Global Market Commentary: Second Quarter 2026

LEGACY WEALTH
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Summary

The second quarter of 2026 delivered one of the strongest quarterly performances for U.S. and global equity markets since the post-pandemic rebound of 2Q2020, marking a sharp reversal from the volatility and losses that characterized the first quarter. Markets staged a powerful recovery as the U.S.-Iran conflict — which had disrupted global energy markets and driven a spike in the CBOE Volatility Index (VIX) during Q1 — moved toward de-escalation, oil prices retraced sharply, and investor attention returned to resilient corporate earnings and continued momentum in artificial intelligence and semiconductor investment.

The S&P 500 and Nasdaq Composite each recorded their best quarterly performance since the second quarter of 2020, while the Dow Jones Industrial Average posted its strongest quarter since 2022. The rally broadened significantly as the quarter progressed: after early gains were concentrated in mega-cap growth and technology names, small-cap, micro-cap, equal-weighted, and value benchmarks all reached new record highs by quarter's end, with the Russell 2000 posting its best first half since 1991.

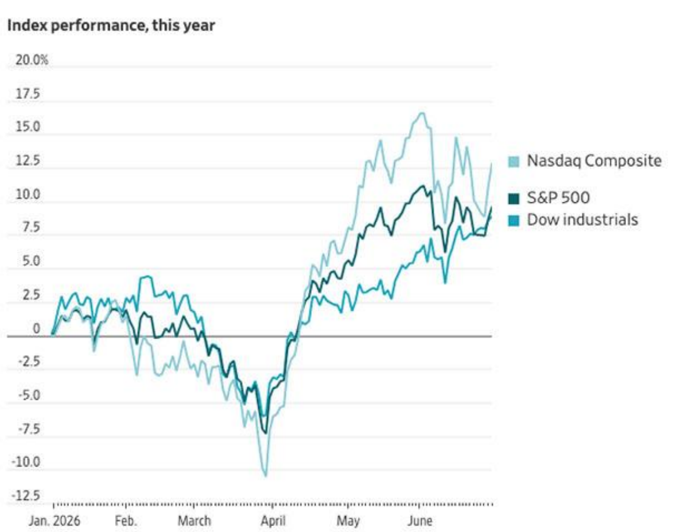
The quarter also marked a historic transition at the Federal Reserve, as Kevin Warsh — confirmed by the Senate on May 13, 2026 — presided over his first Federal Open Market Committee (FOMC) meeting as Chairman on June 17. The Committee held its benchmark rate steady at 3.50%–3.75% but adopted a notably shorter, less forward-guidance-oriented policy statement, and the accompanying Summary of Economic Projections showed a majority of participants now anticipating a rate hike, rather than a cut, before year-end 2026 — a reversal from expectations at the start of the year.

Inflation remained a focal point for investors and policymakers alike. May's Consumer Price Index rose 4.2% year-over-year, the highest reading since April 2023, driven largely by lagged energy price effects from the Iran conflict, while core CPI held at a comparatively moderate 2.9%. Producer prices accelerated as well, rising 6.5% year-over-year in May, the fastest pace since late 2022. At the same time, the U.S. economy showed underlying resilience: the Bureau of Economic Analysis's final estimate for first-quarter 2026 GDP growth was revised up to a 2.1% annualized rate, and consumer spending — as measured by retail sales — posted a fourth consecutive month of gains in May.

The Quarter in Context

1Q 2026 ended on a difficult note, with the S&P 500 down roughly 4.6% after the U.S.-Israeli military campaign against Iran, which began February 28, closed the Strait of Hormuz and triggered what the International Energy Agency characterized as the largest disruption to global oil supply in the history of the market. That shock pushed the VIX to an intraday high above 35 in early March and left energy prices elevated well into the second quarter.

