Investment Perspective

2nd Quarter 2026

Globally equity markets experienced a strong second quarter, with the S&P 500 Index and MSCI EAFE Index climbing 15.20%, and 10.82%, respectively, and the Russell 2000 Value Index appreciating 17.19%. A powerful rally in semiconductors, memory, AI Infrastructure, and microcap stocks led the rally as the market embraced the continued acceleration in AI investment. This led to very narrow market conditions, as the gains in AI related stocks were offset by a selloff in shares negatively exposed to rising commodity prices, rising interest rates, and stocks perceived as net losers from the broad adoption of AI tool sets and agents.

Once oil prices began to fall, future inflation expectations declined rapidly allowing for a rally in the 10-year U.S. treasury a narrowing of term premium and a broadening in the equity market rally. As we begin the third quarter headline inflation is set to decline rapidly, while core inflation across the G7 and China is set to firm over the medium term. On a quarterly sequential basis economic growth should begin to slow in the third quarter, which will lessen pressure on the Federal Reserve to further increase interest rates. We do not anticipate any material increases or decreases in interest rates over the next several quarters.

The Bloomberg Aggregate Index gained 0.67% for the quarter while the ICE BofA 1-10 AAA-A Municipal Index gained 1.23%.

During the quarter, Kevin Warsh was confirmed by the U.S. Senate as the new Chairman of the Federal Reserve. While Warsh has been an outspoken critic of previous monetary policy, we do not anticipate major changes to Federal Reserve policy. Instead, we expect he will focus on maximum employment, stable prices, and moderate long-term interest rates like his predecessors.

The Federal Reserve paused cutting rates during the April and June meetings leaving the target rate at 3.75%. As expected, inflation accelerated to 4% during the quarter as the Strait of Hormuz remained closed and as higher oil and commodity prices impacted the economy. After US crude peaked at $100 per barrel in May, oil prices have declined approximately 30% as ship traffic gradually recovered following the U.S.-Iran cease-fire negotiations and the memorandum of understanding to reopen the Strait. While declining oil and commodity prices should help to lower near-term inflation readings, the cyclical upturn in inflation that began prior to the war may not allow the Fed to cut interest rates.

During the quarter, Treasury yields increased approximately 25 basis points along the short end of the curve as the market started pricing in potential interest rate increases. Investment grade credit spreads tightened 14 basis points ending the quarter at +69 basis points over Treasury yields.

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Credit spreads have remained at historically tight levels due to solid investment grade fundamentals and strong investor demand for credit.

There were no material changes to duration positioning during the quarter. We continue to add longer duration bonds to our respective strategies to take advantage of the recent backup in yields.