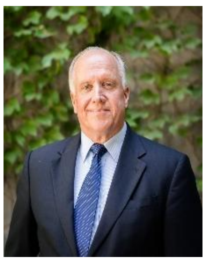
2026 – 2nd Quarter Review & Outlook

Economic and Investment Review



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Economic Growth: Despite geopolitical conflicts and an energy supply-related price shock, the U.S. economy posted a solid first half of 2026. Economic growth was supported by AI-related capital spending and a resilient consumer. The consensus GDP estimate indicates that the US economy is expected to grow 2.2% in 2026. The estimate has ranged from 1.5% to 2.3% in the past twelve months. Goldman Sachs forecasts 2.1% growth for the year, and J.P. Morgan's current GDP forecast is 2.0%. J.P. Morgan expects growth to moderate in the second half of the year as fiscal stimulus fades, the consumer exercises more selectivity, and interest rates act as a drag on growth. Raymond James forecasts 2.4% GDP growth in 2026, supported by healthy consumer spending, a steady labor market, fiscal stimulus, tax incentives, and significant AI and data center investment.

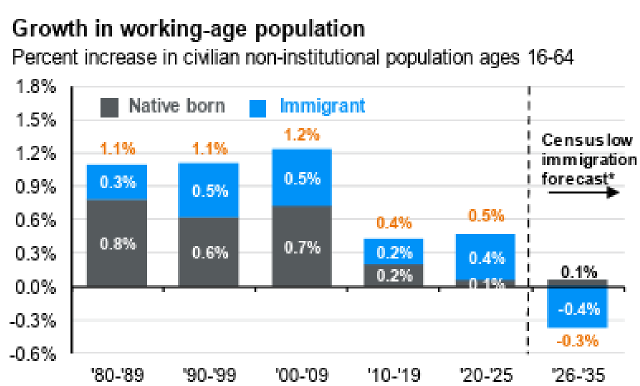
The consensus estimate for 2027 is slightly lower, at 2.0%, ranging from 1.8% to 2.0% over the past year.

U.S. consumer spending has remained surprisingly resilient through 2026, supported by larger tax refunds, a strong labor market, and rising wages. However, the composition of spending has changed. Consumers are becoming more selective, with spending increasingly concentrated among higher-income households while lower-income consumers focus on essentials.

There is growing evidence that U.S. consumer spending has become increasingly bifurcated, meaning higher-income households continue to spend at a healthy pace while lower-income consumers are becoming more cautious. Higher-income households have generally benefited from strong stock market gains, rising home values, low unemployment, and wage gains offsetting inflation. Lower-income consumers are under increasing pressure from higher food, housing, and insurance costs.

Higher costs are resulting in greater credit card delinquencies among subprime borrowers and rising auto loan delinquencies. This pattern has been evident in company earnings, consumer credit data, and spending trends throughout 2025 and into 2026.

Long-term economic growth is determined by the growth in the number of workers, or labor supply, plus the growth in real output per worker. Labor supply has flattened out due to lower levels of immigration and slower growth in the working-age population.



Source: JPMorgan Asset Management

The lack of contribution from the labor supply is currently being offset by increased output per worker, or productivity. Productivity is moving higher due to capital expenditures in AI related R&D, equipment, and infrastructure.

Labor Markets: The U.S. labor market has transitioned from the exceptionally tight conditions of 2022–2024 to a more balanced, slower-growth environment. Most economists characterize today's labor market as "cooling but still healthy" or "slow hire, slow fire." Hiring has slowed significantly, but layoffs remain historically low, allowing unemployment to stay relatively stable. The unemployment rate was 4.2% for June and has ranged from 4.2% to 4.5% over the past twelve months

The U.S. labor market remains fundamentally healthy, but performance varies significantly across industries and worker groups. The economy is experiencing a reallocation of labor rather than broad-based weakness, with structural growth sectors continuing to hire while cyclical and interest-rate-sensitive sectors have slowed.

Areas of strength include:

- Health Care
    - Due to the aging of the U.S. population and shortages of physicians, nurses, and technicians.
- Construction
    - Supported by AI-related data center development and infrastructure.
- Professional & Business Services
- Energy and Utilities
    - Investment has accelerated due to data center additions and power grid upgrades.
- Skilled Trades
    - Driven by a shortage of electricians, plumbers, HVAC technicians, etc.