S&P 500, Nasdaq Rode AI Boom to First-Half Records



Source: FactSet

2Q2026 told a different story. A ceasefire between the U.S. and Iran, first announced in early April and subsequently extended, allowed oil prices to unwind much of their war-driven premium — WTI crude fell more than 30% for the quarter, settling near $68 per barrel by June 30, essentially back to pre-war levels. That reversal, combined with continued strength in AI- and semiconductor-related capital spending and a resilient corporate earnings backdrop, fueled one of the strongest equity rallies of the past several years.

The improvement in risk sentiment was not without complications. Even as growth-oriented and technology shares led early in the quarter, a hawkish tone from new Fed Chair Kevin Warsh at the June FOMC meeting, combined with persistently elevated inflation readings tied to lagged energy effects, introduced late-quarter volatility in rate-sensitive and communications/technology shares even as cyclical and defensive sectors picked up leadership in June.

U.S. Equity Market and Volatility Review

All four major U.S. equity benchmarks posted strong double-digit gains for the second quarter of 2026. The Dow Jones Industrial Average closed the quarter at 52,319.20, up about 13.4% for the period — its best quarterly performance since 2022 — and finished June up 8.85% year-to-date, aided in part by the addition of Alphabet to the index. The S&P 500 closed at 7,449.36, a gain of about 15.0% for the quarter and its best quarterly result since the second quarter of 2020, bringing its year-to-date return to 9.55%. The Nasdaq Composite closed at 26,213.72, up about 21.6% for the quarter — also its best quarterly showing since 2020 — for a year-to-date gain of 12.79%. The Russell 2000 closed at a record 3,024.37, up about 21.5% for the quarter, giving small-cap stocks their best first half of a calendar year since 1991.

Market leadership evolved significantly over the course of the quarter. The initial rebound off March lows was led by large-cap growth and "hyperscaler" technology names as investors priced in an easing of geopolitical risk. By the end of the quarter, however, the advance had broadened considerably, with small-cap, micro-cap, equal-weighted, and value-oriented benchmarks all reaching new record highs alongside the cap-weighted S&P 500, which itself peaked on June 2 before the S&P 500 Equal Weight Index broke out to fresh highs in early July. Semiconductor shares were a standout: the Philadelphia Semiconductor Index (SOX) recorded double-digit monthly gains in all three months of the quarter for a total quarterly advance of about 87.8% — its best quarterly performance since the index's 1994 inception — driven by robust capital expenditure and demand tied to AI infrastructure and memory chips.

Sector leadership shifted late in the quarter. While technology and communication services drove the bulk of the advance for most of the period, June brought a rotation toward more cyclical and defensive areas of the market, with industrials, financials, and healthcare outperforming as pockets of the technology sector experienced late-quarter profit-taking. Energy shares underperformed for a second consecutive month as oil prices retreated to pre-crisis levels. On a year-to-date basis, industrials led all S&P 500 sectors with a total return of about 20.1%, even though the technology sector captured the bulk of media attention. Small-cap sector performance was similarly broad, with ten of eleven Russell 2000 sectors posting gains in the quarter, led by double-digit advances in technology, industrials, healthcare, discretionary, and financials.

Volatility (VIX) Summary

Volatility declined significantly over the course of the quarter after an extraordinarily turbulent first quarter, during which the VIX reached an intraday high above 35 (closing near 31 on March 27) amid the initial shock of the U.S.-Iran conflict. The VIX began the second quarter elevated — closing near 25.25 on March 31 — and experienced a brief secondary spike above 19.5–20 in mid-to-late April when a temporary lapse in ceasefire negotiations renewed uncertainty around the reopening of the Strait of Hormuz. As the ceasefire held and oil prices continued to retreat, the VIX steadily declined through May and June, closing the quarter in the mid-16s (about 16.45–16.83), a level consistent with historically calm market conditions and a marked improvement from the crisis-level readings of the first quarter.

