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INTEGRATED FINANCIAL SERVICES

Second Quarter 2026 | Financial Planning & Investment Commentary

Q2 2026 Retrospective & Q3 2026 Outlook

Welcome to our second quarter 2026 commentary. This edition reviews the planning, market, and economic developments that shaped the quarter and offers perspective on what we are watching as we move into the third quarter.

Q2 was one of the more eventful quarters investors have seen in years. Markets moved from the acute energy shock and geopolitical stress of the first quarter into a sharp, historic rally: the S&P 500 gained roughly 15% for the quarter, its best three-month stretch since the 2020 pandemic rebound. That headline number, however, only tells part of the story. The quarter also brought a significant change in Federal Reserve leadership, inflation that spiked before cooling in June, and a sharp reversal in gold and silver after their extraordinary run over the prior year. Understanding what drove the rally, and what did not fully resolve beneath it, matters more for portfolio decisions than the index return alone.

On the planning side, the legislative changes enacted last year continue to provide a clearer framework for retirement savings, taxes, education funding, estate planning, and insurance strategy. On the investment side, the most important issues this quarter were not every headline, but the ones most directly affecting client portfolios: a historic equity rally led first by AI and mega-cap growth and then by a broadening into small caps and value, a new Federal Reserve chair with an inflation-first posture, and inflation that spiked through the spring before cooling in June.

As always, this commentary is written for all our clients and friends, from those just beginning to build their financial foundation to those managing more complex wealth and family planning issues. Our goal is to make the quarter understandable without becoming overly technical. If anything here raises questions about your situation, please reach out.

What's Inside

- Introduction — A brief overview of the quarter across planning, markets, and the economy.
- Financial Planning — Retirement Planning, Tax Planning, College Planning, Estate Planning & Insurance Planning for Q2 and Q3.
- Investment Management — Markets & Economy — A historic equity rally, a new Federal Reserve chair, and an inflation trend that reversed course late in the quarter.
- Market Index Returns — Quarterly and long-term returns across major asset classes.

Financial Planning

The second quarter is a natural mid-year checkpoint. The legislative landscape is stable following last year's One Big Beautiful Bill Act (OBBBA), but mid-year planning decisions on retirement, taxes, gifting, and insurance can meaningfully shape your year-end outcomes. We continue in this letter with our updated format for the financial planning section, providing actionable advice on the top-line financial planning topics and links to more detail. Each section below highlights the key topic, what it means if it applies to you, and includes a direct link for those who want to go deeper.

We are here to help, so send your financial planning questions to btotri@stjohnfinancial.com. Investment-related questions should be directed to grstjohn@stjohnfinancial.com. Any account or service-related inquiries are best handled by tsaul@stjohnfinancial.com.

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Retirement Planning

Age 73 RMD start age · born 1951–1959	**$111k** QCD annual limit · age 70½+	**25%** Missed RMD penalty · reduced to 10% if corrected within 2 years	**Age 75** Future RMD start age · born 1960+, effective 2033

First-year RMD decision: take it now or delay? If you turned 73 in 2026, you may delay your first RMD to April 1, 2027. That means two distributions in 2027 and a potential bracket spike. Run the numbers first. IRS RMD guidance

Roth conversion window: use it before RMDs begin. The years between 55 and 73 are the most valuable window for partial Roth conversions. Converting pre-tax balances now reduces future RMD pressure and improves tax flexibility for heirs. IRS Roth conversion FAQ

Qualified Charitable Distributions (QCDs): the tax-efficient giving tool. If you are age 70½ or older, a QCD transfers up to $111,000 directly from your IRA to charity. It counts toward your RMD but is excluded from taxable income. Especially powerful for those who do not itemize. IRS QCD overview

ACTION ITEMS

Turned 73 in 2026? Consider the tax impact of taking your RMD now vs. delaying to April 2027. You will have to take two distributions next year if you wait.

