Market Commentary

2nd Quarter 2026 Market Report

2nd Quarter 2026 Market Review

2026	Q1	Q2	Year-to-Date
Dow Jones Industrial Index	(3.6)%	12.9 %	8.9 %
Nasdaq Composite Index	(7.1)%	21.4 %	12.8 %
S&P 500 Index	(4.6)%	14.9 %	9.6 %
Russell 2000 Index	0.6 %	21.2 %	21.9 %
iShares Core US Aggregate Bond ETF	0.0 %	0.7 %	0.7 %

Price Return, As of 6/30/26

The second quarter of 2026 delivered a dramatic turnaround across U.S. stock markets. Following a rocky Q1 marked by geopolitical volatility and energy shocks, equities staged one of their strongest quarterly rallies in years. Driven by blockbuster corporate earnings, an easing of Middle East geopolitical tensions, and a massive push in AI capital expenditures, stock indexes converted early-year losses into impressive gains. ***The Key takeaway***: While technology initially sparked the rebound, market breadth expanded significantly toward the end of the quarter, driving small-cap and value benchmarks to new highs as well.

Main Market Drivers

Accelerated Earnings & AI Infrastructure Spending

- **Surging Bottom Line:** S&P 500 year-over-year earnings growth accelerated past 20% for the quarter. Remarkably, bottom-up EPS estimates rose 3.4% during Q2—a rare upward revision cycle driven by corporate margin expansion.
- **The AI Ecosystem Boom:** Investment spending tied to AI hardware, power generation, semiconductor design, and data center infrastructure showed no sign of slowing. The Philadelphia Semiconductor Index (SOX) logged its best quarterly surge on record.

Energy Shock De-escalation

- A major tailwind for risk assets was the rapid pullback in crude oil. After spiking earlier in the spring amid conflict in the Middle East, Brent crude erased its gains as ceasefires/MOUs (memorandum of understanding) reopened shipping lanes, easing worst-case inflation fears for broader corporate margins.

Landmark Capital Market Activity

- The largest IPO in history happened on June 12, with SpaceX making its public market debut, providing a strong sentiment boost to growth and private market liquidity.

Federal Reserve & Fixed Income Context

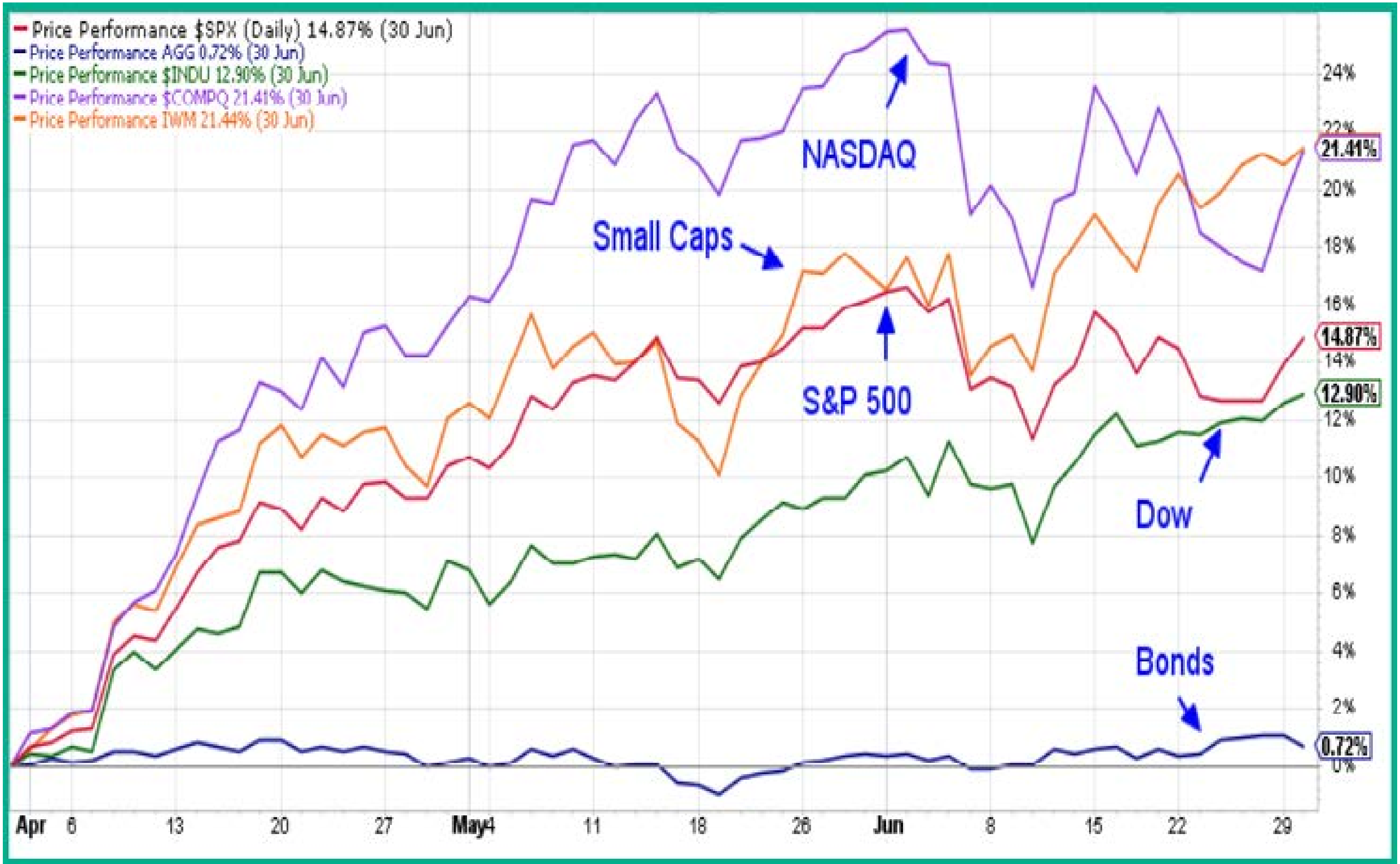
Despite the stock market rally, the bond market faced headwinds:

