QUARTERLY MARKET REPORT

SECOND QUARTER 2026

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SECOND QUARTER HIGHLIGHTS

UNEVEN BOUNCE BACK LED BY TECHNOLOGY STOCKS DRIVES GROWTH STOCKS TO OUTPERFORM IN Q2

FINANCIAL MARKETS

- After falling in the first quarter, U.S. equity markets sharply reversed course. The S&P 500 (+10.2%), the NASDAQ (+13.1%), and the Dow (+20.8%) indices hit record highs driven by AI investment spending and a strong earnings season. Growth stocks outperformed value in Q2 as many software and Mag 7 stocks partially bounced back.
- Technology stocks grew +31.8% in Q2, leading all sectors, while Energy stocks experienced a reversal (-13.5%) after having shot up +34.0% in Q1. Emerging markets stocks shot up +24.1% for the quarter. International developed markets, however, underperformed the S&P 500 by 4.4% for the quarter.
- Bonds had low, but positive returns across all categories. Higher-yielding corporate bonds performed well as investors regained confidence that the Middle East conflict would not spread to become a wider regional conflict.

OVERVIEW OF THE ECONOMY

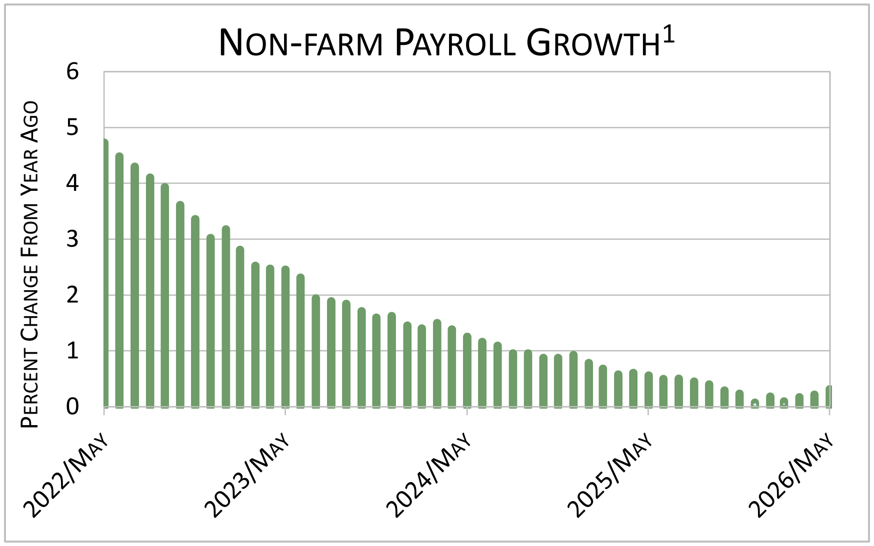
- U.S. gross domestic product (GDP) grew at approximately 2.5% annualized in Q2, up from 2.1% annualized in Q1. Productivity was helped by strong business investment, especially AI-related spending, better consumer spending, and continued resilience in the labor market.
- U.S. unemployment held steady at 4.3% staying within the narrow range of 4.3% - 4.5% that has persisted since mid-2025. Employers continued to add jobs and initial unemployment claims remained relatively low.
- Oil prices fell in Q2, but U.S. inflation ticked up. Despite lower oil prices, broad energy costs remained at elevated levels. Other causes of higher inflation were escalating health care, transportation, and shelter costs.

