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ADVISORY Notes

JUNE 2026

Second Quarter 2026 Review

As we wrap up the second quarter of 2026, Valicenti Advisory Services continues to closely monitor the evolving economic data points, corporate earnings, and Federal Reserve movements to manage your long-term goals and objectives. The first half of the year has proven to be incredibly resilient for the U.S. equity markets, which reached historic milestones with the S&P 500 surpassing 7,600. While a healthy market pullback emerged in June, largely concentrated in the highly valued Technology and Artificial Intelligence sectors, the underlying fundamental backdrop of the domestic economy remains stable. See Table 1.

In the stock market, strong corporate profit growth and substantial capital expenditures are still the primary anchors supporting elevated equity valuations. The late-quarter correction in mega-cap technology beneficiaries should not be viewed as a structural failure, but rather as a normal market digestion after a historic run. In fact, we are seeing an encouraging broadening of market leadership as capital rotates into more defensive and value-oriented spaces like Consumer Staples and Healthcare. This sector rotation creates a healthier, more balanced marketplace, proving that the equity rally relies on fundamental economic strength rather than a single, speculative narrative.

Turning to the fixed income markets, high-quality bonds continue to feel the heat of sticky inflation and a surprisingly robust domestic labor market. Driven in part by geopolitical tensions in the Middle East and subsequent spikes in energy costs earlier this year, headline inflation indicators have kept the Federal Reserve cautious. Consequently, the central bank has maintained its "higher-for-longer" stance, holding interest rates steady through the summer. This environment has kept the 10-year U.S. Treasury yield range-bound (4.3% to 4.5%), yet today's yield levels offer investors meaningful income generation and true portfolio diversification that we haven't seen in the previous low-rate era.

Looking forward to the second half of 2026, our overarching investment strategy remains disciplined but nimble. We continue to favor large-cap quality companies with strong balance sheets, healthy cash flows, and proven pricing power that can weather persistent inflation. As always, our asset mix is structured to fluctuate based on each client's specific needs, risk tolerances, and income requirements. We are still committed to navigating these fluctuating market cycles with your unique financial objectives at the forefront of every decision.

Joseph M. Valicenti
President
Chief Executive Officer

MARKET TABLE	VALICENTI ADVISORY SERVICES, INC. Comparative Index Period Returns From 03-31-26 THROUGH 06-30-26								
	Dow Jones Industrial Average	S&P 500 Equal Weight Index	S&P 500 Index	NASDAQ	Russell 2000	BBG Barclays AGGR Bond Index	BBG Barclays Muni Bond Index	FTSE USBIG Corporate Bond Index	ICE B of A US Treasury Bill Index (0-3)
03-31-26 to 04-30-26	7.24	5.97	10.49	15.29	12.16	0.11	1.23	0.59	-0.03
04-30-26 to 05-31-26	2.93	2.68	5.26	8.36	4.27	0.31	0.40	0.80	0.00
05-31-26 to 06-30-26	2.71	0.64	-0.95	-2.81	3.6	0.24	1.04	.13	0.00
Cumulative Returns 03-31-26 to 06-30-26	13.38	9.5	15.2	21.41	21.15	0.67	2.70	1.52	-0.02
YTD Returns 12-31-25 to 06-30-26	9.76	0.23	10.21	12.79	21.86	0.62	2.50	0.95	-0.01

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Director's Chair

What an adventurous quarter, as we have ridden through the near lows for the S&P 500 for the year, seen a military conflict in the Middle East, leading to a fragile ceasefire and ending with a 14.9% rally in stocks at the time of this writing. The second quarter seems something like Martin Scorsese's 2004 film, *The Aviato*r. Much like the main character of Howard Hughes, played by Leonardo DiCaprio, the market and Mr. Hughes enjoyed a high volatility existence with many business highs and lows.

Mr. Hughes always attempts to fly faster and higher than anyone else, creating new records, but at the same time suffering damaging falls in the process. The closing of the Strait of Hormuz created a rise in energy prices coupled with the uncertainty of military action, caused a descent for equity prices somewhat like Hughes' fall in his X-1 racer.

