Quarterly Recap – June 30th, 2026

The second quarter was the best quarter for equity markets since 2020. Artificial intelligence contributed the most important headlines. The incredible amount of investment in data centers has sent the prices for component hardware soaring. Stocks in this sector have delivered eye-watering returns in a short period of time. Separately, the Iran War nearly came to an uneasy conclusion, but tensions have recently increased. Ships may now traverse the Strait of Hormuz, though traffic is far from a return to normal. The bond market continues to face the headwind of higher interest rates & persistent inflation, though there is little concern around credit.

The economy remains strong, and largely untroubled by the strife in the Middle East and its impact on oil prices. The labor market is cool, but not to a worrying degree. Inflation is most concerning, as CPI has recently ticked above 4%. Oil was a major factor for the rise and can now be expected to be a factor in its decline. But price pressures are building in other areas of the economy as well.

Leadership of the Federal Reserve has transferred from embattled Jerome Powell to President Trump's new pick Kevin Warsh. During his first press conference Warsh discussed the failures of previous Fed policies that he will evaluate for potential change. Expectations for the path of interest rates have changed significantly during the year – from expectations of 2.5 cuts in January to 1.5 hikes expected today.

Equity markets delivered a truly exceptional quarter across the board. The gains were broad-based, with participation from large and small companies, domestic and international, along with most sectors. Despite the broad rally, gains appeared to be extremely concentrated due to the explosive performance of AI hardware stocks. The stock market at this point has diverged into two assets – AI and not-AI. The performance has been so noteworthy that it has attracted comparisons to the Dot Com era. Expectations are so high for Artificial Intelligence that minor disappointments from individual companies can trigger large moves for the broader market.

Separately, we note the arrival and expectation of several more mega-IPOs. These companies are tremendously valuable, but currently largely unprofitable. We'll discuss what it means for markets and for passive investors.

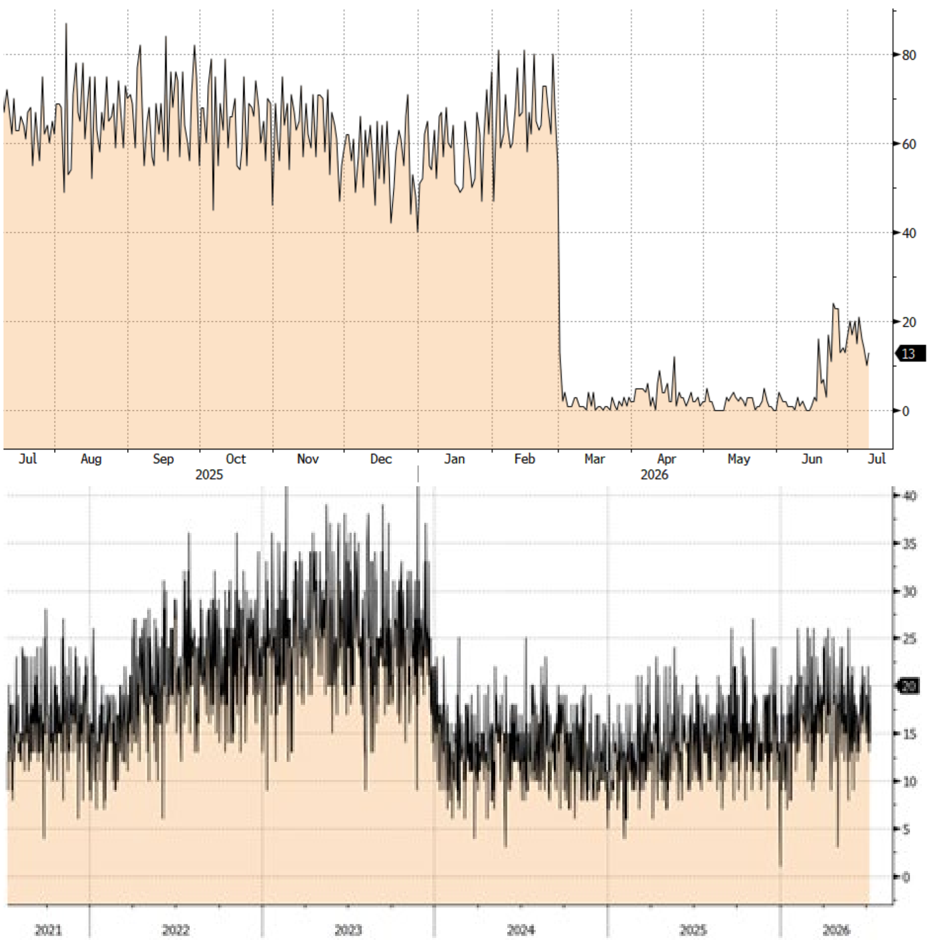
Investors can rest easy knowing that the economy is currently strong with several tailwinds. However, several remaining risks bear monitoring. We are cautious for the second half of the year, noting that in this environment diversification is critical.

