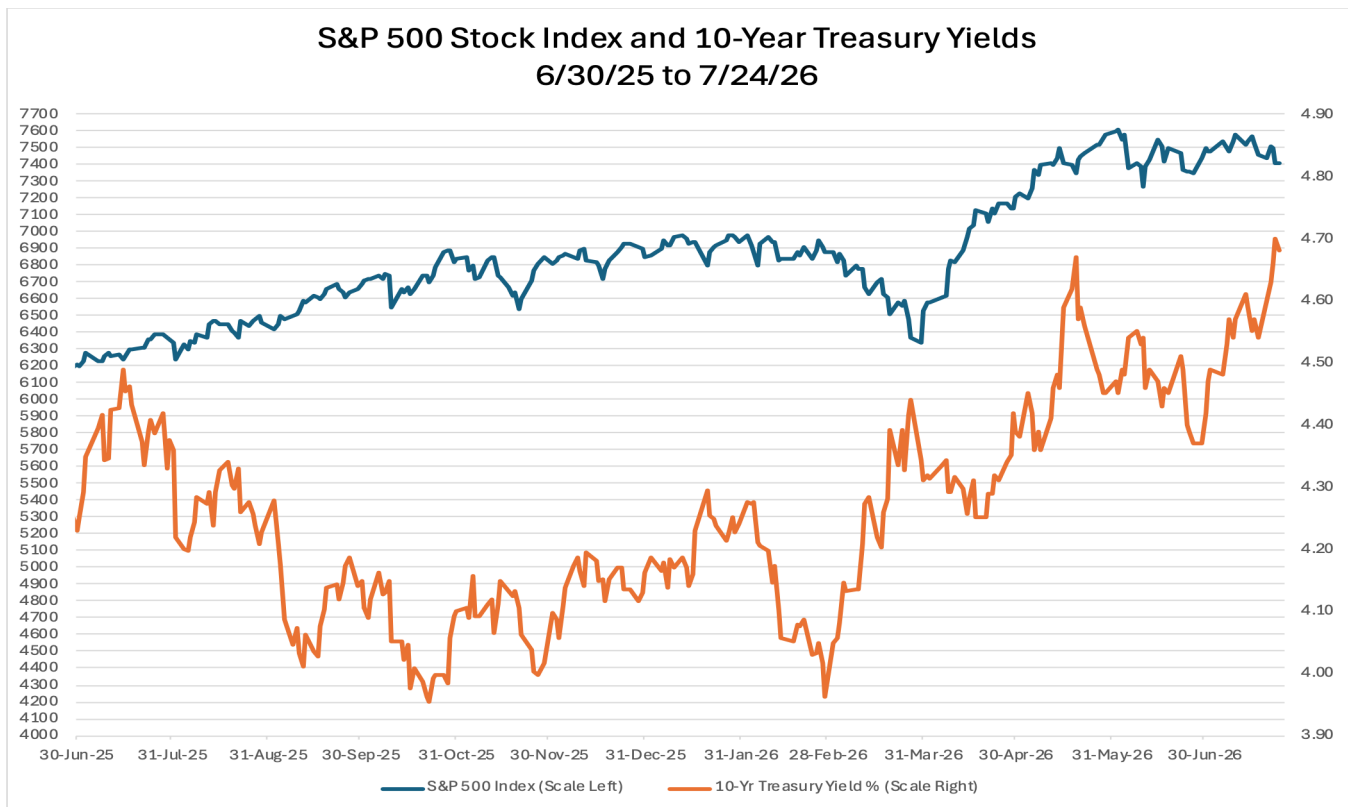


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July 26, 2026

Stock & Bond Benchmark Total Returns (%) For Periods Ending June 30, 2026					
	QTR	1-Year	3-Years	5-Years	10-Years
Standard & Poor's 500	15.20	22.32	20.61	13.41	15.51
Bloomberg Barclays U.S. Aggregate Bond	0.69	3.71	4.13	0.06	1.54
60% Stocks / 40% Bonds TAA Composite Index	9.32	14.72	13.91	8.09	9.98
3-month Treasury Bills	0.90	3.88	4.63	3.59	2.34
Inflation (CPI)	1.13	3.53	3.06	4.21	3.32

Returns (%) include capital gains, dividends and interest. All data **annualized** for periods greater than one year.
60% Stocks / 40% Bonds TAA Composite Index is rebalanced monthly.
Sources: S&P Dow Jones Indices, Federal Reserve, BLS.



Executive Summary

- The S&P 500 rebounded strongly in the second quarter, returning 15.20%, while the Bloomberg U.S. Aggregate Bond Index gained 0.69%.
- Markets navigated unusually strong cross-currents: a new Federal Reserve chairman, war with Iran, sharp moves in energy markets, sector rotation and another strong earnings season.
- The Strait of Hormuz remains the world's most important oil chokepoint, while the Bab el-Mandeb remains a critical link between the Indian Ocean, Red Sea and Suez Canal.

