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Fortis Asset Management Quarterly Economic Update

Markets Rebound, Growth Remains Firm, and Policy Uncertainty Continues

The second quarter of 2026 brought a notable improvement in investor sentiment after a volatile start to the year. Coming out of Q1, markets were still digesting higher energy prices, tariff uncertainty, Middle East conflict risk, and questions about whether AI-related capital spending could translate into durable earnings growth. The tone shifted meaningfully in Q2 as U.S. equities rallied, the AI trade regained momentum, and investors grew somewhat more comfortable the U.S. economy was bending but not breaking. The Federal Reserve's June statement described economic activity as expanding at a "solid pace," while noting uncertainty remained elevated due in part to the Middle East conflict, inflation remaining above target, and energy-related supply shocks contributing to price pressures.

Equity markets delivered a strong quarter. The S&P 500 gained 15.2% in Q2, the Nasdaq Composite rose 21.6%, and the Dow Jones Industrial Average advanced 13.38%. This marked the best quarter for the S&P 500 and Nasdaq since 2020. The rally was fueled by renewed strength in semiconductor and AI-related companies, improving earnings confidence, and increasing expectations the U.S.-Iran conflict was moving toward a less disruptive phase by quarter-end. Small-cap stocks also participated, with the Russell 2000 up 21.49% for the first half of 2026, reflecting a broader risk appetite than investors saw during the more defensive Q1 environment.

Bond markets were steadier but continued to face crosscurrents. The Federal Reserve held the federal funds target range at 3.50%–3.75% at its June meeting, emphasizing inflation remained elevated and price stability remained a priority. Treasury yields stayed relatively high by recent-cycle standards, the 10-year Treasury yield sat near 4.5% around quarter-end, reflecting a market still balancing resilient growth against inflation risks and uncertainty around the future path of policy. For fixed income investors, the quarter reinforced the value of income, diversification, and duration discipline. Yields remained attractive relative to much of the post-financial-crisis era, but bonds were still sensitive to inflation surprises, Fed messaging, and energy-driven volatility.

US Markets Recap				
	April 2026	**May 2026**	**June 2026**	**Q2 2026**
S&P 500	10.49%	5.26%	-0.95%	15.20%
Nasdaq	15.31%	8.43%	-2.75%	21.60%
Russell 2000	12.21%	4.37%	3.74%	21.49%
S&P Composite 1500	10.35%	5.01%	-0.53%	15.28%
10-Year Treasury Yield (Average/Period-End)	4.32%/4.40%	4.48%/4.45%	4.47%/4.44%	4.42%/4.44%
Fed Funds Rate Target Range	3.5%-3.75%	3.5%-3.75%	3.5%-3.75%	3.5%-3.75%

Source: Morningstar Direct, US Treasury, and Federal Reserve Bank of New York as of 6/30/2026

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Quarter-in-Review: From Shock Absorption to Recovery

April – Markets Stabilized, Investors Assess the Damage

April began with investors focused on the aftershocks from Q1: rising oil prices, tariff-related uncertainty, and questions about the durability of consumer spending. Middle East developments remained central, with the Fed highlighting in its April policy language that inflation was elevated partly due to higher global energy prices and developments in the Middle East were increasing uncertainty. Investors also continued to evaluate the Trump administration's trade posture. The key market issue was not simply whether tariffs would raise costs, but whether companies could absorb them through margins, pass them through to consumers, or reconfigure supply chains without meaningfully damaging growth.

May – AI Leadership Reasserts Itself

In May, investor attention shifted back toward corporate earnings and the AI capital spending cycle. After Q1 raised questions about whether AI-related spending ran ahead of near-term monetization, Q2 saw a renewed willingness to reward companies tied to semiconductors, cloud infrastructure, data centers, and power demand. The rally remained concentrated in many AI beneficiaries, but there were signs of broader participation as investors looked for second-order winners in industrials, utilities, and energy infrastructure. The core debate evolved from "Is AI spending too high?" to "Which companies can turn AI spending into productivity, pricing power, and earnings growth?"

