Market Insight Quarterly

Second Quarter 2026

News & Views from LPL Research

The economic forecasts set forth in the presentation may not develop as predicted. Please note: all return figures are as of June 30, 2026, unless otherwise stated. This information is not intended as authoritative guidance or tax or legal advice. You should consult with your attorney or tax advisor for guidance on your specific situation.

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Q2 2026 at a Glance

Sector	Q2 2026
Gross Domestic Product*	2.5%
S&P 500 Index	15.2%
Bloomberg U.S. Aggregate Bond Index	0.7%
Bloomberg Commodity Index	-8.1%

Source: LPL Research, Bloomberg, 06/30/2026

* Bloomberg consensus as of 06/30/2026

Figures for S&P 500 Index, Bloomberg U.S. Aggregate Bond Index, and Bloomberg Commodities Index are total returns from 03/31/2026 - 06/30/2026 (Q2)

All indexes are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges, or expenses. The results don't reflect any particular investment.

Past performance is not indicative of future results.

S&P 500, Nasdaq Post Best Quarter since 2020 in Equity Market Rebound

After snapping a three-quarter winning streak in the first quarter, stocks bounced back over the last three months with the S&P 500 and Nasdaq Composite delivering their best quarterly returns in six years. The benchmark S&P 500 added 15.2%, including dividends, while the tech-heavy Nasdaq rallied 21.6% on a big tailwind from semiconductor and memory chip companies amid little sign of easing artificial intelligence (AI) compute demand or spending plans. The Dow Jones was a relative laggard but ended June at record levels after posting a 13.4% total return.

While AI remained the most prominent theme, attention across Wall Street continued to increase on the so-called "picks-and-shovels" side of the AI trade as demand for cooling, power production, and all things related to data center construction also benefited from the enthusiasm. As such, the broader fundamental backdrop was bolstered by blockbuster S&P 500 earnings growth, with all 11 sectors reporting positive first quarter growth. The equity benchmark's 28.6% earnings growth marked its best since late 2021, cruising past pre-quarter estimates of around 13%.

Simultaneously, macro data continued to paint a picture of economic resilience. Data indicated consumers continued to spend; jobless claims remained low, and although annualized inflation remained above the Federal Reserve's (Fed) 2% target, there were limited signs of higher energy prices bleeding into core figures. However, markets faced a notable shift away from further Fed rate cuts as the June monetary policy meeting was viewed as decidedly hawkish with new Fed Chairman Kevin Warsh stressing the importance of price stability.

Market participants also continued to closely monitor developments out of Washington and the Persian Gulf. Kinetic action between the U.S. and Iran continued until a temporary ceasefire was reached in early April, before sporadic fighting and volatile negotiations continued until a preliminary memorandum of understanding (MOU) materialized in June. Sentiment was supported by the truce, but the key point for markets regarding the conflict continued to be the de facto closure of the Strait of Hormuz as tanker traffic spent most of the quarter at a standstill. Nonetheless, some vessels trapped in the Gulf since the onset of the conflict began traversing the waterway by quarter-end, helping ease energy prices and economic jitters.

Small Caps Extend Year-to-Date Outperformance

Small cap stocks built on early-year outperformance over their large cap peers, buoyed by both momentum trades and market rotation dynamics. The Russell 2000 small cap index added 21.6% over the last three months, including dividends, besting the large cap Russell 1000 Index's 15.1% advance by 6.5 percentage points. Wall Street's smaller companies were bid amid a few moving factors, including the Russell 2000 benefiting from a momentum/higher beta rally, the late quarter rotation away from mega-caps, as well as some cyclical drivers, including a recovery in strong earnings momentum and the U.S. manufacturing recovery taking hold. Technology led gains with a 62.1% surge, while energy was the lone sector to close lower.