INDEX RETURNS[i]	2nd Qtr	YTD	2025
MSCI All Country World	15.1%	11.5%	22.9%
S&P 500	15.2%	10.2%	17.9%
Dow Jones Industrial	13.4%	9.8%	14.9%
Russell 2000	21.6%	22.7%	12.8%
EAFE	11.1%	9.9%	32.0%
MSCI Emerging Markets	24.1%	24.0%	34.3%
BC Aggregate Bond Index	0.6%	0.6%	7.3%

TREASURY RATES[ii]	6/30/26
Fed Funds	3.63%
3 Month	3.73%
2 Year	4.17%
5 Year	4.23%
10 Year	4.47%
20 Year	4.96%
30 Year	4.95%

Economic Developments

The Iran War has been in the headlines constantly, despite relatively little violence. The ceasefire from April had been maintained with some setbacks and turned into a fragile agreement which still required substantial negotiation. But in recent days violence has escalated again. The status of the Strait of Hormuz is what's most important in the short term; it has been open for several weeks and has provided relief to global trade, especially oil markets.



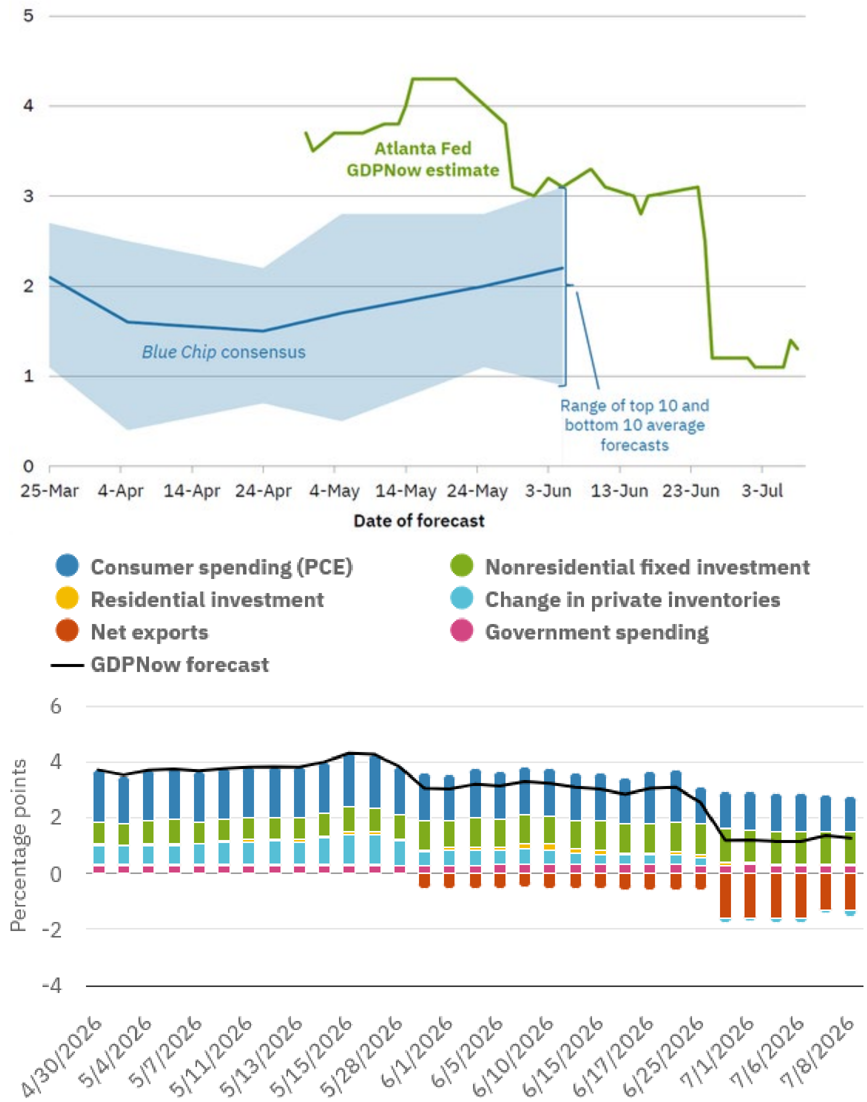
Flows through the Suez Canal (bottom) never fully recovered after the Houthis started attacking ships. We expect it to be the same for the Strait of Hormuz (top) though traffic has started moving again. [iii]