- **Hawkish Shift:** With headline and core inflation indicators remaining above the Fed's 2% target (core PCE hovered near 3.4%), expectations for interest rate cuts vanished. Markets transitioned to pricing in a potential rate hike before year-end.
- **Yield Movements:** The 2-year Treasury yield rose to end the quarter at 4.19%, while the 10-year yield closed around 4.49%, creating pressure on fixed-income total returns compared to equities.

Sector Winners & Losers

- **Top Performers:** Technology (up over 40%), Industrials, and Small-Cap Cyclicals led the charge, supported by strong capital investment and economic resilience. Technology has continued to drive the market higher as it has for a long time (see below graph).
- **Laggards:** Energy dropped roughly 13% on the quarter as oil prices normalized, while yield-sensitive sectors like Utilities saw more muted gains due to hawkish Fed expectations.

Q2 2026 Price Performance for Major Indexes



Price Return

2026 2nd Half Market Outlook

As the saying goes, "time flies"—and it feels truer with each passing quarter. Is 2026 really already half over? It hardly seems like three months have passed since my last quarterly update.

A great deal has transpired since April. Back when I wrote my Q1 report, a ceasefire with Iran was holding, oil prices had eased significantly, and equity markets were reaching record highs. Three months later, the market continued its upward trajectory into early July before giving way to a noticeably bumpier stretch.

Renewed conflict in the Middle East has pushed oil back up toward the $100-per-barrel mark. At the same time, the technology sector—the primary engine of equity wealth creation for decades—is taking a breather as it absorbs massive capital commitments. Announced AI investment is on track to top $2.5 trillion this year alone.

As I emphasized last quarter, AI represents one of the most transformative secular developments of our lifetime—provided implementation is executed soundly. Tech leaders are moving aggressively so as not to be left behind, taking on meaningful debt to finance unprecedented capital programs. While this scale of borrowing requires careful monitoring, history reminds us that the wealth-generating capacity of tech is unmatched: over the past century, 8 of the top 10 wealth-creating companies on Wall Street have come from the technology sector.

In the short term, however, markets remain caught in a tug-of-war between geopolitical tension and technological opportunity. On the geopolitical front, Larry Fink, CEO of BlackRock (whose research framework informs much of KMR's asset allocation), recently offered a compelling perspective at the Aspen Ideas Festival on why oil did not surge to $200 per barrel during the Strait of Hormuz disruption:

"*The global economy actually mitigated much of the stresses. China cut back their daily consumption by four million barrels... using reserves, coal, and expanding nuclear and solar... Abu Dhabi exported an extra million barrels, the U.S. added 3 million barrels through production resilience, and Venezuela scaled up significantly. It all effectively equalized—and if true peace allows Iranian oil back on the market unsanctioned, oil could head toward $5*0."