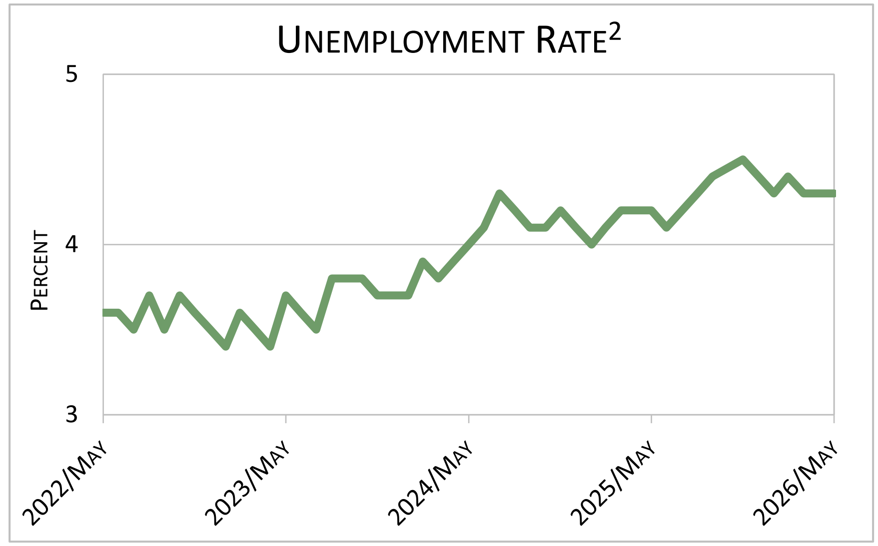
NOTABLE EVENTS

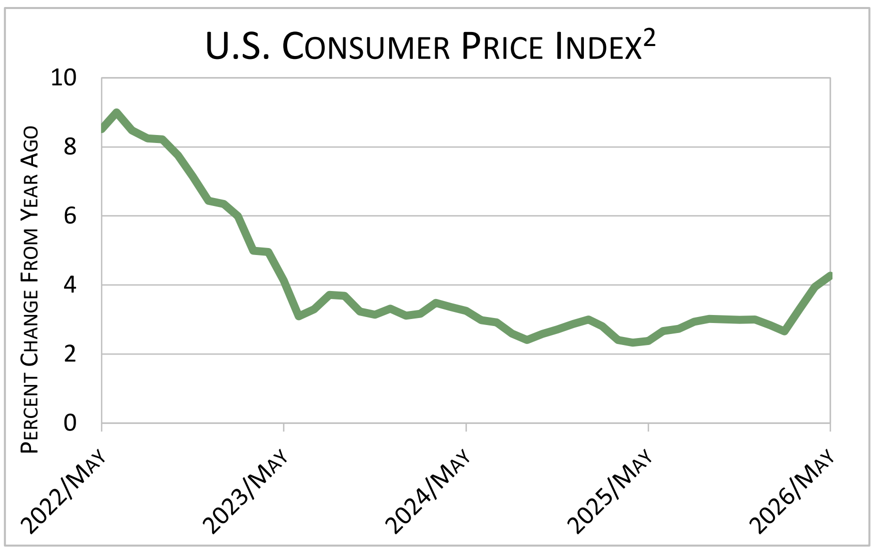
- Geopolitical tensions eased as the U.S. and Iran communicated a mutual willingness to negotiate a peace deal. Under the leadership of its new Chairman Kevin Warsh, the Fed kept its policy rate unchanged as inflation remained above its target. The AI investment boom continued, attracting investors while also raising concerns.

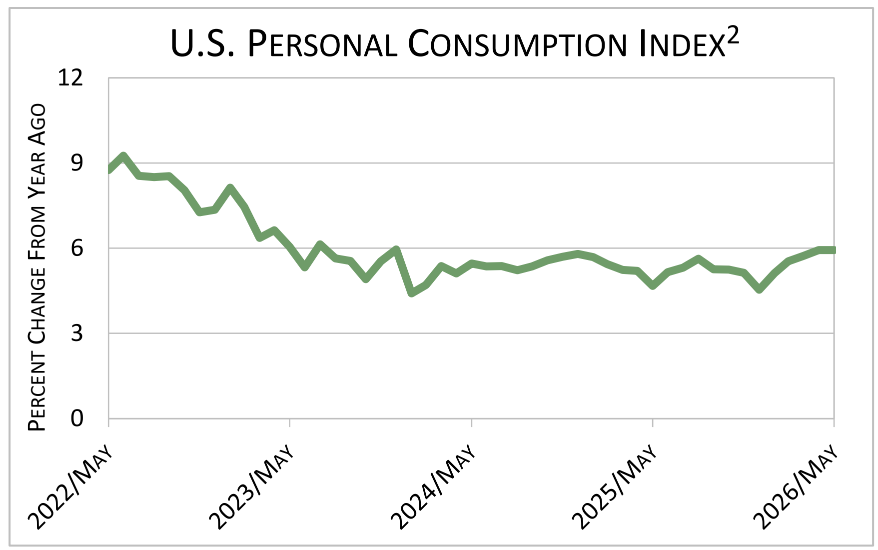
Second Quarter Highlights

Inflation, unemployment, and job growth show a U.S. economy that is cooling but still stable









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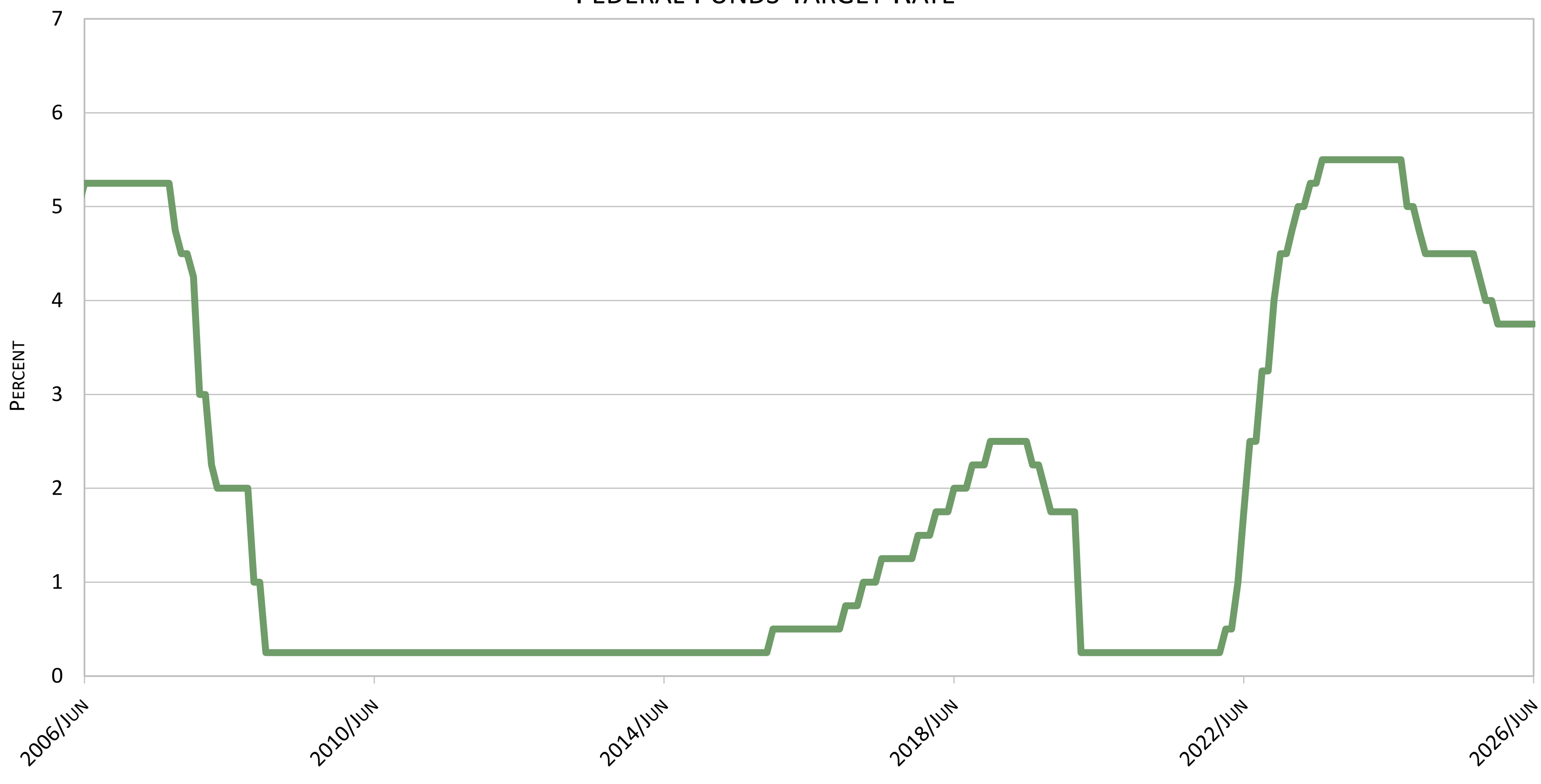
Second Quarter Highlights

