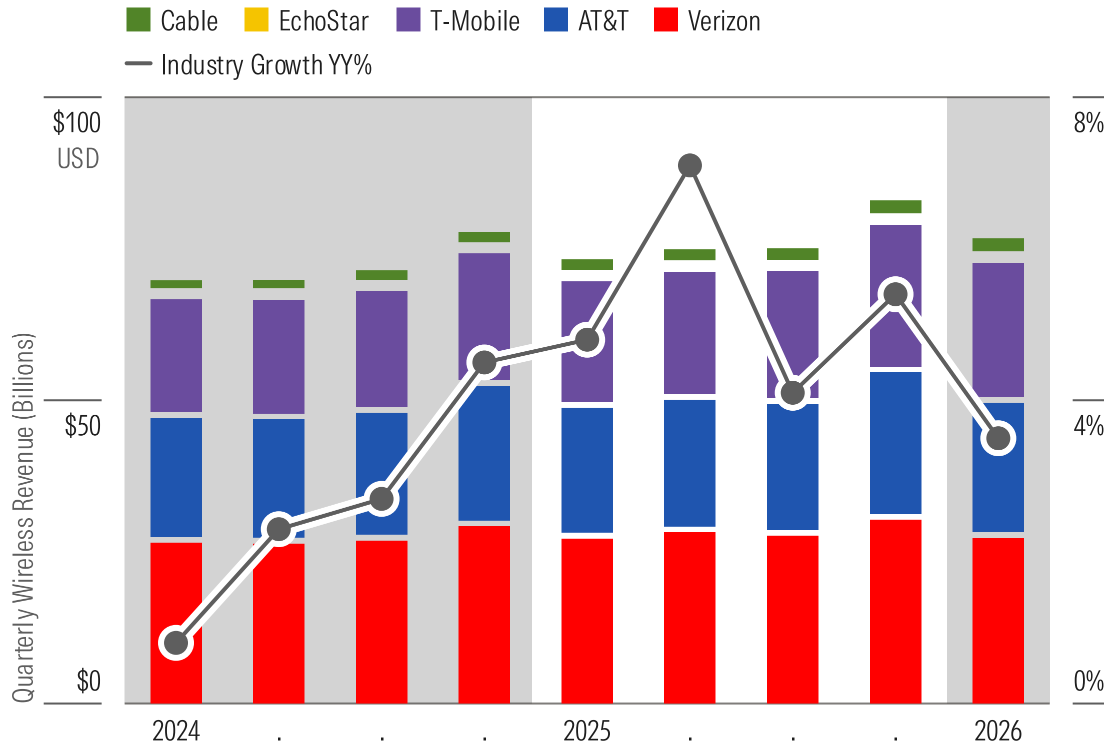
Building a sizeable spectrum portfolio would cost at least $100 billion.



New York Spectrum License Holdings: The Big Three Carriers Have a Huge Lead Data Table

The Big Three Dominate a Mature US Wireless Market

After years of effort, EchoStar, Comcast, and Charter have barely made a dent.



The Big Three Dominate a Mature US Wireless Market Data Table

Source: Company reports, Federal Communications Commission, Morningstar

Communication Services Top Picks

Name/Ticker		Rating	
Comcast (CMCSA)		★★★★★	We expect Comcast's decision to spin off its media assets will allow it to pursue strategic options far more efficiently. The firm has struggled to retain broadband customers as competition has increased, but demand for internet connectivity isn't going anywhere. We expect Comcast to gradually stabilize its customer base over the coming years while enjoying some pricing power. In this state of the world, consolidation makes sense, and we would not be surprised if Comcast merged with Charter in the future. The new media business holds key content franchises and sports rights that could benefit a number of other firms. Netflix has already expressed interest in acquisitions with its failed bid for Warner Bros.
Price (USD) 24.22	**Fair Value (USD)** 41.00	**Uncertainty** Medium	
Market Cap (USD B) 86.5	**Economic Moat** Narrow	**Capital Allocation** Standard	
Name/Ticker Disney (DIS)		**Rating** ★★★★	We see Disney as the most attractive among its video media peers, based on quality, risk, and valuation. We see a runway for accelerating top and bottom-line growth over the next several years and a likelihood the firm exceeds our near-term projections, which build in macroeconomic risk. With linear TV revenue becoming much less material to overall results and added experiences capacity coming online, sales growth should accelerate. Ongoing profit improvements in the maturing streaming business and the commencement of new experiences revenue to catch up with the investment of the past few years should bring margin expansion at the same time.
Price (USD) 98.63	**Fair Value (USD)** 125.00	**Uncertainty** Medium	
Market Cap (USD B) 171.3	**Economic Moat** Wide	**Capital Allocation** Standard	
Name/Ticker Omnicom (OMC)		**Rating** ★★★★	Traditional ad agencies like Omnicom have been sapped by AI fears. AI-powered tools may hurt pricing power for creative and production services, but the core of the agency's business now revolves around omnichannel marketing planning and managing data assets, which we believe will play an increasingly important role in a complex and fragmented ad ecosystem. With the IPG merger closed, we expect Omnicom to join Publicis in outperforming other agencies thanks to its trainable data assets that can improve targeting and conversion efficiency.
Price (USD) 73.93	**Fair Value (USD)** 115.00	**Uncertainty** High	
Market Cap (USD B) 21.1	**Economic Moat** Narrow	**Capital Allocation** Exemplary	

Source: Morningstar

Consumer Cyclical

Erin Lash, CFA | erin.lash@morningstar.com

Brands That Stay True to Their Niche Can Thrive Amid an Uncertain Environment

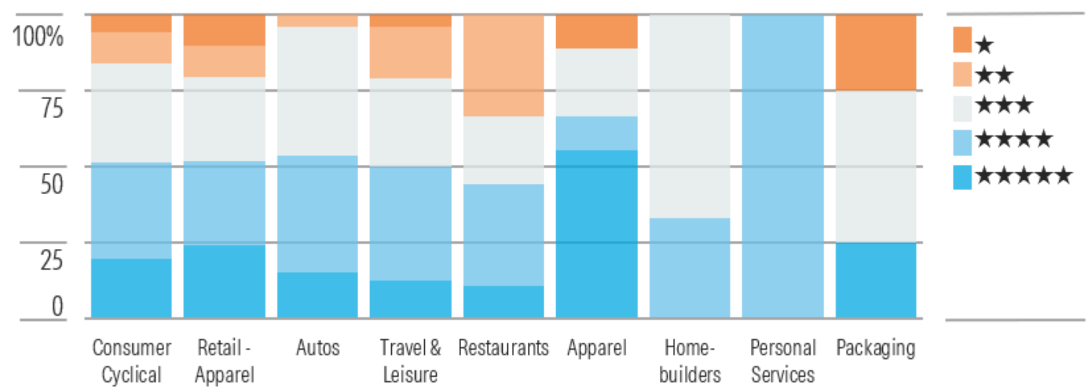
The Morningstar US Consumer Cyclical Index rose during the second quarter but trailed the broader market's gain. Across our sector coverage universe, the median stock trades at a 16% discount to our intrinsic valuation, with about 54% of firms earning a 4- or 5-star rating. We surmise that apparel and travel subsectors, which trade at 38% and 16% below our respective fair value estimates, look particularly attractive. Even in the face of unrelenting economic and geopolitical uncertainty, we expect competitively advantaged companies to incite spending across income cohorts by investing in consumer-valued product innovation.

Discretionary spending has been under pressure amid inflation and the war in Iran. However, rather than capping spending broadly, this economic uncertainty is affecting income cohorts unevenly, a dynamic clearly evident in air travel. According to IATA data, North American air carriers' premium revenue passenger kilometers for international trips rose 5.5%, on average, in March and April, versus 1.2% growth in economy. This divergence highlights continued strength among higher-income consumers, supported by elevated equity levels. While premium providers benefit from resilient demand, value-oriented players must compete by delivering higher perceived value per dollar. Lower-income consumers are increasingly factoring in total trip costs, often choosing cheaper options (that is, driving rather than flying) to maintain their travel experiences. As such, targeted positioning is critical—firms must align their products and services with what consumers value. For example, travel firms can leverage loyalty programs to attract and retain consumers by enabling points to be accumulated across partner brands, thereby enhancing stickiness.

Consumer Cyclical Firms Lagged the Market's Low-Double-Digit Rise in Q2...

Consumer Cyclical Firms Lagged the Market's Low-Double-Digit Rise in Q2... Data Table

Creating Compelling Investment Opportunities in Apparel and Travel



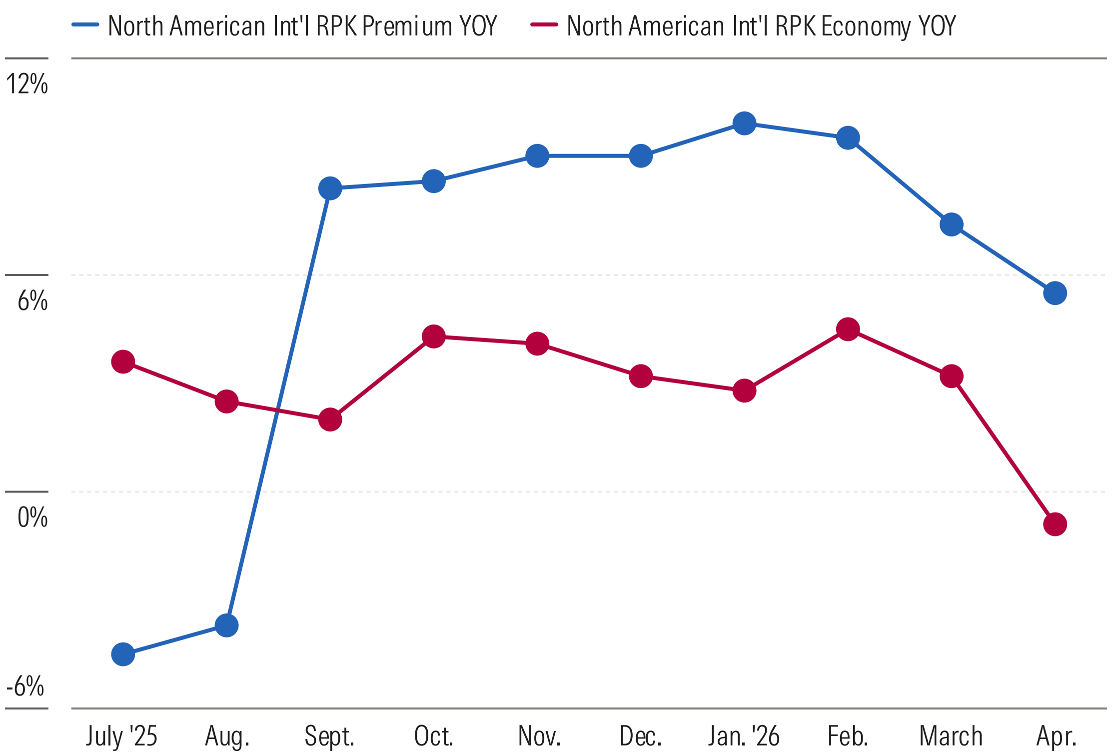
Creating Compelling Investment Opportunities in Apparel and Travel Data Table

Source: Morningstar. Data as of June 8, 2026.

Brands That Stay True to Their Niche Can Thrive Amid an Uncertain Environment

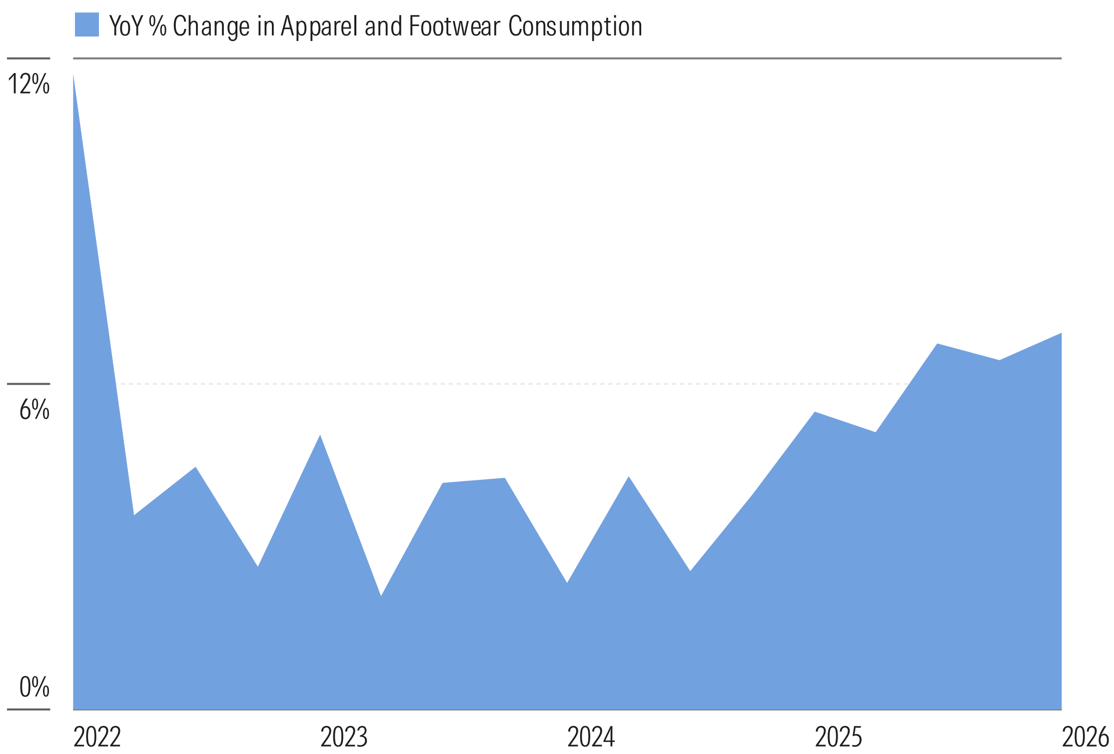
While apparel is typically seen as a discretionary expenditure, we think growth has accelerated as consumers refresh their wardrobes, potentially due to relatively low unemployment (4.3%). In January 2026, apparel and footwear consumption rose nearly 7% year over year, outpacing inflation (2.6%), though some of this strength could be a byproduct of lapping a softer January 2025. Regardless, we believe curating compelling assortments aligned with their core consumers' preferences will position apparel firms for growth.

