June 30, 2026

Q2 2026 Market Commentary

KEY TAKEAWAYS

- Q2 was a story of recovery as markets rebounded sharply from the conflict-driven sell-off that closed the first quarter. Easing geopolitical tensions, resilient corporate earnings and renewed demand tied to artificial intelligence propelled equities higher, with the S&P 500 rising over 15% during the quarter. Emerging markets led global equities, U.S. small cap outpaced large cap, fixed income posted modest gains and commodities gave back a portion of their first quarter surge.

- Geopolitical stress eased over the course of the quarter as tensions between the U.S. and Iran de-escalated and the Strait of Hormuz reopened. Energy prices, which had spiked above $100 per barrel earlier in the year, reversed sharply lower as supply concerns faded, with Brent crude retreating toward $70 per barrel by quarter-end. As the conflict receded from the headlines, investors shifted their focus back to underlying fundamentals, consistent with the historical pattern in which geopolitical events spark initial volatility before markets recover over the longer term.

- A strong earnings backdrop helped support the rally. First quarter results, released during the second quarter, grew almost 30% year-over-year and marked the sixth consecutive quarter of double-digit earnings growth, with expectations remaining high for the remainder of 2026. Equity multiples re-rated higher alongside the price recovery. However, valuations remain above long-term averages and, combined with elevated concentration within the market, leave less margin for disappointment.

- Beneath the geopolitical noise, the U.S. economy remained remarkably resilient. The macro backdrop was supported by healthy consumer spending, a labor market that appears to be solidifying, strong corporate fundamentals and an ongoing wave of investment tied to artificial intelligence infrastructure. While inflation remains above the Federal Reserve’s long-term target, economic growth expectations held firm and recession concerns faded.

- The quarter was also filled with news and anticipation surrounding the mega-cap IPO of SpaceX. Despite an enormous market capitalization, the limited float available to the market resulted in relatively low exposure within the major market indexes. SpaceX ranked 51st in the Russell 1000 Index at quarter-end with a weight of roughly 0.2%, despite being the sixth largest company by full market capitalization. More float will become available as lock-ups expire, but the initial impact of these mega-IPOs on market indexes is likely to be small.

Fixed Income

- Fixed income markets posted a positive quarter despite a rise in interest rates and a complicated backdrop as investors digested elevated inflation, a resilient economy and a solid labor market. Ultimately rates rose as expectations shifted from rate cuts toward a rate hike by year-end, yet core bonds still delivered a modest positive return, benefiting from strength in the corporate bond market. The Bloomberg U.S. Aggregate Bond Index rose 0.7% for the quarter.

- High yield bonds were the standout within fixed income, supported by strong investor demand in the risk-on market. The Bloomberg U.S. Corporate High Yield Index rose 2.5% as credit spreads compressed from the start of the period. While all-in yields remain attractive, the compensation above Treasuries now hovers near 20-year tights, with investment grade and high yield spreads ending the quarter at 74 and 270 basis points, respectively.

Equity

- The S&P 500 rose over 15% during the second quarter, with positive results across almost all underlying sectors. A strong fundamental backdrop helped support the rally, and the information technology sector led the way as the AI theme remained dominant for most of the quarter before reversing some of its gains in June. A handful of companies related to semiconductors gained over 200%, including Micron Technology and Intel. Market leadership broadened as well, with U.S. small cap outpacing large cap (the Russell 2000 climbed roughly 21%) as investors grew more comfortable with the economic backdrop.

- Non-U.S. markets also saw strong results. The AI-dominated quarter experienced in the U.S. was mirrored abroad, and growth stocks broadly outpaced their value counterparts. Emerging markets led the way, driven by South Korea and Taiwan, which together account for over 40% of the index. The rally was closely tied to the global AI supply chain, particularly in Asia, where semiconductor and technology-heavy markets benefited from the same hardware cycle that lifted U.S. chipmakers. Developed markets (MSCI EAFE) rose 10.8% during the quarter, while emerging markets (MSCI EM) jumped 24.1%.

Real Assets

- Commodities reversed course after their first quarter surge, with the Bloomberg Commodity Index declining roughly 8% during the second quarter, though the index remains up over 14% year-to-date. Weakness across energy and precious metals more than offset gains in select industrial metals. Energy prices were pressured by easing geopolitical concerns and improving supply expectations, while precious metals weakened on increased expectations of a Fed rate hike in the back half of the year.

- REITs advanced during the second quarter, benefiting from the risk-on market as well as improving sentiment and fundamentals, with the FTSE Nareit All Equity REITs Index rising nearly 11%. The lodging and office sectors led performance as travel demand remained strong and investors became increasingly constructive on office fundamentals given robust leasing activity. Long-duration infrastructure REITs lagged as capital rotated away from the more rate-sensitive subsector.

Disclosures & Definitions

Comparisons to any indices referenced herein are for illustrative purposes only and are not meant to imply that actual returns or volatility will be similar to the indices. Indices cannot be invested in directly. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect our fees or expenses.

- **Bloomberg Aggregate Bond Index** covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.
- **Bloomberg US Corporate High Yield Index** covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included.
- **S&P 500 Index** is a capitalization-weighted index designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.
- **Russell 2000 Index** consists of the 2,000 smallest U.S. companies in the Russell 3000 index.
- **MSCI EAFE Index** is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the U.S. and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country.
- **MSCI Emerging Markets Index** captures large and mid-cap representation across Emerging Markets countries. The index covers approximately 85% of the free-float adjusted market capitalization in each country.
- **Bloomberg Commodity Index** is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification.
- **FTSE Nareit All Equity REITs Index** is a free-float adjusted, market capitalization weighted index of U.S. equity REITs. Constituents of the index include all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property.

Material Risks

- **Fixed Income** securities are subject to interest rate risks, the risk of default and liquidity risk. U.S. investors exposed to non-U.S. fixed income may also be subject to currency risk and fluctuations.
- **Domestic Equity** can be volatile. The rise or fall in prices take place for a number of reasons including, but not limited to changes to underlying company conditions, sector or industry factors, or other macro events. These may happen quickly and unpredictably.
- **International Equity** can be volatile. The rise or fall in prices take place for a number of reasons including, but not limited to changes to underlying company conditions, sector or industry impacts, or other macro events. These may happen quickly and unpredictably. International equity allocations may also be impact by currency and/or country specific risks which may result in lower liquidity in some markets.
- **Real Assets** can be volatile and may include asset segments that may have greater volatility than investment in traditional equity securities. Such volatility could be influenced by a myriad of factors including, but not limited to overall market volatility, changes in interest rates, political and regulatory developments, or other exogenous events like weather or natural disaster.
- All investing involves risk including the potential loss of principal. Market volatility may significantly impact the value of your investments. Recent tariff announcements may add to this volatility, creating additional economic uncertainty and potentially affecting the value of certain investments. Tariffs can impact various sectors differently, leading to changes in market dynamics and investment performance. You should consider these factors when making investment decisions. We recommend consulting with a qualified financial adviser to understand how these risks may affect your portfolio and to develop a strategy that aligns with your financial goals and risk tolerance.