JULY 2026 EDITION

SECURITY NATIONAL BANK
Economic & Market Insights

Stocks posted mixed returns in June, following several months of strong gains across the market. The S&P 500 declined by 1.0%, while the equal-weighted S&P 500 Index advanced by 2.4%.

In the second quarter, the S&P 500 gained 15.0% and has advanced by just over 10.0% year to date.

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This Report Includes

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SpaceX Embarks upon $2 Trillion Liftoff

SpaceX achieved a significant milestone with its highly anticipated initial public offering (IPO) on June 12, 2026, marking the largest public offering to date. The company raised approximately $75 billion and entered the public markets with an initial valuation of nearly $1.8 trillion, surpassing the $2 trillion threshold on its first trading day. Demand was strong as investors snapped up the company's shares.

Vacation Inflation Is Here, With Fuel, Flights and Hotel Costs Rising

During the summer vacation season, travelers often anticipate visiting destinations such as beaches, cities and other popular locations. However, vacation expenses are expected to increase this year due to rising prices in travel and leisure-related activities. For example, gasoline prices have increased by more than 28% year over year, airline fares are nearly 21% higher and lodging costs have risen by approximately 4.5% compared to the same period last year.

From Launch to Legend: ChatGPT Becomes Fastest App to 1 Billion Users

Sensor Tower recently reported that OpenAI's ChatGPT artificial intelligence (AI) application reached 1 billion monthly active users in May, setting a new record for global usage. ChatGPT achieved this milestone in about 3.5 years, making it the fastest app to reach 1 billion users. Google Maps previously held the record, reaching the same milestone in approximately five years.

Tech Prices Climb on Memory Surge

Consumer electronics prices are increasing as companies respond to higher memory costs driven by strong demand from AI chipmakers. Apple recently announced price increases across several products, including the iPad, MacBook, iMac and Vision Pro, amid a sharp rise in memory prices. Microsoft also plans to raise the price of its Xbox gaming system due to higher component costs.

Headline Highlights

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Recent Decline in Oil Prices Provides Welcome Relief to Household Budgets

	2025	2026 Est	2027 Est	2028 Est
GDP Growth	2.0%	2.4%	2.3%	2.8%
Change in Consumer Prices	2.6%	2.8%	2.6%	2.7%
Fed Funds Target Rate	3.75%	3.75%	3.75%	3.75%
5-Year Treasury Yield	3.73%	4.13%	4.18%	4.23%
10-Year Treasury Yield	4.17%	4.50%	4.60%	4.70%
S&P 500 EPS	$270	$337	$386	$429

Despite a variety of geopolitical challenges, core economic growth remains solid. The cessation of Iranian kinetic activity has led to lower energy prices over the past several weeks, providing welcome relief to household budgets burdened by the swift rise in oil prices driven by the war.

In light of the recent decline in energy prices, we are reducing our 2026 inflation forecast by 0.4%. We now expect consumer prices to rise by 2.8% this year, down from our prior estimate of 3.2%. We expect year-over-year inflation to peak at 4% this summer, then dissipate before year-end.

Looking ahead to next year, inflation may briefly fall below the Fed's 2% target as lower energy prices and lower tariffs work their way through the statistics. While the Fed may be tempted to cut interest rates at that time, we believe that would be a mistake, and could reignite inflationary forces in the economy.

We expect no change in the federal funds rate over our forecast period and expect the yield to end the year at 4.5%, which represents fair value. Inflation, economic growth and interest rates are expected to remain near neutral levels next year.

Looking ahead, unless tamed, fiscal deficits will increase pressure on long-term interest rates. With the second-quarter earnings reporting season quickly approaching, we recently increased our estimate of S&P 500 earnings for the coming year, given strong expected growth.

Recent economic reports indicate that the U.S. economy continues to advance. While the economy added just 57,000 new jobs this past month, the overall labor market remains steady, as evidenced by still-tame initial claims activity and a recent uptick in job openings (the highest level since March 2024).