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- Federal Reserve Chairman Kevin Warsh is emphasizing price stability, reviewing the Fed's inflation measures and communications, and signaling less reliance on forward guidance.
- Market concentration in semiconductors and AI hyperscalers has increased portfolio risk; in selected portfolios, we are monitoring and have made selective adjustments intended to improve diversification and reduce volatility.

Review: A Quarter of Powerful Cross-Currents

The second quarter was a vivid reminder that financial markets rarely move in response to only one factor. During a relatively short period, investors absorbed a leadership transition at the Federal Reserve, renewed military conflict with Iran, sharp swings in oil prices, heavy rotation beneath the surface of the stock market, continued enthusiasm surrounding artificial intelligence, and the beginning of another strong corporate earnings season.

Despite these competing forces, financial markets finished the quarter on firm footing. The S&P 500 produced a total return of 15.20%, reversing the first quarter's decline and bringing its one-year return to 22.32%. Bonds were comparatively stable: the Bloomberg U.S. Aggregate Bond Index gained 0.69% for the quarter and 3.71% over the past year.

The underlying economy also remained resilient. Corporate earnings expectations improved, capital spending tied to artificial intelligence and data-center construction remained strong, and productivity gains continued to support profit margins. These positive fundamentals helped markets look beyond recurring geopolitical headlines.

Iran, Energy Security and Two Strategic Chokepoints

The war with Iran brought renewed attention to two narrow waterways with outsized importance to the global economy: the Strait of Hormuz at the entrance to the Persian Gulf and the Bab el-Mandeb Strait at the southern entrance to the Red Sea.

Before the conflict, approximately 20 million barrels per day of crude oil and petroleum products moved through the Strait of Hormuz. That represented roughly one-quarter of global seaborne oil trade. The route is also critical for liquefied natural gas, particularly exports from Qatar and the United Arab Emirates. Because only limited pipeline capacity can bypass the strait, even a temporary disruption can quickly raise energy prices, shipping costs and inflation expectations.

The Bab el-Mandeb is a different type of chokepoint. It links the Arabian Sea and Indian Ocean with the Red Sea, the Suez Canal and, ultimately, Europe. When commercial vessels avoid it because of security threats, ships must travel around the Cape of Good Hope. That longer route does not necessarily remove oil from the market, but it increases sailing time, fuel use, freight rates and insurance costs while tying up more ships.

The interaction between the two routes is especially important. A disruption at Hormuz reduces the amount of Gulf energy reaching world markets, while disruption at Bab el-Mandeb makes the remaining Europe-bound trade slower and more expensive. In other words, the first is primarily a supply risk; the

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second is primarily a transportation and logistics risk. When both are under strain, their economic effects can reinforce one another.

China and Asia Are More Exposed Than the United States

China is the largest single destination for oil moving through the Strait of Hormuz. Estimates vary depending on whether the comparison is made with China's crude-oil imports alone or with its total crude supply, including domestic production. Recent energy research indicates that roughly 45% to 50% of China's crude-oil imports have historically transited the strait. On the broader measure of total crude supply, the share is closer to one-third.

This distinction is important, but the larger point remains: China, India, Japan and South Korea are substantially more dependent on Hormuz-linked energy flows than the United States. The U.S. now imports only a small share of its petroleum needs from the Persian Gulf and has become a major producer and exporter of energy. Therefore, a prolonged disruption would likely impose a larger direct growth burden on Asian importers, even though American consumers would still feel the effects through higher global gasoline, diesel and transportation costs.

Why the Global Economy Has So Far Remained Resilient

The initial disruption was severe, but several buffers helped prevent a deeper global downturn. Strategic and commercial inventories were released, non-Middle Eastern production increased, some Gulf exports were redirected through pipelines, and high prices encouraged conservation and substitution. China also entered the conflict with meaningful inventories and a more diversified supply network than in prior decades – and we opine that President Xi Jinping appeared remarkably forbearing when he met with President Trump in May. These buffers do not eliminate the risk, but they help explain why the economic damage has been less severe than many investors initially feared.

A New Federal Reserve Framework

Kevin Warsh became Chairman of the Federal Reserve in May. His early comments suggest a meaningful change in style and potentially in the way markets interpret monetary policy.

Chairman Warsh has placed a strong emphasis on restoring price stability and has initiated reviews of the Fed's communications, economic data, inflation measures, balance sheet, productivity and labor-market framework. He has also questioned whether financial markets should rely as heavily as they have in recent years on detailed forward guidance from the central bank.

The practical implication is that the Fed may say less about the likely path of future interest rates and place greater weight on incoming data. Markets would then have to infer policy more independently rather than simply reacting to a prescribed central-bank path. That could improve price discovery over time, but it could also increase short-term volatility in Treasury yields, currencies and equities.

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Inflation: Looking Beyond a Single Measure

The new Fed leadership is also reviewing how inflation is measured. Traditional core inflation excludes food and energy, while trimmed-mean measures remove the most extreme price increases and decreases across a much broader basket. No measure is perfect. Energy prices matter greatly to households, but a temporary oil spike does not necessarily indicate that underlying inflation is accelerating throughout the economy.

