MONTHLY NEWSLETTER

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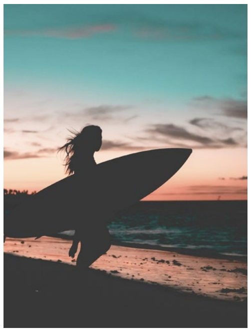
Beyond the Rally: What We're Watching in Q3, Do You Know What's in Your ETF?, Special Needs Trusts Q&A with Jacqueline Rahn.



Q3 MARKET AND ECONOMIC OUTLOOK

Beyond the Rally: What We're Watching in Q3

The first half of 2026 has been a positive one for stock markets. The Dow Jones Industrial Average, S&P 500 and Nasdaq Composite returned 9.8%, 10.2% and 13.1%, respectively, through June, while U.S. small-caps outpaced them all with a gain near 23%. Emerging markets stocks were the standout performers on both a year-to-date and trailing 12-month basis, a reminder that leadership can shift quickly after years of U.S. dominance.

Heading into Q3, the question is how much further the rally can run, given rising valuations and geopolitical uncertainty.

Q3 Outlook Takeaways

- The Federal Reserve remains on hold under new Chair Warsh, with the committee now more focused on the risk of interest-rate hikes than cuts as inflation stays elevated.
- Earnings growth is broadening beyond the Magnificent Seven, with the technology, defense and energy sectors leading, and financials, industrials and health care showing improvement.
- June inflation data offered the first real relief in months, though price levels remain uncomfortably high.
- The U.S.-Iran ceasefire has broken down, and a fresh round of proposed tariffs on Canadian goods has reopened trade tensions—both add uncertainty to the inflation and growth outlook.
- Midterm election campaigning will increasingly dominate headlines over the coming months, but election results are not typically a reason to depart from long-term positioning.
- Maintaining diversification and balancing risk factors in portfolios will be key to our approach over the second half of 2026.

The Fed Holds the Line

New Federal Reserve Chair Kevin Warsh took office with the expectation that he'd create a faster path to rate cuts, but he has since tempered that tone, emphasizing responsible policy in the face of inflation that remains well above the Fed's 2% target. The rest of the committee appears more focused on the risk of hikes than cuts, a meaningful shift from where sentiment stood earlier in the year.

June's inflation data offered something of a reprieve: The consumer price index fell month-over-month for the first time since 2020, and the year-over-year increase came in below expectations at 3.5%. That said, one month of cooler data doesn't make a trend, and recent events are complicating the picture.

Geopolitics and Trade Add Fresh Uncertainty

The U.S.-Iran ceasefire, which had offered markets some relief through the spring, has broken down. The U.S. and Iran have resumed direct strikes on one another, and disruptions to shipping through the Strait of Hormuz have picked back up, pressuring energy prices and reintroducing the kind of geopolitical volatility investors had started to look past.

Trade tensions are also rising, with the Trump administration planning to impose steep new tariffs on a range of Canadian goods starting in August. While these tariffs may face challenges in the courts, the resumption of trade wars is worth watching.

Together, these developments could send costs to consumers and businesses higher once more—gas prices are already ascending from recent lows. According to Moody's, the Iran war has cost the average American household an estimated $1,100 to date.

Earnings Are a Positive

Earnings have been a consistent bright spot. Growth remains strong as we move into the back half of the year, and importantly, the story is no longer just about a handful of mega-cap technology names. Financials, industrials and health care companies have all posted encouraging results alongside continued strength in the technology, defense and energy sectors, even as companies work through higher input costs tied to lingering geopolitical and trade uncertainty.

AI-related capital spending continues to lift areas of the market well beyond the largest tech names, though investors are increasingly demanding proof of monetization rather than promise alone—a dynamic that showed up clearly in recent weeks as strong results from bellwethers were met with tepid stock reactions.

Fixed Income: Higher Yields, for Now

Yields reset higher this year as rate-cut expectations faded and inflation concerns resurfaced. This has created a more attractive entry point for income-oriented investors, as higher yields can increase income and total return potential over time. Investment-grade corporate and municipal bonds currently offer higher yields than in recent years, which may help provide income and diversification benefits, although bond investments remain subject to interest-rate, credit and market risks.

