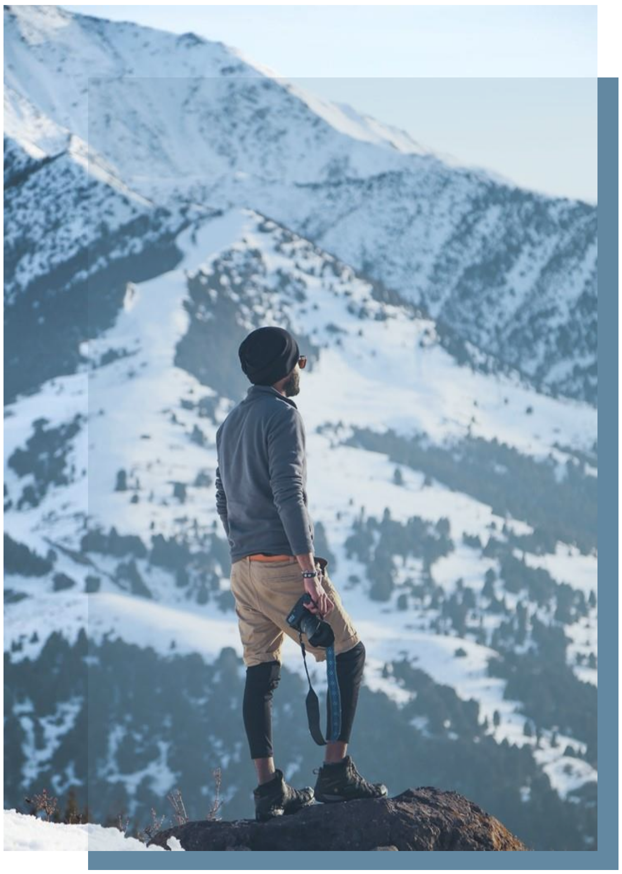
# PERSPECTIVES

## Benefit Financial Services Group Newsletter

Quarter Ending June 30, 2026



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## Market Recap

Brent Miller, CFA® (Senior Portfolio Manager)

After a turbulent start to the year, U.S. equity markets staged a powerful recovery in the second quarter of 2026, propelled by a de-escalation of the U.S.-Iran conflict, a sharp reversal in crude oil prices back to pre-war levels, and accelerating corporate earnings growth. The S&P 500 Index[1] returned 14.9% during the quarter, its best quarterly performance since the second quarter of 2020, more than recouping its first-quarter losses and setting new record highs. The Nasdaq Composite Index[2] surged 21.4% as semiconductor and memory-chip stocks soared on robust AI capital expenditures; the Philadelphia Semiconductor Index recorded its best quarterly performance (+87.8%) since its 1994 inception.

Beneath the headline strength, market leadership evolved over the course of the quarter. The initial rally off the March lows was driven by large-cap growth and hyperscalers, but by quarter's end the advance had broadened, with small-cap, micro-cap, equal-weight, and value benchmarks all reaching new record highs. The S&P 500 Equal Weight Index[3] trailed the cap-weighted index during the growth-led rebound, posting a Q2 return of +10.9%. However, the index nonetheless finished the quarter at record levels, generating a year-to-date performance (+11.1%) that bested its cap-weighted counterpart (+9.6%). The "Magnificent Seven"[4] participated in the rally but as a group continued to trail the broader index year to date, with wide dispersion among constituents. In a reversal of the first quarter's historic style divergence, growth reclaimed leadership: the Russell 1000 Growth Index[5] returned 16.6%, versus 13.4% for the Russell 1000 Value Index[6], though value outperformed in June as investors rotated into more cyclical and defensive areas of the market.

In late March, the Russell 2000 Index[7] benchmark was still trading marginally below its prior cycle highs from November 2021. The small cap benchmark surged by 21.2% in Q2 2026, however, finally breaking out to fresh record territory. Ten of eleven small-cap sectors finished higher, and even after the rally, small-cap stocks continue to trade at a meaningful discount to large-cap indices despite an improving earnings growth outlook.