With a new chairman, Federal Reserve keeps rate targets steady and hints at future hikes

The Federal Open Markets Committee (FOMC) has maintained the fed funds target range of 3.50% to 3.75%. New Federal Reserve Chairman Kevin Warsh's first meeting concluded with no change in the federal funds target rate range and the suggestion of possible rate hikes ahead. The FOMC removed key policy statement language indicating a bias toward future cuts within a dramatically shorter statement. Warsh's appointment was initially viewed as leaning toward accommodative monetary policy, however market expectations have since shifted toward a more stringent, hawkish stance.

Federal Funds Target Rate[2]

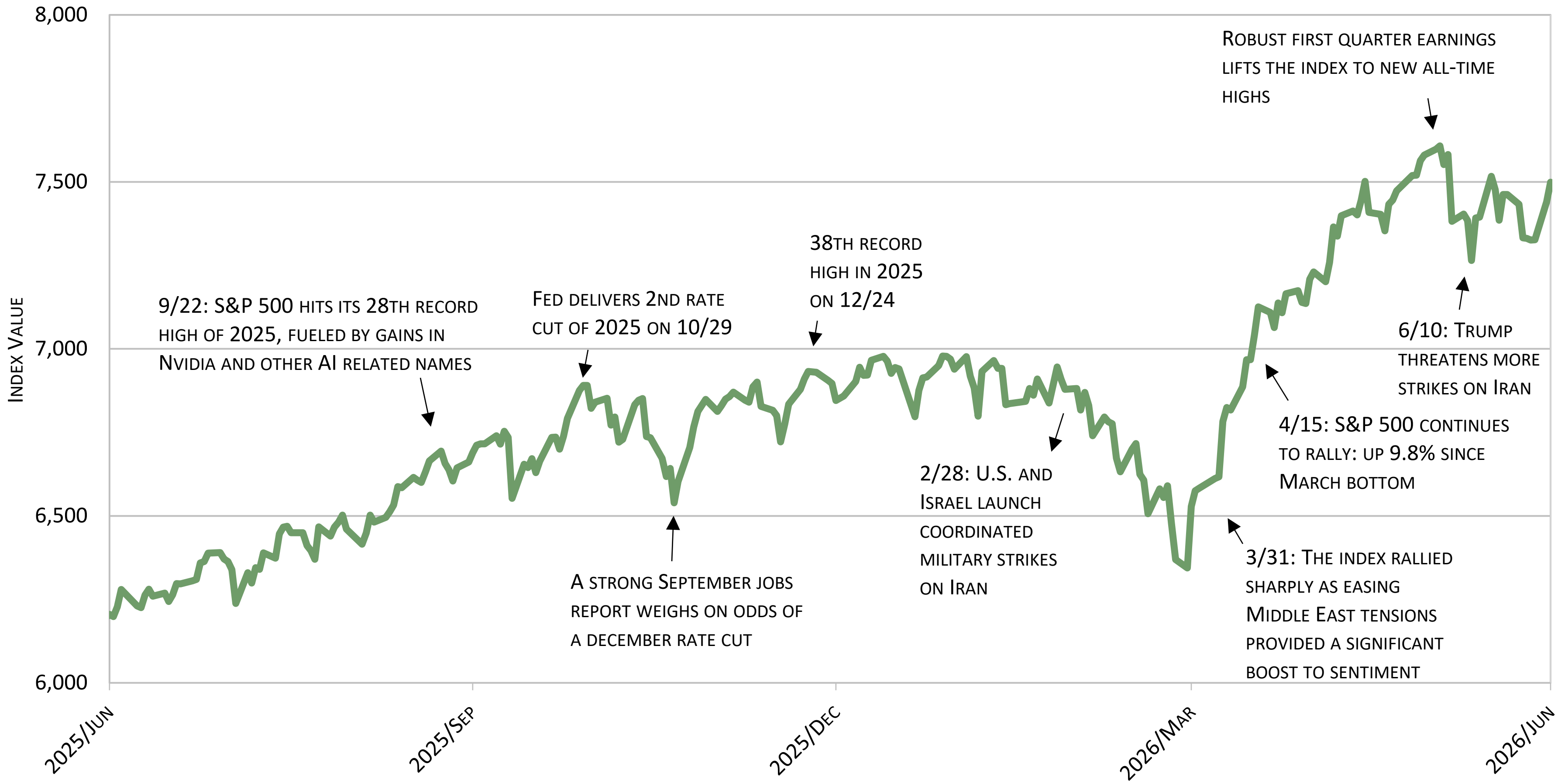


SECOND QUARTER HIGHLIGHTS

ENTHUSIASM FOR AI RETURNS; SEMICONDUCTOR STOCKS BENEFIT AS MEMORY BECOMES MORE EXPENSIVE

The S&P 500 delivered a 15.2% return in Q2 2026 - one of the strongest single quarters in the recent past and a powerful reversal from Q1's -4.33% decline. The most powerful force in Q2 was the AI trade reasserting itself. Eighty-five percent of S&P 500 companies beat earnings expectations. The semiconductor industry was the market leader as memory has become the most important constraint in AI infrastructure.

