

Building through uncertainty

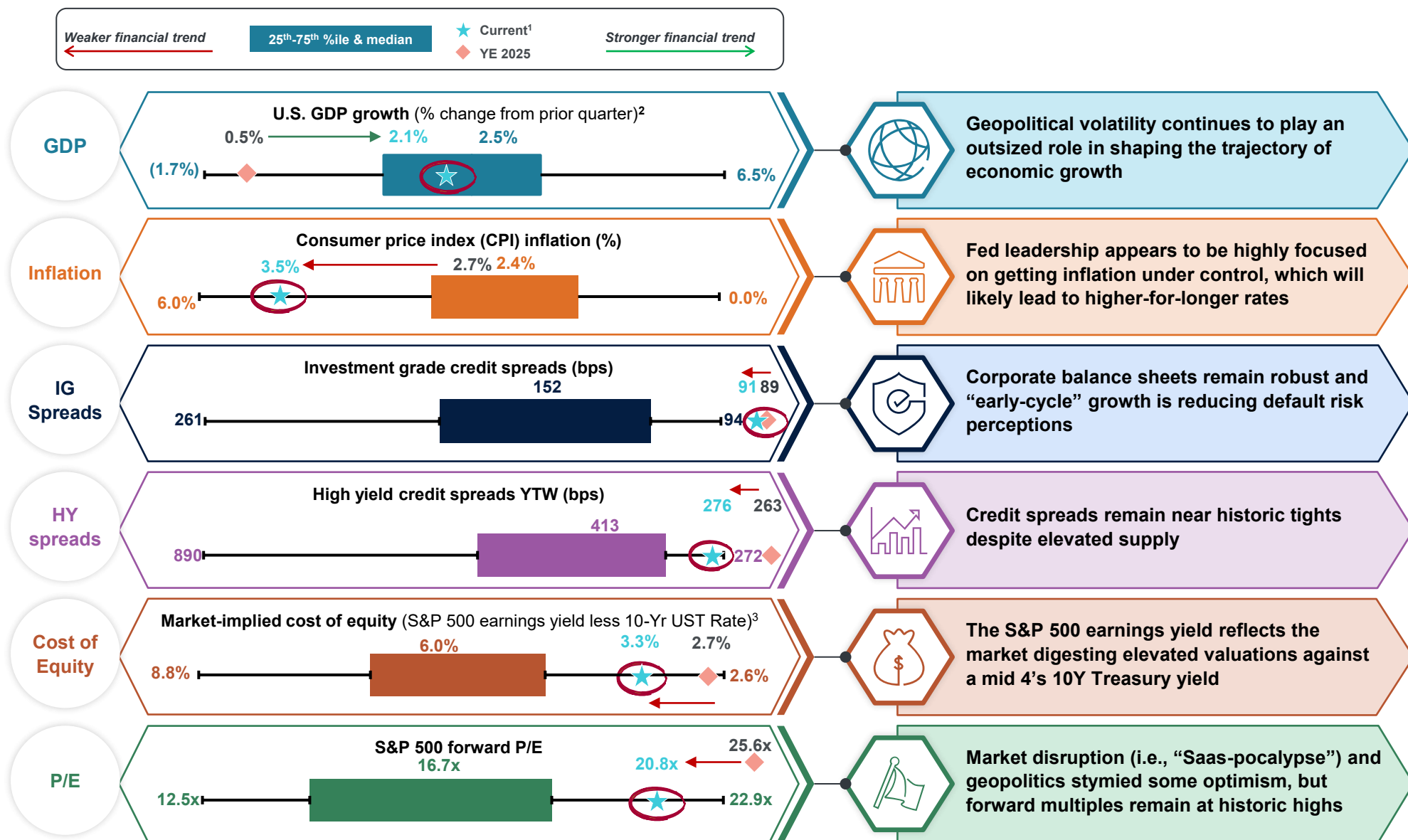
Navigating growth, capital and strategic flexibility at mid-year | July 2026

Corporate Advisory | Corporate Finance Advisory

Executive summary

- At the halfway mark of 2026, the main surprise is how much markets have absorbed, from geopolitical shocks to commodity volatility and a choppy macro backdrop
- That resilience gives companies room to act, but it should not be read as proof that risk has faded
- AI continues to anchor the growth conversation, and the focus is shifting from how much companies are investing to what returns those investments can produce
- Investors are still willing to reward growth, especially when management teams can show how today's capital deployment becomes tomorrow's earnings power
- With capital markets receptive, leaders have a window to fund growth before conditions become less favorable
- Larger capital needs are broadening the funding playbook and increasing the value of balance sheet flexibility
- Policy risk can no longer sit in the background, particularly where regulation, permitting, energy demand and election-cycle uncertainty may affect execution

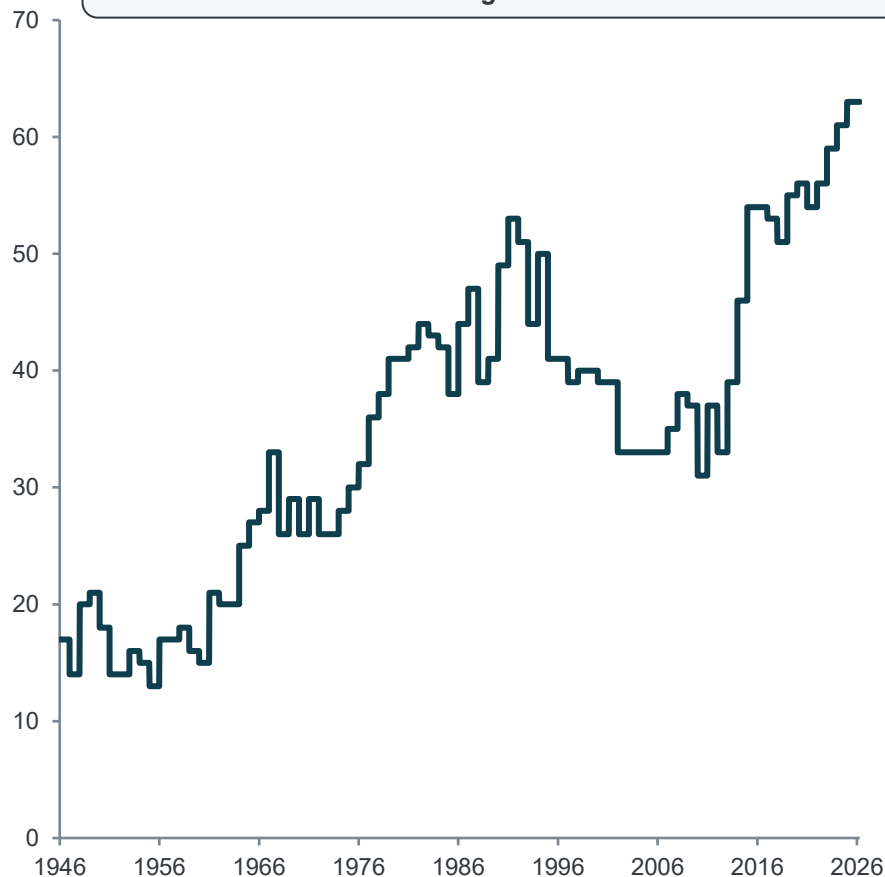
Despite economic trends, capital markets remain strong