Luxury Travel Remains Resilient Amid Economic Pressure



Luxury Travel Remains Resilient Amid Economic Pressure Data Table

Apparel Demand Ticks Up Despite Macro Headwinds



Apparel Demand Ticks Up Despite Macro Headwinds Data Table

Source: International Air Transport Association (left). Data as of June 2026. Bureau of Economic Analysis (right). Data as of June 25, 2026.
Note: RPK = revenue passenger kilometers

Brands That Stay True to Their Niche Can Thrive in an Uncertain Environment

Name/Ticker
Gildan (GIL)

Rating
★★★★★

Price (USD) 51.67	**Fair Value (USD)** 95.00	**Uncertainty** Medium
Market Cap (USD B) 9.6	**Economic Moat** Narrow	**Capital Allocation** Standard

Narrow-moat Gildan trades at a 45% discount to our $95 fair value estimate. We believe the market undervalues the benefits of the Hanesbrands acquisition, which has roughly doubled Gildan's annual sales base and improves Gildan's struggling consumer operations, while strengthening the firm's position in printwear basics. We expect pairing low-cost manufacturing with the acquired retail brands to drive share gains. As Gildan improves production efficiency, it projects about USD 250 million in annual run-rate cost savings by 2028. Gildan closed 2025 with USD 4.4 billion in net debt, which we expect to be reduced rapidly.

Name/Ticker
Lululemon (LULU)

Rating
★★★★★

Price (USD) 162.19	**Fair Value (USD)** 280.00	**Uncertainty** High
Market Cap (USD B) 18.4	**Economic Moat** Narrow	**Capital Allocation** Exemplary

Trading 60% below our $280 fair value estimate, narrow-moat Lululemon looks attractive. The firm has struggled with rising competition and merchandising issues, but we think its brand, the source of our narrow moat rating, remains popular. Moreover, it has grown its addressable market through store openings in China and elsewhere and expansions into footwear and men's activewear. Meanwhile, some of the recent turmoil has subsided with the amicable resolution of its proxy fight with founder Chip Wilson and the hiring of former Nike executive Heidi O'Neill as CEO.

Name/Ticker
Nike (NKE)

Rating
★★★★★

Price (USD) 41.48	**Fair Value (USD)** 97.00 [1]	**Uncertainty** High
Market Cap (USD B) 61.4	**Economic Moat** Wide	**Capital Allocation** Exemplary

Wide-moat Nike trades at a 53% discount to our $97[1] fair value estimate. Fiscal years 2025 and 2026 have been among Nike's most challenging periods in decades, as it has lost share to rivals. But we believe CEO Elliott Hill is making the right moves to bolster Nike's brand value, which underpins our wide economic moat rating. Hill's overall strategy is to invest in the firm's connections to global sports, which we view as Nike's greatest advantage. In the long run, we think Nike can return to midteens EBIT margins as it increases full-price selling, releases new merchandise, and raises sales in high-margin markets.

Source: Morningstar. Data as of June 30, 2026. (1) On July 6, 2026 the fair value was lowered to $94.

Consumer Defensive

Erin Lash, CFA | erin.lash@morningstar.com

Firms Must Adapt to Evolving Consumer Preferences to Win at the Shelf Amid Intense Macro Uncertainty

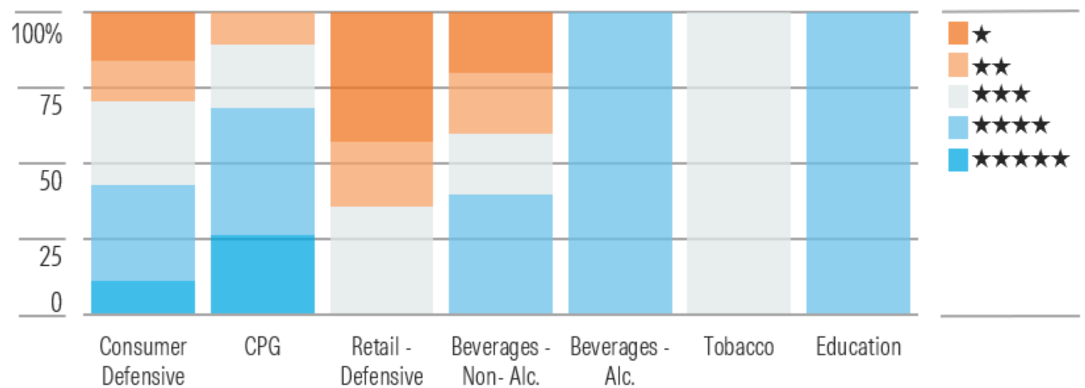
The Morningstar US Consumer Defensive Index materially lagged the broader market's gain during the second quarter. As a result, the median consumer defensive stock now trades at a 14% discount to our intrinsic value (versus just 1% three months ago), rendering over half of our coverage in 4- or 5-star territory (compared with about a third prior). We see opportunities in consumer packaged goods and alcoholic beverages, which sit 25%-30% below our fair value estimates. While we surmise concerns about tepid consumer spending, elevated inflation, and an uncertain geopolitical backdrop are tangible, we think competitively advantaged operators that prioritize investments in innovative products will ultimately withstand these headwinds.

In periods of pronounced uncertainty and economic malaise, consumers tend to add more private-label products to their baskets. However, since the onset of the pandemic, private-label share across a host of CPG categories has generally remained stable (though at vastly different levels). Lower-priced products maintain the highest share in more commoditized categories, like edible oils (42% on average) and dairy (31%), and in categories where differentiation tends to be lacking, such as tissue and hygiene (31%). Conversely, aisles like confectionery and home insecticides have negligible private-label penetration (low single digits), which we attribute to the importance of taste, and safety and efficacy, respectively. To counter the encroachment of value fare, we expect competitively advantaged operators to funnel resources toward consumer-valued innovation to win at the shelf, defend market share positions, and ultimately drive traffic to physical retail outlets and online platforms.

Morningstar's US Consumer Defensive Index Trailed the Wider Market's Q2 Rise...

Morningstar's US Consumer Defensive Index Trailed the Wider Market's Q2 Rise... Data Table

Leaving Investment Opportunities in the CPG and Beverage Enclaves

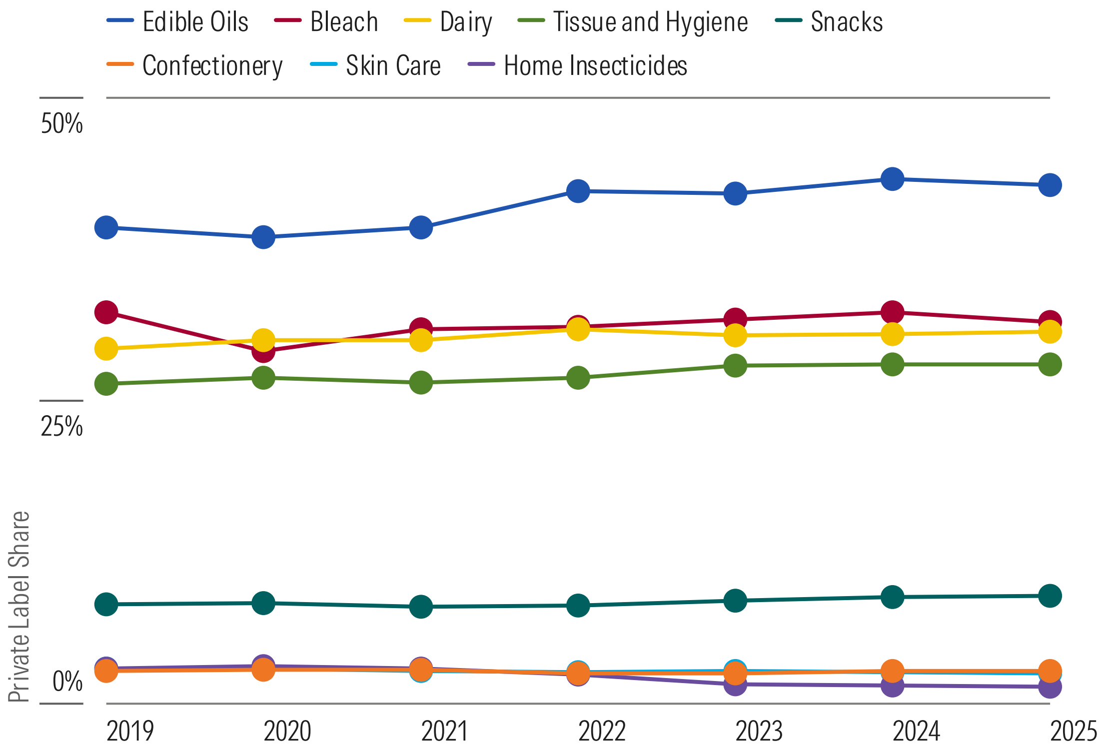


Leaving Investment Opportunities in the CPG and Beverage Enclaves Data Table

Firms Must Adapt to Evolving Consumer Preferences to Win at the Shelf Amid Intense Macro Uncertainty

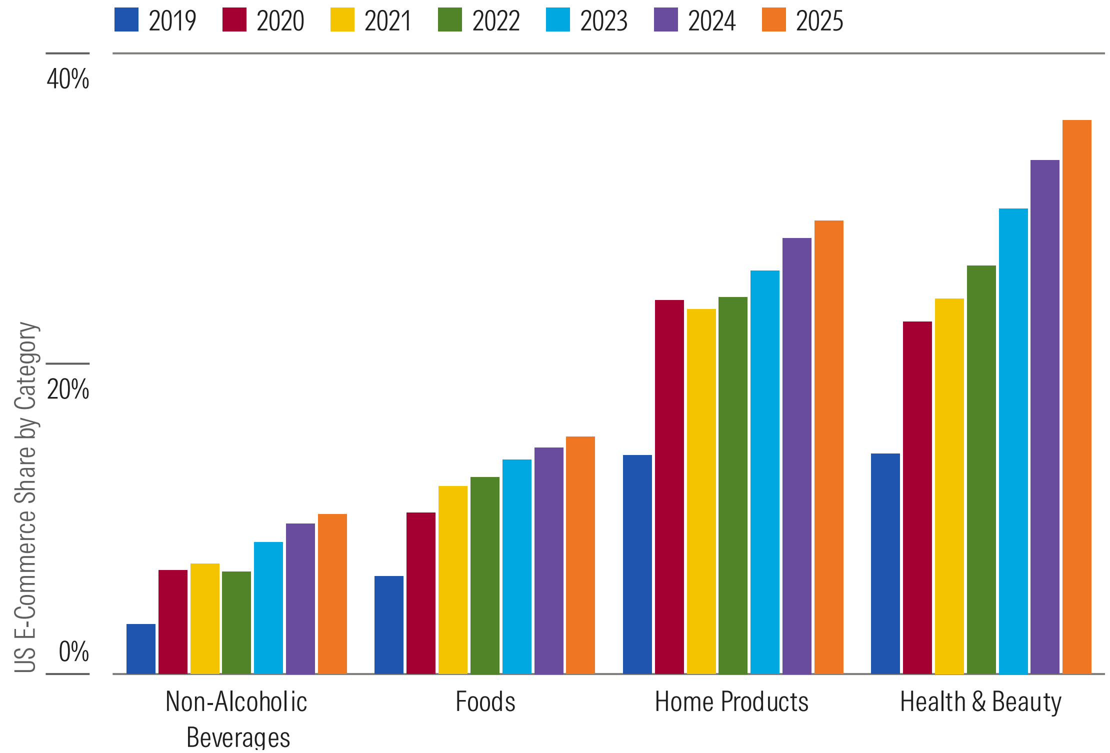
Despite macroeconomic and geopolitical angst, consumers have continued to embrace e-commerce for CPG products. Prepandemic, quality concerns and product size inhibited online purchases. However, predictable purchase patterns and convenience from not having to transport bulky items have driven penetration to over 30% for household and personal care products. To benefit from rising e-commerce adoption, firms must innovate products to maintain consumer appeal while ensuring consistent availability across channels.

Private Label Retains Highest Share in Commoditized and Price Elastic Categories



Private Label Retains Highest Share in Commoditized and Price Elastic Categories Data Table

E-Commerce Wins Where Purchases Are Predictable and Convenience Is Valued



E-Commerce Wins Where Purchases Are Predictable and Convenience is Valued Data Table

Source: Euromonitor (left and right). Data as of June 2026.

Firms Must Adapt to Evolving Consumer Preferences to Win at the Shelf Amid Intense Macro Uncertainty

Name/Ticker
Campbell's (CPB)

Rating
★★★★★

Price (USD)	Fair Value (USD)	Uncertainty
23.02	56.00	Medium

Market Cap (USD B)	Economic Moat	Capital Allocation
6.9	Wide	Standard

Trading around a 60% discount to our $56 fair value estimate and offering a 7.4% dividend yield, wide-moat Campbell's offers an attractive investment opportunity. In our view, the market is pricing in elevated cost inflation and lagging profitability as structural. However, we expect inflationary headwinds to moderate and the firm to unlock efficiencies through distribution and manufacturing optimization, supporting improved profitability. As such, we forecast operating margins to reach approximately 18% over the next decade, slightly ahead of the 17% average operating margin between 2013 and 2022.

Name/Ticker
Kraft Heinz (KHC)

Rating
★★★★★

Price (USD)	Fair Value (USD)	Uncertainty
24.19	42.00	Medium

Market Cap (USD B)	Economic Moat	Capital Allocation
28.7	Narrow	Standard

Narrow-moat Kraft Heinz trades close to a 50% discount to our intrinsic value. We view the $600 million earmarked for research, development, and marketing investments as a prudent means to juice volumes even against a tepid consumer spending backdrop. This course should support greater product relevance among cash-constrained consumers following a period of inflation-driven price increases. We surmise the firm's strategic playbook, centered on increasing brand spending and enhancing its competitive standing, should enable 2% average annual sales growth over our long-term forecast.

Name/Ticker
Clorox (CLX)

Rating
★★★★★

Price (USD)	Fair Value (USD)	Uncertainty
97.09	163.00	Medium

Market Cap (USD B)	Economic Moat	Capital Allocation
11.7	Wide	Exemplary

Wide-moat Clorox trades at bargain prices, with shares sitting at about a 40% discount to our $163 fair value estimate while offering a 5.1% dividend yield. The firm has faced multiple headwinds, including a pullback in demand after the pandemic surge, a rout in profitability amid rising inflation, and a cybersecurity attack. But through it all, Clorox has continued to invest in consumer-oriented innovation, advertising, and its capabilities, which we think supports its stalwart competitive edge. This underpins our forecast for 3%-4% top-line growth and high-teens operating margins over the long term.

Source: Morningstar. Data as of June 30, 2026.

Energy

Joshua Aguilar | joshua.aguilar@morningstar.com

US-Iran Peace Deal Signals Long-Term Drivers Should Prevail

US Energy fell (13.19%) relative to the US Equity Index's performance of 15.52%.

- In the first quarter of 2026, energy was the best-performing sector index, but that flipped in the second quarter.
- Second-quarter sector underperformance stemmed from falling oil prices, which declined due to the US and Iran agreeing to end hostilities.

