VIRGINIA BEACH CONNECTIONS

CARY STREET PARTNERS

BEYOND THE HEADLINES: DIVERSIFICATION AND LONG-TERM INVESTING IN AN UNCERTAIN WORLD

By Matthew Rubin, *Chief Investment Officer*

By almost any measure, investors have had plenty of reasons to be cautious this year. The ongoing conflict in the Middle East pushed oil prices above $100 per barrel in March,[1] driving inflation higher. This helped shift the interest rate outlook from expected cuts to talk of possible hikes, even with a new Federal Reserve Chair in place.[10] Add in fiscal deficits, political uncertainty, and the ongoing debate about AI and market valuations, and it would have been easy to stay on the sidelines.

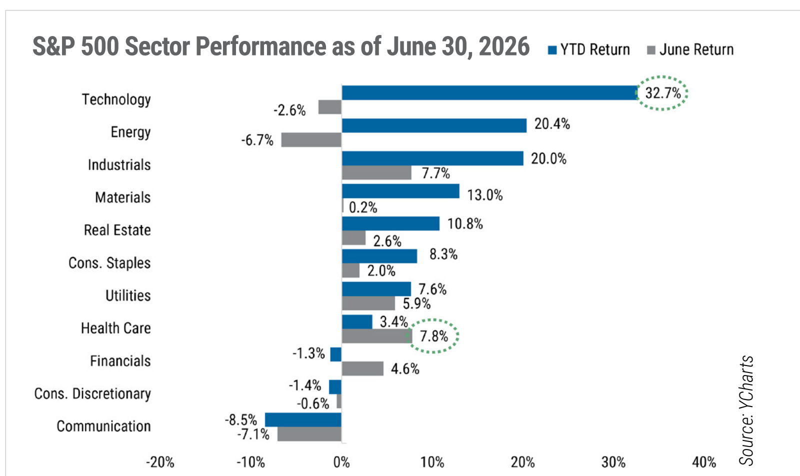
However, the markets told a different story. Healthy corporate earnings lifted equity markets in the first half of 2026. U.S. stocks reached record highs, with the S&P 500 up 10.2% in the first six months of the year, despite a 1% decline in June.[2] The Dow Jones Industrial Average rose a more modest 9.8% year to date, but was up 2.7% for the month.[4] The tech-heavy Nasdaq Composite was down 2.8% in June, but outperformed the broader S&P 500 year to date, returning 13.1% as of June 30th.[5] The small-cap Russell 2000 Index delivered its best first half in more than three decades, up 22.6% year to date and 3.6% for the month.[3] International markets also produced strong returns: The developed markets MSCI EAFE Index returned 9.4% year to date and 0.1% in June.[6] Credit markets were resilient, returning 1.0% in the first six months and 0.2% in June.[7]

Looking back over the first six months of the year, several themes stand out that investors should keep in mind as we head into the second half of 2026.

MARKET LEADERSHIP NEVER STANDS STILL

For much of the past decade, a handful of large U.S. technology companies dominated market returns. One of the healthiest developments this year has been the broadening of market leadership beyond that group. Since 2025, international stocks as measured by the MSCI EAFE Index have delivered strong returns,[6] keeping pace with or outperforming U.S. equity benchmarks. Small caps, long overlooked, have led the market in 2026.[3] Sectors such as energy, health care, and industrials have taken turns at the front, and equal-weight indexes have had an easier time keeping up with market-weight indexes than in the past.

Why does this matter? Diversification in equity markets works because leadership changes over time. Investors who spread their portfolios across company sizes, styles, and geographies were rewarded this year. They did not need to guess the winner in advance. The first half of 2026 served as yet another reminder that yesterday's winners are not always tomorrow's leaders.



Learn the value of a long-term perspective in an uncertain world. Scan the QR code to read the full *CIO In Your Corner* article.

1. U.S. Energy Information Administration, This Week in Petroleum, March 2026
2. S&P Dow Jones Indices, S&P 500, June 30, 2026
3. FTSE Russell, Russell 2000 Index, June 30, 2026
4. S&P Dow Jones Indices, Dow Jones Industrial Average, June 30, 2026
5. Nasdaq, Inc., Nasdaq Composite Index, June 30, 2026
6. MSCI Inc., MSCI EAFE Index, June 30, 2026
7. Bloomberg Index Services Limited, Bloomberg US Aggregate Bond Index, June 30, 2026
10. Federal Reserve Board, Kevin Warsh Takes Oath of Office as Chairman, May 22, 2026

You spent years contributing to your child's 529 plan. But what happens if they still have funds left in the account after graduation? The good news is, that money doesn't have to go to waste.

Leftover 529 funds after graduation can be rolled into a Roth IRA for the beneficiary (up to $35,000), used for graduate school or other qualified education, transferred to another family member, applied to student loans (up to $10,000), or withdrawn for non-educational use with taxes and a 10% penalty on earnings.

Option	Cap/ Limit	Tax-free?	Typically Best for
Roth IRA Rollover	$35,000 lifetime	Yes (if rules are met)	Beneficiaries with earned income, long horizon
Graduate School	None	Yes for qualified expenses	Beneficiaries continuing education
Beneficiary Change	None	Yes for qualified expenses	Families with another student
Student Loan Payoff	$10,000 lifetime	Yes	Beneficiaries or siblings with loans
Non-qualified Withdrawal	None	No (tax + 10% penalty on earnings)	Last resort

This is not to be construed with tax advice. No one should act upon any tax information herein without consulting a tax professional.

Each option has its own rules and trade-offs. Let's talk about how to think through them, and when it makes sense to speak with a financial advisor.

