NEWPORT CAPITAL GROUP

Market Commentary and Outlook

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Capital Markets Performance

Global capital markets rebounded from first-quarter weakness in the second quarter. Continued strong corporate earnings reports and the easing of tensions with Iran led to a significant decline in oil prices later in the quarter. The S&P 500 ended the second quarter up 15.2%. Growth stocks led value stocks across market caps, with all market segments producing strong double-digit gains. Small-Cap Growth stocks were the best performers for the quarter, up 25.7%. Nine of the eleven S&P 500 sectors were positive for the quarter, led by Technology (+31.8%) and Industrials (+14.9%). Energy (-13.4%) was the weakest sector in the quarter due to the decline in oil prices.

International stocks were also strong performers in the second quarter as the MSCI All Country World Index ex USA gained 14.5% while the MSCI Emerging Markets Index was up 24.1%. The U.S. dollar index strengthened by 1.2% in the second quarter as investors continued to seek a safe haven, despite geopolitical tensions remaining. Gold continued to sell off from its record high in the quarter, ending the quarter down 13.1%, while crude oil (WTI) fell 31.4% on easing tensions with Iran.

U.S. Treasury yields increased on higher inflation expectations and a shift towards a tightening bias by the Federal Reserve. Credit spreads tightened on stronger economic growth. The U.S. Aggregate Index was up 0.7% in the second quarter, with all six sectors recording gains led by Corporate Bonds (+1.4%) and Asset Backed Securities (+0.8%). Lower-rated bonds and longer-dated Treasury bonds were relative outperformers for the quarter. Interest rates moved higher in Europe as the European Central Bank raised rates by 25 basis points at its June meeting, citing inflation above their 2.0% target. The Bank of Japan also increased rates by 25 basis points to 1.0%, which represented a 31-year high as the country sees higher inflation and a weaker currency.

U.S. Economy and the Federal Reserve

The U.S. economy has rebounded from the government shutdown-induced slowdown late in 2025. We expect the economy to grow near its trend growth of 2.0% this year despite higher gasoline prices due to the war in Iran. Higher gas prices have pressured lower incomes and offset the benefit of higher income tax refunds. Strong corporate earnings have supported capital spending, especially those companies levered to artificial intelligence.

The U.S. job market remained resilient and strengthened compared to last year, but did see job gains slow each month in the second quarter, with the unemployment rate moving down to 4.2% in June. The participation rate continues to move lower on immigration reform, which puts pressure on productivity gains to drive economic growth. We still view the job market as frozen, with companies neither hiring nor laying off workers in significant numbers.

Inflation accelerated in the second quarter due to higher energy prices associated with the Iran War. We expect inflation to moderate as gasoline prices will move lower on the potential of tensions with Iran easing. Personal Consumption Expenditure excluding food and energy is also elevated and has been above the Federal Reserve's 2.0% target for the past five years.

The U.S. Federal Reserve has held interest rates steady at its first four meetings this year. The Fed shifted toward a tightening bias, forecasting at their June meeting one 25 basis point increase by year end. The June meeting was the first meeting for new Fed Chairman Kevin Warsh where he announced that he was forming five independent task forces focusing on Fed communications, the balance sheet, economic data sources, productivity and jobs and inflation frameworks. We believe this may buy the Fed some time before its next move on interest rates. The Fed is placing a priority on its price stability mandate. It does create some uncertainty on the path forward for interest rates, which markets do not like.

Outlook and Portfolio Positioning

The recent flare-up of tensions with Iran creates uncertainty, and the outcome of the geopolitical tensions in the Middle East remains unclear. We still expect the U.S. economy to grow in 2026 near its historic 2.0% growth level, with the job market remaining resilient and inflation trends levered to energy prices. Market positives include still strong corporate earnings, which have increased faster than prices, improving market multiples year to date. Expectations for S&P 500 earnings growth for the full year are near 24.0% or three times the historic average. This has boosted margins to record highs for many companies.

Market risks in the U.S. include potential earnings disappointments; elevated index concentrations, especially for Large-Cap stocks; geopolitical tensions around the world; and political and policy uncertainty as we head into the midterm elections in November. Historical evidence shows that market volatility tends to be elevated during midterm election years. So far, in 2026, this has been the case with the year-to-date volatility primarily a result of the war in Iran.

We continue to believe investors should maintain a disciplined and well-diversified approach in periods of market uncertainty. That is why we remain balanced in our equity exposures across growth and value styles, market capitalizations and global regions. Market rotation remains evident this year, with value stocks outperforming growth stocks in the first half and certain international markets continuing to outperform U.S. markets. A weaker U.S. dollar, fiscal stimulus and still attractive relative valuations remain catalysts for international equities, in our view. In the U.S., value and mid and small cap stocks still remain relatively attractive versus growth and larger capitalization stocks.

We continue to expect interest rates to remain range-bound in 2026 and believe investors should focus on the income return of their fixed income holdings. The current yield to maturity of the U.S. Aggregate Index is approximately 4.5%, which is a good starting point to think about potential fixed income returns. The ability to add additional credit and interest rate risk could boost returns. Upside risk to rates remains levered to global energy prices and higher inflation expectations.

Despite market uncertainty and volatility, it remains critical to stay diversified and committed to long-term investing. Market history suggests that time in the markets produces better outcomes than attempting to time the markets.

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