International markets also delivered strong returns, though developed markets trailed the U.S. rebound, with the MSCI World ex USA Index[8] advancing 9.3% for the quarter. Emerging markets were the clear standout: the MSCI Emerging Markets Index[9] surged 23.3%, driven overwhelmingly by the AI-linked semiconductor complex in North Asia. Korea and Taiwan — home to Samsung Electronics, SK Hynix, and TSMC, the critical suppliers of high-bandwidth memory and advanced logic chips — led global markets, with Taiwan and South Korea both moving to roughly $5 trillion in equity-market capitalization and overtaking India in global market-cap rankings. Dispersion was extreme, however, as exemplified by the MSCI China Index falling by 7.6% in Q2 2026 compared to an 87.4% quarterly increase in the MSCI Korea Index.

The most consequential development of the quarter came on the monetary policy front, where the Federal Reserve underwent its first leadership change in eight years. Kevin Warsh was confirmed by the Senate on May 13 and sworn in as Chair on May 22, succeeding Jerome Powell, who remains on the Board of Governors. The Federal Open Market Committee (FOMC) left the federal funds rate unchanged at 3.50%-3.75% at both its April and June meetings, but the June 17 meeting — Warsh's first as Chair — marked a decisive hawkish shift: the Committee released a dramatically shortened statement that dispensed with forward guidance, and the updated Summary of Economic Projections showed the median 2026 fed funds projection rising to 3.8% from 3.4% in March, implying at least one rate hike this year. The inflation backdrop justified the caution, with May headline Consumer Price Index (CPI) at 4.2% year over year and core Personal Consumption Expenditure (PCE) rising for a third consecutive month to 3.4%. By quarter's end, markets that had entered 2026 expecting two to three rate cuts were instead pricing a roughly 80% probability of a quarter-point hike by the September meeting.

The 2-year U.S. Treasury yield rose 35 basis points to end the quarter at 4.14% as markets priced out rate cuts, while the 10-year yield rose a more modest 16 basis points to 4.46%, its ascent contained by the collapse in oil prices. The flattening drove the 10-year/2-year spread to its narrowest level since March 2025. The iShares Core U.S. Aggregate Bond ETF (AGG)[10] eked out a gain of approximately 0.7%, as coupon income again offset price pressure. Credit was the clear winner: spreads held near historically tight levels, and the iShares Broad USD High Yield Corporate Bond ETF (USHY)[11] returned approximately 2.5%.

Crude oil largely reversed its first-quarter shock. After surging in Q1 and peaking above $126 per barrel in April, Brent crude fell roughly 20% in May and continued lower in June, as fears of a sustained supply disruption eased and the U.S. and Iran moved toward a negotiated end to the conflict. The temporary reopening of the Strait of Hormuz restored Persian Gulf export flows, and successive OPEC+ production increases completed the normalization, with Brent ending the quarter in the low $70s per barrel — down approximately 38% for the quarter and roughly back near pre-war levels, though still positive year to date. The energy sector, the market's best performer in Q1, was the biggest laggard in Q2 as the geopolitical risk premium unwound.

Precious metals bore the brunt of the hawkish policy repricing. Gold fell approximately 13% during the quarter to end near $4,000 per ounce, its worst quarterly performance since 2013, with nearly 12% of the decline occurring in June alone. Rising real yields, a firmer U.S. dollar following the June FOMC, and the unwinding of war-related safe-haven demand all weighed on the metal after it touched an all-time high near $5,595 per ounce in late January. Silver fared worse, ending the quarter near $59 per ounce, down approximately 20%, hit by both the precious metals liquidation and the late-June technology selloff. Notably, central-bank gold accumulation continued through the correction.

As we enter the third quarter of 2026, the market narrative has rotated once again — away from geopolitical risk and energy-driven inflation, and toward the durability of the AI-led earnings cycle and the policy intentions of a new Federal Reserve Chair. On one hand, the fundamental backdrop is strong: S&P 500 earnings are expected to grow more than 20% year over year for a second consecutive quarter, market breadth has improved markedly, and economic growth remains above trend. On the other hand, valuations now sit above long-term averages, signs of speculative excess have emerged in pockets of the market, inflation remains well above target with the Fed now more likely to hike than cut, and the Middle East ceasefire and diplomatic process remain works in progress. In our view, this environment continues to argue for diversification, disciplined risk management, and selectivity across both equity and fixed income allocations — with particular attention to valuation discipline in the market's most crowded themes.

