INVESTMENT STRATEGY UPDATE

MARKET REPORT
JULY 2026

ASCENTIAL WEALTH ADVISORS

MARKETS RECOVER DESPITE GEOPOLITICAL UNCERTAINTY

Financial markets staged a strong recovery during the second quarter of 2026, demonstrating resilience amid geopolitical uncertainty. Conflict involving Iran initially pushed global energy prices sharply higher, contributing to increased market volatility and renewed inflation concerns. As fears of prolonged supply disruptions eased and oil prices retreated, investor sentiment improved. By quarter-end, most major equity indices were again solidly positive for the year.

During the first half of 2026, markets distinguished between short-term geopolitical shocks and longer-term economic fundamentals. While energy prices surged amid concerns about Middle East stability and oil supply pressures, these risks were ultimately viewed as manageable rather than systemic. Inflation expectations moderated, supporting a renewed upward trend in equities.

Technology companies remained central to market performance, with Artificial Intelligence (AI) enthusiasm continuing to drive economic activity and investor interest. Although elevated levels of AI-related capital spending prompted questions about return on investment, strong earnings growth reinforced confidence in AI as a key driver of productivity and long-term profitability.

At the same time, market performance broadened, reducing reliance on a small group of tech-dominant companies. Value stocks outperformed growth in the second quarter, while small-cap stocks led performance for the first half of the year, with the Russell 2000 gaining 22.6%. Outside the US, the MSCI Emerging Markets Index rose 23.9%, supported by improving economic conditions, relatively attractive valuations, and stabilizing trade dynamics supported strong returns.

Fixed income markets delivered modestly positive results despite ongoing uncertainty around interest rates. Early in the quarter, higher energy prices and inflation concerns pushed Treasury yields higher. As those pressures eased, yields stabilized, with the 10-year U.S. Treasury increasing only modestly from 4.2% to 4.4% over the first half of the year.

Index	*2026 (through 6/30)*
S&P 500	+10.2
Dow Jones Ind. Avg.	+9.8
MSCI EAFE	+9.4
BC US Aggr. Bond	+0.6

Dow Jones Relative Risk Benchmarks	
Conservative	+3.5
Moderate	+8.5
Aggressive	+14.3

Overall, markets have demonstrated notable resilience. While risks remain, particularly around inflation and geopolitics, we remain cautiously optimistic that the economy and markets can remain on solid footing. We also continue to emphasize disciplined portfolio construction, diversification, and a focus on long-term investment objectives.

OUR VIEW

FIXED INCOME:
Higher inflation tied to energy price increases have caused the Federal Reserve to leave interest rates unchanged. Throughout the quarter, yields rose and fell along with energy prices but settled only modestly higher at the end of the quarter. Longer-term bond yields remain elevated reflecting both sustained higher inflation expectations and concerns surrounding government deficits. Given this environment, we continue to favor maintaining diversified fixed income exposure while complementing traditional bonds with alternative income strategies that may provide additional protection against interest rate volatility.

US EQUITY:
The U.S. economy has remained resilient and corporate earnings have generally exceeded expectations, particularly among companies benefiting directly or indirectly from continued investment in AI. Although valuations are elevated in segments of the technology sector, earnings growth has increasingly justified a meaningful portions of those valuations. We remain constructive on U.S. equities and feel there are sectors of the market that are not as richly valued as technology. We see market leadership broadening beyond the largest technology companies into other areas of the market supported by a strong economy.

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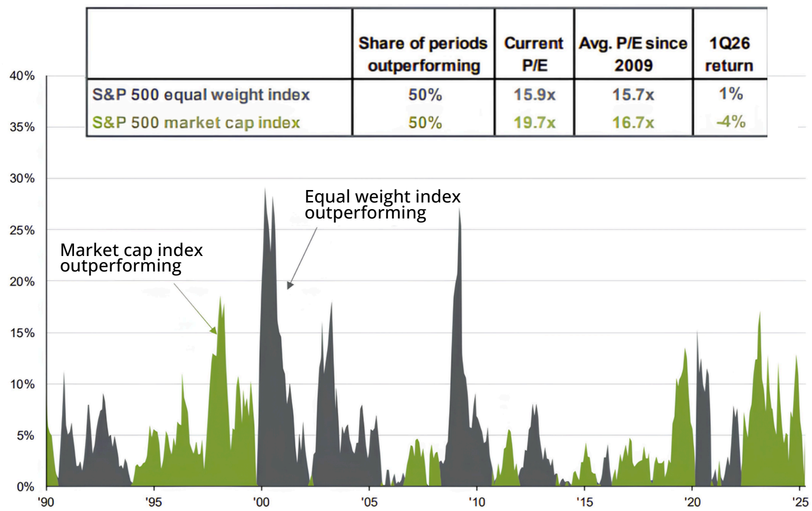
INTERNATIONAL EQUITY:

International markets have continued to benefit from relatively attractive valuations compared to U.S. equities. Developed international stocks performed in line with the US year-to-date, while Emerging Markets significantly outperformed. Although higher oil prices temporarily weighed on several energy-importing economies during the quarter, improving economic activity, accommodative monetary policy in several regions, and continued investor diversification have supported international performance. We continue to favor maintaining slightly higher diversified international exposure, particularly as valuations and future growth prospects remain attractive relative to domestic markets.

S&P 500: Market Capitalization vs. Equal Weighted

One of the more encouraging trends in 2026 has been that stock market gains are broadening beyond technology. Recently, a relatively small group of the largest, predominantly technology companies, has driven much of the market's returns. The traditional S&P 500 is weighted by the market capitalization of its companies' stocks, giving bigger companies a larger impact on overall index performance. Currently, the traditional S&P 500 index is heavily concentrated in a handful of companies, making its performance dependent on the returns of a few businesses.

Alternatively, there is also an "Equal Weighted S&P 500" which is the same 500 companies as the traditional S&P 500 but gives each company an equal weighting in the index regardless of its size. This method can provide a more balanced picture of how the "average" stock is performing. Historically, leadership between these two index methods has shifted over time. After several years of concentrated returns, the trend appears to be changing with more areas of the market beginning to participate, and if history is an indicator, this could continue.



	Share of periods outperforming	Current P/E	Avg. P/E since 2009	1Q26 return
S&P 500 equal weight index	50%	15.9x	15.7x	1%
S&P 500 market cap index	50%	19.7x	16.7x	-4%

Source: JP Morgan Guide to Markets, July 2026

Valuations also suggest there is room for the Equal Weighted S&P 500 to rise further, with its valuation closer to its long-term average, while the traditional, market-capitalization index valuation is above its historical average. This doesn't necessarily mean large technology companies are overvalued—many continue to deliver strong earnings and lead innovation, particularly in areas like artificial intelligence. Instead, it may be a sign that opportunities exist outside of the small group of recent outperformers, and that other stocks could catch the tide and rise further.

For long-term investors, this reinforces the importance of diversification. Because leadership changes over time, a well-diversified portfolio is designed to participate in different parts of the market as opportunities evolve.

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