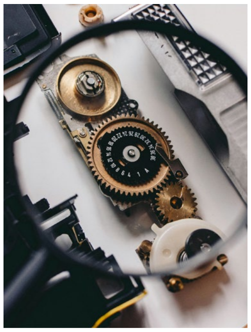
What We're Watching, and Our Approach

Beyond the risks and positive earning trends we explored above, midterm election campaigning will increasingly work its way into the headlines this fall. We wouldn't be surprised if that creates pockets of short-term volatility, or at a minimum, a distraction from market and economic fundamentals. While we are mindful of potential policy shifts or new laws that could affect your long-term wealth strategy, we typically do not view election outcomes as investable events.

None of this changes our underlying approach heading into the third quarter. Markets can, and often do, remain ahead of themselves for longer than seems reasonable, and valuation concerns are rarely a catalyst in isolation.

Our focus stays on the fundamentals we can control in your plan: diversification across geographies and market capitalization, awareness of concentration risk in both individual portfolios and the broader index, and a financial plan grounded in cash-flow analysis and liquidity planning so that market cycles don't dictate your decisions. We remain optimistic about the opportunities ahead, tempered by our goal to manage exposure to risks in your portfolios.

As always, your RWA team is here to help you make sense of what's happening and how it relates to your plan—please don't hesitate to contact us with your questions.



UNDERSTANDING INDEX RECONSTITUTION IN AN ERA OF MEGA-CAP IPOS

Do You Know What's in Your ETF?

The annual Russell index reconstitution rarely makes headlines outside of investment circles.

But what exactly is index reconstitution?

Think of it as a periodic update that allows index providers to reassess which stocks belong in an index and how much of an allocation each stock should receive.

This year's reshuffling, however, offers an important reminder that indexes evolve with markets. And the changes can have meaningful implications for investors in related exchange-traded funds (ETFs) and mutual funds.

The numbers alone are striking. The Russell 3000, which represents the broad U.S. equity market, grew from $58.4 trillion to $75.6 trillion in market value over the past year. The 10 largest companies now account for more than $26 trillion of that total. This highlights how concentrated the market has become in a handful of massive companies.

But the most important takeaway is what the data reveals about a larger shift beneath the surface of the market.

Indexes Frequently Change

Some investors think of index funds as stable, diversified holdings. In many ways, they are, often holding hundreds if not thousands of stocks, depending on the benchmark they seek to track. But indexes are rules-based structures that must adapt as companies grow, shrink, merge, spin off or go public.

This year's Russell reconstitution produced some significant changes. Several stocks that had become significant holdings in the Russell 1000 Value Index moved into the Russell 1000 Growth Index. Other companies graduated from the small-cap Russell 2000 into the large-cap Russell 1000 after experiencing large gains in market capitalization.

None of this is inherently good or bad. In fact, reconstitution is working as intended. The process helps indexes accurately reflect the markets they track. But it also highlights an important reality: Buying an index fund today does not guarantee you'll own the same portfolio a year from now.

The Next Wave Is Coming

If index changes seem significant today, the next six to 12 months could bring even larger shifts.

Consider SpaceX, whose recent IPO placed it among the largest publicly traded companies in the world. Future offerings from companies such as Anthropic, OpenAI and other AI-related firms could follow a similar path. These aren't startup IPOs of the past. These businesses could enter public markets with valuations measured in hundreds of billions—or even trillions—of dollars.

Historically, companies spent years growing into major index constituents. Today, they may enter public markets already large enough to command meaningful positions in broad-market benchmarks.

That matters because indexes, and the ETFs and funds that track them, don't decide whether the valuation is attractive or whether the timing is right. Their job is to own what the benchmark tells them to own, so they must buy or sell stocks in proportion when the index changes.

The Float Effect

There's another layer to the story that receives less attention.

When many large companies first go public, only a portion of their shares are available for trading. Founders, employees and early investors often hold significant blocks of restricted stock.

As more shares enter the public market, a company's "float" increases and earns a larger weighting in major indexes. As that happens, index funds may need to buy more shares to keep pace with benchmark changes.

In other words, a company can become a larger holding in an ETF even if an investor never purchases another share of the fund.