S&P 500 INDEX[2]



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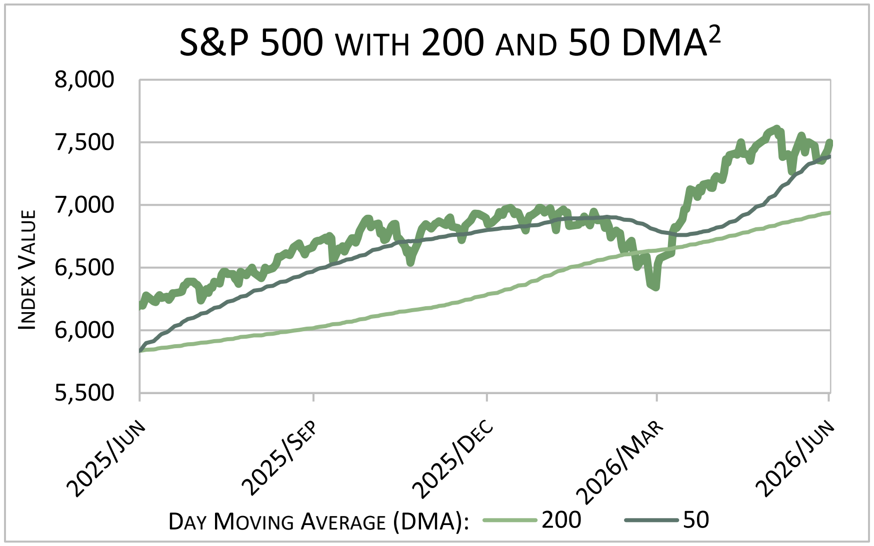
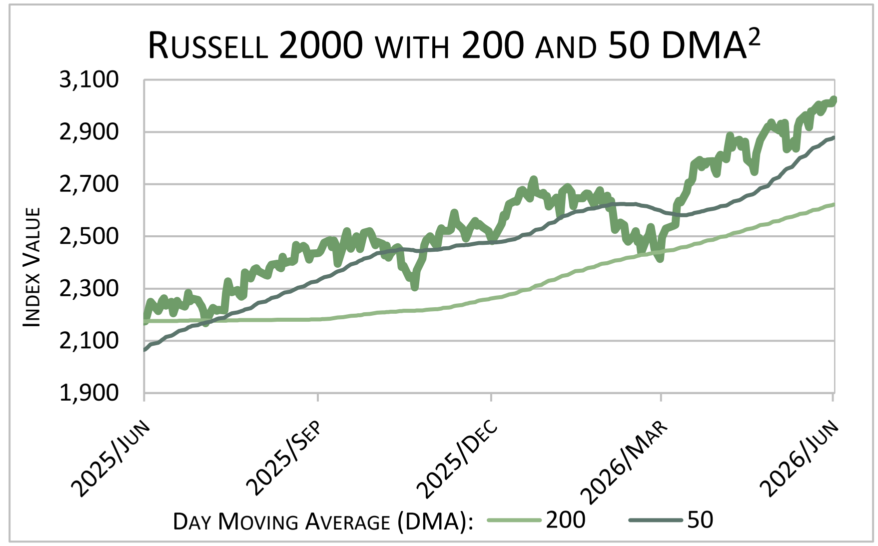
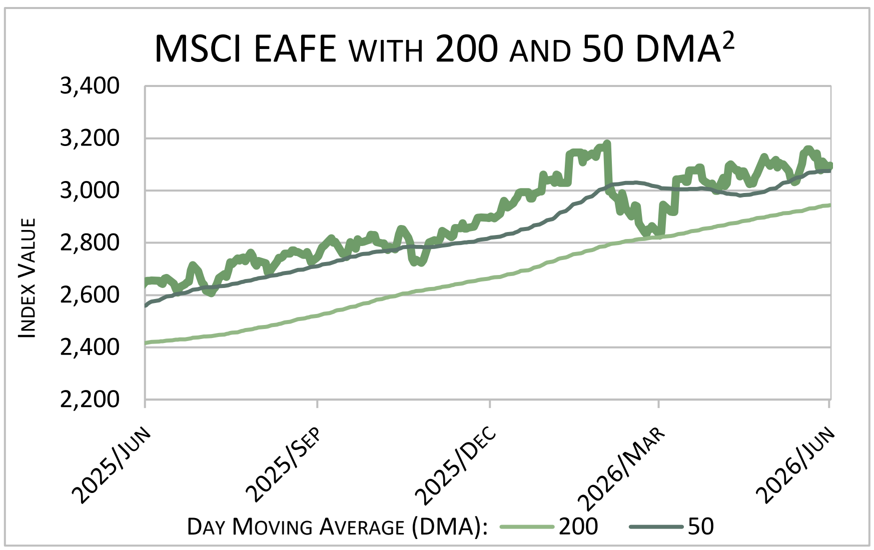
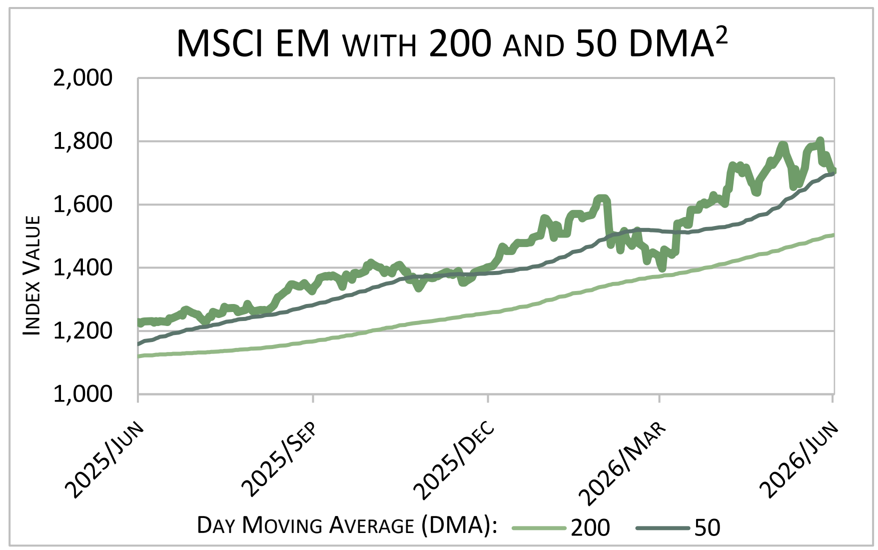
Second Quarter Highlights

