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The major US averages have closed out a blockbuster second quarter and a strong first half. Major indexes ended the quarter with their best gains in years. The S&P 500 was up 15.2% in Q2, the Nasdaq had rallied 21.6%, the biggest rallies for both since the second quarter of 2020. The Dow Jones Industrial Average rose 13.4% in Q2 and topped 52000 for the first time at the end of quarter. Year to date, the Dow climbed 8.9%, marking its best first-half performance since 2021. The S&P 500 rose 10.2%, and the Nasdaq climbed 13.1%.

Remarkably, stocks powered through a turbulent few months amid geopolitical uncertainty, the conflict in the Middle East, and the subsequent oil supply shock, and questions on whether the sustained artificial intelligence boom would be commensurate with significant spending among big cloud service providers. The market overcame these headwinds, thanks in part to the biggest AI beneficiaries, semiconductor stocks. The group closed out their best second quarter and first half on record, underpinning the technical strength are especially strong fundamentals in the memory chip sector.

The Russell 2000 grew 21.5% in Q2 and hit a new record. This highlights investors' confidence in US growth. These gains are notable because they came as many investors expect interest rates to rise later this year, triggered by higher energy prices and AI infrastructure component costs. Small cap stocks have historically been sensitive to interest rates, as higher rates have resulted in higher borrowing costs, pressuring small caps more than their large cap counterparts.

Through the first half of 2026, the S&P 500, the Nasdaq, and the Dow Jones Industrials Average have notched 24, 20, and 19 record closes, respectively, primarily driven by the artificial intelligence boom.

Peace talks in the Middle East have brought down oil prices, easing fears of inflation. The US and Iran recently announced a ceasefire around the Strait of Hormuz, where 20% of the world's crude oil flowed. However, uncertainty remains on whether the crude oil transportation through the Strait will return to normal and when.

The Iran war induced energy supply shock has led to a surge in crude oil prices and higher inflation expectations, which helped lift the Federal Reserve's preferred inflation gauge to 4.1%, well above the 2% target. As a result, there is a potential for higher interests later this year or in 2027. New Federal Reserve Chair Kevin Warsh signaled more concern about inflation than many expected in his debut. Back in the begging of the year, the consensus among economists and investors was for the Fed to cut rates.

Along with rising inflation estimates, bond yields have increased, with the 10-year US Treasury yield rising to 4.44% as the end of June vs. 4.17% as the end of last year.

# Second Quarter Market Watch

| | Date | 1 Quarter Ago | | 1 Year Ago | |
|---|---|---|---|---|---|
| | 6/30/2026 | 3/31/2026 | % chg | 6/30/2025 | % chg |
| DJIA | 52,319.20 | 46,341.51 | 13.4% | 44,094.77 | 20.6% |
| S&P 500 | 7,499.36 | 6,528.52 | 15.2% | 6,204.95 | 22.3% |
| NASDAQ Composite | 26,213.72 | 21,590.63 | 21.6% | 20,369.73 | 29.5% |
| Russell 2000 | 7,516.31 | 6,204.12 | 21.5% | 5,405.51 | 40.8% |

| | Date | 1 Quarter Ago | | 1 Year Ago | |
|---|---|---|---|---|---|
| | 6/30/2026 | 3/31/2025 | % chg | 6/30/2025 | % chg |
| Japan Nikkei 225 | 70,062.32 | 51,063.72 | 34.3% | 40,487.39 | 69.9% |
| MSCI EM (Emerging Markets) | 1,722.89 | 1,397.20 | 24.1% | 1,222.78 | 44.2% |
| MSCI EAFE | 3,116.71 | 2,838.61 | 11.1% | 2,654.79 | 20.8% |
| MSCI AC World | 1,120.46 | 978.94 | 15.1% | 917.89 | 24.2% |
| FTSE 100 | 12,269.80 | 11,793.61 | 4.7% | 9,923.86 | 43.5% |
| SSE Composite Index | 4,094.40 | 3,891.86 | 7.1% | 3,444.43 | 31.4% |

## US Equity Sector

| | Q2 | 1-yr ret. |
|---|---|---|
| Consumer Discretionary | 9.3% | 9.5% |
| Consumer Staples | 0.3% | 5.5% |
| Energy | -13.4% | 29.0% |
| Financials | 9.0% | 4.1% |
| Health Care | 8.8% | 19.9% |
| Industrials | 14.9% | 27.3% |
| Information Tech | 31.8% | 37.5% |
| Materials | 2.0% | 16.7% |
| Communication Services | 8.3% | 21.1% |
| Utilities | -0.5% | 14.2% |