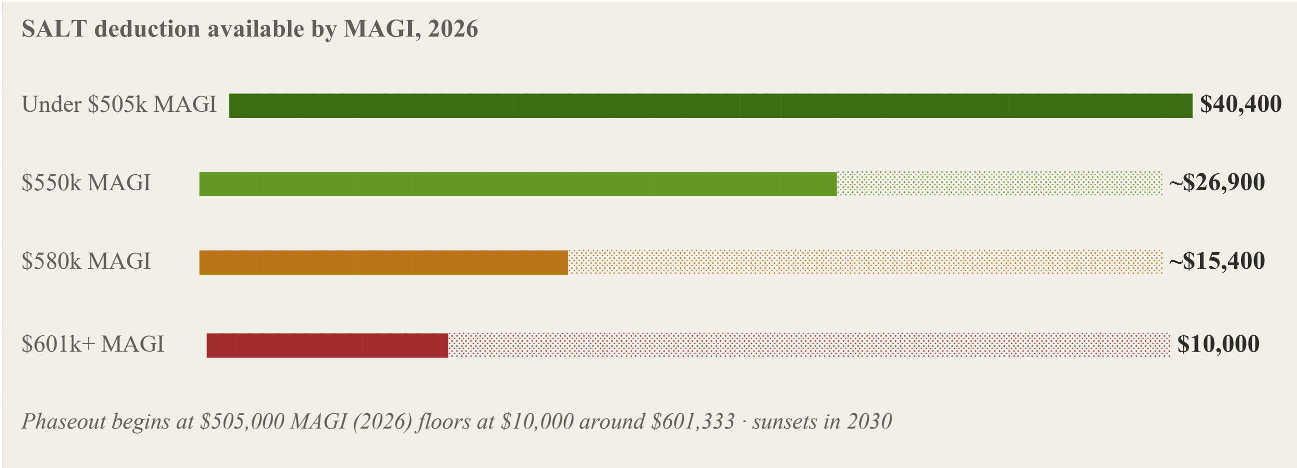
Ages 55–72 with significant pre-tax (IRA) balances? A Roth conversion might be worth considering before year-end.

Charitable intent? Consider a Qualified Charitable Distribution (QCD) strategy to reduce your taxable RMD this year.

Tax Planning

SALT deduction: a steep phaseout demands mid-year income planning. State and Local Tax (SALT) deduction, which covers state income taxes, property taxes, and local taxes you pay.

The cap is $40,400 for 2026, but the phaseout begins at $505,000 of MAGI (indexed 1% annually) and reduces the deduction by 30 cents per dollar above that threshold, flooring back at $10,000 around $601,333. Income in that band carries a steep hidden cost. Elliott Davis SALT analysis



New charitable deduction floor: 0.5% of AGI for itemizers. Starting in 2026, only charitable contributions above 0.5% of Adjusted Gross Income (AGI) are deductible for taxpayers that itemize. Bunching gifts into a Donor-Advised Fund is the most effective strategy. OBBBA charitable guide

New above-the-line charitable deduction, even for non-itemizers $1,000 (single) or $2,000 (married filing jointly) in cash gifts to public charities is now deductible even if you take the standard deduction. Details

Update your withholding: OBBBA changed the math. New SALT limits, an expanded standard deduction, and charitable rule changes may mean your current withholding or estimated payments are misaligned. IRS withholding estimator

ACTION ITEMS

Run a mid-year income projection now, especially if your household income could approach $505k.

Review your withholding or estimated tax payments considering the new SALT and charitable rules.

Have a look at a Donor-Advised Fund for charitable donations for possible tax benefits.

College Planning

529 K–12 expansion: test prep and tutoring now qualify. The OBBBA doubled K–12 annual withdrawal limits to $20,000 per student and expanded qualified expenses to include tutoring, test prep, curriculum materials, and educational therapies. Verify your state's conformity. Full 529 rule changes

Grandparent 529s: still invisible to FAFSA and worth maximizing. Since the 2024–25 academic year, distributions from grandparent-owned 529 plans are no longer counted as student income on the

FAFSA. This rule is now established, but many families are still not taking advantage of it. Savingforcollege.com guide

Superfunding: move up to $95k (or $190k per couple) now. Front-loading a 529 using the 5-year gift election lets assets compound sooner while reducing your taxable estate. The 2026 annual gift exclusion is $19,000 per recipient. Superfunding mechanics

529 to Roth IRA rollover: a safety net for overfunded accounts. Unused 529 funds can roll into the beneficiary's Roth IRA (up to $35,000 lifetime, $7,500/yr max, account must be 15+ years old). Opens a flexible exit for those who oversaved. SECURE 2.0 rollover rules

Junior high planning timeline

◆ **Now: 8th to 9th grade**
Review 529 balance vs. projected costs · explore superfunding · begin using $20k K–12 limit for tutoring and test prep

◆ **10th to 11th grade**
SAT/ACT prep qualifies as 529 withdrawal · model financial aid scenarios · consider CSS Profile vs. FAFSA-only schools

◆ **12th grade → enrollment**
FAFSA opens October 1 of senior year · asset positioning review · 529 withdrawal planning aligned to expense timing

ACTION ITEMS

Review your 529 balance now and model it against projected costs.

