MARKET COMMENTARY

Q2 2026 COMMENTARY

Economic Summary

Investor sentiment improved meaningfully during the second quarter, as markets looked through persistent inflation, the war in Iran, potential energy supply disruptions, private credit stress, and elevated equity valuations. While these risks have not disappeared, investors increasingly viewed them as manageable. Against this backdrop, the S&P 500® gained 15.2% for the quarter, its strongest quarterly advance since 2020, and finished the first half of the year up roughly 10.2%.

2026 S&P Earnings & Revenue Growth Expectations:
Then vs. Now

	EPS		Sales	
	Jan '26	Jun '26	Jan '26	Jun '26
COMM	12.2%	27.4%	9.9%	13.9%
CD	10.0%	14.8%	6.6%	7.5%
CS	6.8%	6.4%	5.1%	6.1%
ENE	4.8%	63.4%	-1.6%	15.9%
FIN	8.3%	10.5%	6.1%	6.7%
HC	8.7%	3.2%	5.3%	5.1%
IND	6.6%	9.2%	2.5%	5.6%
TECH	21.2%	47.9%	14.8%	29.3%
MAT	20.3%	38.9%	5.1%	10.3%
RE	5.0%	5.1%	5.3%	9.0%
UTE	12.1%	13.1%	4.0%	7.6%
S&P 500	*12.2%*	23.9%	*6.5%*	10.6%

Chart 1
Source: Strategas Research Partners, "Quarterly Review in Charts", 7/1/26

Inflation remains a central risk. Investors entered the quarter expecting price pressures to ease, but inflation instead surprised to the upside. The Federal Reserve's (the Fed) preferred inflation gauge, which tracks the prices consumers pay for goods and services, rose 4.2% year-over-year in May. Excluding the more volatile food and energy categories, inflation increased 3.4%. With both readings still well above the Fed's 2% target, policymakers left short-term interest rates unchanged at 3.50% to 3.75% at the June meeting and adopted a more cautious tone.

The most important support for equities has been earnings. Corporate profits have remained stronger than expected, particularly in areas tied to artificial intelligence infrastructure, semiconductors, energy, and capital spending. FactSet estimated second-quarter S&P 500 earnings growth of 23% as of late June, up from 19% at the end of March, and projected full-year 2026 earnings growth of 24%, up from 12% at the beginning of the year (Chart 1). This strength helps explain the market's resilience despite ongoing geopolitical, inflation, and private credit concerns. Looking ahead, earnings will need to remain strong, as

Past performance does not guarantee future results.

Economic Summary (continued)

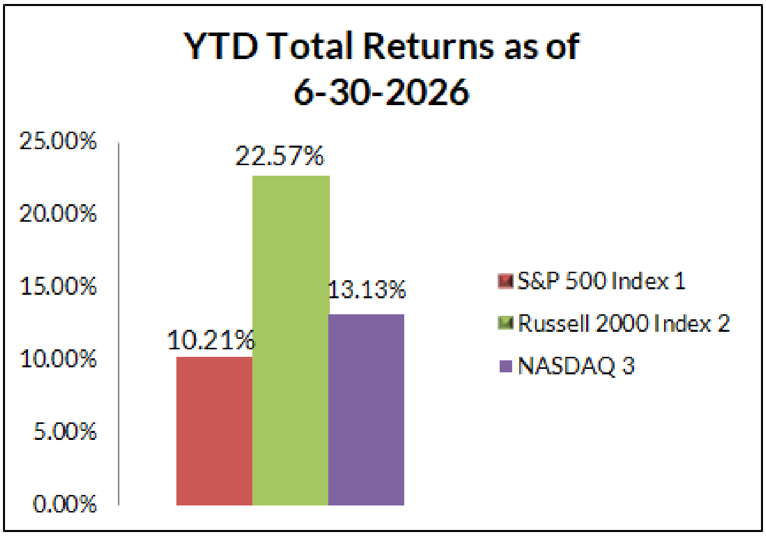
current equity valuations already reflect a significant amount of optimism.