Growth Stocks Rally on the Back of a Chipmaker Surge

Growth stocks were back on top of their value counterparts after back-to-back quarters of relative underperformance, as the Russell 1000 Growth Index added 16.7%, while the Russell 1000 Value advanced 13.9%. While the AI theme continued to come under monetization scrutiny, the growth style was led by a historic jump in semiconductor names (the best quarter on record for the group) as the insatiable AI demand narrative gained traction throughout earnings season. At the same time, Magnificent Seven names closed mostly higher and software names bounced back from a sharp first quarter loss as white-collar job disruption concerns ebbed. Nonetheless, a broadly increased risk appetite on U.S.-Iran de-escalation and rotation dynamics lifted the value style.

Under the surface, the potential for elevated equity supply coming to market was in focus as several AI-related names announced billions of dollars in issuance while markets parsed multiple initial public offering (IPO) filings. Most notably, big tech names faced some downside pressure as a source of funds for the record SpaceX (SPCX) IPO in June — although markets received the listing well with tepid broader market implications.

Emerging Markets Surged on Chipmaker Enthusiasm

Emerging market (EM) equities continued their stretch of outperformance over the U.S. as the MSCI EM Index posted a 24.1% rally versus a strong 15.2% advance for the S&P 500. Developed international markets, however, lagged their American counterparts with an 11.1% gain for the MSCI EAFE Index.

Asia-Pacific emerging markets continued to be standouts with South Korea's KOSPI scoring its best quarterly gain since 1998 on the back of the index's chipmaker heavyweights SK Hynix and Samsung. Both companies reached the elite $1 trillion market cap club, while Taiwan also rallied on support from investor enthusiasm around electrical equipment and semiconductor companies. China was a laggard due to auto and retail sector weakness, while energy-linked companies in Latin America also underperformed. Despite lagging the U.S., European markets gained ground on de-escalation in the Middle East and positive economic momentum, while Japan was supported by financials and exporters on increased yield curve steepness, in addition to tech names.

Treasuries Rose on Easing Crude Prices and Inflation Jitters

Core bonds, proxied by the Bloomberg U.S. Aggregate Index, returned to positive territory last quarter with a 0.7% gain. U.S. Treasuries ended the quarter relatively flat with just a 0.3% gain after climbing back above the quarterly flatline in June. Bond market investors faced shifting inflation and economic jitters but ultimately were supported by easing inflation concerns as crude prices fell, partially countering rate hike bets from a hawkish Fed meeting and strong economic data. Nonetheless, shorter-term yields remained elevated as market pricing continued to expect monetary policy tightening by year end-2026.

Meanwhile, corporate credit markets outperformed the broader fixed income market as spreads tightened further with a 1.4% advance for the investment grade space and a 2.5% advance for high-yield securities, measured by the Bloomberg Corporate Bond and the Bloomberg High-Yield Indexes, respectively. Mortgage-backed securities lagged slightly with just a 0.6% gain. Across the pond, sovereign bonds in the Eurozone outperformed their U.S. peers on support from falling inflation expectations and lower oil prices, while also successfully absorbing the European Central Bank's first rate hike since 2023 .

Commodities Tumble on the Back of Falling Oil and Gold Prices

The Bloomberg Commodities Index pared back part of its first quarter surge, shedding 8.1% over the last three months. West Texas Intermediate (WTI) crude futures held their first quarter surge into early June (amid volatile trading) before dropping in response to Washington and Tehran inking a preliminary MOU. Tankers trapped in the Persian Gulf since the early days of the conflict began trickling out of the Strait of Hormuz, and although shipping volumes remain far below pre-conflict levels, resupply hopes sent WTI futures 14.9% lower on the quarter, back near $70 per barrel.

Outside of energy, gold prices tumbled just over 14%, falling below the year-to-date flatline. A few moving pieces were in play as anticipation of tighter global monetary policy acted as a headwind for non-yielding bullion, while a stronger dollar and some countries monetizing gold reserves as a source of U.S. dollars to bridge revenue gaps from disrupted oil exports also weighed on bullion prices. Silver also sold off, ending 22% lower, while copper outperformed with a 9.3% gain. Grains declined and soft commodities edged higher on geopolitically-driven fertilizer shipping disruptions.