It is a striking example of economic adaptability in real time.

And continue reading below for BlackRock's broader midyear outlook. As their team summarizes: "*For now, we see little evidence that the latest escalation will weaken economic growth enough to change our pro-risk stance*." Volatility is a natural feature of investing, but the Iran situation will resolve itself (eventually) and the economy and the market will continue to grow. In the meantime, please let me know when you have any questions. And stay tuned-it will be an interesting ride!

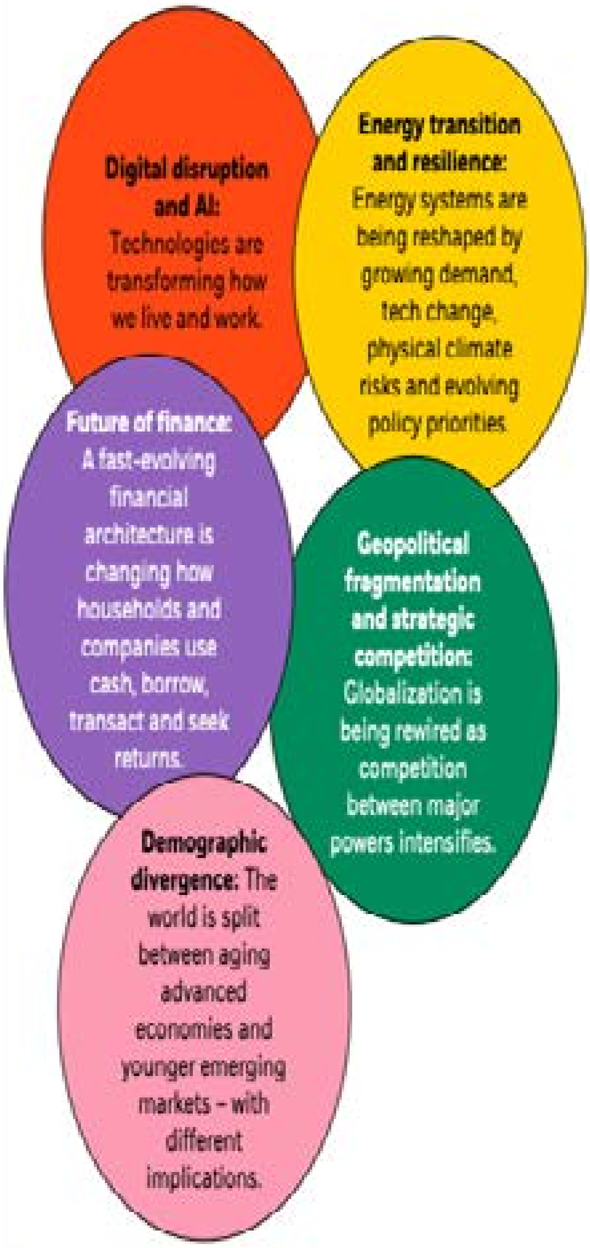
Frank Brannon, CFP®
July 24, 2026

Market Outlook from Blackrock

Blackrock, the world's largest money manager, is the firm KMR uses to design its model portfolios. Below is their key investment views from their 2026 Midyear Global Outlook (Scarcity vs. abundance):

Key investment views

We launched our mega forces framework a few years ago – and since then it has become clearer how the intersection of mega forces shapes almost all our investment views and opens up alpha opportunities. They cut across asset class labels, spurring a rethink of portfolio construction. Investors need to be deliberate about the economic or thematic exposures they own, the vehicles they use to implement them and their investment horizons.



From drivers to portfolio expressions

Our highest conviction views, June 2026

Driver	What we think	Portfolio expression
Growth and AI scarcity	The AI buildout is speeding up, making bottlenecks binding.	Overweight U.S. equities; focus on AI bottleneck opportunities: power, chips and data centers.
Duration and diversification	Long bonds carry high rate sensitivity and are less reliable diversifiers.	Prefer short- and medium-term government bonds over long bonds for income.
Credit spreads and liquidity	Selectivity is crucial amid tight spreads and uneven fundamentals.	Credit with clear cash flows, lender protections and recovery value; higher-rated high yield.
Inflation and scarcity	Scarcity, secure supply and power demand carry inflation risks.	Infrastructure, energy bottlenecks, EM local debt and real-asset-linked exposures.
Alpha opportunity	Macro outcomes matter again in the new regime.	Macro hedge funds, venture capital, market-neutral strategies, and selected private credit and non-U.S. alpha.

