ECONOMIC COMMENTARY | Q2 | 2026

The second quarter of 2026 delivered a sharp reversal from the year's difficult start. The S&P 500 gained 15.2%, while U.S. small-cap stocks rose 19.7%. Technology led the recovery, supported by strong semiconductor earnings and renewed confidence in AI investment. The rally left the S&P 500 up 10.2% for the first half, underscoring how quickly market leadership and investor sentiment can change.

What Drove Markets in Q2

AI-Led Technology Rebound
Strong semiconductor earnings and continued investment in data centers renewed confidence in the AI theme. Technology gained 31.8%, driving much of the broader market recovery.

Easing Energy Pressures
Oil prices retreated as tensions in the Middle East eased and supply concerns moderated. That shift supported investor sentiment but pushed Energy to the bottom of the sector rankings.

Resilient Economy, Cautious Fed
Economic activity continued at a solid pace, supported by productivity growth and capital investment. The Federal Reserve held rates steady as inflation remained above its 2% goal.

Performance Highlights
Top-performing sector: Information Technology (+31.8%)

Strong contributors: Industrials (+14.9%), Consumer Discretionary (+9.3%), Financials (+9.0%)

Lagging sectors: Energy (-13.5%) and Utilities (-0.5%)

Broad market gains: S&P 500 (+15.2%); S&P SmallCap 600 (+19.7%)

Key Takeaways for Investors

Market leadership can change quickly: The strongest and weakest sectors from Q1 largely reversed course in Q2.

Broader participation is encouraging: Smaller companies and most S&P 500 sectors participated in the rebound.

Earnings remain supportive: Strong profits and capital spending support the outlook, though high expectations leave less room for disappointment.

Diversification remains critical: Different sectors, regions, and asset classes continue to respond differently to changing conditions.

Looking Ahead

After a powerful rebound, the second-half outlook remains constructive but balanced. Corporate earnings and AI-related investment are supportive, while inflation, Federal Reserve policy, and geopolitical developments may continue to drive volatility. Investors are best served by staying diversified, disciplined, and focused on long-term objectives.

Sources:
1. S&P DJI: Index Dashboard, 06.30.26
2. J.P Morgan: Q2 Market Review, 07.01.26
3. Valmark: Federal Reserve: June FOMC Statement, 06.17.26