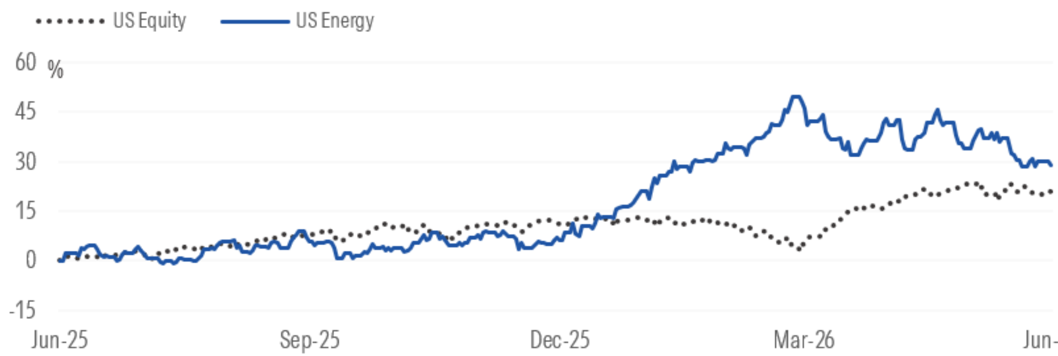
Rapid oil price declines support our view that the conflict only caused a logistical bottleneck in the Strait of Hormuz.

- Oil price declines aren't merely a repricing of fears, meaning we think the market has repriced oil as if flows were temporarily disrupted.
- Most industry observers pegged lost oil volumes well over 10 million barrels per day, but traders pegged this figure far lower – between 5-6 mmb/d.
- Aside from diverting oil through pipelines, some volumes were trafficked, which could account for the disconnect between industry figures.
- Also, the US and allies drew on strategic reserves; the US ramped up its exports.
- Asia cut back its oil consumption, buoyed by China's prior stockpiling efforts.

Nevertheless, we don't expect the recovery in lost oil volumes to be linear.

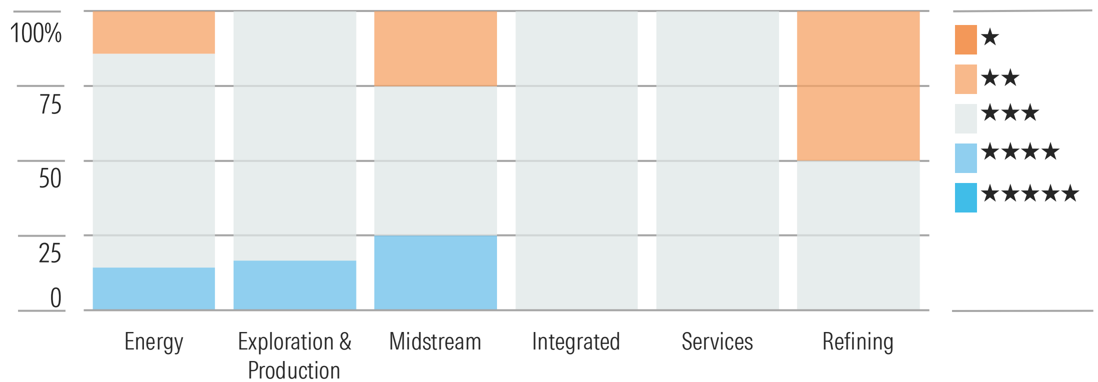
- Naval mines will need to be cleared to restore shipping confidence.
- Other issues include control of the Strait and whether tolls will be imposed.

After a Brief Wartime Rally, Energy Stocks Have Declined Due to Falling Oil Prices



After a Brief Wartime Rally, Energy Stocks Have Declined Due to Falling Oil Prices Data Table

The Sector Now Looks Fairly Valued, but Oversupply Could Create Future Bargains



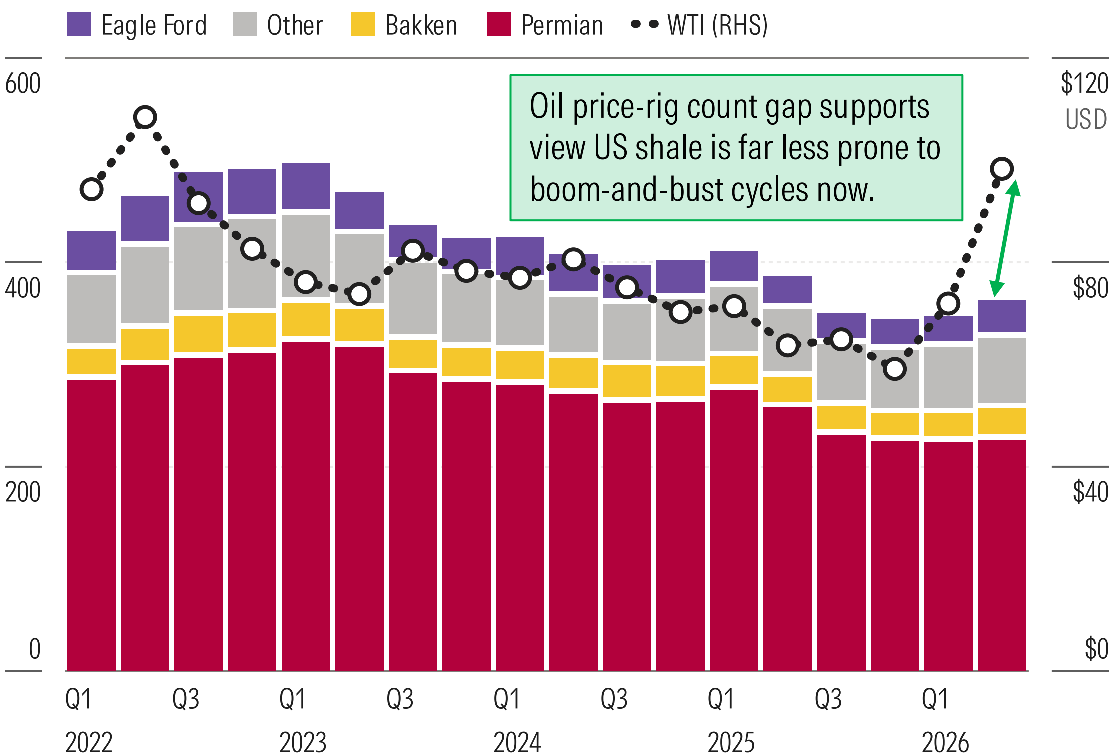
The Sector Now Looks Fairly Valued, But Oversupply Could Create Future Bargains Data Table

Source: Morningstar. Data as of June 30, 2026.

Prior Sentiment Moved Far Ahead of Drilling Fundamentals

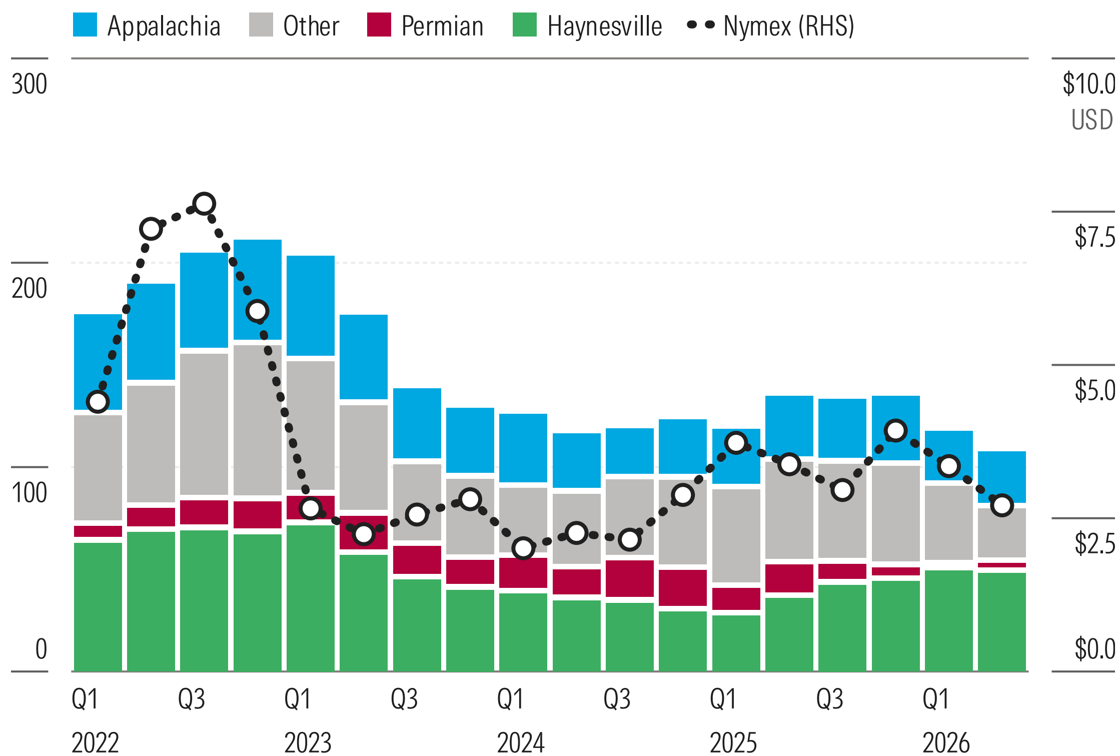
We've repeatedly contended that US shale is far more capital-disciplined now; last quarter's data supported our long-held view. Despite oil prices rising sharply higher from the US-Iran war, US shale producers weren't fooled into drilling meaningfully more new wells. Instead, they exercised caution, prudently deploying additional rigs. Rather than allocating capital toward variable dividends, as we suspected, most producers strengthened their balance sheets by building cash or paying down debt during the quarter.

US Oil Rig Count Marginally Increased During Q2, Despite Higher Oil Prices



US Oil Rig Count Marginally Increased During Q2, Despite Higher Oil Prices Data Table

US Gas Rigs Have Been Declining Amid Efficiency Gains and Lower Gas Prices



US Gas Rigs Have Been Declining Amid Efficiency Gains and Lower Gas Prices Data Table

Source: Baker Hughes, Enverus. Data as of June 9, 2026.

Energy Top Picks

Name/Ticker
Devon Energy (DVN)

Rating
★★★★

Price (USD)	Fair Value (USD)	Uncertainty
41.99	55.00	High
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**
48.4	Narrow	Exemplary

This US shale producer closed its merger with Coterra. Bears frown on its multi-basin, multi-resource story, but Devon's gas exposure should help it long-term, and we like the upside from the deal's cost savings, as well as management's execution and capital return record. We think the merged firm can achieve 70% of these planned savings, driven by longer drilling across adjacent acreage and lower corporate overhead. Upside risk comes from Devon-Coterra selling some of its assets, executing more cost savings than we're expecting, and either buying more attractive assets or returning cash to shareholders.

Name/Ticker
Energy Transfer (ET)

Rating
★★★★

Price (USD)	Fair Value (USD)	Uncertainty
19.06	24.00	Medium
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**
65.6	None	Poor

We see Energy Transfer as our only undervalued midstream that also offers an attractive 7% yield. We like its exposure to data center power facilities and LNG export terminals. Its intrastate pipeline network in Texas is ideal for transporting gas from oil wells to local power plants that feed data centers. After increasing its Desert Southwest pipeline connecting its Texas and Arizona markets, Energy Transfer can now serve its end market more efficiently over competitors.

Name/Ticker
Antero Resources (AR)

Rating
★★★★

Price (USD)	Fair Value (USD)	Uncertainty
34.44	42.00	High
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**
10.7	None	Standard

Antero's long-haul transport contracts give it priority access to LNG export pricing; so, it should benefit from soaring overseas demand for US natural gas, while its hedge book offsets near-term price volatility. The acquisition of HG Energy allowed Antero to sell out of their Utica position; doubling down on their acreage in the Marcellus shale. In the coming years, we expect Antero to augment its gas position further, by renegotiating its committed long-haul transportation agreements signed over a decade ago.

Source: Morningstar. Data as of June 30, 2026.

Financial Services

Sean Dunlop, CFA | sean.dunlop@morningstar.com

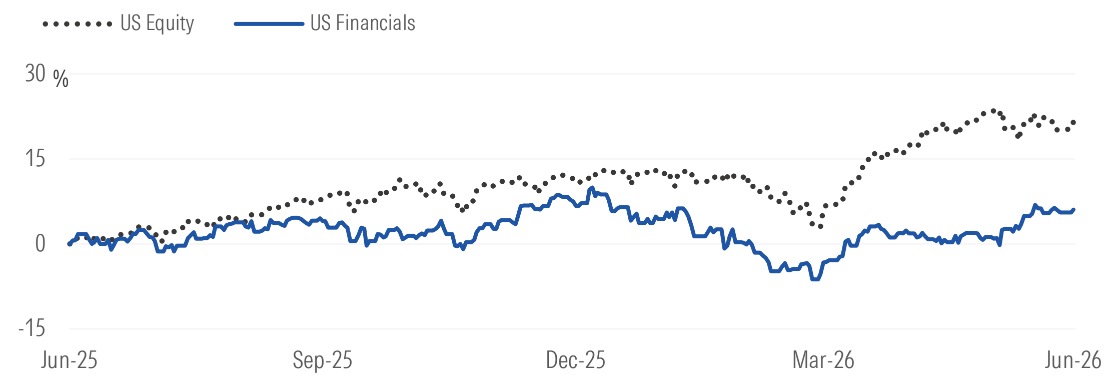
Rough Year for Financial Services Amid Swirling AI Disruption Concerns, Private Credit Weakness

The Financial Services industry is one of the worst performing industry groups over the past year, with trailing 12-month returns lagging the Morningstar US Market Index. We chalk this up to the twin headwinds of fears regarding AI disruption and weakness in private credit.

Regarding the former, some trepidation is warranted; workflow-driven moats look more vulnerable than they have in some time, driving our decision to downgrade the economic moat of FactSet—largely a data aggregator—to none from narrow, alongside a handful of similarly motivated downgrades across the industry and across our broader Morningstar coverage. But we'd point out to investors that the sell off is somewhat indiscriminate, while idiosyncratic impacts are likely to vary widely. For example, we expect limited impact from still largely hypothetical AI cash management tools, yet shares of wealth managers like Charles Schwab have sold off significantly regardless. We unpack this view in our recent Charles Schwab stock pitch report.

