Quarterly *Insight*

Market *Update*

FROM THE DESK OF CIO CHARLES RINEHART, CFA, CAIA

One of the time-honored traditions in our industry is the annual outlook. Every January, market strategists gather with their analyst teams, review the landscape, and do their best to prognosticate about the year ahead.

What follows has all the hallmarks of a good magic trick: we know surprises will be coming, we just do not know exactly what they will look like. By the time July rolls around, those keeping score can usually sort the year's events into three categories: the expected, the unexpected, and the expected with unexpected consequences.

As we sit down to write our mid-year newsletter, it is a good time to pull out the scorecard, review the year behind us, and consider what may come next.

WHAT WE EXPECTED

Coming into the year, we had plenty of reasons for optimism about the strength of the U.S. economy. After several years of challenging policy headwinds, we were turning a corner on both the monetary and fiscal fronts. Lower interest rates and larger tax refunds seemed poised to support stronger economic growth.

As a result, we expected increased economic activity, broader earnings growth, and improved performance from smaller companies.

Through the first six months of the year, that prediction has proven correct. Economic surveys continue to improve, as evidenced by the ISM Manufacturing Index, which recently turned positive for the first time in three years and reached its highest level since 2022. Correspondingly, earnings growth broadened across the market, with some of the strongest gains coming from smaller companies.

The market reacted in kind, and small-cap stocks, as measured by the Russell 2000 index, are up 22.6% through the first six months of the year, handily outperform-ing the S&P 500's 10.2% gain.

WHAT WE DIDN'T EXPECT

Geopolitics are inherently unpredictable, and the war in Iran was not something we forecasted for this year.

From a market perspective, the most meaningful economic consequences stemmed from disruptions to commodity supply chains, particularly those emerging from interrupted traffic through the Strait of Hormuz. While these developments created volatility in energy and commodity markets, final goods supply chains remain remarkably resilient.

When the conflict first began, we argued that geopolitical disruptions are often short-lived and can create opportunities for long-term investors. We urged optimism during a period of uncertainty. We remain in that camp today, and markets have more than recovered from the initial sell-off in March.

2026
SECOND QUARTER

Featuring

Total *returns*

	2Q 2026	2026
S&P 500	15.2%	10.2%
DOW JONES INDUSTRIAL AVERAGE	13.4%	9.8%
NASDAQ	21.6%	13.1%
RUSSELL 2000	21.5%	22.6%
MSCI EAFE (INTERNATIONAL)	10.8%	9.4%
BLOOMBERG U.S. AGGREGATE BOND INDEX	0.7%	0.6%

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WEALTH MANAGEMENT

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At the same time, it has become increasingly clear the path toward resolution is unlikely to be a straight line, and additional disruptions remain possible. Markets have taken note, adjusting inflation expectations and pushing interest rates higher. The two-year treasury yield is up almost 0.7% through the first half of the year as the market has moved from expectations of further rate cuts to potential hikes.

Geopolitical events often produce second- and third-order effects that are difficult to predict, and investors should remain humble about what may lie ahead.

THE EXPECTED WITH UNEXPECTED CONSEQUENCES

For several years, we have highlighted the extraordinary growth in spending on artificial intelligence infrastructure. The world's largest technology companies have added hundreds of billions of dollars to their projected capital spending plans. We expected this trend to continue, and so far, it has. The largest data center builders have announced major increases in spending budgets this year.

As spending has accelerated, the industry has encountered a series of bottlenecks. Today's issue is memory chips, with prices for certain high-demand components surging, in some cases increasing by 300% or more year-over-year.

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The unexpected consequence here is continued narrowness in large cap stocks. While broader economic growth has helped improve participation among smaller companies, large-cap indices remain unusually concentrated. The average semiconductor and tech hardware stock more than doubled this year, while the average return across the rest of the S&P 500 is a much more modest 7.3%.

Nevertheless, we believe market leadership within large-cap stocks will eventually broaden as well. Memory chips have historically behaved like commodities, and in commodity markets the cure for high prices is often high prices. Elevated prices encourage both new supply and, in some cases, demand destruction. The timing is always uncertain, but history suggests that periods of scarcity and surging prices are often followed by periods of normalization. Increasingly, investors are asking an important question: if the cost of building AI infrastructure continues to rise, what impact will that have on the returns these investments ultimately generate? We also expect the bottlenecks to evolve over time. First, it was processing chips. Now it's memory. Tomorrow, it may be electricity or even access to capital.

THE ROAD AHEAD

We entered the year with plenty of reasons for optimism. Easier policy and an improving economy appeared poised to support continued growth.

