SIA Perspectives

Stegner Investment Associates, Inc. **2nd Quarter 2026**

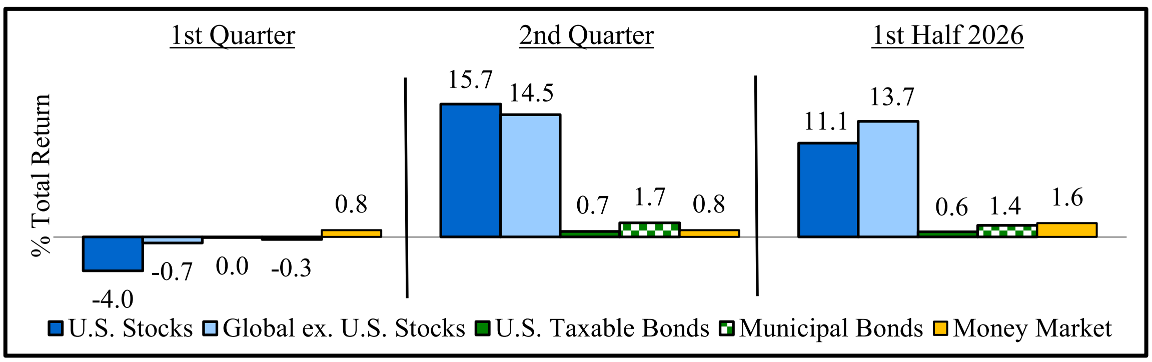
Our first quarter *SIA Perspectives* highlighted significant turbulence faced by investors around the world due to shifting opinions on global events and the potential for diverging impacts on global growth. Gains in most financial markets in January and February were erased by pullbacks in March as uncertainty regarding energy prices soared to the top of investors' concerns. In turn, first quarter results for client portfolios were not impressive and generally reflected small losses.

Early in the second quarter, headline news regarding various global conflicts was overshadowed as investors shifted their attention away from these uncertainties back toward strong corporate fundamentals, resilient earnings and encouraging economic data. Stocks rebounded in April almost as powerfully as the declines posted in March. Additional gains in May led some stock benchmarks to post the best quarter of performance since the spring of 2020.

In fact, financial market performances for the second quarter were shockingly good as most rebounded from early losses in 2026 to post unexpectedly solid returns for the second quarter and for the first half of the year.

How Did Major Asset Classes Perform in the 2nd Quarter and for 2026?

The table below highlights the percent total returns of five major asset class segments for the first two quarters and the first half of 2026. Gains generated by all stock market segments – especially those overseas – boosted portfolio results significantly and continued last year's trend of outperformance. Bonds (both taxable and municipal) and money market funds added to this year's returns.



How Have Stock Market Segments Performed in 2026?

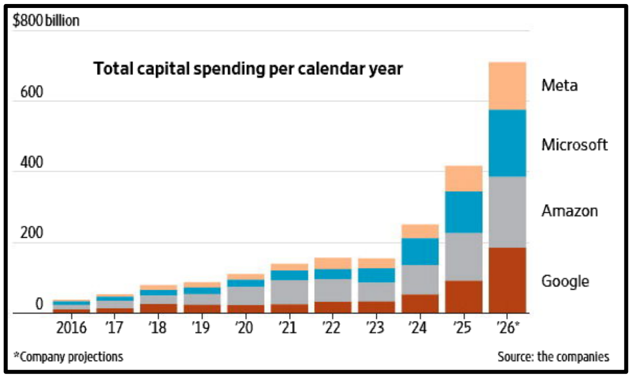
During the second quarter, investors became increasingly accustomed to back-and-forth negotiations between the U.S. and Iran, as well as the repeated opening and closing of the Strait of Hormuz. Meanwhile, stronger-than-expected corporate earnings and solid economic data continued from the first quarter and helped reassure financial markets that the overly pessimistic scenarios were less likely to materialize.

In fact, many investors were expecting S&P 500 companies to post earnings growth of 13% for the first quarter, which would mark the sixth consecutive quarter of double-digit gains. However, through June 26th, announcements indicated growth of almost 29%, which smashed expectations.