Sector Performance

Large-cap sector performance was broadly positive during the second quarter, with nine of eleven S&P 500 sectors finishing higher, though leadership rotated notably as the quarter progressed. Early-quarter gains were concentrated in growth-oriented technology and communication services names, driven by AI infrastructure spending and a broad recovery in risk appetite. By June, leadership had shifted toward more cyclical and defensive sectors — industrials, financials, and healthcare all outperformed — while technology and communication services lagged amid modest late-quarter profit-taking. Energy was the clear laggard for a second consecutive month, as oil prices retreated toward pre-crisis levels, reversing the sector's status as the top Q1 2026 performer (when it returned about +38% amid the initial oil price spike).

Commodities

Commodity markets reversed sharply as the geopolitical risk premium embedded in energy prices unwound. WTI crude oil fell more than 30% on a for the quarter basis, settling near $68 per barrel by June 30 — essentially erasing the spike triggered by the closure of the Strait of Hormuz earlier in the year and marking the commodity's worst quarterly performance since the first quarter of 2020. Gold, which had reached an all-time high of $5,589.38 per ounce in late January amid the initial flight to safety, fell from roughly $4,700 per ounce at the start of the quarter to under $4,030 per ounce by quarter-end — its worst quarterly performance in 13 years and, by some measures, its sharpest single-month decline since 1975 — as the same de-escalation that lifted equities prompted a broad-based unwind of safe-haven positioning. Silver moved sharply lower as well, giving back a substantial portion of its prior run-up.

Monetary Policy and Fed Actions

The most significant institutional development of the quarter was the transition of Federal Reserve leadership to Kevin Warsh, who was confirmed by the U.S. Senate as Fed Chairman on May 13, 2026, and presided over his first FOMC meeting on June 17. The Committee voted unanimously (12-0) to hold the federal funds rate steady at a target range of 3.50%–3.75%, extending a pause that has now persisted since three consecutive 25-basis-point cuts in September, October, and December of 2025, followed by holds in January, March, and April of 2026.

The June meeting was notable less for the rate decision itself — which was widely anticipated, with the CME FedWatch tool pricing in a 96.3% probability of a hold ahead of the meeting — than for a marked change in the Fed's communication style under its new chairman. The post-meeting policy statement was reduced to about 130 words, down from 341 words in the prior release, and eliminated language widely interpreted as forward guidance. Chairman Warsh, who has publicly criticized what he views as Fed overcommunication, described the shorter statement as giving "the facts, as best we can judge it," and indicated that a broader review of Fed communications practices — including press conferences, the dot plot, and meeting minutes — is likely by year-end.

The accompanying Summary of Economic Projections showed a meaningful shift in the policy outlook: nine of eighteen FOMC participants now project at least one interest rate hike before the end of 2026, with six projecting two 25-basis-point increases, reversing the rate-cut expectations that prevailed at the start of the year. The median projection for core PCE inflation at year-end 2026 rose to 3.6%, up from 2.7% in the March projection, while the unemployment rate projection edged down to 4.3% and the real GDP growth projection for 2026 was revised down to 2.2% from 2.4% in March. Notably, Chairman Warsh elected not to submit his own projection to the dot plot, stating, "I did not submit a dot for me. It's not helpful in the conduct of policy."

In his post-meeting press conference, Chairman Warsh addressed the Fed's inflation mandate directly: "We recognize that inflation has been running well ahead of the Fed's long-stated inflation goal of 2%. That's been going on for more than five years.

Persistently high prices are a burden for the American people, but the recent past need not be prologue. I am pleased to report that members of the FOMC are unambiguous and unanimous — this committee will deliver price stability." Warsh also outlined plans to form five internal task forces to review the Fed's monetary policy operations, communications practices, data sources, productivity, and labor market analysis, and indicated the Fed would maintain its "ample reserves" policy on its about $6.7 trillion balance sheet, with no near-term plans to reduce holdings.