All commodities performance is based on Bloomberg commodity indexes.

A Look Ahead

Economy. The economic landscape remains dynamic and complex, but tailwinds for growth should outweigh headwinds over the balance of 2026. Looking ahead, investors should consider the following:

- **Resilient Growth.** Economic growth should moderate but remain positive in the second half, with strong business spending on AI-related equipment, intellectual property, and non-residential structures helping offset weakness in housing and other rate sensitive sectors.
- **Rate Cuts or Hikes?** Central bankers in Washington and new Fed Chair Kevin Warsh face a challenging macro backdrop as inflation remains sticky and limits the central bank's flexibility. We believe the Fed is likely to remain on hold in the near term, removing any bias toward easing and considering tightening if warranted by economic data.
- **Low, but Rising Unemployment.** The labor market is still posting a relatively low unemployment rate, mainly because the corporate sector is in a "low-hiring, low-firing, low-quits" equilibrium — firms are hiring more cautiously, but they are also not shedding many workers, which helps keep measured unemployment from rising much. Unemployment may rise slightly, but remain historically low, as labor force participation edges higher.
- **Easing Inflation.** Our base case is that inflation pressures moderate by the end of 2026 if geopolitical tensions ease meaningfully, as the recent upside pressure has been driven disproportionately by energy and related supply-chain channels rather than by a broad-based reacceleration in underlying inflation.

Stocks. An improving macro backdrop and strong, AI-driven earnings growth will likely continue supporting the stock market through year-end, although more episodes of market volatility should not be ruled out. Looking ahead, investors should consider the following:

- **Improving Macro and AI to Power Equities.** The first half of 2026 faced some expected and unexpected dynamics. However, the massive AI buildout and resulting earnings boom has offset higher oil prices, helping deliver solid first half gains. In the second half, we expect stocks to grind higher amid an improved but still challenging macro backdrop and continued AI-driven earnings strength.
- **Earnings Still Riding the AI Wave.** First quarter earnings growth near 30% was extraordinary and an encore is likely coming in the second quarter. AI-fueled technology earnings have far exceeded expectations, but growth is concentrated in the technology sector, which puts stocks at the mercy of the technology spend as scrutiny on investments may rise. Meanwhile, capital to fund the buildout could get more expensive.

- **Stretched Positioning in AI Theme.** While broadly justified by earnings, the sharp rally in semiconductor stocks on AI enthusiasm was extreme and has created stretched positioning. As such, we think diversifying between the AI theme and rotation beneficiaries could be critical as positioning returns from statistical extremes.
- **Stock Market Risks: The Usual Suspects.** The Iran conflict, possible Fed rate hikes, and the potential for AI disappointments head up the list of risks to stocks in the second half. Also consider stocks tend to be more volatile during midterm election years. A flare-up of China-Taiwan tensions and excess equity supply via IPOs are other ongoing risks to monitor.

Bonds. The first half rapidly delivered three challenges to bond investors: a Fed leadership change, a geopolitical shock that sent oil prices and yields surging, and an artificial intelligence (AI) buildout that is having a measurable impact on the corporate bond market. Looking ahead, consider the following:

- **Treasuries to Remain Rangebound.** Sticky inflation and resilient growth keep the Fed on extended pause, leaving Treasury yields range-bound, with the 10-year likely finishing the year between 4.00% and 4.50% absent disinflation or clear economic weakening.
- **Tight Credit Spreads.** Tight credit spreads likely to persist, though AI-driven borrowing by hyperscalers may pressure spreads modestly higher; short-to-intermediate corporate bonds remain attractive for income-focused investors.
- **Return Drivers.** Returns will be income driven as Treasury yields will likely stay rangebound and credit spreads remain tight. Securitized markets and unconstrained strategies may perform well, while we prefer Treasury Inflation-Protected Securities (TIPS) over nominal Treasuries as well.