The gains posted by various stock market segments are highlighted on the next page. Powerful returns in April and May reflected optimism fueled by continued announcements of outstanding earnings growth. As illustrated, U.S. small cap stocks surged ahead of other segments as investors noted lower relative valuations. This interest also showed that the artificial intelligence (AI) investment cycle is extending beyond the largest technology companies and creating opportunities for smaller businesses. This rally was broad-based as 9 of 11 sectors in the Russell 2000 Index posted double-digit returns for the first half of 2026.

1st Qtr 2026	STOCKS	Total Return Apr	May	June	2nd Qtr 2026	1st Half 2026
-4.3%	U.S. Large Cap	10.5%	5.3%	-1.0%	15.2%	10.2%
1.3	U.S. Mid Cap	7.3	2.9	3.1	13.8	15.3
0.9	U.S. Small Cap	12.2	4.4	3.7	21.5	22.6
-0.7	Global ex. U.S.	9.7	5.0	-0.6	14.5	13.7

In the large cap segment, the technology sector led the other sectors by posting year-over-year earnings growth of almost 55%, with 97% of companies reporting results that exceeded analysts' expectations. These surprises also included a growth rate of 40% or more in other sectors, including communications services, materials and consumer discretionary. While there were several earnings-related anomalies, the reporting season was exceptionally strong and driven primarily by continued investment in AI and its supporting infrastructure needs.



AI has been a dominant market theme for several years with most of the "Magnificent Seven" leading the charge. However, the second quarter witnessed a notable change in leadership.

Investors broadened the AI theme by focusing on businesses that supply the equipment and components to support the hyperscalers' massive wave of capital spending, as noted in the chart to the left. This expanded interest favored areas of the stock market that have been relative laggards, including U.S. mid and small cap segments and markets overseas.

YTD	Value	Blend	Growth
Large	16.3%	10.2%	5.3%
Mid	17.6%	15.3%	7.3%
Small	23.0%	22.6%	22.2%

As focus shifted to valuation measures that favored sectors outside of large tech companies, "value" investing led across all U.S. capitalization segments, as indicated in the style box grid to the left. This rotation has been powerful.

It is also important to note leadership can shift quickly: all Magnificent 7 stocks outperformed the S&P 500 in 2023, compared with just one so far in 2026, as shown in the table to the right. This reinforces why a diversified and disciplined approach remains central to our firm's strategy.

Magnificent 7	2023	2024	2025	YTD 2026
Nvidia	239%	171%	39%	7%
Microsoft	58	13	16	-23
Apple	49	31	9	7
Alphabet	58	36	66	14
Amazon	81	44	5	3
Meta	194	66	13	-15
Tesla	102	63	11	-7
Average Return	112%	61%	23%	-2%
S&P 500	26%	25%	18%	10%
# of Mag-7 outperforming S&P 500	**7**	**6**	**2**	**1**

What Happened to Bond Prices in 2026?

New U.S. Federal Reserve Chair – same "Fed" decision.

For the first time in more than 8 years, a new U.S. Federal Reserve (Fed) Chair, Kevin Warsh, was sworn in on May 22. In a historic decision, the previous Fed Chair, Jerome Powell, decided to remain on the Board of Governors. Powell did not indicate whether he intends to serve through the remainder of his term that expires in 2028. Instead, he emphasized that he would remain on the Board while the Department of Justice's investigation into statements he made to Congress regarding the Fed headquarters' renovation continues.

Warsh assumed leadership during an especially challenging period for monetary policy. Following the outbreak of the conflict with Iran, bond market investors shifted expectations quickly, moving from pricing in interest rate cuts in 2026, to considering the possibility of rate hikes as they became increasingly concerned about the inflationary effects of higher energy prices. At the same time, economic activity remained remarkably resilient, creating an even more complicated backdrop for policymakers.

