Q2

Economic & Market Review

Second Quarter 2026

Gould Asset Management®

Economic Review

Second Quarter 2026

US Economic Growth Masks a Strained Consumer

The US economy grew at an annualized rate of 2.1% in the first quarter of 2026, up sharply from 0.5% in the fourth quarter of 2025. Much of the rebound was mechanical: government spending snapped back as pay to federal workers recovered from the 43-day shutdown, while exports and business investment also picked up. But consumer spending, roughly two-thirds of the economy, slowed to a 0.5% rate, leaving the headline stronger than the economy beneath it.

Consumer spending remained subdued early in the second quarter. Inflation-adjusted spending rose just 0.1% in April and 0.3% in May, extending the sluggish pace seen all year. Energy was a chief culprit. The Iran war and blockade of the Strait of Hormuz drove oil to four-year highs in April, pushing inflation to 4.2% over the prior year and eroding household spending power.

The job market cooled markedly through the quarter. Nonfarm payrolls faded from 148,000 in April to 129,000 in May and just 57,000 in June. The unemployment rate edged down to 4.2%, but for the wrong reason: a shrinking labor force rather than stronger hiring, consistent with the low-hire, low-fire pattern of the past year.

Manufacturing expanded for a sixth consecutive month. The ISM Manufacturing PMI peaked at 54.0 in May, its highest reading since 2022, before easing to a still solid 53.3 in June. Input costs came off their spring peak but remained high. The prices index fell to 73.0 from 82.1 in May, signaling continued cost pressure from tariffs and energy.

Welcome to the Hot Seat, Fed Chair Warsh

The Federal Reserve held the federal funds rate steady at 3.50%–3.75% at its latest meeting in June. The quarter's defining event was the leadership transition. Kevin Warsh was sworn in as Fed Chair on May 22, succeeding Jerome Powell, who remains on the Board of Governors.

Chair Warsh's first meeting produced a much terser policy statement than those of Powell's Fed, removing previous language that had favored additional rate cuts. The statement noted that economic activity is expanding at a solid pace and that inflation remains elevated, reflecting in part energy supply shocks from the Iranian conflict. Warsh declined to submit his own projection to the dot plot and signaled a broader review of the Fed's communication practices by the end of the year.

The Fed's latest forecast reflected a hawkish shift. Officials raised their 2026 core inflation forecast to 3.3% from 2.7%, while trimming GDP growth to 2.2% from 2.4%. The median year-end rate projection rose to 3.8%, erasing a cut projected in March and implying a possible quarter-point hike later this year. Market participants now see a potential rate increase as early as October.

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Energy Shock Reshapes the Policy Landscape in Europe and Japan

The eurozone economy shrank 0.2% in the first quarter of 2026, the bloc's first contraction since late 2022. The decline was more of a statistical anomaly, almost entirely attributable to Ireland, where GDP fell sharply as drug makers pulled back after rushing exports to the US in 2025 to get ahead of tariffs. Elsewhere the picture was firmer, as Spain led with 0.6% growth and Germany and Italy each expanded 0.3%.

The European Central Bank (ECB) raised interest rates by 25 basis points at its June meeting, its first hike since September 2023, lifting its key interest rate to 2.25%. The ECB cited inflation pressures from the Middle East war, as disrupted oil and liquefied natural gas shipments pushed energy prices sharply higher. Updated ECB projections raised 2026 core inflation to 2.5% from 2.3% while slightly trimming growth to 0.8%. Markets price a 50% chance of one more quarter-point hike in 2026.

Japan's economy expanded 0.5% in the first quarter, its strongest quarterly growth in a year, led by private consumption and strong exports. However, business investment contracted amid higher borrowing costs. The Bank of Japan raised its policy rate by 25 basis points to 1.0% in June, citing upside inflation risks from elevated energy prices. Policymakers have signaled further gradual hikes are likely if the economic picture evolves as projected.

Emerging Markets Hold Their Ground as China Reaccelerates and India Leads

China's GDP grew 5.0% year-over-year in the first quarter of 2026, up from 4.5% in the fourth quarter of 2025 and ahead of expectations. Strong external demand, aided by the global AI boom, powered a faster expansion. Domestic demand remained soft, with retail sales and investment posting only modest gains, and the property market is still mired in a downturn that began in 2022.