However, solid Q1 earnings reported in the second quarter, combined with the beginning of a ceasefire, caused a reversal of fortunes leading to a market rally that continued through the second quarter. This effect is more prevalent in the first half of the quarter. If one were to look at a chart of the S&P 500 for the past six weeks, it would appear not much progress has been made. The sideways drift could be compared to Hughes' neurotic behavior as he isolates himself in his movie screening room unable to take action that would lead to his return to the high skies.

The Congressional Budget Office (CBO) projects GDP of 2.2% for this year and 1.8% for next, so no recession is in our view. With the fall in oil prices, sell-side investment research shops have also downgraded odds of a recession below 20%. Economic growth fueled by the "I" in the GDP calculation or business investment particularly from AI spending is fueling the economic growth. This should bode well for the stock market; however, as we fly in high airspace, we point out that the Magnificent Seven stocks now make up over a third of the S&P and the market's CAPE (cyclically adjusted price to earnings) ratio valuation is near all-time highs, last seen in the late 1990's. Although this author is skeptical whether CAPE actually works in this type of market environment where passivity of the market has favored regular inflows of capital into the S&P 500. Either way, we have the possibility of relatively clear skies or potential for an eventual bumpy landing.

Lastly, Hughes was a mogul who owned Baker Hughes (oil drilling), RKO Pictures (movies), Hughes Aircraft, and TWA Airlines. This quarter we saw the first trillionaire, Elon Musk, as his SpaceX corporation went public. This joins his own group of companies: Starlink, Tesla, xAI, X (Twitter), Neuralink, The Boring Company and he was one of the founders of PayPal. What an amazing country on our 250th birthday. Apple, Alphabet, Microsoft, Amazon, Meta, Broadcom and SpaceX all founded in the U.S.A. in the past 50 years each worth over a trillion dollars while Europe has not created one company even worth a fraction of a trillion in the same 50 years. Some would say the triumph of capitalism over socialism or as is my favorite line from *The Aviator* in response to the privileged Hepburn family matriarch, "We don't care about money here, Mr. Hughes." Hughes responds, "You don't care about money because you've always had it." "Some of us choose to work for a living." "Speaking of which, I have more of that airplane guff to attend to. Excuse me."

Louis F. Ruize
Director of Research
Portfolio Manager
Chief Investment Officer

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Medicare Advantage in 2027: What Beneficiaries Should Know

As we prepare for this year's Annual Enrollment Period it's important to be aware of several changes that take effect in 2027. While many of the updates occur behind the scenes, they may influence plan offerings, supplemental benefits, prescription drug coverage, and your overall experience as a member.

Greater Transparency for Supplemental Benefits

Many Medicare Advantage plans offer extra benefits beyond original Medicare, such as dental, vision, hearing, over-the-counter allowances, and healthy food or utility assistance for eligible members. Beginning in 2027, Medicare is requiring plans to provide clearer information about who qualifies for certain special supplemental benefits and how those benefits can be used. Plans that offer debit cards for eligible benefits must also ensure they are used only for covered items and services during the applicable plan year.

Continued Improvements to Prescription Drug Coverage

Medicare continues to implement changes resulting from recent prescription drug reforms. Beneficiaries should continue to see stronger financial protections for prescription medications, while Medicare Advantage plans with prescription drug coverage (MA-PDs) will follow updated rules designed to improve consistency and administration of Part D benefits.

Plan Benefits May Change Each Year

Although Medicare Advantage plans receive updated funding from Medicare for 2027, each insurance carrier decides which benefits, provider networks, and premiums to offer in each county. As a result, your current plan's costs, covered providers, or supplemental benefits could change for next year.

Review Your Annual Notice of Change

Each fall, Medicare Advantage members receive an Annual Notice of Change (ANOC) describing any changes that will take effect on January 1. Take time to review this document carefully, paying close attention to:

- Monthly premiums
- Prescription drug formularies
- Provider and pharmacy networks
- Copayments and deductibles
- Supplemental benefits

Even if you're happy with your current coverage, comparing plans during the Annual Enrollment Period (October 15–December 7) can help ensure you're enrolled in the option that best meets your healthcare and prescription drug needs. Medicare Advantage continues to evolve as Medicare updates program rules and health plans adjust their benefits. Staying informed and reviewing your options each year can help you make confident decisions and get the most value from your Medicare coverage in 2027. At Valicenti Insurance Services, Inc., we are appointed with several carriers that provide Medicare Advantage options. Please contact our office if you would like to schedule a review of your existing coverage.