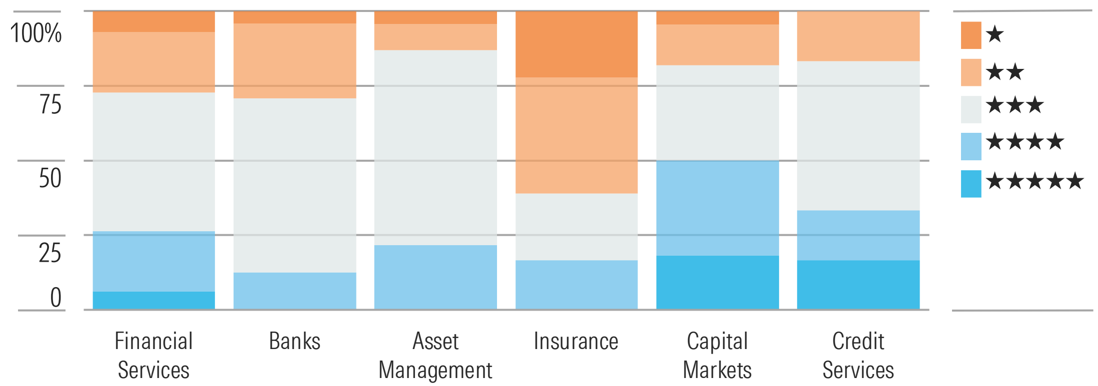
Considering the latter, we now expect roughly half the organic asset inflows into private credit strategies for the alternative asset managers in our coverage, and we highlight that similar episodes—like with wide-moat Blackstone's BREIT product—took years to recover. Notwithstanding this pressure, we see very little credit risk for those firms, given the structure of their funds, and believe that the market's reaction is a bit of an overcorrection, underpinning investable opportunities in names like Blackstone. The throughline from these episodes is that broad selling pressure has created select opportunities, particularly among capital markets firms, for judicious investors.

AI Disruption, Private Credit Concerns Batter Financial Services Stocks



AI Disruption, Private Credit Concerns Batter Financial Services Stocks Data Table

Indiscriminate Selloff Underpins Selective Opportunities



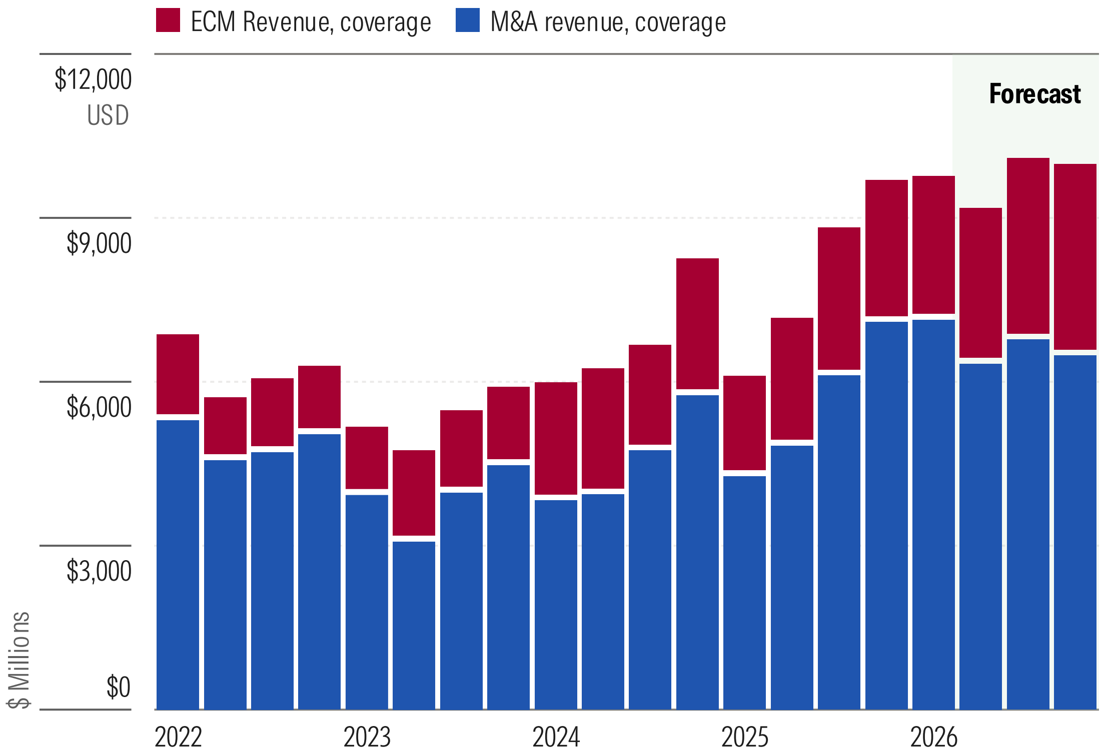
Indiscriminate Sell Off Underpins Selective Opportunities Data Table

Investment Banking Is a Unique Bastion of Strength Amid IPO, M&A Market Momentum

Although many financial services firms have struggled to shed the perception of AI vulnerability, investment banks have enjoyed a strong start to 2026 on the back of a re-opening IPO market and improving corporate confidence. This drove 60% growth in combined advisory and equity capital markets revenues—the two most profitable investment banking categories—during the most recent quarter. Married with still-strong trading revenue growth, the banks we cover have seen average price appreciation of 40% over the past year.

Capital Raising, Strong Transaction Volume Translate to Strong I-Bank Results

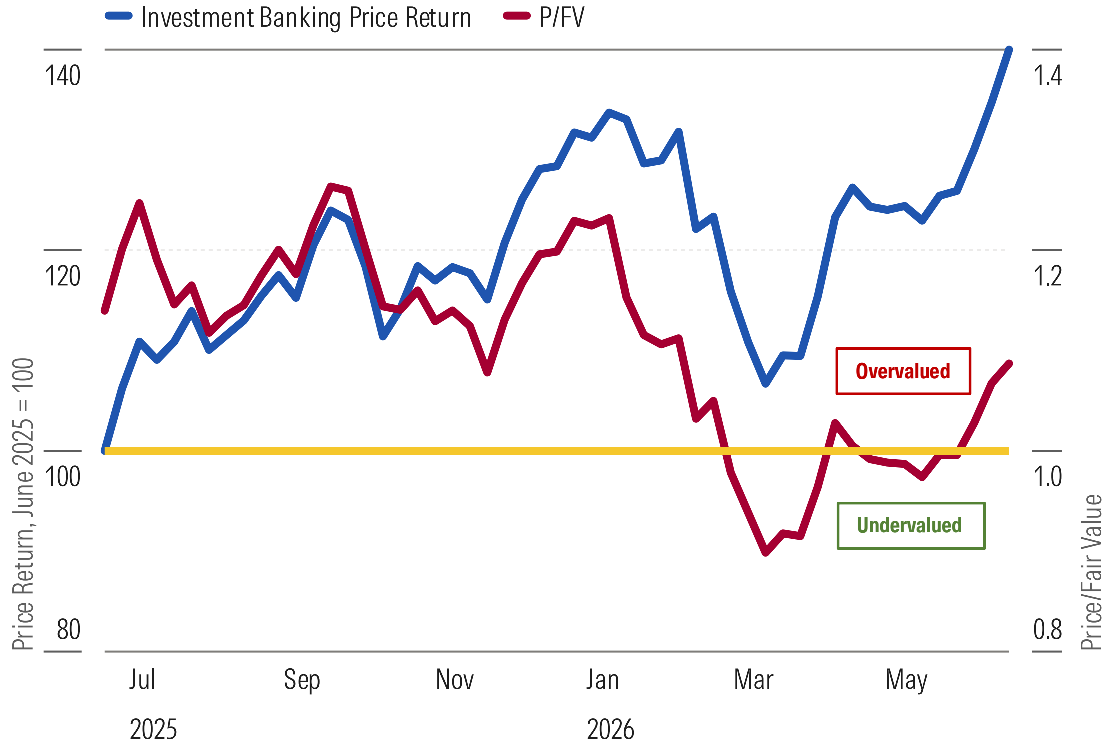
We expect strength to persist through 2026-27 before normalizing in 2028.



Capital Raising, Strong Transaction Volume Translate to Strong I-Bank Results Data Table

In a Cyclical, Mean-Reverting Industry, Valuations Look Stretched Again

We see better value among high quality firms in battered industries.



In a Cyclical, Mean Reverting Industry, Valuations are Look Stretched Again Data Table

Source: Company Filings, Morningstar, Morningstar Estimates. Data as of June 26, 2026.

Diamonds in the Rough: High Quality Companies in Pressured Industries Underpin Many of our Best Ideas

Name/Ticker Charles Schwab (SCHW)		**Rating** ★★★★	Charles Schwab has been battered by fears regarding AI enabled cash management tools, a still hypothetical risk that fails to hold water in our view when considered against a handful of practical realities: very competitive all-in cash yields for the firm's clients, very limited net benefit, even at quite high short-term interest rates, for the average Schwab customer, significant liability and privacy concerns, and challenges tied to customer acquisition, as we saw with robo-advisors. The name is the highest quality company in our wealth management and retail brokerage coverage, and we expect nearly 13% compound annual EPS growth over the next decade despite the firm's scale.
Price (USD) 90.55	**Fair Value (USD)** 117.00	**Uncertainty** Medium	
Market Cap (USD B) 157.5	**Economic Moat** Wide	**Capital Allocation** Exemplary	
Name/Ticker S&P Global (SPGI)		**Rating** ★★★★	Overall, we are constructive on S&P Global, and view shares as attractive based on our $530(1) fair value estimate. AI disruption concerns have weighed heavily on information services stocks, but we see these risks as often overstated. In our view, AI disruption concerns have little applicability to wide-moat benchmark businesses of ratings, indexes, and energy. In addition, bond issuance growth has been robust, and the spinoff of Mobility Global further streamlines the firm's operations. At current levels ($414), shares trade at 19 times our 2027 adjusted EPS estimate, well below the three-year average forward P/E of 27 times.
Price (USD) 408.56	**Fair Value (USD)** 530.00(1)	**Uncertainty** Medium	
Market Cap (USD B) 120.9	**Economic Moat** Wide	**Capital Allocation** Exemplary	
Name/Ticker Bank of America (BAC)		**Rating** ★★★★	Bank of America benefits from one of the lowest-cost retail deposit franchises in the United States, leaving it well-poised to navigate industrywide funding cost pressures. The firm is the primary bank for 92% of its retail clients and has forged deep relationships with both its consumer and commercial customers over decades. The firm's strong suite of fee-based products allows for efficient revenue generation and cross-selling, with Bank of America generating among the strongest post-provision net revenue per dollar of risk-weighted assets in the industry. We think the market underappreciates many of these factors.
Price (USD) 57.88	**Fair Value (USD)** 65.00	**Uncertainty** Medium	
Market Cap (USD B) 410.8	**Economic Moat** Wide	**Capital Allocation** Standard	

Source: Morningstar. Data as of June 30, 2026. (1) On July 6, 2026 the fair value was lowered to $505.

Healthcare

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Healthcare Stocks Had a Mixed Q2, But Defensive Nature and Steady Innovation Starting to Look Attractive

Healthcare Had Mixed Performance in Q2 2026

The Morningstar Healthcare Index slightly underperformed the Morningstar US Index in the first three quarters of 2025, due to US policy concerns for biopharma, healthcare plans, and med-tech firms. While clarity improved after most large biopharma firms signed voluntary agreements with the Trump Administration in late 2025, volatile demand for AI/Tech stocks led to mixed performance for the more defensive healthcare sector in Q2 2026. Near-term challenges remain for healthcare plans and some life science names, but we expect steady innovation to support solid performance for biopharma in 2026, the largest industry in healthcare.

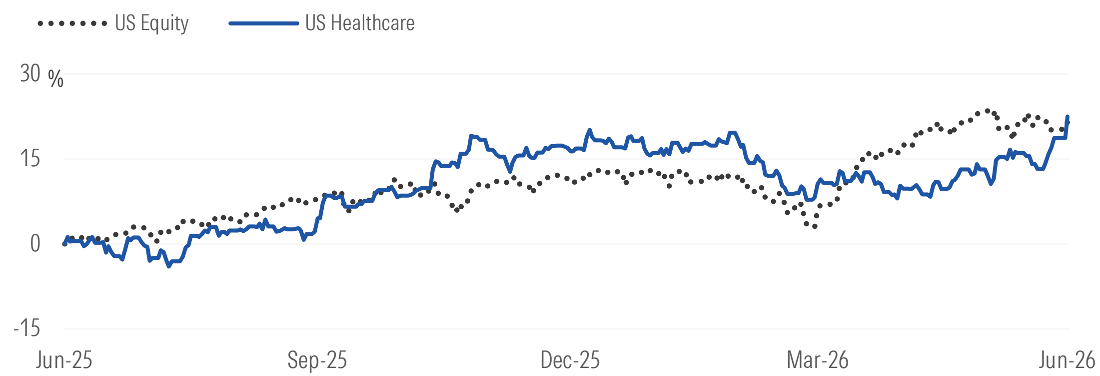
Valuations Still Look Broadly Attractive

We still see several undervalued opportunities in the US across biopharma (Pfizer, Bristol), medical devices (Boston Scientific, Zimmer Biomet), and distributors (McKesson, Cencora).

Regulatory Headwinds Add Volatility, but Likely Net Benefit From AI

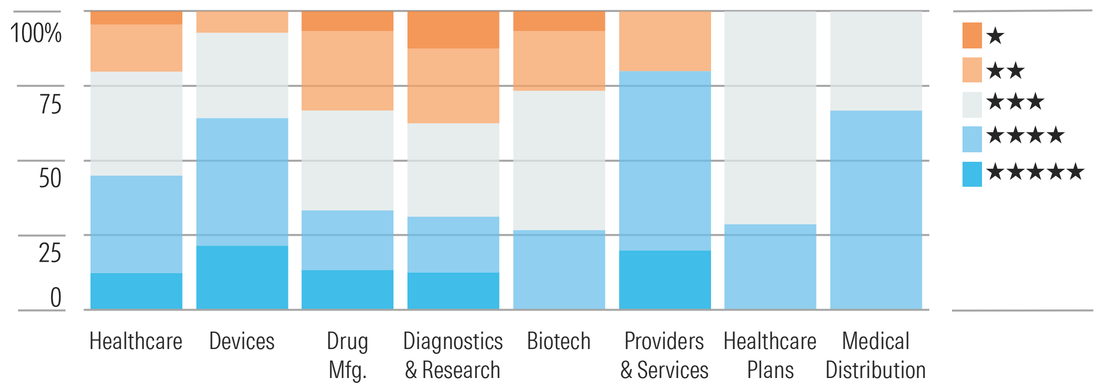
Volatility has remained elevated since the election of Donald Trump and Robert F. Kennedy Jr.'s appointment as secretary of Health and Human Services. We still see high uncertainty around many stocks, particularly in biopharma and healthcare plans, but clarity on drug pricing headwinds is improving and plans look poised to see a better match between rates and utilization beyond 2026. As the market assigns winners and losers in the age of AI, we think healthcare is well-positioned. Most firms are likely to see incremental operational benefits from incorporating AI. Some industries (like biopharma) could see even broader benefits.