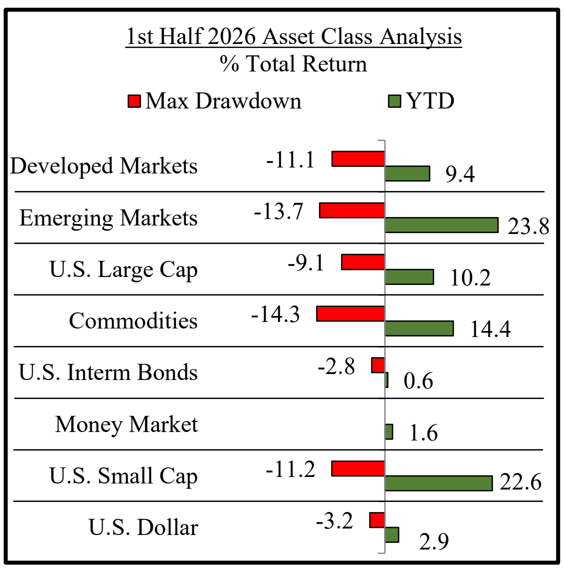
As the second quarter continued with an exit from the Iran conflict remaining elusive, higher energy prices put upward pressure on inflation. May's Personal Consumption Expenditure (PCE) reading indicated a rise in prices of 4.1% from 12 months prior. This was the highest level since April of 2023 and is the Fed's preferred inflation gauge. At Warsh's first meeting on June 17, the Committee he chairs (the Federal Open Market Committee or FOMC) left the federal funds rate unchanged with a target range of 3.50% to 3.75%.

The combination of the Fed's "higher for longer" message, and renewed inflation concerns stemming from geopolitical tensions, pushed bond yields higher and prices lower during the second quarter. The yield on the Bloomberg U.S. Aggregate Bond Index rose 16 basis points to finish the quarter at 4.73%. Despite this increase in yields, the U.S. taxable bond benchmark advanced 0.7% during the period, demonstrating how income from the attractive starting yield offset the impact of price declines due to rising interest rates.

1st Qtr 2026	BONDS & MONEY MARKET	Total Return Apr	May	Jun	2nd Qtr 2026	1st Half 2026
0.0%	Taxable U.S.	0.1%	0.3%	0.2%	0.7%	0.6%
-1.9	Taxable Global-ex U.S.	2.1	0.3	-1.5	1.0	-0.9
-0.3	Municipal Intermediate	0.8	0.3	0.6	1.7	1.4
0.8	Money Market	0.3	0.3	0.3	0.8	1.6

How Have Investment Strategies Performed?

Despite some dramatic swings in asset class performances this year, returns for the first half of 2026 were surprisingly good in the face of looming uncertainties. Earlier this year we encouraged readers to focus on sound fundamentals and to not make emotional, knee-jerk reactions to "breaking news." This input proved to be sound as most investments earned very good gains for the second quarter and year-to-date.



To illustrate the swings in performance this year, the bar chart to the left highlights the maximum drawdown (from a high to a low) for select asset classes, with many segments reaching downturns of double-digits before rebounding to post gains through June 30th.

By focusing on achieving both short- and long-term goals for SIA clients and implementing investment strategies that are time-tested and proven successful, we are pleased with investment returns year-to-date.

Representative benchmarks for exhibits are detailed on the last page of this SIA Perspectives.

What is SIA's Outlook for the Rest of 2026?

Image Source: SIA via ChatGPT

"Investors Ride the Wave of AI's Revolution"

As noted earlier, the AI revolution is remarkable, and capital spending appears to have no limits. No one can predict the success of this buildout, but clearly there is great momentum.

After the recent financial market turbulence ended on an upturn that landed the second quarter performance for the S&P 500 Index as the 13th best quarter on record since 1950, investors must be wondering if this stock market momentum can continue. Using history as a guide, and as noted in the table below, the answer is generally "yes," as a great quarter of performance can lead to significant returns in the following twelve months.

S&P 500 Index – Total Return			
	Best quarterly periods	**Best quarterly return (%)**	**1 year return following**
#1	**Q1 1975**	23.0	28.3
2	**Q1 1987**	21.4	-8.3
3	**Q4 1998**	21.3	21.0
4	**Q2 2020**	20.5	40.8
5	**Q4 1982**	18.2	22.6
6	**Q2 1997**	17.5	30.2
7	**Q4 1985**	17.2	18.7
8	**Q3 1970**	16.9	20.6
9	**Q2 2009**	15.9	14.4
10	**Q3 2009**	15.6	10.2
11	**Q2 2003**	15.4	19.1
12	**Q2 1975**	15.4	14.0
13	**Q2 2026**	15.2	?
14	**Q1 1976**	15.0	-0.2
15	**Q4 1999**	14.9	-9.1

In addition, the yields offered by various bond benchmarks are solid and ensure that the allocation to bonds in a portfolio can generate a return that outpaces the long-term rate of inflation.