Capital markets have shrugged off elevated geopolitical risk

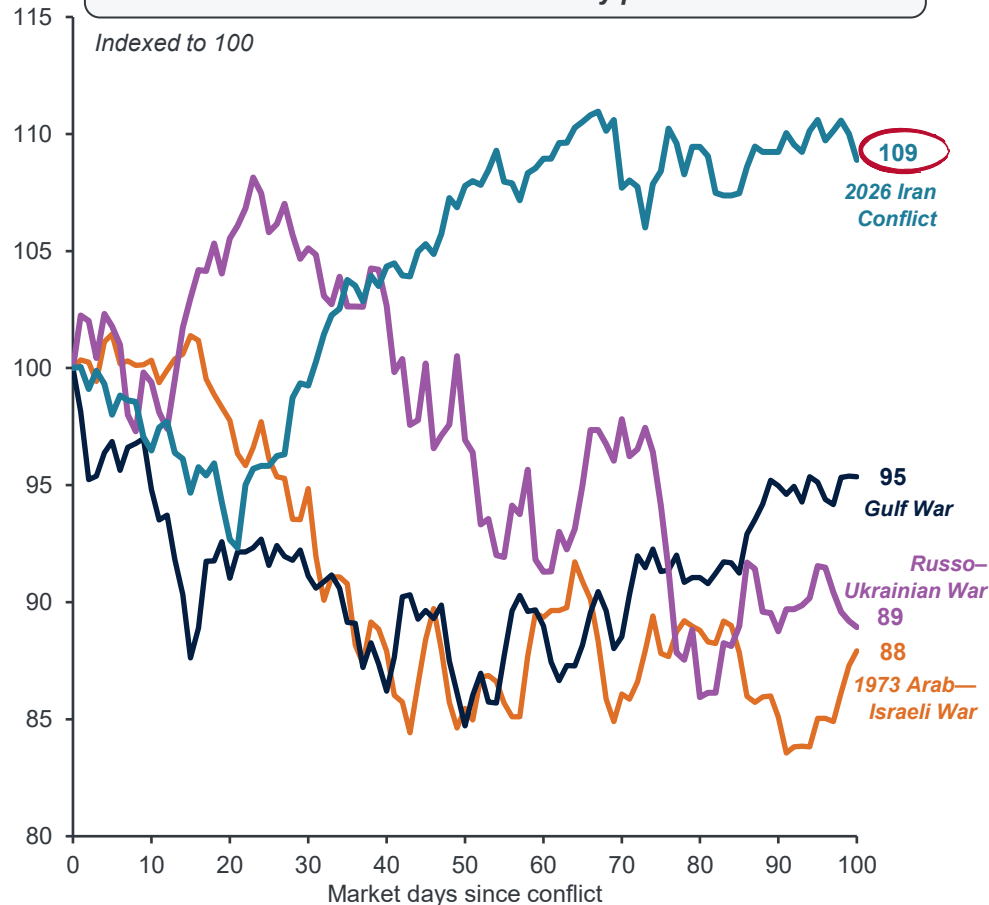
NUMBER OF STATE-BASED CONFLICTS AT HISTORICAL HIGH¹

Global conflicts have continued to increase to post-WWII highs



S&P 500 REMAINS RESILIENT POST IRAN-CONFLICT ONSET²

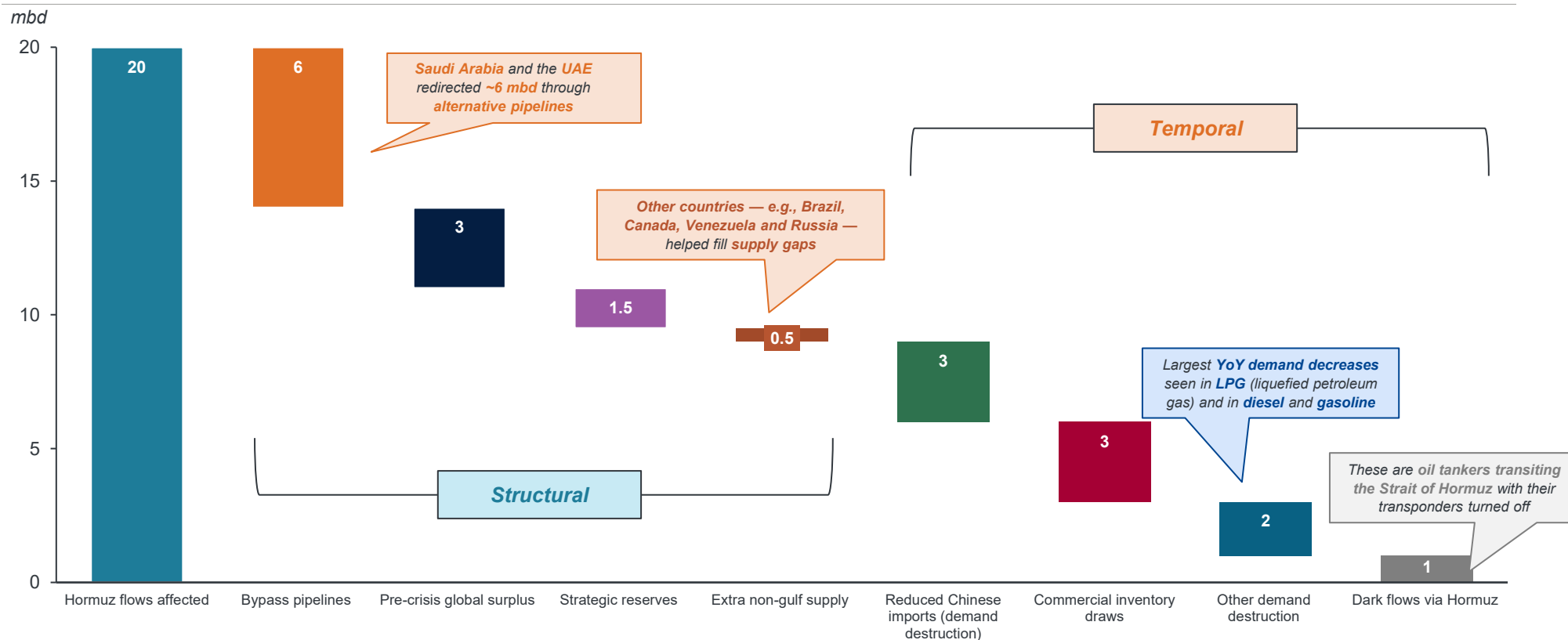
Today's capital markets have even been resilient to a conflict that has caused a commodity price shock



Capital markets have absorbed the first-order shock, but companies should still plan for second-order effects across energy, logistics, working capital, insurance, liquidity and customer demand

Supply and demand flexibility helped contain the shock, but second-order effects remain

