

INVESTMENT PERSPECTIVES

JUNE 2026

Key Takeaways —

- The state of the Strait: What's next?
- The bond decision.
- A birthday for the NYSE.



INVESTORS ARE CUEING OFF PROFITS, NOT OIL PRICES ■

Mark Luschini, Chief Investment Strategist

The conflict in Iran and its impact on the safe passage of cargo through the Strait of Hormuz remains fluid, generating a regular stream of news that has often been

troubling. In turn, oil prices remain elevated, and the risk of inflation becoming more broadly embedded in the prices of goods and services has increased. Meanwhile, the S&P 500 Index, a proxy for large, U.S. stocks, has risen more than 10% since we learned of the U.S. and Israeli attacks in late February and over 20% from the late March nadir, when oil prices spiked to \$120 a barrel. It seems investors have increasingly left the “little excursion” behind.

Arguably, for good reason. Results for companies that released their earnings for the first quarter of this year have been phenomenal. The growth rate of 28% year-over-year is more than double what was expected, and the analytical community has quickly moved to raise forward estimates for this year and next that, if realized, project a double-digit pace over the following 18 months.

Mind you, equity investors have been conditioned to the earnings season inevitability that companies are accustomed to under-promising, guiding equity analysts to lower estimates, and then subsequently overdeliver, routinely beating those estimates by 4 or 5%. Recall the resilience of S&P 500 companies when the economy reopened from the COVID-induced closure and earnings beat estimates by at least 15% for five consecutive quarters through June 2021. With most index constituents having reported results, this quarter's 16% beat stands out for having generated the largest positive surprise since 2021. In addition, profit margins exceeded analysts' expectations yet again, now nearing an all-time high, as earnings growth has outpaced revenue growth.

At the same time, the economic data has been solid on balance, and while the military combatants haven't made much concrete progress toward a resolution, neither side seems to want to re-escalate hostilities. As such, we are inclined to believe that de-escalation alone is sufficient to extend the rally and expect the conflict to dissipate in a way that does not undermine the fundamentals that support further gains in the stock market.

To be sure, the longer the closure of the Strait persists, global oil inventories will draw to the point where deliverable oil supply becomes increasingly scarce, driving prices higher. There are a host of uncertainties around the calculus of that scenario, but it's a non-trivial risk that could weigh on investors' minds in the next few months if supply remains severely constrained. In our opinion, that is neither imminent nor inevitable at this point, and our constructive, central-case outcome is that enough ships will begin to transit the Strait before the lack of Gulf-exposed exports triggers an economic setback or worse, a global recession.

While no country can completely decouple from the rest of the world, the U.S. is a comparatively closed economy that relies on domestic demand as its primary driver of growth. It is also the world's largest producer of crude oil and has an abundance of natural gas; therefore, it is not nearly as exposed to the Persian Gulf as European and Asian economies.

To be sure, the increase in gasoline prices has had the greatest day-to-day impact on the U.S. economy. The average price of a gallon of regular unleaded has risen by over 50% since the conflict broke out. According to Brown University's Iran War Energy Cost Tracker, American households have paid an aggregate of \$26 billion (\$47 billion if diesel is included). Fortunately, the drag at the pump has been mitigated by the incremental increase in

individual tax refunds, which total approximately \$45 billion more than what was distributed last tax season. Therefore, it appears the windfall has cushioned the blow and allowed most households to manage reasonably well so far.

The current equity market backdrop appears to come down to earnings versus everything else, as surging profits have given stocks the license to look beyond the Strait of Hormuz bottleneck and the associated rise in oil prices and inflation risks. We have been and remain positive on equities as long as signals indicate expansion, and the bullish earnings growth story it fosters remains intact. ■



FUNDS VS. BONDS ■

Guy LeBas, Chief Fixed Income Strategist








We write primarily about markets in these pages, but beyond the direction of the economy, the level of interest rates, and even the outlook for credit, numerous more

practical considerations around portfolio construction simply do not get enough attention.

The mechanism of bond ownership is one such practical consideration, and one that has grown more complicated over the last decade as exchange-traded funds moved from equity markets into nearly every corner of the fixed income universe. In the process, investors gained access to low-cost bond funds. That access is generally a good thing, but there are meaningful differences in performance between owning a portfolio of individual bonds and owning a bond fund or ETF. In our view, funds, ETFs, and individual securities each solve different problems. Which to choose depends on a handful of factors, including portfolio size, sector complexity, and investment objective, more so than market forces.

First, investment size matters. For clients allocating a relatively modest amount to fixed income, mutual funds and ETFs are often the most sensible starting point. The reason is straightforward: bonds generally trade in increments of \$2,000 or more. A portfolio of individual bonds requires diversification, and diversification requires capital. A small portfolio of corporate or municipal bonds can easily become too concentrated in a handful of issuers, sectors, or maturities. That concentration may not be obvious day to day, but it tends to become very obvious when credit conditions deteriorate.

