Legacy Financial
INDEPENDENT ADVISORS

3rd Quarter | 2026

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Major Market Rotation – Part II

In the first quarter, we highlighted the early signs of a major market rotation. Several of the hottest technology stocks — the "Magnificent Seven" — became meaningfully overvalued, while the companies behind those stocks continued to see high earnings. International equities, long lethargic, showed renewed life in 2025. With the overvalued technology companies' revenue reinvested in infrastructure, commodities surged in 2025, led by metals and agricultural goods. This year, growth is rotating to energy-related commodities. Within the U.S. market, we now see a clear leadership shift, with technology stocks plateauing while capital investment propels expansion in other sectors.

Earnings Surge

First-quarter 2026 earnings were up more than 25% — the strongest quarterly momentum since the post-pandemic rebound. According to FactSet, analysts expect another quarter of 20%+ earnings growth ahead. Technology companies' earnings continue to lead, and the largest tech companies are investing significantly in physical infrastructure such as data centers. This heavy capital spending is shifting the market's cash flow away from the technology industry, which has been the decade's biggest winner, and into a wider range of areas. As AI adoption accelerates, efficiency and productivity gains are beginning to benefit companies across nearly every part of the economy, creating a positive ripple effect.

Broadening Market

Through the first half of 2026, the S&P 500 was up roughly 9%. The ongoing demand for AI and AI-related hardware drove this performance, but when you lift the hood, it's clear this is more than just growth in the technology sector. Semiconductors and other hardware products are driving the market's earnings acceleration, but some of the biggest-name stocks seem to be slowing. This is illustrated by the Magnificent Seven, on average, breaking even through the first half of the year.

In contrast, six of the eleven S&P sectors are outperforming the index year-to-date. Industrials, Materials, and Energy sectors, filled with construction firms, railroads, metals, and gas stations, are each up more than 10% through June. These companies form the backbone of the real economy, and before the surge of AI-driven investment, they had significantly underperformed. The market is starting to anticipate the positive economic implications of AI beyond technology companies. In addition to productivity gains and infrastructure investment, the AI-fueled growth is likely to increase long-term employment prospects across the economy.

Our Assessment

We believe the rotation that began last year toward undervalued areas of the market is firmly underway, even as AI continues to dominate headlines. Although the market remains somewhat overvalued by historical standards, the recent earnings surge has brought valuations closer to long-term norms. Ultimately, we believe the risk of the market's overvaluation is offset by its rapid growth. We continue to maintain a mildly defensive stance in our portfolio management. We are seeking opportunities in areas we view as undervalued and well-positioned to benefit as this rotation progresses.

What We Know, What We Think

	What We Know	What We Think
STOCK MARKET	In Q1 2026, the S&P 500 reported earnings growth of 25%+, the fastest growth since Q4 2021.	The recent earnings gains have brought stock market valuations back to "Overvalued" vs. "Extremely Overvalued."
THE ECONOMY	After oil prices rose over 50% in the first quarter, they recently settled back near average 5-year prices in the second quarter.	We likely have seen the highs (and the lows) in oil prices. Near term, we expect prices will remain volatile but within the recent trading range.
INTEREST RATES	The short-term interest rate on the 3-month Treasury bill remained in a trading range of 3.6% to 3.8% during the second quarter.	The inflation scare driven by higher oil prices has not resulted in higher interest rates. We expect interest rates to remain relatively steady.

Taking Advantage of a Trump Account: Is It Right for You?

by Chris McCrea, CFP®

What Is a Trump Account?

Earlier this year, 530A accounts—commonly referred to as Trump Accounts—were introduced as a new investment option to help families build long-term savings for their children. These accounts provide tax-deferred growth potential, with annual contributions capped at $5,000.

How Does It Work?

Children under age 18 who meet the program's requirements may have a Trump Account. Additionally, babies born between 2025 and 2028 may receive a one-time $1,000 federal contribution to jump-start their savings.

To open a Trump Account, families must elect the account using the appropriate IRS form. Parents, grandparents, relatives, employers, and others may contribute to these accounts, which are invested in approved, low-cost U.S. stock index funds and grow tax-deferred over time.

Withdrawals are generally restricted until the child reaches age 18. When the child reaches adulthood, the account is transferred into an IRA, where withdrawals are subject to ordinary income tax, with very few exceptions.

Is It Right for You?

A Trump Account can be a valuable way to build long-term wealth for a child, especially for families eligible to receive the government's $1,000 seed contribution. The account may help fund future goals such as retirement, higher education, or even a first home. However, they may not be the best option for every goal.

If your primary goal is saving for education, a 529 savings plan may be a better fit because qualified education withdrawals are typically exempt from federal income taxes. If flexibility is your priority, a UTMA account allows funds to be used for nearly any purpose that benefits the child. If your child has earned income, a custodial Roth IRA may offer additional long-term retirement benefits.

Your Legacy Team can help you determine whether a Trump Account aligns with your family's financial goals and how it may complement your child's savings and investment strategy.

Why an HSA May Be the Most Tax-Efficient Account You Own

by TC Falkner, CFP®

A Health Savings Account (HSA) is a tax-advantaged investment account that allows pre-tax contributions to help pay for future medical expenses. There is no income limit preventing contributions. However, your current health insurance plan must be considered a High-Deductible Health Plan (HDHP) to open or fund an HSA.

How Does It Work?

Since contributions are deducted from your taxable income, Congress has set limits on HSA contributions each year. In 2026, those with self-only health insurance coverage can contribute up to $4,400 for the year. Those on a family plan can contribute up to $8,750.

Money inside the HSA can grow tax-free until withdrawn. Many institutions that offer these accounts let you invest the funds as you wish. This means that with a well-built portfolio, your HSA contributions can potentially increase both long-term growth and tax savings.

HSA funds can also be taken out at any time, completely tax-free, for qualified medical expenses. However, any distributions before 65 for non-qualified medical expenses incur a 20% tax penalty, on top of ordinary income taxes.

The tax savings could be significant enough to consider opening this account. For example, paying a $8,000 surgery bill out-of-pocket (using after-tax dollars), for someone with a 25% tax rate, would have cost them over $2,600 in taxes if they didn't use HSA funds.

How to Maximize an HSA

Once you reach age 65, the HSA essentially turns into a Traditional IRA, currently only requiring income tax on distributions. For someone who contributed the maximum amount each year for 10 to 15 years without any withdrawals, the account could potentially become a six-figure retirement account by that time. For those who are eligible to open and/or contribute, the benefits both now and in retirement could outweigh the costs. If you are wondering if you can take advantage of an HSA, call us and we can help determine the strategy that is best aligned with your financial goals.

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