To the credit of the Trump administration, the Iran War has had a few major accomplishments. Their military & nuclear capabilities have been significantly degraded. It's damaged geopolitical enemies China and Russia. And it's demonstrated that the global economy, especially the American economy, is resilient to Middle East oil disruption.

Despite this, the conflict has generally been a disappointment. Despite overwhelming military advantage, the United States has been thus far unable to extract major concessions from the Iranian regime. The conflict will have long-term repercussions, most of them inflationary. Traffic through the Strait has not returned to normal, and we don't expect it to do so anytime soon. Those ships which do return will undoubtedly be charged higher insurance rates in the coming years. Furthermore, questions have now arisen regarding charging a "toll" for traversing chokepoints of international trade. Most importantly, the Iranians have exposed a major weakness of the American military. They are vulnerable to decentralized and inexpensive drone warfare. This was already somewhat known after the Houthis closed the Red Sea years ago with similar tactics. Traffic in that area has still not normalized despite the last attack coming months ago. But our complete inability to credibly protect maritime traffic during an ostensible ceasefire demonstrated this weakness even more starkly. These new inflation headwinds join other secular trends contributing to persistent inflation – deficit spending, friendshoring, tariffs, housing shortages, etc.

After lingering around 2.5-3.5% for years, inflation recently ticked up to 4.2% as a result of the spike in oil prices. As much as 75% of the increase in CPI is attributable to gas prices. Now that oil is flowing again, we can expect inflation to decrease as a result, but it's yet to be determined where it will end up and how long it will take. Other price pressures are stemming from the frenzy in Artificial Intelligence. Demand has spiked for semiconductors; one major consumer electronics manufacturer recently announced that it would raise prices for many of its products by 15-30%. Separately, each new datacenter requires tens of millions to over a billion dollars in supplies, construction, and labor.

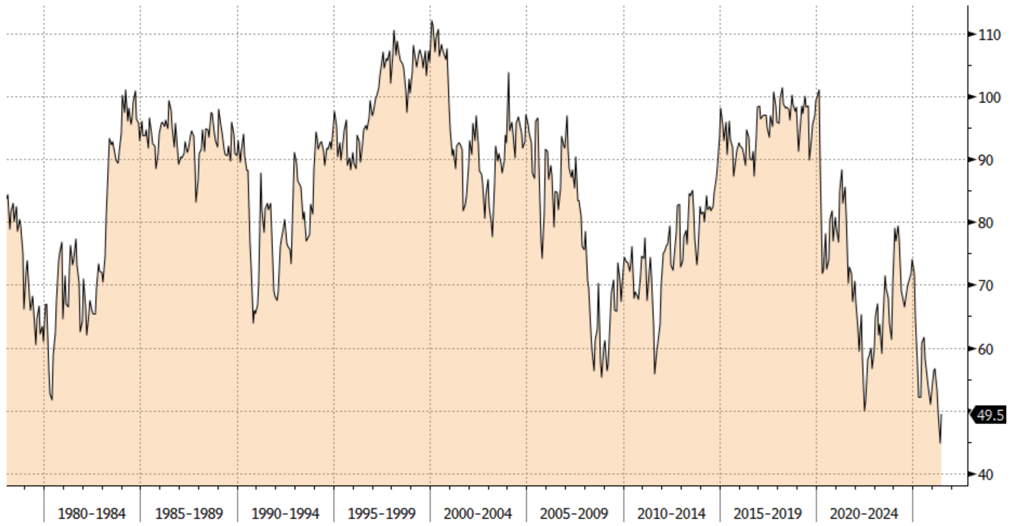
The uptick in inflation from gas prices exacerbates the K-shaped economy. General sentiment is at all-time lows according to the Michigan Consumer Sentiment Survey, despite stocks being near the highs. The top 10% of earners account for 50% of consumer spending. Gas prices are a particularly miserable way to experience inflation. It's an expense that can't be avoided, is