India's economy expanded 7.8% year-over-year in the first quarter of 2026, easing from 8.0% in the prior quarter but still the fastest pace among major economies. A jump in fixed investment drove the quarter's growth, as the government rushed to spend its budgeted capital before the fiscal year closed in March. Softer consumer spending, weighed down by the Iran energy shock, and weaker exports kept growth from matching the prior quarter.

Brazil's GDP grew 1.8% year-over-year in the first quarter of 2026, matching the prior quarter. A record soybean harvest powered growth, while pre-election fiscal stimulus lifted household spending. Investment strengthened as well, even with the central bank's benchmark interest rate held at 15%, its highest since 2006.

Market Review: Stocks

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Stocks Rally in Q2 as Technology Leads Rebound

Global stock markets rebounded sharply in Q2. Investors reacted favorably to an interim US-Iran agreement aimed at ending the conflict and reopening the Strait of Hormuz, leading to lower oil prices. **Renewed enthusiasm for artificial intelligence and strong corporate earnings** helped investors look past lingering concerns over inflation and interest rates.

US large-cap stocks, represented by the S&P 500 Index, **surged 15.2% in Q2**, lifting year-to-date returns to 10.2%. **The rally more than offset a difficult first quarter**. Roughly 85% of S&P 500 companies beat earnings expectations.

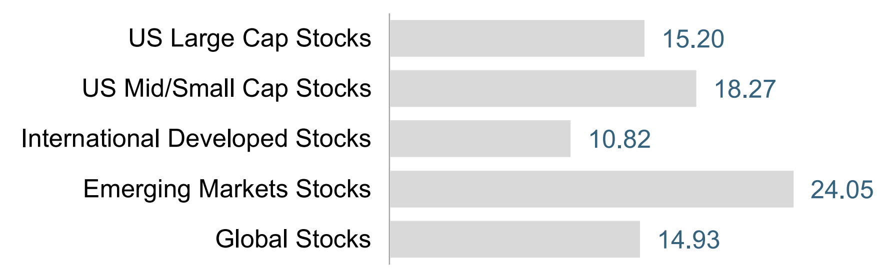
Technology led all US sectors in Q2, rocketing 43.5% and pushing its year-to-date gain to 32.7%, as chipmakers and other AI infrastructure companies benefited from rising earnings expectations, strong demand for high-end semiconductors, and continued datacenter investment. **Industrials also performed well, gaining 14.9%** in Q2 and 20.2% year-to-date, supported by demand tied to AI infrastructure, electrical equipment, defense, and energy investment**. Utilities were the weakest-performing sector, declining 0.5%**, as defensive areas of the market fell somewhat out of favor.

US mid and small cap stocks outpaced large caps in Q2, with the Wilshire 4500 Index rising 18.3% and bringing its year-to-date gain to 17.2%. The rebound reflected increased investor interest beyond the largest technology companies, as smaller companies benefited from improving earnings trends, attractive relative valuations, and demand tied to AI infrastructure.

International stocks posted strong gains in Q2. Developed-market equities, measured by the MSCI EAFE Index, **rose 10.8%** and are up 9.4% year-to-date, supported by strength in Europe and Japan. **Emerging markets stocks were especially strong, climbing 24.1% in Q2** and 23.9% year-to-date, with tech-heavy markets like South Korea and Taiwan benefiting from strong AI demand for semiconductors and AI-related hardware.

Investor fear levels receded in the second quarter, as measured by the VIX volatility index. VIX began Q2 around 25, before falling steadily to 16 by quarter-end. The decline reflected improving investor sentiment as the Middle East crisis seemed to ease, oil prices moved lower, and earnings growth continued at a healthy clip.

Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Large Cap Stocks	10.21	22.32	20.61	13.41
US Mid/Small Cap Stocks	17.15	27.20	19.28	7.80
International Developed Stocks	9.44	20.23	16.44	9.05
Emerging Markets Stocks	23.85	43.51	23.03	7.20
Global Stocks	11.25	23.67	19.70	10.98

Market Review: Bonds

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Bonds Rebound in Q2 as Geopolitical Risks Ease

US fixed income markets delivered modest gains in the second quarter as financial markets recovered from the Iran war shock that dominated the late first quarter. As tensions in the Middle East eased and fears of a prolonged economic disruption waned, investors refocused on persistently above-target inflation and better than expected economic data. **The Bloomberg US Aggregate Bond Index returned 0.7% in Q2, bringing the year-to-date return to 0.6%.**

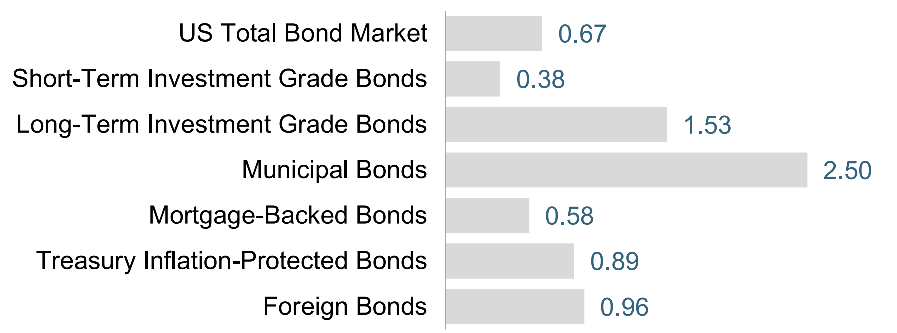
Treasury yields moved modestly higher during the quarter, with the largest increases occurring in shorter maturities as investors now expect the Fed to hike rates in 2026. The 2-year Treasury yield, which closely tracks Fed policy expectations, climbed from 3.79% to 4.14% in Q2, while the 10-year Treasury yield rose from 4.30% to 4.44%.

While all fixed-income sectors posted gains, corporate bonds were the notable outperformer, having lagged earlier in the year. High yield corporate bonds gained 2.5% as **credit spreads reversed their March widening**. US Treasury Inflation-Protected Securities (TIPS) delivered a solid quarter, gaining 0.9%, while mortgage-backed securities returned 0.6%.

Tax-exempt municipal bonds recorded a strong quarter, returning 2.5% as the market rebounded from a sharp March loss. On a tax-equivalent basis, municipal bond yields reached very attractive levels relative to Treasurys early in Q2, supporting strong investor demand.

Looking ahead, **the bond market is likely to remain focused on whether the US economy can sustain the strength it showed during the Iran conflict and whether inflation will begin to moderate. Investors will also be closely watching the early months of new Fed Chair Kevin Warsh's tenure**. His suggestion that Federal Reserve officials should communicate less frequently could leave markets with fewer signals about the future path of monetary policy, contributing to greater volatility in fixed income markets.

Returns for the Quarter (%)



Period Returns (%)

*Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Total Bond Market	0.62	3.79	4.16	0.08
Short-Term Investment Grade Bonds	0.52	3.00	4.68	1.73
Long-Term Investment Grade Bonds	0.77	3.92	1.86	-3.84
Municipal Bonds	2.32	7.03	3.76	1.05
Mortgage-Backed Bonds	0.99	5.21	4.60	0.50
Treasury Inflation-Protected Bonds	1.15	3.42	3.98	1.01
Foreign Bonds	-0.82	-2.08	2.02	-4.19

Past performance is not a guarantee of future results. Returns for periods longer than one year are annualized. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Total Bond Market (Bloomberg US Aggregate Index), Short-Term Investment Grade (Bloomberg US Govt/Credit 1-5 Year Index), Long-Term Investment Grade (Bloomberg US Govt/Credit Long Index), Municipal (Bloomberg Municipal Index), Mortgage Backed (Bloomberg US MBS Index), Treasury Inflation-Protected (Bloomberg US TIPS Index), and Foreign (FTSE World Govt Bond Non USD Index).