DIMINISHED OIL SUPPLY HAS BEEN OFFSET BY MULTIPLE FACTORS, SUCH AS TRADE RE-ROUTING AND SHIFTS IN CONSUMPTION¹



Second-order effects from the Iran shock

131%

increase in spot rates for container transport market since conflict²

11%

increase in U.S. oil rig count since conflict³

24%

June YoY EV sales increase in Europe⁴

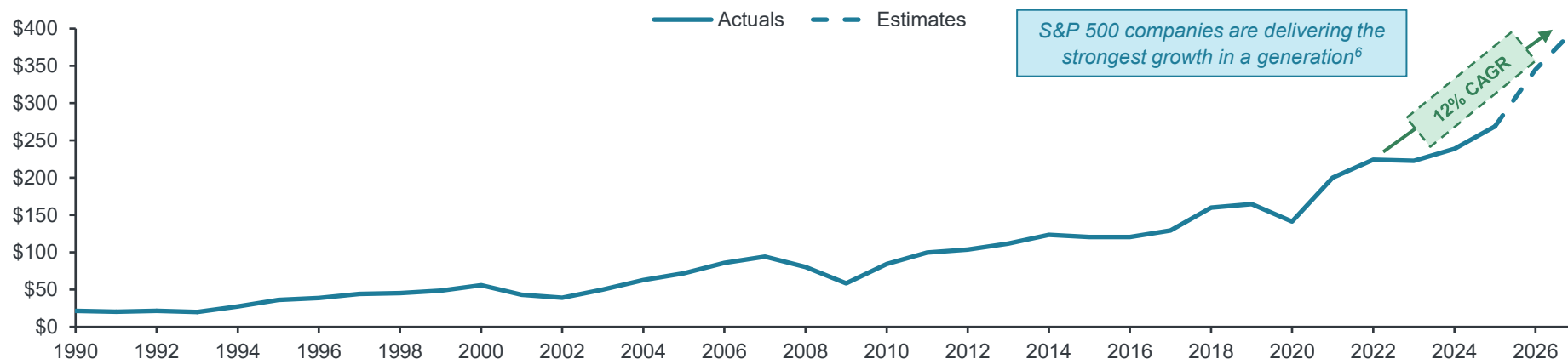
16%

reduction in gasoline spending among low-income Americans YoY⁵

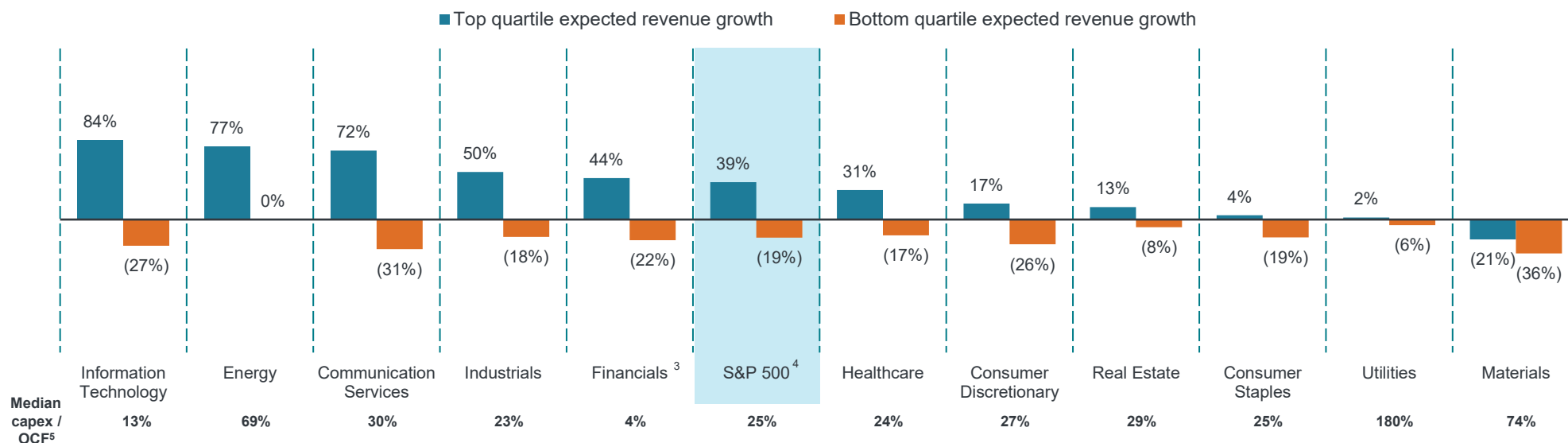
Alternative routes, inventories, reserves and demand shifts helped offset disrupted oil flows, supporting broader market resilience. Companies should consider whether their own supply chains, liquidity plans and pricing models have comparable flexibility

Markets are rewarding growth, raising the bar for capital allocation

S&P 500 EARNINGS PER SHARE¹



CURRENT PREMIUM / (DISCOUNT) TO THE S&P 500 SECTOR EV / NTM EBITDA MEDIAN MULTIPLE FOR FIRMS WITH DIFFERENT REVENUE GROWTH LEVELS²



The growth premium is available, but only to companies that can connect investment, execution and earnings with credibility

Growth-adjusted valuations help explain market resilience

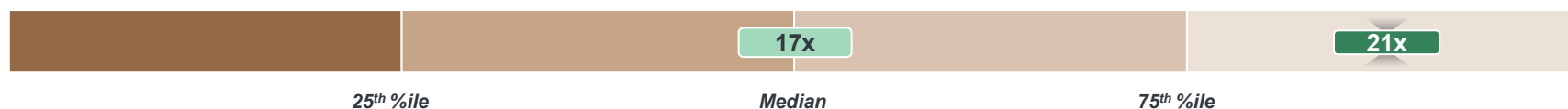
Lower valuation vs. history

Higher valuation vs. history

■ Historical median ■ Current¹

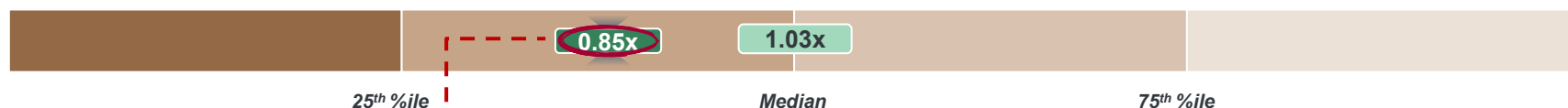
P/E ratio since 1990 (S&P 500)