After a Slow Start, Healthcare Rebounded to Finish Q2



After a Slow Start, Healthcare Rebounded to Finish Q2 Data Table

We Still See Opportunities Across Healthcare



We Still See Opportunities Across Healthcare Data Table

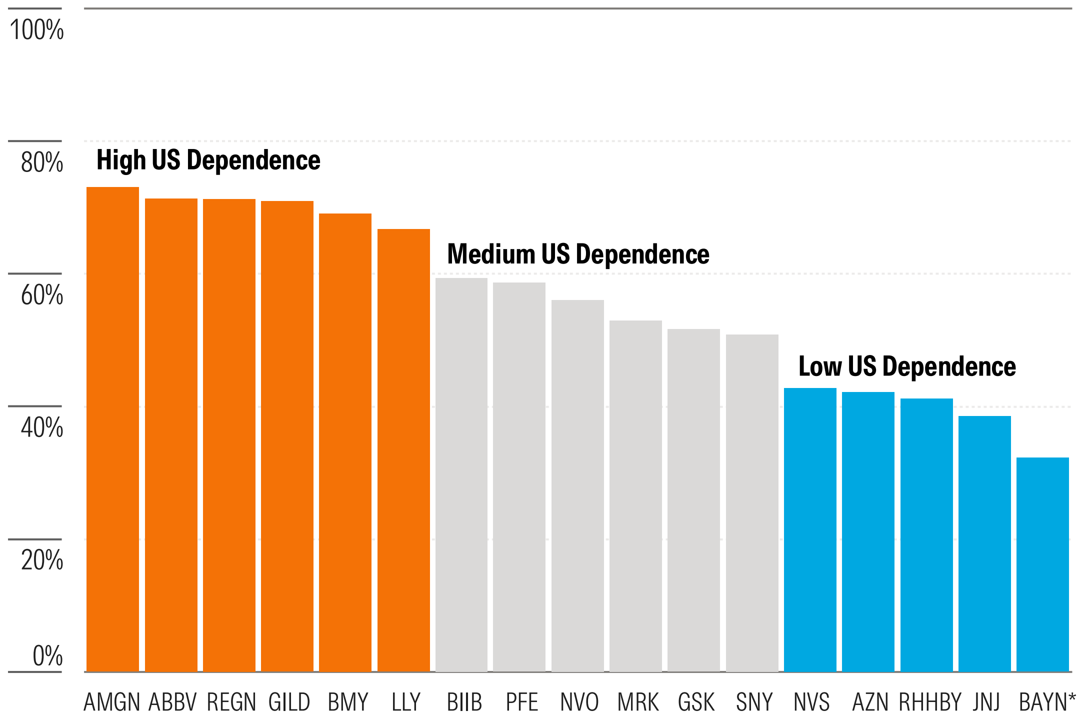
Drug Pricing Pressure Varies With Geographic Exposure, But Our Global Five-Year Growth Forecast Is Steady

Biopharma companies vary in their dependence on US sales for branded drugs. With recent policies and individual firm contracts aimed at lowering US drug prices, industry pricing headwinds cover a spectrum based on geographic exposure.

We forecast revenue for major biopharma firms to grow at a 4.3% CAGR through 2030. Drugs in the fields of immunology and obesity are the biggest drivers of in-line sales growth, but immunology is also a key area for patent expiration headwinds.

Spectrum of US-Branded Drug Exposure for Big Biopharma Companies

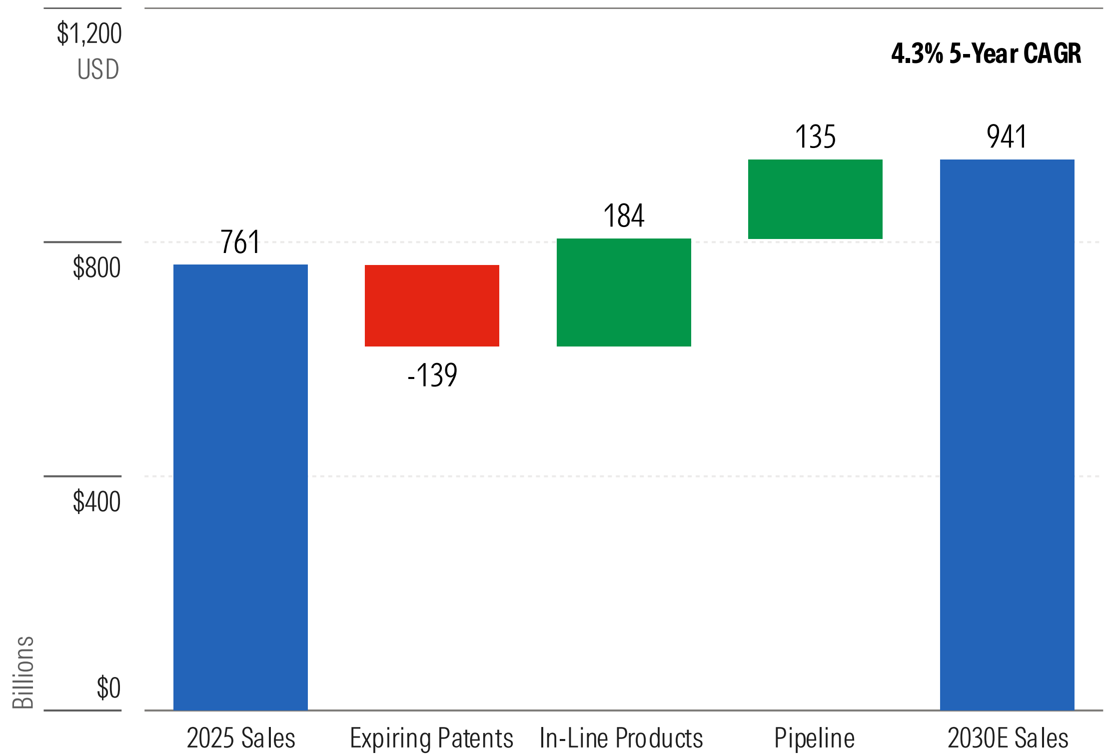
2025 US Branded Drug Sales as a Percentage of Total 2025 Revenue



Spectrum of US Branded Drug Exposure for Big Biopharma Companies Data Table

Innovation Offsets Sales Lost to Patent Expirations

5-Year Revenue Implications for the Top 16 Biopharma Firms Under Our Coverage



Innovation Offsets Sales Lost to Patent Expirations Data Table

Source: Morningstar, company reports. *Bayer numbers are North America, not US.

Healthcare Top Picks

Name/Ticker		Rating	
GE Healthcare (GEHC)		★★★★	We attribute the recent selloff in GEHC shares to the conflict in the Middle East and higher oil prices. GEHC's top line has very little exposure to this region (perhaps a low-single-digit percentage of revenue), but oil prices can pressure its margins due to higher transportation costs. Although there was significant progress toward a ceasefire deal in June, we think the margin pressure is likely to remain in the near term. We note that GEHC has an excellent track record of responding to supply chain shocks, including during the covid pandemic, and we think shares are already pricing in a bearish scenario.
Price (USD) $65.05	**Fair Value (USD)** $88.00	**Uncertainty** Medium	
Market Cap (USD B) $29.6	**Economic Moat** Wide	**Capital Allocation** Standard	
Name/Ticker Iqvia (IQV)		**Rating** ★★★★★	Iqvia's shares have been pressured by macroeconomic concerns and reduced biotech funding, which have contributed to more selective R&D spending and longer decision cycles, combined with broader market concerns about AI-driven disruption. However, we view these issues as near-term headwinds. Iqvia remains a global leader in clinical trial services and healthcare analytics, with a growing backlog that highlights its strength in booking new business. Its differentiated data assets and expanding AI capabilities position it to harness rather than be displaced by AI over time, supporting durable long-term growth.
Price (USD) $193.28	**Fair Value (USD)** $268.00	**Uncertainty** Medium	
Market Cap (USD B) $32.3	**Economic Moat** Narrow	**Capital Allocation** Standard	
Name/Ticker Medline (MDLN)		**Rating** ★★★★	Medline shares have traded down 20% since April from a weak margin readout in first quarter earnings and a FDA warning letter. On margins, rising input costs from geopolitical issues and a fluid tariff situation created headwinds, but we see these as largely transitory and continue to believe strong fundamentals remain unchanged. FDA warning letter looks to be an isolated issue for a niche product, and the ensuing stock movement (down 7%) looks to be an overreaction in our view. We note that Medline is a leader in its market and see a lot of growth upside from new clients, customer penetration, and end market expansion.
Price (USD) $39.62	**Fair Value (USD)** $48.00	**Uncertainty** Medium	
Market Cap (USD B) $33.5	**Economic Moat** Narrow	**Capital Allocation** Standard	

Source: Morningstar. Data as of June 30, 2026.

Industrials

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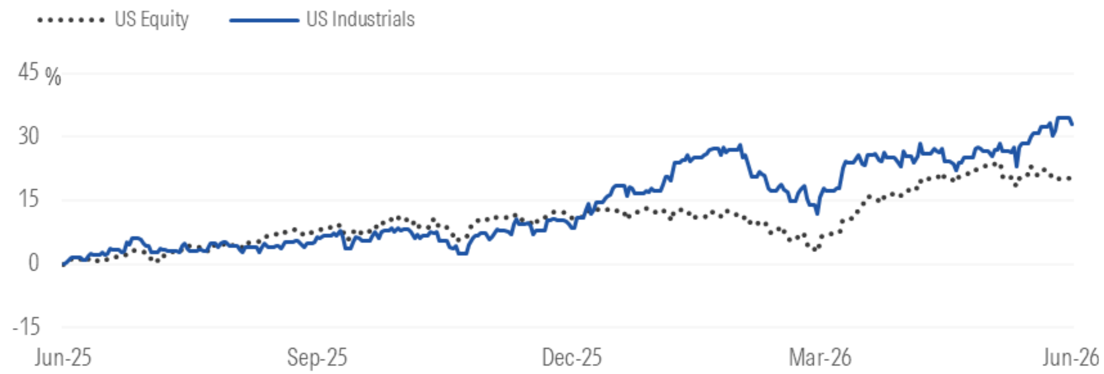
Industrials Remain Fully Valued, but Selective Investment Opportunities Still Exist Across the Sector

The Morningstar US Industrials Index has slightly outperformed the US Market Index on a TTM basis. Industrials continue to benefit from the rotation away from software to hard assets and stocks within the sector with exposure to the AI buildout continue to perform well. Industrials gave away some of its relative gains in Q1 2025 due to geopolitical concerns, but the sector rallied back in recent months along with the market. While we view the sector as being fully valued, there are compelling investment opportunities across most industry groups, particularly in farm machinery, aerospace & defense, and construction industries.

We expect fundamentals in the aerospace and defense industry to hold up relatively well, as healthy demand dynamics persist across both the commercial aerospace and defense markets. Aerospace will receive a boost from doubling of the aircraft fleet over the next two decades, and the defense industry should be a beneficiary of increased defense spending amid a highly volatile geopolitical environment.

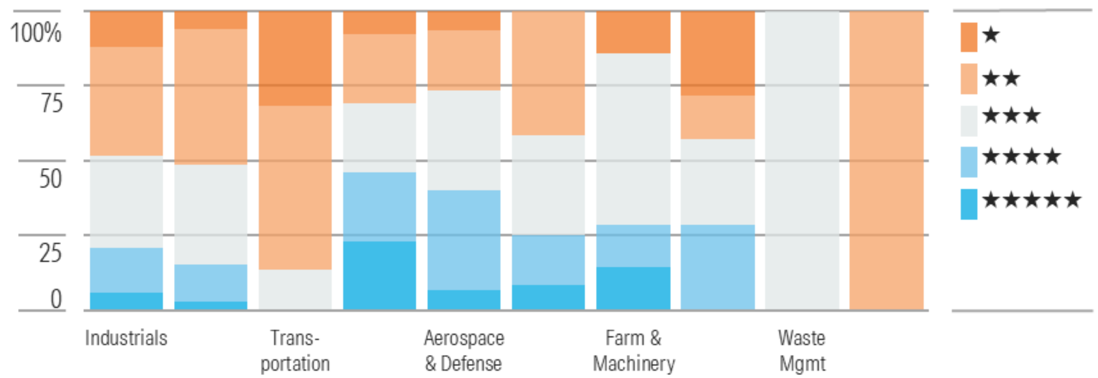
While some sectors like autos remain highly exposed to tariffs, the Industrial sector's profitability remains robust despite tariff-related uncertainty. Continued geopolitical turmoil can potentially have an impact on the sector given its impact on energy and raw material prices, supply chain disruptions, and production constraints. Geopolitical and supply chain concerns have eased, and we have not seen material disruptions yet. Inflation remains persistently higher than the fed targets and rates remaining higher for longer looks increasingly likely. High interest rates are a major headwind for industries like construction, building materials, and home building.

Industrials Has Outperformed the Broader US Market In Recent Months



Industrials Has Outperformed the Broader US Market In Recent Months Data Table

We Still See Selective Investment Opportunities Across Most Industry Groups



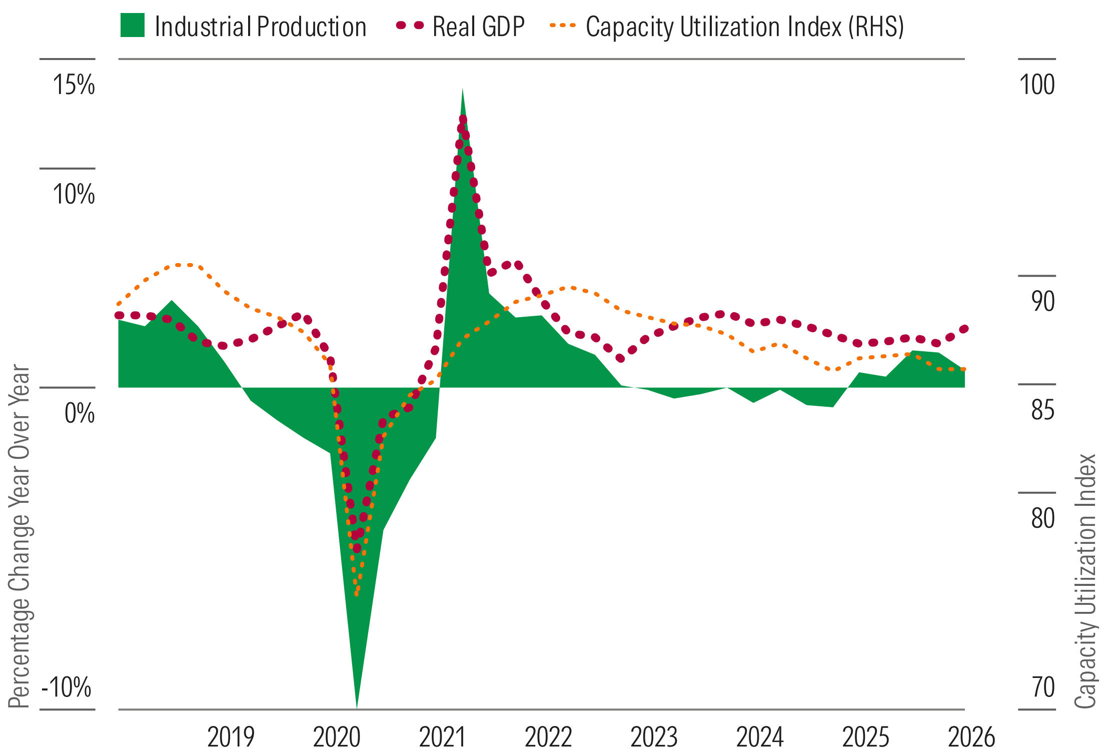
We Still See Selective Investment Opportunities Across Most Industry Groups Data Table

Source: Morningstar. Data as of June 30, 2026.