The Atlanta Fed's GDPNow projection (top) is just higher than 1% for the second quarter. The component breakdown (bottom) shows that net exports are the primary detractor. AI spending is a major contributor. [iv]

Average gas prices were quick to rise when the Iran War began. They have started to move lower. [v]

experienced multiple times each month, and the prices are posted prominently along every roadway. As we approach midterms, expect "affordability" to continue to be a prominent issue.



The University of Michigan's Consumer Sentiment Index recently hit its lowest level ever recorded. [vi]

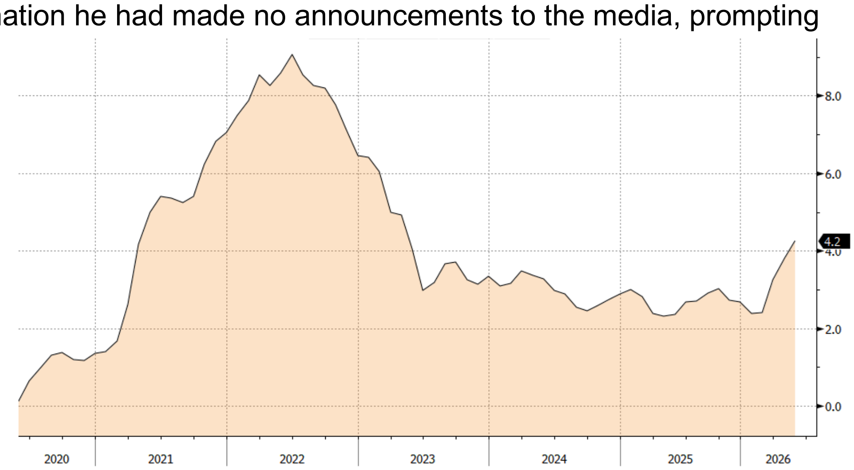
Preserve – Interest Rate Commentary

The Federal Funds Rate remains unchanged thus far in 2026. In January investors expected to see two or three rate cuts during the year. Following the conflict in Iran and the resulting uptick in inflation, investors now expect one or two rate increases by yearend. The first is expected in mid-September.

Interest rates broadly rose during the quarter, though they are off the highs now that there is a tentative resolution in Iran. Other central banks have already raised rates in response to resurgent inflation, including the European Central Bank and the Bank of Japan. The Atlanta Federal Reserve publishes a graphic which shows where interest rates should be based on different formulations of the Taylor Rule, which benchmarks prescribed interest rate policy based on different economic data points. These prescribe an interest rate between 4.38% and 6.62%, compared to the current rate of 3.63%.

Kevin Warsh has officially been sworn in as chairman of the Federal Reserve, replacing Jerome Powell. Since his nomination he had made no announcements to the media, prompting a lot of speculation. He previously worked with the Fed during the financial crisis. At the time he was critical of quantitative easing (the Fed supporting markets by buying bonds), worrying that it would cause inflation.