Those same drivers may be less impactful in the year ahead, particularly now that interest rates have moved higher. The better things get, and the longer they run, the more likely it becomes that new challenges eventually emerge. We fully expect more surprises on the road ahead. After all, market forecasts are a bit like magic tricks: the surprises are not the exception,they are part of the show.

While the future remains uncertain, today's backdrop remains constructive. Economic growth is positive, corporate profits are expanding, and higher bond yields have improved opportunities in fixed income. As always, we remain focused on the opportunities in front of us while maintaining the discipline needed to navigate whatever surprises may come next.

Thank you, as always, for your continued partnership. If you have any questions, please do not hesitate to reach out to our team.

Chief Investment Officer, Charles Rinehart, CFA, CAIA, *leads our dedicated team of research analysts and portfolio managers as they manage our investment strategies to deliver financial peace of mind to our clients.*

JIC BLOG: BEYOND THE NUMBERS

Trump Accounts: *A New Tool*

TRUMP ACCOUNTS: A NEW TOOL FOR CHILDREN AND GRANDCHILDREN, BUT NOT A PLANNING PANACEA

The dawning of July 4, 2026 marked the 250th anniversary of our great country, and we hope everyone had a chance to celebrate and look forward to a prosperous future.

Much less celebrated on July 4, 2026, is the availability of a new savings account named **IRC Section 530A Accounts** (the tax code section governing them), better known as **Trump Accounts.**

New savings vehicles often generate significant attention, particularly when they are promoted to help future generations build wealth. The recently created Trump Account is no exception. Since the legislation was passed,

Trump Accounts: *A New Tool*

we've received questions from clients, parents, and grandparents wondering whether Trump Accounts should become part of their family's planning strategy.

The answer, as is often the case in wealth planning, is it depends.

Trump Accounts introduce some interesting opportunities, particularly for families interested in long-term retirement savings for children. However, they also come with limitations, tax complexities, and practical tradeoffs that make them far less compelling than many of the headlines suggest. In our view, Trump Accounts are best viewed as another tool in the planning toolbox—not a replacement for existing strategies such as 529 plans, custodial Roth IRAs, UTMAs, or taxable investment accounts.

WHAT IS A TRUMP ACCOUNT?

Created under the One Big Beautiful Bill Act (OBBBA), Trump Accounts are custodial retirement accounts designed for children. The account is established for a child and remains in a custodial structure until age 18 (or age of majority, depending on the state), at which point the beneficiary (the child) gains control of the account. During the years prior to age 18, no distributions are permitted.

The account functions similarly to a traditional IRA, but with one important distinction: it allows retirement-oriented savings to begin before a child has earned income. This is the primary planning problem Trump Accounts are attempting to solve. An older child/teenager with a job can contribute to a custodial Roth IRA because they have earned income. A newborn, toddler, or elementary school student without legitimate earned income, generally, cannot. Trump Accounts effectively create a retirement savings vehicle for children long before they enter the workforce.

THE APPEAL: STARTING THE RETIREMENT CLOCK EARLY

The strongest argument for Trump Accounts has little to do with taxes and everything to do with the power of compounding. A critical investing principle is employed with these accounts: time in the market matters much more than timing the market. Every additional year of compounding has the potential to significantly increase future wealth.

A child who receives funding at birth may have decades of additional compounding compared with an investor who waits until adulthood to begin saving. The legislation also includes a pilot program that provides a $1,000 government contribution for eligible children born in the years 2025 through 2028, creating an additional incentive for some families to establish an account. For families focused on multigenerational wealth planning, the concept is attractive: create a modest account today, invest for the long term, and allow decades of growth to work in the child's favor.

Unfortunately, that is where the analysis becomes more complicated.

CONTRIBUTION TYPES

Trump Accounts can be funded from several sources, which creates a flexible savings vehicle for children. As noted above, eligible children born during the years 2025 through 2028 may receive a one-time $1,000 federal seed contribution, while parents, grandparents, and other individuals can make additional after-tax contributions of up to a total of $5,000 annually (indexed for inflation). Employers may also contribute up to $2,500 per year (per employee, not per child) without the contribution being taxable to the child. Unlike Roth IRAs, contributions are not dependent on the child's earned income, allowing families to begin funding an account from birth.

UNDERSTANDING THE TAX REALITY

Some may initially assume Trump Accounts combine the advantages of a Roth IRA with the flexibility of a custodial account. They do not. In most cases, contributions will be made with after-tax dollars. However, unlike a Roth IRA, future growth is not distributed tax-free. Instead, investment growth is generally taxed as ordinary income when withdrawn. As a result, many Trump Accounts will have the following characteristics:

- Non-employer contributions are generally not tax-deductible.
- Employer contributions can be tax-deductible to the employer.
- Growth occurs on a tax-deferred basis.
- Earnings are typically taxed as ordinary income when distributed.
- Required minimum distributions eventually apply if assets remain in a traditional IRA structure.