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June – Fed Holds Firm, Markets Finish Strong

June brought two important developments: a cautious but still constructive Fed message, and a powerful finish for equities. The Fed held rates steady at 3.50%–3.75% on June 17, stating growth remained solid, productivity growth and capital investment were strong, job gains had kept pace with the workforce, and inflation remained elevated relative to the 2% goal. Stocks closed the quarter on a strong note, helped by semiconductor strength and de-escalation in the Iran conflict leading to falling energy prices.

Sector Snapshot: Tech Reclaims Leadership, Breadth Improves

Sector leadership in Q2 looked different from Q1. In the first quarter, energy and defensive areas benefited from the initial oil shock and investor caution. In Q2, technology and AI-linked industries reasserted leadership. Semiconductor stocks were a major driver of index performance, with Nvidia, AMD, Intel, and semiconductor ETFs posting strong gains into quarter-end. The AI theme broadened beyond software and mega-cap platforms into chips, data center infrastructure, utilities with power-demand exposure, and industrial companies tied to grid, cooling, and construction needs.

Energy remained important, but the story changed. Rather than a one-directional surge in oil prices, the quarter became more about whether energy markets could normalize as the Iran conflict moved toward a less disruptive phase. Oil price volatility still mattered for inflation expectations, consumer sentiment, and corporate margins, but by late June the market appeared less fearful of a worst-case supply shock.

Among laggards, more rate-sensitive and consumer-facing areas faced mixed conditions. Treasury yields remained elevated, which continued to pressure parts of real estate and long-duration equities. Consumer discretionary stocks faced a more complicated backdrop as households dealt with higher financing costs, uneven wage growth, and the possibility that tariffs and energy costs could flow through to prices. Financials benefited from resilient growth and higher rates, but investor enthusiasm was tempered by uncertainty around credit quality and deposit costs. Overall, Q2 suggested investors were willing to take more risk, but they remained selective about balance sheets, pricing power, and earnings visibility.

International Markets: Energy Prices Negatively Impacted International Equities

Global markets also improved during Q2, though country and regional performance varied. Developed international equities remained an important diversifier, supported by more attractive valuations than U.S. large-cap growth and by exposure to financials, industrials, and exporters. They were still sensitive to energy prices, particularly in Europe and parts of Asia, but the stabilization in oil helped reduce some of the pressure that weighed on international equities in March.

Emerging markets were a bright spot, helped by technology-heavy Asian markets and the global AI supply chain. The MSCI Emerging Markets Index rose 24.09% over the quarter. Its largest holdings

include Taiwan Semiconductor, Samsung Electronics, and SK Hynix, all companies directly tied to semiconductor and AI infrastructure demand. This helps explain why emerging markets were not merely a commodity or China reopening story in Q2; they were also a meaningful part of the global AI investment cycle.

Other global asset classes also influenced market behavior. Oil remained central because of the Iran conflict and the risk of supply disruptions. The dollar and Treasury yields continued to affect international returns for U.S.-based investors. Gold and commodities remained relevant as hedges against geopolitical risk and inflation uncertainty, though investor attention shifted back toward equities as risk appetite improved.

International Markets Recap				
	Jan. 2026	**Feb. 2026**	**Mar. 2026**	**Q1 2026**
Hang Seng (China)	1.97%	-3.05%	-9.31%	-8.36%
KOSPI (Korea)	21.92%	27.99%	-2.05%	68.57%
Nikkei (Japan)	10.33%	11.45%	4.76%	30.48%
DAX (Germany)	4.26%	4.64%	-0.03%	7.28%
CAC 40 (France)	2.14%	3.69%	3.34%	7.20%
FTSE 100 (United Kingdom)	3.38%	1.61%	2.01%	6.66%
IT40 (Italy)	6.07%	4.58%	4.43%	15.24%

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Economic Overview: Solid Growth, Sticky Inflation, and a Narrower Margin for Error

The U.S. economy entered the second half of 2026 in expansion, but not without vulnerabilities. The Fed's June statement pointed to solid economic activity, strong productivity growth, strong capital investment, and a labor market where job gains were keeping pace with workforce growth. Those are encouraging signals for household income, corporate revenues, and overall economic resilience. However, inflation remained above the Fed's 2% goal, partly because of supply shocks in sectors including energy.