## Forecast

Steven Yamshon, Ph.D. (Managing Principal)

As Wall Street braces for second-quarter earnings season, the outlook for U.S. stocks heading into year-end can be summed up in three words: constructive yet selective.

The bull case, according to strategists assessing all eleven S&P 500 sectors, is not built on vibes or momentum chasing. It rests on something more durable, a corporate profit machine that keeps humming, and on a hard lesson investors have learned repeatedly over the past two years: betting against this earnings backdrop is costly. With no recession or financial shock in sight, the path of least resistance for stocks remains higher.

But this is not a market that rewards buying everything in sight. How the rest of the year unfolds will depend on what investors own, how long they plan to hold it, and, more than anything else, on the bond market's decisions.

The optimistic case rests on three legs. The first is profits. Nearly every macroeconomic and company-level indicator points to continued growth, and Q2 earnings are expected to beat expectations again. When the market's fundamental engine is running this strongly, fighting it has historically been a losing trade.

The second pillar is breadth. For much of this bull run, critics complained that a handful of mega-cap technology stocks were doing all the heavy lifting. That narrative is shifting, as domestic cyclical stocks increasingly participate alongside tech. A rally driven by many sectors is healthier and more durable than one carried by a few giants.

The third pillar is artificial intelligence. Despite bouts of stomach-churning volatility, the AI trade remains worth holding. The build-out of AI infrastructure is a multi-year capital-spending cycle, and its fundamentals remain intact.

If a single variable will determine how far this rally runs, it is interest rates. Yields are both the biggest risk to the advance and the most likely catalyst for the next leg higher. Rate-sensitive groups such as housing, utilities, and small caps need borrowing costs to fall for their fundamentals to improve, and the financing apparatus behind the AI build-out also benefits from easier conditions. With the stock-bond correlation expected to remain positive, falling yields would lift equities broadly, while a sustained rise would cap the market.

The prognosis through year-end is positive: the profit cycle is intact, leadership is broadening, and the AI theme retains genuine support. A spike in yields is the chief risk, but it appears to be choppy within an uptrend, not a reason to head for the exits. The playbook is simple to state, harder to execute: stay invested, stay selective, and keep one eye on the bond market. That is where the rest of this year's story will be written.

## Portfolio Management

Michael Allbee, CFP® (Principal/Senior Portfolio Manager)

U.S. equity markets have demonstrated remarkable resilience in 2026, with the S&P 500 reaching 24 new record highs despite persistent geopolitical, economic, and political concerns. Strong corporate fundamentals have been the primary driver, as earnings growth across many sectors has remained robust and well above long-term averages. As history has consistently shown, markets often advance in the face of uncertainty, climbing the proverbial "wall of worry." While short-term volatility can be unsettling, patient investors who remain focused on long-term objectives have typically been rewarded for staying invested through periods of market turbulence.

That said, equity valuations remain elevated by historical standards. The S&P 500 currently trades at a forward price-to-earnings ratio near 20x, above its long-term average, while other valuation measures such as the Shiller CAPE ratio also suggest a relatively expensive market. High valuations are not reliable timing indicators, nor do they necessarily signal an imminent correction. However, they do reinforce the importance of prudent portfolio construction. In an environment where future returns may depend more heavily on earnings growth than multiple expansion, diversification across asset classes, sectors, and global regions remains a critical tool for managing risk and identifying opportunities where valuations may be more compelling.

The broad dispersion of returns across markets this year serves as a reminder that successful investing is rarely the result of concentrating capital in a single theme, sector, or geographic region. Rather, well-diversified portfolios are designed to participate in opportunities wherever they emerge while helping to reduce the impact of unforeseen risks. Maintaining investment discipline is equally important. Dollar-cost averaging—the practice of investing consistently over time rather than waiting for a perceived "better" entry point—has historically proven effective during volatile markets, as investors who remain on the sidelines often miss meaningful portions of market recoveries.