Market Review: Alternatives

Second Quarter 2026

REITs Rally as Q1 Alternatives Leaders Retreat

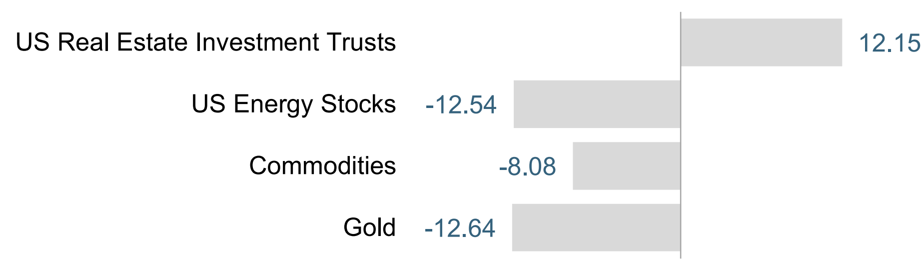
Alternatives performance was mixed in Q2, with real estate investment trusts (REITs) posting strong gains while gold, energy stocks, and commodities declined. The sharp retreat in oil prices reversed many of the trends that had driven alternatives higher in Q1, as markets responded favorably to an interim US-Iran agreement and the partial resumption of shipping through the Strait of Hormuz. Despite the quarterly pullback, energy and commodities remain solidly positive for the year.

Gold fell 12.6% in Q2, a sharp reversal from the record highs reached earlier in the year, leaving the precious metal down 6.5% year-to-date. Several of the factors that had supported gold began working against it, including softer demand from gold ETF investors, a stronger US dollar late in the quarter, higher US Treasury yields, and a more hawkish Fed outlook.

Energy stocks declined 12.5% in Q2 but remain up 20.6% year-to-date following their exceptional first-quarter gains. **Crude oil fell steadily from approximately $104 to $72**, reaching its low at quarter-end as concerns around global supply disruptions eased. **Commodities also pulled back, falling 8.1% in Q2** but remaining up 14.4% for the year, with lower energy prices and weakness in precious metals offsetting strength in some industrial metals.

REITs rose 12.2% in Q2, bringing year-to-date gains to 17.6% and making real estate one of the stronger-performing alternative asset classes in the first half of 2026. The sector benefited from attractive starting valuations, a broader recovery in risk assets, and continued demand in areas such as data centers and industrial real estate. The strong quarter also served as a reminder that while interest rates remain key for REITs, property fundamentals and earnings prospects are also important.

Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Real Estate Investment Trusts	17.58	21.15	12.39	5.83
US Energy Stocks	20.58	29.41	13.10	18.92
Commodities	14.36	25.46	11.69	9.37
Gold	-6.54	22.47	28.17	17.96

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Market Summary

Index Returns

	US Large Cap	US Mid/Small Cap	International Developed	Emerging Markets	US Bond Market	US Dollar
Q2 2026	**STOCKS**				**BONDS/DOLLAR**	
	15.20%	**18.27%**	**10.82%**	**24.05%**	**0.67%**	**-0.09%**
Since Jan. 2001						
Avg. Quarterly Return	2.5%	3.0%	1.9%	2.8%	1.0%	0.3%
Best Quarter	20.5% **Q2 2020**	30.3% **Q2 2020**	25.8% **Q2 2009**	34.8% **Q2 2009**	6.8% **Q4 2023**	7.1% **Q1 2020**
Worst Quarter	-21.9% **Q4 2008**	-27.9% **Q1 2020**	-22.7% **Q1 2020**	-27.6% **Q4 2008**	-5.9% **Q1 2022**	-5.8% **Q2 2009**

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Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]).

