



Market Update *Second Quarter 2026*

Equity Markets: Sharp Second Quarter Rebound Instills Strong Sense of Déjà Vu

Global equity markets staged a remarkable turnaround in the second quarter, more than reversing the 9% S&P 500 pullback that had occurred from late January to late March. On top of another bout of investor hesitation about the AI trade, war in Iran had sent energy costs higher, soured consumer sentiment, and prompted the Federal Reserve to worry about renewed inflationary pressures. However, as those tensions de-escalated in April and oil prices began to subside, the S&P 500 quickly rebounded through May and traded sideways near all-time highs during June.

This sequence provided an eerie sense of déjà vu, closely mirroring the events of last year when the sudden implementation of wide-reaching tariffs triggered a sharp stock market correction, only to be followed by a massive relief rally once negotiations commenced. In short, President Trump's maneuvering again caused stocks to sell off, only for markets to snap back as a crisis of his own creation was systematically defused.

There is, however, a critical structural difference this year: because this crisis manifested as a sudden spike in energy costs rather than targeted trade restrictions, its macroeconomic reach was fundamentally more global, yet it produced much more distinct winners and losers. While the 2025 tariffs penalized specific geographic trade corridors, it was seldom clear exactly who along the supply chain—from producers to end consumers—was bearing the ultimate economic burden. The 2026 energy shock acted as a universal tax on global consumers while simultaneously showering windfall profits on energy producers and highly insulated, secular technology infrastructure companies.

Equity Markets (Total Return)	2Q'26	1-Year
Dow Jones Industrial Average	13.4%	20.6%
S&P 500	15.2%	22.3%
S&P 400 Mid-Cap	14.5%	25.9%
S&P 600 Small-Cap	19.7%	37.6%
MSCI All-Country World	15.1%	24.2%
MSCI Foreign Developed Markets	11.1%	20.9%
MSCI Foreign Emerging Markets	24.1%	44.2%

US Bond Markets (Total Return)	2Q'26	1-Year
Bloomberg US Treasury	0.3%	2.7%
Bloomberg US Municipal	2.5%	7.0%
Bloomberg US Corporate Investment Grade	1.4%	4.3%

Source: Bloomberg



Resilient Earnings and the Realities of Market Breadth

Also supporting the market recovery was the broad-based strength of corporate earnings across most market caps and sectors, which continues to provide a fundamentally sound floor for equity valuations. The "Magnificent Seven" mega-cap stocks—the undisputed anchors of market returns in recent years—have seen their outperformance slow. Remarkably, despite much past consternation about these seven heavyweights accounting for more than one-third of the S&P 500's total market capitalization, the broader index has managed to steadily march higher without them.

This year, performance within this group has been fragmented, ranging from Microsoft's -22.5% return to Alphabet's +14.3%, with a subdued -2.5% collective year-to-date return for the group, as measured by the MAGS ETF.

Instead, leadership has concentrated within a narrow, highly specialized subset of the hardware ecosystem: semiconductor memory providers like Micron, SanDisk, Seagate, and Western Digital, which have emerged as the latest beneficiaries of heavy AI infrastructure spending. Collectively, these four companies currently represent a mere ~2.6% of the S&P 500, yet, despite this tiny footprint, they were responsible for roughly 16% of the index's total return during the second quarter, and an astonishing 26% of its year-to-date gains.

U.S. Indexes Race to Space

Our "race to space" tagline found literal expression beyond Wall Street this quarter, as NASA successfully executed a milestone mission to the far side of the moon. While a lunar achievement carries no direct implications for equity valuations, it serves as an apt cultural metaphor for an investment landscape moving at a breakneck pace.

That velocity was on full display on June 12th, when Elon Musk's SpaceX made its historic public market debut. The abundance of private venture capital has allowed companies to delay initial public offerings far longer than in previous cycles, and some are massive by the time they finally trade publicly. Valued at over \$2trillion upon entry, SpaceX instantly ranked among the largest publicly traded enterprises on Earth, whereas Amazon was valued at under \$500million at its IPO.



The listing caused a scramble amongst major index providers (such as Standard & Poor's) to reconsider their standard seasoning and structural criteria for being included in their major indices. Looking ahead, the listing pipeline remains robust, with the market broadly anticipating public debuts from both Anthropic and OpenAI within the next twelve months.

Major changes in the indexes were not limited to new listings – the Dow Jones Industrial Average made headlines by adding Alphabet to its 30-stock index at quarter end, officially replacing Verizon. This swap symbolically pivots the Dow away from its legacy telecom roots, tilting the benchmark's exposures further towards the era of secular technology alongside several other Magnificent Seven peers and providing investors with a more modern representation of the domestic economy.

Kevin Warsh Takes Center Stage at the Fed

When President Trump initially tapped Warsh to succeed Jerome Powell, some market participants expressed concern that the new Chair might push for aggressive interest rate cuts simply to appease the White House, compromising the historic independence of the institution. Fortunately, Warsh's initial policy signals have favored pragmatism over politics. He also assumed the role after the start of the war in Iran, which had quickly shifted expectations from one or two interest rate cuts in 2026 to the possibility of an increase. By indicating that elevated rates may remain necessary to curtail recent inflationary pressures, he has signaled a firm commitment to data-driven credibility.

However, a distinct shift in the Fed's operational philosophy is underway. Chairman Warsh has voiced a strong preference for curtailing the extensive "forward guidance" favored by his predecessors, opting instead to maximize the central bank's tactical flexibility. While institutional investors universally prefer absolute policy visibility, a reduction in forward telegraphing may prevent the Fed from boxing itself into rigid policy corners during volatile macroeconomic cycles. While we have long thought investors are too fixated on the Fed, it will be a transition for markets to have less to go on. That said, it was not all that long ago that the Fed did not even announce changes to interest rate policy, rather leaving investors to infer them from open market transactions.



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Looking Forward

While global markets experienced notable volatility throughout the first half of the year, the sharp second-quarter rebound successfully pulled major indices back to near-record highs. We believe this recovery remains well-grounded in robust domestic economic fundamentals—a message we expect corporate leadership to reinforce as the second-quarter earnings season gets underway in the coming weeks.

Nevertheless, navigating the back half of 2026 will require continued investor discipline. We must manage risk against a complex backdrop characterized by an uneasy geopolitical landscape, a new regime at the Federal Reserve operating under a markedly different and less transparent communication philosophy, and a highly optimistic market consensus. Mid-term elections are looming but as yet have barely started to factor in to market discussions.

The continuous evolution of our major market benchmarks—headlined by the historic public debut of SpaceX and symbolic shifts like Alphabet joining the Dow—serves as a powerful reminder that the foundational engine of the economy is actively modernizing. Because our core strategy remains firmly anchored in identifying and owning high-quality, resilient businesses rather than reacting to daily noise or trying to time technical swings, we enter the final six months of the year with a balanced perspective and a commitment to stay the course.