

July 6, 2026

Second Quarter Investment Commentary

This may be the most unexpected rally since the Covid recovery in 2020, with the second quarter showing remarkable gains after all the uncertainty weighted down the markets in the first three months of the year.

A breakdown shows that just about anybody who invested anywhere in the markets experienced unusual gains. The Wilshire 5000 Total Market Index—the broadest measure of U.S. stocks—gained 13.92% in the second quarter and is now up 9.70% for the year's first half. The comparable Russell 3000 index is up 10.61% so far this year.

Looking at large-cap stocks, the Russell 1000 large-cap index delivered an 10.08% gain in the first half of the year. The widely quoted S&P 500 index of large company stocks is up 9.32% as of the end of June.

The Russell Midcap Index, meanwhile, has gained 27.64% for the year so far.

As measured by the Russell 2000 Small-Cap Index, investors in smaller companies have reaped a 22.18% gain. The technology-heavy Nasdaq Composite Index gained 12.8% in the second quarter, and now stands at a 21.4% return for the first half of the year.

Foreign markets' returns were a bit more muted. The broad-based EAFE index of companies in developed foreign economies gained 9.80%, in dollar terms, in the second quarter of 2026, to post a 7.74% gain for the first six months of 2026. European stocks, in aggregate, are now sitting on a 5.92% gain for the year, while the Far Eastern index is up 12.84%. Emerging market stocks of less developed countries, as represented by the EAFE EM index, gained 22.68% for investors in the first six months of the year.

Real estate securities have shrugged off the threat of higher borrowing costs and are now posting real gains. The S&P U.S. REIT index has delivered a 15.75% return for the first half of the year. Meanwhile, the S&P GSCI index, which measures commodities returns, is up 12.51% on the year. Utility stocks, which generate reliable returns year in, year out, have delivered an unusually high 12.70% return to their investors since January 1.

In the bond markets, the inverted yield curve has finally started to sort itself back toward normalcy. Treasuries of 3-month (3.75%) and 6-month (3.93%) duration are offering comparable yields to securities with 1-year (3.92%) maturities. 5-year Treasuries are yielding 4.23%, 10-year government bonds are yielding 4.48% and 30-year maturities are generating 4.99% annual coupon rates. Five-year municipal bonds are yielding 2.56% in aggregate, while 30-year munis are yielding 4.15%.

By any measure, the second quarter--and, indeed, the first half of the year--represent a massive market rally. Market sentiment seems to be impervious to a shaky truce in the Middle East, inflation and rising interest rates and jobs reports that suggest an economic downturn somewhere on the near horizon. No doubt, the

enthusiasm has been stoked by the fact that corporate earnings have exceeded expectations, and the artificial intelligence spending boom hasn't abated. Aggregate earnings on the companies in the S&P 500 have increased by 25% year over year and most analysts are on record predicting that their momentum will continue.

The question of the hour is whether the spectacular market rally is also being driven by speculative fever, what we used to call FOMO, fear of missing out. A recent Harris poll found that 80% of respondents admitted that they had been making high risk or speculative investments recently because they feel financially left behind. On top of that, American households now hold an unprecedented 45% of their total financial assets directly in stocks, despite also sporting a rising debt burden.

If this sounds familiar, well, market signals often tell conflicting stories, which is a reminder that we can't look at tea leaves, earnings, crystal balls, economic reports or pundit forecasts as reliable indicators of what's going to happen next. If you were to have asked observers what they expected after a somewhat miserable first three months, the answer would have been "more of the same," which is what we did not get. Just like a rollercoaster, when markets soar it's time to tighten our seat belts for some turbulence--and hope it doesn't come.

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