Last Month's Rates and Total Returns				
June 30, 2026	Value	One Month	Year to Date	1 Year
Fed Funds Target (Upper)	3.75%	0.00%	0.00%	-0.75%
3-Month Treasury Yield	3.82%	0.15%	0.19%	-0.47%
2-Year Treasury Yield	4.15%	0.15%	0.67%	0.44%
5-Year Treasury Yield	4.20%	0.07%	0.48%	0.41%
10-Year Treasury Yield	4.44%	0.00%	0.27%	0.21%
Mortgage News 30-Year	6.54%	-0.02%	0.34%	-0.13%
S&P SuperComposite 1500	1,686	-0.5%	10.9%	22.9%
S&P 500 Index	7,503	-1.0%	10.2%	22.3%
S&P 500 Equal Weight Index	8,627	2.4%	12.1%	19.2%
S&P Midcap 400	3,834	3.6%	17.3%	25.9%
S&P SmallCap 600	1,812	7.3%	23.9%	37.5%
S&P 500 Growth	5,552	-1.8%	12.0%	25.7%
S&P 500 Value	2,240	0.0%	8.0%	18.4%
World ex-US, USD	461	-0.6%	13.7%	27.7%
BB U.S. Aggregate	93	0.2%	0.6%	3.8%
Crude Oil – WTI Near Term	70	-20.4%	21.0%	6.7%
Gold – Near Term	4,023	-11.8%	-7.0%	22.1%
U.S. Dollar Index	101	2.3%	2.9%	4.5%

Markets Post Mixed Returns During June, but Log Solid First-Half Gains

On June 14, the U.S.-Iran Memorandum of Understanding (MOU) was announced. Although there have been periodic flare-ups since that time, the truce has largely remained intact. The price of oil declined by 20%, which boosted investor optimism. In June, investors shifted from heavily concentrated Magnificent Seven (Mag-7) stocks to the picks-and-shovels providers of AI, resulting in significant inflows into memory stocks.

Healthcare, financial and small-cap stocks also benefited from the recent market rotation as investors sought less conventional segments of the market. Interest rates rose at the short end of the curve as investors anticipated slightly higher rates.

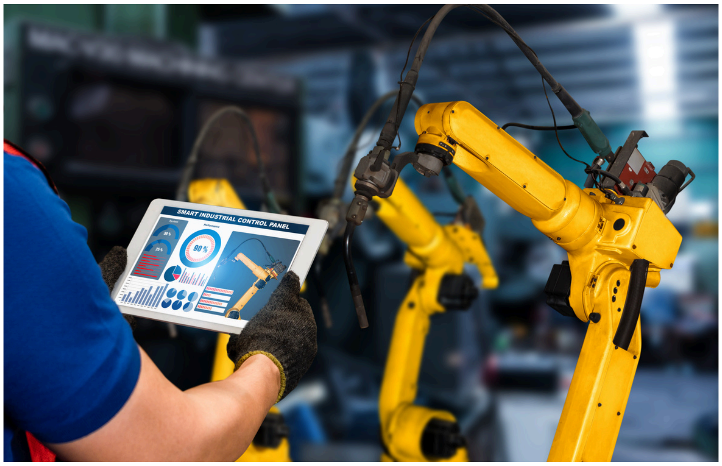
Stocks were mixed, with the S&P 1500 and S&P 500 declining by 0.5% and 1.0%, respectively. International stocks fell 0.6%, matching the returns seen in the U.S. Meanwhile, growth stocks underperformed value stocks by 1.8% in June. Nevertheless, on a year-to-date basis, growth stocks maintain a four-percentage-point advantage over value stocks. Mega-cap stocks lagged, with the S&P 500 Index underperforming small-cap stocks by 8.2%. In the first six months of 2026, small-cap stocks outperformed the S&P 500 by 13.7%. The Russell 2000 Index increased by nearly 22.0% in the first half of the year, representing the strongest first-half performance since 1991.

The first half of 2026 has offered a profitable environment for investors, even as performance trends varied in June. The Dow Jones Industrial Average rose nearly 13% in the first six months, its strongest start in five years. The S&P 500 gained just over 10% during the same period, with an impressive 15% increase in the second quarter.

Small-cap stocks also performed well, posting their best first-half results since 1991. Strong earnings growth has supported these gains, with company earnings up 29% in the first quarter and expected to rise more than 25% for the year.

Perhaps the biggest market event this past month was the IPO of Space Exploration Technologies Corp. (SpaceX/SPCX), which brought the company into the ranks of mega-cap stocks. SPCX ended the latest month with approximately $2 trillion in market capitalization. It is not currently included in major indexes, but will be added over the next year. As mentioned above, investors generally rotated out of the Mag-7 stocks during June and bought shares of the remaining 493 companies.

All of the Mag-7 stocks lost value in June. Nvidia (NVDA) fell 5.1%, Apple (AAPL) fell 7.3%, Alphabet (GOOGL) fell 6.0%, Microsoft (MSFT) fell 17.2%, Amazon (AMZN) fell 11.9%, Meta (META) fell 10.9%, and Tesla (TSLA) fell 3.5%. Combined, the Mag-7 subtracted 2.8% from the S&P 500's return. The remaining 493 companies contributed 1.6%. The equal-weight S&P 500 Index gained 2.4%, thereby outshining the 1.0% drop seen in the S&P 500 Index during the same time frame.

