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As we move through the second half of 2026, geopolitical risk remains one of the most significant factors influencing global capital markets. At the same time, positive investor sentiment and the fear of missing out (FOMO) have helped drive equity markets into overbought territory. While this has supported strong market performance, it has also created opportunities for portfolios requiring distributions and for tactical rebalancing.

One consideration we are watching this year is the tax impact of portfolio rebalancing within taxable accounts. In recent years, tax-loss harvesting has been an effective strategy to offset realized gains and reduce tax liability. However, broad market strength may limit those opportunities in 2026, resulting in larger realized capital gains for some investors. We encourage clients to discuss these considerations with their advisor to manage expectations and avoid year-end surprises.

Our overall market outlook remains cautiously positive. We believe upcoming corporate earnings reports should reinforce current market support levels and help limit downside risk. While earnings alone may not be enough to drive the next leg of market appreciation, a lasting resolution to geopolitical tensions in the Middle East could further improve investor confidence and support additional market gains.

Energy prices remain an important variable in the global economic outlook. Oil prices initially declined on optimism surrounding a potential easing of Middle East tensions but have since moved higher following renewed military conflict. Even so, prices have remained within a relatively contained range of approximately $75 to $80 per barrel, which is well below the $95 to $100 levels experienced previously. Assuming oil prices remain near current levels, inflationary pressures should stay manageable, reducing the likelihood of additional interest rate increases this year. However, an extended geopolitical conflict would continue to pose risks to global economic growth. At this time, we continue to believe interest rates are likely to remain steady through year-end, with the potential for lower rates in 2027.

We are also monitoring growing questions surrounding AI spending and the long-term return on these investments. Rising costs driven by the AI infrastructure buildout may contribute to inflationary pressures, while increasing discussion of a potential AI "bubble" serves as a reminder that market risks often develop gradually. Although investors remain focused on strong corporate fundamentals and the concept of a "K-shaped" economy, we continue to pay close attention to credit markets, where we believe several areas warrant ongoing monitoring.

Finally, the team at Ellis Investment Partners is pleased to congratulate Anthony Civitello on earning the Certified Investment Management Analyst® (CIMA®) designation and on his appointment as Chief Portfolio Strategist. In his new role, Anthony will continue strengthening our portfolio management process as we expand our customized investment solutions for clients.

As always, we encourage you to contact your advisor with any questions regarding your investment portfolio, financial plan, or the tax implications of portfolio activity. Thank you for your continued confidence and trust.