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 2026

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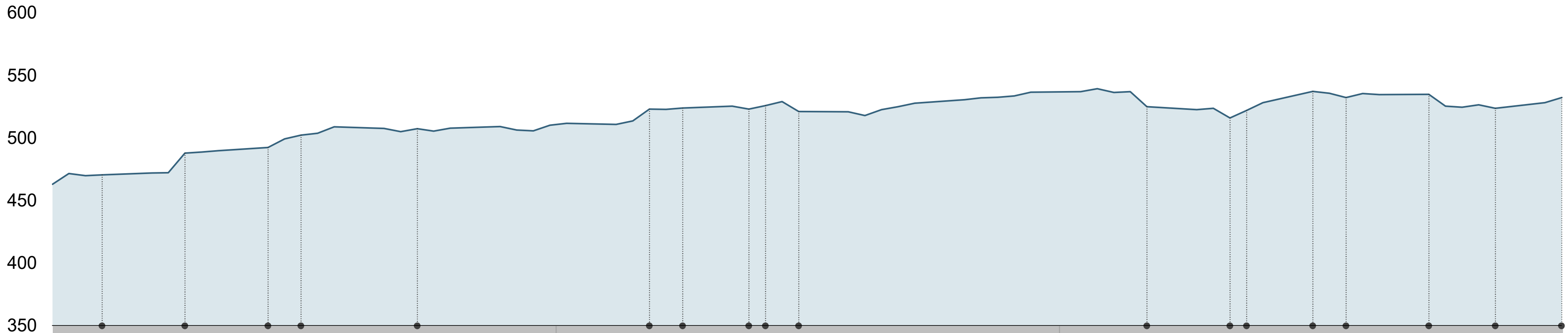


APRIL

04/03 "Hiring Defied Expectations in March, With 178,000 New Jobs"

04/08 "Stocks Jump After US, Iran Walk Back From the Brink"

04/12 "Trump Announces US Blockade of Strait of Hormuz"

04/15 "S&P Hits 7000, Closing at First Record Since January"

04/22 "US Officials Try to Get a Grip on Risks Bubbling Inside Private Credit"

MAY

05/06 "Oil Drops Sharply on Hopes of US-Iran Agreement"

05/08 "US Adds 115,000 Jobs in April With Solid Hiring Across Sectors"

05/12 "Inflation Soared to 3.8% in April, Driven by Gasoline Prices"

05/13 "Kevin Warsh Is Confirmed as Fed Chair in 54–45 Senate Vote"

05/15 "Mounting Inflation Pressures Deepen Global Bond Slide"

JUNE

06/05 "May Jobs Growth Puts US on a Strong Hiring Streak"

06/05 "Nasdaq Suffers Worst Week in More Than a Year"

06/10 "Inflation Heated Up to 4.2% in May, as Energy Costs Continued to Bite"

06/11 "ECB Becomes First Major Central Bank to Raise Rates Since Inflation Resurgence"

06/11 "SpaceX Officially Raises $75 Billion in Record-Breaking IPO"

06/14 "US and Iran Have Reached a Deal to Stop Fighting, Reopen Shipping"

06/17 "Fed Holds Rates Steady, but More Officials See Higher Rates as Next Move"

06/22 "UK Prime Minister Keir Starmer Quits Amid Rebellion"

06/28 "US and Iran Agree to Halt Days of Fighting Over Strait"

06/30 "S&P 500, Nasdaq on Pace for Best Quarter in Six Years"

These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2026, all rights reserved. Index level based at 100 starting January 2000.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