Small Caps one-year returns outperforming Large caps; Emerging outperforming Developed



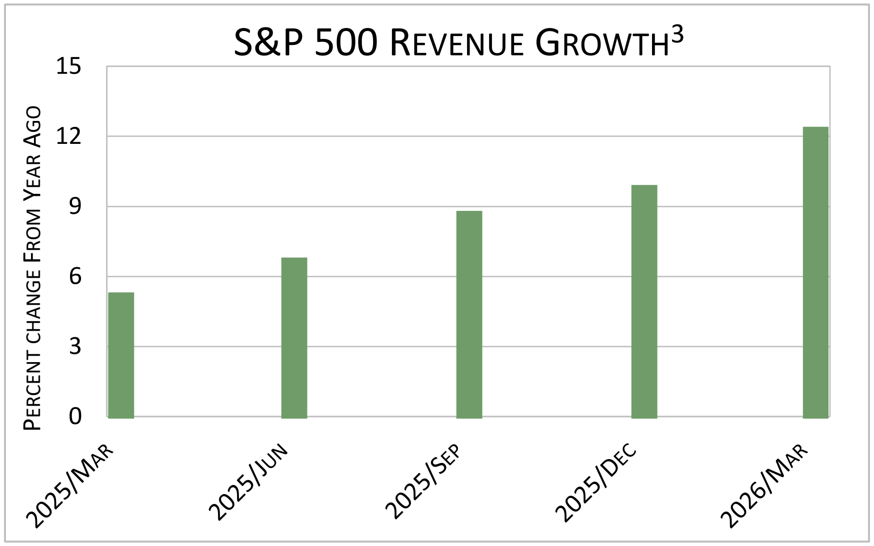


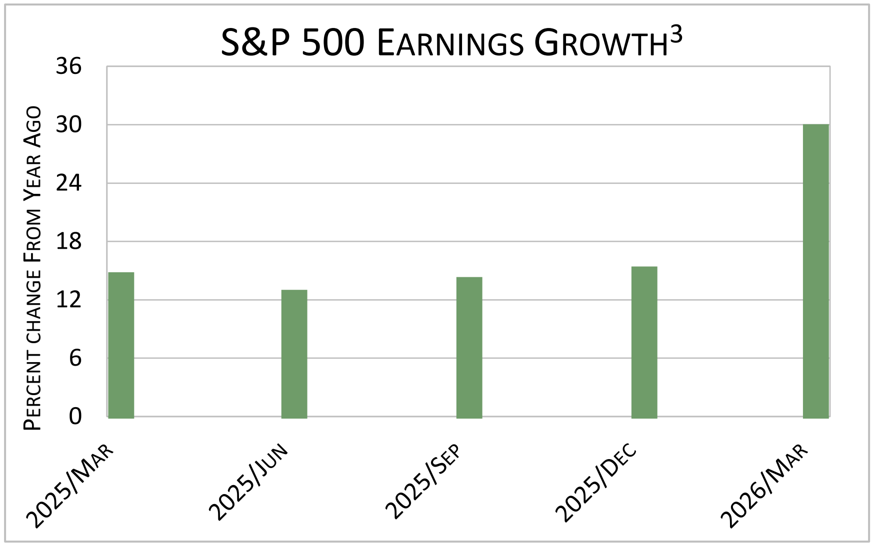


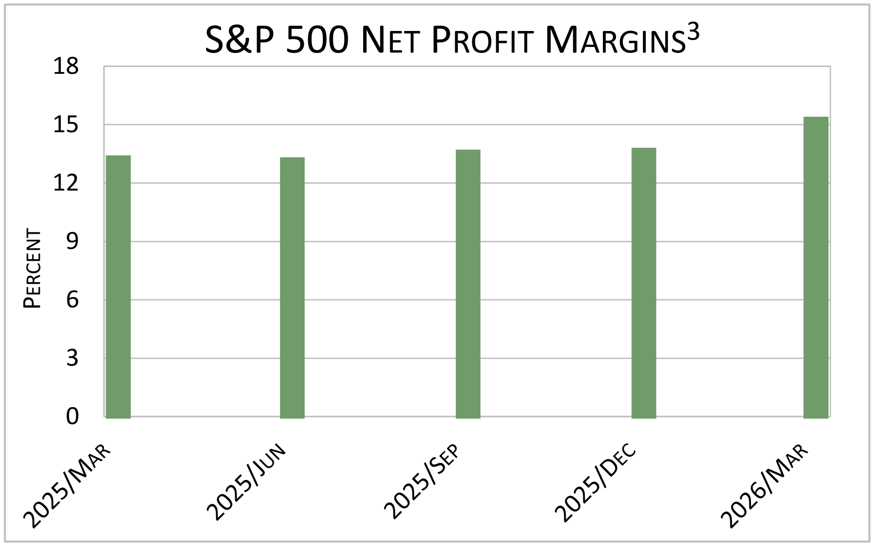


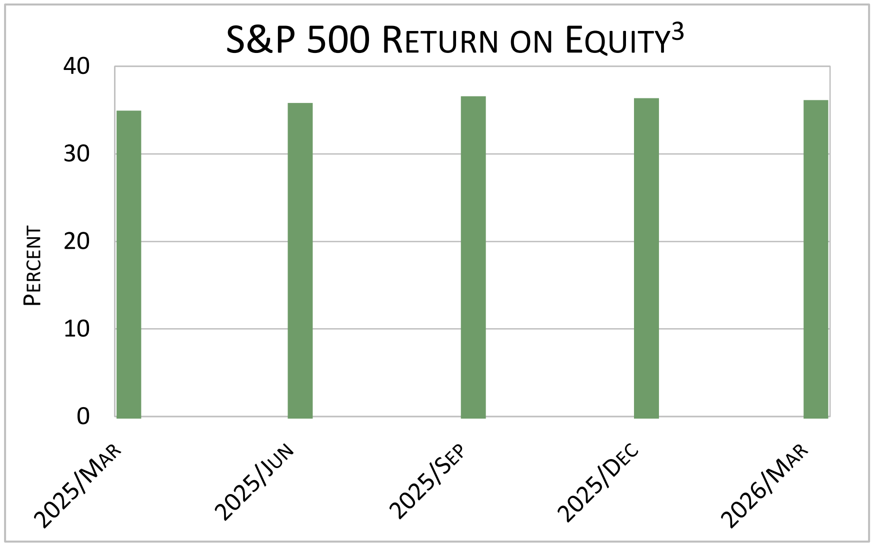
Second Quarter Highlights