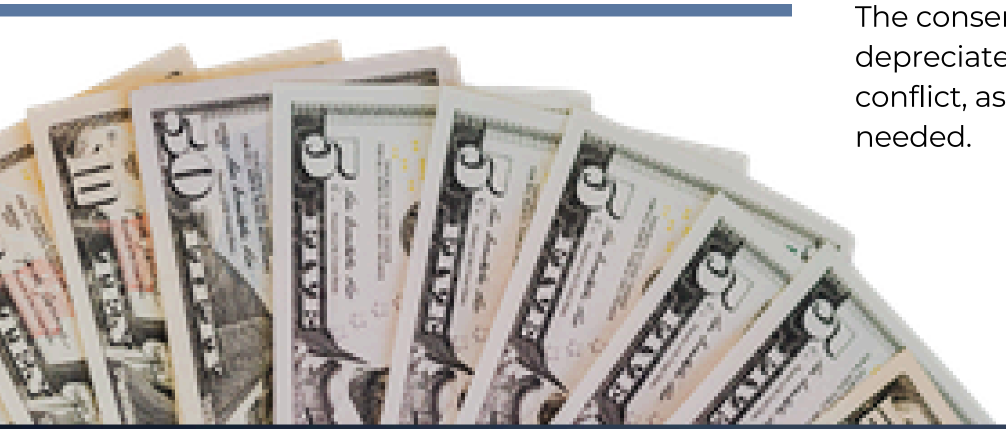


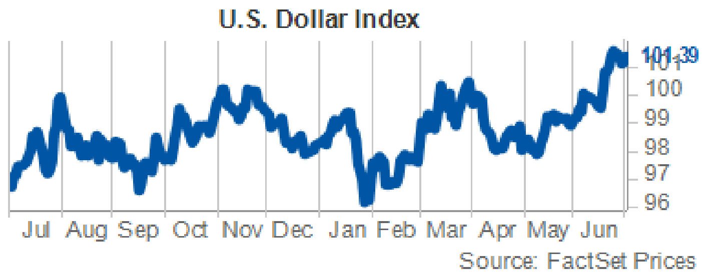
Short-Term Yields Climb While Long-Term Rates Stay Anchored

In looking at fixed-income market developments during the latest month, interest rates increased by 15 basis points in the two-year-and-shorter portion of the yield curve. Meanwhile, longer-term interest rates were flat for the month, as the Treasury yield ended June at 4.44%, unchanged from May.

The overall yield curve flattened slightly last month as short-term interest rates rose in anticipation of further Federal Reserve rate hikes. For both short- and long-duration bonds, coupons offset any decline in value, resulting in modest gains across most maturities. The 20+ Year ETF increased 1.2% during June as longer-term interest rates remained stable.

In the mortgage market, the average 30-year mortgage rate ended June at 6.54%, unchanged from the prior month. Since the start of the year, mortgage rates have risen by 34 basis points, further constraining housing affordability. However, compared with the same time last year, mortgage rates have declined by 13 basis points.





U.S. Dollar Surge Crimps International Returns

In the previous month, international stocks advanced by 1.4% in local currency terms but declined by 0.6% when measured in U.S. dollars.

The U.S. dollar appreciated by 2.3% over the past month and is hovering near its highest level in a year, despite a prevailing bearish outlook among most investors.

Year-to-date, international stocks have outperformed U.S. equity markets, rising 13.7% compared to the S&P 500's 10.2% gain. In 2026, emerging markets have demonstrated significant growth, advancing by over 20%, driven by strong returns from several large AI-related firms.

The consensus is that the U.S. dollar will depreciate following the resolution of the Iran conflict, as its status as a safe-haven is no longer needed.

