Economic & Market Review Second Quarter 2026

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While the first quarter witnessed a pullback in equities, mainly centered around concerns that some AI-related companies may have been extended "over their skis," the second quarter was dominated by numerous investment themes, including the Iranian conflict, the Federal Reserve Chair succession, inflation and AI.

- Despite the global gyrations, earnings increased by over 20% for the second consecutive quarter[1] and investors were rewarded.
- Kevin Warsh received Congressional approval and began his reign as next Chair of the Federal Reserve and thus far the markets seem agreeable with this transition.
- The intensity of the conflict in Iran ebbed and flowed with the Memorandum of Understanding (MOU) between Iran and the U.S. reducing military activity at least temporarily.
- Energy prices mirrored the intensity with oil prices, and their perceived inflationary impact decreased from earlier levels.

Second Quarter 2026 Review

Domestic equities found their footing during the second quarter after a weakish start to the year, with large-cap growth stocks initiating the turn-around. By the end of the quarter, value stocks had also participated, with both value and growth stocks providing double-digit returns for Q2. In what may be an under-covered story, small cap stocks have quietly put together a terrific start to 2026, outpacing large caps year-to-date. The tailwinds for the domestic equity markets – both large and small capitalizations – center around continued optimism regarding developments with AI and corporate earnings.

International equities were more of a mixed dynamic. Foreign-developed markets, as measured by the MSCI EAFE index, were basically flat on the quarter but given their strong first quarter, still delivered returns above 9% for the first half of 2026. Emerging markets, as represented by the MSCI Emerging Market index, surged nearly 25%, due to strong corporate profits among large Asian AI-related tech companies. So, for equities, emerging markets were the best place to be broadly speaking for the first half of the year.

The dollar strengthened some against the Euro and the yen, but dollar strength or weakness was generally not a big contributor to the returns for the quarter. Meanwhile, higher energy costs assisted some smaller oil producing nations.

The **fixed income** market ended the quarter not very different from where it had begun. Returns were muted.

- Longer-duration instruments and modest credit risk delivered modestly higher returns than shorter and safer instruments.
- High-yield and longer-dated municipal offerings had attractive returns nearing 2.5%.
- International fixed income started the quarter strong, but June proved a difficult environment and much of the gains were lost.

This report is incomplete without the important disclosures at the end.

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Our Current Market Perspective

- As we enter the second half of 2026, the U.S. economy remains in a productivity-driven expansion supported by innovation, technological advancement and private-sector investment.
- Ongoing productivity gains driven by artificial intelligence, automation, infrastructure modernization and technology investment continue to support corporate profitability and earnings growth across a widening range of industries. We believe the AI investment cycle remains in its early stages and may continue to influence capital spending, productivity and competitive dynamics for years to come.
- Inflation remains one of the primary risks facing financial markets. The ongoing conflict with Iran is creating instability in energy prices, hampering the Federal Reserve's ability to hit their inflation target. While we have a new untested Federal Reserve Chair in Kevin Warsh, the Fed continues to emphasize a data-dependent approach, balancing economic growth, labor market strength and inflation risks when evaluating future policy actions.
- Evolving U.S.-China relations, global trade policy, energy market dynamics and regional conflicts remain important considerations for investors. While difficult to forecast, these factors can influence inflation, supply chains, market sentiment and asset-class performance.
- Periodic consolidation and market volatility remain likely as investors navigate evolving monetary policy expectations, elevated fiscal deficits, government funding negotiations and ongoing geopolitical uncertainty. While potentially disruptive in the near term, we view such volatility as consistent with a maturing economic expansion rather than indicative of a prolonged downturn.

Diversifiers were not particularly additive during the quarter. The precious metals market cooled substantially, with gold and silver giving back over 10%. Energy, after spiking during the beginning of the Iran conflict, also cooled as the combat activity moderated. Real estate, however, did help investors with a strong quarter, and global infrastructure continued its stretch of modest gains. With the equity markets generally positive this quarter, the diversifiers were not particularly additive, but some summer volatility may make their inclusion rewarding.

Looking Ahead

What will the second half of 2026 provide for investors? Market fundamentals remain mostly positive. Earnings growth has been excellent. Fixed-income markets have been relatively stable. Employment is largely strong. The promise of AI seems unlikely to abate. Current affairs could prove a fine setting for equities to move higher throughout this year, albeit with expected volatility.

Obviously, uncertainty in the Middle East could manifest into a negative event. Conflict-induced inflation could force the Federal Reserve to raise rates when it seems as if it would prefer not to at this juncture. Markets can be fickle and volatility is not a surprise, but this productivity-led bull market has shrugged off difficulties before.