Areas of weakness include:

- Technology
    - Fewer entry level positions are coming open.
- Financial Services
    - Higher interest rates result in lower mortgage and lending activity.
- Retail Trade
    - E-commerce continues to gain market share.
- Housing-Related Industries
    - Higher mortgage rates continue to weigh on residential construction and related employment.

Inflation: The consumer price index (CPI) increased to 4.2% in May, as higher energy prices are filtering through the economy. The May inflation reading was the highest in over three years. Core CPI (all items less food and energy) was 2.8% year-over-year. The consensus forecast is 3.3% for 2026, with lower inflation in the second half of the year. Economists are generally basing their forecasts for declining inflation on lower energy, housing, and tariff costs.

Lack of any finality in the Iran war will continue to cause volatility in energy prices. Economists continue to base forecasts on the assumption that the war in Iran will not continue indefinitely and that energy costs will decline from current levels. Brent crude oil is currently near $76 per barrel, and West Texas Intermediate is near $72. Brent crude peaked near $115 in early May, and WTI near $112 in April. Goldman Sachs forecasts WTI prices to be $75 per barrel in six months and $70 in twelve months.

Goldman Sachs forecasts CPI of 3.3% in 2026, declining to 2.4% in 2027. J.P. Morgan expects inflation to remain elevated through the remainder of 2026 and move closer to the Fed's 2.0% target in 2027.

Interest rates: The Fed has been on hold since the December meeting, but the U.S. Treasury yield curve has moved higher in response to higher inflationary pressures. The 2-year U.S. Treasury began the year at 3.48% and is currently at 4.17%. The 10-year U.S. Treasury started at 4.17% and is currently at 4.55%.

Kevin Warsh is the new Fed chairman. He is expected to introduce some stylistic changes; however, Fed policy is likely to stay on hold for the time being.

Equity Markets

The S&P 500 surged higher by 15.2% in the second quarter as the index recovered from the Iran war sell-off in March. Growth stocks regained their footing, outperforming value stocks 21.9% to 8.0% in the quarter. Mid-cap and small-cap stocks continued to be beneficiaries of a broadening reallocation and more attractive valuations.

2026 Q2 Returns				
EQUITY	**Q2 2026**	**YTD 6.30.26**	**1 Year 6.30.26**	**3 Years Annualized**
S&P 500	15.19	10.21	22.32	20.59
S&P 500 Value	8.00	8.03	18.40	14.37
S&P 500 Growth	21.89	12.01	25.71	25.91
Dow Jones Ind Avg	13.38	9.76	20.65	17.10
NASDAQ Composite	21.60	13.13	29.48	24.84
S&P Mid Cap 400	14.47	17.34	25.89	15.40
S&P Small Cap 600	19.67	23.90	37.50	16.03
MSCI EAFE	10.82	9.44	20.23	16.42
MSCI Emerging Mkts	24.05	23.85	43.51	23.00

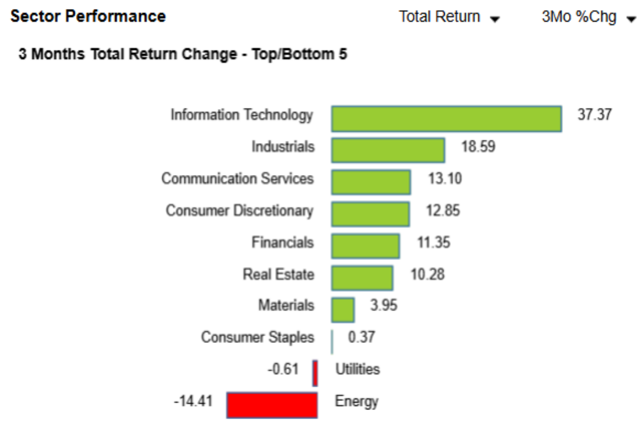
Source: FactSet

Earnings growth is projected to be 24% in 2026 and 17% in 2027. The earnings growth estimate for 2026 has moved significantly higher since the beginning of the year. The estimate in January was 15% for the year.