Q2 Corporate Fundamentals exceptionally strong, driven by tech, semiconductors, and energy









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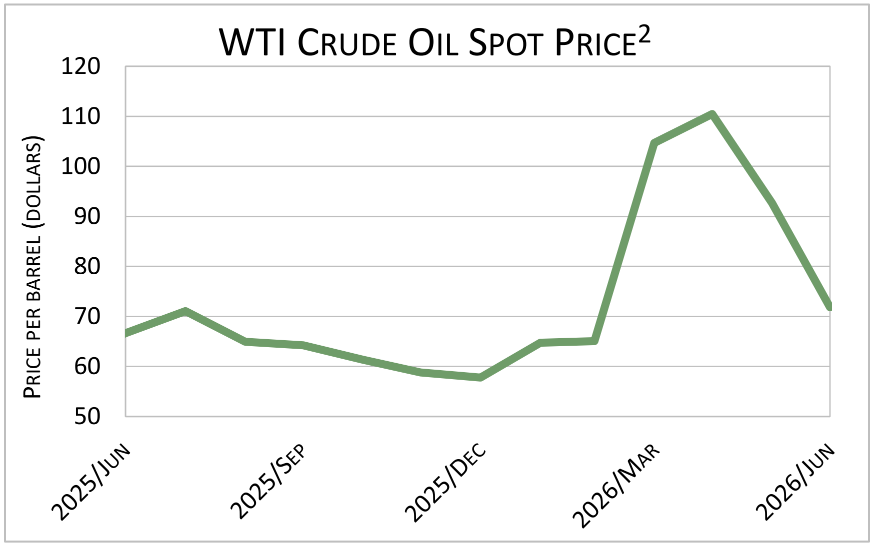
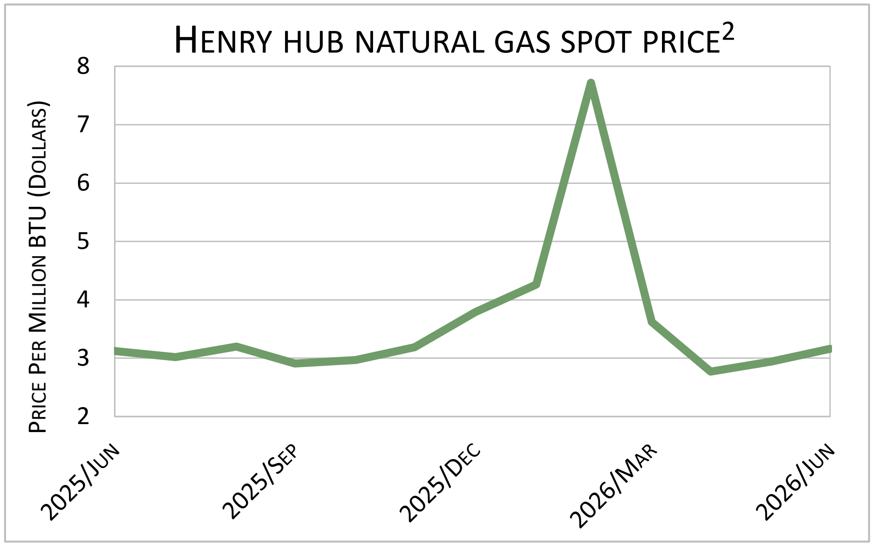
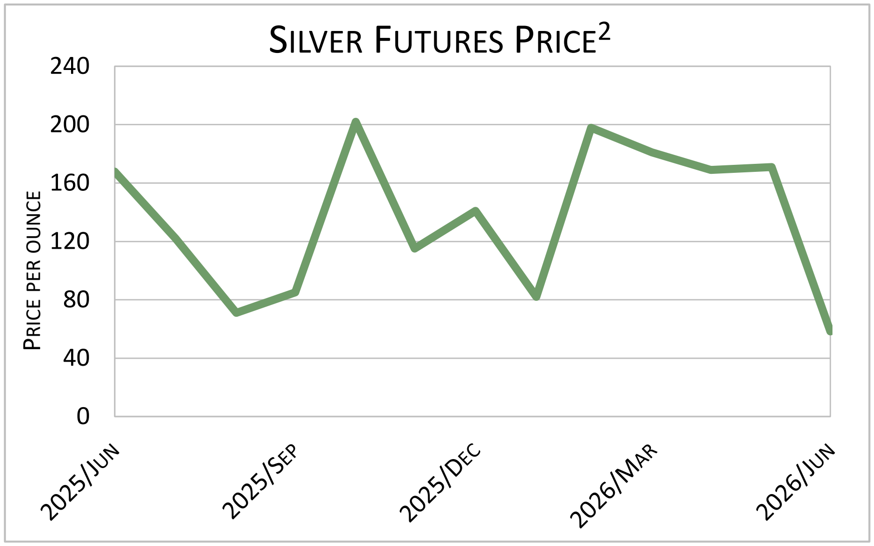
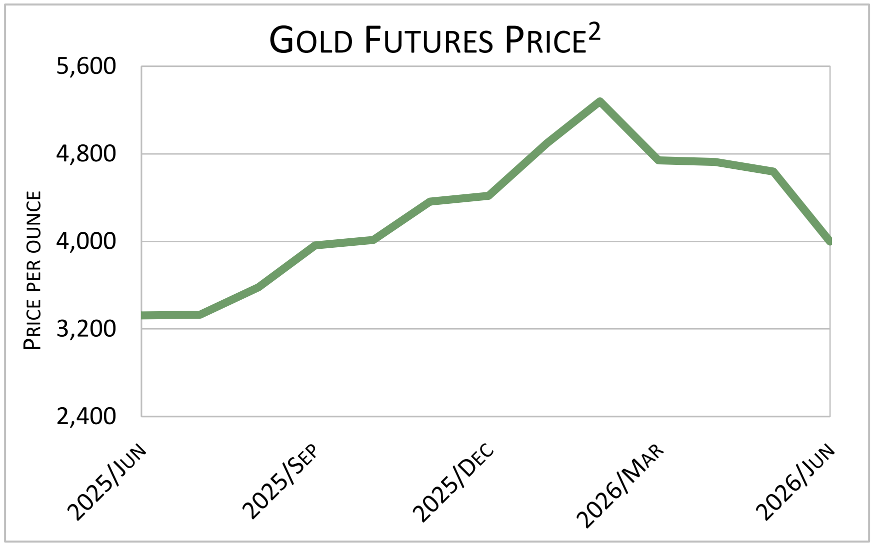
Second Quarter Highlights

