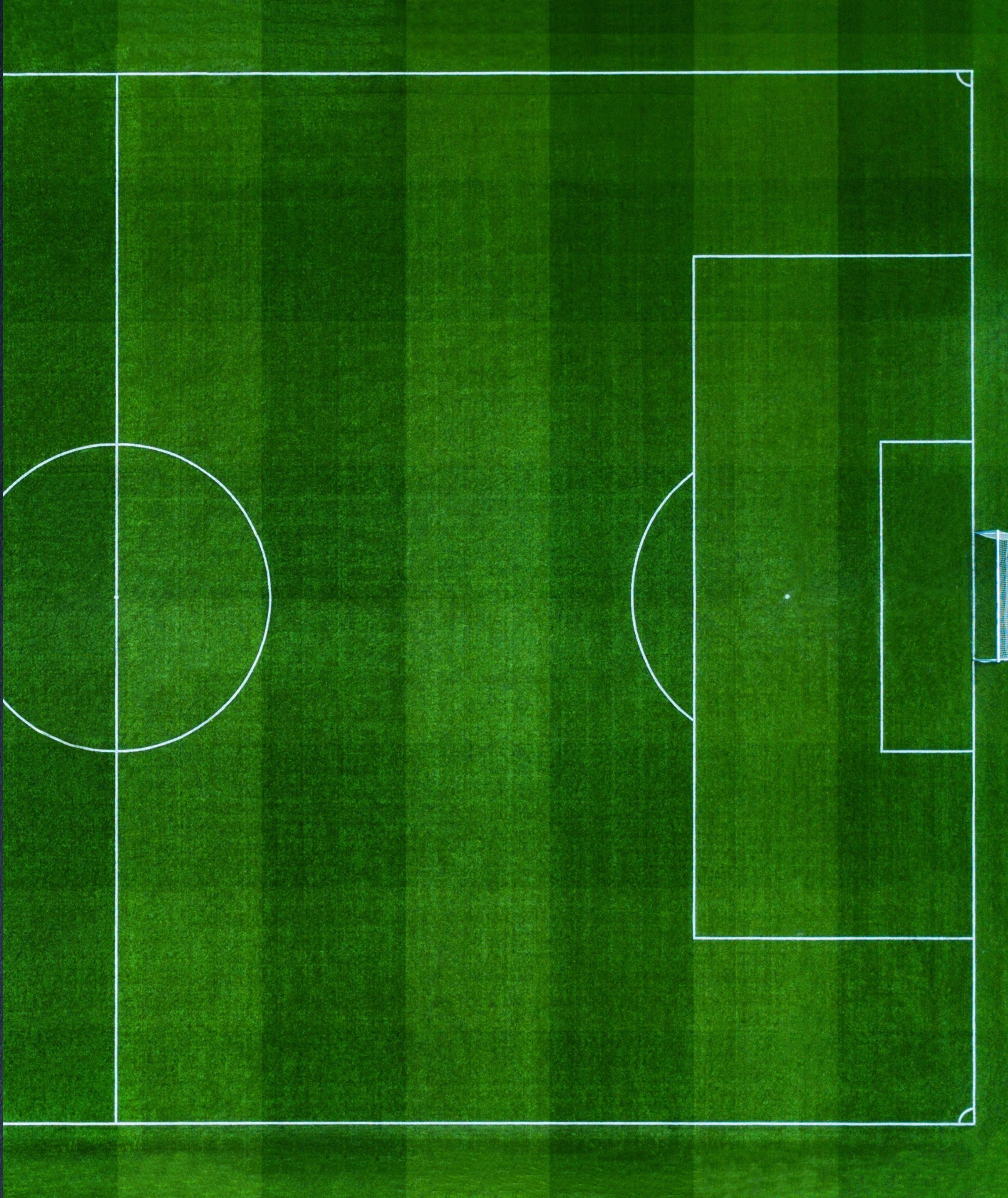
Market Overview

Second Quarter 2026



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Every four years, the world stops to watch. This summer, for the first time in a generation, the World Cup is being played on North American soil, and stadiums from Seattle to Mexico City to Toronto have been packed with tens of thousands of fans watching group-stage favorites stumble, underdogs find their footing, and teams that looked finished at halftime discover a different level of themselves after the break. Along the way, traveling supporters have turned host cities into their own: kilted Scotland fans filling the bars of Boston, Norwegian fans taking over Citi Field in kits, Viking caps, and performing their signature "Viking Row". Good-natured reminders that this tournament, like the markets we cover, draws its energy from well beyond any single country's borders. As the tournament now moves into its knockout rounds, it strikes us as a fitting lens through which to review the second quarter of 2026 in the financial markets because markets, too, just delivered one of the more dramatic first-half comebacks in recent memory.