Passive Investing Meets Market Concentration

Passive investing ranks among the most successful innovations in modern finance. Low costs, tax efficiency and broad diversification have created significant benefits for investors.

We believe those advantages are not going away.

But the composition of indexes matters more when market leadership becomes increasingly concentrated. As of this year's Russell reconstitution, the 10 largest companies represented over one-third of the entire value of the Russell 3000.

Now consider what happens if several of the world's largest private companies join public markets over the next year. Some will earn significant index weightings. Others may debut at valuations that immediately place them among the market's largest stocks.

Investors who buy an index fund will own those companies whether or not they've evaluated the business, considered the valuation or developed a view on the investment opportunity. This is a key difference between index investing and active investing with a portfolio manager who is considering those factors before adding a stock to their portfolio.

Again, that's not a criticism of indexing. It simply recognizes that investors need to understand what they own as indexes grow more concentrated and dynamic.

Looking Ahead

Markets evolve over time. New industries emerge. Leadership changes. Private companies become public giants.

Index providers adjust their benchmarks right alongside those market changes.

For investors (and wealth managers), the takeaway is straightforward: Understand the index behind your ETF or fund. As new IPOs enter the public markets and benchmark compositions shift, that knowledge may become increasingly valuable.

If you'd like to discuss how index construction, concentration risk or emerging IPOs fit into your portfolio, your advisory team is here to help.

ESTATE PLANNING AND TRUST ADMINISTRATION

Special Needs Trusts Q&A With Jacqueline Rahn

We recently sat down with Jacqueline Rahn, head of family office fiduciary services, to discuss how parents and other relatives can provide for loved ones with disabilities or who require ongoing care. People in this position may consider special needs trusts, which are purpose-built to complement public assistance, even after the person who establishes the trust is gone.

In the interview that follows, Jacqui defines the three types of special needs trusts and how they could help maintain or improve quality of life for their beneficiaries. She also shares questions families should ask as they explore their options, common mistakes to avoid and more.

What is a special needs trust, and what role does it play in long-term planning?

A special needs trust is designed to supplement rather than supplant public benefits.

It's meant for individuals who rely on programs such as Social Security or Medicaid that have income and asset limits. The trust allows someone to remain eligible for those benefits while also providing resources for things those programs may not cover.

Public benefits generally provide for essentials such as housing, food, clothing and medical care. A special needs trust can help pay for things outside those basic necessities—education, entertainment, travel, transportation or other opportunities that can improve quality of life.

What are the different types of special needs trusts?

There are three types of special needs trusts.

A **first-party** or **self-settled special needs trust** is when the beneficiary uses their own assets to fund the trust. We often see this when someone inherits money but advance planning wasn't done. While this type of trust can preserve eligibility for benefits, it comes with a payback provision. When the beneficiary dies, any remaining assets may have to be used to reimburse the state for benefits received during their lifetime.

The type of trust we see most often is a **third-party special needs trust**. That's when a parent, grandparent, sibling or other family member creates the trust for the benefit of a disabled individual. These trusts don't have the same payback provision, and other family members can contribute to them over time.

The third type is a **pooled trust**. These are generally administered by nonprofit organizations that manage funds for multiple beneficiaries. They can be a good option for people who don't have the resources to create and administer their own trust.

One of the most important aspects of these trusts is that the trustee controls distributions. The beneficiary generally can't demand money from the trust, and payments should typically be made directly to a vendor rather than to the beneficiary. If the trust is buying a car, for example, the trustee would write a check directly to the dealership. The whole point is to keep the money out of the beneficiary's hands so it doesn't interfere with benefit eligibility.

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When should families begin thinking about a special needs trust?

If you have someone in your family who is currently receiving means-tested public benefits—or who may need those benefits in the future—it's worth considering whether a special needs trust makes sense.

It could be apparent at birth if a child has special needs and will require lifelong support. The need could also arise later because of an illness, accident or progressive condition.

There are also situations where someone isn't receiving benefits because their parents are still able to support them, but the family anticipates that benefits may become important in the future. That's when planning ahead can be especially valuable.

How can a special needs trust support a loved one's quality of life?

One example that always comes to mind is a beneficiary I worked with whose trust funded an annual vacation with her caregiver. Every year they would go to Disney World, the beach or somewhere else she enjoyed visiting.

