



## Mid-Year Outlook 2026: Key Investor Lessons for the Second Half of the Year

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**Bottom Line: The headlines will change. The principles of successful investing won't.**

### Key Market and Economic Drivers in the First Half of 2026

- ❖ The S&P 500, Nasdaq, and Dow Jones Industrial Average have returned 9.6%, 12.8%, and 8.9% year-to-date through the end of June, respectively. The second quarter was historically strong with the S&P 500 returning 14.9%, the Nasdaq 21.4%, and the Dow 12.9%.
- ❖ The Bloomberg U.S. Aggregate Bond Index has risen 0.6% year-to-date. The 10-year Treasury yield ended the second quarter at 4.47%, rising from 4.17% at the start of the year.
- ❖ Developed market international stocks (MSCI EAFE) have gained 7.7% and emerging market stocks (MSCI EM) have returned 22.7% year-to-date, both in U.S. dollar terms.
- ❖ The Bloomberg Commodities Index has risen 12.3% year-to-date. This was due to a strong first quarter which experienced a gain of 23.3%, versus a decline of 8.9% in the second quarter.
- ❖ Brent crude peaked just under \$120 per barrel in May before closing the quarter at \$73 per barrel.
- ❖ Gold prices fell to \$4,007 per ounce while Bitcoin declined to a recent low of \$58,633.
- ❖ Headline CPI rose 4.2% year-over-year in May, driven largely by energy prices. Core CPI, which excludes food and energy, rose 2.9%.
- ❖ The Federal Reserve kept rates unchanged at 3.50% to 3.75% through the first half of the year. Kevin Warsh was sworn in as Fed Chair in May.

### Smooth Seas Never Built Great Investors

There's an old saying that smooth seas never made a skilled sailor. If that's true, then the first half of 2026 was a master class.

Investors navigated a war in the Middle East, oil prices that briefly reignited inflation fears, a changing Federal Reserve, and nonstop debate over artificial intelligence. Any one of those events could have derailed markets. Instead, equities pushed to fresh all-time highs, corporate earnings expanded at a double-digit pace, and diversification quietly did exactly what it was supposed to do.

That's an important reminder: markets don't reward comfort, they reward discipline.

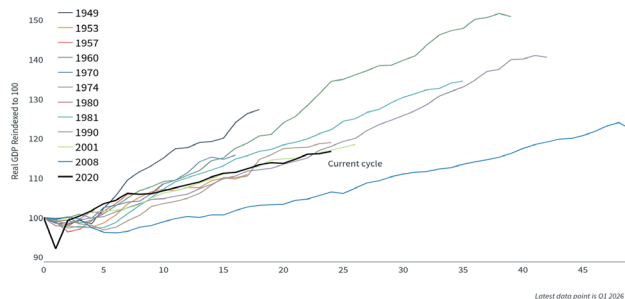
Perhaps what's most remarkable is where we stand today. The current economic expansion is now in its seventh year, while this bull market is approaching its fifth. Along the way, we've cycled through inflation scares, banking concerns, tariff disputes, geopolitical conflicts, and endless debates about whether the next recession is right around the corner. Yet the economy has continued to expand, businesses have continued to invest, and corporate America has continued to generate profits.

### The business cycle has entered its seventh year

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#### U.S. Business Cycles

Since World War II, Relative to Prior Cycle Peak, Duration in Quarters



Sources: Clearmatics, BEA, NBER  
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That's not to suggest the road ahead will be smooth.

The second half of the year will undoubtedly bring fresh challenges. The situation in the Middle East remains fluid. Midterm elections will inject another dose of political uncertainty. The IPO calendar is beginning to reopen, highlighted by several high-profile technology companies. Markets will have plenty to digest.

