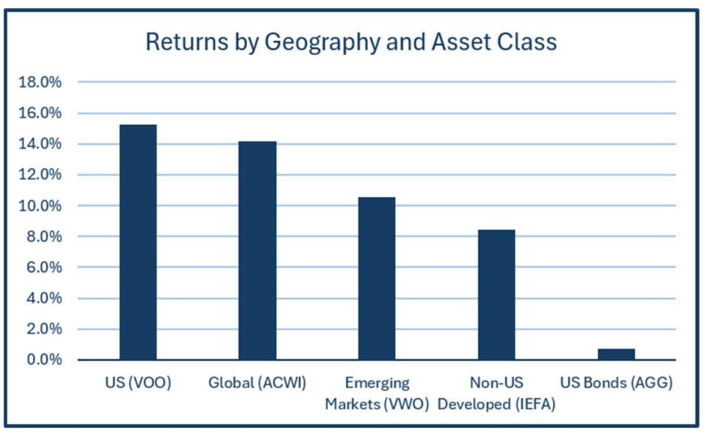
A Look Back…2nd Quarter 2026

We call our quarterly review “A Look Back” to remind our readers that is all it is – backward looking. While it is important to keep tabs on what your portfolio is doing, it is equally important to ignore short-term results. Keep focused on the long-term goals of your portfolio and whether it is achieving them.

The Markets

The second quarter of 2026 was a strong one for stocks and bonds globally. The MSCI All Country World Index delivered a strong return courtesy of rising prices everywhere, particularly in the US. The quarter was dominated by the ongoing war in Iran and its impact on oil prices and therefore inflation. That, of course, has the inevitable impact on Federal Reserve decisions. There were multiple false starts to peace talks in the Middle East, but the price of oil ultimately ended lower. However, rising oil in prior months pushed inflation higher, prompting new Federal Reserve Chairman Kevin Warsh to warn investors a rate hike may be coming if inflation remains elevated. Thanks to modestly falling interest rates, bonds, as measured by the iShares US Aggregate Bond Index ETF, rose for the quarter.



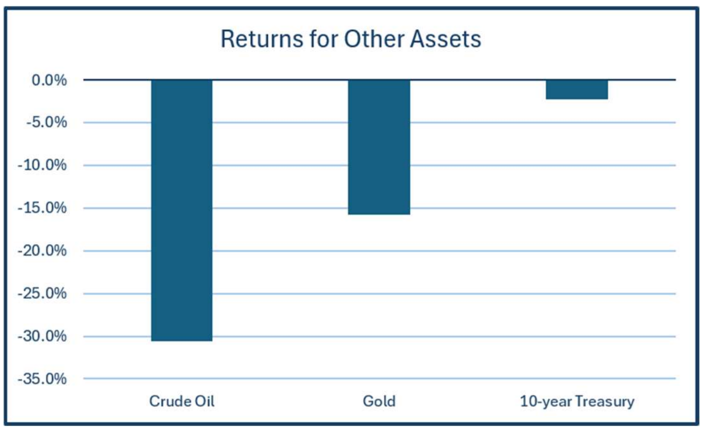
Source: Morningstar; As of 6/30/2026
Returns represented by ETFs indicated in parentheses

What did what?

From a sector perspective, as usual, it was the haves and have-nots. Tech was by far the quarter’s biggest winner courtesy of falling interest rates and oil prices (see below). Likewise, those forces had the opposite effect on Energy stocks, which not only underperformed, but lost ground for the quarter. The chart below shows the returns for State Streets’ US sector ETFs for the three-month period.

Source: investing.com and Metric Financial; As of 6/30/26

Although the situation in the Middle East remained volatile day-to-day, oil did back off the peak reached just after the war started as hopes (in general) are that a deal will eventually be reached. As a result, inflation fears subsided somewhat, which brought interest rates down modestly.



Source: investing.com and Metric Financial; As of 6/30/26

Outlook

Despite all of the volatility, mostly due to starts and stops in Iran, it has been a solid year thus far for stocks globally. Whether or not that continues will be dictated by more of the same. We have no reason to believe the US and Iran will stop exchanging missile strikes since the US is demanding a reopening of the Strait of Hormuz (which Iran is open to) and a cessation of nuclear development (which Iran is not open to). As long as the Strait remains constricted, the price of oil is unlikely to fall, but as long as it doesn't rise significantly, that will bode well for future inflation reads since inflation is not rising and falling prices, but rather changes in the pace of price increases. That in turn could keep the Federal Reserve at bay and we could see the end of 2026 without any rate hikes. What should be the main focus, but has become more of a side story, is corporate earnings. While there are always haves and have nots, first quarter results (reported in the second quarter) were very strong. According to FactSet, 84% of S&P 500 companies beat consensus earnings estimates for the first quarter of 2026. As long as the consumer keeps spending and the demand for AI technology remains steady or grows, profit margins should remain robust and that should always be front of mind for investors.

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