COMMENTARY

2026 Q2

The second quarter brought a strong rebound for equity markets, with major indices posting some of their best gains in years. The S&P 500 climbed 15.2% for the quarter, bringing its year-to-date return to 10.2%, while the Nasdaq outpaced it with a 21.6% quarterly gain and a 13.1% return for the year so far. The rally was broad-based, reflecting improving investor confidence and easing inflation and geopolitical concerns. Corporate earnings gave investors plenty to like, with first-quarter S&P 500 earnings growth of 28.6% year-over-year, marking the strongest quarter since late 2021. Every sector posted growth, led by technology, and early sentiment for the second-quarter earnings season remains upbeat.

Growth stocks outperformed value during the quarter, though value still holds the edge for the year overall. Smaller companies remained a bright spot, with mid-cap and small-cap indices posting some of the strongest returns of any major asset class, returning 14.5% and 19.7% for the quarter, respectively. Internationally, emerging markets were the standout performer, gaining 24% for the quarter, while developed international equities, though still positive, lagged both emerging markets and domestic equities.

Artificial intelligence remained the dominant storyline. Corporate spending on AI infrastructure showed no signs of slowing, and earnings reports from major technology companies reinforced the strength of demand for computing capacity. Investors continued to find opportunities in the companies supporting this build-out, including those involved in data center construction, cooling systems, and power generation. At the same time, the AI trade faced growing scrutiny and considerable volatility, as analysts raised questions about the return on capital, increasing competition, and regulatory uncertainty.

The conflict in the Middle East moved toward resolution over the course of the quarter. Fighting between the United States and Iran largely ended with an early-April ceasefire, though sporadic skirmishes and reduced shipping traffic through the Strait of Hormuz persisted. Despite constraints in physical commodity markets, the partial resumption of tanker traffic in the Persian Gulf, along with strategic and commercial reserve draw downs, helped push oil prices back down below $70 per barrel.

Monetary policy expectations shifted meaningfully over the quarter. Investors moved away from bets on further Federal Reserve rate cuts, and by quarter's end, futures markets were pricing in the possibility of a rate hike before year-end. Several Fed officials struck a more hawkish tone, citing persistent inflation above target and a resilient labor market. The June meeting, the first under new Fed Chair Kevin Warsh, reinforced that stance even without explicit forward guidance.

The broader economy continued to show resilience: payroll growth in April and May came in ahead of expectations, jobless claims stayed low, and consumer spending held up well, even as inflation remained sticky and above the Fed's 2% target. Consumer sentiment told a more cautious story, falling to a series low in May as households voiced concern over prices and job security. Capital markets activity surged, with IPO and share-sale volume topping $250 billion for the year through June, a record pace driven by a handful of very large offerings and continued anticipation of major technology listings still to come.