Absolute measures



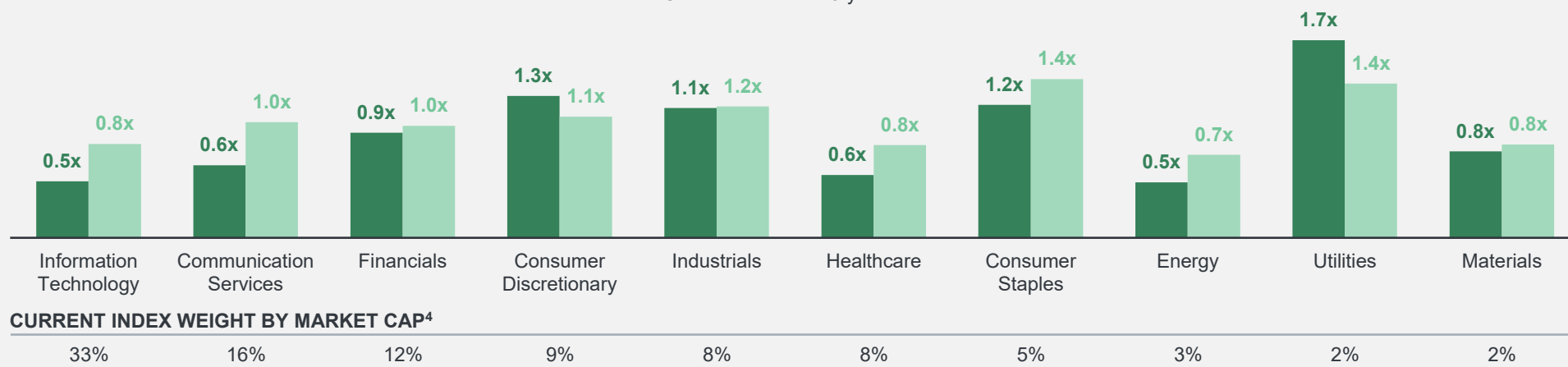
PEG ratio since 2000 (S&P 500)²

Growth adjusted



Sorted by sector-level index weight

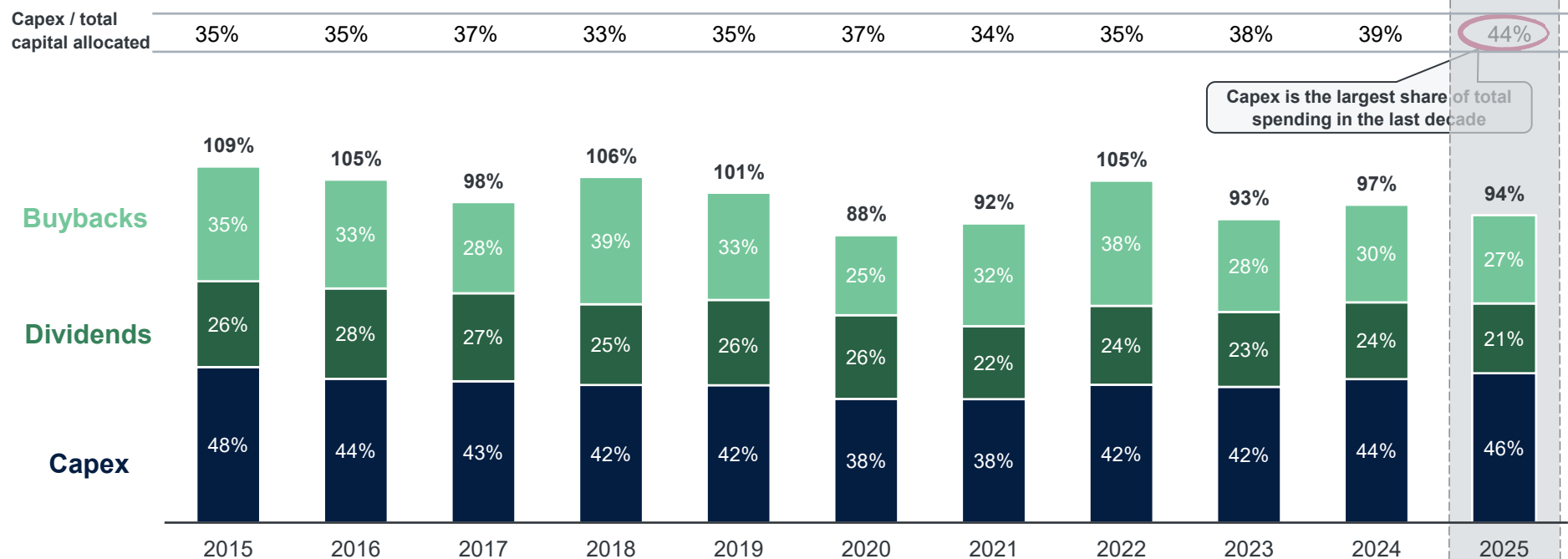
■ Current⁴ ■ 25-year median⁵



Valuations may be more defensible when adjusted for growth, but that makes execution, margin conversion and earnings delivery even more important

The market's growth mandate is showing up in capital allocation

MEDIAN S&P 500 CAPITAL ALLOCATED AS A % OF OPERATING CASH FLOW¹



Aggregate spend (\$B)

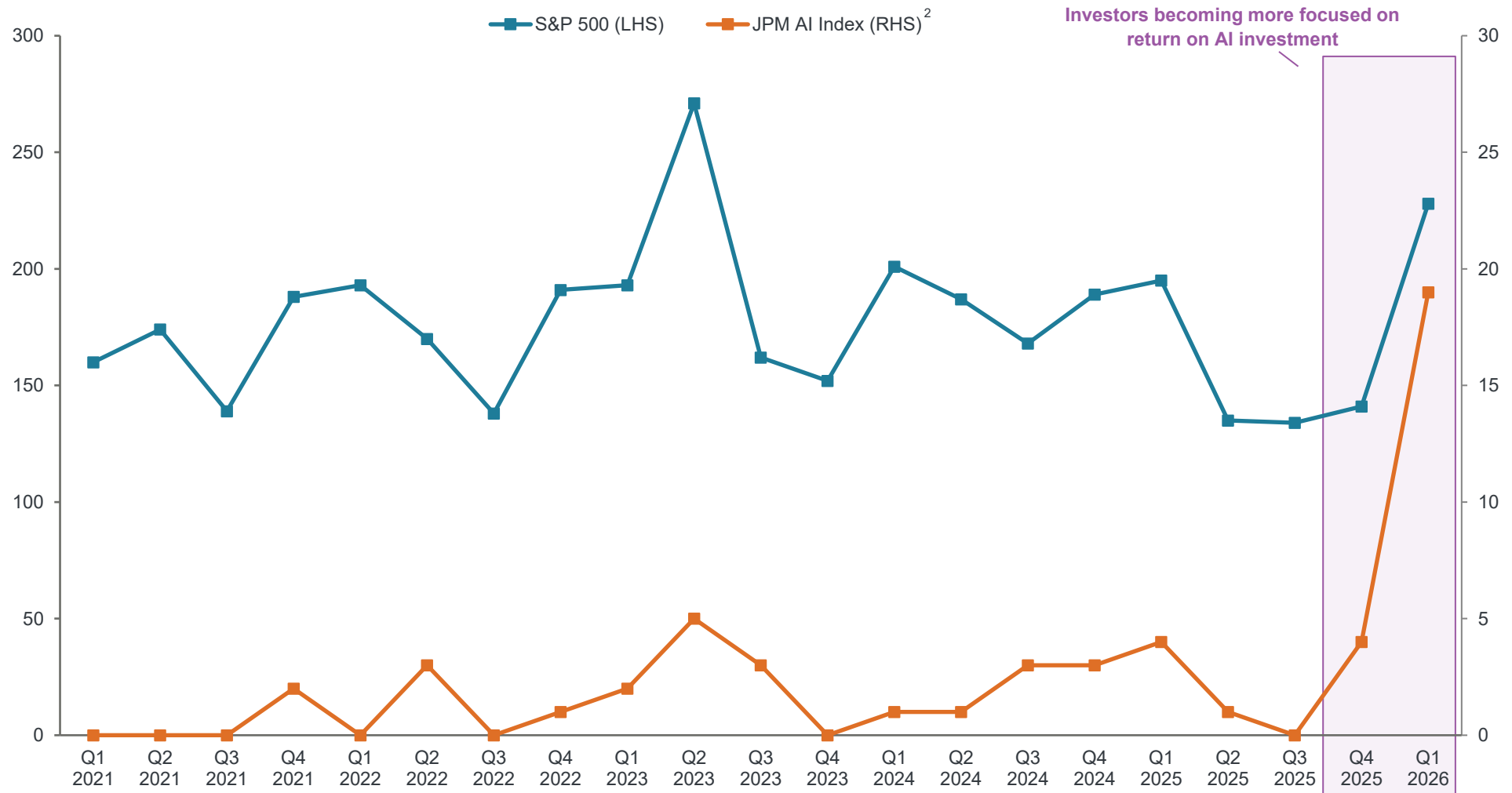
Capex	\$656	\$601	\$620	\$694	\$713	\$655	\$778	\$890	\$922	\$1,034	\$1,252
M&A	\$373	\$307	\$279	\$387	\$313	\$252	\$389	\$356	\$349	\$338	\$296
Dividends	\$362	\$378	\$386	\$407	\$442	\$442	\$459	\$508	\$508	\$552	\$585
Buybacks	\$483	\$455	\$400	\$641	\$556	\$423	\$647	\$806	\$631	\$702	\$740
OCF	\$1,375	\$1,363	\$1,431	\$1,642	\$1,691	\$1,725	\$2,054	\$2,103	\$2,214	\$2,347	\$2,734