Trump Accounts: *A New Tool*

- Beneficiaries may ultimately face large taxable balances later in life, absent thoughtful Roth conversion planning.
- This creates a somewhat unusual, and unfortunate, outcome. Families contribute after tax dollars, then the child pays taxes again on investment growth decades later upon distribution. Compared with a Roth IRA, which offers after-tax contributions and tax-free qualified distributions, the tax treatment is considerably less attractive in our view.

WHY THE ACCOUNT'S PURPOSE MATTERS

Before opening any account, we encourage clients to answer a simple question: What are we trying to accomplish?

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- The answer often determines how to prioritize Trump Accounts, or whether to use them at all. Many discussions about Trump's Accounts focus on the account itself. The better approach is to start with the goal and then determine which account best supports that objective.
- **Education:** If the primary goal is education, a 529 plan will often remain the superior choice. 529 plans provide tax-free growth and tax-free withdrawals for qualified education expenses, which have been expanded over the years beyond college to include vocational school and private K-12 expenses. Parents maintain control of the account, beneficiaries can be changed (within limits) when circumstances change, and current rules permit limited Roth IRA rollovers for unused assets, up to a $35,000 lifetime limit. For many of our clients, education funding is a higher priority than retirement funding for a child or grandchild. In those cases, it is difficult to make a compelling argument that a Trump Account should displace a 529 plan, especially if the risk of "over-saving" in a 529 can be mitigated by the $35,000 Roth conversion option.
- **Future Life Goals:** Perhaps the objective is not education at all. Maybe parents want to help a child purchase a first home, start a business, fund a wedding, or provide financial flexibility during young adulthood. In those situations, a UTMA or taxable brokerage account may be the more appropriate tool. These accounts generally provide significantly greater flexibility and are not restricted to retirement-oriented use and the accompanying taxable distributions. That said, ownership of UTMAs transfers to the child at age 18 (or age of majority), so caution is warranted if this is a concern.
- **Retirement:** This is where Trump Accounts make their strongest case. If the specific goal is to seed a child's retirement portfolio as early as possible, Trump Accounts provide an opportunity that did not previously exist. They can bridge the years before a child becomes eligible to contribute to a custodial Roth IRA through earned income

Importantly, this is not necessarily an either/or decision.

Many families may find that a Trump Account serves as an early-stage retirement vehicle, while a custodial Roth IRA becomes the preferred retirement savings account once a child begins working.

THE PRACTICAL CHALLENGES

While the concept is straightforward, implementation can be more complicated. One consideration is that the beneficiary receives control of the account at age 18 (or age of majority). Some parents are comfortable with that outcome. Others are not. Unlike a 529 plan, where parents generally retain ongoing control, Trump Accounts are designed to become the child's asset. That may fit well with some family dynamics and less well with others.

There are also tax administration considerations. Because accounts may contain a combination of after-tax and pre-tax contributions, basis tracking may be required over many years. Future Roth conversions, distributions, and other transactions may create additional record keeping responsibilities. The accounts also require a degree of behavioral discipline. Their greatest benefit comes from leaving assets invested for decades. If the funds are ultimately used for near-term spending needs, much of the intended advantage disappears.

SO, WHEN DOES A TRUMP ACCOUNT MAKE SENSE?

Despite the limitations, there are circumstances where a Trump Account may be worth considering. The strongest candidates are likely families who:

1. Have a child born in the years 2025 through 2028 and qualify for the $1,000 pilot contribution.
2. Intend the money exclusively for retirement purposes.
3. Have already addressed other priorities such as education funding.
4. Are comfortable transferring control to the child at age 18 (or the age of majority)
5. Value the ability to start retirement savings before the child has earned income.

In these situations, the account can serve a useful role within a broader planning strategy.

BOTTOM LINE

Trump Accounts introduce an interesting new planning option, but they are not the revolutionary wealth-building vehicle some early commentary may have suggested. For many families, 529 plans, custodial Roth IRAs, UTMAs, and traditional taxable investment accounts will continue to play the primary role in helping children and grandchildren build wealth. Those solutions are often simpler, more flexible, and better aligned with common family goals. That does not mean Trump Accounts lack value. Rather, their value appears most significant in a specific niche: providing a way to begin the retirement savings compounding before a child has earned income and potentially capturing the available government contribution for eligible children.

As with most planning decisions, the question is not whether a Trump Account is good or bad. The question is whether it is the right tool for the objective. The most successful planning strategies rarely rely on a single account type. More often, they involve combining multiple tools—each serving a specific purpose—to help families support education, retirement, financial flexibility, and long-term wealth transfer goals.