Note: Views are from a U.S. dollar perspective, June 2026. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any particular funds, strategy or security.

Blackrock's Mega Forces

Major structural shifts that are poised to drive investment returns into the future

📌 The Five Mega Forces BlackRock Is Tracking

According to BlackRock's Investment Institute, the core *mega forces* are:

1. **Demographic Divergence**

   Aging populations in developed markets versus younger, growing populations in select emerging markets — this affects labor forces, productivity, growth rates, and consumption patterns.

2. **Digital Disruption & Artificial Intelligence (AI)**

   Technology transformation — led by AI and broader digital innovation — is reshaping productivity, capital intensity, and economic structures. AI investment and adoption are central themes in BlackRock's 2026 outlook.

3. **A Fragmenting World (Geopolitical Fragmentation)**

   Shifting global trade and investment dynamics due to geopolitical rivalries, supply-chain reshoring, and strategic competition — which impacts cross-border capital flows and relative valuations.

4. **Future of Finance**

   Financial systems themselves are evolving — from digital currencies and stablecoins to changes in credit markets, capital flows, and how firms and households transact and borrow.

5. **Low-Carbon Transition**

   The structural shift to a low-carbon economy is driving massive reallocations of capital across energy, infrastructure, and industrial sectors.

Latest Model Portfolio - Target Allocation ETF Models

Blackrock's commentary on their changes made 5/28/2026:

Key Takeaways:

- **Trim equity overweight from 3% to 1%,** easing overall risk after a strong run while keeping portfolios tilted toward stocks over bonds and our best ideas
- **Maintain core overweights in U.S. large-cap and AI-driven themes,** where earnings have continued to justify our deepest structural convictions
- **Increase precision in international positioning,** using an actively managed country-selection approach to better express views where cross-country dispersion is widest
- **Introduce a dynamic, multi-strategy liquid alternatives allocation within the fixed-income sleeve,** seeking uncorrelated return streams to build a potentially smarter, more resilient shock absorber

Trade Rationale:

It seems we have been early to many of today's most fashionable portfolio themes, and that positioning has been rewarded as markets moved sharply higher from earlier-year lows – and now flirt with fresh all-time highs. The important nuance is that many of the same risks that rattled investors a few months ago still largely exist today; the difference is that markets are now confronting them from a much higher starting point. We aren't calling a market peak, but the incremental payoff from maintaining a chunky broad equity overweight has admittedly cooled at the margin.

Crucially, the macro backdrop still looks constructive in our view. Earnings have been exceptionally strong, the U.S. has remained better insulated than much of the world from elevated energy prices, and the technology and AI buildout has continued to support a meaningful productivity impulse. Inflation has pushed higher in the short run, but much of that appears tied to visible and likely nonstructural drivers. Namely, oil and energy pressures linked to Middle East tensions and related supply disruptions, rather than a narrative breaking reacceleration in underlying inflation. Strip out some of that noise, and there is still a reasonable case that broader inflation pressures could ease over time.

That said, the path is messy. Kevin Warsh has taken the helm as Fed Chair and brings a new, supply-side perspective to the table. Warsh has openly recognized that the AI-driven productivity boom requires vast capital capacity, meaning the Fed could have a legitimate justification to cut interest rates later this year; not because the economy is weak, but to ensure that lending and investing don't become unnecessarily burdensome to an industrial revolution. Warsh has even hinted at moving the inflation goalposts, shifting the Fed's focus from core Personal Consumption Expenditures (PCE)to a trimmed-mean version of inflation to potentially better isolate true underlying economic signals from temporary energy spikes. While this structural shift may be a long-term positive, the transition itself has introduced real policy uncertainty. Jerome Powell's decision to remain on the Board of Governors introduces a hawkish dual-leadership dynamic that inevitably clouds how incoming data will be interpreted. Because of this institutional friction, the absolute probability of rate cuts is undoubtedly lower than it was at the start of the year.