YoY change ²
+21%
(12%)
+6%
+5%
+5%

The question for leaders is no longer whether to invest, but whether investment plans are sufficiently prioritized, funded and tied to measurable earnings power

Investment discipline is coming into focus as investors articulate increased interest in tangible returns

RETURN ON INVESTED CAPITAL (ROIC) MENTIONS ACROSS INDICES¹



Firms with the greatest growth potential are generally the same ones more closely orienting themselves toward returns and profitability

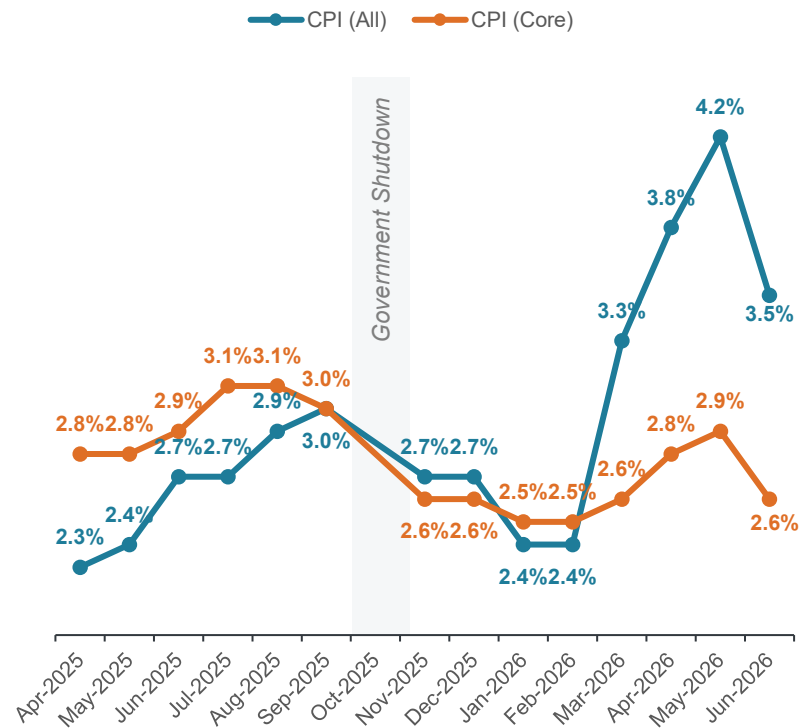
Higher-for-longer rates increase the burden of proof for growth investment

✓ **Unemployment** | **Steady**: ~4.3% for 12+ months

📉 **GDP Growth** | **Slower**: 2.0% as of last read

✗ **Inflation** | **Heating up**: 3.5%

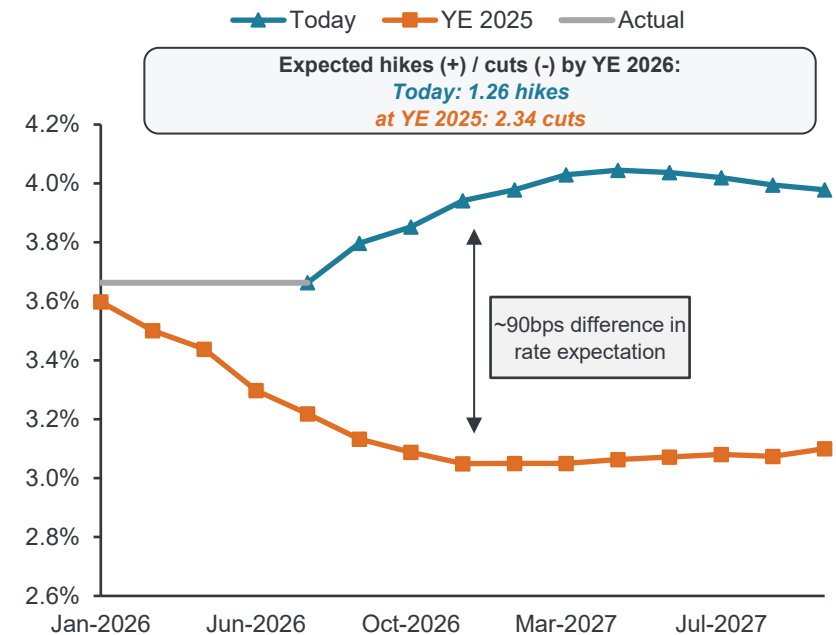
U.S. CONSUMER PRICE INDEX (% CHANGE)



EARLY SIGNS FROM CHAIRMAN WARSH'S 1ST MEETING

- Tackling **inflation** and enabling “**price stability**” appears to be **highest near-term priority**
- Fed governors appear largely **aligned on longer-term rate expectations**, which suggest **higher-for-longer rates** with a **potential increase before YE2026**

