Good morning,

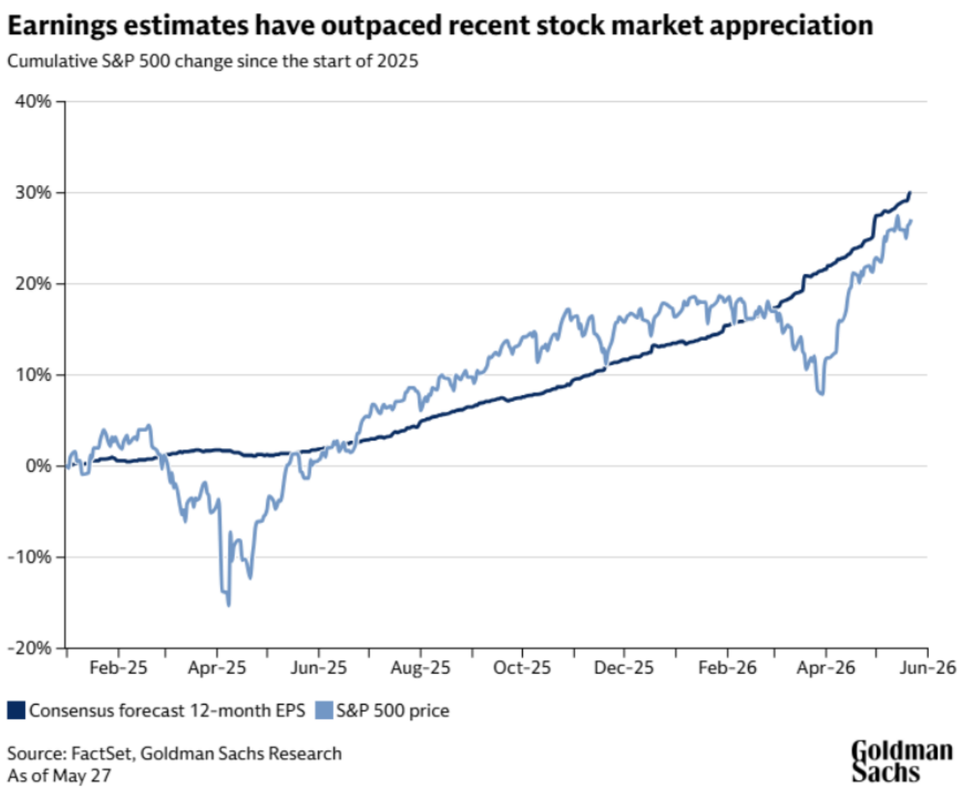
Mid-Year (yes, we are here already) offers the chance to look at the markets, economy and investments with a level perspective. After a turbulent start to the year that saw the U.S. markets fall 8-13%, we are once again near new highs. In fact, the S&P 500 had its best quarterly performance since 2020, while the Russell 2000 index of small company stocks is up over 22% for the year and closed the quarter at a record high.

What's next? I'd like to address some of the topics that seem to be on everyone's mind these days.

Is the market expensive?

On the surface, considering the strong performance of the stock market since 2022, one wonders: have prices gone up too far? Are we in another bubble?

The short answer is no. In fact, as the chart below shows, recent earnings growth has exceeded price appreciation.