529 PLAN VS. TRUMP ACCOUNT: WHICH IS THE BETTER FIT?

	529 Plan	Trump Account
Best For	Education savings	Retirement Savings for a Child
Tax Benefit	Tax-free growth and qualified education withdrawals	Tax-deferred growth; earnings generally taxed when withdrawn
Control	Parent retains control	Child gains control at age 18
Flexibility	Change beneficiaries and limited Roth rollover option	Primarily designed for retirement use
Biggest Advantage	Education funding with flexibility	More years for potential compounding
Key Considerations	Funds intended for education	More complexity and future tax planning

Upcoming *webinars*

Are you a current or former Procter & Gamble employee? This webinar, led by Michael Stanis, CFA, CFP®, MBA, a former P&G employee, is designed to help owners of the P&G Profit Sharing Trust (PST) understand how the proceeds may be distributed and invested, and how taxes are impacted. Johnson Investment Counsel has helped hundreds of P&G employees navigate PST distribution options. We want to share what we know so that you can make the best decisions for your family.

SCAN TO REGISTER

In the *news*

The expertise of our Johnson team members is often sought after by local and national media sources. Scan the QR code to see recent articles and videos featuring our employees.

Recent highlights include:

- **BRANDON ZUREICK, CFA** in Kiplinger
- **CHARLES RINEHART, CFA, CAIA** in Kiplinger
- **JOSEPH WHITE, CFA, CFP®, CDFA®** in MarketWatch
- **JOE ABBOTT, CFA** in Cincinnati Business Courier
- **CHAD MAGGARD, CFA** in Goering Center for Family & Private Business Newsletter

New *shareholders*

For more than 25 years, Johnson Investment Counsel has been 100% employee-owned. This independence allows our employees to focus on serving our clients without any pressure from external shareholders. We are pleased to announce and congratulate two new shareholders of the firm: Senior Portfolio Manager Andrea Ernst and Senior Portfolio Manager Andrew Kucia.

ANDREA ERNST, CFP®
Senior Portfolio Manager
Principal

ANDREW KUCIA, CFP®
Senior Portfolio Manager
Principal

Recent *promotions*

We are pleased to announce that the following individual has been promoted to a new position:

- **LEAH QUORTRUP, CTFA**
  Senior Trust Officer

QUORTRUP

New *designations*

Johnson Investment Counsel is committed to continuing education to provide personal development for our employees and better service to our clients.

Congratulations to Portfolio Manager Assistant Matthew R. Duplain, CFA, on earning his Chartered Financial Analyst® designation.

Congratulations to Associate Portfolio Manager Jacob M. Farwick, CFA, CFP®, Portfolio Manager Assistant Ana Lucia Huff, CFP®, Associate Portfolio Manager Nathan D. Nichols, CFA, CFP®, and Portfolio Manager Assistant Evan M. Vollmer, CFP® on earning their CERTIFIED FINANCIAL PLANNER™ (CFP®) certification.

DUPLAIN

FARWICK

HUFF

NICHOLS

VOLLMER

Johnson named a *Top Workplace*

Johnson Investment Counsel has been selected as a Top Workplace by the Cincinnati Enquirer for the thirteenth year in a row. The award is based solely upon employee feedback and evaluates criteria such as opportunities for career development, workplace culture, compensation, and overall job satisfaction.*

We are honored to receive this award and proud of our employees and their commitment to provide exemplary service to our clients.

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About *us*

Johnson Investment Counsel is one of the nation's largest independent wealth management firms, managing more than $23 billion in assets for clients in 50 states. Johnson Investment Counsel is an employee-owned firm, offering a full range of fee-only, integrated wealth management services, including: investment portfolios, education and retirement planning, cash management, estate planning, trust services, charitable giving, mutual funds, 401(k) plans, IRAs, and more. Johnson Investment Counsel has built strong, long-term relationships with individuals, families, charitable organizations, foundations, and corporations through four integrated divisions.

Our *divisions*

WEALTH MANAGEMENT

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If you are a client of Johnson Investment Counsel, you should receive account statements on at least a quarterly basis directly from the qualified custodian that holds and maintains your assets. You are urged to carefully review all custodial statements for accuracy. If you are not receiving custodial statements, please contact our Chief Compliance Officer, Scott Bischoff at (513) 661-3100.

**The Cincinnati Enquirer Top Workplaces ranking is based on a survey of employees conducted over the period 2/2/2026 to 2/12/2026. The survey requests employees to anonymously rate the firm and provide feedback on their experience. The ranking may not be representative of any one employee's experience.*

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