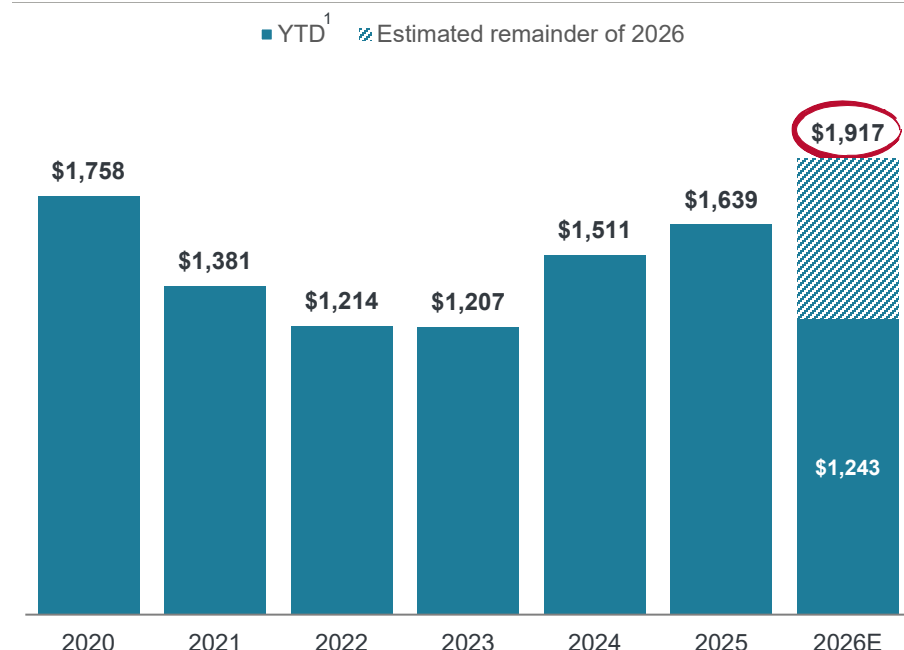
SHIFTS IN YE 2026 RATE EXPECTATIONS



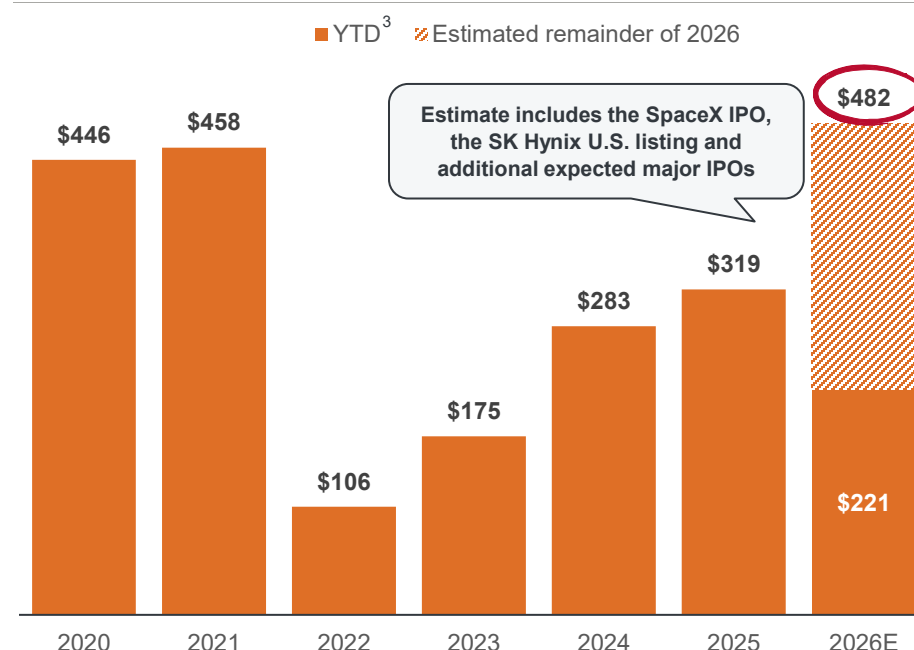
Unlike prior technology cycles that helped lower goods prices, the AI buildout may add inflation pressure through energy, infrastructure, labor and supply chain demand

Companies are using market access to enhance flexibility

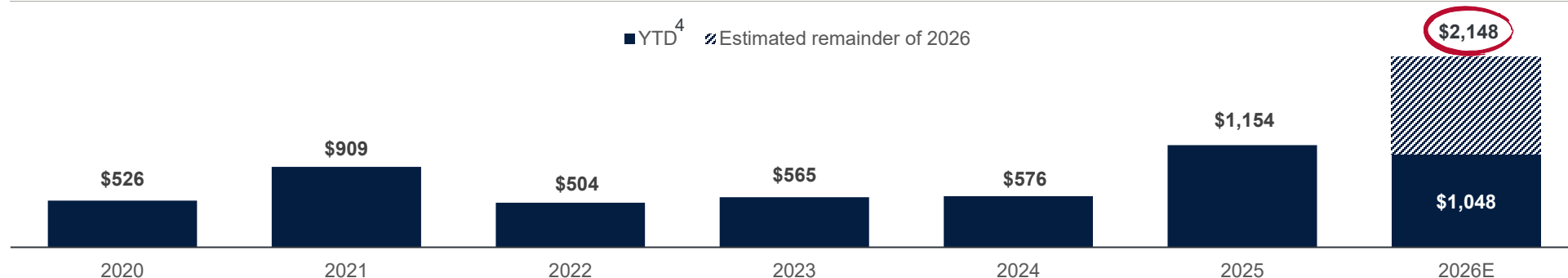
U.S. HIGH GRADE CORPORATE ISSUANCE (\$B)



U.S. EQUITY CAPITAL MARKETS ISSUANCE (\$B)²



NORTH AMERICA M&A MEGA-DEALS (\$10B+, ANNOUNCED) (\$B)

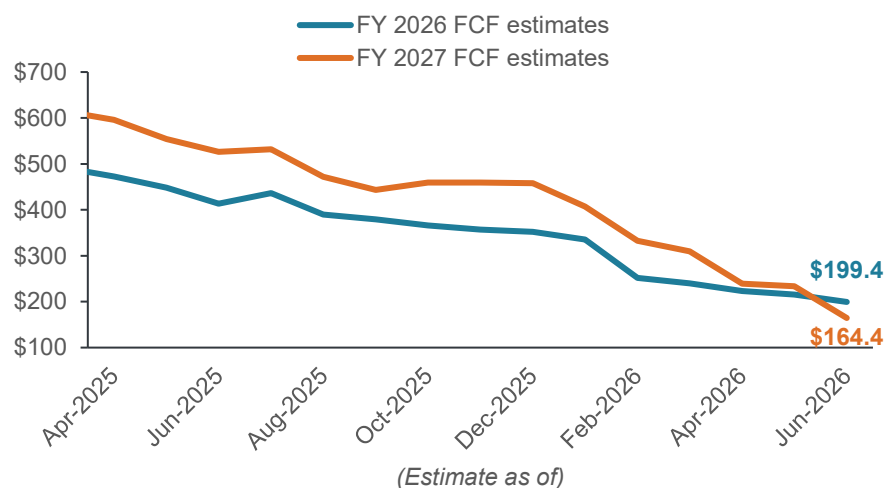


Market access remains available, but conditions can change quickly. Decision-makers should consider acting while markets are open to fund growth, enhance flexibility and preserve strategic options

Large capital needs are expanding the corporate funding playbook

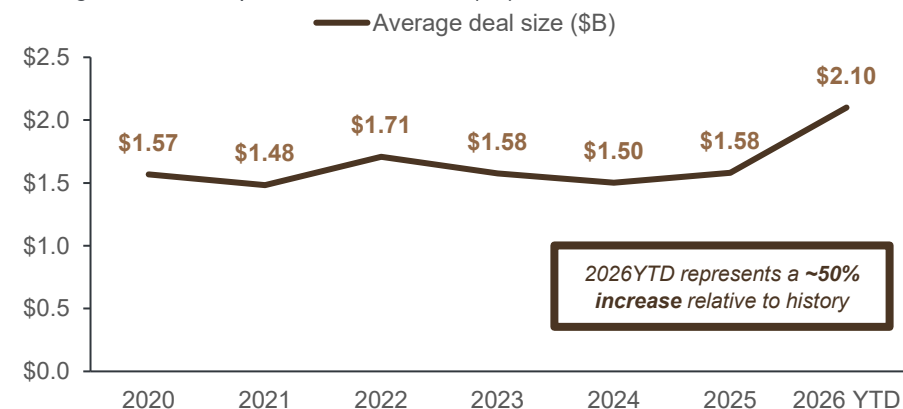
AI INFRA SPEND IS PRESSURING EXPECTED FREE CASH FLOW