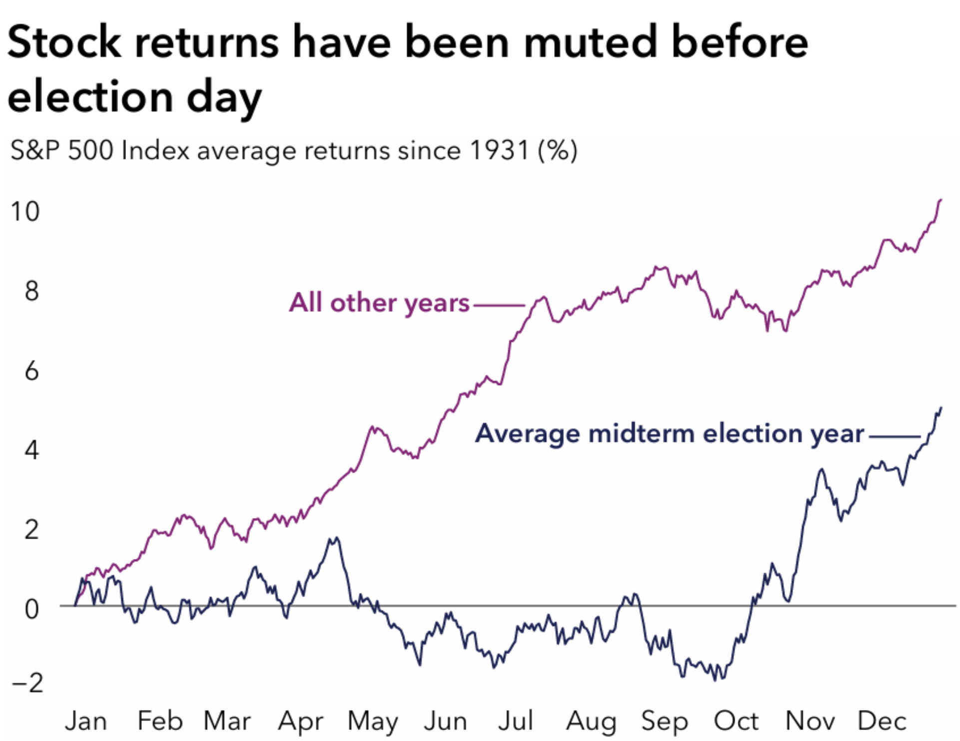


Moreover, the net profit margin of the S&P 500, rose to 14.8% in the first quarter. This marks its highest level since the data was first tracked back in 2009. Going forward, analysts expect continued double digit earnings growth in both the U.S. and overseas.

Of course, there are still risks. Forward consensus earnings expectations have been raised for the remainder of the year. This sets the bar higher for companies to beat and could result in a pullback if the rosier results fail to materialize.

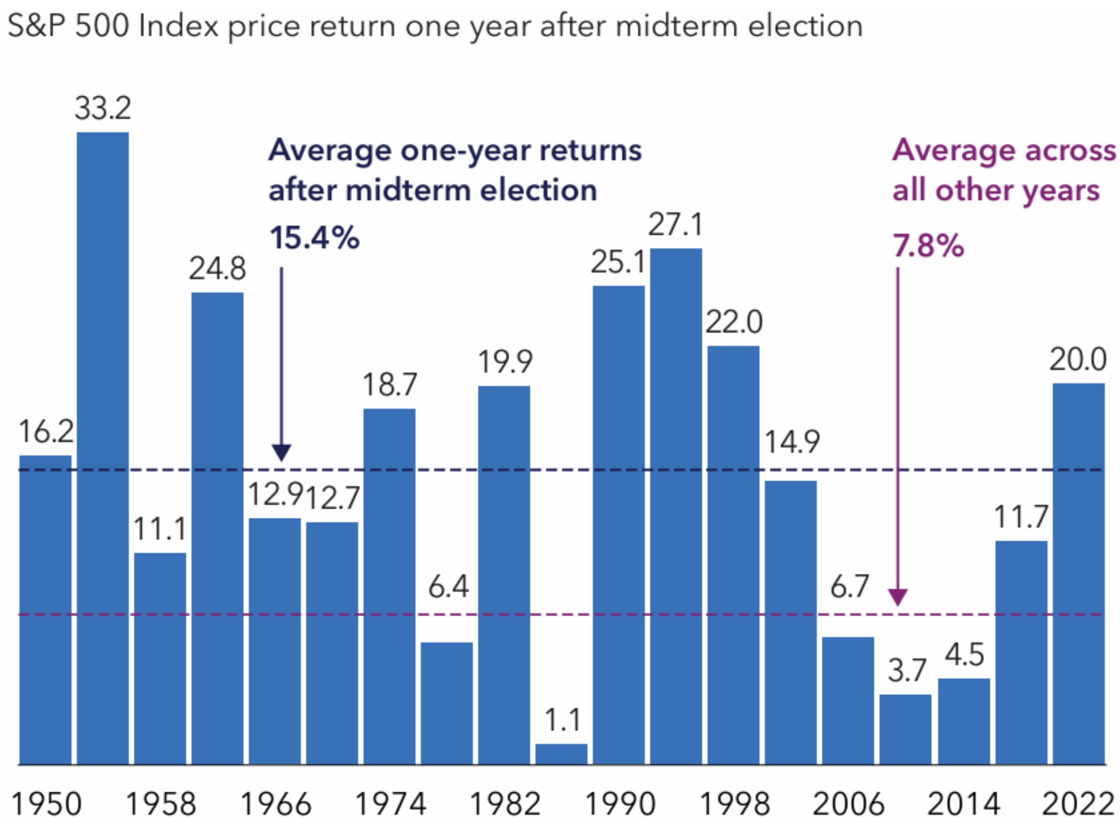
What should we expect leading up to and following the Midterm elections?

The 12 months leading to the midterm elections have historically been a bumpy ride. This year performance has been a bit more positive, but with four months still to go until election day I expect we'll see some additional volatility.



Source: Capital Group, RIMES, S&P Global.

