HIGHTOWER
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Market Commentary Q2 2026

The second quarter of 2026 demonstrated how quickly market narratives can shift. After a difficult first quarter marked by geopolitical stress and surging oil prices, markets reminded investors that reversals can be just as sharp as drawdowns. As tensions in the Middle East eased and energy prices retreated, risk appetite returned across global markets. U.S. equities not only recovered their first quarter losses but saw participation broaden meaningfully beyond mega-cap leaders.

The U.S. economy remained resilient, with solid labor-market conditions and improving productivity. Corporate earnings surprised to the upside, particularly in technology, industrial automation, and services. Forward guidance from management teams generally pointed to stable demand and easing cost pressures, helping reinforce the equity rebound.

The S&P 500 gained 15.2%, its best quarter since Q2 2020, finishing the first half of the year up more than 10%.[1] Mid-caps and small-caps outperformed, with the S&P 400 rising 14.5% and the S&P 600 jumping 19.7%, signaling healthier breadth beneath the surface.[1]

Leading US Indices (Total Return)	4Q'24	1Q'25	2Q'25	3Q'25	4Q'25	1Q'26	2Q'26 (sorted)	TTM
S&P/Citigroup Growth	6.2%	-8.5%	18.9%	9.8%	2.2%	-8.1%	21.9%	25.7%
Nasdaq	6.3%	-10.3%	18.0%	11.4%	2.7%	-7.0%	21.6%	29.5%
Russell 2000	0.3%	-9.5%	8.5%	12.4%	2.2%	0.9%	21.5%	40.8%
S&P 600 Small-Cap	-0.6%	-8.9%	4.9%	9.1%	1.7%	3.5%	19.7%	37.5%
S&P 100 Mega-Cap	4.6%	-6.0%	12.8%	9.7%	3.3%	-6.9%	15.4%	21.7%
S&P 500 Total Return	**2.4%**	**-4.3%**	**10.9%**	**8.1%**	**2.7%**	**-4.3%**	**15.2%**	**22.3%**
S&P 400 Mid-Cap	0.3%	-6.1%	6.7%	5.5%	1.6%	2.5%	14.5%	25.9%
S&P/Citigroup Value	-2.7%	0.3%	3.0%	6.2%	3.2%	0.0%	8.0%	18.4%

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Sector leadership rotated sharply. Technology surged 31.8%, supported by strong semiconductor earnings and renewed confidence in AI-related capital spending.[1] Industrials (+14.9%) and health care (+8.8%) also contributed. Energy, the standout performer in Q1, fell 13.4% as oil prices reversed lower.[1]

A major driver of the technology enthusiasm was the explosive growth of AI investment. Analysts estimate top technology firms are on track to spend nearly $700 billion in capital expenditure in 2026, up 36% from 2025, with AI infrastructure as the primary engine.[2] Investor sentiment was further boosted by the highly anticipated SpaceX IPO, which injected fresh enthusiasm into innovation-linked sectors and contributed to record-high equity index levels.

S&P 500 Sectors (Total Return)	4Q'24	1Q'25	2Q'25	3Q'25	4Q'25	1Q'26	2Q'26 (sorted)	TTM
Technology	4.8%	-12.7%	23.7%	13.2%	1.4%	-9.1%	31.8%	37.5%
S&P 500 Total Return	**2.4%**	**-4.3%**	**10.9%**	**8.1%**	**2.7%**	**-4.3%**	**15.2%**	**22.3%**
Industrials	-2.3%	-0.2%	12.9%	5.0%	0.9%	4.6%	14.9%	27.3%
Discretionary	14.3%	-13.8%	11.5%	9.5%	0.7%	-9.2%	9.3%	9.5%
Financials	7.1%	3.5%	5.5%	3.2%	2.0%	-9.3%	9.0%	4.1%
Health Care	-10.3%	6.5%	-7.2%	3.8%	11.7%	-4.9%	8.8%	19.9%
Real Estate	-7.9%	3.6%	-0.1%	2.6%	-2.9%	2.8%	8.5%	11.1%
Communication Services	8.9%	-6.2%	18.5%	12.0%	7.3%	-6.9%	8.3%	21.1%
Materials	-12.4%	2.8%	3.1%	3.1%	1.1%	9.7%	2.0%	16.7%
Staples	-3.3%	5.2%	1.1%	-2.4%	0.0%	7.7%	0.3%	5.5%
Utilities	-5.5%	4.9%	4.3%	7.6%	-1.4%	8.3%	-0.5%	14.2%
Energy	-2.4%	10.2%	-8.6%	6.2%	1.5%	38.2%	-13.4%	29.0%