Hyperscaler consensus FCF expectations (Agg., \$B)



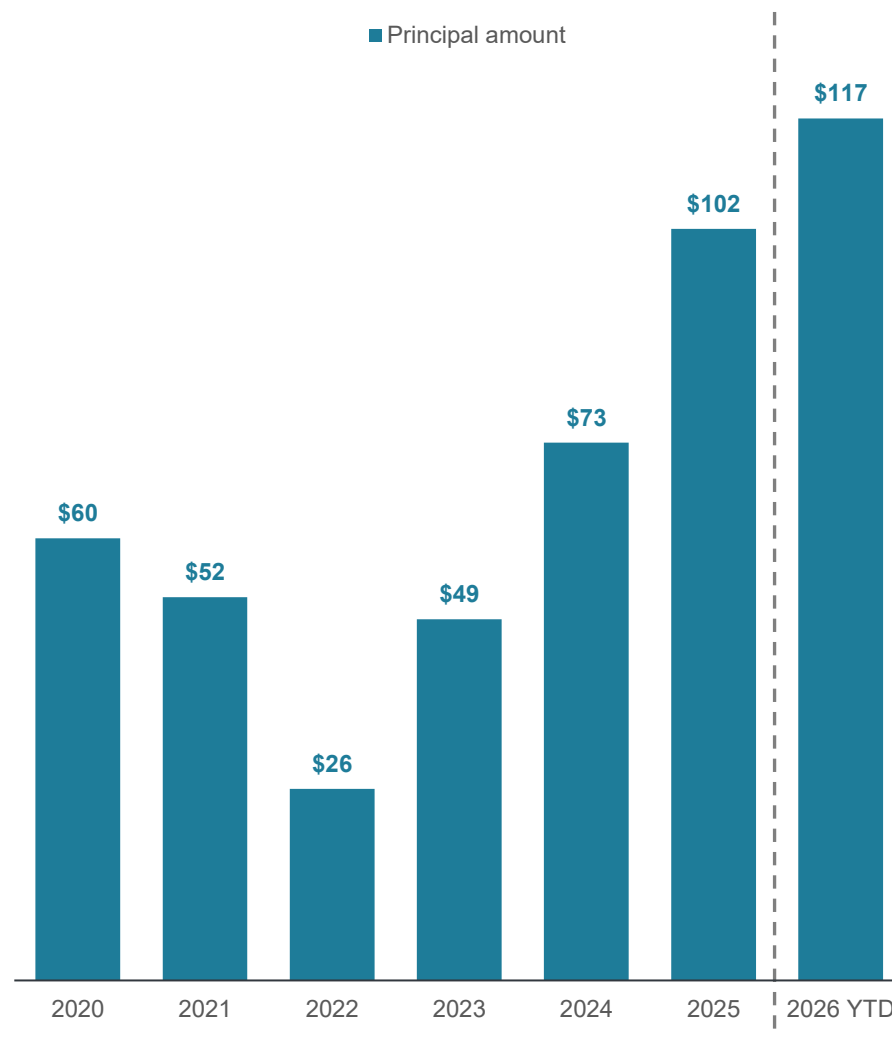
LARGER FUNDING NEEDS ARE TRANSLATING INTO LARGER DEBT TRANSACTIONS

Average U.S. debt capital market deal size (\$B)



GLOBAL CAPITAL POOLS REMAIN AN IMPORTANT SOURCE OF FUNDING FLEXIBILITY

Debt issued by U.S. non-financial companies outside the U.S. (\$B)

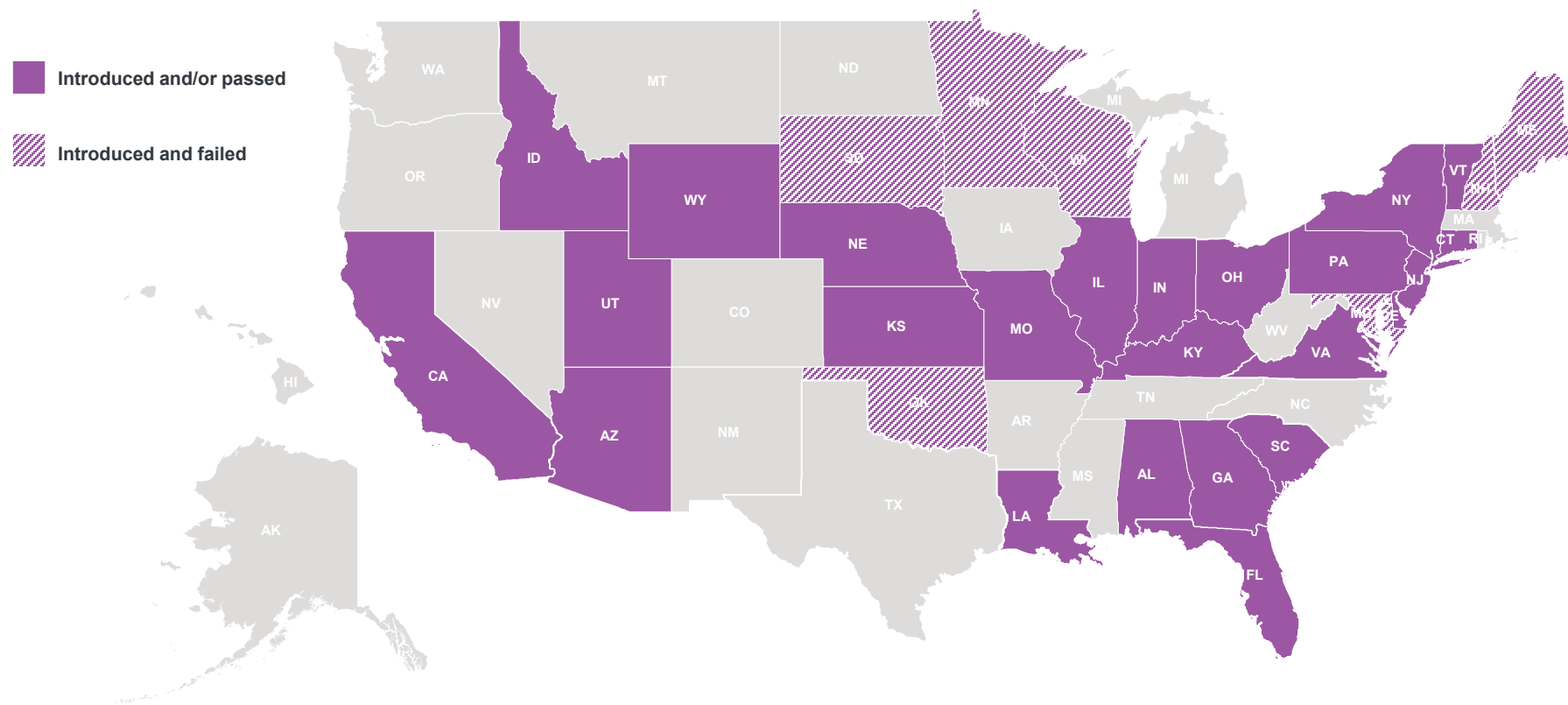


As investment needs grow, companies are broadening funding sources to preserve flexibility