Confirm your state's conformity with the new federal K–12 expense rules before withdrawing for tutoring or test prep.

Grandparents interested in contributing? The FAFSA rule change makes their involvement far more advantageous now.

Estate Planning

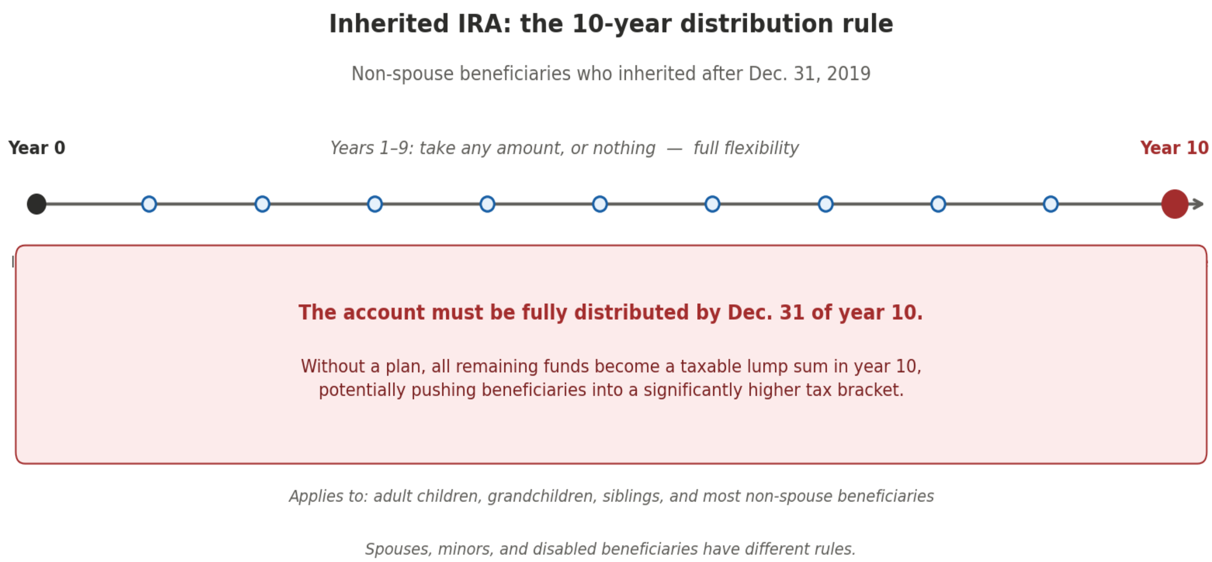
$15M Federal exemption per person · permanent	**$30M** Per married couple · portable	**$19k** Annual gift exclusion per recipient · 2026

Review estate documents built around the old sunset. They may be outdated. Many estate plans were structured around a 2026 exemption cliff that never arrived. Bypass trust formulas, ILIT strategies, and aggressive gifting vehicles may need recalibration. Post-OBBBA estate planning reset

Annual gifting: a "use it this year" opportunity. The $19,000 annual exclusion per recipient does not carry over. A married couple with two adult children and their spouses can transfer $152,000 this year with zero gift tax and no paperwork. One important note: gifting appreciated assets is generally not advisable. The recipient inherits your cost basis and your embedded tax liability. Cash or newly purchased assets are usually the better choice. [IRS gift tax FAQ]

Beneficiary designations override your will. When did you last check? Retirement accounts and life insurance transfer by beneficiary designation regardless of what your will says. Courts regularly uphold outdated or unintended designations. [Estate planning checklist]

Inherited IRA 10-year rule: beneficiaries need a distribution plan. Most non-spouse beneficiaries who inherited an IRA after 2019 must fully distribute the account within 10 years. The IRS now also requires annual RMDs in years 1–9 if the original owner had already begun taking distributions making proactive annual planning essential, not optional. Without a strategy, a large taxable lump sum in year 10 can push beneficiaries into a significantly higher bracket. [Inherited IRA rules explained.]



ACTION ITEMS

- If you are a full-service planning client, make sure we have copies of your current estate documents. We will provide a summary snapshot and roadmap report of how the estate funds (after all expenses and debts are paid, typically) will flow per your estate documents language
- Confirm all beneficiary designations are current and aligned with your estate plan.
- Not yet using the annual gift exclusion? This year’s $19k per recipient does not carry over.