We enter this update with the same instinct we would bring to watching a match: resist judging the run of play from any single moment, and instead look at the full 90 minutes: how the quarter opened, how it turned, and what it tells us about the shape of the team we are fielding for the rounds ahead (an ode to portfolio construction).

The First Half: A Rough Go in Group Play

Reflecting on the first quarter of 2026 was, in a word, disorienting. An escalating conflict involving Iran sent Brent crude spiking above $110 a barrel, and fears of a prolonged disruption to the Strait of Hormuz rattled every corner of the market. The S&P 500 fell 4% in the quarter, with a peak-to-trough decline exceeding 10%, as investors rotated out of the technology and growth names that had powered the market for three straight years. It was, frankly, an ugly opening group-stage match, the kind where a team concedes an early goal and spends the rest of the half chasing the game.

But just as tournament soccer has taught us that a rough group stage rarely predicts who lifts the trophy, a difficult first quarter did not predict what came next.

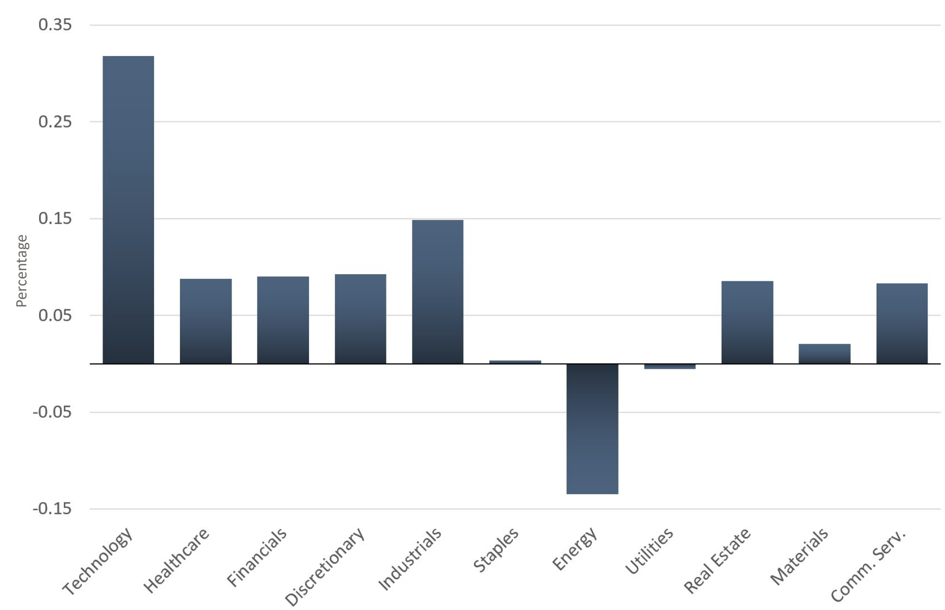
The Second-Half Comeback: Equity Markets Find Their Form

The S&P 500 gained roughly 15% in the second quarter, experiencing its best quarter since 2020, as U.S. large caps led global markets on an unrelenting AI-infrastructure and semiconductor rally. The Nasdaq climbed over 21%, with the Semiconductor sector turning in one of the most remarkable results gaining nearly 88% for its best quarter since the index's inception in 1994. Leadership was exceptionally narrow through most of the quarter, with returns concentrated in just a handful of AI-linked mega-caps. A healthy consolidation in early June broadened participation into value-oriented sectors, now leaving industrials, financials, and healthcare among the year's best performing groups.

We want to be direct with clients about what is driving this rally, because it matters for how we read the run of play from here: this has been an earnings-led advance, not a multiple-driven one. Second-quarter earnings growth expectations for the S&P 500 rose from 18.8% at the start of the quarter to 23.1% by quarter-end, putting S&P 500 profits on track to expand at their fastest pace in several years, powered by the ongoing AI investment and adoption cycle across both technology and energy. That is an important distinction from prior speculative episodes. Businesses are, in fact, earning the growth the market is pricing.