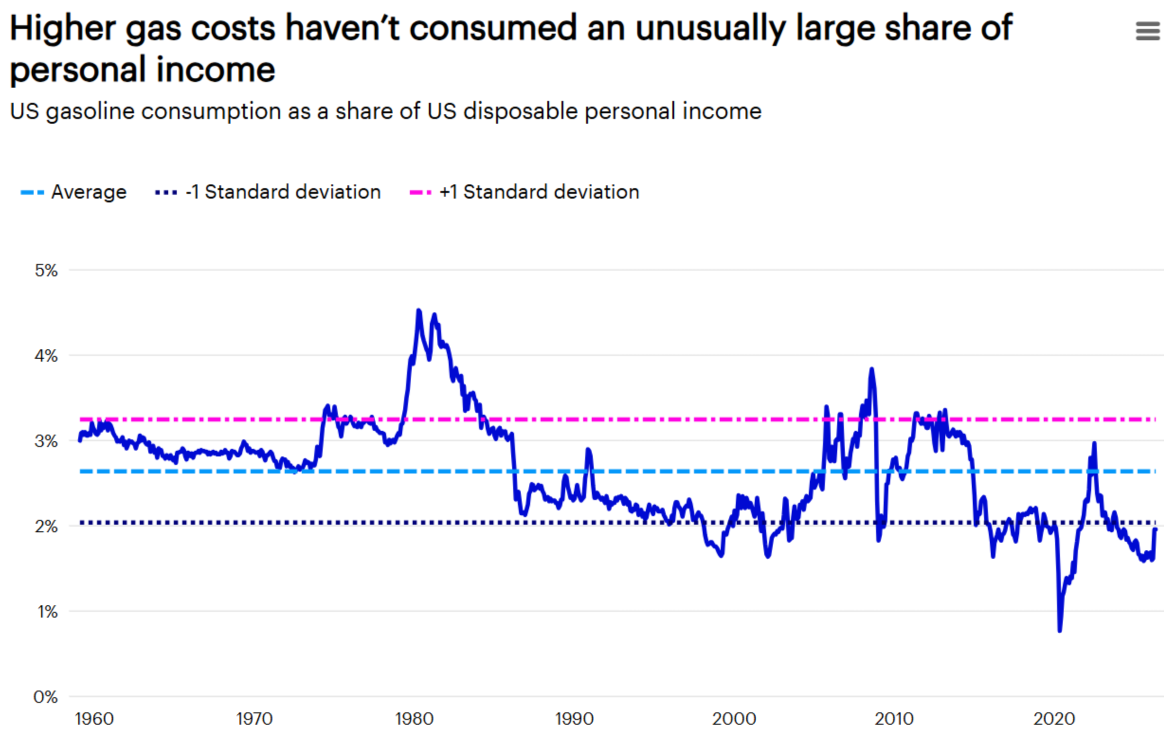
It is important to note that in the 12 months following the elections the market has seen performance that is almost twice the average of the non-midterm years.



Sources: Capital Group, RIMES, S&P Global. Calculations use Election Day as the starting date in all election years and November 5 as a proxy for the starting date in other years. Only midterm election years are shown in the chart. Price returns exclude the reinvestment of dividends and capital distributions. As of December 31, 2025. Past results are not predictive of results in future periods.

How will higher energy prices affect the consumer and the economy?

Even though the saber rattling continues in the conflict with Iran, oil prices have declined to near pre-war levels. Furthermore, gas costs are not the same share of personal income as they were in prior decades and therefore will impact consumer spending less than in the past.



Source: US Bureau of Economic Analysis, March 31, 2026. Standard deviation measures the spread of data values relative to the mean.

To be sure, inflation at 3.4% is still above the Federal Reserve's target of 2%/ year and will likely remain so for some time. While the new Fed chairman did not give forward guidance on the direction of interest rates, consensus expectations are now for one rate hike by the end of the year.

What will the impact be of Space X (SPCX) on the market indices?

Space X went public in June and, with a valuation of over $2 trillion, immediately became one of the largest publicly traded companies in the world. When will it be added to the major market indices and how might this affect performance?

While SPCX will be added to the Nasdaq 100 and a few other niche indices in July, it will be at least a year before it will be considered for the S&P 500. It will not be weighted based on its total market capitalization, but on the number of shares that are publicly available. As a result, its weight in the S&P 500 will be between 0.5% and 1%. The impact on the index performance, positive or negative, should be modest.

Portfolio updates

1. **Maintaining Buffered Index ETFs:** Given the magnitude of the market advance so far this year, I feel maintaining some buffered protection with upside participation of approximately 7% for the remainder of the year is a good balance. I did not sell the existing buffered ETFs during the pullback in the first half of the year since the markets actually held up better than expected. Instead, I rolled some of them forward, thus increasing the upside potential from current levels.

2. **Reducing Private Credit:** I sold a portion of the Cliffwater Private Credit Fund (CCLFX) and replaced it with the JP Morgan Premier Equity Income ETF (JEPI). JEPI has a current yield of 8.29% and actually captures more income when volatility is elevated.

3. **Keeping Current Yield in Fixed-Income Investments:** With additional interest rate cuts likely on hold for the remainder of the year, I am finding attractive yields in both taxable and tax-free bonds. At current levels, they provide both a steady source of income as well as a cushion against stock market volatility.

As always, please let me know if you have any questions or comments on the markets or economy, or your investments in particular.

Very truly yours,

Jim

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