Stocks Notch Strongest Quarter Since 2020

The S&P 500 rose almost 15 percent for the three months through June, and many stock analysts remain optimistic that corporate earnings driven by artificial intelligence will keep growing.

--New York Times, June 30, 2026

July 9, 2026

Dear Fellow Investor,

The headline from *The New York Times* sums the situation up nicely—strong performance by the US stock market due to strong profits evinced by market constituents. What better reason could be given for a bull market?

(Here I must digress for a moment on a statistical matter. Because the first quarter of 2026 registered an approximate 5% *decline* for the S&P 500, the 15% advance in the second quarter netted out to an overall *positive* return of about 9.3% for the index on a *year-to-date* basis.)

The accounts for which we at Weybosset Research & Management LLC (WRM) performed approximately twice as well as our benchmark on a year-to-date basis. Our accounts returned high teens to low twenties percentages. The few exceptions tended to be very small accounts.

And all of this transpired as our strongest stock for the past 10 or 15 years, Copart, moved dramatically against us in 2026. I explained in our last letter why we at WRM do not sell proven winners unless we perceive a change in the business fundamentals of the company in question. In our opinion, fundamentals at Copart have not changed at all, but at its peak, the stock was selling at truly nosebleed valuations, so that the slightest disappointment would cause those who rent stocks rather than buy them to flee.

And flee they did, on to the next sexy winner. The reason was a slowdown in Copart's sales due, in turn, to the fact that automobile insurance premiums—the lion's share of Copart's customers are car insurance companies—had risen so far that many people decided to go without collision coverage. This is normal in the insurance industry cycle; in fact, it is fundamental to the cyclicality of the insurance business. Eventually the situation will take care of itself as insurers find ways to bring prices down. And Copart, with its Fort Knox-like balance sheet, nearly impregnable market dominance, and, recently, with the return of one of its founders to the role of CEO, will certainly be in a position to benefit as it always has.

So, the lifting in our performance in the first half of 2026 was done without the help of what historically had been our star player and was accomplished entirely by the rest of the portfolio. Here we benefited by the shift in market leadership away from a handful of large cap technology companies (the "FAANG" stocks of the last decade and the early part of this decade, more recently, the "Magnificent Seven") toward the rest of the market.

And the artificial intelligence boom is real. Immense amounts of money are being spent or planned to be spent on what Bill Gates thinks is an innovation more important than the introduction of the internet 25 or 30 years ago. (Congenital sceptic that I am, who am I to argue with Bill Gates on this matter?) Numerous WRM companies are benefiting from the rush to AI, sometimes in surprising ways.

For instance, Cummins, Inc., a 107-year-old manufacturer of diesel engines, has a heretofore obscure subsidiary that makes power generation equipment. Given the voracious appetite of AI data centers for electricity, boy has that subsidiary been busy! Cummins stock has more than doubled in price since early 2025 and now trades at a valuation usually accorded only to tech darlings. Likewise, Keysight Technologies, the original Hewlett Packard, which makes testing equipment for electricity, is barely keeping up with demand. Due to price appreciation and our habit at WRM to let winners run, Keysight Technologies has become one of our largest positions. And so on.

Will these favorable conditions persist? For the time being, we certainly have the wind at our backs. We eagerly await the coming earnings reporting season. But as we have learned from careful study of the wisdom of Yogi Berra, predictions, especially about the future, are hard. You can be sure we are paying close attention.

You can also be sure we fully appreciate the loyalty and trust you have placed in us, Fellow Investor. We are determined to earn that loyalty and trust. Thank you.

And now my partner Justin has a few things to say,

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Dear Fellow Investor,

It is a pleasure to share our thoughts with you as we move through the summer of 2026. For the first half of this year, the accounts under our stewardship returned high teens to low twenties percentages, compared to a 9.3% return for the S&P 500 (performance may vary for individual accounts).

It is a solid start—essentially delivering a full year's worth of expected market gains in just six months—but we remain focused on the long-term work ahead, and we very much look forward to this upcoming earnings season.

The Resilience of Reality

In our last letter, we noted that after five weeks of geopolitical uncertainty and a declining market, investors were beginning to panic. The concerns were familiar: oil prices, inflation, and the specter of rising interest rates.

Yet, the market has a way of humbling those who bet on catastrophe. Right on cue, once the world priced in the "worst-case" scenario and the headlines continued to come, the selling pressure evaporated, and the market began its ascent.

According to Tom Lee of Fundstrat, "Since 1929 the SP500 has compounded at 9% a year, however if you missed the 10 best days in each year your returns turn to **negative 10% a year**". (That's shocking!)

From the first quarter earnings season, we found that, going into the Iran conflict, earnings per share for the S&P 500 grew at roughly 15%—a feat usually reserved for the immediate recovery following a recession: the strongest growth outside of a recession in more than two decades!!

While it is true that the "Magnificent 7" and a handful of other large-cap names make up roughly 40% of the market (with the top 25 stocks accounting for over 50% of index movement), the subsequent rally has been refreshingly broad-based.

