

## **Chief Investment Officer Overview**

The first five months of 2026 have challenged many of Wall Street's assumptions entering the year. Investors expected inflation to continue moderating, the Federal Reserve to gradually cut interest rates, and global economic growth to remain stable. Instead, markets faced a far more complex environment marked by geopolitical conflict, renewed inflation pressures, rising bond yields, and a major repricing of monetary policy expectations.

Despite these headwinds, global equity markets have demonstrated notable resilience. Strong corporate earnings, continued advances in artificial intelligence (AI), improving productivity and confidence in innovation-driven growth have helped offset macro uncertainty. The result was a year marked by elevated volatility, but also by surprising underlying strength. In this context, our team has once again delivered solid investment performance year-to-date.

## **Geopolitics Reshape the Macro Environment**

The defining macro development of 2026 has been the escalation of the conflict involving Iran. Disruptions around the Strait of Hormuz—one of the world's most critical energy transit corridors—sparked sharp increases in oil prices and renewed concerns about global supply chains, transportation costs, and energy security.

At several points during the year, crude oil prices moved above \$100 per barrel. Energy-importing economies, particularly in Europe and parts of Asia, faced margin pressure from higher input costs, while commodity exporters and energy producers benefited from stronger pricing<sup>1</sup>.

Although ceasefire discussions and diplomatic efforts have recently provided some stabilization, geopolitical risk remains a key driver of inflation expectations, growth projections, and central bank policy.

## **Inflation and a “Higher-for-Longer” Reality**

Consensus expectations entering 2026 called for a steady inflation decline toward central bank targets. However, the energy shock tied to geopolitical tensions disrupted that trend.

Higher oil prices have filtered through the economy, keeping inflation more persistent than anticipated. As a result, markets have repriced away from multiple expected rate cuts toward a “higher-for-longer” interest rate environment.

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<sup>1</sup> Reuters, Iran War Splits Global Markets into Clear Winners and Losers, 5/27/2026, [Iran war splits global markets into clear winners and losers | Reuters](#)

While inflation has not returned to prior peaks, it has remained sufficiently sticky to keep policymakers cautious. The Federal Reserve has largely maintained a pause, as it balances inflation risks against signs of moderating economic growth. Bond markets, in turn, have remained volatile as investors reassess the longer-term path of rates.

### **AI and Productivity Drive Structural Growth**

Amid macro uncertainty, artificial intelligence continues to be the most important structural investment theme. Demand for advanced semiconductors, memory, networking equipment, and data center infrastructure remains robust, supported by heavy capital spending from hyperscalers and AI platform providers.

Companies tied to AI infrastructure, cloud computing, and enterprise software continue to lead global earnings growth. U.S. chip designers, South Korean semiconductor manufacturers, and firms across the broader AI ecosystem have been among the strongest-performing segments of the market.

Beyond market performance, AI adoption is beginning to deliver measurable productivity gains. Automation, generative AI, and cloud integration are improving operational efficiency, and are supporting margins despite higher labor, financing, and energy costs. This dynamic has been a critical offset to macro headwinds.

### **Capital Markets Reopen**

Another notable development has been the gradual reopening of capital markets after several years of subdued activity. Investor appetite for high-quality growth companies has improved, particularly in sectors such as AI, fintech, digital infrastructure, and space technology.

Several high-profile IPOs have been well received, and the pipeline for future issuances continues to build. While valuation discipline remains important, the return of issuance activity signals improving investor confidence despite ongoing uncertainty.

### **Rising Yields and Private Credit Risks**

Bond markets have faced pressure so far this year. Yields rose in response to inflation concerns tied to higher energy prices. Other structural factors—including elevated budget deficits,

increased Treasury issuance<sup>2</sup>, and substantial AI-related capital spending<sup>3</sup>—have reinforced the view that higher rates may be more enduring.

At the same time, private credit markets have come under increased scrutiny. Higher interest costs, refinancing challenges, and liquidity constraints have exposed vulnerabilities in certain segments of the asset class<sup>4</sup>. While private credit continues to offer attractive income potential, manager selection and disciplined underwriting have become increasingly important in the current environment.

### **International Equities Continue to Rerate Higher**

Encouragingly, performance outside the United States has improved. European, Japanese, and select emerging markets have benefited from relatively attractive valuations, improving corporate governance, and growing investor demand for diversification beyond concentrated U.S. mega-cap exposure.

Japanese equities, in particular, continue to attract strong global inflows, supported by AI momentum, shareholder-friendly reforms, and robust profitability<sup>5</sup>. Select emerging markets tied to commodities and technology supply chains have also delivered solid performance.

### **Strong Investment Outcomes for Our Clients**

Despite a challenging and volatile environment, our client portfolios have performed well. Approximately 80% of our Separately Managed Accounts and Models have outperformed their respective benchmarks year-to-date (as of May 30, 2026).

This performance has been driven by opportunistic tactical positioning, disciplined portfolio construction, active risk management, and strong manager selection. Exposure to technology, AI

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<sup>2</sup> SIFMA, US Treasury Securities Statistics, 5/13/2026, [US Treasury Securities Statistics - SIFMA](#)

<sup>3</sup> Business Insider, Why bond yields are likely to keep rising even after Iran war inflation jitters ease, 5/27/2026, [Bond Yields Could Keep Rising Even After the Iran War Ends - Business Insider](#)

<sup>4</sup> WRIS Group, How the Iran Conflict Triggered a Private Credit Liquidity Crisis, 3/20/2026, [Private Credit is the Real Victim of the Iran Conflict](#)

<sup>5</sup> Global Banking & Finance Review, Foreign Investors Buy Japanese Stocks on AI Rally, 5/28/2026, [Foreign Investors Buy Japanese Stocks for Eighth Week on AI Surge](#)



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## 2026 Midyear Review and Outlook: Delivering Results in a Complex Market Environment

*Investment Research | Abridged Version*

beneficiaries, global equities, and diversified income strategies has allowed portfolios to remain resilient through periods of heightened volatility.

### Looking Ahead

The central tension for the remainder of 2026 remains clear: an economy supported by innovation, AI-driven productivity, and resilient corporate earnings, set against persistent inflation pressures, elevated interest rates, and ongoing geopolitical uncertainty.

Equity markets have shown remarkable resilience in the face of conflict, higher oil prices, and shifting policy expectations. Whether this resilience persists will depend on the trajectory of inflation, the sustainability of the AI investment cycle, and progress toward a more stable geopolitical backdrop.

For now, we remain constructive on risk assets and maintain our positioning. We believe 2026 may ultimately be defined as a year in which innovation and productivity offset geopolitical shocks—allowing markets to continue advancing despite an unusually complex and uncertain macro environment.

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