Fixed income continues to offer one of the most attractive opportunities we have seen in many years. With yields well above their post-financial-crisis averages for bonds (i.e., Bloomberg U.S. Aggregate Bond Index yields 4.7%, compared to its average of 3.0% since 2009), bonds once again provide meaningful income while serving their traditional role as portfolio stabilizers. Looking ahead, volatility is likely to persist as markets weigh strong earnings momentum against uncertainty surrounding the long-term beneficiaries of transformative trends such as artificial intelligence. In this environment, clarity, discipline, and a commitment to diversification remain paramount.

## Talk With Us!

Arash Navi, CFA®, CFP®, CPA (Senior Wealth Manager)

Americans are remarkably generous. Every year, individuals across the country give to their churches and synagogues, support disaster relief halfway around the world, fund local food banks, and back causes close to their heart — often without giving much thought to the tax mechanics behind it. Most people simply assume that if they write a check to charity, they get a deduction for it. Starting in 2026, that's no longer quite true — for anyone, whether you itemize or take the standard deduction. A provision from the One Big Beautiful Bill Act quietly rewrites the rules on charitable giving, and if you give regularly, it's worth a few minutes to understand how it affects you.

**What's Changing**

If you take the **standard deduction**, you'll now be able to deduct up to $1,000 (single) or $2,000 (married filing jointly) in charitable contributions — a new benefit that didn't exist before. This is a real tax break: that amount comes directly off your taxable income, on top of your standard deduction, which means you genuinely pay less tax because of it. For someone in the 22% bracket, a $2,000 gift translates to roughly $440 in tax savings that simply wasn't available in prior years. The only nuance is that it's applied after your Adjusted Gross Income (AGI) is calculated rather than before, so it lowers your tax bill without lowering your AGI — meaning it won't help with things like IRMAA thresholds or Medicare surcharges the way an AGI-reducing strategy would.

If you **itemize**, the rules move in the opposite direction. Starting in 2026, your charitable contributions must exceed 0.5% of your AGI before any of it becomes deductible — similar to the 7.5% floor that already applies to medical expenses. In plain terms: the first slice of your giving each year no longer counts.

**Where This Gets Interesting for Retirees**

If you're 70½ or older, there's a strategy that sidesteps this new floor entirely: the Qualified Charitable Distribution (QCD). A QCD lets you send up to $111,000 per person directly from your IRA to a qualified charity in 2026. That amount counts toward your Required Minimum Distribution (RMD), but — and this is the key part — it's excluded from your income altogether. It never touches your AGI, so the new 0.5% floor simply doesn't apply.

**An Example**

Consider John and Mary, both 72, who together take $40,000 in RMDs and also have $45,000 in dividend and interest income from a taxable brokerage account. Their Adjusted Gross Income (AGI) lands around $180,000 after considering Social Security and other sources of income. Each year, they give $8,000 to their church and a couple of local nonprofits. If they write that $8,000 in checks the way they always have and itemize it, the new rule requires them to clear 0.5% of their $180,000 AGI — about $900 — before any of it is deductible. Of their $8,000 gift, only $7,100 actually reduces their taxable income.

If, instead, they direct that same $8,000 from their IRA as a QCD, it counts toward satisfying their RMD and it's excluded from income entirely — not just deducted but never counted in the first place. Their AGI drops by the full $8,000, with no floor to clear and no itemizing required. For a couple already taking RMDs, it's simply a more efficient way to give.

**Key Takeaways**

If you take the standard deduction, the new $1,000/$2,000 write-off is a welcome addition — it finally lets those who haven't been able to benefit from itemizing get some tax value out of their charitable giving. If you itemize and give consistently, it's worth checking whether your total giving still clears the new 0.5% AGI floor. And if you're 70½ or older, this is one more reason QCDs deserve a permanent place in your giving strategy rather than an occasional one.

If you have questions about how these changes affect your giving plan and would like to discuss your financial plan, please Talk With Us!

