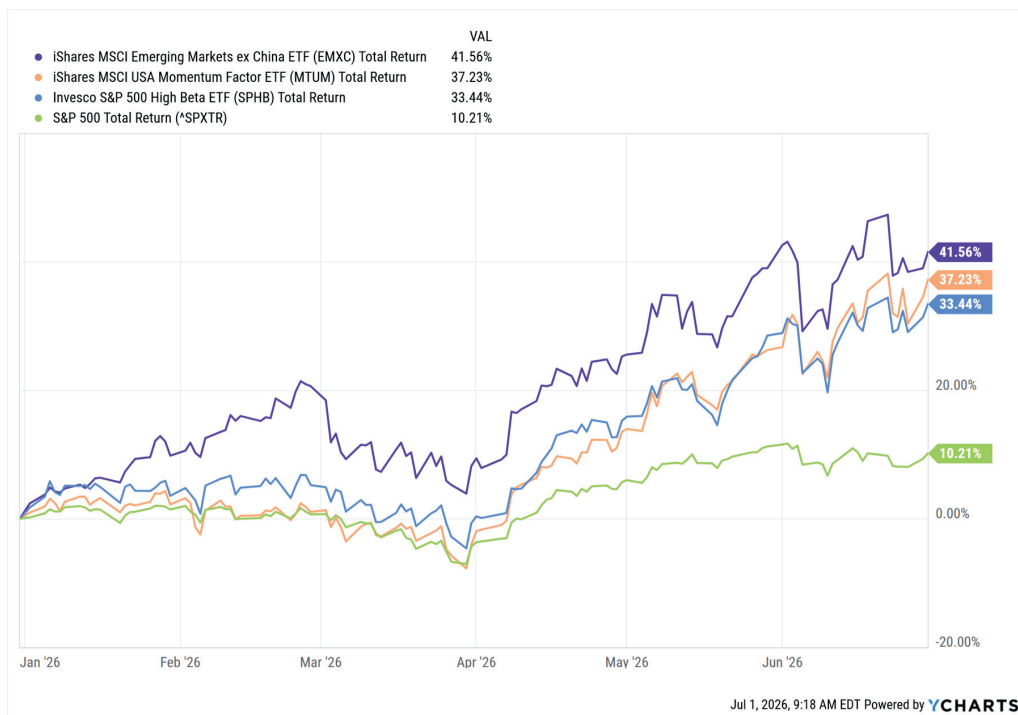




Data Centers and Inflation

Through a strange twist of fate, the past two years saw geopolitically tied sell-offs (tariffs and the Iran War) end around the beginning of Q2, giving way to historic rallies in the most volatile stocks in the market. As we've previously written, rallies in these types of stocks are somewhat common, but they tend to happen when the economy is coming out of a crisis- not exactly the situation in 2025 or 2026. So why did we see such strong rallies in these stocks?

The spring stock rallies in both years were concentrated in three main areas: high beta US (the most volatile quintile of large US stocks), momentum, and emerging markets. The through-line here is that all these categories have significant exposure to the manufacturers of data center equipment. Essentially, the market is having such a difficult time predicting who the winners will be among the sellers of AI services that they've thrown their hands up and just purchased the companies providing the "picks and shovels" to the AI data center buildout. As you can see in the chart below, these stocks have trounced the S&P 500 since the Iran War low.



We don't expect this high volatility trade to continue forever. Earnings in the semiconductor sector are notoriously cyclical and, due to the magnitude of the current data center buildout, will likely fluctuate even more this time. Furthermore, although we haven't seen a bear market in almost four years, lower-volatility and higher-quality stocks tend to hold up better during weak market periods. *Continued on page 2*

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SPECIAL POINTS OF INTEREST

- If you would like to schedule a meeting for planning or portfolio questions, don't hesitate to contact us!
- Q3 Market & Office Closures:
 - Labor Day - Monday, September 7th, 2026