Factory Floors Keep Humming as Manufacturing Expansion Continues

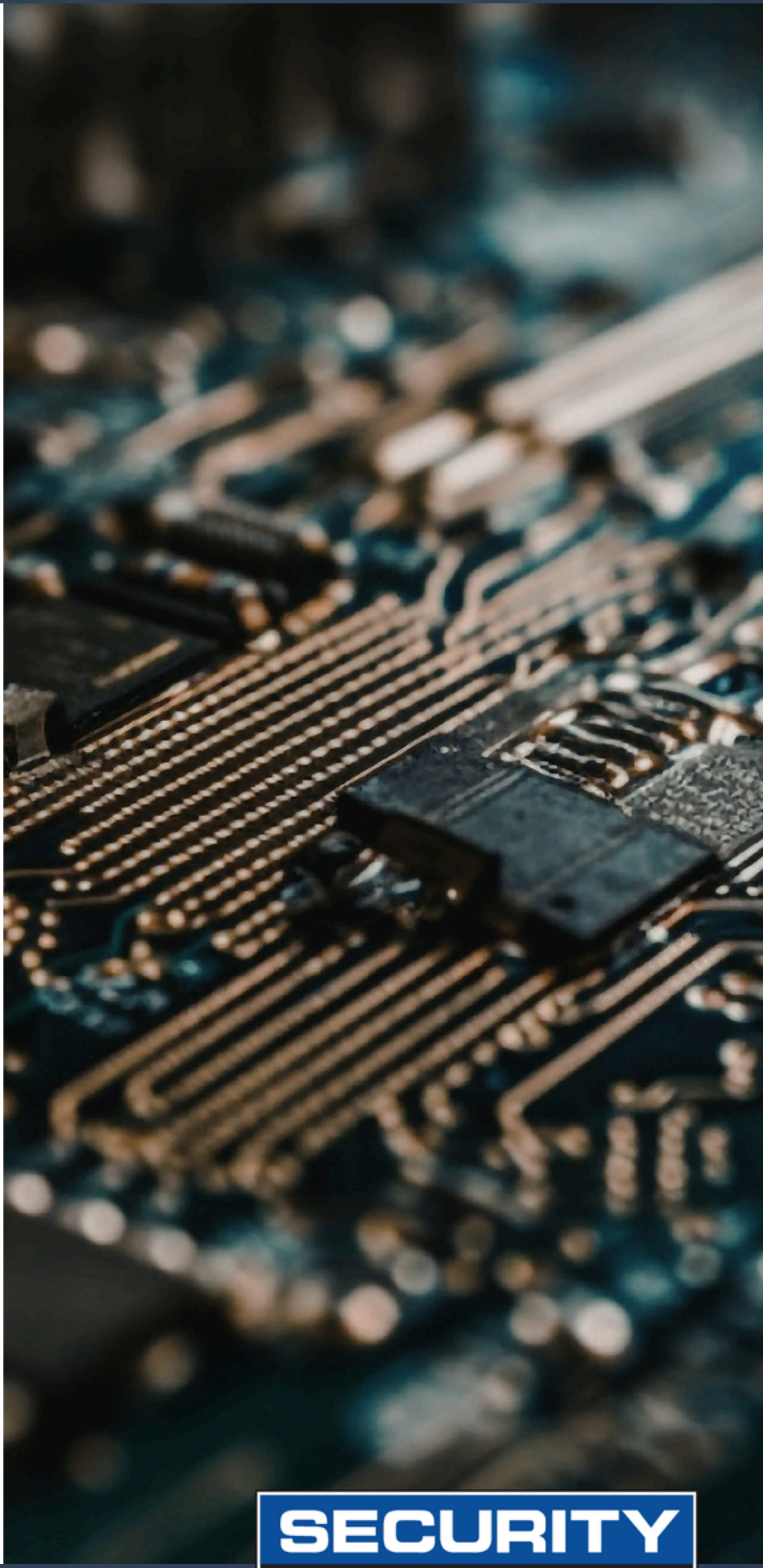
The U.S. manufacturing sector continued to show resilience in June, extending its expansion streak to six consecutive months. The Institute for Supply Management (ISM) Manufacturing Index recorded a value of 53.3, indicating sustained growth and approaching its highest level in four years.

Although the pace of expansion moderated slightly compared to May, activity remains robust, driven by strong capital investment, persistent AI-related expenditures and increased demand from the defense sector.

Encouragingly, input cost pressures moderated significantly during the month, as evidenced by a 9.1 percentage-point decline in the Prices Paid Index, the largest monthly decrease since July 2022. The reduction in oil prices helped alleviate inflationary pressures that had intensified due to recent geopolitical tensions in the Middle East.

Despite these positive developments, several challenges persist. Manufacturers continue to encounter elevated costs for steel, aluminum and other essential inputs. Many firms have identified geopolitical risks and tariff uncertainty as factors constraining future investment decisions.

Furthermore, the sector's employment gauge remains below the threshold indicating hiring growth, suggesting that expansion has not yet led to significant increases in factory payrolls.



Manufacturing Trend
Insights

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Market Participants Now Expect Fed to Raise Interest Rates in 2026

In January, the federal funds futures market was pricing in two interest rate cuts by the end of the year. Now, however, the market is pricing in a rate hike instead.