These yellow flags are why we're being more intentional about where our risk lives. In the areas where our conviction is highest, such as AI and innovation, U.S. over international developed markets, and growth over value, we have continued to run well off benchmark. Where conviction is lower, we're aiming to harvest that active risk and reallocate it either more efficiently (low-cost market exposure) or more effectively (active strategies). This includes an actively managed country selection strategy for our international exposure that we run in-house based on our own proprietary investment signals. In the same vein, we're carving out space for a bond-funded liquid alternatives position, a nimble, regime-based engine that hunts for excess returns and provides genuine, uncorrelated sources of diversification, which is especially attractive when traditional fixed income struggles to provide real ballast.

In short, this trade is less "hero call" fade of a red-hot rally and more an effort of prudent portfolio management. We maintain a core anchor toward the secular drivers of this market cycle, while quietly recognizing that locking in some gains and redeploying risk into potentially more efficient, precise expressions may be a smarter move today than it was when markets were lower and fear was louder.

Target Allocation ETF Models - Latest Allocations as of 5/28/2026

Ticker	Name	0/100	10/90	20/80	30/70	40/60	50/50	60/40	70/30	80/20	90/10	100/0
US Equities		-	10.0	15.5	22.5	29.5	36.5	44.0	50.5	58.0	65.0	70.5
BLCR	iShares Large Cap Core Active ETF	-	-	1.0	1.0	1.5	2.0	3.0	3.0	3.5	4.0	4.0
DYNF	iShares U.S. Equity Factor Rotation Active ETF	-	2.0	2.0	3.5	4.5	5.5	6.5	7.5	8.5	9.5	10.0
IVE	iShares S&P 500 Value ETF	-	0.0	1.5	2.5	3.0	4.5	6.5	6.5	7.5	8.5	9.0
IVV	iShares Core S&P 500 ETF	-	6.5	8.5	10.0	13.0	15.5	16.0	20.5	23.5	26.5	29.5
IVW	iShares S&P 500 Growth ETF	-	1.5	2.5	4.0	4.5	5.5	7.0	8.0	9.0	10.0	11.0
MTUM	iShares MSCI USA Momentum Factor ETF	-	-	-	1.5	1.5	2.0	3.0	3.0	3.5	3.5	4.0
THRO	iShares U.S. Thematic Rotation Active ETF	-	-	0.0	0.0	1.5	1.5	2.0	2.0	2.5	3.0	3.0
International/Global Equities		-	1.0	3.5	5.5	8.0	9.5	11.5	13.5	15.5	17.0	18.5
CORO	iShares International Country Rotation Active ETF	-	1.0	1.0	1.5	1.5	2.0	2.0	3.0	3.5	3.5	4.0
EFG	iShares MSCI EAFE Growth ETF	-	-	1.5	1.5	2.5	3.0	3.5	4.0	4.5	5.0	5.5
EFV	iShares MSCI EAFE Value ETF	-	0.0	0.0	0.0	1.5	1.5	2.0	2.0	2.5	3.0	3.0
IEMG	iShares Core MSCI Emerging Markets ETF	-	0.0	1.0	2.5	2.5	3.0	4.0	4.5	5.0	5.5	6.0
Sector Equities		-	-	2.0	3.0	3.5	5.0	5.5	7.0	7.5	9.0	9.0
BAI	iShares A.I. Innovation and Tech Active ETF	-	-	1.0	1.5	1.5	3.0	3.5	4.0	4.0	5.0	5.0
IDEF	iShares Defense Industrials Active ETF	-	-	1.0	1.5	2.0	2.0	2.0	3.0	3.5	4.0	4.0
US Fixed Income		87.0	77.0	68.0	58.5	49.5	39.5	30.0	22.0	13.0	4.0	-