Inflation Data: CPI & PPI

Inflation data released during the quarter reflected the lagged pass-through of higher energy costs stemming from the U.S.-Iran conflict earlier in the year. The most recent available reading, for May 2026 (released June 10), showed the Consumer Price Index for All Urban Consumers (CPI-U) rising 0.5% on a seasonally adjusted basis for the month and 4.2% over the trailing twelve months — the highest annual rate since April 2023, and an acceleration from April's 3.8% year-over-year reading. Core CPI, which excludes volatile food and energy components, rose a more moderate 0.2% for the month and 2.9% year-over-year.

Energy prices were the dominant driver of the May increase, rising 3.9% for the month and 23.5% over the trailing year, and accounting for more than 60% of the total monthly CPI increase. Gasoline prices alone rose 7.0% month-over-month and were up 40.5% year-over-year. Shelter costs, which carry the largest single weighting in the CPI basket, rose a more modest 0.3% for the month (3.4% year-over-year) — roughly half April's pace — while food prices increased 0.2% for the month. Notably, core commodity prices excluding food and energy actually declined 0.1% in May, suggesting that underlying, non-energy inflationary pressures remained comparatively contained even as headline inflation accelerated. The June 2026 CPI report is scheduled for release on July 14, 2026, after the close of this commentary period.

Producer-level inflation accelerated as well. The Producer Price Index (PPI) for final demand rose 1.1% in May on a seasonally adjusted basis, matching April's pace, and increased 6.5% over the trailing twelve months — the largest annual gain since November 2022. Nearly 80% of the May increase was attributable to a 2.8% rise in final-demand goods prices, itself driven primarily by a 10.7% jump in energy costs and a 23.4% increase in wholesale gasoline prices.

Core PPI, excluding food, energy, and trade services, rose 0.8% for the month and 5.1% year-over-year — also the largest annual increase since March 2022 — indicating that some cost pressures were beginning to broaden beyond energy alone. The June 2026 PPI report is scheduled for release on July 15, 2026.

Consumer Sentiment and Confidence

Consumer sentiment showed tentative signs of stabilization during the second quarter after reaching historic lows earlier in the period. The University of Michigan Consumer Sentiment Index fell to a record low of 44.8 in May 2026 — its lowest reading on record — as continued Strait of Hormuz-related supply disruptions kept gasoline prices elevated and more than half of surveyed consumers cited high prices as a burden on their personal finances. Sentiment recovered modestly in June, with the final reading rising to 49.5, supported by early-month easing in gasoline prices. The rebound was broad-based across age, income, education, and political affiliation, with lower-income consumers — for whom fuel costs represent a larger share of household budgets — showing a particularly strong improvement. Even with the June gain, however, sentiment remained about 13% below its January 2026 level and 19% below its year-ago reading, underscoring persistently elevated consumer anxiety over the cost of living.

Within the June University of Michigan survey, the Current Economic Conditions component finished at 47.7 and the Consumer Expectations component at 50.7 — the latter its highest reading in three months, reflecting easing concern over the long-term economic consequences of the Iran conflict. Year-ahead inflation expectations eased to 4.6% in June from 4.8% in May, while long-run inflation expectations declined to 3.3% from 3.9% the prior month, though both remained significantly above pre-conflict (February 2026) levels of roughly 3.4%.

The Conference Board's Consumer Confidence Index told a somewhat more mixed story, edging up just 0.6 points to 91.2 in June — below the consensus forecast of 94.4. The Present Situation Index, which reflects consumers' assessment of current business and labor market conditions, fell 3.0 points to 116.4, while the Expectations Index, reflecting consumers' six-month outlook, rose 3.0 points to 74.4. Notably, the share of consumers describing jobs as "hard to get" rose to 22.5% — the highest reading since January 2021 — pointing to some softening in consumers' perception of labor market conditions even as broader confidence measures showed modest improvement. Chief Economist Dana M. Peterson attributed the modest June improvement to "falling oil prices in recent weeks [that] provided some relief to consumer inflation fears."