Funds and ETFs solve that problem efficiently by providing immediate diversification across many issuers and maturities, often with small minimum investment sizes. For investors building exposure to fixed income, that diversification may be worth the additional layer of fund expenses and the lack of control over specific maturities. For larger accounts, by contrast, individual bonds are more practical. A diversified ladder or barbell of individual Treasuries, agencies, municipals, or high-quality corporates can offer greater customization and more predictable cash flows.

 INDIVIDUAL BONDS Best for control and income certainty	 BOND MUTUAL FUNDS Best for active management and broad diversification	 BOND ETFs Best for cost efficiency, liquidity, and flexibility	
<p>WHY CHOOSE</p> <ul style="list-style-type: none"> • Lock in a specific yield and maturity • Predictable income and principal • Low ongoing costs • Greater control over quality and maturities <p>BEST WHEN</p> <ul style="list-style-type: none"> • Larger account size • Income certainty for a specific goal • Prefer higher quality issuers <p>CONSIDERATIONS</p> <ul style="list-style-type: none"> • Requires more capital to diversify • Less liquidity—each bond is a separate position • More hands-on management <p>Ideal for investors seeking income stability and control.</p>	<p>WHY CHOOSE</p> <ul style="list-style-type: none"> • Professional management • Diversified across issuers, sectors, and maturities • Access to complex or less liquid markets • Convenient for regular investing <p>BEST WHEN</p> <ul style="list-style-type: none"> • Want active management • Need exposure to complex sectors • Smaller account size <p>CONSIDERATIONS</p> <ul style="list-style-type: none"> • Higher expenses than ETFs or individual bonds • Performance includes both income and price change • Less control over maturities and holdings <p>Ideal for investors who value active management and ease.</p>	<p>WHY CHOOSE</p> <ul style="list-style-type: none"> • Low expense ratios • Trade throughout the day like a stock • Broad market exposure at low cost • Easy to use for tactical allocations and rebalancing <p>BEST WHEN</p> <ul style="list-style-type: none"> • Want low-cost, passive exposure • Need liquidity and trading flexibility • Implementing tactical or core allocations <p>CONSIDERATIONS</p> <ul style="list-style-type: none"> • Track an index—limited ability to avoid lower quality bonds • Price fluctuates intraday • Not all ETFs are the same—review holdings and liquidity <p>Ideal for investors seeking low cost and flexibility.</p>	
KEY FACTORS TO CONSIDER			
 ACCOUNT SIZE	 SECTOR COMPLEXITY	 INVESTMENT OBJECTIVE	 RISK TOLERANCE

Source: Janney ISG, Federal Reserve Board

Second, complexity matters. Some areas of the bond market are simply not suited to individual security selection for most investors. Credit-sensitive mortgage bonds, emerging-market debt, bank loans, high-yield bonds, and many structured products require specialized research, trading access, and risk management. They also often trade in sizes that make them impractical for individuals, even in fairly large accounts. In these markets, a diversified fund is often the better tool.

The opposite is true in simpler areas of the market, Treasury securities being the obvious example. Agency securities, high-grade municipals, and very high-quality corporate bonds can also make sense as individual holdings, provided the account is large enough to diversify properly. These sectors generally exhibit more transparent characteristics and more predictable cash flow profiles. In those cases, owning the bond directly may allow an investor to capture the yield without paying high (and sometimes opaque) expense ratios in a fund.

Third, the investment objective and especially the time horizon matter. Most bond funds are managed and measured on a total return basis, meaning that portfolio managers seek not just cash flow but also capital gains. For long-horizon institutional investors, that framework is often appropriate since over very long periods, income and total return tend to converge. For individuals, however, the relevant horizon is not infinitely long. Having a minimum amount of money for retirement or college planning might be more important than long-run total return. Since individual bonds have a fixed maturity date, they are often more appropriate vehicles for achieving a point-in-time goal than funds or ETFs.

This distinction is arguably more important today than it was during the zero-rate era. When yields were low, the income component of owning individual bonds was often modest, and investors were effectively forced to focus on total return. Today's more historically normal interest rate environment changes that calculus. With Treasury and high-quality bond yields at 4% to 6%, capable of generating meaningful portfolio income, the ability to lock in cash flows has real value.