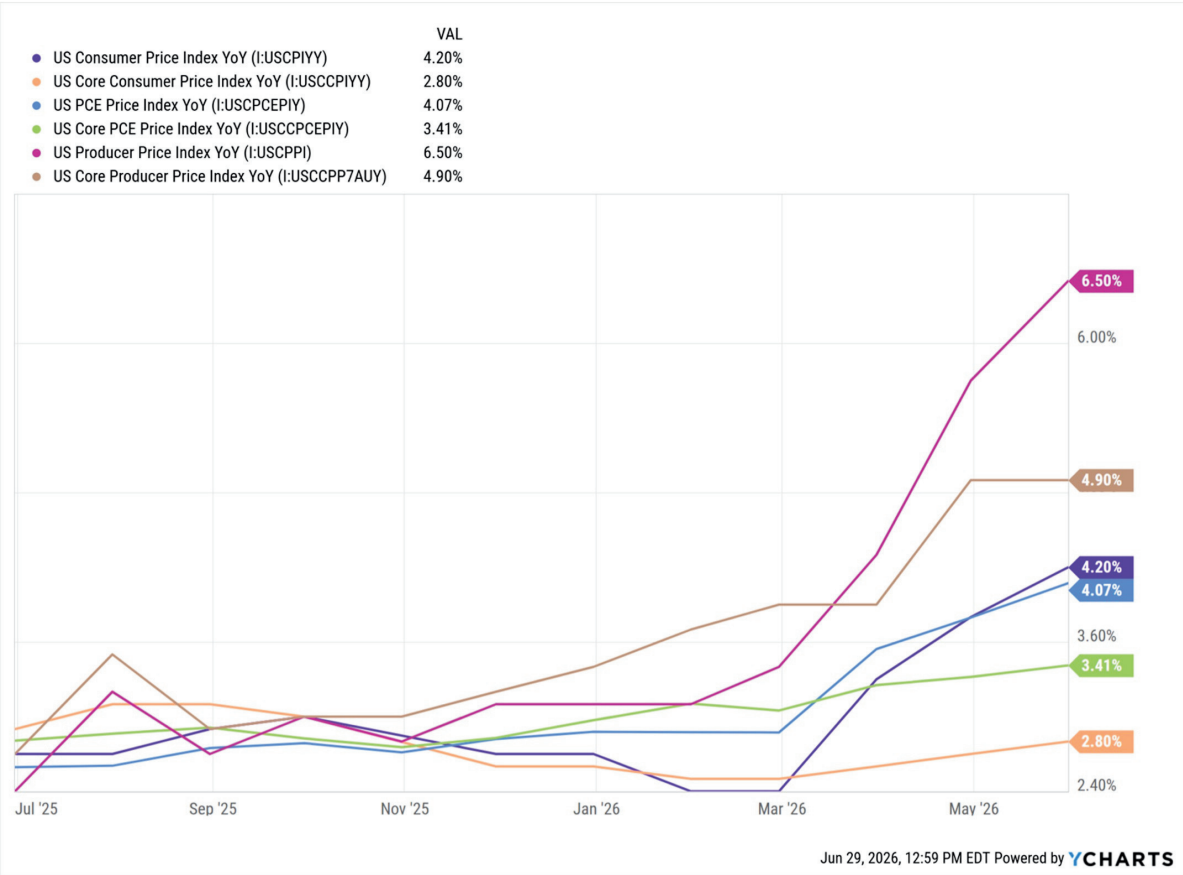


Data Centers and Inflation

Inflation is Still Here

We wrote last quarter about economic data that looked potentially stagflationary (stagnant economic growth with rising prices). The data released during the second quarter clearly indicate that we are not seeing the economic stagnation we thought possible. The Q1 annualized real GDP growth rate came in at a solid 2.1%, and the Atlanta Fed’s “GDPNow” forecast is estimating an even better 2.5% rate for Q2. Additionally, the labor market seems to have stabilized- the unemployment rate is down slightly since Fall 2025, initial claims for unemployment have been steady, job openings have increased slightly, and the past three new jobs numbers have been much healthier.

In contrast to the improvement we’ve seen in economic growth and the labor market, the inflation picture has gotten worse. All the inflation measures we follow are above the Fed’s 2% target and are in uptrends.



Producer prices have turned sharply higher in the past few months, and the rate of change is now more than 3 times the Fed’s goal. The only silver lining in the inflation data is that core prices (which exclude food and energy) are all running well below their headline peers. This means that to the extent that headline inflation was driven by the conflict in Iran and the resulting energy and fertilizer disruptions, we would expect to see some relief as that conflict winds down.

Nevertheless, inflation has been a persistent problem since COVID- we haven’t had a single month of inflation at or below our 2% target in nearly 5.5 years! The closest we got to the goal was in September 2024 (almost two years ago) and the data has deteriorated since then. The upshot is the market now expects the Fed to start raising interest rates again. *Continued on page 3*

Data Centers and Inflation

The following table shows the market-based probability of each number of rate hikes from the current level by the next 6 Fed meetings.