It was a really special tradition, and without the trust she wouldn't have been able to do it. Her parents thought it was important that she have those experiences and opportunities despite her disability.

That's a good illustration of how these trusts can enrich someone's life. They can help pay for travel, visits with family members, group activities, enhanced medical care or better living arrangements. A trust could even purchase a home or apartment for someone if that's what's best for them. There are a lot of ways these funds can improve quality of life.

What are the most important decisions families make during the planning process?

One of the biggest decisions is selecting the trustee.

These trusts can be complicated because the trustee needs to understand benefit programs, eligibility requirements and the rules that govern them. That's one reason I often think it makes sense to have a professional trustee involved.

Another thing I encourage families to consider is creating what's often called a memorandum or side letter. It's separate from the trust document and isn't legally binding, but it gives future trustees a much more complete picture of the beneficiary.

It can describe the person's personality, preferences, limitations, daily routines, likes and dislikes, and the family's vision for their future.

Trusts often continue long after the person who created them is gone. Future trustees may not know the beneficiary personally, so having that guidance can be incredibly helpful.

How should families think about selecting a trustee?

A trustee should understand special needs trusts, public benefits, tax issues and the administrative requirements involved. There are often ongoing eligibility reviews, reporting requirements and paperwork associated with benefits programs, so it helps to have someone who has the resources and experience to manage those responsibilities.

Personally, I'm a strong advocate for having a professional trustee serve alongside a family member or close friend whenever possible.

The professional trustee can focus on the legal, tax, accounting and administrative responsibilities, while the family member provides a personal understanding of the beneficiary and their needs.

It's really the best of both worlds.

What are some important conversations families should have during this process?

One conversation that comes up frequently is how assets should be divided when there is one disabled child and other children who are not disabled.

In many estate plans, children are treated equally. With special needs planning, families sometimes have to think differently about what's fair and what resources each child may need in the future. Those can be difficult but important conversations.

It's also important to talk with people who are already involved in the beneficiary's life—caregivers, educators, health care providers and others who understand the person's needs. They often have valuable insight into what support may be needed now and in the future.

What are some common mistakes families make?

One of the biggest mistakes is doing no special planning at all and leaving assets outright to a disabled beneficiary.

Another common mistake is disinheriting the beneficiary because of concerns about preserving public benefits. Historically, some families felt they had to choose one or the other. Today, special needs trusts often make it possible to preserve benefits while still setting aside resources for the beneficiary.

I also think it's important to work with an attorney who specializes in special needs planning. These trusts have very specific requirements. If they're drafted incorrectly, the beneficiary could end up losing eligibility for benefits, which defeats the purpose of creating the trust in the first place.

How often should these trusts be reviewed?

As a general rule, I think reviewing the trust every 10 years is a good benchmark. That's similar to how people think about reviewing estate plans more broadly.

That said, families should revisit the trust sooner if there are significant changes in the beneficiary's condition, their benefits or their circumstances.

The goal is simply to make sure the trust remains aligned with current regulations, best practices and the beneficiary's needs.

What's one piece of advice you wish every family knew before beginning this process?

Keep the plan as flexible as possible.

Parents naturally want to protect children with special needs. Sometimes they want to reach out from the grave. They want to make sure everything is taken care of.

But trying to be too controlling can actually limit a plan's effectiveness. It's important to think carefully about the beneficiary, their needs and your vision for their future while also recognizing that circumstances will change and there's only so much you can predict.

One way to build flexibility into a plan is through a contingent or optional special needs trust provision. That allows a trustee to evaluate the circumstances later and decide whether creating a special needs trust makes sense at that point in time.

I also think it's important not to become so focused on preserving benefits that you lose sight of the beneficiary's overall well-being.

Sometimes a distribution might affect a particular benefit but still dramatically improve a person's quality of life. You have to look at the situation holistically and ask what's truly in the beneficiary's best interests.

That's why flexibility is so important. You simply don't know what the situation is going to be when the plan eventually plays out.

Thank you for your time and insights, Jacqui!

Please note that RWA's Family Office division provides trust administration to select clients. If you are interested in learning more about our trust and estate planning services, please speak with your RWA team to explore your options.