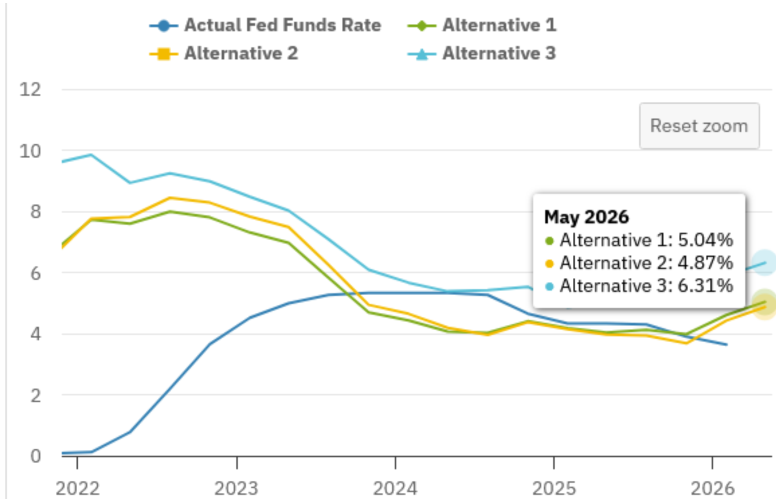
We finally heard from Warsh during his first press conference. While it was a quiet meeting in terms of moving the interest rate, it



CPI had been stable before the most recent oil-induced uptick. [vii]

was illuminating in terms of what we can expect over the coming months and years.

Warsh was extremely focused on the inflation side of the Fed's "dual mandate" of price stability and maximum employment. He was critical of the Fed's handling of inflation during the last five years. He characterized the general labor market as "moving in a good direction" which gives the Fed room to focus on inflation. He also didn't want to overreact to individual data points. He is frustrated that the Federal Reserve continues to rely on historical data points when more real-time indicators are available now.



The Taylor Rule calculates where interest rates should be based on different economic measures. Different variations of the rule put different weights on different variables. Every variant we've seen says that rates are currently too low. [viii]

Warsh has immediately signaled some major changes to the status quo. First, the press release was less than half the length of what we are accustomed to, and the shortest in nineteen years. The Fed released an interest rate Dot Plot, but it had only eighteen dots, as opposed to the usual nineteen. Warsh did not contribute a projection. The Dot Plot is scrutinized by investors in order to understand where interest rates might be going in the future. But the Dot Plot has historically been an inaccurate guide for markets and provides more certainty than is appropriate. Can the Fed really project where interest rates will be two years from now? Warsh thinks providing all this "forward guidance" also limits the Fed's options in the future. Specifically, he'd like for investors to look at economic data and assess the impact on the economy. Right now, investors look at data and try and figure out how the Fed will interpret it. This is most pronounced during times of economic stress when investors say "bad news is good news" – aka the data is bad, which means the Fed will lower interest rates as a result, which means that stocks should go higher because we like lower interest rates.

The Indeed Hiring Index for Software Development shows that AI hasn't curtailed hiring. Instead job postings have risen along with AI capabilities. [ix]

Finally, Warsh created five task forces to evaluate Federal Reserve operations. They will examine communications, the balance sheet, data sources, productivity & jobs, and inflation.

If implemented correctly, these changes could have great results. Perhaps most importantly they might decrease investors' focus on the Federal Reserve and its overall impact on markets.

It's worth mentioning that a Fed led by Warsh will probably be less willing to intervene in financial markets during a crisis. Investors have become used to the "Fed put" – the idea that if markets fall enough, the Fed will reverse the decline with aggressive rhetoric, policy, or outright buying assets, putting a floor on prices. Over the years this has caused the Fed's balance sheet to balloon to $6.7 trillion, something which Warsh has criticized in the past. It's interesting to note that Warsh is attempting to become less relevant to financial markets. At the same time, President Trump seems laser-focused on markets. He regularly comments about individual stocks, has directly taken equity stakes in several companies, and seems to schedule negotiations and military engagements outside of market hours in order to minimize disruption.