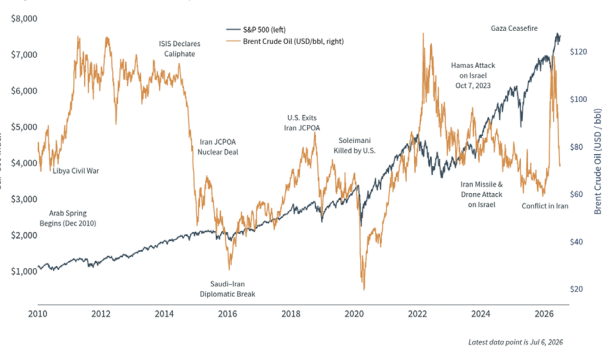
But that's always true.

One of the more encouraging developments this year has been the breadth of market leadership. While large-cap U.S. stocks continued to perform well, they weren't alone. International equities, emerging markets, small caps, and commodities all contributed to diversified portfolios. Healthy bull markets tend to broaden over time, and that's exactly what we've witnessed.

## Inflation remains one area we're watching closely

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### Middle East Conflicts and Markets



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The spike earlier this year was driven primarily by energy markets as conflict surrounding the Strait of Hormuz briefly pushed oil prices toward \$120 per barrel. Since then, crude has retreated significantly, and inflation pressures have begun to ease alongside it. Importantly, core inflation never accelerated to the same degree, suggesting the shock was concentrated rather than systemic.

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### Asset Class Performance

Total returns and annual averages over the period shown

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Average
Fixed Inc. 7.8%	EM 18.6%	Small Cap 38.8%	S&P 500 13.7%	S&P 500 1.4%	Small Cap 23.3%	EM 37.8%	Fixed Inc. 0.0%	S&P 500 31.9%	Small Cap 20.0%	S&P 500 28.7%	Commod. 16.1%	S&P 500 26.9%	S&P 500 25.0%	EM 34.4%	EM 24.3%	S&P 500 14.1%
S&P 500 2.1%	EAFE 17.9%	S&P 500 32.4%	Balanced 6.4%	Fixed Inc. 0.5%	S&P 500 12.6%	EAFE 25.0%	S&P 500 -4.4%	Small Cap 25.5%	EM 18.7%	Commod. 27.3%	Fixed Inc. -13.0%	EAFE 18.9%	Balanced 12.1%	EAFE -11.9%	Small Cap 22.0%	Small Cap 11.2%
Balanced 0.6%	Small Cap 16.3%	EAFE 23.3%	Fixed Inc. 6.0%	EAFE 6.4%	Commod. 11.8%	S&P 500 21.6%	Balanced -4.9%	EAFE 22.7%	S&P 500 18.4%	Small Cap 14.8%	EAFE -18.0%	Small Cap 16.9%	Small Cap 11.5%	S&P 500 17.9%	Commod. 16.7%	Balanced 6.5%
Small Cap -4.2%	S&P 500 16.0%	Balanced 15.9%	Small Cap 4.9%	Balanced -1.5%	EM 11.6%	Balanced 15.2%	Small Cap -11.0%	Balanced 20.5%	Balanced 12.6%	Balanced 14.1%	Balanced -14.4%	Balanced 15.3%	EM 8.1%	Balanced 16.0%	EAFE 11.4%	EAFE 6.3%
EAFE -11.7%	Balanced 11.4%	Fixed Inc. -2.0%	EM -1.8%	Small Cap -4.4%	Balanced 8.1%	Small Cap 14.6%	Commod. -11.7%	EM 18.9%	EAFE 6.3%	EAFE 11.8%	S&P 500 -18.1%	EM 10.3%	Commod. 5.4%	Commod. 15.8%	S&P 500 10.6%	EM 6.8%
Commod. -13.3%	Fixed Inc. 4.2%	EM -2.3%	EAFE -4.5%	EM -14.6%	Fixed Inc. 2.6%	Fixed Inc. 3.5%	EAFE -13.4%	Fixed Inc. 8.7%	Fixed Inc. 7.5%	Fixed Inc. -1.5%	EM -19.7%	Fixed Inc. 5.5%	Fixed Inc. 4.3%	Small Cap 12.8%	Balanced 8.8%	Fixed Inc. 2.4%
EM -18.2%	Commod. -1.1%	Commod. -9.5%	Commod. 17.0%	Commod. -24.7%	EAFE 1.5%	Commod. 1.7%	EM -14.2%	Commod. 7.7%	Commod. -3.1%	EM -2.2%	Small Cap -20.4%	Commod. 7.9%	Fixed Inc. 1.3%	Fixed Inc. 7.3%	Fixed Inc. 0.6%	Commod. 0.9%