AI infrastructure is becoming a local policy challenge

STATES WHERE DATA CENTER LEGISLATION OR MORATORIUMS HAVE BEEN INTRODUCED, PASSED OR FAILED IN 2026 YTD¹

More than half of U.S. state legislatures have introduced bills restricting or pausing data center development in 2026



- Polling suggests that 57% of Americans are opposed to hosting data centers in their communities
- Nearly every state legislature seat and 39 governors' offices are up for re-election in 2026
- Expect that voter concerns about AI data centers will shape state and local policy agendas throughout elections and in the years that follow

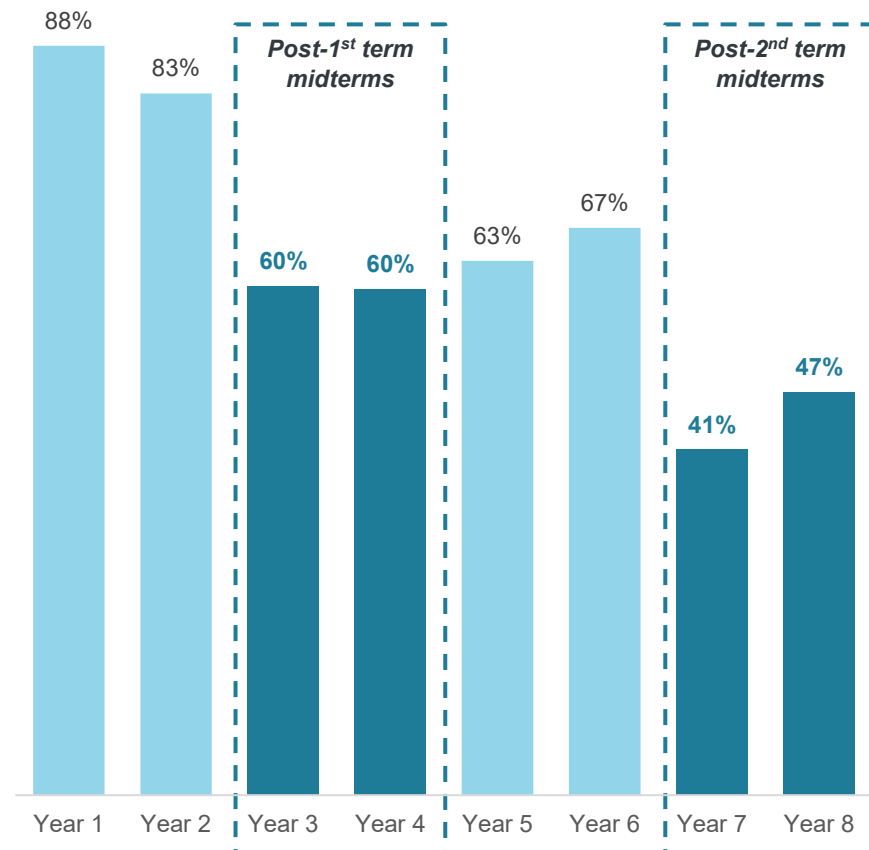
The pace of the AI buildout may increasingly depend on the ability to align capital, power, permitting and community support

Policy durability may decline after the midterms

LEGISLATIVE PASSIVE RATES TEND TO FALL AFTER MIDTERMS

% of President's proposed bills passed by Congress since 1980 (avg. by year of presidency)

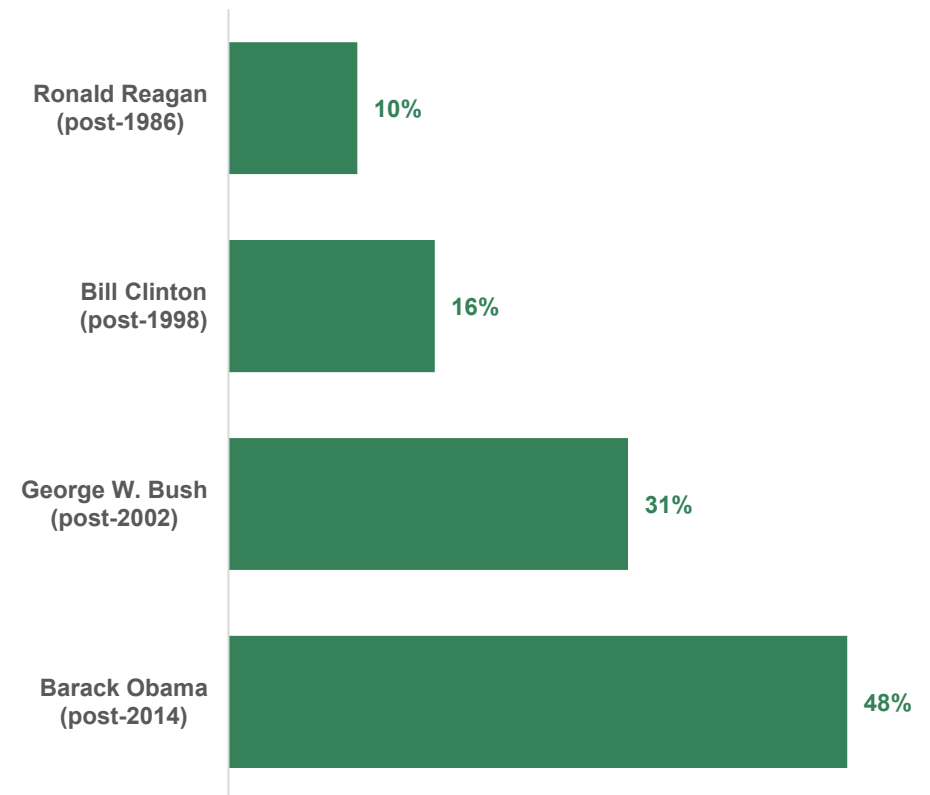
Congress typically passes a lower share of the President's proposed bills following midterms



PRESIDENTS HAVE LEANED MORE ON EXECUTIVE ORDERS AFTER SECOND-TERM MIDTERMS

% Increase in Executive Orders following 2nd term Presidents' midterms

2nd term Presidents have steadily increased their use of Executive Orders after midterm elections, relying on a less durable policy tool to enact priorities



For companies, the risk is not just policy change, but policy that is faster to enact, easier to challenge and harder to underwrite

Looking ahead



Demand measurable returns from growth investment

- AI and other strategic investments should be tied to **business outcomes, execution milestones and a credible path to earnings growth**



Act now to preserve optionality

- With capital markets receptive, organizations have a strategic window to **access capital to support future growth**



Clarify the capital allocation story

- Management teams should articulate a **clear, disciplined capital allocation strategy** that demonstrates long-term value creation and earnings durability



Treat policy risk as a strategic planning input

- Policy and regulatory shifts are becoming more frequent and impactful and evaluating the impact of these shifts enables organizations to **adapt more effectively and safeguard value**

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