It is also worth stating that new record highs, on their own, are not a signal to grow cautious. Markets historically continue to set fresh highs when corporate earnings and broader economic growth remain supportive of

TECHNOLOGY DOMINATES SECOND QUARTER 2026 ***(QTD)***



Source: Bloomberg as of 06/30/2026

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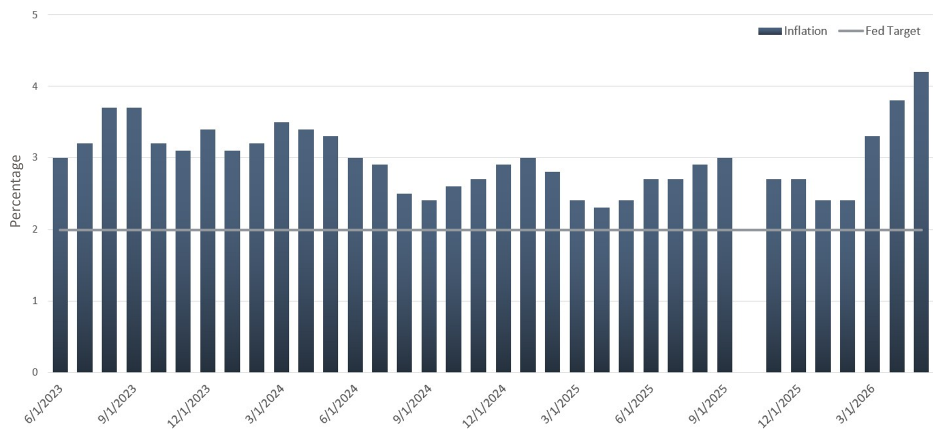
INDEX RETURNS (AS OF 6/30/2026)

INDEX	2Q 2026	YTD	1-YEAR	3-YEAR	5-YEAR
S&P 500 Index	15.20	10.19	22.29	20.57	13.38
Russell 2000 Index	21.57	22.69	40.91	18.60	6.97
MSCI EAFE Index	10.82	9.44	20.23	16.42	9.04
MSCI Emerging Markets Index	24.05	23.85	43.51	23.00	7.19
Barclays U.S. Aggregate Index	0.67	0.62	3.79	4.15	0.08
MSCI All-Country World Index	14.93	11.25	23.67	19.68	10.98
MSCI ACWI xUSA	14.49	13.68	27.66	18.80	8.78
BBG/Barclays Muni Index	2.50	2.32	7.03	3.75	1.05
BBG/Barclays Muni High Yield	3.35	4.09	7.00	5.84	1.79

Source: *Bloomberg, data as of June 30, 2026. Annualized returns if longer than 1 year*

INFLATION RESURFACES



Source: Bloomberg as of 06/30/2026

them, and forward returns following new all-time highs have, on average, outpaced returns following an ordinary trading day[1]. A market at a record is not inherently a market near a top; more often than not, it is simply a market reflecting the earnings and growth underneath it.

With that said, we would not describe today's equity market as cheap. The S&P 500's forward price-to-earnings ratio has moved back to roughly 20 to 21 times earnings, above both its five-year and ten-year averages[2], and after such a rapid re-rating, U.S. equities look priced closer to perfection than to opportunity. That combination — strong but priced-in earnings growth, still -narrow underlying leadership beneath the surface, and a Federal Reserve that just demonstrated it can move markets with a single press conference — leads us to expect a higher likelihood of elevated volatility over the coming months, even as the longer-term earnings backbone of this market remains sound.

None of this describes a uniform advance. Despite a strong first half for the index, an estimated 38% of S&P 500 constituent companies remained down for the year. Even within the "Magnificent Seven" mega-cap group, several constituents had negative year-to-date returns while semiconductor names soared, a reminder that a team can win a match while several starters are still finding their touch. The marquee capital markets event of the quarter — SpaceX's public offering, which briefly valued the company above $2 trillion — captured this same tension between genuine innovation and speculative enthusiasm that we expect to persist through the balance of the year.

Playing Away from Home: International Markets

Developed and emerging international markets also finished the quarter higher, though returns were far more uneven than U.S. equities — the away match is always harder. A resurgent U.S. dollar weighed on dollar-based returns, and the dispersion across countries was unusually wide: South Korea and Taiwan, both closely tied to the same semiconductor demand driving the U.S. rally, posted standout results, while Chinese and Indian equities lagged notably. As in any tournament, playing away from home rewards the sides with the deepest, most versatile squads, and this quarter, that meant markets tied most directly to the AI and chip supply chain.