Corporate Earnings

Corporate earnings expectations strengthened considerably over the course of the second quarter. According to FactSet, the estimated year-over-year earnings growth rate for S&P 500 companies in the second quarter rose to 23.3% by quarter-end, up from an estimate of 18.8% at the start of the quarter (March 31) — an unusual pattern, as analysts typically reduce earnings estimates over the course of a quarter (by an average of 2.7% over the past ten years) rather than raise them. If realized, 23.3% growth would mark the second consecutive quarter of earnings growth above 20% and the seventh consecutive quarter of double-digit year-over-year earnings growth for the index.

Revenue growth expectations improved similarly, rising from 9.5% at the start of the quarter to about 12.2%–12.3% by quarter-end — which, if achieved, would represent the highest quarterly revenue growth rate for the S&P 500 since the second quarter of 2022. All eleven S&P 500 sectors are projected to report year-over-year revenue growth, led by information technology, energy, and communication services. The combination of accelerating revenue growth and even larger increases in earnings growth implies continued profit-margin expansion, consistent with the broader trend of the past several quarters.

Corporate guidance for the quarter skewed unusually positive: of the 111 S&P 500 companies that had issued formal EPS guidance for the second quarter as of quarter-end, 63 (57%) issued positive guidance and 48 issued negative guidance — a higher share of positive guidance, and a lower share of negative guidance, than both the five- and ten-year averages. The majority of positive guidance was concentrated in the information technology sector, which accounted for 70% of all positive guidance issuances. From a valuation standpoint, the S&P 500's forward twelve-month price-to-earnings ratio stood at about 20.1x to 20.4x by quarter-end, modestly above both its five-year average (19.9x) and ten-year average (19.0x), reflecting elevated but not unprecedented valuation levels relative to recent history. For additional context, first-quarter 2026 results — now largely finalized — showed S&P 500 companies delivering actual earnings growth of about 28.6%, the strongest pace since 2021.

Retail Sales and Consumer Spending

Despite ongoing inflationary pressure and historically weak sentiment readings, U.S. consumer spending remained resilient throughout the quarter. Advance estimates of U.S. retail and food services sales for May 2026 totaled $763.7 billion, up 0.9% from April — nearly double the 0.5% consensus estimate — and up 6.9% from a year earlier, marking the fourth consecutive monthly increase. Retail trade sales specifically (excluding food services) rose 1.0% for the month and 7.5% year-over-year, while so-called "control group" sales — which exclude autos, gasoline stations, building materials, and food services, and are used directly in GDP calculations — rose 0.8% for the month and 6.4% year-over-year, marking a fifth consecutive monthly increase.

Gasoline station sales posted the largest monthly gain among major categories, rising 3.4% as elevated pump prices tied to the lagged effects of the Iran conflict continued to work through the data. Excluding gasoline stations, sales still rose a solid 0.7% for the month, led by miscellaneous store retailers (up 2.3%), nonstore/e-commerce retailers (up 1.5%), and motor vehicle and parts dealers (up 1.2%). Sales declined modestly at food services and drinking places (down 0.1%) and electronics and appliance stores (down 0.5%). The breadth and consistency of the spending data — twelve consecutive months of core retail sales gains — suggests that, notwithstanding weak sentiment surveys, U.S. consumers continued to support economic activity through the second quarter. The June 2026 retail sales report is scheduled for release on July 16, 2026, after the close of this commentary period.

Housing and Construction

Housing market data released during the quarter pointed to continued softness, as elevated mortgage rates and affordability pressures weighed on both new construction and sales activity. New single-family home sales fell to a seasonally adjusted annual rate of 580,000 in May 2026 — down 7.3% from April and 6.8% from a year earlier — while the median sales price rose 2.0% month-over-month to $424,900 and the average sales price rose 7.8% to $540,600. Months' supply of new homes for sale climbed to 10.3 months, up from 9.3 in April, though the Census Bureau noted that available inventory remains skewed toward higher-priced and under-construction product; combined new-and-existing-home inventory stood at a more balanced 5.2 months.

