

Beacon Weekly Investment Insights

The holiday shortened week to celebrate the 250th anniversary of our nation's founding coincided with the end of the second quarter. Despite all the volatility commensurate with the Iran conflict the major averages all hold solid year-to-date gains. Through the first half, the Dow rose 9.76%, the S&P 500 increased 10.21% and the Nasdaq up 13.13%. The Dow had its best showing since 2021 as markets broadened beyond technology, up 32%, to include Healthcare, Industrials, Energy, Materials and REITs. This was no more apparent than in small caps (best first half return since 1991) and emerging markets rising more than 20% each. Even developed markets rose 16.56% despite the war and large impact of higher oil prices on growth. The broadening along with excess returns in non-US markets has been a major theme here at Beacon Trust and reflected in portfolio construction where appropriate; validating that broad diversification is key as a risk management tool and strategic positioning to capture these broad returns.

In keeping with the intent of this update to be "the week in review" the major indices all had a positive week, all up around 2%, despite mixed macro releases. ADP employment, mortgage applications, and consumer sentiment all came in weaker than anticipated. The early release of the heavily watched non-farm payroll on Thursday showed 57,000 vs 115,000 (e), a decline of one tenth in the unemployment rate to 4.2% caused by a drop in the work force, May was revised down to 129,000 from 171,000 and wage growth was unchanged at 3.5%. The next couple of months could prove interesting as hiring related to the World Cup will roll off. This low hire; low fire environment confirms stable and full employment allowing the Federal Reserve to focus on elevated prices.

The Fed's dual mandate of labor and inflation is proving challenging for central bankers. AI has been positioned as a "push/pull". On the one hand, AI is considered disinflationary. Maybe in the long-term but recent interviews with Elon Musk (Tesla/SpaceX) and Tim Cook (Apple) noted that higher costs of AI implementation require price increases borne by consumers. So, this adds to the already upward bias for inflation already elevated by tariffs and oil prices, now below \$70 but still not reflected at the pump, making the justification for an imminent rate cut more difficult. This will prove an interesting debate for doves and hawks on the FOMC. Recall cuts were forecasted for 2026; now it's a coin toss between hiking or standing pat though no change seems most likely for the foreseeable future.

The setup for July is constructive since there hasn't been a negative July since 2017. Some of this is attributable to corporate earnings. This bodes well as 2Q consensus earnings estimates are expected to be up 24.3%, which will begin in earnest over the coming weeks. Clearly, this is led by AI expenditure and its beneficiaries supporting a continuation of the broadening out of the market. One cautionary note is the historical volatility that surrounds midterm elections and the subsequent outcome. Currently, the probability of a change in congressional leadership is high.

Market Scorecard:	7/3/2026	YTD Price Change
Dow Jones Industrial Average	\$52,900.07	10.99%
S&P 500 Index	\$7,483.24	9.98%
NASDAQ Composite	\$25,832.67	11.49%
Russell 1000 Growth Index	\$4,925.40	2.57%
Russell 1000 Value Index	\$2,442.80	18.09%
Russell 2000 Small Cap Index	\$3,012.60	21.43%
MSCI EAFE Index	\$3,085.46	12.65%
US 10 Year Treasury Yield	4.465%	+22 basis points
WTI Crude Oil	\$68.68	20.34%
Gold \$/Oz.	\$4,126.20	-4.59%

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