July 1, 2026

Dear Valued Client:

Returns for the major stock indices for 2026 and the current bond and money market yields are as follows:

Index	2026 YTD
Dow Jones Industrial Average	8.85%
S&P 500	9.55%

Fixed Income Yields	1 year	2 year	5 year	10 year	30 year
Municipals	2.30%	2.33%	2.55%	2.89%	4.13%
US Treasuries	3.97%	4.17%	4.23%	4.47%	4.95%

Fidelity Government Cash Reserves Money Market Fund	3.42%
Fidelity Money Market Fund Class Premium	3.53%

Happy 4th of July! The markets are again enjoying positive returns in 2026. After a nearly 10% decline at the beginning of the year, the S&P 500 index has rallied back and recently hit an all-time high, and is now up 10% in total return for the year. The positive performance has also broadened out, with small- and mid-cap stocks significantly outperforming the major market indices. Growth stocks are outpacing the value names, while the best-performing sectors have been technology and energy. The S&P 500 is now giving us the 4th consecutive year of double-digit returns, the 8th time in 10 years. Long-term investors continue to be rewarded for their discipline and enduring understanding that wealth is created slowly over time.

At LYNCH & Associates, we wrestle with the objectively high valuations across the indices as well as the changing of the times. The markets as a whole are expensive relative to history and undoubtedly gripped by the current and potential impacts of artificial intelligence on our economies and the world at large. We have recently seen exorbitant run-ups in certain types of stocks, particularly in companies directly benefiting from the artificial intelligence spending and their respective data center build-outs. Many of these companies are fetching astronomical stock prices relative to current earnings and sales; in other words, a huge bet on the future of their businesses. We remind ourselves to be wary of the most dangerous words in investing: “it’s different this time.” We are mindful and understand that specific circumstances will differ, but investors' appetites and the timeless human behaviors driven by fear and greed never do. In layman's terms, we remain committed to our investing values and refuse to chase the speculative names.

The markets continue to demonstrate resiliency. The Iran conflict, elevated inflation, and recent oil price volatility are all seemingly legitimate concerns for markets. So why have stocks been so strong? The simplest answer, perhaps, is robust earnings growth. We often say that P follows E, meaning Prices follow Earnings; a 98% correlation over the long term. US equities estimated earnings growth for 2026 is 23%, following 13% growth in 2025. The productivity increases, and speculation from artificial intelligence have the animal spirits awake. As investors, we have to carefully decide what premium we will tolerate for this narrative. As history has taught us well, the good times breed excesses and high price multiples for stocks.

We remain optimistic for the remainder of 2026, despite elevated valuation concerns. We are maintaining a value-oriented approach in our equity portfolios, and continue to moderately reduce exposure to the concentrated positions in the S&P 500. The consumer staples sector is grabbing our attention on the value side of the market for its remarkable underperformance relative to other S&P sectors over a generation. Our view is that this sector offers notable value.

On the fixed-income side, the spread between the 3-month Treasury bill and the 30-year Treasury remains historically tight. There remains very little incentive to invest in longer-term bonds. We remain heavily allocated to the highest-yielding money markets available and are even adding some higher-yielding CDs until more attractive bond options become available.

We encourage our clients to stay focused on their long-term investment goals. Our team is here to provide guidance and support as needed, and we remain committed to helping you achieve your investment objectives. We thank you for your continued confidence in LYNCH & Associates.

Sincerely,

Ryan T. Lynch, CFP®, ChFC®
President

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