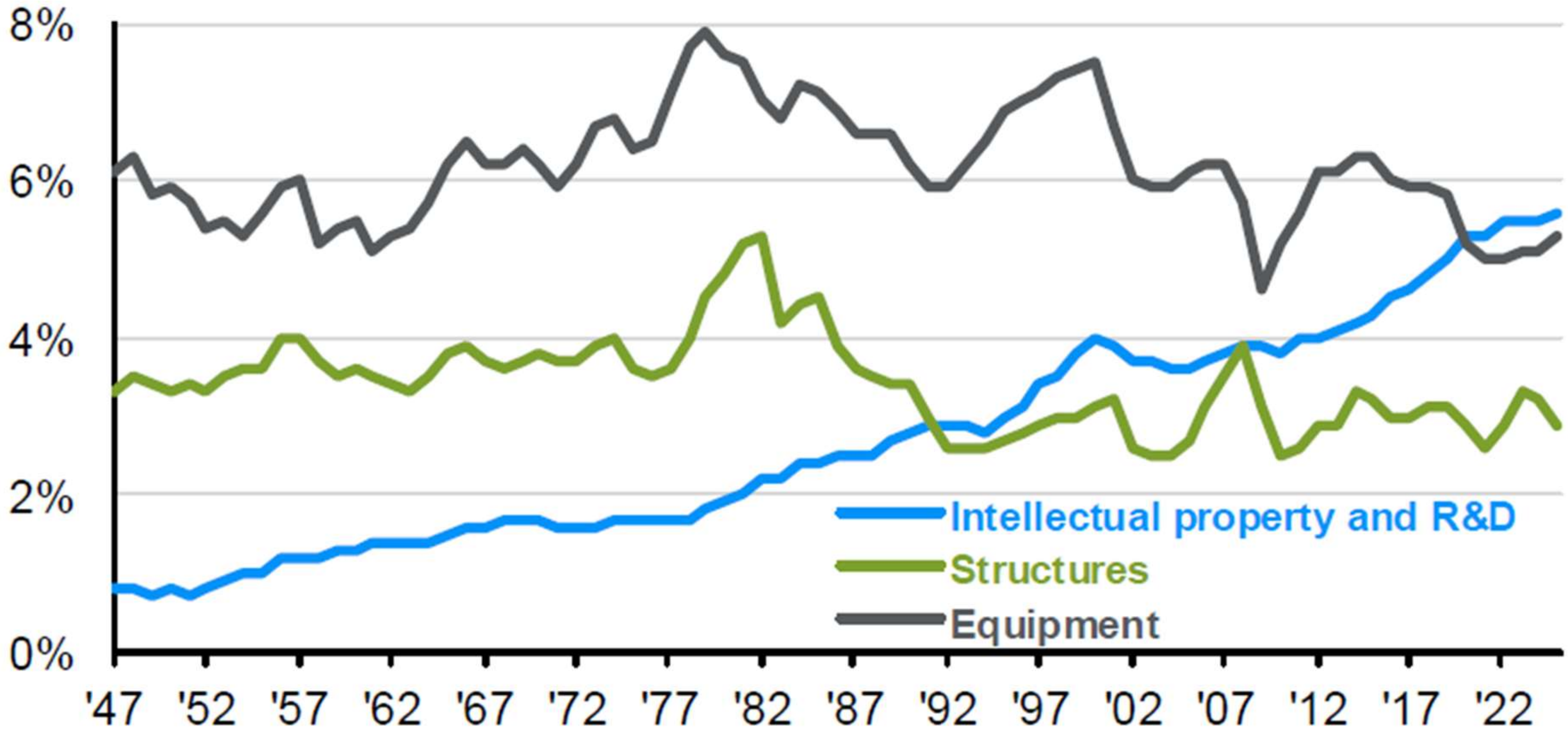
Capital Spending Trends of US Business

Second Quarter 2026

Capital spending is investment that a business makes in its own operations, with the expectation of future returns on that investment. Traditionally, capital spending primarily took the form of tangible assets—a factory to manufacture more products for customers, a forklift to speed their delivery, or a computer to keep track of it all. But as the chart below well illustrates, in today's information economy, business capital is increasingly allocated to intangibles—designing the next iPhone or Nvidia chip, developing Pfizer's next blockbuster drug, or building the next version of Anthropic's Claude AI model. A recent countertrend favors tangible assets, as the largest tech companies are now spending unprecedented sums—hundreds of billions of dollars annually—to build out AI infrastructure, including massive data centers.