Second Quarter Performance Overview

Technology Lifted by Chipmakers While Energy Dropped on Cooling Geopolitical Tensions

S&P 500 sector performance, ranked by second quarter returns*

Sector	Q2 2026
Technology	31.8%
S&P 500	15.2%
Industrials	14.9%
Consumer Discretionary	9.3%
Financials	9.0%
Healthcare	8.8%
Real Estate	8.5%
Communication Services	8.3%
Materials	2.0%
Consumer Staples	0.3%
Utilities	-0.5%
Energy	-13.4%

Momentum-linked Areas Rally on Artificial Intelligence, U.S.-Iran Truce

Domestic and international asset class performance, ranked by second quarter returns*

Asset Class	Q2 2026
Small Growth	25.8%
Emerging Markets	24.1%
Small Value	17.2%
Large Growth	16.7%
Russell 3000	15.4%
S&P 500	15.2%
Mid Growth	14.5%
Large Value	13.9%
Mid Value	13.4%
Large Foreign	11.1%

Fixed Income Markets Rose as Oil Prices and Economic Jitters Eased

Bond market performance, ranked by second quarter returns*

Sector	Q2 2026
EM Debt	3.4%
High-Yield Munis	3.4%
Munis	2.5%
High-Yield Corporates	2.5%
Bank Loans	1.8%
Foreign Bonds (Hedged)	1.6%
Investment-Grade Corporates	1.4%
Preferred Stocks	1.2%
Foreign Bonds (Unhedged)	1.0%
TIPS	0.9%
Bloomberg U.S. Agg	0.7%
MBS	0.6%
U.S. Treasuries	0.3%

*Source: LPL Research, Bloomberg 06/30/2026

All data as of 06/30/2026. All indexes are unmanaged and cannot be invested into directly. All indexes are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges, or expenses. The results don't reflect any particular investment. Past performance is no guarantee of future results. The sectors are represented by the 11 S&P 500 Global Industry Classification Standard (GICS) indexes. Asset class returns are represented by the returns of indexes and are not ranked on an annual total return basis. It is not possible to invest directly in an index.

Bond Market Asset Class Indexes: Foreign Bonds (hedged) – Citigroup Non-U.S. World Government Bond Index Hedged for Currency; Preferred Securities – Merrill Lynch Preferred Stock Hybrid Securities Index; Treasury – Bloomberg U.S. Treasury Index; Mortgage-Backed Securities – Bloomberg U.S. MBS Index; Investment-Grade Corporate – Bloomberg U.S. Corporate Bond Index; Municipal – Bloomberg Municipal Bond Index; Municipal High-Yield – Bloomberg Municipal High Yield Index; TIPS – Bloomberg Treasury Inflation-Protected Securities Index; Bank Loans – Bloomberg U.S. High Yield Loan Index; High-Yield – Bloomberg U.S. Corporate High Yield Index; Emerging Market Debt – Bloomberg Emerging Markets USD Aggregate Total Return Index Unhedged; Foreign Bonds (unhedged) – Citigroup Non-U.S. World Government Bond Index (unhedged).

Important Disclosures

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial professional prior to investing. The economic forecasts set forth in this material may not develop as predicted. All performance referenced is historical and is no guarantee of future results.

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Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments, and exports less imports that occur within a defined territory.

Yield is the income return on an investment. This refers to the interest or dividends received from a security and are usually expressed annually as a percentage based on the investment's cost its current market value or its face value.

Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability. Earnings per share is generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.

Small cap is a term used to classify companies with a relatively small market capitalization. The definition of small cap can vary, but it is generally a company with a market capitalization of between $300 million and $2 billion. The prices of small cap stocks are generally more volatile than large cap stocks.

The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Bloomberg Global Aggregate Index measures the performance of global investment grade debt. The index includes treasury, corporate, and securitized fixed-rate bonds. Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. High yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

The Russell 1000 Index consists of the 1,000 largest securities in the Russell 3000 Index, which represents approximately 90% of the total market capitalization of the Russell 3000 Index. It is a large-cap, market-oriented index and is highly correlated with the S&P 500 Index. The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK. The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa. Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments. The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

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