Sources:
CMS – Centers for Medicare/Medicaid services (cms.gov)
Federal Register (federalregister.gov)

Suzanne M. Valicenti
President
Chief Executive Officer
Valicenti Insurance Services

Positive Market Influences	Negative Market Influences
AI Infrastructure Buildout	No Hire No Fire Labor Market
Government Spending	Market Valuation
Earnings Growth	Above Target Inflation
Iran MOU	Interest Rates

Analyst Corner

The S&P 500 quickly shed over 7% late in Q1 as hostilities broke out in the Middle East. What ensued was several weeks of kinetic military action followed by an abrupt ceasefire announcement on April 8th. The market story held therein is about the subsequent 20% rally from that moment to the early part of June. Enveloped by that consequential geostrategic action, is a continued highly significant investment cycle into the artificial intelligence infrastructure of the future. The investment scale is so large that cash flow and debt issuance alone does not meet the funding needs. What this post-conflict rally in equities has therefore produced is new equity capital raises by the likes of Alphabet and SpaceX, two companies who will most likely have a piece of this AI future. Together they raised over $150B via equity sales.

By the end of the quarter, the S&P 500 returned 15.2% and after Q1's mild loss puts the S&P 500 equity return year-to-date at 10.2%. Information Technology and Industrials led the way returning 31.8% and 14.9%, respectively. Energy was the lone sector that saw a significant loss, down 13.5%, as the oil price tumbled following the emergence of a memorandum of understanding between Iran and the United States more formally ending hostilities for a period of 60 days.

Bond markets, on the other hand, continued to absorb increases in interest rates across the curve, which has subtly reduced returns in the fixed income space. The 10YR Treasury yield had elevated by 50 basis points from the beginning of the year to 4.67% in mid-May. Since the conflict ended, we lost some of that altitude and the ten year sits at 4.47% at quarter end. The rates at the front-end of the curve are the real story as the 2YR yield has risen from 3.47% at year end to 4.17% as stickier inflation is considered. Questions about the need for potential rate hikes have popped up, when six months ago, future rate cuts were all the rage. The character and disposition of a new Federal Reserve Chairman, Kevin Warsh is also under review by market participants. Through all this, the Citi Corporate Bond Total Return Index has delivered a 1.5% return through the quarter. It is likely that throughout the rest of the year, the market will try to understand if current earnings expectations, which are robust, can be met. It will have to digest whether the ceasefire is longer lasting and global energy trade flows continue uninterrupted. And perhaps most importantly, the continual re-assessment of this extraordinary investment and fiscal cycle that appears to be driving our economic lives will continue.

Positive Market Influences

- **AI Infrastructure Buildout** – A current buildout of technology infrastructure to include advanced semiconductors, data centers, and communications hardware is underpinning strong investment into the economy, creating demand for key components, resources, and materials.
- **Government Spending** – The second quarter's real GDP growth rate of 2.1% SAAR saw Government consumption and investment as the largest contributor.
- **Earnings Growth** – S&P 500 earnings growth for the full year 2026 is currently estimated to be a robust 23% as per FactSet.
- **Iran MOU** – Lower oil prices and thereby possibly lower energy cost inputs followed the signing of a Memorandum of Understanding between Iran and the United States on June 17th.

Negative Market Influences

- **No Hire No Fire Labor Market** – While the 3mo moving average net change of employees on nonfarm payrolls is a strong +188k, up until now the labor market has been only mildly constructive. The manufacturing and non-manufacturing surveys still display weaker employment sub-indices leading some to opine that we have been in a "no hire no fire" dynamic.
- **Market Valuation** – With equity offerings coming to market, trailing twelve-month gains in the market over 20%, and a broad market forward price to earnings multiple over 20, market participants are watching key investment drivers and market circumstances closely, while continually assessing valuation.
- **Above Target Inflation** – Recently, in the wake of energy price spike cost pressures, the personal consumption expenditures price index year-over-year registered an elevated 4.1%, significantly higher than the 2% target.
- **Interest Rates** – With real GDP running around trend and nominal GDP running over 5%, there is little scope for rates to drop precipitously or even marginally. This can be a tough environment for more interest rate sensitive parts of the business and consumer space.