Our year-end forecast for the S&P 500 is 8,100 and 8,700 for twelve months. The forecast assumes 24.4% earnings growth in 2026 and 15.9% in 2027. Goldman Sachs forecasts 8,000 for year-end 2026 and 8,300 for twelve months. Yardeni Research forecasts 8,250 for year-end 2026.

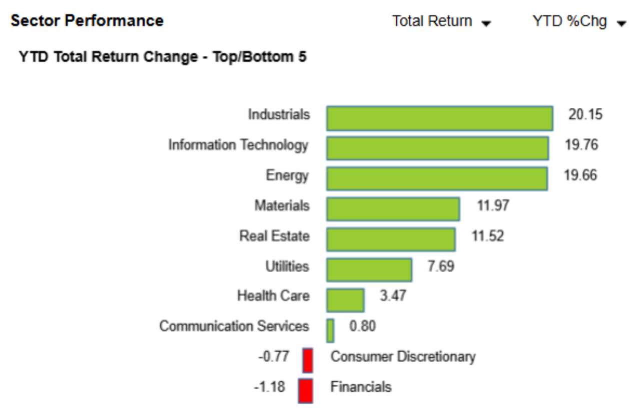
International benchmarks performed well in Q2. The MSCI EAFE index moved up 10.8% in the quarter and 20.2% for one year. The MSCI Emerging Markets Index moved significantly higher in the quarter, up 24.1%. The index was primarily driven by Asia's critical role in the global AI and semiconductor hardware supply chain.

The Information Technology sector was the dominant sector leader in Q2 as the AI story continues to drive cap-ex spending and earnings expectations.



Source: FactSet

Industrials, Information Technology, and Energy were the leaders on a year-to-date basis. AI and AI-related equipment and infrastructure drove returns as well as reduced energy supply.



Source: FactSet

Fixed Income Markets

Taxable investment-grade fixed Income was slightly positive for the quarter and year-to-date. Municipal

2026 Q2 Returns				
FIXED INCOME	**Q2 2026**	**YTD 6.30.26**	**1 Year 6.30.26**	**3 Years Annualized**
Bloomberg US Agg Bond	0.67	0.62	3.79	4.15
ICE AMT-Free Nat'l Muni	2.20	1.97	6.50	3.48
Markit iBoxx USD Liquid High Yield Index	2.29	1.84	5.69	8.78

Source: FactSet

bonds and high-yield bonds fared somewhat better. Municipal bonds were up 2.20%, and high-yield bonds were up 2.29% for Q2.

The outlook for bonds for the remainder of 2026 is somewhat mixed. The likelihood of a rate increase is probably greater than that of a rate cut due to ongoing energy-driven inflation. High levels of government debt also work to keep interest rates higher. Government debt as a percent of GDP has not markedly changed since the uptick during COVID.   However, strong corporate balance sheets and cash flow generation are keeping corporate spreads to comparative U.S. Treasuries relatively narrow.

Source: US Department of Treasury

Real Assets

Real estate benchmarks had a strong quarter as investors became more optimistic about earnings growth, property fundamentals, and stabilization in interest rates.

The S&P GSCI commodities benchmark declined in the quarter as a resolution to the Iran war was anticipated.

2026 Q2 Returns				
REAL ASSETS	Q2 2026	YTD 6.30.26	1 Year 6.30.26	3 Years Annualized
Dow Jones U.S. R/E	8.78	9.94	10.83	8.87
S&P GSCI	-11.38	24.09	30.39	14.54

Source: FactSet

Alternatives

Alternative investments generally had a constructive second quarter in 2026, although performance varied by asset class. Investors continued shifting toward strategies that emphasized income, inflation resilience, and secular growth themes such as AI infrastructure and power demand.

Private credit continued to attract strong institutional interest because higher interest rates supported attractive yields and lending terms.

Infrastructure was one of the strongest secular investment themes due to additional development of data centers, electric transmission, and power generation.

Private equity showed signs of recovery after a difficult period. Areas of improvement include increasing M&A activity, financing availability, and secondary market transactions.

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