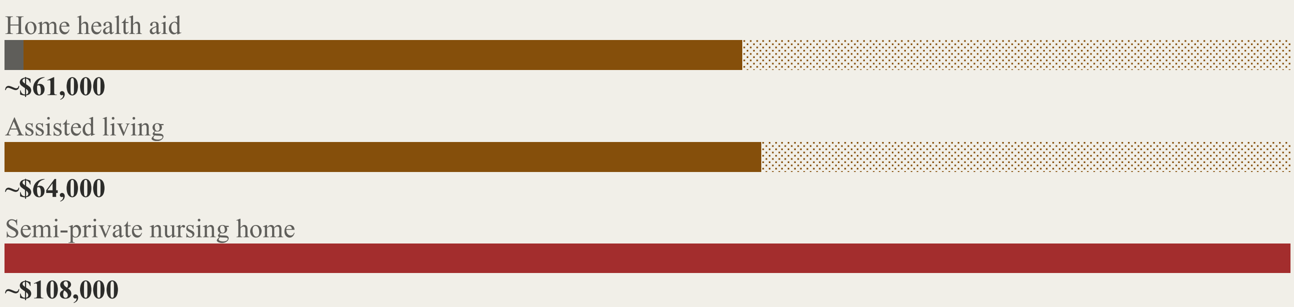
Insurance Planning: Life, Disability & Long-Term Care

Life insurance: realign coverage with your current estate plan: With the federal exemption permanently at $15M, strategies built around a lower threshold (especially ILITs) deserve a fresh look. For most clients in the $1–5M range, life insurance serves income replacement and liquidity. [2026 insurance rankings]

Disability: own-occupation coverage is the standard of care for professionals. Group employer plans typically cover only 60% of base salary and exclude bonuses or business income. Individual own-occupation policies are portable and can replace up to 70% of total income. Cost: approximately 1–3% of annual income. [Disability insurance guide]

Long-term care in 2026: a "silver tsunami" and rising costs. The oldest baby boomers turn 80 in 2026, accelerating demand and costs across all care settings. Hybrid life/LTC policies address the "use it or lose it" concern; LTC premiums remain partially tax-deductible by age. [2026 LTC insurance review]

Approximate annual LTC costs, national median 2026



Source: Money.com 2026 · money.com/best-long-term-care-insurance

ACTION ITEMS

- Review all three coverage areas (life, disability, and LTC) with us this quarter.
- Business owners and professionals: an individual disability policy review is especially important if your income extends beyond base salary.
- Ages 50–65: the window for LTC coverage at favorable rates is now. Contact us to schedule a review.

Investment Management — Markets & Economy

Market Overview

Summary

U.S. equity markets staged one of their sharpest rallies in years during the second quarter. The S&P 500 gained approximately 15%, its best quarterly performance since the 2020 post-pandemic rebound, while the Nasdaq-100 posted one of its strongest quarterly returns of the past 25 years. Gains were initially concentrated in large-cap growth and AI-related names, particularly semiconductors, before broadening meaningfully by quarter-end into small caps, value, and equal-weighted indexes. At the same time, the Federal Reserve underwent a major leadership transition, inflation surged through the spring before cooling sharply in June, and gold and silver, after an extraordinary run over the prior year, suffered a sharp correction.

Against this backdrop, our emphasis remained on broad participation in the rally rather than chasing only the most extended areas of the market. The quarter rewarded diversified exposure more than narrow concentration, particularly as leadership broadened later in the period.

Details

The quarter began where the first quarter left off, with markets still digesting the aftereffects of the Middle East energy shock and elevated volatility. From the March lows, however, equities staged a powerful advance that accelerated through April and May. The rally then moderated somewhat in June. By the close of the quarter, both the S&P 500 and Nasdaq-100 had recorded their best quarterly performance since 2020, and the small-cap Russell 2000, which lagged badly in the first quarter, had rebounded sharply with gains across most of its sectors.

Artificial intelligence and semiconductors remained the dominant theme, with the Philadelphia Semiconductor Index gaining nearly 88% during the quarter on strong capital spending and robust demand for memory chips. That strength was not evenly distributed globally, a point we return to below.