Target Allocation ETF Models - Latest Allocations as of 5/28/2026 *(continued)*

Ticker	Name	0/100	10/90	20/80	30/70	40/60	50/50	60/40	70/30	80/20	90/10	100/0
BINC	iShares Flexible Income Active ETF	5.0	4.5	4.0	3.5	3.5	2.0	0.0	0.0	-	-	-
GOVT	iShares U.S. Treasury Bond ETF	18.0	17.0	15.0	13.0	9.5	7.0	4.0	2.0	1.5	-	-
ICVT	iShares Convertible Bond ETF	2.0	1.5	1.5	1.0	0.0	-	-	-	-	-	-
IUSB	iShares Core Universal USD Bond ETF	36.0	30.0	25.5	21.0	21.0	19.5	18.0	14.5	8.0	2.0	-
MBB	iShares MBS ETF	13.0	11.5	9.5	9.0	7.5	6.0	5.0	2.5	1.0	-	-
STIP	iShares 0-5 Year TIPS Bond ETF	3.0	2.5	2.5	1.5	1.5	-	-	-	-	-	-
SYSB	iShares Systematic Bond ETF	5.0	5.0	5.0	4.5	2.0	1.5	-	-	-	-	-
TLH	iShares 10-20 Year Treasury Bond ETF	5.0	5.0	5.0	5.0	4.5	3.5	3.0	3.0	2.5	2.0	-
International/Global Fixed Income		5.0	4.5	4.0	3.5	3.0	3.0	3.0	1.5	1.0	1.0	-
GGOV	iShares Global Government Bond USD Hedged Active ETF	5.0	4.5	4.0	3.5	3.0	3.0	3.0	1.5	1.0	1.0	-
Alternatives		6.0	5.5	5.0	5.0	4.5	4.5	4.0	3.5	3.0	2.0	-
IALT	iShares Systematic Alternatives Active ETF	5.0	4.5	4.0	4.0	3.5	3.5	3.0	2.5	2.0	1.0	-
IAU	iShares Gold Trust	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	-
Cash & Cash Alternatives		2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
CASH-USD	UNITED STATES DOLLAR (USD) - Cash	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0

Allocations for the model portfolios are targets and subject to change. If a ratio is used in the model name, the ratio corresponds to the target percentage of equity and fixed income exposure within the model. For example, "60/40" means the model targets 60% in equity exposure and 40% in fixed income exposure. The target fixed income exposure may include an allocation to cash.

Latest Model Portfolio - Target Allocation Tax-Aware ETF Models

Blackrock's made their changes to this portfolio on 3/12/2026:

Key Takeaways:

- **Maintain 3% equity overweight but redistribute risk more intentionally, taking profits on winners and dialing back our most concentrated factor tilts while staying firmly risk-on**
- **Temper regional equity bets, modestly reducing U.S. overweight while relaxing (but not erasing) our underweight to international developed markets (DM)**
- **Seek to strengthen AI positioning, leveraging active strategies to target not only core tech builders but also early adopters using AI to create durable competitive advantages**
- **Lean into defense stocks, aiming to capture the clearest beneficiaries of a potential multi-year spending cycle**
- **Fine tune duration management in our tax-aware fixed income sleeves, by rotating into longer-duration municipal bonds and out of government bonds**

PERFORMANCE COMMENTARY (as of 6/30/26)

June was a month of resilient but rotating markets. Leadership broadened and equities generally outpaced bonds, though neither asset class enjoyed a perfectly smooth summer ride. U.S. large cap indices were comparatively muted as pressure on several mega-cap growth names offset the blistering enthusiasm for chipmakers, while international developed-market equities benefited from a more diversified sector mix and improving confidence around global trade. Hopes for a U.S.-Iran truce and the reopening of key shipping routes helped cool crude prices and inflation anxiety, even as sporadic flare-ups reminded investors that peace dividends remained provisional rather than permanent. AI remained a powerful structural tailwind, but June also showed that the "picks-and-shovels" side of the buildout could keep humming even as some of the hyperscaler companies funding the investment cycle lost a little altitude. The new Warsh-led Fed held policy rates unchanged in a unanimous decision, citing solid economic activity, stable labor market conditions, and inflation that remained above target amid energy-related supply shocks. Treasuries, meanwhile, were caught between two currents: lower oil prices and geopolitical relief on one side, and the Fed's hawkish posture and resilient economic data on the other.

Nearly all models beat their benchmarks during the month, led by the most aggressive equity-heavy strategies, and total returns were positive despite the uneven and choppy performance across markets, asset classes, factors, and sectors. While exposure to gold and broad US large cap, US growth, and value stocks detracted from performance during the month, our highest-conviction tilts to active AI themed strategies and our long-held active factor rotation strategy both adeptly navigated rising market dispersion during the month and were leading sources of portfolio outperformance. On the fixed income side, exposure to longer duration municipal bonds outpaced benchmark holdings and aided both total and active returns.

KMR Financial Advisory, Inc.