> *We recognize that inflation has been running well ahead of the Fed's long-stated inflation goal of two percent that's been going on for more than five years… But the recent past need not be prologue. I am pleased to report that members of the FOMC (Federal Open Market Committee) are unambiguous and unanimous: This Committee will deliver price stability.*
>
> *- Federal Reserve Chairman Kevin Warsh, June 17, 2026*

Less important for now, but potentially worth monitoring, the Supreme Court ruled 5 - 4 against Trump in his attempt to fire Federal Reserve governor Lisa Cook. When he was pressuring Powell to lower rates, Trump fired Lisa Cook ostensibly due to irregularities with a mortgage document. While the allegations seem to have some merit, it was clearly weaponized for political ends. It's worth noting that the ruling was decided on procedural grounds. The Supreme Court stated that removing a Fed governor "for cause" required at least minimal procedural protections, such as providing notice to Cook or offering her the opportunity to respond. It did not rule on whether Trump could have "fired" her "for cause" if he'd followed these procedures. On the one hand, they protected the Fed from a fairly-obviously politicized action (for now). They've also prevented Trump (or a future president) from remaking the Fed's composition on a whim without notice. On the other hand they've now provided a roadmap for legally removing a Fed governor. The attempt to remove Lisa Cook will likely continue by following the procedures they described.

Earn – Bond Market Commentary

The bond market continues to be very quiet, especially compared to the last few years. The Iran War shook things up during March, but bonds returned to their placid state quickly in April. Major bond indexes are roughly unchanged for the year, as the headwind of rising interest rates is offset by clipping coupons. Lower-duration and/or higher-coupon investments have achieved a low-single-digit return.

Closed-end funds have largely behaved in a similar manner. Discounts remain somewhat tight, but opportunities are out there. Unfortunately, the multiple tailwinds from expected interest rate cuts are no longer present.

The Supreme Court made a separate ruling that's specifically relevant for closed-end funds. They ruled against a prominent closed-end fund activist in their attempt to sue a fund manager. The activist has been suing various closed-end funds for violating the "Investment Company Act of 1940" in order to change their behavior to be more investor-friendly and ultimately attempt to close the closed-end fund's discount. The Court ruled that only the SEC can enforce these provisions, not an activist investor or anyone else. After a few years of legal victories which have had the effect of meaningfully narrowing discounts on funds, this is a major blow to activist investors. While we are not an activist in any sense, we do benefit from fund managers being more responsive to investors. On the one hand this removes an important weapon from activists' arsenals. On the other hand, empowering fund managers could incentivize them to launch more funds. In the short term it will probably not have a noticeable impact.

The MOVE Index (Merril Option Volatility Estimate) measures bond volatility. After a short bout of volatility in March, volatility returned close to the lowest level we've seen in years. [x]

The story in private credit has not meaningfully changed. The funds continue to receive outsized redemption requests, though the portfolio managers are still (mostly) confident in the value of their portfolio. It's become known that investors should redeem their funds whether they have faith in the manager or not. With Business Development Companies (BDCs) trading at substantial discounts to their Net Asset Value (NAV), it simply makes sense to redeem private funds at NAV and invest the proceeds in publicly-traded BDCs trading at a discount. Encouragingly, several public BDCs have announced significant buybacks. This has the triply-powerful effect of raising the stock price from increased demand, signaling confidence in the portfolios which encourages others to buy, and adds value to existing shareholders by retiring a dollar of liabilities with less than a dollar of assets.

Grow – Stock Market Commentary

Stocks had an extraordinary quarter, rallying from the lows of the year to double-digit returns for the quarter. For many indexes it was the best quarter since the summer rally following the 2020 pandemic selloff. Many indexes closed the quarter near or at all-time highs. While the rally was broad, technology hardware put other sectors to shame with its parabolic performance.

The rally from the lows in March was generally driven by optimism surrounding the Iran War. Once a ceasefire was announced it became clearer that the conflict would stay localized and likely not drag on through the summer. There have been setbacks, and it took longer than hoped to reopen the Strait of Hormuz. But with shipping now reopened, the price of oil and other goods has started to normalize. A longer or more intense conflict might have tipped the global economy into recession. The conflict has demonstrated the new resilience of the economy, especially in the US, to oil shocks. The country is now a net oil exporter with ample reserves. And industrial equipment has become much more efficient than in the past, or electrified. Gas prices are still a notable household expense, but not to the same degree as with previous oil shocks.