Robust Economic Growth Is Not Fully Translating Into Industrial Production; Higher Rates Remain Headwinds

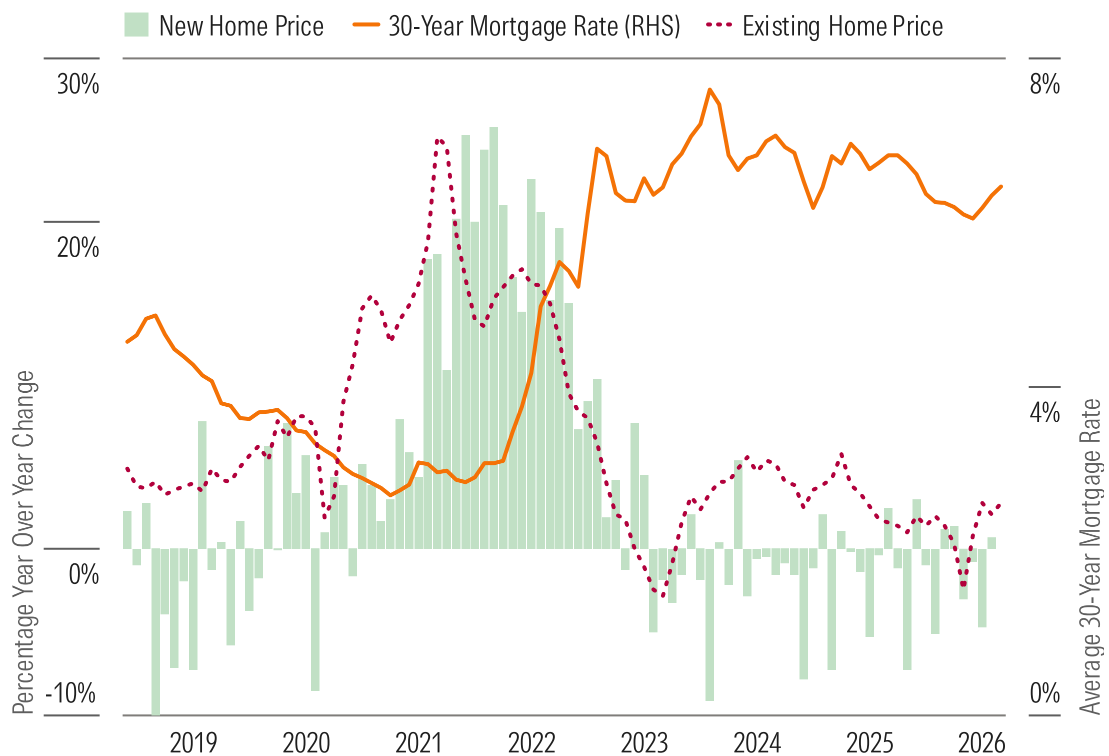
Sticky inflation and an uncertain economic outlook may force the central banks to tighten monetary policy, keeping interest rates high. The recent geopolitical events and inflation worries have reignited downside risks for the housing industry as mortgage rates have risen to about 6.5%. AI buildout and other related themes are powering economic growth in the US, but the growth in industrial production remains sluggish. Capacity utilization remains on a downward trend after the post-pandemic boom.

Industrial Production Rebounded in 2025 but Growth Remains Sluggish



Industrial Production Rebounded In In 2025 But Growth Remains Sluggish Data Table

Higher Mortgage Rates Are a Major Headwind For the Housing Market Recovery



Higher Mortgage Rates Are a Major Headwind For the Housing Market Recovery Data Table

Source: FRED, US Census Bureau, National Association of Realtors, Freddie Mac, U.S. Bureau of Economic Analysis, Morningstar. Data as of March 31, 2026.

Top Picks in Industrials

Name/Ticker		Rating	
Vontier (VNT)		★★★★★	Vontier is an industrial technology company offering transportation and mobility solutions. While growth in convenience retail (roughly two-thirds of Vontier's revenue) has been solid, organic growth has been dragged down by weaker results in repair solutions. The latter has faced headwinds due to a challenging macroeconomic environment, which has weighed on repair technician sentiment and pressured discretionary spending, particularly on high-ticket items. Nonetheless, we view these headwinds as transitory and expect repair solutions to return to more normalized organic revenue growth in the low single digits once the macroeconomic pressures are alleviated.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
29.00	48.00	Medium	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
4.1	Narrow	Standard	
Name/Ticker		**Rating**	
CarMax (KMX)		★★★★★	CarMax is the leading used vehicle retailer, with over 255 stores, all in the US. CarMax has not resisted the shift to online retailing, but we think it has not done a good job of messaging its robust omnichannel capabilities to consumers. Once it revamps its website and improves messaging, we expect rising sales. Former IHG CEO Keith Barr became CEO in March and the stock may have overhang until he gives a deep dive on his four-pillar strategy in late fall. The pillars focus on offering a broad selection with an easier online experience that complements the in-store experience, all while reducing overhead and reconditioning costs. Once Barr settles in, we expect share buybacks to resume.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
32.89	96.00	High	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
7.5	Narrow	Standard	
Name/Ticker		**Rating**	
Lennar (LEN)		★★★★	Lennar is the second-largest homebuilder in the US. Lennar has become more asset-light, with 98% of its lots controlled via options. The stock has corrected about 50% from its 2024 highs as rate outlook changed and market became skeptical of Lennar's long-term margin profile following its transition to land light strategy. Lennar's margins may underperform in the near term, but its operating model and enhanced scale should enable it to close the gap with peers in the long run. The market is pricing the stock as if homebuilding margins will not improve from the current levels, which we think is excessively pessimistic.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
90.49	124.00	High	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
21.7	None	Standard	

Source: Morningstar. Data as of June 30, 2026.

Real Estate

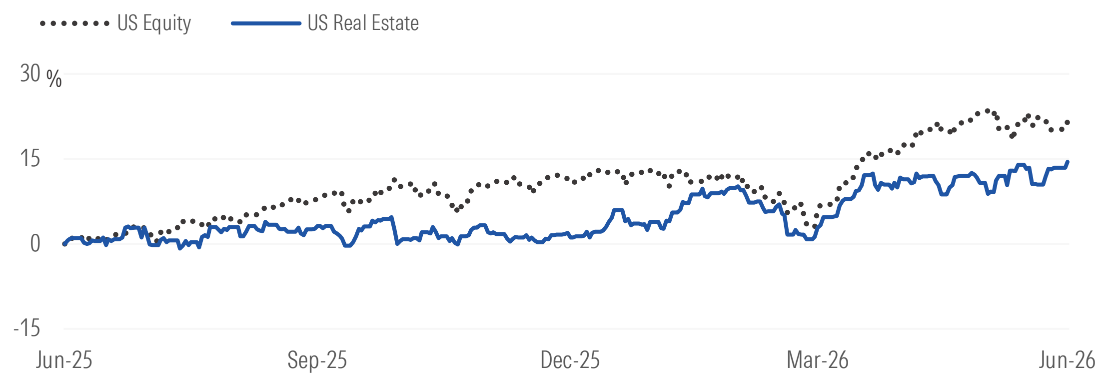
Kevin Brown | kevin.brown@morningstar.com

Real Estate Outperforms in First Quarter, Though Performance Still Lags Broader Market Over Last 12 Months

The Morningstar U.S. Real Estate Index rose just 9.2% over the trailing 12 months, which is significantly below the 26.9% gain seen by the broader U.S. equity market over the same period. While the sector has risen in the second quarter, it still trails the gain seen by the broader US equities market in the quarter. The real estate sector's performance over the past few years has largely been driven by interest rate movements as the performance of the real estate sector is negatively correlated with interest rate changes. However, the real estate sector saw flat growth in both the third and fourth quarters of 2025 despite interest rates generally falling over that timeframe. Still, the relationship resumed in 2026 as a decline in rates in February was linked to the REIT sector's outperformance, though higher rates in the second quarter led to real estate trailing the broader market. In April and May, the REITs reported solid 4.2% average same-store net operating income year-over-year growth for the first quarter of 2026. While that was driven by 11.4% growth from the hotel REITs and 8.4% growth from the healthcare REITs, all real estate sectors reported positive growth for the first time since the first quarter of 2023.

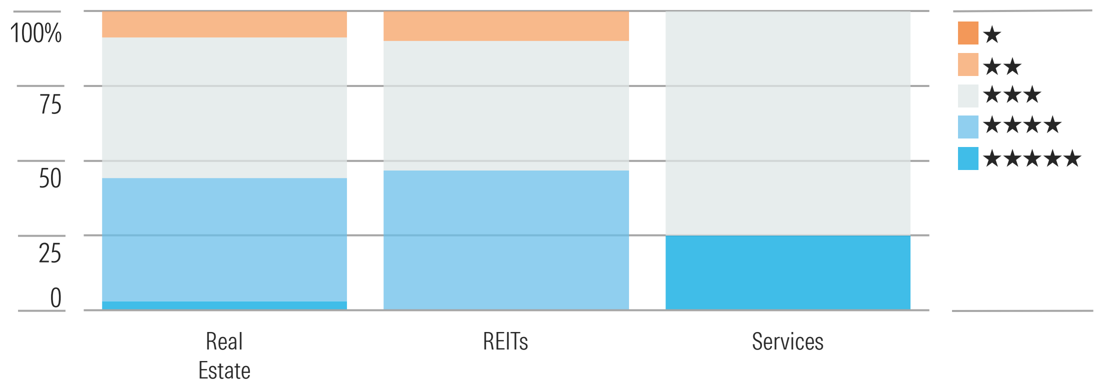
The real estate sector is currently trading below our fair value estimates. Our real estate coverage currently trades at a 6% discount to our estimate of fair value. Currently, more than half (57%) is trading in the 4-star range and another 34% is trading in the 3-star range. Meanwhile, just 3% of the sector is trading in each of the other ranges.

Real Estate Significantly Underperformed Broader Market Over Past 12 Months



Real Estate has Significantly Underperformed Broader Market Over Past 12 Months Data Table

Two-Thirds of REITs are Trading at Material Discount to Our Fair Value Estimates



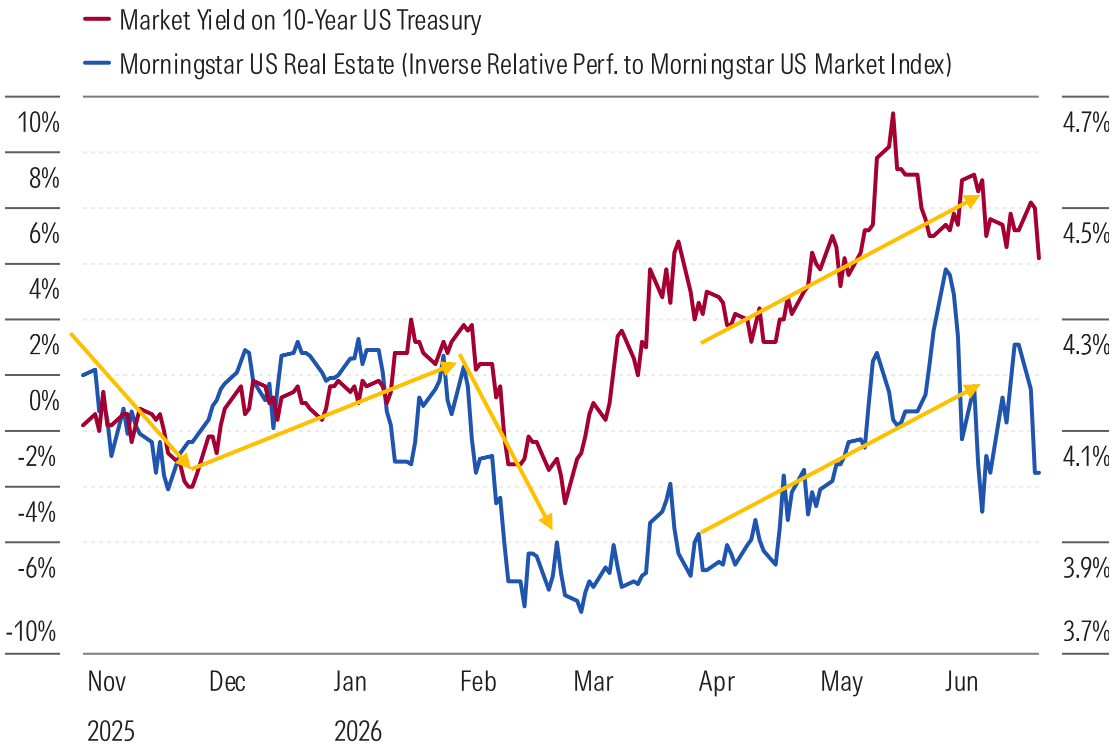
Two Thirds of REITs are Trading at Material Discount to Our Fair Value Estimates Data Table

Improving Net Operating Income Growth Helps Sector Avoid 2026 Underperformance Despite Rising Rates

Even though long-term interest rates have risen about 40 basis points since the start of November 2025, the Morningstar US Real Estate Index outperformed the Morningstar US Market Index by about 3% over the same timeframe. However, the rise in interest rates seen in March did not translate to the sector underperforming as real estate fundamentals started to improve. Every REIT sector reported positive same-store net operating income growth in the first quarter, the first time every sector has been positive since the first quarter of 2023.