This distinction is particularly relevant during a geopolitical energy shock. The Fed cannot produce more oil or reopen a shipping lane by raising interest rates. It must instead judge whether higher energy costs are temporary, whether they are spreading into wages and broader prices, and whether inflation expectations remain anchored.

A more inflation-focused Fed may be willing to maintain higher short-term interest rates even when longer-term Treasury yields remain relatively contained. That combination would imply tight near-term financial conditions but greater confidence that persistent inflation will eventually be brought under control. **It also argues for expecting more market disagreement and potentially greater volatility around each new economic report.**

Strong Fundamentals, but Increasingly Uneven Leadership

The fundamental backdrop remains constructive. Earnings growth has been strong, and artificial-intelligence-related capital spending continues to support semiconductors, data centers, power infrastructure and selected industrial companies. At the same time, market leadership has become increasingly uneven.

During portions of the quarter, money moved rapidly between semiconductor companies, AI hyperscalers, software, financials, industrials, healthcare and smaller companies. This broadening is healthy, but it also reveals the tension within today's market: many of the strongest earnings trends are concentrated in a relatively small group of companies, while valuations and investor expectations in those same areas have become increasingly demanding.

The Growing Concentration of the U.S. Stock Market

Over the past decade, a handful of companies have come to represent an increasingly large share of the S&P 500. Ten years ago, semiconductor companies accounted for less than 3% of the Index. Today, the combined Semiconductor and Semiconductor Materials & Equipment industries represent nearly 20%, driven by the rapid growth of artificial intelligence and extraordinary demand for advanced chips and production equipment.

The largest cloud-computing companies (aka hyperscalers) - Amazon, Microsoft, Alphabet and Meta - also represent a substantial portion of the market. Together with Apple, NVIDIA and Tesla, the Magnificent Seven account for roughly one-third of the S&P 500, while the ten largest companies approach 40% of the Index.

These are outstanding businesses, and artificial intelligence remains one of the most important long-term growth opportunities in decades. The concern is not that the companies are poor investments. The

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concern is that investors who believe they own a broadly diversified market portfolio may have far more exposure than they realize to a single economic theme: AI-related capital spending.

The AI Capital-Spending Question

The largest hyperscalers are in a competitive arms race. They are investing hundreds of billions of dollars in chips, data centers, networking equipment and power capacity because none wants to be left behind. This spending is supporting economic growth and semiconductor earnings today.

The longer-term question is whether those investments will generate sufficient revenue, productivity and free cash flow to justify their cost. The answer may ultimately be yes, but markets tend to discount future results well before they become visible. As the old investment saying goes, trees do not grow to the sky - and even the strongest secular growth themes can experience significant volatility along the way.

This is why portfolio management has become more challenging. Avoiding the AI leaders entirely risks missing an important source of economic and earnings growth. Owning them in benchmark-like proportions, however, can leave a portfolio unusually dependent on the spending decisions and valuations of a small number of companies.

Portfolio Positioning: Participation with Prudence

At Raymond Capital Advisors, we remain constructive on long-term U.S. equities and on the transformative potential of artificial intelligence. We also believe that prudent diversification is especially valuable when market leadership becomes unusually concentrated.

Accordingly, we continue to monitor exposure to semiconductors, semiconductor equipment companies and the largest AI hyperscalers. In selected client portfolios, we have made measured adjustments intended to reduce volatility and improve diversification across sectors, investment styles and individual companies.

These changes are not a prediction that technology or AI stocks will decline. They reflect a basic risk-management principle: when a relatively small group becomes a very large share of a portfolio or benchmark, future results become more dependent on that group's continued success. For many retirees and investors drawing from portfolios, accepting modest periods of benchmark underperformance may be a reasonable trade-off for reducing concentration and improving resilience. Areas such as healthcare, industrials, financials, consumer staples, value-oriented equities, high-quality bonds and cash can play useful diversifying roles. The appropriate mix differs by client, time horizon, tax situation and withdrawal needs. Our objective is not to eliminate volatility, but to ensure that portfolio risk remains intentional and aligned with each client's financial plan.

Outlook: Constructive, but Not Complacent

The outlook remains broadly constructive. Economic growth is positive, corporate earnings are healthy, productivity is improving, and AI-related investment is supporting a broad range of industries. The second-quarter rebound also demonstrated how quickly markets can recover when earnings expectations improve and investors become less fearful.

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Nevertheless, the second half of 2026 may remain volatile. The Iran conflict and the condition of global energy inventories remain important. The new Federal Reserve is introducing a less predictable communications framework. Inflation is still above the Fed's long-term objective. Market valuations are elevated in several areas, and benchmark concentration is historically high.

We therefore continue to favor discipline over prediction: diversified portfolios, systematic rebalancing, careful attention to concentration and a willingness to remain invested through periods of uncertainty. In our view, that approach offers the best opportunity to participate in long-term wealth creation while managing the risks that inevitably accompany it.

We appreciate your continued trust and welcome your questions.

Wishing you continued health and success,

Geoff & Lance

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