As the Artificial Intelligence hyperscalers have committed to further capital expenditure spending, semiconductor and memory chips have become the bottleneck. These companies command incredible margins for their products as AI companies compete to build out their datacenters. The profits right now are incredible, but these companies are used to going through cycles where they're in high demand, only to over-produce chips in the future. Historically the demand from one quarter couldn't be used as a faithful projection for next year or farther out. However, with the current rhetoric such as "datacenters in space," investors anticipate that these semiconductors will be in high demand for years, possibly forever, depending on how AI technology develops. Not only are they making money, but their entire business is being revalued as if it's an immensely profitable utility. That's what's driven the semiconductor index to 50%+ gains for the year, with some of the most important cutting-edge companies rising 10-50x over the last year.

Adding the free cash flows of four major public hyperscalers, then subtracting the free cash flows of two major semiconductor manufacturers shows the regime change that's taken place this year. This is set to continue based on current capital expenditure projections. The most recent data point here is -$47b.[xi]

These gains have come at a cost to the hyperscalers. The Magnificent 7, comprised of some of the most important mega-cap technology companies in the world, is slightly lower this year. These companies have been incredibly profitable, leading to immense gains over the past few years. But now they find themselves spending hundreds of billions of dollars to build datacenters. The question is whether this money will earn a healthy return in the future, something which is still very unclear. We quoted a prominent technology executive a year ago saying "I'm willing to go bankrupt rather than lose this race." We're finding out that it wasn't an exaggeration.

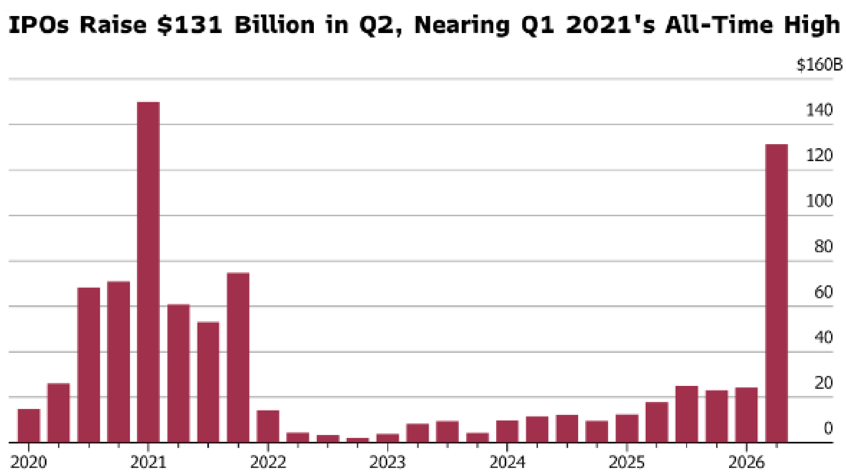
At one point in early June, the technology sector outperformed the S&P 500 over the previous fifty days by more than 29%, a six standard deviation event – a 2-in-a-billion possibility (in a normal distribution – market returns have "fatter tails," which means it's not actually this unlikely). There's no historical precedent for this sort of outperformance. Since then there's been a pullback in the sector, but this demonstrates how extreme and focused the outperformance has been.

With the most recent rally, AI stocks have now become half of the market capitalization of the S&P 500, the most concentrated since the railroad buildout of the 1800's (and notably, another infrastructure technology with massive capital expenditure requirements). This is important to note for diversification purposes, and also to explain market behavior. Roughly forty

The Philadelphia Semiconductor Index has been an outstanding performer since ChatGPT was introduced to the public in late 2022. Its performance was supercharged in the second quarter.[xii]

stocks in the S&P 500 are closely tied to the prospects of AI. The other four hundred move based on their own performance, the economy, or other factors. Since the Iran War started, nearly all of the market gains have come from the AI portion of the market. The non-AI stocks have been basically unchanged. In emerging markets, too, AI and specifically semiconductors have cannibalized the rest of the companies. Important AI stocks in South Korea and Taiwan have rallied an incredible amount this year and now have an outsized effect on the daily price movements in the index.