UST Rate Movements Have Been the Driving Factor Behind REIT Performance

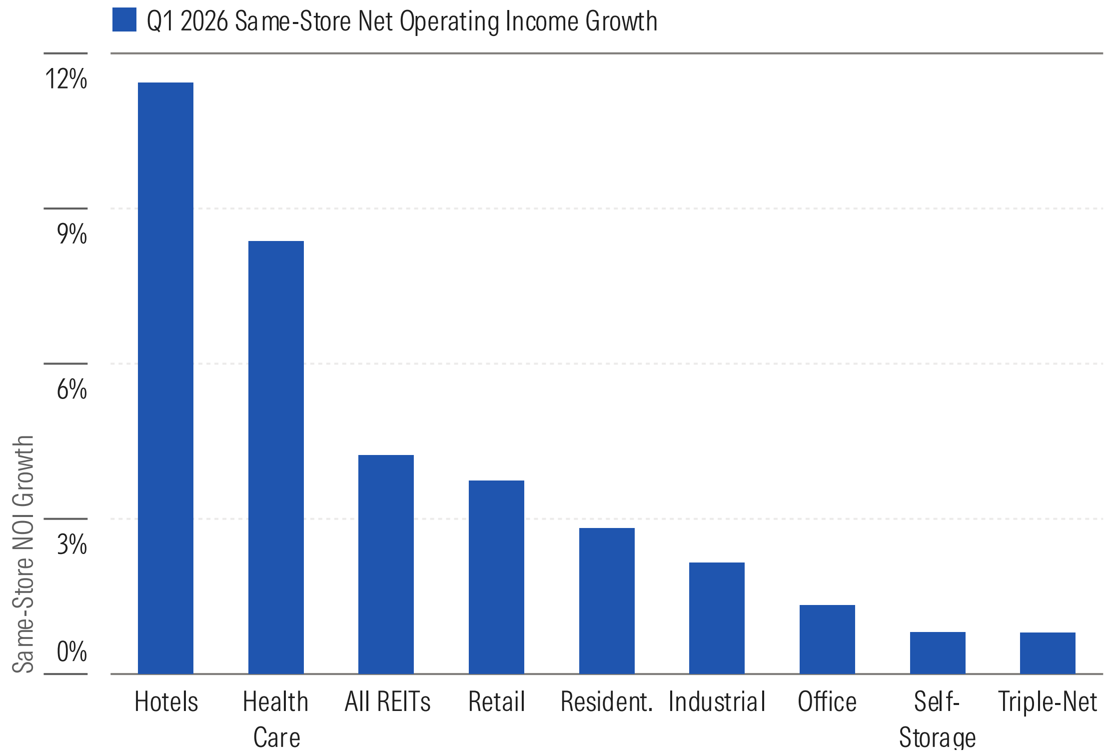
Only disconnect seen in March when rising rates did not cause REIT underperformance.



UST Rate Movements Have Been the Driving Factor Behind REIT Performance Data Table

REITs Average 4.2% Same-Store NOI Growth With Every Sector Positive in Quarter

Renovation tailwinds lead to strong hotel growth while healthcare remains high.



REITs Average 4.2% Same-Store NOI Growth With Every Sector Positive in Quarter Data Table

Source: Federal Reserve Bank of St. Louis, Morningstar Direct, PitchBook, Data as of June 24, 2026 (left chart).
Source: Company reports, Morningstar Direct. Data as of March 31, 2026 (right chart).

Kilroy Realty, Park Hotels, and Invitation Homes Are Our Top Picks

Name/Ticker Kilroy Realty (KRC)		**Rating** ★★★★
Price (USD) 38.40	**Fair Value (USD)** 51.00	**Uncertainty** High
Market Cap (USD B) 4.5	**Economic Moat** None	**Capital Allocation** Exemplary

Kilroy Realty shares have corrected around 60% since the onset of the pandemic even as the company's NOI has increased materially. We believe that the selloff has been overdone and the market is not recognizing the value of the company's non-office-related assets and its land bank. Kilroy has a high-quality portfolio with an average building age of 11 years compared with 34 years for other office REIT peers. The company should be a prime beneficiary of the flight-to-quality trend in offices. Further, the company has a strong balance sheet with the lowest leverage within our office REIT coverage.

Name/Ticker Park Hotels & Resorts (PK)		**Rating** ★★★★
Price (USD) 14.53	**Fair Value (USD)** 19.50	**Uncertainty** High
Market Cap (USD B) 2.9	**Economic Moat** None	**Capital Allocation** Exemplary

Stagnating hotel industry revenue led to Park Hotels and the rest of the hotel industry selling off over the past four years. However, hotel industry revPAR improved in the fourth quarter of 2025 and again in the first quarter of 2026. Completion of renovation projects led to Park's peers seeing strong stock price performance over the past six months, but Park's fundamentals lagged as its largest project didn't finish until May 2026. We believe the completion of that project will drive fundamental growth for Park above industry average for the next few years, which should allow its share price to catch up to its hotel REIT peers.

Name/Ticker Invitation Homes (INVH)		**Rating** ★★★★
Price (USD) 30.59	**Fair Value (USD)** 38.00	**Uncertainty** Medium
Market Cap (USD B) 18.2	**Economic Moat** None	**Capital Allocation** Standard

Invitation Homes is down since the third quarter of 2024 as occupancy has declined due to the excess demand created by the pandemic slowly wearing off and because operating expenses growth has been higher than revenue growth. However, occupancy should settle at its historical average and operating expenses should decelerate toward revenue growth, both of which should allow same-store NOI growth to pick up in the coming years. We like the company's mix of starter homes tightly grouped together, which should allow the company to run the portfolio efficiently, keeping margins high.

Source: Morningstar. Data as of June 30, 2026.

Technology

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Technology Stocks Surged During the Second Quarter

Beginning near the end of March 2026, tech stocks began to surge as strength in semis and hardware continued while the selloff in software eased. As a result, tech was the strongest sector in the second quarter (to date) by a wide margin. During the last 12 months, tech's performance is also the best of any sector, topping the overall market by nearly 2,400 basis points. Our confidence in secular tailwinds, such as cloud computing, artificial intelligence, and the long-term expansion of semiconductor demand, remains unchanged. After months of poor performance, we see software as offering the most upside within the tech sector, although investor enthusiasm for the group is hard to find. We think momentum factors alone have pulled investment dollars from software toward semis and hardware.

Artificial intelligence remains the largest theme within the tech sector. Software firms are incorporating AI capabilities within their platforms, while cloud providers are introducing new services and ramping capacity, and many semiconductor firms are enjoying surging demand for AI and data center chip applications. Volatility has definitely been a hallmark of recent trading activity around this theme.

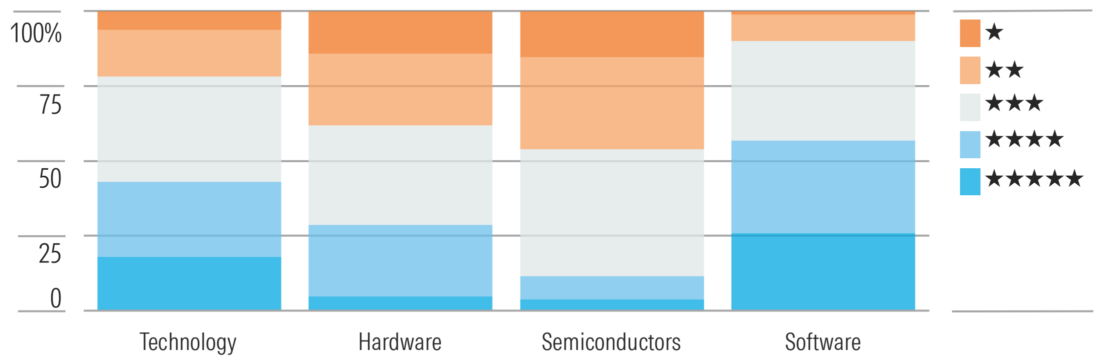
The Morningstar US Technology Index is up 51% on a trailing 12-month basis, compared to the U.S. equity market up 27%, as shown in the top exhibit.

The median US technology stock is undervalued, with a narrow margin of safety. Overall, we see hardware and semis as slightly overvalued and software as undervalued given the fears surrounding AI, as shown in the bottom panel at the right. We believe we are in the early stages of AI adoption and we see pockets of attractive value even within industries like semiconductors where the median stock skews as slightly overvalued.

Semis and Hardware Drive Technology Strength but Software Quietly Rebounds

Semis and Hardware Drive Technology Strength but Software Quietly Rebounds Data Table

Semis and Hardware Are Less Attractive, While Opportunities Remain in Software



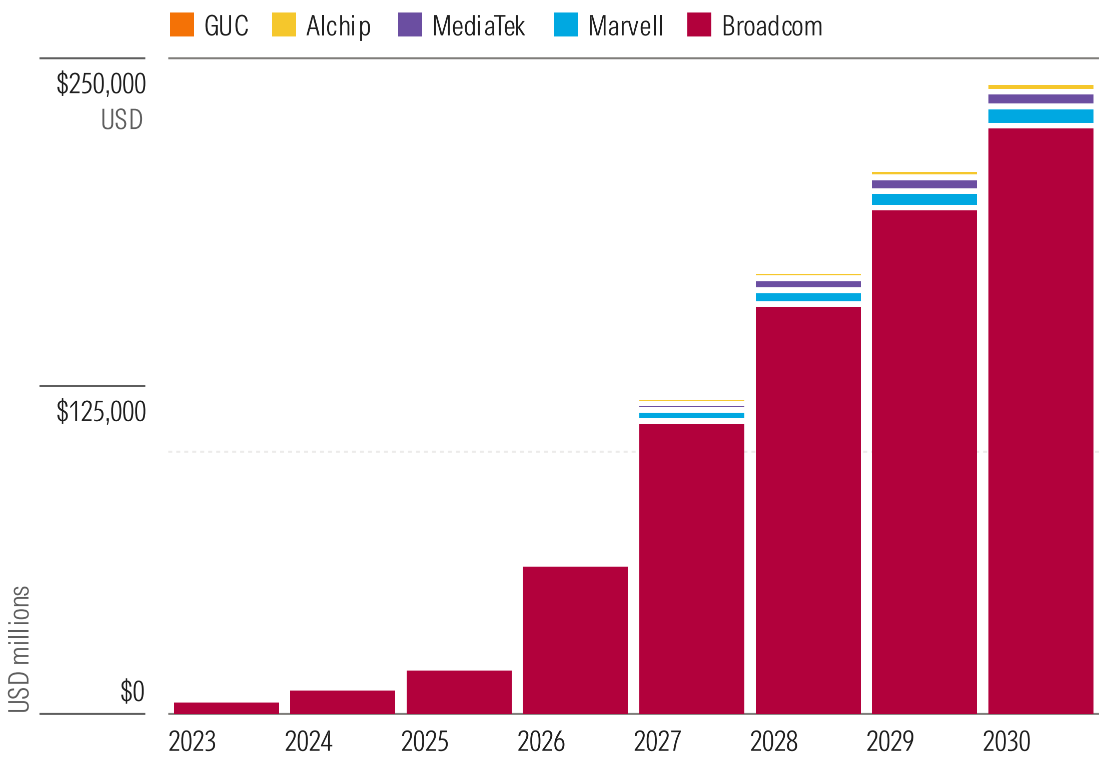
Semis and Hardware Are Less Attractive, While Opportunities Remain in Software Data Tables

Source: Morningstar. Data as of June 15, 2026.

XPUs Offer a More Affordable Way To Own the Chipmakers That Power AI

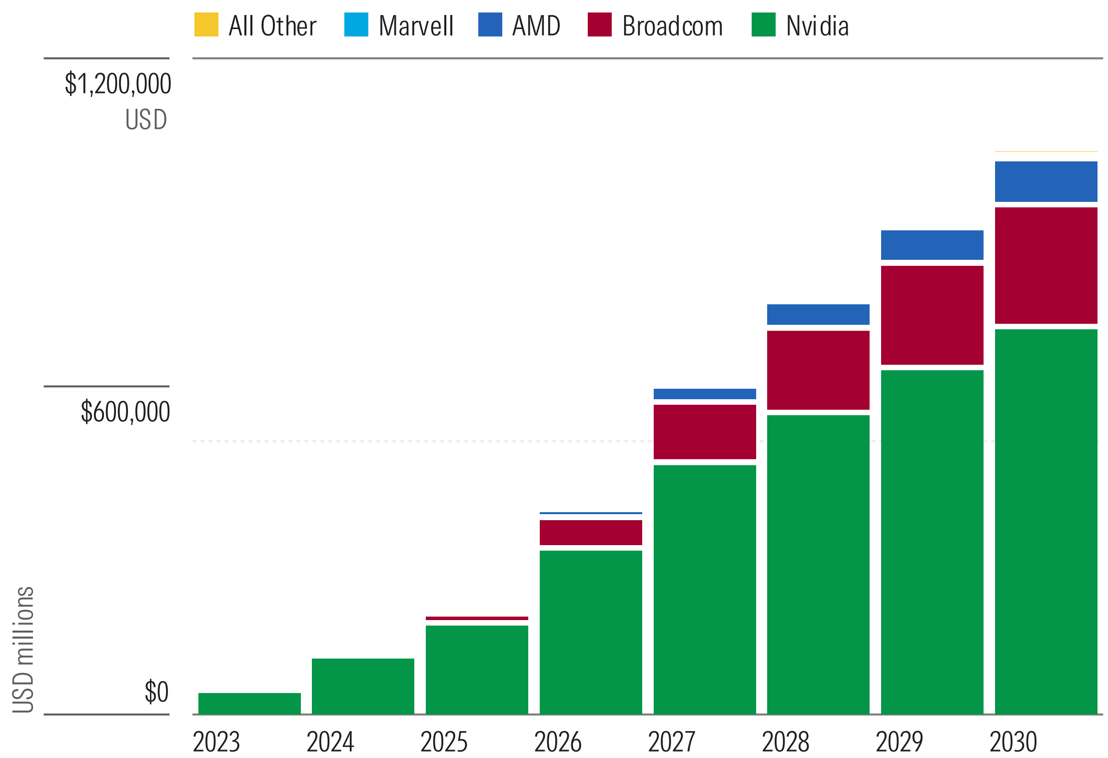
There is an ongoing debate in the market about the penetration of custom ASICs, or XPUs, relative to Nvidia's GPUs. We see these solutions as complements in large AI providers and are bullish about share gains and rapid growth for XPUs, which remain early in their deployment. While we expect Nvidia to remain the leader in AI chips more broadly, the ongoing shortage of AI compute coupled with the natural evolution of specialized chips, the market needs more options. We forecast 65% annualized growth for the XPU market over the next five years, reaching $240 billion in 2030. We expect 25% of total AI compute share for XPUs in 2030, up from just 10% in 2025.

We Model a $240 Billion XPU Market in 2030, Up From $20 Billion in 2025



We Model a $240 Billion XPU Market in 2030, Up From $20 Billion in 2025 Data Table

XPUs Take Share in Our Forecast, Reaching 25% of Total AI Compute Chips in 2030



XPUs Take Share in Our Forecast, Reaching 25% of Total AI Compute Chips in 2030 Data Table

Source: Morningstar and company reports.