Capital spending components

Share of capital spending as a percentage of GDP, annual

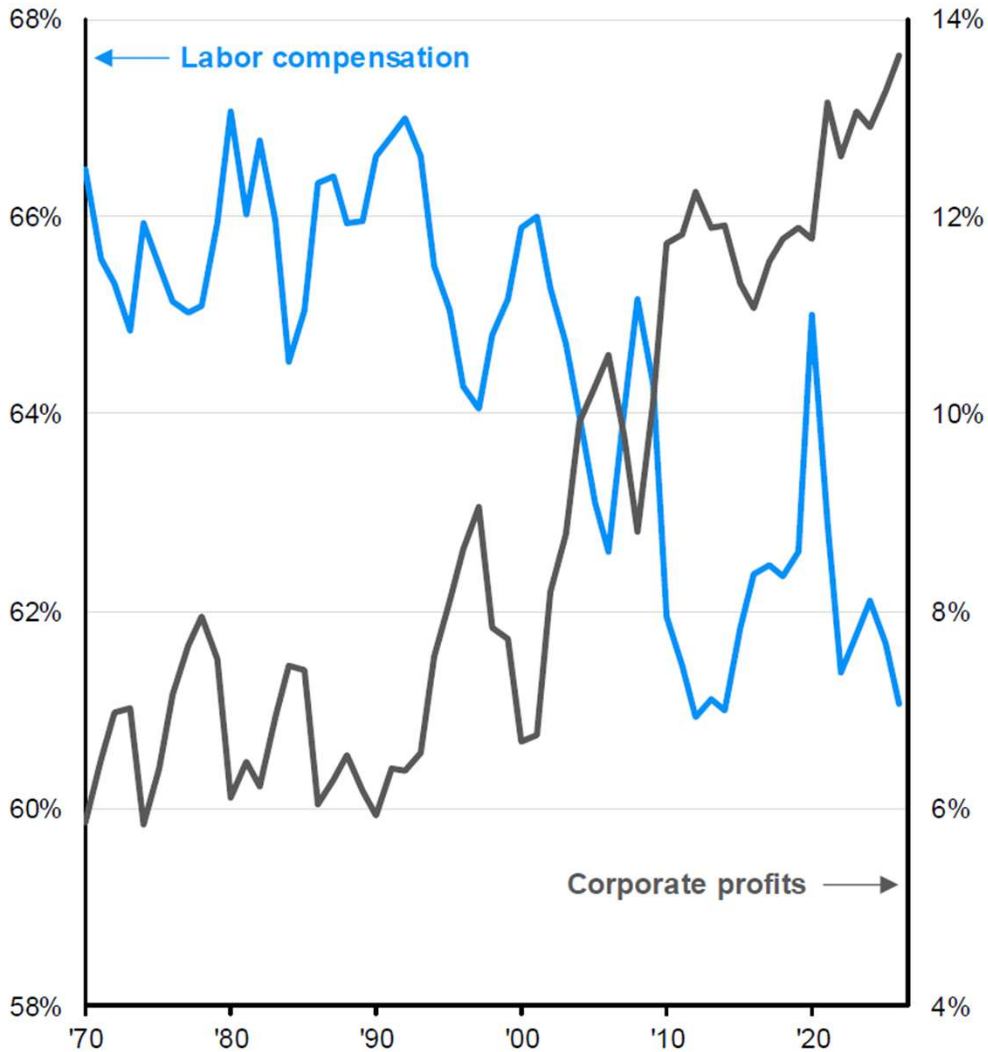


Source: J.P. Morgan Asset Management; BEA. *Guide to the Markets – US* Data are as of June 30, 2026.

The K-Shaped Economy

Second Quarter 2026

Labor compensation vs. corporate profits
Share of national income, annual and 1Q2026



The "K-Shaped Economy" refers to a variety of measures showing financial divergence across the US population. Households with higher income and especially higher wealth see their relative position improve (the top leg of the K) while others experience stagnation or decline (the bottom leg of the K).

One likely cause of this divergence is the change in how business income is split between owners and workers, illustrated in the accompanying chart. Since the mid-1990s, owners have received a steadily rising share, while workers' piece of the pie has correspondingly shrunk.

Three factors commonly cited to explain this change are: (1) technology and automation displacing labor and suppressing wages; (2) globalization, subjecting US workers to competition from low-wage economies like China, again suppressing wages here at home; and, (3) declining union membership across the workforce, increasing employers' bargaining power.

From a purely financial standpoint, the biggest winners in this trend are investors, who are the primary holders of corporate shares and thus the recipients of the growing share of business income. However, the potential long-term social, political, and economic implications should be concerning to all.