A New Federal Reserve Chair

The most significant policy development of the quarter had little to do with a single rate decision. On May 13, the Senate confirmed Kevin Warsh as the new Federal Reserve Chair, and he was sworn in on May 22, succeeding Jerome Powell. Warsh, who previously served as a Fed governor from 2006 to 2011, has been an outspoken critic of the Fed's recent inflation record and has signaled an inflation-first approach, a review of the Fed's balance sheet, and a more disciplined communication style. His first meeting as chair took place June 16–17.

For markets, the leadership change matters because it shifts the tone of policy even before any specific rate decision is made. Expectations for near-term rate cuts, which were already fading as the quarter progressed, diminished further under the new chair. By June, some strategists had begun discussing the possibility of rate hikes before year-end rather than the cuts markets were pricing earlier in the year. The Fed held its target range steady at 3.50%–3.75% throughout the quarter.

For portfolios, an inflation-first Fed increases the risk of higher-for-longer rates, which can pressure the most expensive growth stocks even as it supports more attractive income in fixed income. It also reinforces that the policy path markets expected earlier this year is now less certain than it appeared just three months ago. For planning, this means interest-rate assumptions in retirement projections, borrowing plans, and housing decisions should reflect a wider range of possible outcomes rather than assuming a smooth path to lower rates.

Equities

U.S. equities advanced sharply during the second quarter, led initially by large-cap growth before broadening significantly. Nine of eleven S&P 500 sectors finished the quarter higher. Industrials, financials, and healthcare took over leadership in June even as communication services and technology saw some late-quarter profit-taking. Small caps, which lagged in the first quarter, staged a strong recovery, with ten of eleven Russell 2000 sectors posting gains led by technology, industrials, healthcare, and financials.

By quarter-end, market breadth had improved meaningfully: the equal-weighted S&P 500 Index reached new highs by June 30, even after the cap-weighted S&P 500 had already peaked on June 2. That kind of divergence, a broadening market even as the headline index cools, is generally viewed as a healthy development rather than a warning sign.

Corporate earnings provided a strong underpinning for the rally. The S&P 500 is on track to report year-over-year earnings growth of more than 23% for the second quarter, while revenue growth is tracking near 12%. Unlike the first quarter, when forward earnings estimates were cut even as current results held up, analysts raised second-quarter estimates as the period progressed, a meaningfully more constructive earnings backdrop than markets faced three months ago. That growth was also broad-based rather than concentrated in a handful of companies: all 11 S&P 500 sectors posted positive revenue growth during the quarter, and even excluding the technology sector entirely, the remaining ten sectors still grew revenue by roughly 9%. Profit margins continued to expand as well, with forward 12-month S&P 500 margins climbing to roughly 15.8%, up from 12.0% at the end of 2019 and a new high for the index. Valuations also moved higher alongside the rally: the S&P 500 now trades at approximately 20 times forward earnings, modestly above its five- and ten-year averages but still below the more stretched levels seen in 2024 and 2025.

One nuance worth understanding on the earnings side: a portion of the reported profit growth at the largest technology companies came not from operating results, but from accounting gains on privately held stakes in artificial intelligence companies. At Alphabet and Amazon, for example, more than half of reported first-quarter net income reflected markups on these private investments rather than revenue from their core businesses. That doesn't make the underlying earnings growth illegitimate, but it's a reminder that headline growth rates for a handful of mega-cap names can include non-operating items that are worth understanding rather than assuming will repeat every quarter.

It's worth spending a moment on what “valuations” actually means here. A forward price-to-earnings (P/E) ratio compares a stock's price to the earnings it is expected to generate over the next year; a market trading at 20 times forward earnings means investors are paying roughly $20 today for every $1 of profit companies are projected to earn over the coming year. After a rally this strong, valuations become more important because future returns increasingly depend on companies delivering the earnings growth investors expect. At roughly 20 times forward earnings, the market is not in stretched territory relative to its own history, but it also leaves less room for error than it did before the rally began.

Periods of unusually strong market performance can also tempt investors to abandon long-term allocation targets by chasing recent winners or taking on more risk than their financial plan requires. Discipline, not reaction to short-term performance, remains the more reliable approach. This is one of the reasons we continue to emphasize quality and diversification within equity allocations rather than concentrating in the most richly valued corners of the market.

International markets were sharply divided. Equities in South Korea and Taiwan, both closely tied to semiconductor production, posted outsized gains, while Chinese and Indian markets lagged well behind. That dispersion is a useful reminder that international exposure is not a single, uniform bet, and that country and sector selection matter abroad just as they do at home. It also reinforces why international diversification continues to matter more broadly: different countries and sectors often lead at different times, and no single region stays on top indefinitely.

