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Client Letter | 2Q 2026 Recap & 3Q 2026 Outlook

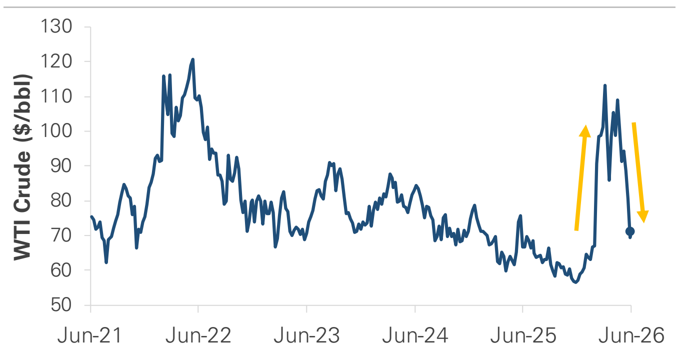
Key Updates on the Economy & Markets

The second quarter was a strong one for investors, with the stock market rebounding and finishing near record highs despite ongoing geopolitical tensions and periods of volatility. As concerns surrounding the Middle East eased and oil prices declined, investor confidence improved. At the same time, continued enthusiasm for artificial intelligence and strong corporate earnings helped drive gains across the market, with strength expanding beyond large technology companies into many other sectors. While inflation and interest rate expectations remain important factors to watch, the overall backdrop for markets improved throughout the quarter.

Oil Prices Return to Pre-Conflict Levels

Energy markets experienced significant volatility during the quarter as geopolitical tensions temporarily pushed oil and gas prices higher. However, those increases proved to be short-lived. As conditions in the Middle East began to stabilize and expectations grew that global oil supplies would return to normal, oil prices fell back toward their pre-conflict levels, with gasoline prices following a similar pattern. While energy markets remain sensitive to global events, the easing of these pressures helped reduce one of the market's biggest concerns heading into the second half of the year.

FIGURE 1 – Oil Prices Return to Pre-Conflict Levels



Source: Energy Information Administration (EIA). Time Period: June 2021 to June 2026. Latest available data as of 6/30/2026.

The recent decline in oil prices is encouraging because energy costs play an important role in inflation, which directly influences interest rate decisions. Earlier in the quarter, higher oil prices pushed inflation higher, leading investors to worry that the Federal Reserve might need to keep interest rates elevated for longer. As a result, expectations shifted from potential rate cuts to the possibility of another rate increase.

Fortunately, with oil prices now back near where they were before the geopolitical conflict, one of the primary drivers of higher inflation has begun to ease. While the Federal Reserve continues to closely monitor economic data before making any changes to interest rates, moderating energy prices should help reduce inflationary pressure over the coming months.

Perhaps the biggest takeaway from the quarter was the market's resilience - despite periods of uncertainty driven by inflation concerns and global events. Strong corporate earnings, continued economic growth, and improving sentiment helped stocks recover from bouts of volatility and finish the quarter on a positive note.

Market Breadth Remains Strong Beyond Tech

One of the most encouraging developments this quarter was that market gains became more broad-based. While large technology companies have continued to perform well, strength has expanded into other areas of the market, including small- and mid-sized companies. This is a healthy sign, as it suggests the rally is being supported by a wider range of businesses rather than relying on just a handful of stocks.

Several factors have contributed to this shift. Smaller companies have benefited from improving profitability, a resilient U.S. economy, and attractive valuations after lagging the market for several years. As investors have looked beyond the largest technology companies, opportunities in other sectors and market segments have become increasingly attractive.

This serves as a good reminder of the value of diversification. Markets rarely reward the same areas year after year and maintaining a well-diversified portfolio across different company sizes, sectors, and asset classes helps position investors to benefit as leadership changes over time while reducing the risks of relying too heavily on any one part of the market.

Bonds Trade Higher Despite Interest Rate Volatility

The bond market experienced some volatility during the second quarter as investors reacted to changing expectations for inflation and interest rates. Rising energy prices early in the quarter pushed bond yields higher, but as oil prices declined and inflation concerns eased, bond markets stabilized. While the Federal Reserve continues to take a cautious approach, improving inflation trends helped reduce some of the uncertainty surrounding interest rate policy.

Despite the fluctuations, bonds delivered positive returns during the quarter. Investment-grade and corporate bonds performed well, reflecting continued confidence in the overall economy and corporate balance sheets. The broader fixed income market continues to provide an important source of income, diversification, and stability within a well-balanced portfolio.

2026 Outlook – What to Watch in Q3

The second quarter was a reminder that markets can remain resilient even in the face of uncertainty. Despite geopolitical tensions, rising inflation concerns, and shifting expectations for interest rates, stocks recovered from early volatility and finished the quarter near record highs. As we move into the second half of the year, investors will continue to focus on several key themes, including the direction of inflation and interest rates, the continued growth of artificial intelligence, and whether market leadership remains broad across different sectors and company sizes.

Economic growth remains positive, corporate earnings have generally been resilient, and inflation appears to be moving in a more favorable direction. Although periods of volatility are always possible, they are a normal part of investing.

As always, our investment philosophy remains unchanged. Rather than trying to predict every market move, we focus on building diversified portfolios designed to help clients achieve their long-term financial goals. We appreciate the trust you place in our team and will continue to monitor economic and market developments closely while keeping your financial plan at the center of every investment decision.

Important Disclosures