A Contested Video Review: The Federal Reserve's New Regime

If Q2 had a moment worthy of a lengthy video assistant referee review, it was the Federal Reserve. Kevin Warsh, confirmed as the new Fed Chair in May after a contentious Senate vote, quickly refocused policy on the central bank's 2% inflation mandate, striking a notably hawkish tone in his first press conference. Headline inflation accelerated to 4.2% in May, and core inflation (PCE) rose for a third consecutive month to 3.4%. Brent crude,

[1] *BNY Investments — "Historical S&P 500 Returns After All-Time Highs"*
[2] *FactSet — S&P 500 forward 12-month P/E, as of quarter-end June 2026*

which had spiked above $110 a barrel during the Iran conflict and the disruption to the Strait of Hormuz, retreated to the low $70s as a tentative ceasefire took hold, removing one source of inflationary pressure even as the Fed's own tone hardened. Markets responded by repricing rate expectations for 2026 sharply, from two cuts priced at the start of the year to roughly 33 basis points of hikes priced in by year-end[3]— the equivalent of a call on the pitch being overturned after everyone thought it was final.

Fixed income lagged behind this backdrop, as yields drifted higher on firmer inflation and the shift to a more hawkish policy stance. The 10-year Treasury yield rose to 4.47% as the Fed signaled its new posture, and the Bloomberg U.S. Aggregate Bond Index returned a modest 0.38% for the year through May, as coupon income offset the pressure from rising yields. Credit markets, notably, have remained calm through the transition. Investment-grade spreads near 80 basis points and high-yield spreads near 285 basis points, both still historically tight, suggesting confidence in corporate fundamentals has held even as the policy outlook has shifted. Fixed income has had to defend a lead under real pressure this quarter.

Squad Depth: Private Equity

Private equity's quarter looked like a team that trusts only its most proven players in a knockout match. Private-equity-driven M&A activity totaled $583 billion in the first half of 2026, up 54% year-over-year, even as deal volume by count fell roughly 34% over the same period[4]; capital is being deployed with far more conviction, in far fewer places. Fundraising followed a similar pattern of concentration, with limited partners increasingly favoring a smaller number of managers with demonstrated distributions to paid-in capital, rather than simply a compelling pitch.

This is where we would add our own view as your investment team: manager selection has always mattered in private equity, but it matters more now than at almost any point in the asset class's history. Private equity has matured into a much deeper industry than it was a decade ago, and that maturity carries a real cost. Generating true alpha, above and beyond what leverage and multiple expansion once provided for free, has become genuinely harder and more expensive to do. The managers we want on the pitch are the ones with real sub-sector expertise, in-house operating and technology resources, a genuine value-creation playbook, and the advisory and sourcing networks that let them find and improve a business rather than simply buy it at a fair price and wait. Underwriting has also become more expensive on its own terms: the cost of capital has risen alongside broader fee and financing costs across the industry.

We remain constructive on private equity as an asset class — the long-term case for owning private businesses alongside public ones is intact — but this is a harder game than it was five or ten years ago, and we intend to play it with high conviction managers who are differentiated and hold their own unique skillsets rather than a broad roster of generalists.

Extra Time: Positioning for the Knockout Rounds

A 15% quarter is worth celebrating, but it is also worth a harder look at the schedule ahead. Champions are rarely the side that scores the most goals in one electric half; they are the side that plays a disciplined full match, manages fatigue, and has the depth on the bench to handle whatever the knockout rounds bring. An earnings-led rally that has pushed valuations toward the high end of their historical range, layered on top of a Federal Reserve that just proved it can surprise markets in either direction, is also the kind of setup under which we would expect volatility to pick up. That being said, increased volatility is not a reason to come off the pitch; it is a reason to stay disciplined on it.

Strong quarters are exactly when discipline matters most. Our task as your investment team is not to chase the scoreline from any single half; it is to make sure your portfolio is still built around its north star — the long-term strategic asset allocation designed for your goals, not for whatever sector or theme happened to lead the last 90 minutes.

Concretely, that means using a quarter like this one to revisit allocations across every asset class. It means staying prudent about where valuations have run ahead of fundamentals, even in areas we still like on a multi-year view. And it means continuing to build portfolios ready to take on any form of weather. Diversified enough to withstand a hawkish surprise from the Federal Reserve, a bout of narrow-leadership volatility, or a shift in the macro backdrop we have not yet seen this cycle, rather than positioned for only the conditions of the last three months.

None of this is about predicting the next twist in the tournament. It is about making sure the team we have fielded can hold up match after match, regardless of the opponent. We value the trust you place in our team, and we remain committed to helping you navigate the matches still to come this year. As always, we welcome the opportunity to discuss any questions you may have about your portfolio or this update.

[3] Nasdaq Market Intelligence Desk — Second Quarter 2026 Review and Outlook (Fed rate-pricing shift)

[4] PitchBook — "Q2 2026 Analyst Note: US Private Equity's New Fundraising Reality"; Ropes & Gray, U.S. Private Equity Market Recap, May 2026

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