Fixed Income

Fixed income had a more difficult and volatile quarter. Long-term Treasury yields spiked sharply in May, with the 30-year yield reaching 5.197% on May 19, its highest level since July 2007, before easing back to roughly 5.0% by early June as markets digested the Fed leadership transition. The move was not confined to the long end: 2-year Treasury yields rose from roughly 3.37% to 4.06% and 10-year yields rose from roughly 3.94% to 4.47% over the same broad window, reflecting a shift higher across the entire curve rather than just its longest-dated portion. That kind of long-duration yield movement affects more than bond portfolios; it flows directly into mortgage rates, corporate borrowing costs, and the discount rates used to value long-duration growth stocks.

The Federal Reserve held its policy rate steady at 3.50%–3.75% throughout the quarter, and the path toward further cuts became less certain as the quarter progressed. For fixed income portfolios, this reinforces the importance of managing duration deliberately rather than reaching for yield in the longest-dated, most rate-sensitive parts of the market. In this environment, balanced or modestly shorter-duration exposure remains more prudent than concentrating too heavily in the long end of the bond market. At the same time, it's worth remembering the other side of higher yields: newly purchased bonds now offer more attractive income than they did just a few years ago, a meaningful benefit for income-focused portfolios.

Despite the volatility, the Bloomberg U.S. Aggregate Bond Index's peak-to-trough decline during the quarter was approximately 2.8%, actually a bit milder than the index's historical average annual maximum drawdown of roughly 3.5%. That context is worth keeping in mind: a soft first-half return for core bonds reflects a normal, historically ordinary level of volatility for the asset class, not a breakdown in how bonds are behaving.

The table below illustrates why we look beyond core bonds alone for portfolio ballast. It shows how several fixed income and real asset categories performed during each of the last ten S&P 500 pullbacks of 5% or more since the 2020 COVID low:

Period	S&P 500	T-Bills (1-3M)	US Agg	Govt Interm.	Govt Long	TIPS	Lev. Loans	Commodity	Gold
9/2/20 – 9/23/20	-9.5%	0.0%	-0.3%	0.0%	-0.7%	-0.6%	0.4%	-2.8%	-3.9%
10/12/20 – 10/30/20	-7.4%	0.0%	-0.2%	-0.1%	-0.9%	-0.6%	-0.8%	-1.3%	-2.5%
9/2/21 – 10/4/21	-5.1%	0.0%	-0.8%	-0.5%	-2.8%	-0.5%	0.5%	5.5%	-2.4%
1/3/22 – 10/12/22	-24.5%	0.7%	-14.4%	-8.4%	-28.0%	-12.6%	-3.2%	16.5%	-7.5%
2/2/23 – 3/13/23	-7.5%	0.5%	-1.5%	-0.1%	-1.8%	-0.4%	-1.1%	-3.4%	-0.3%
7/31/23 – 10/27/23	-9.9%	1.3%	-4.4%	-1.0%	-13.5%	-3.0%	2.0%	-0.3%	0.8%
3/29/24 – 4/19/24	-5.4%	0.3%	-2.4%	-1.3%	-5.3%	-1.6%	0.3%	3.9%	8.2%
7/16/24 – 8/5/24	-8.4%	0.3%	2.2%	1.9%	5.1%	1.3%	-0.6%	-5.4%	-2.6%
2/19/25 – 4/8/25	-18.7%	0.6%	1.0%	2.1%	1.0%	1.3%	-1.9%	-9.0%	1.4%
1/27/26 – 3/30/26	-8.9%	0.6%	-0.4%	0.0%	-0.5%	0.0%	-1.0%	11.9%	-11.1%
Average	**-10.6%**	**0.4%**	**-2.1%**	**-0.7%**	**-4.7%**	**-1.7%**	**-0.6%**	**1.6%**	**-2.0%**
% Positive	**0%**	**100%**	**20%**	**30%**	**20%**	**20%**	**40%**	**40%**	**30%**

Dates represent peak-to-trough S&P 500 declines of more than 5% since the 2020 COVID low. Returns are total return. Source: FactSet, index providers.