The buildout of the AI technology and infra structure is enormously expensive. Thus far, it has been largely financed by venture capital for the private companies and from free cash flow for the public companies. That's continuing, and being complemented by tapping the public bond and equity markets for hundreds of billions of dollars in order to continue spending.



IPOs were a big storyline in the second quarter, raising nearly as much money as in the heydays of 2021 when interest rates were at 0%.[xiii]

Companies that used to use their money buying back stock are now issuing stock. We just saw the largest IPO in history, a company which is not yet profitable. We expect two more major IPOs for AI companies in the next six to twelve months, AI providers which are also currently unprofitable. Granted, these companies are growing at substantial rates. But it’s not clear how profitable AI will ultimately be for the providers, or whether it will be a winner-take-all outcome for just one of them, rendering the others worthless. There’s also the risk from Chinese models, which have lagged ours in capability so far. We don’t mean to throw cold water on the situation with these observations, but rather highlight the incredible investment in a technology which has so far been unprofitable. The AI companies find themselves in an interesting paradigm. They need to signal confidence that their spending will pay off. But they also cannot invest infinite resources in infrastructure. An eventual pullback or deceleration in spending could be interpreted by investors positively, as prudence, or negatively, as uncertainty.

Best regards,

VERISMO FINANCIAL

320 S. Canal St.
Suite 2975
Chicago, IL 60606
312-763-9662

Frank DeVincentis, CFP®
Founder, Managing Partner
Financial Advisor
NMLS # 1255537

Craig Eyler, CFP®
Founder, Managing Partner
Financial Advisor
NMLS # 1270172

Molly Girard, CFP®
Partner
Financial Advisor
Branch Manager
NMLS # 2359441
312-763-9673

Jennifer Huns, CFP®
Group Director
Executive Vice President
Senior Registered Client Administrator
312-763-9602

Scott Tucker, CFA
Chief Investment Officer
Executive Vice President
312-763-9651

Tracy Weidman
Director of Client Analytics
Senior Vice President
Senior Registered Client Analyst
312-763-9652

Yaelle Kimmelman
Marketing Director
Vice President
Senior Registered Client Associate
312-763-9603

Tess Kearns
Branch Administrator
Registered Client Associate
312-763-9605

Trey Plummer
Registered Client Associate
312-763-9653

All investing involves risk, including the possible loss of principal. There are no guarantees that a strategy's objectives will be met.

Wells Fargo Advisors Financial Network did not assist in the preparation of this report, and its accuracy and completeness are not guaranteed. The opinions expressed in this report are those of the author(s) and are not necessarily those of Wells Fargo Advisors Financial Network or its affiliates. The material has been prepared or is distributed solely for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Additional information is available upon request.

Past performance is no guarantee of future results.

Exchange-Traded Funds are subject to risks similar to those of stocks. Investment returns may fluctuate and are subject to market volatility, so that an investor's shares, when redeemed, or sold, may be worth more or less than their original cost. Exchange Traded funds may yield investment results that, before expenses, generally correspond to the price and yield of a particular index. There is no assurance that the price and yield performance of the index can be fully matched.

Investment products and services are offered through Wells Fargo Advisors Financial Network, LLC (WFAFN), Member SIPC. Verismo Financial, LLC is a separate entity from WFAFN.

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.

The MSCI All Country World Index (ACWI) captures large and mid cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries.

The Dow Jones Industrial Average is a price-weighted index of 30 "blue-chip" industrial U.S. stocks.

The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of 21 developed markets, excluding the U.S. and Canada.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of 23 emerging markets.

Bloomberg U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.

---

[i] Bloomberg
[ii] Bloomberg
[iii] Bloomberg
[iv] Federal Reserve Bank of Atlanta
[v] Bloomberg
[vi] Bloomberg
[vii] Bloomberg
[viii] Federal Reserve Bank of Atlanta
[ix] Bloomberg
[x] Bloomberg
[xi] Bloomberg

[xii] Bloomberg
[xiii] Bloomberg