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Monetary policy remained central to the market backdrop. The Federal Reserve ("Fed") held the federal funds rate at 3.50%–3.75% at both its April and June meetings. In June, the Fed noted that economic activity was expanding at a solid pace, supported by strong productivity and capital investment, while inflation remained elevated partly due to earlier energy-related supply shocks. Treasury yields were volatile but ended the quarter relatively flat.

A notable development during the quarter was the nomination of Kevin Warsh as the next Chair of the Fed. Warsh, a former Fed Governor with experience guiding the central bank through the 2008 financial crisis, is widely viewed as a market-credible and policy-disciplined choice. Chair Warsh delivered his first remarks emphasizing a disciplined return to the Fed's core mandate of price stability. He signaled a shift toward clearer, more concise communication and reduced reliance on forward guidance, noting that policy decisions will be driven squarely by incoming economic data. Warsh also outlined plans to review the Fed's broader policy framework, aiming to modernize how the institution evaluates inflation, productivity, and financial-market risks. New Fed Chairs are usually tested by the market in their first year in the seat, often followed by market volatility.

International equities also participated in the recovery. The MSCI AC(All Country) World rose 14.7% and the MSCI EAFE (Europe, Asia, and Far East) gained 10.5% in the quarter, following declines of 2.9% and 0.5%, respectively in Q1.[1] Regionally, we saw strong performance in Japan rising 37.2%, and South Korea rising an exceptional 67.8% during the quarter, fueled by the semiconductor supercycle and massive demand for high-bandwidth memory (HBM). This reinforces the value of global diversification, especially in markets tied to AI infrastructure and advanced manufacturing.

International Indices (Price Chg)	4Q'24	1Q'25	2Q'25	3Q'25	4Q'25	1Q'26	2Q'26 (sorted)	TTM
Kospi (South Korea)	-7.5%	3.4%	23.8%	11.5%	23.1%	19.9%	67.8%	176.0%
Nikkei 225 (Japan)	5.2%	-10.7%	13.7%	11.0%	12.0%	1.4%	37.2%	73.0%
MSCI AC World	**1.0%**	**-2.5%**	**8.8%**	**7.6%**	**3.4%**	**-2.9%**	**14.7%**	**23.9%**
IBEX 35 (Spain)	-2.4%	13.3%	6.5%	10.6%	11.8%	-1.5%	14.2%	39.2%
Shenzhen SE A Shares (China)	1.6%	2.4%	3.5%	21.4%	0.5%	0.2%	12.1%	37.0%
Swiss Market Index	-4.7%	8.6%	-5.4%	1.6%	9.6%	-3.7%	11.1%	19.1%
MSCI EAFE	**-0.9%**	**2.2%**	**3.7%**	**4.8%**	**5.8%**	**-0.5%**	**10.5%**	**22.0%**
OMX Stockholm 30 (Sweden)	-5.5%	0.4%	0.0%	6.8%	8.3%	1.6%	9.3%	28.5%
DAX (Germany)	3.0%	11.0%	5.5%	-0.1%	2.6%	-7.7%	7.7%	1.9%
CAC 40 (France)	-3.3%	5.6%	-1.6%	3.0%	3.2%	-4.1%	7.5%	9.6%
S&P/TSX (Canada)	3.0%	0.8%	7.8%	11.8%	5.6%	3.3%	6.4%	29.8%
Sensex (India)	-7.3%	-0.9%	8.0%	-4.0%	6.2%	-15.6%	6.3%	-8.5%
All Ordinaries (Australia)	-1.4%	-4.4%	8.9%	4.1%	-1.3%	-3.7%	3.5%	2.4%
FTSE 100 (UK)	-0.8%	5.0%	2.1%	6.7%	6.2%	2.5%	3.2%	19.8%
Bolsa (Mexico)	-5.6%	6.0%	9.5%	9.5%	2.2%	6.7%	-2.4%	16.6%
Hang Seng (Hong Kong)	-5.1%	15.3%	4.1%	11.6%	-4.6%	-3.3%	-7.7%	-4.9%
Bovespa (Brazil)	-8.7%	8.3%	6.6%	5.3%	10.2%	16.3%	-8.2%	23.9%