For consumers, the main issue was affordability. Higher energy prices act like a tax on household budgets, while tariffs can raise the cost of imported goods or pressure company margins if firms absorb the cost. The Trump administration's tariff approach therefore remained a key source of uncertainty for investors. Its potential benefits include using trade policy to protect selected industries, encourage domestic production, and strengthen negotiating leverage. Its potential costs include higher consumer prices, supply chain disruption, weaker margins for import-dependent companies, and a more complicated inflation backdrop for the Fed. The market's Q2 reaction suggested investors were not ignoring these risks, but they were placing greater weight on earnings resilience, AI-driven capital investment, and continued economic growth.

The Federal Reserve remained central to the outlook. By holding rates steady, policymakers signaled current policy was restrictive enough to monitor incoming data. Softer inflation could help bonds and rate-sensitive assets, but softer growth could raise questions about earnings. Strong growth could support equities, but if it came with persistent inflation, it could keep yields elevated.

Looking Ahead: Themes Worth Monitoring in Q3

As investors move into the third quarter, several issues deserve close attention:

- Energy markets remain important. The Iran conflict may have eased compared with the most stressful points of the quarter, but oil supply, shipping routes, and geopolitical risk can quickly affect inflation expectations and consumer sentiment.
- Tariff policy remains a key swing factor for corporate margins and goods inflation.
- AI investment is likely to remain a dominant market theme, but investors may increasingly demand evidence of returns on capital rather than rewarding spending alone.
- The labor market bears watching because a stable job market supports consumer spending, while a sharper slowdown would challenge earnings expectations.
- Fed communication will remain critical. With inflation still elevated and growth still positive, the path of rates will likely depend on whether incoming data show a clearer move toward price stability without a meaningful deterioration in employment.

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Index Definitions

S&P 500® Index – A market-capitalization-weighted index of approximately 500 large-capitalization U.S. companies, representing a broad measure of the U.S. equity market.
NASDAQ Composite Index – An index that tracks the performance of more than 3,000 stocks listed on the NASDAQ exchange, heavily weighted toward technology and growth-oriented companies.
Dow Jones Industrial Average Index - A price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.
Russell 2000® Index – An index measuring the performance of approximately 2,000 small-capitalization U.S. companies and commonly used as a benchmark for small-cap stocks.
S&P/TSX Composite Index – A market-capitalization-weighted index representing the largest publicly traded companies listed on the Toronto Stock Exchange.
Hang Seng Index – A benchmark index tracking large-capitalization companies listed on the Hong Kong Stock Exchange, including both Hong Kong-based and mainland China companies.
KOSPI Index – The primary stock market index of South Korea, tracking large-capitalization companies listed on the Korea Exchange.
Nikkei 225 Index – A price-weighted index of 225 large, publicly traded companies listed on the Tokyo Stock Exchange.
S&P BSE Sensex Index – A benchmark index of 30 large-capitalization companies listed on the Bombay Stock Exchange, representing a segment of the Indian equity market.
S&P/ASX 200 Index – An index measuring the performance of approximately 200 large-capitalization companies listed on the Australian Securities Exchange.
DAX Index – A market-capitalization-weighted index tracking 40 large companies listed on the Frankfurt Stock Exchange in Germany.
CAC 40 Index – A benchmark index of 40 large-capitalization companies listed on Euronext Paris, representing the French equity market.
IBEX 35 Index – A benchmark index tracking 35 of the most liquid companies listed on the Spanish stock exchanges.
FTSE 100 Index – An index measuring the performance of 100 large-capitalization companies listed on the London Stock Exchange.
MSCI EAFE Index – An equity index which captures large and mid-cap representation across 21 Developed Markets countries* around the world, excluding the US and Canada
MSCI Emerging Markets Index – An index representing large- and mid-capitalization companies across emerging market countries.
S&P GSCI™ Gold Index – A sub-index of the S&P GSCI designed to measure the performance of gold commodities through futures contracts.
Bloomberg Global Aggregate Bond Index – A broad-based benchmark measuring the performance of global investment-grade fixed-income markets, including government, corporate, and securitized bonds.
Bloomberg U.S. Aggregate Bond Index – A benchmark index representing the U.S. investment-grade fixed-income market, including government, corporate, mortgage-backed, and asset-backed securities.

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