Oil and natural gas reverse after spike; Precious metals fall as global conflicts de-escalate









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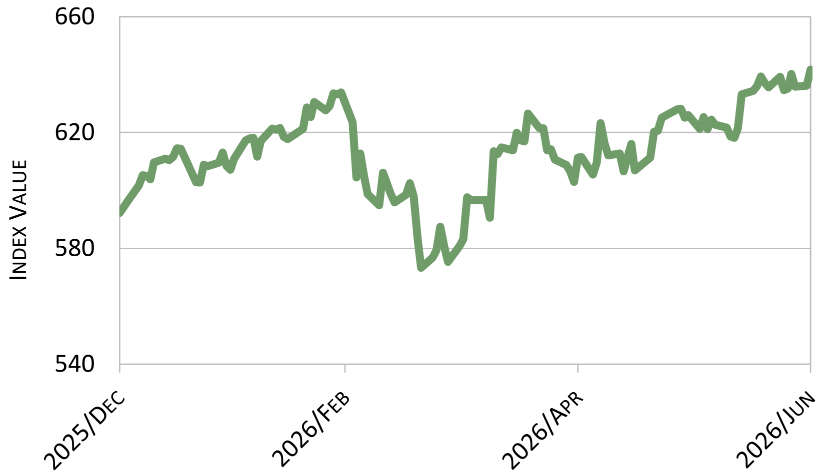
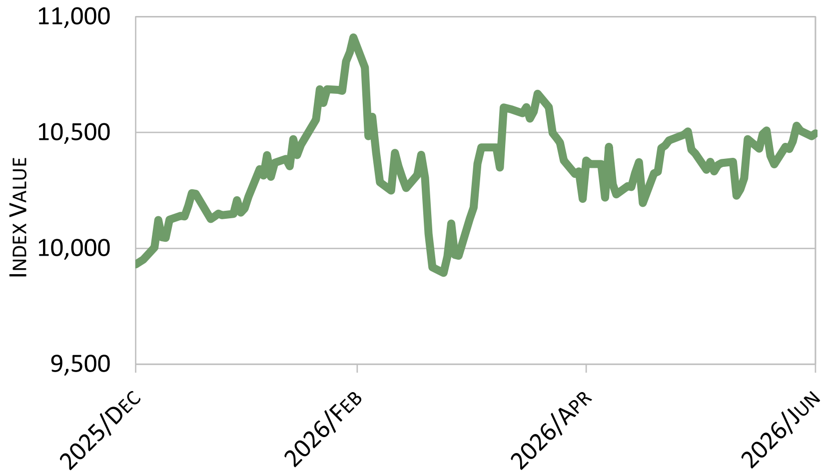
Second Quarter Highlights

Japan and Asia ex-Japan massively outperform; Europe advances while UK and China stall

STOXX 600 Index[2]