Transfer 529 to Roth IRA (Up To $35,000)

The Wall Street Journal discussed the merits of 529 plan to Roth IRA rollovers. In its September 2024 article, they quote Aaron Benner, a father of three in Houston. Two of his sons graduated college with scholarships, leaving about $20,000 in each of their 529 plans. Rather than withdraw the funds and pay taxes on the earnings, Benner rolled them into Roth IRAs.

"It could be nice for them," he told The Wall Street Journal. "There's a lot of time to let the money grow, which is good because they won't have pensions."

Benner did this with the 529-to-Roth provision, which took effect in 2024 through the SECURE 2.0 Act. It allows you to roll over up to $35,000 from a 529 plan into a Roth IRA for the beneficiary.

Using this option has a few requirements, as specified by the IRS:

- The rollover must be paid through a direct trustee-to-trustee transfer to a Roth IRA maintained for the benefit of the beneficiary.
- The rollover amount for a year cannot be more than the Roth IRA annual contributions limit, and all such rollovers for the individual's lifetime cannot exceed $35,000.
- The beneficiary must have earned income that equals or exceeds the rollover amount.
- The rollover must be from a section 529 account that has been open for more than 15 years.
- The distribution cannot exceed the aggregate amount contributed to the program (and earnings attributed to the contributed amount) before the 5-year period ending on the date of the distribution.

529 for Grad School

Leftover 529 funds can also be used for continuing education for the original beneficiary. This includes graduate school, law or medical school, professional certifications, registered apprenticeship programs, and accredited vocational training. The funds are tax-free for qualified education expenses—tuition, required fees, books, supplies, and room and board.

Your 529 plan has no expiration date, so the funds can remain invested between an undergraduate and a graduate program.

Can You Transfer a 529 to Another Child?

Yes, you can transfer leftover 529 funds to a sibling or another family member.

You can also name yourself as the new beneficiary if you're considering continuing your education. These beneficiary changes are tax- and penalty-free when made to a qualifying family member, as outlined by the IRS.

Can You Use a 529 Account To Pay Student Loans?

You can use up to $10,000 per individual from a 529 plan to pay off student loans. This option, made possible by the SECURE Act, can also be applied to a sibling's loans.

How To Withdraw 529 Funds

If none of the previous options make sense, you can withdraw the remaining funds for non-educational use.

Most plans let the account owner request a withdrawal online or through the plan administrator. Once you designate either yourself or the beneficiary as the recipient, the plan will issue a Form 1099-Q showing the contribution and earnings portions of the distribution.

The recipient is responsible for reporting the earnings on their tax return. For that reason, it's worth coordinating the timing and recipient designation with a tax professional before submitting the request.

It may also make sense to work with a financial advisor, who can help you decide how to use the extra money once it is withdrawn.

Penalty for Withdrawing 529 Funds

You'll pay ordinary income tax and a 10% penalty on the earnings portion (not the contributions). If, however, your child received a scholarship, you can withdraw up to the value of the scholarship without paying the penalty, though income taxes on the earnings still apply.

Choosing the Right Option for Your Family

If you're like many parents, you've spent years prioritizing your child's education and financial future. That doesn't stop just because they've graduated. A 529 plan isn't just about paying for college. It can also be a powerful tool for setting your child—and your family—up for long-term success.

If you're unsure how to move forward with unused funds in your 529 plan, connect with us. We're here to help explore your options and general tax considerations. Whether it's helping your child begin their retirement journey or planning for the next generation's education, we're ready to support you every step of the way. ■

CSP CARES

HELPING ANIMALS IN OUR COMMUNITY

At Cary Street Partners, giving back is a core part of who we are. Through our CSP Cares initiative, we are proud to dedicate time supporting the communities we serve.

The Virginia Beach SPCA work is truly inspiring. In 2025, they facilitated more than 1,500 pet adoptions and care for over 1,000 animals through their foster program, while providing countless resources and support to pets and families throughout our community.

Recently, our Virginia Beach team spent the day volunteering at the VBSPCA, helping care for the animals by cleaning, feeding, and providing plenty of attention and love. We are grateful to the VBSPCA for welcoming our team and allowing us to contribute to their mission. We thank them for everything they do to make our community a better place for both people and animals. ■

WELCOMING JOHN WHITE

This summer, the Virginia Beach team has been excited to welcome John White as a summer intern. John is a rising senior at Virginia Tech where he is pursuing a degree in Financial Planning.

From day one, John has brought enthusiasm, curiosity and a strong work ethic to his work. His willingness to learn and commitment to excellence have made him a great addition to the team and will serve him well throughout his career.

We're thrilled to have John with us this summer and look forward to supporting him as he begins his professional journey.

WHAT WE'RE READING

By James Morton, *Financial Advisor, Assistant Vice President*

A Gentleman in Moscow is one of those books that sneaks up on you. I kept waiting for it to really begin. The whole story takes place inside a single hotel, and once that clicks, you start to wonder how a setting that small can possibly hold your attention. It can. It really can.

The Count might be the kindest character I have ever "met" while reading. I know that sounds like a big claim for a guy who basically just lives in a lobby, but I truly mean it. Watching him move through his days made me think about my own, and honestly, about how often I rush past things that probably deserve more of my attention.

His world shrinks to almost nothing. And yet this childless man ends up being a father, a servant, a mentor. He finds purpose in routine, which is not a thing I would have said sounded appealing before reading this book.

It is not fast paced. Nothing really explodes. That is the point. It made me slow down, pay attention, and feel grateful for a life that, compared to his four walls, is pretty wide open with possibilities and blessings. ■

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