

The Archvest Advantage Semi-Annual Newsletter

July, 2026

Market Review

Markets continued to move higher through the first half of 2026. The S&P 500 Index was up 9.97%, international developed stocks, as measured by the MSCI EAFE Index, were up 8.93%, and bonds, as measured by the Bloomberg U.S. Aggregate Bond Index, were up 0.43%. While stocks continued to perform well, bond returns remained relatively muted as longer-term interest rates stayed elevated.

One of the most notable market developments this year has been the extraordinary rally in South Korea. The KOSPI Index (equivalent to our S&P 500 index) is up 96% year to date, driven in part by strong investor demand for Korean equities and enthusiasm around technology and semiconductor-related companies. This type of concentrated market performance can have a meaningful impact on global and emerging market indices, depending on how each index provider classifies South Korea.

Index providers, MSCI and FTSE, treat South Korea differently. MSCI classifies South Korea as an emerging market, so Korean stocks are included in the MSCI Emerging Markets Index. FTSE, however, classifies South Korea as a developed market, so Korean stocks are excluded from the FTSE Emerging Markets Index. As a result, the KOSPI's sharp rally provided a significant tailwind to MSCI Emerging Markets returns relative to FTSE Emerging Markets returns. The vice versa is also true, FTSE Development Markets outperformed the MSCI Development Markets. This is a good reminder that two indices with similar names can produce meaningfully different returns simply because of differences in country classification and index construction.

The rally in the KOSPI Index, South Korean stocks, has also created concerns around financial stability. Citi noted that household loans in South Korea increased by KRW9.3 trillion in May, up from KRW3.5 trillion in April, marking the fastest monthly increase since August 2024 (Mugo, 2026). Much of the increase came from personal credit lines and overdraft accounts, which increased by KRW5.3 trillion during the month. Citi linked the rise in borrowing to increased demand for equities, as investor deposits and stock investment trusts reached another record high on a 12-month basis. The trend is similar in Taiwan (Wan, 2026).

This is concerning because it suggests that some of the market rally may be increasingly fueled by leverage. Capital has been moving out of bank time deposits and bond products and into equity-related investments. Retail investors have also absorbed much of the selling by foreign investors in the KOSPI, which Citi believes has contributed to weakness in the Korean won. In short, domestic investors are borrowing more, investing more aggressively in equities, and taking on more financial risk at the same time that asset prices are rising.

At today's valuation, the implied return for U.S. stocks over the next ten years appears muted. Depending on assumptions around earnings growth, inflation, dividends, and whether valuation multiples remain elevated or revert closer to historical averages, a reasonable estimate for forward returns is approximately 0% to 2% real returns per year, or roughly 3% to 5% nominal returns per year. These are not precise forecasts, but rather a framework for understanding the relationship between valuation and expected returns. Historically, the CAPE ratio has been a useful predictor of longer-term stock market returns. It is not particularly useful in predicting what the market will do over the next month, quarter, or even year. Markets can remain expensive for long periods of time. However, over longer periods, such as ten years, valuation tends to matter. When investors pay a high price for earnings, future returns are generally lower. When investors pay a low price for earnings, future returns are generally higher. Based on the assumption of the CAPE ratio over the next 10 years, here's a table summarizing the expected annual returns:

Assumption over next 10 years	Approx. annual return
CAPE stays very high near 40	6%–7%
CAPE falls to ~30	3%–5%
CAPE falls to ~25	2%–3%
CAPE reverts near long-run normal, ~17–20	0%–2%

Figure 2: Expected Rate of Return Given CAPE Ratios

The key issue is multiple compression. If earnings continue to grow and the CAPE ratio remains near 40, returns can remain positive. However, if the CAPE ratio declines toward more normal historical levels, the decline in valuation would offset some, or possibly most, of the benefit from earnings growth and dividends. In other words, the market does not need to crash for future returns to be disappointing. It can simply grow into its valuation over time.

