The Legacy Group, Inc.

Dear Legacy Clients,

Thank you for your continued partnership and trust, and welcome to our quarterly economic and investment update. In this letter, we will be detailing our thoughts on the current investment landscape, reflecting on the first half of 2026, and providing our general economic/investment outlook going forward.

Broad equity indexes resumed their upward trend during the second quarter, building on the momentum that began in early April following the announcement of the initial ceasefire agreement between the United States and Iran. As we discussed last quarter, the primary economic consequence of the conflict has been a sharp increase in crude oil and natural gas prices after Iran restricted access through the Strait of Hormuz in an attempt to leverage its importance to the global economy. Elevated energy prices tend to weigh on stock prices because they increase the risk of both slower economic growth and higher inflation. Since the initial ceasefire agreement, however, the conflict has remained fluid, with several rounds of escalation and de-escalation dominating market headlines. Most recently, on July 11th, the United States resumed targeted airstrikes against Iran following disputes surrounding the terms under which the Strait of Hormuz was expected to reopen under the memorandum of understanding signed between both countries on June 17th. As it pertains to the forward-looking outlook for the conflict, it is impossible to predict exactly how events will unfold. That said, we believe one of the most important market signals has been the significant decline in oil prices from their peak near $110 per barrel back toward roughly $70 to $75 per barrel as of mid-July. In our view, this suggests that market participants generally believe that the Strait of Hormuz is still on a path towards being reopened. Time will tell whether the market has made the correct assessment.

Turning now to inflation, recent data indicates that inflationary pressures have increased since last quarter, largely as a result of higher energy prices associated with the ongoing conflict. A continued decline in oil prices would likely represent the single greatest catalyst for inflation to moderate going forward. The Federal Reserve's preferred measure of inflation is the Personal Consumption Expenditures (PCE) Price Index, for which it maintains a long-run target of 2%. As of May, headline PCE inflation measured 4.1% year-over-year. Core PCE, which excludes the more volatile food and energy categories and is generally viewed as a better indicator of longer-term inflation trends, measured 3.4%. While lower than the headline figure, Core PCE also remains meaningfully above the Federal Reserve's target. Importantly, the May PCE report indicated that elevated energy prices have begun filtering into other areas of the economy, contributing to the higher Core PCE reading. At the same time, the report also showed that personal consumption expenditures increased more than expected, suggesting that consumers have thus far remained willing to absorb these higher prices. One encouraging development is that average hourly earnings are not currently increasing faster than inflation. We believe this should help reduce the likelihood of a self-reinforcing wage-price spiral, thereby limiting the risk of a rapid acceleration in inflation over the coming quarters. Looking further ahead, we continue to maintain that inflation should gradually moderate over time as wage growth continues its steady decline and housing inflation, which typically operates with a lag, continues to work its way lower. We do, however, believe the timeline for returning closer to the Federal Reserve's inflation target has likely been pushed out relative to what we expected last quarter.

The recent increase in inflation is particularly relevant because of its implications for Federal Reserve policy. As a reminder, the Federal Reserve (the "Fed") is tasked with a dual mandate from Congress: stable prices and maximum employment. To combat inflation, the Fed raises interest rates in an effort to slow economic activity. Conversely, when labor market conditions weaken, it lowers interest rates to support economic growth and employment. Interest rate policy matters for the stock market since lower rates are generally supportive of stock prices. When Kevin Warsh was nominated to succeed Jerome Powell as Federal Reserve Chair, one of the primary concerns expressed by investors was that the Federal Reserve could become more willing to accommodate President Trump's preference for lower interest rates. Following Chair Warsh's first Federal Open Market Committee press conference, however, many of those concerns have subsided. Chair Warsh emphasized his commitment to restoring price stability, signaling that controlling inflation remains the Federal Reserve's highest priority should inflation continue to persist. At the same time, the rationale for lowering interest rates has become less compelling than it was just a few months ago. Last quarter, we discussed concerns surrounding a slowing labor market. More recently, employment growth has stabilized, with the economy adding an average of approximately 110,000 jobs per month over the past three months. Although the June employment report came in below economists' expectations, investors have largely interpreted this as "bad news is good news," as the softer reading reduced expectations for a near term rate hike.