Higher interest rate expectations have been largely driven by war-induced inflation and the ongoing AI investment cycle. Memory prices have surged by 200% to 400% since mid-2025 due to insatiable demand from AI customers. Recently, well-known consumer electronics companies such as Apple and Microsoft have announced price increases due to the spike in memory costs.

We do not think the Federal Reserve will raise interest rates unless tensions with Iran worsen and cause oil to spike above $125 per barrel. The price of oil has fallen by nearly 40% since its April high, helping ease energy inflation. We argue that the economy is likely to enter a period of disinflation, driven by lower energy prices and the backside of the tariff-induced surge. During this period, there is a risk that the Federal Reserve may cut interest rates prematurely.

Meeting Date	Futures Market 6/1/26	SNB Forecast
July 29	3.75%	3.75%
September 16	4.00%	3.75%
October 27	4.00%	3.75%
December 9	4.00%	3.75%
January 27	4.00%	3.75%
March 17	4.25%	3.75%
April 28	4.25%	3.75%

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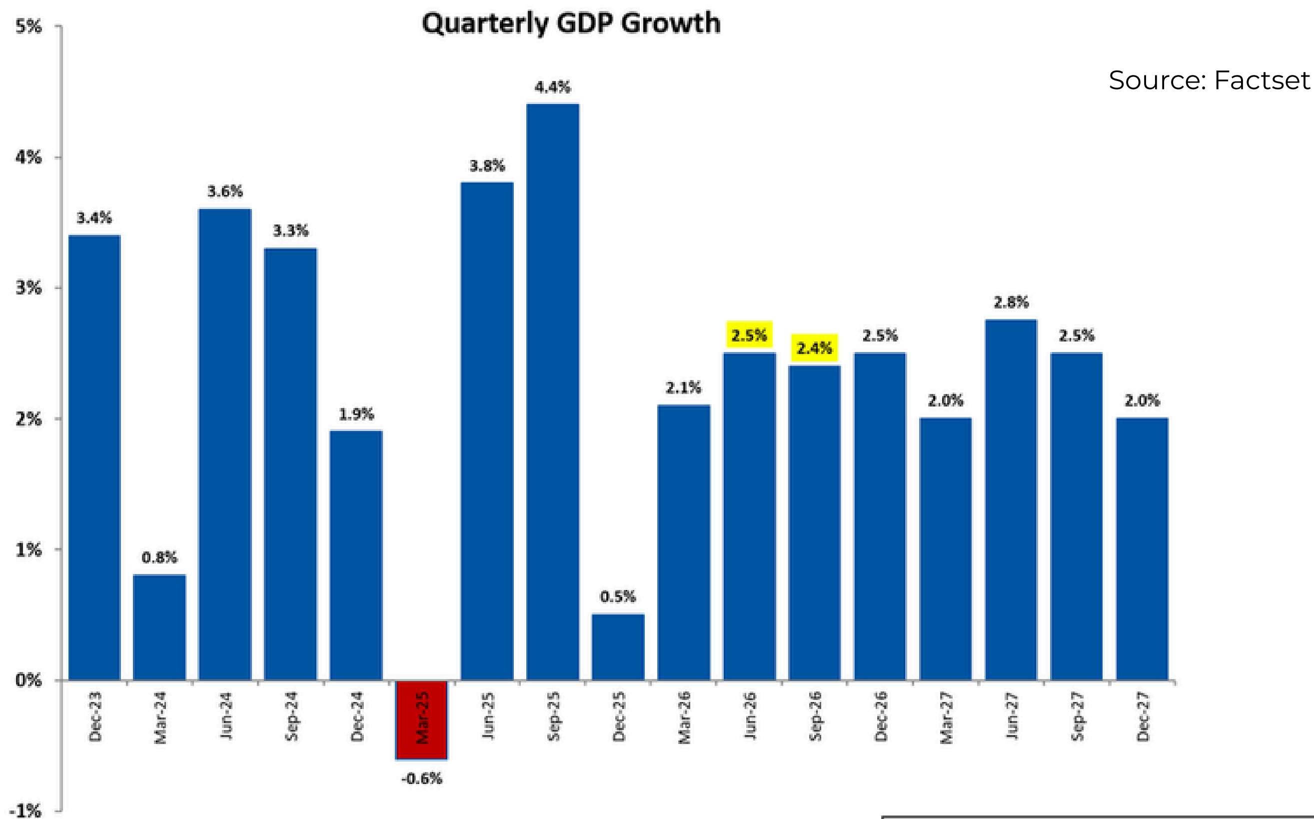
U.S. Economy Expands by 2.1% in First Quarter, Aided by Capital Spending