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Chinese equities delivered mixed but improving performance in Q2 as policymakers intensified efforts to stabilize growth. Early-quarter weakness—driven by ongoing property-sector stress and soft consumer confidence—gave way to a modest rebound after Beijing announced additional fiscal support, targeted credit measures, and incentives for advanced manufacturing and AI-related industries. While structural challenges remain, the quarter marked a tentative shift toward stabilization, with select sectors such as technology hardware, electric vehicles, and industrial automation showing signs of renewed momentum.

After a challenging start to the year, fixed income stabilized throughout the quarter. Treasuries, municipals, and high-yield bonds all posted gains, supported by tightening credit spreads. Markets appeared less concerned about inflation or recession risk, even as private credit experienced pockets of stress.

Private credit investors became more selective, focusing on liquidity and underwriting discipline. While concerns around redemptions emerged, they remained contained. Analysts noted that even under bearish assumptions, potential private-credit losses were unlikely to disrupt the broader U.S. economy.

US Yields	1Q'25	2Q'25	3Q'25	4Q'25	1Q'26	2Q'26	Q/Q Chg (bps)	Y/Y Chg (bps)
Fed Funds Target Rate	4.5	4.5	4.3	3.8	3.8	3.8	0	-75
3-Month T-Bill	4.2	4.4	4.0	3.7	3.6	3.9	23	-54
2-Year Note	3.9	3.7	3.6	3.5	3.8	4.2	35	43
5-Year Note	4.0	3.8	3.7	3.7	3.9	4.2	26	41
10-Year Bond	4.2	4.2	4.1	4.2	4.3	4.4	12	21
30-Year Bond	4.6	4.8	4.7	4.9	4.9	4.9	2	15

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Municipal bonds (“munis”) posted steady gains in the second quarter as rate volatility eased and investor demand remained strong. Tax-exempt yields moved lower across the curve, supported by improving liquidity and a slowdown in new issuance. Credit conditions were broadly stable: state and local revenues continued to benefit from resilient labor markets, and default rates remained near historic lows. The market also saw renewed interest from high-income investors as the prospect of sustained higher federal tax rates kept tax-advantaged income attractive. Overall, munis provided a measure of stability and diversification at a time when other fixed-income sectors were still adjusting to shifting monetary policy expectations.

Gold and other metals remained in focus, supported by safe-haven demand amid heightened geopolitical tensions and continued uncertainty around monetary policy. Although price swings became more pronounced, investor interest in hard assets reinforced their role as a diversifier during periods of stress.

Oil markets experienced one of the most dramatic round-trips in recent memory. Early-quarter conflict in the Middle East temporarily halted shipping through the Strait of Hormuz, pushing crude prices above $100 per barrel and raising fears of a prolonged supply shock. By late second quarter, a fragile ceasefire and a U.S.–Iran memorandum of understanding helped normalize flows, sending oil back toward $70 per barrel.

The macro environment shifted meaningfully throughout the quarter, as the Middle East conflict initially disrupted global energy markets, driving oil sharply higher. Later, diplomatic progress improved sentiment, culminating in a preliminary U.S.–Iran peace agreement that eased supply concerns and supported global risk assets.

Global growth expectations were revised lower by several institutions due to geopolitical tensions and trade uncertainty, though analysts still expected ~3% global growth if energy markets remained stable.

Despite early-quarter volatility, markets increasingly focused on improving fundamentals, moderating inflation, resilient corporate earnings, and strong investment in AI, energy infrastructure, and defense.

The second quarter of 2026 was defined by resilience and rapid sentiment shifts. Markets absorbed a major geopolitical shock, digested volatile energy prices, and ultimately rallied on the strength of AI-driven investment, easing inflation pressures, and improving global stability. Breadth improved, global participation strengthened, and both equities and fixed income found firmer footing.

To discuss this commentary further, please contact us at 914-825-8630.

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[1] Strategas Securities, LLC – 07/07/2026
[2] https://www.ib.barclays/research/global-outlook/q2-2026-cracks-not-craters.html?utm_source=copilot.com#link2 – 7/08/2026