No single diversifier works every time. Short-term Treasury bills were the only category positive in all ten episodes, while core bonds, TIPS, and gold were each positive in only two or three of the ten. That inconsistency is exactly why we spread diversification across multiple, imperfectly correlated sources rather than relying on any single asset class to cushion every downturn

Real Assets

Real assets delivered one of the more dramatic reversals of the quarter. After an extraordinary run over the prior year that saw gold surge past $5,000 an ounce and silver break above $50 for the first time in 45 years, both metals suffered sharp corrections in the second quarter. Gold posted its largest single-month decline since 2008, and silver fell more than 50% from its recent highs. Many market observers view this as a sharp but not unusual pullback after an extraordinary run, rather than a complete reversal of the long-term case for hard assets, which remains tied to government debt dynamics and ongoing central bank buying.

Energy prices, which spiked dramatically in the first quarter due to the Iran conflict and the disruption at the Strait of Hormuz, partially normalized as the ceasefire held through most of the second quarter, with gasoline and energy costs falling notably in June and helping pull headline inflation lower. Renewed U.S.-Iran tensions in early July are a reminder that this relief could prove temporary. Our use of real assets remains disciplined and focused on diversification rather than short-term price moves.

Cryptocurrency

Digital assets had a rough quarter. Alongside gold, Bitcoin ranked among the weaker major global asset classes year-to-date in 2026, an unusual pairing given that gold and Bitcoin are often framed as alternative stores of value that should move independently. That both assets sold off together, even as equities rallied sharply, is a reminder that correlations between so-called safe-haven assets can break down during periods of rapid sentiment shifts and profit-taking after outsized prior gains.

For portfolios where digital assets are used, position sizes should remain intentionally small and risk-managed. They are not a substitute for core diversification.

Economy in Review

Summary

The U.S. economy moved through the second quarter with resilience on the surface but growing tension underneath. Inflation surged through the spring before cooling sharply in June, even as the labor market held up better than expected. The Federal Reserve navigated a major leadership change, and the rate-cut expectations that dominated market thinking earlier in the year gave way to a far more uncertain, and potentially more hawkish, policy path.

Details

Inflation: Inflation took investors on a round trip during the second quarter. The Consumer Price Index accelerated sharply from 2.9% year-over-year in March to 4.2% in May, the fastest pace in three years, before reversing course in June and falling back to 3.5% year-over-year. The 0.4% monthly decline in the CPI was the largest single-month drop since April 2020, and the first pullback in the annual inflation rate since January. Core CPI, which excludes food and energy, eased as well, falling to 2.6% year-over-year in June from 2.9% in May, a sign that the spring's price pressure was concentrated in energy rather than broadening across the economy. Energy prices, which had risen 23.5% year-over-year in May with gasoline up 40.5%, cooled to a 15.7% year-over-year increase in June as gasoline prices fell roughly 10% for the month, reflecting the ceasefire between the U.S. and Iran that held through most of the quarter. That relief may prove temporary: hostilities between the U.S. and Iran flared again in early July, and how that develops will be an important factor in whether June's improvement carries into the third quarter.

This matters beyond the headline number: CPI directly affects the cost of everyday goods and services, and it remains the single biggest input into how the new Fed chair approaches future interest-rate decisions.

For households, this combination of higher headline inflation, energy-driven price pressure, and wages lagging prices helps explain why the economy can feel less comfortable than headline employment numbers alone suggest.

Interest Rates: The Federal Reserve held its target range steady at 3.50%–3.75% throughout the second quarter, extending a pause that has now lasted well into 2026. As discussed above, the arrival of a new, inflation-first Fed chair further reduced the odds of near-term rate cuts; by June, some strategists were even discussing the possibility of hikes before year-end rather than the cuts markets were pricing earlier in the year. Long-term yields reflected this uncertainty, with the 30-year Treasury briefly touching its highest level since 2007 in mid-May.

Jobs: The labor market proved more resilient than expected in the second quarter. June payrolls rose by approximately 57,000, and the unemployment rate fell to a one-year low of 4.2%. The improvement wasn't limited to the headline payroll number: layoff rates held near historic lows throughout the quarter, and the prime-age (25-54) employment-population ratio stayed near its highest level since 2001, both signs that the resilience runs deeper than a single month's report. Wage growth continued to lag inflation, which remains a headwind for real household purchasing power even as headline employment data held up better than many economists anticipated earlier in the year. This also reinforces the importance of stress-testing cash-flow and retirement plans against higher living costs and a less certain policy backdrop.

Looking Ahead

As we move into the third quarter, the questions that matter most for portfolios have shifted somewhat from where they stood three months ago. The rally has been real and broad-based, corporate earnings have been genuinely strong, and the labor market has held up better than feared. At the same time, inflation eased in June but remains at risk of reaccelerating given renewed tensions between the U.S. and Iran, the new Fed chair has signaled a less accommodative posture than markets expected at the start of the year, and long-term yields have already touched multi-year highs once this year.