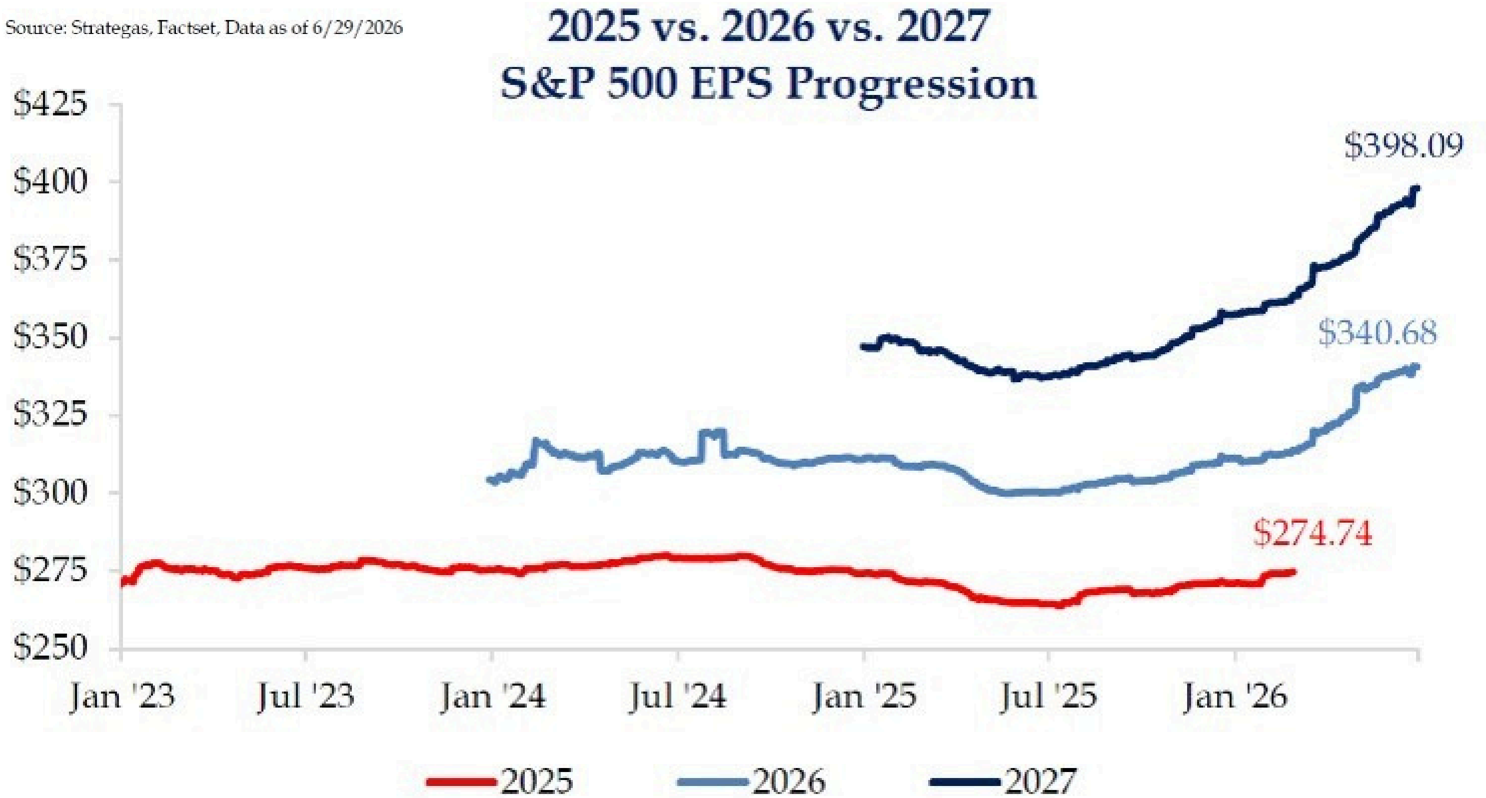
The final estimate from the Bureau of Economic Analysis shows U.S. GDP grew at a 2.1% annualized rate in the first quarter of 2026, up from the previous estimate of 1.6% and significantly higher than the 0.5% growth in the fourth quarter of 2025.

Beneath the surface, however, the composition of growth was more mixed. Consumer spending, which typically drives the U.S. economy, rose only 0.5%, indicating a significant slowdown in household activity.

At the same time, investment, exports and government spending provided the primary support for growth, helping offset softer consumption trends.

From an investment perspective, the report reinforces a familiar theme: the economy continues to grow at a moderate pace, but momentum remains uneven, with pockets of strength in capital spending and government activity contrasted by a more cautious consumer. Investors will closely monitor consumer spending trends as energy prices decline.