## In the News

- May 16, 2026 - BFSG Named One of Barron's "Top 100 Institutional Consulting Teams" for 2026.

** This annual ranking is performed by Barron's. Advisors who wish to be ranked must first pass a prequalification process aimed at ensuring that those in the mix are experienced and sophisticated advisors. Those who meet the criteria then fill out a survey with more than 100 questions about their practices. Barron's verifies the data with the advisors' firms and with regulatory databases and then they apply their rankings formula to the data to generate a ranking. The formula features three major categories of calculations: (1) Assets (2) Revenue (3) Quality of practice. In each of those categories they do multiple subcalculations. Barron's measures the growth of advisors' practices and their client retention. They also consider a wide range of qualitative factors, including the advisors' experience, their advanced degrees and industry designations, the size, shape, and diversity of their teams, their charitable and philanthropic work and, of course, their compliance records. More about the methodology can be found here. A fee was not paid by either the investment professional or the investment professional's firm to receive the ranking.*

## The Score Board

| | 06/30/2026 | YTD Change |
|---|---|---|
| Dow Jones Industrial Average | 52,319.19 | 9.75% |
| S&P 500* | 7,499.00 | 9.55% |
| NASDAQ Composite* | 26,213.72 | 12.78% |
| MSCI EAFE (USD)* | 3,116.71 | 7.74% |
| Bloomberg Commodity Index | 123.17 | 12.30% |
| U.S. Aggregate Bond Index | 2,363.38 | 0.62% |
| 10 Yr U.S. Treasury Bond Yield | 4.46% | 30bps |
| 30 Yr Fixed Mortgage Rate | 6.55% | 30bps |
| Prime Rate | 6.75% | UNCH |
| Crude Oil ($ / Barrel) | $69.50 | 21.04% |
| Gold ($ / Oz.) | $4,008.02 | -7.21% |
| U.S. $ / Euro € | $0.88 | 2.83% |
| Core Inflation (excluding food / energy)** | | 2.90% |
| Inflation (including food / energy)** | | 4.20% |

**Without Dividends; **Unadjusted 12-Months ended May 2026; bps (1 Basis Point = 1/100%); UNCH (Unchanged)*
*Sources for Score Board and quoted statistics: WSJ, US Dept. of Labor, Federal Reserve*

**Sources:**

1. The S&P 500 Index is designed to be a leading indicator of U.S. equities and is commonly used as a proxy for the U.S. stock market.
2. The Nasdaq Composite is a stock market index that includes almost all stocks listed on the Nasdaq stock exchange. The composition of the NASDAQ Composite is heavily weighted towards companies in the information technology sector.
3. The S&P 500 Equal Weight Index (EWI) is the equal-weight version of the S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight of 0.2% of the index total at each quarterly rebalance.
4. The term "Magnificent Seven stocks" refers to a group of seven dominant and influential technology-focused companies in the U.S. stock market. The components of the Magnificent Seven are: Apple Inc. (AAPL), Microsoft Corporation (MSFT), Amazon.com, Inc. (AMZN), Alphabet Inc. (GOOG), Meta Platforms, Inc. (META), NVIDIA Corporation (NVDA), and Tesla, Inc. (TSLA).
5. The Russell 1000 Growth Index is composed of large- and mid-capitalization U.S. equities that exhibit growth characteristics.
6. The Russell 1000 Value Index is composed of large- and mid-capitalization U.S. equities that exhibit value characteristics.
7. The Russell 2000 Index is a small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell Index. The index is commonly used as proxy for U.S. small cap stock market performance.
8. The MSCI World ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets countries (excluding the U.S.) and 24 Emerging Markets countries.
9. The MSCI Emerging Markets Index captures large and mid-cap representation across 24 Emerging Markets countries.

10. The iShares Core U.S. Aggregate Bond ETF offers broad-based exposure to U.S. bonds and tracks the Bloomberg U.S. Aggregate Bond Index that is commonly used as a proxy for the U.S. bond market.
11. The iShares Broad USD High Yield Corporate Bond ETF seeks to track the investment results of an index composed of U.S. dollar-denominated, high yield corporate bonds.

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