Target Allocation Tax-Aware ETF Models - Latest Allocations as of 3/12/2026

Ticker	Name	0/100	10/90	20/80	30/70	40/60	50/50	60/40	70/30	80/20	90/10	100/0
US Equities		-	10.0	15.5	23.0	31.0	37.5	44.5	50.5	57.5	64.0	67.5
BLCR	iShares Large Cap Core Active ETF	-	-	-	1.0	1.5	2.0	2.5	2.5	3.0	3.5	3.5
DYNF	iShares U.S. Equity Factor Rotation Active ETF	-	2.5	3.5	4.5	6.0	6.5	7.5	9.0	10.5	12.0	12.0
IVE	iShares S&P 500 Value ETF	-	-	-	3.0	3.0	3.0	3.5	4.0	4.5	5.0	5.5
IVV	iShares Core S&P 500 ETF	-	5.0	7.5	8.0	12.5	15.5	20.0	20.5	22.5	25.0	27.5
IVW	iShares S&P 500 Growth ETF	-	1.0	2.0	3.0	3.5	4.5	4.5	6.0	7.0	7.5	7.5
QUAL	iShares MSCI USA Quality Factor ETF	-	1.5	1.5	2.0	2.5	2.5	2.5	3.5	4.5	4.5	4.5
THRO	iShares U.S. Thematic Rotation Active ETF	-	-	1.0	1.5	2.0	2.5	3.0	3.5	4.0	4.5	5.0
USMV	iShares MSCI USA Min Vol Factor ETF	-	-	-	-	-	1.0	1.0	1.5	1.5	2.0	2.0
International/Global Equities		-	2.0	5.5	8.0	10.5	12.5	15.0	18.0	20.5	23.0	24.0
EFG	iShares MSCI EAFE Growth ETF	-	-	1.0	2.0	3.0	3.0	4.0	5.0	5.5	6.0	6.5
EFV	iShares MSCI EAFE Value ETF	-	1.0	2.5	3.0	3.0	4.5	5.0	6.0	7.0	8.0	8.0
IEMG	iShares Core MSCI Emerging Markets ETF	-	1.0	2.0	3.0	4.5	5.0	6.0	7.0	8.0	9.0	9.5
Sector Equities		-	-	1.0	1.0	1.5	3.0	3.5	4.5	5.0	6.0	6.5
BAI	iShares A.I. Innovation and Tech Active ETF	-	-	1.0	1.0	1.5	2.0	2.5	2.5	3.0	3.5	3.5
ITA	iShares U.S. Aerospace & Defense ETF	-	-	-	-	-	1.0	1.0	2.0	2.0	2.5	3.0
US Fixed Income		97.0	85.0	75.0	65.0	54.0	44.0	34.0	24.0	14.0	5.0	-

Target Allocation Tax-Aware ETF Models - Latest Allocations as of 3/12/2026 *(continued)*

Ticker	Name	0/100	10/90	20/80	30/70	40/60	50/50	60/40	70/30	80/20	90/10	100/0
LMUB	iShares Long-Term National Muni Bd ETF	18.0	18.0	16.5	14.0	13.5	12.5	12.0	10.0	9.0	5.0	
MUB	iShares National Muni Bond ETF	74.0	63.0	55.0	49.0	39.5	30.5	22.0	14.0	5.0	0.0	-
STIP	iShares 0-5 Year TIPS Bond ETF	5.0	4.0	3.5	2.0	1.0	1.0	-	-	-	-	-
Alternatives		1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	-	-
IAU	iShares Gold Trust	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	-	-
Cash & Cash Alternatives		2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
CASH-USD	UNITED STATES DOLLAR (USD) - Cash	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0

Allocations for the model portfolios are targets and subject to change. If a ratio is used in the model name, the ratio corresponds to the target percentage of equity and fixed income exposure within the model. For example, "60/40" means the model targets 60% in equity exposure and 40% in fixed income exposure. The target fixed income exposure may include an allocation to cash.

About KMR Financial Advisory, Inc.

KMR Financial Advisory is an independent, fee-only registered investment advisor specializing in the development of comprehensive financial plans and developing & managing investment portfolios.

Frank R. Brannon, CFP ®, is the president of KMR Financial Advisory, Inc. Frank's educational background includes:

- The Lovett School
- Tulane University, BA, Economics
- Georgia State University, Master of Decision Sciences

Frank is a Certified Financial Planner™ professional and achieved his license in 1996. Frank has worked most of his career in corporate financial planning for a Fortune 200 company. He has lived his entire life in Atlanta.

Join us on Social Media! Gain access to the latest [news and market updates] by following and liking KMR Financial Advisory on social media!

Website Facebook LinkedIn

404-876-2558
questions@kmrfinancial.com
www.kmrfinancial.com
@kmrfinancial