So, despite a generally favorable outlook and long-term prospects, given the extended bull move over the past few years and the potential for continued volatility, it is always prudent to review your asset allocation and make sure it remains consistent with your financial goals and risk appetite.

Please reach out to your Financial Professional with any questions.

Our Longer-Term View

- We believe the U.S. economy remains in a productivity-driven expansion supported by innovation, technological advancement and private-sector investment. While much of the recent productivity acceleration has been concentrated within technology-related industries, we expect these benefits to broaden across a wider range of sectors over time.
- Corporate earnings growth, innovation and productivity improvements remain the primary drivers of long-term equity returns. While periods of policy uncertainty, market volatility and economic slowdowns are inevitable, history suggests that business fundamentals ultimately have the greatest influence on long-term market performance.
- We view the ongoing evolution of artificial intelligence, automation, digital infrastructure and advanced manufacturing as potentially transformative forces that could support economic growth, corporate profitability and productivity for years to come. As with previous technological revolutions, the benefits are likely to emerge unevenly across industries and over extended periods.
- Labor market conditions are expected to continue normalizing following the post-pandemic recovery. While employment growth may moderate compared to recent years, rising productivity, healthy corporate balance sheets and consumer resilience should help support economic expansion over the long term.
- Following the normalization of interest rates from historically low levels, fixed income once again offers meaningful income generation and portfolio diversification benefits. While interest rate volatility may persist, we believe bonds remain an important component of balanced portfolios and a valuable tool for managing risk across market cycles.
- Geopolitical competition, fiscal policy challenges and shifting global supply chains are likely to remain important features of the investment landscape. While these developments may contribute to periods of volatility, we believe well-diversified portfolios remain best positioned to navigate an increasingly complex global environment.

	Global Equities				U.S. Fixed Income				Other Assets	
	U.S. Large	U.S. Small	International Developed	International Emerging	1-3 Yr Treasuries	Aggregate Bonds	High Yield	Municipal Bonds	Commodities	Gold
Quarter	15.20	21.49	-0.65	24.05	0.37	0.67	2.47	1.67	-7.79	-12.64
YTD	10.21	22.57	9.37	23.85	0.64	0.62	1.96	1.39	16.98	-7.82
3-Year	20.61	18.60	18.15	23.03	4.38	4.16	8.86	3.60	13.51	28.17
10-Year	15.51	11.62	9.28	10.07	1.75	1.54	5.81	2.07	8.16	11.79

[1]Source: FactSet

Source Indexes: U.S. Large, S&P 500 TR USD, U.S. Small, Russell 2000 TR USD, Intl Dev, MSCI EAFE NR, Intl Emerg, MSCI Emerging Markets NR, 1-3 Yr Treas, Bloomberg 1-3 Yr U.S. Treasury TR USD, Agg Bond, Bloomberg U.S. Agg Bond, High Yield, Bloomberg Corporate High Yield, Municipal, Bloomberg Municipal 1-15 Yr, Commodities, DJ Commodity Index, Gold, LBMA Gold Price

Index definitions: The S&P 500 index is an index of 500 of the largest exchange-traded stocks in the U.S. from a broad range of industries whose collective performance mirrors the overall stock market. The Russell 2000 is a stock market index comprised of approximately 2000 U.S. small-cap stocks and is considered a broad indicator of the performance of small capitalization companies. MSCI EAFE Index is an index created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by major MSCI indexes from Europe, Australia and Southeast Asia. The MSCI Emerging Markets Index captures large- and mid-cap representation across 24 Emerging Markets countries. The Bloomberg 1-3 Year U.S. Treasury Index measures the performance of U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury with maturities between 1 and 2.999 years. Bloomberg U.S. Aggregate Bond Index is an index with income reinvested, generally representative of intermediate-term government bonds, investment grade corporate debt securities, and mortgage-backed securities. The Bloomberg U.S. Corporate High Yield Index consists of domestic and corporate bonds rated Ba and below with a minimum outstanding amount of $150 million. Bloomberg 1-15 Year Municipal Bond Index is a market capitalization-weighted index that measures the performance of the intermediate-term (1 to 15 years) tax-exempt bond market. The Dow Jones Commodity Index is a broad measure of the commodity futures market that emphasizes diversification and liquidity through a simple, straightforward, equal-weighted approach. The LBMA Gold Price is the global benchmark for unallocated spot gold, set via electronic auction by the ICE Benchmark Administration (IBA) twice daily (10:30 and 15:00 London time) in USD. It is not possible to invest directly in an index.

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