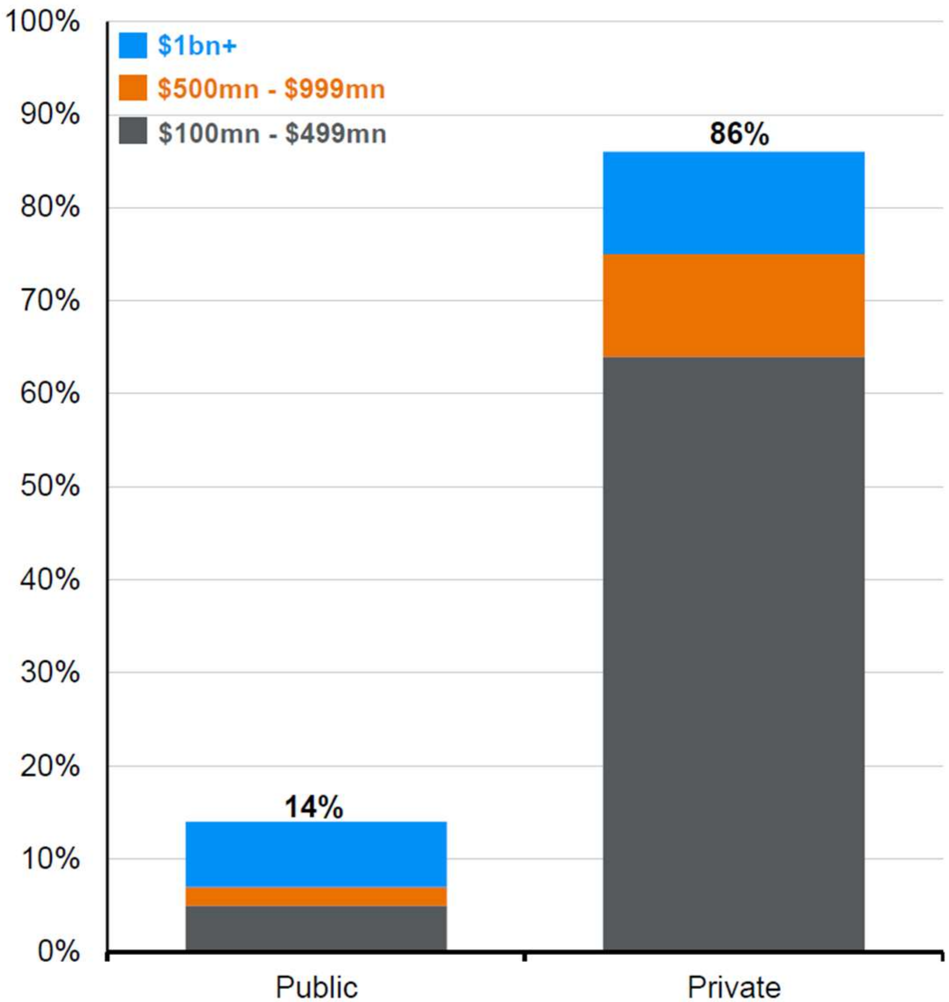
Source: J.P. Morgan Asset Management; BEA. Labor compensation includes wages and benefits. Corporate profits are calculated after tax and with capital consumption and inventory valuation adjustments. *Guide to the Markets – US* Data are as of June 30, 2026.

US Public vs. Private Equity

Second Quarter 2026

US companies split public vs. private

Companies with regular revenue greater than $100m, share public vs. private



The accompanying chart shows that across US businesses with at least $100 million in annual revenue, private outnumber publicly-traded ones by about 6-to-1.

Even among the largest firms, private exceed public, as fast growers' time to initial public offering (IPO) gets ever longer—from less than 2 years in the late '90s to over 16 years now. Private companies today include some of the most dynamic and rapidly growing American businesses, such as AI leaders Anthropic and OpenAI, Stripe (financial tech), Databricks (enterprise data management), Waymo (self-driving taxis), and Anduril (military drones, etc.). Recent These firms range in value from about $50 billion to nearly $1 trillion. Until its IPO in June, SpaceX was also on this list.

Newer investment vehicles enable a wider group of investors to participate in highflying private company stocks, but the exposure they provide across the private company universe is still uneven and relatively expensive.

The average investor may take comfort knowing that the 14% of companies on the public side collectively represent more than $70 trillion in market value, or roughly three-quarters of the estimated total value of public and private combined, so broad exposure to the US economy is easily accomplished through public equity investments. An important footnote—the ten largest firms make up just over one-third of the total value of the roughly 3500 US public companies.

Source: Bain and Company, FactSet, Jay Ritter – University of Florida, S&P Capital IQ, World Federation of Exchanges, J.P. Morgan Asset Management. *Guide to the Markets – US* Data are as of June 30, 2026.