New residential construction activity slowed sharply in May. Privately owned housing starts fell 15.4% from April to a seasonally adjusted annual rate of 1,177,000 — the lowest level since May 2020 — with single-family starts down 1.9% to 882,000 and multi-family starts plunging 41.6% to 284,000. Building permits, a leading indicator of future construction, declined 0.7% from April to 1,413,000, essentially flat versus a year earlier. Regionally, starts fell sharply in the South (down 17.0%), West (down 17.2%), and Northeast (down 26.8%), while the Midwest posted a 3.7% increase. Total construction spending was roughly flat for the month, rising 0.1% to a seasonally adjusted annual rate of $2,210.2 billion, though this figure remained 1.5% below the year-earlier level. According to Freddie Mac, the average 30-year fixed mortgage rate stood at 6.49% as of June 25, up from 6.38% at the end of March but below the 6.77% rate recorded a year earlier.

Looking Ahead: 3Q2026 Outlook

balancing de-escalation and inflation risk

The third quarter begins with investors weighing renewed optimism against a policy backdrop that remains uncertain. While the de-escalation of Middle East tensions has reduced pressure on global energy markets and improved overall risk sentiment, inflation remains above the Federal Reserve’s long-term objective and monetary policy may remain restrictive until sustained progress toward price stability becomes evident. Corporate earnings and continued investment in artificial intelligence infrastructure remain important sources of support, but elevated equity valuations may leave markets more sensitive to economic surprises.

The Federal Reserve’s July 28–29 meeting will be closely watched as investors look for additional insight into Chairman Kevin Warsh’s evolving policy framework and the Committee’s willingness to respond to incoming inflation data.

July’s Consumer Price Index and Producer Price Index reports will help determine whether the energy-driven inflation pressures that emerged during the second quarter continue to broaden or begin to moderate. Markets will also focus on the advance estimate of second-quarter GDP, scheduled for release on July 30, for confirmation that economic growth has remained resilient despite tighter financial conditions.

Although the broad market enters the second half of the year from a position of strength, uncertainty surrounding inflation, interest rates, corporate earnings, and geopolitical developments is likely to keep volatility elevated compared with the unusually calm conditions that prevailed late in the second quarter. As always, maintaining a disciplined, long-term perspective may help investors navigate changing market conditions while recognizing that periods of changing economic and policy expectations can create both opportunities and short-term market fluctuations.

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Key Data Sources (2Q2026 edition)

Data and commentary in this report were compiled from the following primary and secondary sources: U.S. Bureau of Economic Analysis (bea.gov); U.S. Bureau of Labor Statistics (bls.gov); U.S. Census Bureau (census.gov); Federal Reserve Board and Federal Open Market Committee (federalreserve.gov); MSCI Inc. (msci.com); FactSet Research Systems (factset.com); The Conference Board (conference-board.org); University of Michigan Surveys of Consumers (sca.isr.umich.edu); S&P Dow Jones Indices; Cboe Global Markets (cboe.com); Nasdaq, Inc. (nasdaq.com); CNBC; Fox Business; The Wall Street Journal; TheStreet; Kiplinger; and Freddie Mac. All index performance figures reflect price levels as of the close of trading on Tuesday, June 30, 2026, unless otherwise noted.

- *Market indices and levels: Standard & Poor's, S&P Dow Jones Indices, YCharts, MSCI, Nasdaq, Dow Jones, Russell Investments.*
- *Volatility and derivatives: CBOE, Barchart (VIX and related futures).*
- *Economic data: U.S. Bureau of Economic Analysis (BEA), U.S. Bureau of Labor Statistics (BLS), Federal Reserve, The Conference Board, U.S. Census Bureau.*
- *Global markets and flows: MSCI, iShares, Yahoo Finance, other public index and ETF providers.*
- *News and commentary: WSJ, Financial Times, Bloomberg,Reuters, major financial news outlets and index providers' public materials as of March 31, 2026.*

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