Strong quarters like this one don't follow a fixed script. Markets have moved in both directions after similarly sharp rallies in the past, and what happens from here will depend far more on how inflation and

Fed policy actually unfold than on the pattern of the last three months. The more useful takeaway is not a prediction, but a reminder to stay positioned for a range of outcomes rather than leaning too heavily on any single path.

Artificial intelligence will also remain a practical issue beyond the market itself. It is clearly shaping capital investment, productivity plans, and business strategy, but it is also increasing fraud and cybersecurity risk as bad actors adopt more sophisticated tools. For households and businesses alike, reviewing account protections, communication habits, and cybersecurity discipline remains part of sound financial housekeeping.

Two other backdrop factors are worth keeping in view heading into the second half. First, investor sentiment has been unusually downbeat given how the market has actually performed: consumer confidence surveys touched multi-year lows in the spring, and individual investor sentiment polls showed more bears than bulls even as equities were up meaningfully on the year. Historically, sentiment this cautious has not been a reliable signal to reduce equity exposure. Second, this is a midterm election year, and midterm years have historically seen the largest average intra-year pullback of the four-year election cycle, regardless of which party controls Washington. We are not forecasting a repeat of that pattern, but it is a useful reminder that added volatility later this year would not be unusual for a midterm year specifically, separate from anything else happening in markets.

In this environment, portfolio discipline matters more than prediction. Maintaining broad diversification across asset classes and geographies, respecting valuation after a sharp rally, and staying attentive to the new signals coming out of a changed Federal Reserve remain the most reliable ways to navigate a market that delivered one of its best quarters in years, built on a foundation that is more complicated than the headline number alone suggests.

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MARKET INDEX RETURNS
Below are the returns for index categories making up the broader markets. Morningstar sourced these index returns. Returns beyond one year are annualized.

Asset Class	Benchmark	Q2 2026	1 Year	3 Years	5 Years	10 Years
US Equity	Dow Jones Industrial Average	13.38	20.65	17.10	10.78	13.68
	S&P 500	15.20	22.32	20.61	13.41	15.51
	S&P 500 Equal-Weighted	11.39	19.20	14.53	9.14	12.36
	Russell 1000	15.13	22.01	20.47	12.66	15.29
	Russell 1000 Growth	16.74	17.71	22.58	13.71	18.58
	Russell 1000 Value	13.84	27.09	17.78	11.17	11.52
	Russell MidCap	13.83	21.63	16.51	8.50	12.00
	Russell MidCap Growth	14.55	6.17	15.61	6.03	13.04
	Russell MidCap Value	13.40	26.62	16.51	9.48	10.63
	Russell 2000	21.49	40.78	18.6	6.98	11.62
	Russell 2000 Growth	25.71	38.74	18.44	5.57	11.97
	Russell 2000 Value	17.19	43.01	18.73	8.23	10.89
	Russell 3000	15.43	22.81	20.35	12.30	15.06
Non-US Equity	MSCI World	13.76	21.34	19.24	11.47	13.14
	MSCI All Countries World ex-US	14.49	27.66	18.82	8.79	9.93
	MSCI EAFE	10.82	20.23	16.44	9.05	9.66
	MSCI EAFE Growth	14.53	13.65	11.47	4.88	8.61
	MSCI EAFE Value	7.49	26.95	21.51	13.15	10.45
	MSCI Emerging Markets	24.05	43.51	23.03	7.20	10.07
Fixed Income	Bloomberg US Agg.	0.67	3.79	4.16	0.08	1.54
	Bloomberg US Agg. 1-3 Year	0.46	3.17	4.60	2.13	1.97
	Bloomberg US Government	0.32	2.72	3.20	-0.38	0.90
	Bloomberg US Credit	1.33	4.34	5.19	0.38	2.49
	Bloomberg US Corp. High Yield	2.47	5.91	8.86	4.17	5.81
Real Assets	Bloomberg Commodity	-8.08	14.36	25.46	11.69	9.37
	DJ Commodity Gold	-13.53	21.00	26.84	17.04	10.73
	Dow Jones US Real Estate	8.55	10.96	8.95	3.08	5.61
Cash	Fidelity Money Market	0.83	3.66	4.42	3.39	2.21

Source: Morningstar