## US Equity Style

| | Q2 | 1-yr ret. |
|---|---|---|
| Russell 1000 Value | 13.9% | 27.1% |
| Russell 1000 Growth | 16.7% | 17.7% |
| Russell 2000 Value | 17.2% | 43.0% |
| Russell 2000 Growth | 25.7% | 38.7% |

## Commodity Prices

| | Jun 2026 | Dec 2025 | 1 Yr. Ago |
|---|---|---|---|
| Gold | 4,038.50 | 4,341.10 | 3,307.70 |
| Crude Oil | 69.50 | 57.42 | 65.11 |
| UD Dollar Index | 100.96 | 98.05 | 96.49 |
| Commodity Index | 123.18 | 109.69 | 102.02 |

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Emerging markets continued their broad outperformance, with the MSCI Emerging Markets index gaining over 24% in the second quarter and the first half. Taiwan's Taiex and South Korea's Kospi surged 60% and 101% in the first half, respectively, powered by semiconductor stocks amid the AI boom.

Not all market participants are optimistic. There are some rising market risks to watch out for the second half of 2026. The rapid growth of leveraged ETFs has introduced a relatively new source of risk that can amplify both rallies and selloffs. Buyers ranging from hedge funds to retail investors have poured money into leveraged ETFs this year, helping to double the assets in these levered to a record $220 billion. The most popular leveraged ETFs are tied to technology and semiconductor stocks, which have contributed to the sharp gains in these corners of the market this year. But when stocks fall, leveraged ETFs can magnify the losses of the underlying stocks and quickly spiral into heavy losses. In early June 2026, for example, the popular 3x semiconductor fund plunged 31% in a single session, roughly tripling its benchmark index's decline. Geopolitical risks and potential rate increases could spark more volatility, which could quickly spiral into heavy losses in these levered funds.

We are at the start of the second quarter earnings season. After a record first quarter, when S&P 500 EPS grew 28.8% year-over-year, analysts have revised second quarter EPS estimates higher to 23.1%, which is above the 5-year EPS growth rate of 16.4%. By sector, ten of the eleven sectors are expected to deliver positive earnings growth. The energy sector is projected to have the highest earnings growth year-over year (+123% from Q2 2025), driven by higher crude oil prices related to conflict in the Middle East. Information Technology is expected to have the second highest earnings growth of 63% year-over-year, with semiconductors the largest contributor.

## US Treasury Bond Yields

| | Jun '26 | Dec '25 | 1 Yr. Ago |
|---|---|---|---|
| 90 Day | 3.82 | 3.63 | 4.29 |
| 2 Year | 4.15 | 3.48 | 3.71 |
| 5 Year | 4.20 | 3.73 | 3.79 |
| 10 Year | 4.44 | 4.17 | 4.23 |
| 30 Year | 4.93 | 4.84 | 4.79 |

## Interest Rates

| | Jun 2026 | Dec 2025 | 1 Yr. Ago |
|---|---|---|---|
| Prime Rate | 6.75 | 6.75 | 7.50 |
| Federal Funds Rates | 4.33 | 4.33 | 4.33 |
| 30 Year Fixed Mortgage Rate | 6.49 | 6.15 | 6.77 |

## Exchange Rates

| | Jun'26 | Dec'25 | 1 Year Ago |
|---|---|---|---|
| Euro per U.S. Dollar | 0.875 | 0.851 | 0.852 |
| British Pounds per U.S. Dollar | 0.753 | 0.743 | 0.730 |
| China Renminbi per U.S. Dollar | 6.785 | 6.988 | 7.166 |
| Indian Rupee per U.S. Dollar | 94.659 | 89.879 | 85.760 |
| Japanese Yen per U.S. Dollar | 162.525 | 156.745 | 144.445 |

## Economic Data

| | Jun '26 | Dec '25 | Jun '25 |
|---|---|---|---|
| Unemployment Rate | 4.30 | 4.40 | 4.10 |
| Avg Single Family Home | 401,600 | 401,600 | 401,600 |

Global equity markets have remained volatile through the first half of 2026, as conflict in the Middle East, macroeconomic uncertainty, and worries about the longevity of the artificial intelligence boom sparked turbulence in various asset classes. As we move past the midpoint of 2026, we think the breakthrough in innovation powered by AI will raise the prospect of structurally higher growth. Given the rising earnings growth expectations, the S&P 500's forward P/E has fallen to 21x at the end of June from its peak at 23x in October 2025, no longer at extreme vs. history. Looking ahead, we expect earnings growth, instead of multiple expansion, will dominate market returns. Meanwhile, although geopolitical uncertainties will continue to drive some headline risks, we think monetary policies will be a dominant market driver in the second half of the year. As we navigate market uncertainties, our investment professionals continue to see opportunities, which include quality assets at attractive prices. We look forward to continuing our partnership and providing investment insights and solutions for 2026 and beyond.

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