Bond Benchmark	**6/30/26 Yield**
U.S. Aggregate	4.7%
Corporates	5.2%
Municipals/tax adj	3.6% / 6.1%
High Yield	7.2%
Global ex-U.S.	3.2%

Our Role as Investment Consultants

A responsibility that we take seriously is to do our best to protect client information and to ensure that client assets are protected. The many steps our Team employs include:

1. Multiple staff members reviewing transactions each day for all client accounts. This procedure confirms that any trades we conduct are settled properly and confirms that any money movements were initiated by SIA and/or our client.
2. Using multiple resources to reconcile our portfolio management system with data submitted by various custodians.
3. Providing performance benchmark data that align accurately with client investment objectives.
4. Using a service that conducts on-site document shredding prior to being recycled.
5. Encouraging clients and staff to use our portal and email encryption programs to avoid the recent uptick in thieves stealing items from mailboxes (both physical and electronic).

Behind the Scenes at SIA

1. Our <u>Management Team</u> strives to create an environment where our twelve Associates can learn, mentor and grow both professionally and personally. This has always been a goal for the firm.
2. The <u>Client Services Team</u> continues to increase our effort to serve clients by implementing steps such as those cited on the previous page regarding security.
3. Members of our <u>Research Team</u> attended Morningstar's annual conference in Chicago recently with a two-fold goal of strengthening relationships with our trusted resources and enhancing our research process. This annual event brings together well-respected asset managers, investment strategists and thought leaders from across the investment industry.
4. The <u>Portfolio Management Team</u> members attended separate conferences in New York City sponsored by JP Morgan and PIMCO. These are invite-only events and we were proud to be asked to attend and represent our firm and industry.
5. The <u>Client Development Team</u> is committed to enhancing the services we offer and building trustworthy relationships with each client we are proud to assist.

We take pride in the confidence our clients have placed with our talented associates and wish you a summer full of travel, fun and relaxation,

The Associates of SIA

Benchmark Indexes used in this* SIA Perspectives *include: *<u>Page 1</u>: Dow Jones Total U.S. Stock Market Index (U.S. Stocks), MSCI ACWI ex USA (Global ex. U.S.), Bloomberg: U.S. Aggregate Bond (U.S. Taxable), and Municipal 1-15 yr.(Municipal Bonds); Morningstar U.S. Money Market–Taxable peer group (Money Market); <u>Page 2 (top)</u>: S&P 500 (U.S. Large Cap), Russell: Mid-Cap (U.S. Mid Cap), 2000 (U.S. Small Cap); MSCI ACWI ex USA (Global ex. U.S.); <u>Page 2 (bottom-left)</u>: S&P 500 (top-middle grid), Russell: 1000 (top-left and top-right grids), Mid-Cap (middle grids), and 2000 (bottom grids) <u>Page 3 (top)</u>: Bloomberg: U.S. Aggregate Bond (Taxable U.S.), Global Agg. ex. U.S. (Taxable Global Ex U.S.), Municipal 1-15 yr. (Municipal Intermediate), Morningstar U.S. Money Market–Taxable peer group (Money Market); <u>Page 3 (bottom)</u>: MSCI EAFE (Developed Markets), MSCI Emerging Markets (Emerging Markets), S&P 500 (Large Cap), Bloomberg: Commodity Index (Commodities), and U.S. Aggregate Bond (U.S. Interm Bonds), Morningstar U.S. Money Market-Taxable peer group (Money Market), Russell 2000 (Small Cap), and ICE U.S. Dollar Spot Index (U.S. Dollar). <u>Page 4</u>: Bloomberg: U.S. Aggregate Bond (U.S. Aggregate), U.S. Corporates (Corporates), Muni Bond (Municipals, tax adjusted calculations use a 40.8% tax rate), Corporate High Yield (High Yield), and Global Aggregate Ex-USD (Global ex-U.S.) Indexes. <u>Page 4</u>: S&P 500 table of total returns from BlackRock.*