We are not suggesting that investors should abandon stocks because the CAPE ratio is high. However, we do believe it is important to set realistic expectations. The last decade of U.S. stock returns benefited from strong earnings growth, expanding profit margins, low interest rates, and higher valuations. Going forward, with the CAPE ratio at 41, it is reasonable to expect lower long-term returns than what investors have experienced in recent years. This does not eliminate the need to own stocks, but it does reinforce the importance of diversification, discipline, and a long-term investment plan.

Sequence of Return Risk

The CAPE ratio is not just a valuation metric for market observers; it is also relevant for

retirement planning because valuation matters most when withdrawals are being taken from a portfolio. A long-term investor who is still accumulating assets may be able to wait through extended periods of low returns. A retiree, however, does not have the same luxury because ongoing withdrawals reduce the portfolio while the retiree is waiting for better returns to arrive.

The risk is not simply that a retiree experiences a bad market year immediately after retiring. A bear market in the first year or two of retirement can be painful, but it is not necessarily fatal if the portfolio recovers relatively quickly. The more dangerous scenario is a poor first decade of real returns, because withdrawals continue year after year while the portfolio fails to grow enough to keep up with inflation-adjusted spending. This is the essence of sequence-of-return risk.

This distinction is important. Retirement risk is not driven by volatility alone. It is driven by the combination of poor returns, inflation, and withdrawals over time. According to a Kitces analysis, the relationship between safe withdrawal rates and first-year returns is relatively weak, while the relationship between safe withdrawal rates and the first ten years of real equity returns is much stronger (Kitces, 2014). What matters most is not whether the market has a bad year, but whether the retiree experiences a bad decade.

This ties directly into the valuation concerns highlighted by the CAPE ratio. Measures such as the CAPE ratio have historically been more useful in predicting long-term returns than short-term market movements. When the CAPE ratio is high, future ten-year real returns have generally been lower. When the CAPE ratio is low, future ten-year real returns have generally been higher. This is why today's CAPE ratio of approximately 41 is concerning. It does not tell us that the market will decline tomorrow or that investors should abandon stocks. However, it does suggest that the starting valuation is elevated and that the next decade of returns may be below historical averages.

The bottom line is that CAPE is not a market-timing tool, but it is a useful expectation-setting tool. With the CAPE ratio near 41, we believe investors should expect more muted long-term returns from U.S. stocks. For retirees, the concern is not a single bad year. The greater concern is a prolonged period of low real returns at the beginning of retirement, which is exactly the period that matters most for sequence-of-return risk.

Trump Accounts

As we noted in our prior newsletter, the Working Families Tax Cuts Act created new "Trump Accounts," which are IRA-like accounts for minors. The accounts are intended to give children an early start on long-term investing. Parents, guardians, and other authorized individuals may establish an account for a child who has not turned 18 before the end of the calendar year and who has a valid Social Security number.

Parents can now open Trump Accounts through www.trumpaccounts.gov. The Treasury

Department has launched the Trump Accounts app, which is available through the major app stores and is expected to serve as the primary interface for families to access and manage the accounts.

The federal government will make a one-time \$1,000 contribution for eligible children born between January 1, 2025, and December 31, 2028. Families and other authorized contributors may also contribute additional amounts to the account, up to the \$5,000 annual limit. The funds are intended to be invested for long-term growth, rather than used as a short-term savings account.

The current designated financial agents are Robinhood and The Bank of New York Mellon, commonly known as BNY. Treasury selected BNY as financial agent for the program, and BNY has partnered with Robinhood, which will serve as brokerage and initial trustee for the accounts.

It is possible that additional financial institutions, such as Schwab, Fidelity, and Vanguard, may be approved later. However, as of now, we have not seen the Treasury Department announce Schwab or other major custodians as approved financial agents. We will continue watching how implementation develops, especially around account opening, investment options, fees, contribution limits, and how these accounts interact with existing college savings and custodial account strategies.

Thank You

As always, we greatly appreciate the confidence you have placed in us to work alongside you as you financially prepare for your future. We wish you peace and love in the second half of the year.

If you have any questions or concerns, please contact us, and we will be happy to meet with you and review or refresh your overall plan. Follow us on Facebook and LinkedIn, as well as our RSS feed, to stay up to date on what we're reading and thinking.

THE
Archvest Team

Citations

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