Technology Top Picks

Name/Ticker		Rating	
Name/Ticker Broadcom (AVGO)		**Rating** ★★★★★	Broadcom is one of our top picks in semis, with a robust AI growth opportunity via its custom AI compute chips, or XPUs. We expect phenomenal growth in these chips in the medium-term, including a tripling in revenues in fiscal 2026 and doubling in fiscal 2027 thereafter. To us, the market is overly bearish on the long-term growth of these AI chips, and bearish on their impact to margins, where we see them as operating margin-accretive
Price (USD) 372.45	**Fair Value (USD)** 650.00	**Uncertainty** High	
Market Cap (USD B) 1,772.0	**Economic Moat** Wide	**Capital Allocation** Exemplary	
Name/Ticker Microsoft (MSFT)		**Rating** ★★★★★	Wide-moat Microsoft is one of our top picks in software. The company dominates several of its served markets, such as with Office in productivity software and Windows for PC operating systems, and has also established itself as one of two clear leaders in public cloud. We think the proliferation of hybrid cloud environments will continue to strengthen Microsoft's position with Azure. Further, the firm's general leadership position in AI has driven an acceleration of Azure growth in recent quarters. Our growth estimates are centered around Azure, Microsoft 365 E5 migration, traction with the Power Platform for long-term value creation, and proliferation of AI.
Price (USD) 368.57	**Fair Value (USD)** 600.00	**Uncertainty** Medium	
Market Cap (USD B) 2,737.9	**Economic Moat** Wide	**Capital Allocation** Exemplary	
Name/Ticker Nvidia (NVDA)		**Rating** ★★★★	Our $280 fair value estimate is underpinned by strong growth for its AI GPU-based systems in both 2026 and 2027, and we see few signs from large customers to suggest that the global AI infrastructure buildout will slow down in any meaningful way. For 2028 and beyond, we think the strength of Nvidia's software ecosystem (Cuda), chip design expertise, networking and interconnectivity capability, and the flexibility and programmability offered by all this gear will keep Nvidia at the center of the AI ecosystem. All the while, Nvidia should retain healthy pricing power and maintain 70%-plus gross margins.
Price (USD) 194.97	**Fair Value (USD)** 280.00	**Uncertainty** Very High	
Market Cap (USD B) 4,722.4	**Economic Moat** Wide	**Capital Allocation** Exemplary	

Source: Morningstar. Data as of June 30, 2026.

Utilities

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Data Center Demand to Drive Brings Growth and Risks For Investors

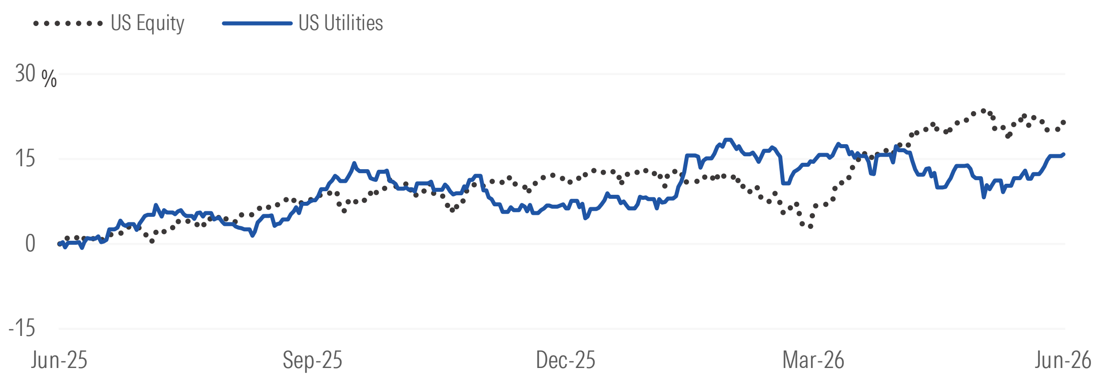
Utilities' three-year stock rally has started to soften. Through late June, the Morningstar US Utilities Index is down 4% from its all-time peak in February while the US market is up 8% during that time, both including dividends. Utilities had been outperforming the market for most of the last three years, but that outperformance has nearly evaporated.

This retreat in utilities' stocks comes as the first phase of the data center buildout begins. Many utilities are reporting faster demand growth this year than they have had in decades mostly due to new and expanding data centers. We expect data center energy demand growth and infrastructure investment to accelerate at least through 2030. We forecast US data center electricity demand to grow from 5% of total electricity usage to 34% by 2035.

But this growth also creates risks for utilities that have tempered investors' enthusiasm recently. Investors are concerned that customer affordability issues related to the data center buildout might constrain earnings growth.

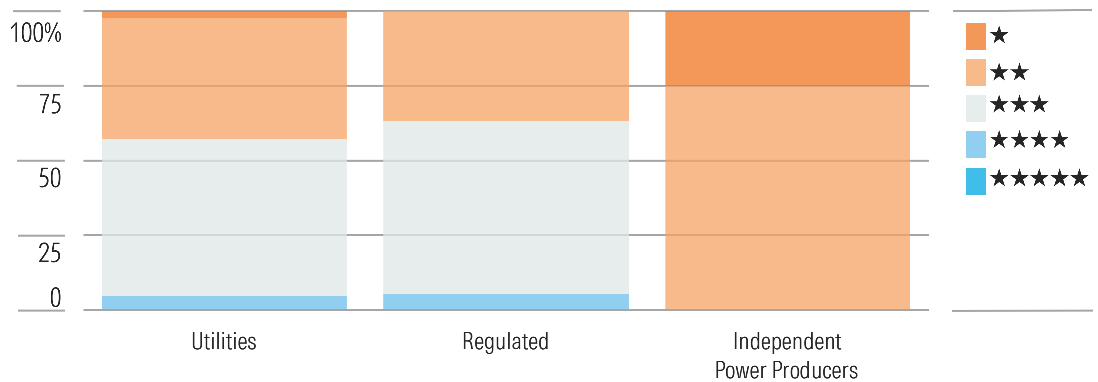
With energy demand growing faster than the infrastructure to meet those demands, electricity prices are going up, leading policymakers in some areas to explore ways to limit bill increases and utilities' profits. Utilities must find ways to ease cost pressures on customers while still delivering fair returns for investors.

US Utilities Rally Levels Off After Record-Breaking Run



US Utilities Rally Levels Off After Record Breaking Run Data Table

Valuations Still Slightly Rich for Most Utilities



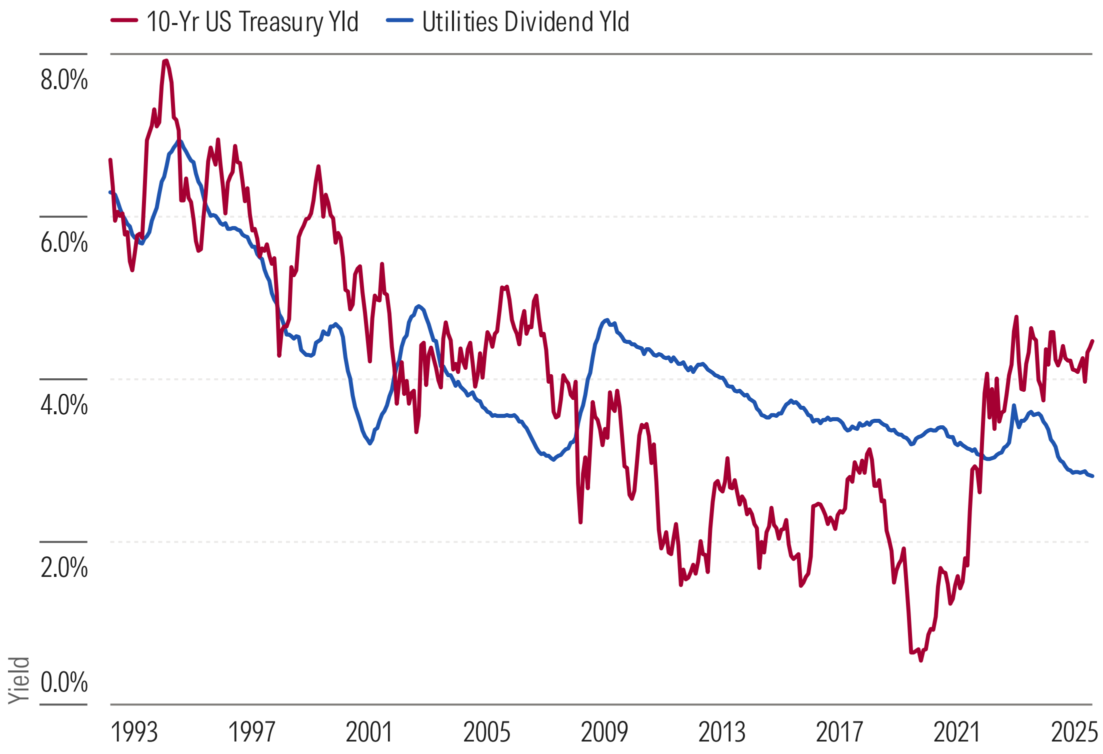
Valuations Still Slightly Rich For Most Utilities Data Table

Data Center Energy Demand Growth Making Up For Utilities' Low Relative Yields

Data centers and their huge energy needs are coming. Investors have been buying utilities stocks for several years anticipating this growth. Now that growth is showing up in earnings. This earnings growth should keep pushing utilities stocks higher, offsetting the sector's historically low yields. But to sustain that growth, utilities must work with many stakeholders to ensure new infrastructure to serve data centers doesn't lead to unusually large rate increases for all other customers.

Utilities' Dividend Yields Still Well Below Interest Rates

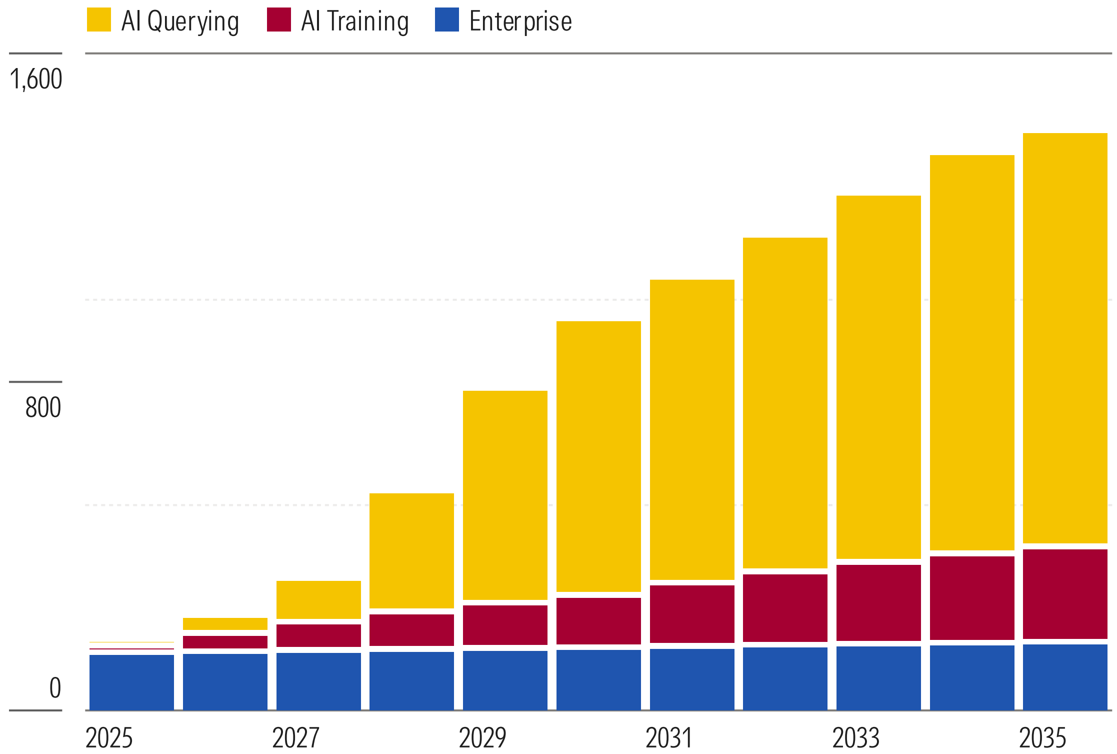
Negative Yield Spread Illustrates Investors' Focus on Utilities' Growth Potential



Utilities' Dividend Yields Still Well Below Interest Rates Data Table

Data Center Electricity Use To Grow 24% Annually on Average Through 2035

Data Centers to Grow to 34% of Electricity Demand By 2035



Data Center Electricity Use To Grow 24% Annually on Average Through 2035 Data Table

Source: Morningstar, US Federal Reserve,. Data as of June 30, 2026.

US Utilities Top Picks

Name/Ticker		Rating	
American Electric Power (AEP)		★★★	AEP's system peak demand could increase by 63 gigawatts by year-end 2030, with load additions in Texas, the mid-Atlantic, and the southwest. Data centers account for more than 80% of this incremental load. AEP plans to invest $78 billion in 2026-30 and has identified another $10 billion of possible incremental investment. We expect management to execute on half of this investment within our five-year forecast, given recent strong execution and diversity of AEP's backlog. We forecast 9% average annual earnings growth through 2030, among the highest of its industry peers. This is line with management's expectation of 7%-9% guidance range from 2026-30, with management recently expecting growth to be at least 9% through this period.
Price (USD) 137.97	**Fair Value (USD)** 141.00	**Uncertainty** Low	
Market Cap (USD B) 75.1	**Economic Moat** Narrow	**Capital Allocation** Standard	
Name/Ticker Edison International (EIX)		**Rating** ★★★	Investors' overwhelming concern remains Edison's potential liabilities associated with the January 2025 Eaton Fire. The stock has rebounded from its 2025 lows but still hasn't hit its pre-fire level. Management has acknowledged shareholders could face material losses, but it could be late 2026 or beyond before there are any realistic loss estimates. Edison should have access to California's $21 billion AB 1054 Wildfire Fund and the $18 billion expansion enacted in 2025 for future fire liabilities, resulting in minimal shareholder losses. Edison's plan to invest $8 billion annually supports our 7% average annual earnings growth outlook.
Price (USD) 75.46	**Fair Value (USD)** 81.00	**Uncertainty** Medium	
Market Cap (USD B) 29.0	**Economic Moat** Narrow	**Capital Allocation** Standard	
Name/Ticker DTE Energy (DTE)		**Rating** ★★★	DTE's service territory around Detroit, Michigan, hasn't had core energy demand growth for more than a decade. Data centers are set to change that and boost DTE's earnings growth. DTE's capital investment to serve new data centers, improve reliability, and add renewable energy support our 7% core annual earnings growth through 2030. Growth could top 8% annually with more data center investments. After trading at a valuation discount to peers for many years, we think DTE's stock deserves a premium given its transparent growth, upside, and regulatory support.
Price (USD) 154.02	**Fair Value (USD)** 157.00	**Uncertainty** Low	
Market Cap (USD B) 32.0	**Economic Moat** Narrow	**Capital Allocation** Standard	

Source: Morningstar. Data as of June 30, 2026.

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