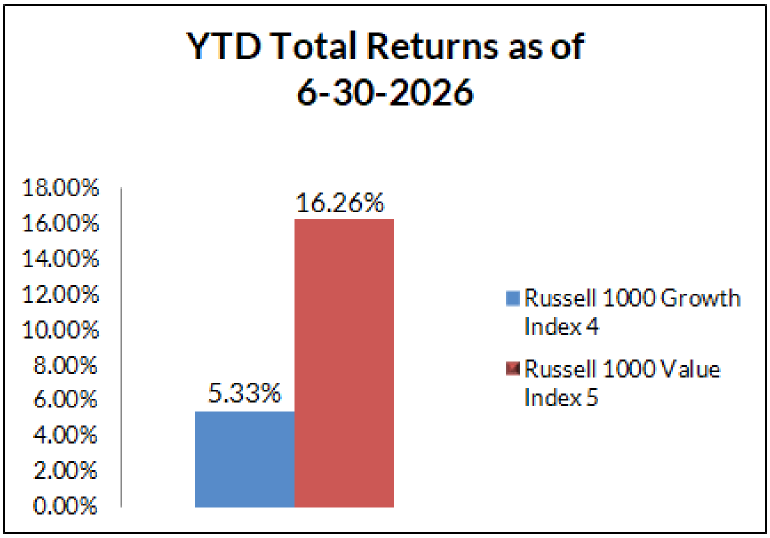
The Stock Market

The small-cap-oriented Russell 2000® outperformed its larger capitalization peers during the first half of the year, gaining 22.57% compared with 13.13% for the NASDAQ Composite and 10.21% for the S&P 500 (Chart 2). This relative strength suggests that market leadership broadened beyond the large-cap growth stocks that have driven returns in recent periods.

Value also significantly outperformed growth, with the Russell 1000® Value Index up 16.26% year-to-date compared with a 5.33% gain for the Russell 1000 Growth® Index (Chart 3). This wide gap reflects a rotation toward companies with more reasonable valuations, steadier earnings, and stronger cash flow support.

At the sector level, Information Technology was the clear leader during the quarter, gaining 31.8%, followed by Industrials at 14.9% and Consumer Discretionary at 9.3%. Energy, Utilities, and Consumer Staples were the weakest performers, returning -13.4%, -0.5%, and 0.3%, respectively. Notably, Information Technology was the only sector to outperform the S&P 500® for the quarter,





Charts 2 & 3
Source: Morningstar Direct

[1]The S&P 500® Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general. [2]The Russell 2000® Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000® Index. [3]The NASDAQ Composite is a stock market index that includes almost all stocks listed on the Nasdaq stock exchange (more than 2500 stocks). You cannot invest directly in an index. [4]The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. [5]The Russell 1000® Value Index Measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® companies with lower price-to-book ratios and lower expected growth values.

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The Stock Market (continued)

underscoring how much of the index's strong advance was driven by renewed enthusiasm for technology and artificial intelligence-related investments.

The Bond Market

The 10-year U.S. Treasury yield began the quarter near 4.3% and ended at approximately 4.4%, after trading within a relatively wide range as investors weighed persistent inflation, oil prices, economic resilience, and the Fed's policy path. The Fed held the target range for the federal funds rate at 3.50% to 3.75% in June, but expectations shifted from potential rate cuts toward the possibility that the next policy move could be a hike if inflation remains persistent.

Credit markets remained resilient despite the uncertain macroeconomic backdrop. Corporate spreads remain tight by historical standards, reflecting strong demand for yield, healthy corporate balance sheets, and continued confidence that the economy can expand.

The combination of higher Treasury yields and tight credit spreads creates a mixed opportunity set for fixed income investors. Absolute yields are still attractive compared with much of the post-financial-crisis period, but credit spreads offer limited compensation for taking incremental risk. As a result, we believe selectivity remains essential. Higher-quality bonds continue to offer reasonable income with less reliance on spread tightening, while lower-quality credit requires careful analysis given the limited margin for error.

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