Corporate America Eyes a Banner Year as Earnings Estimates Continue Rising

Despite ongoing geopolitical tensions with Iran and uncertainties around artificial intelligence, corporate earnings estimates continue to rise. The consensus estimate for S&P 500 earnings per share in 2026 is now $341, up 11% from the previous forecast of $308. One of the main drivers of the strong earnings growth is profit margins. The estimated forward 12-month S&P 500 operating margin is 20.7%, a record high (Strategas).

Importantly, it isn't just the technology sector driving higher earnings estimates; all but two S&P sectors (consumer staples and healthcare) have seen earnings estimates rise since the start of the year.

Furthermore, seven of the 11 S&P sectors are expected to post double-digit earnings growth in 2026. Technology is forecast to grow by 48%, and communication services by 27%. Overall, S&P 500 earnings are projected to rise 24% for full-year 2026, compared to $271 per share in 2025. Forecasts for 2027 show continued growth, with earnings expected to increase by another 17%, a remarkable figure.

Corporate earnings calls will begin the week of July 13. Management teams are expected to focus less on tariffs and global conflicts and more on how AI is affecting costs, chip supply and AI demand.

Hiring Activity Slows During June as Job Market Takes a Summer Pause

The latest employment report painted a picture of a labor market that continues to expand, but at a noticeably slower rate. Employers added 57,000 jobs in June, which was below the consensus estimate of 100,000. Payroll estimates for April and May were also revised lower by a total of 74,000 positions. The unemployment rate decreased to 4.2% from 4.3% in May, mainly because fewer people participated in the labor force. The labor force participation rate dropped to 61.5%, the lowest in more than five years. Ongoing retirements among older workers contributed to this decline.

The hiring slowdown was most evident across several consumer-facing industries. The leisure and hospitality sector reported its largest employment decline since 2020, with a loss of just over 60,000 jobs, despite expectations that World Cup-related activity would increase hiring. Retail trade and information services also saw job losses in June, indicating that businesses are being more selective about adding staff. Healthcare and social assistance, however, added about 25,000 jobs each during the month. Hospitals added nearly 10,000 jobs, reflecting the ongoing importance of health care to the U.S. economy.

Shoppers Stay Strong as Retail Momentum Builds Into Summer

U.S. retail sales rose 0.9% in May, exceeding expectations and marking the fourth consecutive monthly gain, signaling continued consumer resilience heading into summer.

Even with gasoline prices climbing the past few months, spending wasn't just about filling the tank. Excluding gasoline, retail sales increased by 0.7% in May, indicating broad-based growth. Among government-tracked categories, 11 of 13 posted gains, including a 1.2% rise in auto sales. Online sales grew over 12% year-over-year as consumers sought competitive pricing.

While the latest retail sales reading was encouraging, the underlying story is a bit more nuanced, with higher-income consumers driving much of the spending. In addition, consumers are increasingly value-focused, hunting for deals and promotions.

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Inflation Reaccelerates as Energy Costs Lift Consumer Prices

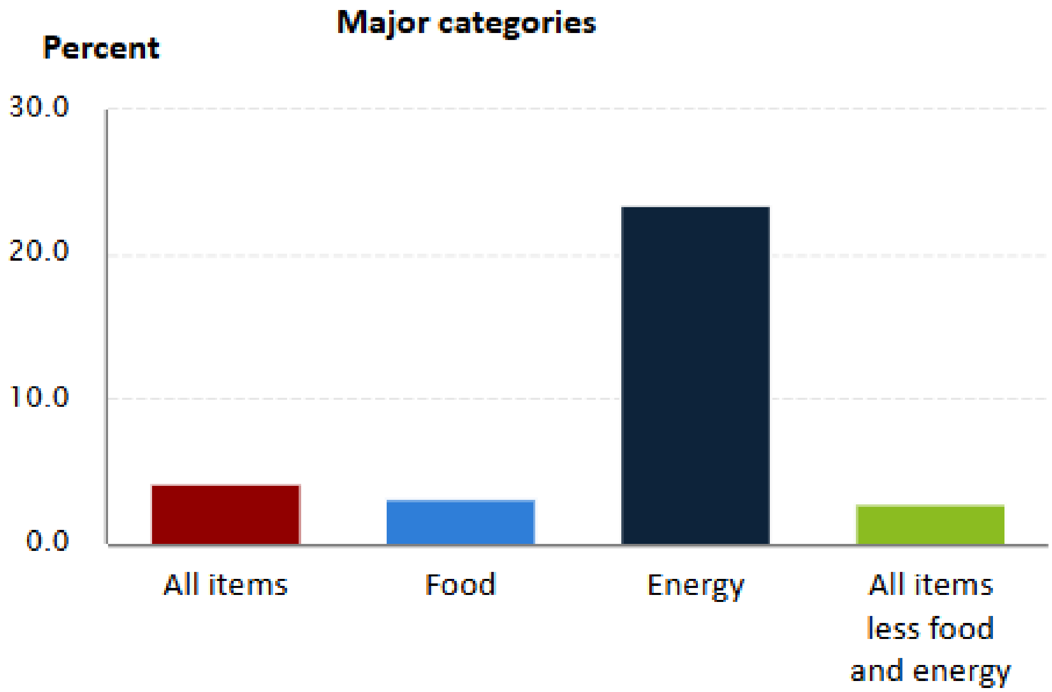
Inflation is heating back up, with the government reporting that consumer prices rose 4.2% year over year in May. This marked the highest level of inflation in three years, although the latest reading matched expectations. On a core basis, excluding food and energy effects, prices rose by 2.9% year over year and by just 0.2% month over month.