We see this in our own portfolio, where gains are being driven by a variety of high-quality enterprises. This broadening action is not typically indicative of a market top; in fact, it is entirely consistent with a healthy, continuing bull market.

Skating to Where the Puck Will Be

There is a piece of wisdom from Wayne Gretzky that remains one of the cornerstones of our philosophy: "I skate to where the puck is going to be, not where it has been."

Most investors spend their time looking backward, obsessing over yesterday's headlines or last week's price fluctuations. They are skating to where the puck was. At Weybosset, we take a longer view.

We have spent the last 5 to 10 years deliberately positioning our portfolio toward the big, structural tailwinds of the economy, the massive shifts that provide a long-term "lift" to high-quality companies. Those investments are now beginning to be rewarded.

We did this because we have a deep belief in the American economic engine. There is simply nowhere else in the world like it; it is a culture that rewards the dreamer who starts a business in a “garage”, finds the conviction to seek out investors, and ultimately invites millions of people to believe in his vision through the public markets.

Our history is a testament to this creative capacity, defined by world-changing inventions ranging from the cotton gin (Eli Whitney), the light bulb (Thomas Edison), and the steam engine (Robert Fulton) to the assembly line (Henry Ford), the airplane (the Wright brothers), the transistor (John Bardeen, Walter Brattain, and William Shockley), the computer (John von Neumann), and the internet (Vint Cerf and Bob Kahn).

That cycle of innovation—from private risk to public reward—is the hallmark of our nation’s 250-year history. It is a story of continuous adaptation, and our job is to find the businesses and management teams that can navigate that change and thrive.

Right now, that cycle is focused on two major shifts:

- **Electrification:** As the world demands more power and efficiency, the demand for sophisticated semiconductor testing—the "quality control" for the chips that run our lives—is becoming non-negotiable. We invested here years ago, anticipating that the grid would need to become smarter and more resilient.
- **The AI Infrastructure Buildout:** We believe the current investment in AI—specifically in power generation, data networking, and the physical backbone of the internet—is comparable to the expansion of the railroads in the 1800s. Just as the rail era defined a century of American growth, this technological transformation is a hallmark of our era. We are invested in the companies that build the "tracks" for this new economy, and we expect that value to ripple through our holdings.

Building upon this historical context, Bhu Srinivasan notes in *Americana: A 400-Year History of American Capitalism*: “Counterintuitively, great labor savings through mechanization created the need for more labor overall; this became humanity’s first dividend from the Industrial Revolution.”

We are currently witnessing this same phenomenon play out with the AI buildout. While automation may displace specific tasks, it simultaneously acts as a force multiplier, driving margin expansion and profitability that fuels massive, secondary job creation. This cycle of innovation is particularly evident across our portfolio, where AI acts as a vital productivity catalyst rather than a simple replacement for labor:

- **Healthcare:** AI accelerates complex diagnostics and slashes time-to-market for new drug discovery.
- **Finance & Insurance:** Sophisticated algorithms automate underwriting and risk assessment, allowing for more precise, high-volume policy and loan processing.
- **Infrastructure & Logistics:** In jet engine repair, rail, and natural gas, predictive maintenance models anticipate failures before they occur, optimizing uptime and safety.
- **Technology & Manufacturing:** Semiconductor, electrical testing, and advanced networking require increasingly complex oversight, creating demand for specialized roles that manage and refine these automated systems.

Ultimately, this transition is not merely about replacing labor but about shifting capital toward high-growth areas that necessitate a more specialized and expanded workforce to harness these new capabilities.

In recent weeks investors began to bid up the companies that are implementing AI into their everyday applications: think insurance, financials, and healthcare.

The Missing Piece

The final piece of this economic puzzle is housing. While the transportation sector has finally clawed its way out of its recession, housing and construction remain in the doldrums. This is a lagging indicator, but it is an important one. When this sector begins to recover, the potential for this economy to "boom" further is significant.

The Margin of Safety

As the legendary investor Benjamin Graham once noted, "The essence of investment management is the management of risks, not the management of returns."

We focus intently on the downside, and we trust the upside will take care of itself. We are not interested in speculative "lottery ticket" investments; we are interested in the ownership of businesses that can thrive through change.

To that end, we continue to stress the importance of personal liquidity. We have always advised our clients to keep one year’s worth of living expenses in cash. When you know your floor is secure, you don't have to panic when the market takes a temporary turn. You can remain patient, act rationally, and let your capital compound over the long run.

We thank you for your continued trust. We are working hard to ensure that your capital is not just growing but compounding with the safety and quality that you have come to expect from Weybosset.

I have often remarked during the pandemic and other difficult periods that one should never bet against America; its 250-year history of ingenuity and growth remains our greatest tailwind. While the path of progress may be briefly interrupted, the wonders of compounding always win in the end.

Sincerely,

Justin E. Deutsch