# of 0.25% Rate Hikes	Fed Meeting Month					
	July	September	October	December	January	March
0	68.5%	37.10%	28.9%	19.4%	17.6%	15.6%
1	31.5%	48.50%	45.9%	40.3%	38.4%	36.1%
2	-	14.50%	22.0%	29.9%	30.8%	31.7%
3	-	-	3.2%	9.4%	11.2%	13.4%
4	-	-	-	1.1%	1.8%	2.9%
5	-	-	-	-	0.1%	0.3%
Source: CME FedWatch 6/29/26 - Note: the Fed doesn't meet in Feb, May, Aug, or Nov						

As you can see, the market is indicating just a 19% chance that the Fed won't raise rates before the end of the year, and a 40% chance they'll be at least 0.5% higher than the current level. Furthermore, new Fed chair Kevin Warsh has made it clear he would like to see a reduction in the size of the Fed's balance sheet. This could put additional upward pressure on interest rates. Monetary tightening wasn't thought to be a possibility at the beginning of the year, but we now view it as a risk worth watching. All else equal, rising rates are a headwind to both stock and bond market returns.

Looking Ahead

We have been actively rebalancing our more aggressively allocated client portfolios to reduce stock overexposure, while adding smaller positions in momentum and emerging market stocks for more conservatively allocated clients to manage volatility. For clients with large taxable accounts, we have done our best to balance short-term performance with the potential capital gains tax impact of selling positions that have been out of favor since last spring. These are typically higher dividend, higher quality, and lower volatility stocks.

We saw enormous rallies in semiconductor and data center equipment stocks in April and May, but the market started to broaden out in June. This was a welcome change of pace after such a concentrated rally. The economy seems to be on more solid footing (higher inflation notwithstanding) and non-tech companies continue to adopt AI which should be accretive to their earnings. The two biggest risks to the market we see are: 1) a breakdown in the data center equipment trade, and 2) persistent inflation that causes the Fed to raise interest rates. In either case- we will react as appropriate.



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Index	Q2 Total Return	YTD Total Return	1 Year Total Return
S&P 500	12.5%	10.2%	22.5%
DJIA	9.6%	9.8%	19.6%
Nasdaq Comp	17.9%	13.1%	30.6%
MSCI EAFE	6.8%	9.7%	20.1%
Russell 2000	13.0%	22.6%	39.3%
US Aggregate Bond	0.7%	0.7%	3.9%

So You Retired. Now What?

Much of the conversation about retirement focuses on saving. But what happens once you've decided it's time to retire? The questions change. Instead of asking how much to save, you're asking how to turn decades of savings into a reliable income and how to feel confident spending money you've spent a lifetime accumulating.

The transition from saving to spending is one of the biggest adjustments retirees face. After decades of building your nest egg, it can feel unsettling to begin drawing from it. Developing a thoughtful withdrawal strategy can help provide a reliable income stream while giving you confidence that your savings are working to support you throughout retirement.

Have a Plan That Makes You Feel Confident

There isn't a one-size-fits-all method of retirement planning. That is why we tailor the planning process to each client. We use everything from specialty retirement income software to Excel spreadsheets to help clients understand their plan and feel confident that they will not run out of money in retirement.

Tips to boost confidence in your retirement plan:

- **Prioritize what matters most.** Identify the experiences and goals that are most important to you in retirement—whether that's travel, hobbies, charitable giving, or helping family members. Building your plan around these priorities helps ensure your savings are aligned with the life you want to live.
- **Plan for healthcare and unexpected expenses.** One of the biggest concerns for retirees is the potential cost of long-term care or major medical expenses. Addressing these possibilities as part of your retirement plan can reduce uncertainty and make it easier to enjoy retirement without constantly worrying about "what if."

Establishing Monthly Income

Retirement means that your paycheck will cease, and you will have to create a new income stream. In our experience, clients are more successful when they transfer the same amount of money from their investment account to their bank account each month. This works because it mimics the paycheck they are used to receiving, making it easier to monitor spending. Clients who withdraw cash on an as-needed basis often find it easier to overspend or underspend.

One of the most frequently asked questions we receive from pre-retirees is, "Which account should I pull money from first?" There is no universal answer because it depends on the types of accounts, the amount of invested assets, your age, and other sources of income.

For example, we generally try to allow retirement accounts to continue growing. However, if an IRA is much larger than a taxable brokerage account, it may make sense to begin withdrawing from the IRA even if the withdrawals increase ordinary income. On the other hand, if we are planning a Roth conversion strategy at the beginning of retirement, we would want to avoid increasing ordinary income and not withdraw from the IRA.

When to Take Social Security

This is another big question that depends on the situation. We consider factors such as other income sources, the size of investment portfolios, likely life expectancy, and spousal benefits, to name a few, when determining when a client should begin receiving Social Security benefits. This is also an area where the client's feelings toward Social Security come into play. We make recommendations at the beginning of retirement and continue to revisit them until benefits are claimed because the right answer can change as circumstances change.

Retirement isn't just a financial transition; it's a life transition. Having a thoughtful income strategy and confidence in your plan can make it easier to enjoy the retirement you've worked so hard to achieve.

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