More than half of last month's advance in CPI was driven by higher energy prices, which remain elevated as the conflict with Iran continues to unfold.

Outside of energy, several categories witnessed month-over-month price declines, including new vehicles and health insurance. Airline fares posted a steep increase, though, driven by higher jet fuel costs.

Real average hourly earnings decreased by 0.7% in the previous month, reflecting the impact of rising prices on household budgets. This decline marked the second consecutive month of real wage declines.

12-month percentage change, Consumer Price Index, selected categories, May 2026, not seasonally adjusted



Source: U.S. Bureau of Labor Statistics.

Consumers Feel Better About Prices but Worse About Jobs

The most recent Consumer Confidence report indicated a slight improvement, as the Conference Board's sentiment index increased by 0.6 points to 91.2 in June. Nevertheless, this figure remained below the consensus estimate of 94.6 anticipated by most investors.

Consumer confidence was aided this past month by falling gasoline prices, which provided relief to household budgets. Lower energy costs helped ease some inflation concerns, particularly after recent geopolitical tensions pushed oil prices higher.

However, consumer views of the labor market worsened, with 22.5% reporting jobs were "hard to get," the highest level since January 2021.

Housing Market Shows Signs of Life in May as Sales Hit a 2026 High

Following a slow start in April, the U.S. housing market rebounded in May, with existing-home sales rising to an annualized pace of 4.17 million. The latest reading marked a much better-than-expected pace of activity versus consensus estimates and represents the strongest sales pace so far this year.

After a sluggish start to the spring selling season, more buyers are back in the market due to improved affordability and slightly lower mortgage rates than last year. Sellers are also more flexible with pricing, supporting stronger housing turnover.

Encouragingly, the composition of buyers is also shifting in a healthier direction. First-time buyers accounted for 35% of transactions last month, marking the highest share since 2020, while investor participation declined. Home prices are still moving modestly higher, with the median price reaching $429,300 (up 1.3% year-over-year), and inventory has improved to 1.55 million homes, offering buyers slightly more choice.

While mortgage rates and broader economic conditions will continue to affect activity, recent data indicate the housing market is stabilizing and may become more balanced in the coming months.

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This report reflects the authors' current opinions and is subject to change without further notice. There can be no assurance that any of the projections cited will occur.

Abbreviations and Other Terms Used
This report will utilize the following acronyms: FRB for the Federal Reserve Bank, FOMC for the Federal Open Market Committee and BLS for the Bureau of Labor Statistics. The FOMC is part of the Federal Reserve Board (FRB), which meets eight times a year to set monetary policy. The primary tool for monetary policy is the Federal Funds Rate (FFR). FFR is the rate set by the FOMC and is the rate at which banks borrow and lend their excess reserves to each other overnight. It forms a floor for short-term interest rates.

We will use the following abbreviations for various governmental agencies.
BEA = U.S. Bureau of Economic Analysis
BLS = U.S. Bureau of Labor Statistics

We will use the terms nominal and real. Nominal values are measured in terms of money or things that are counted in the real world. Retail sales, personal income, expenditures and corporate earnings are usually reported in nominal dollars. Real values are adjusted for inflation (nominal minus inflation). Real values enable comparisons that are not distorted by inflation. GDP numbers are usually reported as real growth.

Other abbreviations are commonly used.

QTD = Quarter-to-date	TMA = Trailing Three-Month Annualized
YTD = Year-to-Date	Y/Y = Year Over Year
M/M = Month Over Month	MBPD = Million Barrels per Day

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