Finally, risk tolerance can alter the decision. In the years since about 2016, one of the major concerns has been the rising share of BBB-rated bonds in the investment-grade corporate market. Today, BBB bonds comprise almost half of the investment-grade corporate bond index. Funds, even actively managed ones, tend to match the broad characteristics of indexes, and so many funds have seen the allocation to BBB-rated bonds grow as the ratings migration affected bond indexes. Depending on income needs and risk tolerance, an investor might prefer to have a lower risk profile with higher-rated securities. Holding a portfolio of individual bonds means our hypothetical investor would be able to maintain a higher quality portfolio than most indexed funds.

While this discussion is not an exhaustive list of every implementation issue, the major factors remain straightforward: account size, sector complexity, and risk tolerance. The difference between today and previous times we've published on this matter is that the fixed income market once again offers real income. That makes the "how" of owning bonds more important. In a higher and more historically normal rate environment, the structure of bond exposure can have a material impact on real-world returns. ■

Chart 1: Corporate Bond Indexes Have Fewer AA Rated and More BBB Rated Bonds Today vs. 2016



Source: Janney ISG; Bloomberg Indices



A BELATED HAPPY BIRTHDAY ■

Gregory M. Drahuschak, Market Strategist

Next month, the United States will celebrate its 250th birthday. However, May had its own noteworthy celebration.

May 17, 2026, marked the 234th birthday of the New York Stock Exchange, when the “Buttonwood Agreement” was signed by 24 stockbrokers and merchants under a buttonwood tree near what is now 68 Wall Street. It is noteworthy that the Buttonwood Agreement was reached in response to the Financial Panic of 1792—one of many calamities the U.S. economy and the stock market would eventually overcome.

Trading in 1792 mostly focused on government debt and banking. The government bonds, often called “Hamilton Bonds,” were issued by Alexander Hamilton to consolidate and refinance Revolutionary War debt. Trading in bank stocks centered on the First Bank of the United States and the Bank of New York (founded by Hamilton), which was the first non-governmental stock traded. Shares of early insurance firms that were traded alongside commodities like tobacco and beaver skins were also among the few equities available to wealthy investors.

Fixed commissions were a major part of the Buttonwood Agreement. This concept remained in place until May 1, 1975, when the Securities and Exchange Commission (SEC) abolished fixed rates in favor of negotiated commissions.

Stock trading early in the 1800s bore little resemblance to the process used today. Word of mouth and hand signals during two auctions each day were the common methods for arranging and facilitating the exchange of shares. However, late-1800s trading took a major step forward. Continuous trading began in 1870 when stocks were assigned to specific locations called “trading posts.” The stock ticker enabled transmission of market prices across the country via telegraph lines. Eventually, telephones on the floor further increased efficiency, allowing brokers to receive orders directly from clients almost instantly. These innovations led to the first-ever million-share trading day on December 15, 1886. In contrast, the typical trading volume for the NYSE Composite Index today is approximately 5.49 billion shares. Across all U.S. exchanges, a total of 20.86 billion shares were traded on Monday, May 18, 2026.

The late 1890s also brought the Dow Jones Industrial Average (DJIA) that was first published on May 26, 1896, and consisted of 12 industrial companies including American Cotton Oil, American Sugar, American Tobacco, Chicago Gas, Distilling & Cattle Feeding, General Electric (GE), Laclede Gas, National Lead, North American Company, Tennessee Coal, Iron and Railroad, U.S. Leather, and U.S. Rubber. The list grew to 20 components in 1916 and expanded to 30 stocks in 1928.

In an effort to make reporting of trades more efficient, the NYSE installed a network of pneumatic tubes comprising six miles of tubing and roughly 250 miles of wiring, hidden within the walls and floors of the exchange. This system was operational from approximately 1903 to 1979. Buy and sell orders were placed into metal canisters and propelled by compressed air or partial vacuums through pipes connecting broker booths to trading posts, creating a nearly deafening clatter as canisters traversed the tubes.

The 1900s were packed with major events. The Panic of 1902 was nothing compared to the First World War, which was soon followed by the Great Depression. The Second World War and its aftermath impacted the stock market from the late 1930s through the late 1940s. No sooner had the economy adjusted to this than the Korean Conflict brought the U.S. economy back into war mode.

From an individual investor’s perspective, for many years, following intraday market activity was challenging. In 1960, an electronic innovation in a terminal allowed investors to retrieve stock prices from a device with three small lighted windows that displayed only three digits, with responses being immediate. Today, dramatically enhanced stock information is available instantaneously from numerous sources.

As we approach the nation’s 250th birthday, these items and many more provide reminders of the evolution of the equity market that, for many decades, has allowed tens of millions of investors to share in and prosper from the growth the United States has provided—something we believe can continue as the New York Stock Exchange and the United States celebrate many future birthdays. ■

Chart 2: 100 Years of the Dow Jones Industrial Average



Source: Stockcharts.com; January Investment Strategy Group

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