Daniel P. Burchill
Director of Economic Research and Investments

Investment Strategy

The second quarter of 2026 reflected the continued resilience of both the U.S. economy and financial markets. While markets remained attentive to geopolitical developments, evolving trade policies, inflation trends, and the path of Federal Reserve policy, they continued to advance as corporate fundamentals and economic conditions remained favorable.

Corporate earnings were generally strong, supported by healthy consumer spending, a stable labor market and continued business investment. Oil prices have subsided as the Iran conflict cooled off, reinforcing expectations that monetary policy may become more supportive over time. In addition, ongoing investment in AI, cloud computing, and digital infrastructure continues to provide a powerful long-term growth catalyst across many sectors of the economy.

Looking ahead, we remain constructive on the outlook in the second half of 2026. Although periods of market volatility should be expected, the combination of healthy corporate fundamentals, continued technological innovation, and a resilient U.S. economy provides a favorable backdrop.

Our investment strategy remains focused on identifying quality companies with strong balance sheets, durable competitive advantages, and consistent cash flow generation. We continue to maintain a balanced and flexible asset allocation of approximately 45 to 60 percent in equities, 25 to 35 percent in fixed income and 5 to 10 percent in money market or short-term government securities. This diversified approach allows us to participate in market appreciation while maintaining flexibility to respond to changing economic and market conditions. Our asset allocation also remains responsive to evolving market dynamics, client's individual objectives, risk tolerance, and liquidity needs.

Jeffrey S. Naylor
Executive Vice President
Chief Financial Officer
Chief Compliance Officer

Financial Freedom & Fraud

National Financial Freedom Day is July 1, 2026. Financial freedom describes the point at which a person has enough savings, investments, and passive income to cover their desired lifestyle without depending on steady employment. This observance encourages people to assess their financial health with the goal of reducing or even eliminating concerns with money. National Financial Freedom Day continues the tradition of emphasizing expert principles into everyday action.

July, or the start of the second half of the year, is a perfect time to examine if you are achieving planned year-to-date income goals and whether your spending is below, above or on track of budgeted expenses. Findings mid-year allow time for adjustments to be made, rather than waiting until year end and deciding your previous New Year's resolution was another bust!

> *We highly recommend our clients actively review the information as updates and advances in the scam techniques and their believability evolve quickly.*

As most financial educators point out, the basic areas of focused importance to afford the lifestyle you want for yourself and your family, to grow a nest egg for security and to plan retirement include establishing financial goals, creating and maintaining a practical budget, reducing credit card/high interest debt, and automating savings and emergency funds.

Financial awareness also includes educating yourself about FINANCIAL FRAUD. Fraudsters have renewed their tactics year after year for as long as we may all remember. Artificial intelligence (AI) has fueled the fire. AI cannot orchestrate financial fraud on its own, but criminals are finding their schemes much easier to implement.

According to Charles Schwab & Co., Inc., common scams that rely on AI include deepfake videos (imitate a real-life person or situation), fake personas (pretend to be renowned financial experts or other public figures, often with false documents), and voice cloning (recreate the voice and speech patterns of a colleague or loved one). Articles and information related to **fraud prevention** and **warning signs**, <u>such as pressure to act immediately, request for private information and unexpected/too-good-to-be-true opportunities</u> are regularly available online with Schwab Alliance. We highly recommend our clients actively review the information as updates and advances in the scam techniques and their believability evolve quickly. Schwab, therefore, is investing in AI-powered detection systems that can identify patterns and unusual behaviors at a scale impossible for human monitoring to achieve. Responsible institutions must stay current to protect their clients, but individuals have a part to play as well to know how to protect themselves too.

Financial elder abuse is recognized as the fastest-growing form of abuse with estimates suggesting $160 billion is lost annually to scams involving artificial intelligence, romance hoax, and cryptocurrency.

Money is one of the most common sources of stress, and a lack of financial security can leave families vulnerable to unexpected crises such as job loss, illness, or urgent repairs and needs. Financial freedom allows your decisions to be guided by choice rather than financial necessity.

Kelly S. Diehr, FPQP®
Client Relationship Manager

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