Latest data point is Jul 6, 2026

The Balanced Portfolio is a 60/40 historical index calculation consisting of 40% U.S. Large Cap, 5% Small Cap, 10% International Developed Equities, 5% Emerging Market Equities, 35% U.S. Bonds, and 5% commodities.

Sources: Cleonomics, LSEG © 2026 Cleonomics, Inc.

Corporate earnings deserve much of the credit.

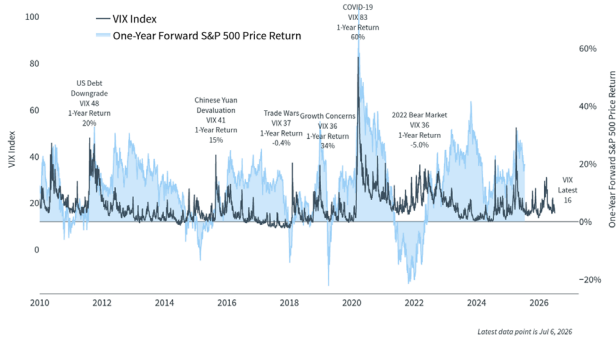
Profits for S&P 500 companies have grown at an impressive pace, validating much of the market's advance. That's an important distinction because earnings—not headlines—ultimately determine where stocks trade over the long run. Valuations remain above historical averages, but they're being supported by real earnings growth rather than speculation alone.

## Volatility followed a similar pattern

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### Volatility and Forward Returns

CBOE VIX Index and one-year forward S&P 500 price returns



Latest data point is Jul 6, 2026

Sources: Cleonomics, Standard & Poor's, CBOE © 2026 Cleonomics, Inc.

The market experienced several uncomfortable pullbacks throughout the first half, yet each proved temporary. The VIX never reached levels typically associated with widespread panic, and the S&P 500 ultimately recovered to post dozens of new all-time highs. That's another reminder that volatility isn't an indication something is broken, it's simply the price investors pay for long-term returns.

Perhaps the most overlooked story of 2026 isn't what happened inside the market, it's what happened outside of it.

Cash balances have climbed to record levels. Nearly \$8 trillion now sits in money market funds, earning respectable nominal yields but struggling to outpace inflation after taxes. History has consistently shown that cash feels safest immediately after volatility, precisely when long-term opportunities are often the greatest.

That's why we continue to believe successful investing isn't about predicting every headline.

It's about building portfolios capable of navigating all of them.

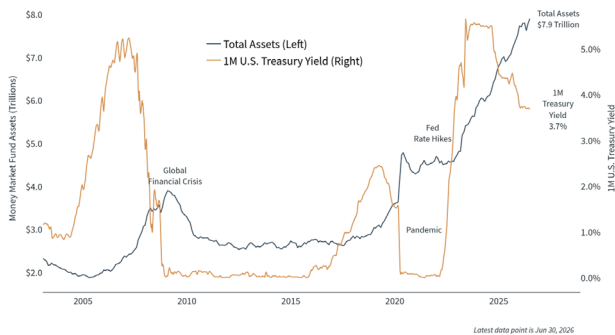
The first half of 2026 reinforced a timeless lesson: uncertainty is permanent. Resilience is earned. And investors who remain diversified, disciplined, and focused on the long term continue to place the odds in their favor.

### It's important to stay invested

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#### Money Market Funds and Interest Rates

Money market fund total assets and short-term rates



Sources: Clearnomics, Federal Reserve, IC  
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The principles of successful investing won't.

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