As the Fed tilts to being more "hawkish" (aka focused on stopping inflation), concerns naturally arise among investors, because a Fed-driven rate hike cycle can hurt stock prices as we experienced during 2022. We do, however, believe several important distinctions should be acknowledged before assuming the current environment will unfold in a similar fashion. First, historical market data suggests that Federal Reserve tightening cycles tend to become most problematic for equities when policymakers are forced to raise interest rates rapidly over a short period of time. We do not believe that is the most likely outcome today. Rather, Chair Warsh appears focused on addressing inflation early, reducing the likelihood that the Federal Reserve will ultimately need to pursue an aggressive series of rate hikes later. Second, DataTrek Research's Nick Colas points out that today's Federal Funds Rate (3.5%-3.75%) already sits well above the average starting point for previous tightening cycles dating back to 1990 (2.42%). Because policy rates are beginning from a meaningfully higher level than in prior cycles, it is reasonable to expect that fewer rate increases may ultimately be required, resulting in a much more gradual path of monetary tightening. Ultimately, we believe Chair Warsh's approach differs meaningfully from the policy environment experienced during 2021 and 2022. At that time, the Federal Reserve waited too long to respond to rising inflation before embarking on one of the fastest tightening cycles in recent history. Today, the Federal Reserve appears intent on addressing inflation before it becomes entrenched, making a slower and more measured path of policy adjustments our base case.

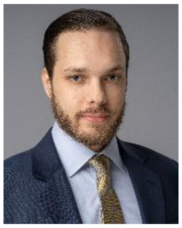
From an asset class perspective, stocks continued to rally during the second quarter, although market leadership became increasingly concentrated once again in U.S. large-cap growth and technology companies as another strong corporate earnings reporting season renewed investor enthusiasm. Consensus estimates currently call for S&P 500 earnings growth in excess of 20% during 2026, reinforcing our long-held belief that earnings remain the primary driver of stock prices over the long term. International equities are still keeping pace with the U.S. year-to-date, but lagged U.S. markets during the quarter. As we discussed previously, many foreign economies are more dependent on imported energy than the U.S., making their equity markets more sensitive to oil prices, which still remain higher than pre-war levels despite the recent pullback. Looking forward, we continue to believe a normalization in energy prices following the eventual resolution of the conflict could support a return to international outperformance. Within fixed income markets, bond prices declined modestly during the quarter as interest rates moved higher. Gold prices also declined as the U.S. dollar strengthened, consistent with the historically inverse relationship between the two assets. While recent dollar strength has weighed on gold prices, we believe a significant portion of the anticipated appreciation associated with potential Federal Reserve rate hikes has already been reflected in the dollar. As a result, we continue to maintain a constructive forward-looking outlook for gold from current levels.

Turning now to the broader economy, we continue to reiterate that recession is not our base-case outlook. Following a softer reading earlier this year, first quarter real Gross Domestic Product rebounded to a trend-like annualized growth rate of approximately 2.1%. Current estimates suggest second quarter GDP growth will moderate to approximately 1.3%, modestly below the economy's long-term trend. However, as we discussed last quarter, it is important to evaluate these figures within the broader context of economic growth over the past year. When viewed alongside the stronger-than-average GDP readings experienced during portions of 2025, overall economic growth has continued to average near its long-term trend of approximately 2%. Looking ahead, JPMorgan’s quarterly asset allocation research also continues to support a constructive economic outlook, with GDP expected to remain near trend over the coming year. Our forward-looking outlook regarding the impact of higher energy prices on consumer activity also remains constructive. Research published in Franklin Templeton's quarterly Anatomy of a Recession report indicates that American households currently allocate a substantially smaller percentage of their overall purchasing power towards energy goods and services than at almost any point in history. As a result, while higher energy prices may continue to create headwinds for consumers, we believe today's consumer is generally better positioned to absorb these costs than during many previous economic cycles. Regarding the labor market, it still appears to be in decent shape. As discussed earlier in this letter, employment growth has remained relatively steady over the past three months. Job openings are still modestly available relative to job seekers, and we continue to believe any meaningful increase in layoffs remains unlikely given low weekly claims for unemployment insurance. We believe these factors, along with a low unemployment rate of 4.2%, are consistent with the "low-hire, low-fire" labor market dynamic we have discussed in previous letters.

Regarding portfolio positioning, we are not making any allocation changes this quarter. While the possibility of additional Federal Reserve rate hikes has increased due to persistently elevated inflation, we reiterate that today's inflation environment remains materially different than the one experienced during 2022. Ultimately, we believe the macro environment remains constructive, as corporate earnings continue to exceed expectations while the broader economy demonstrates resilience in the face of geopolitical uncertainty. We hope that you find these updates helpful, and please do not hesitate to reach out if you have any questions.

The Legacy Group, Inc.

Sincerely,



Austin Smith, Analyst for The Legacy Group, Inc.

Craig Lestner, CFP® President

Resources used:

https://www.cnbc.com/2026/07/11/us-airstrikes-iran-strait-hormuz.html

https://www.cnbc.com/2026/06/25/pce-inflation-report-may-2026-.html

https://www.cnbc.com/2026/07/02/jobs-report-june-2026-.html

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DataTrek Research: DataTrek Morning Briefing

- June 17, 2026: “Warsh Presser, Future Rate Hike Expectations, Dot Com Tech Returns”
- July 6, 2026: “Past Rate Hiking Cycles, 2H 2026 Chartbook, VC Funding Update”