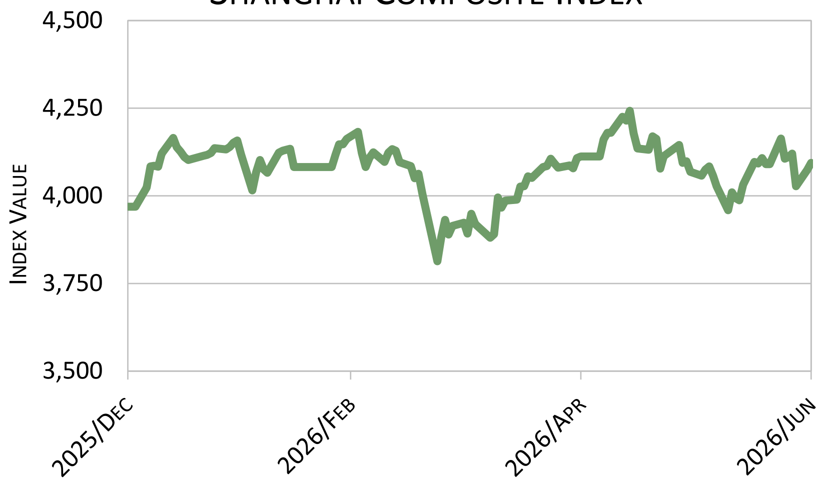


FTSE 100 Index[2]



Nikkei 225 Index[2]

Shanghai Composite Index[2]

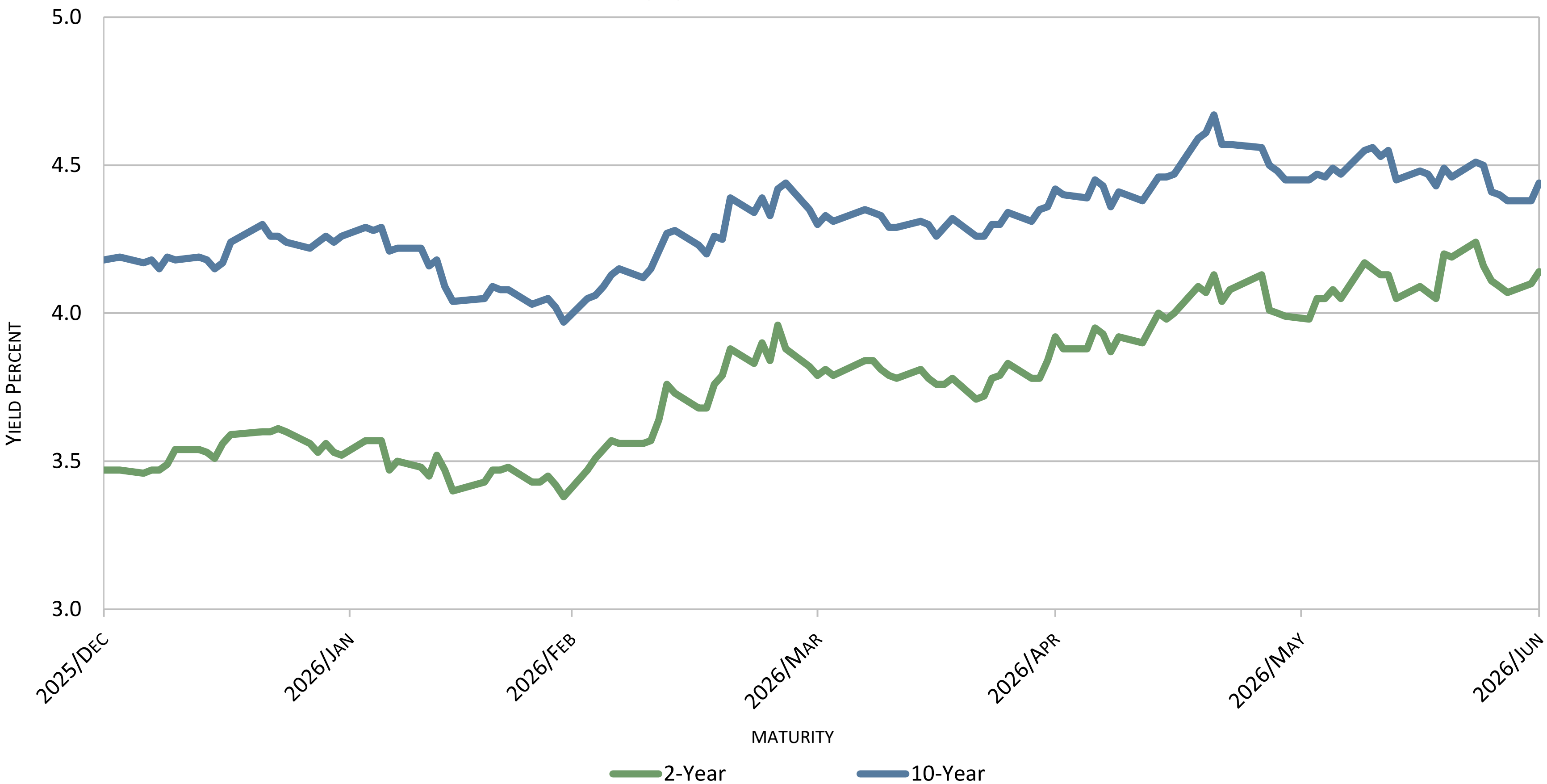


Second Quarter Highlights

Treasury spreads tighten as short-term rates rise

Two-year Treasury yields are acutely sensitive to near-term inflation, which rose due to the surging oil prices related to the Middle East conflict. The current 2-year yields reflect the market shifting its expectations from 2026 rate cuts to 2026 rate hikes. Positive jobs growth exceeded expectations, while unemployment held at a healthy 4.3%. A weak jobs report may have led the Fed to cut rates, which would have lowered short-term yields.

U.S. Treasury Yields[4]



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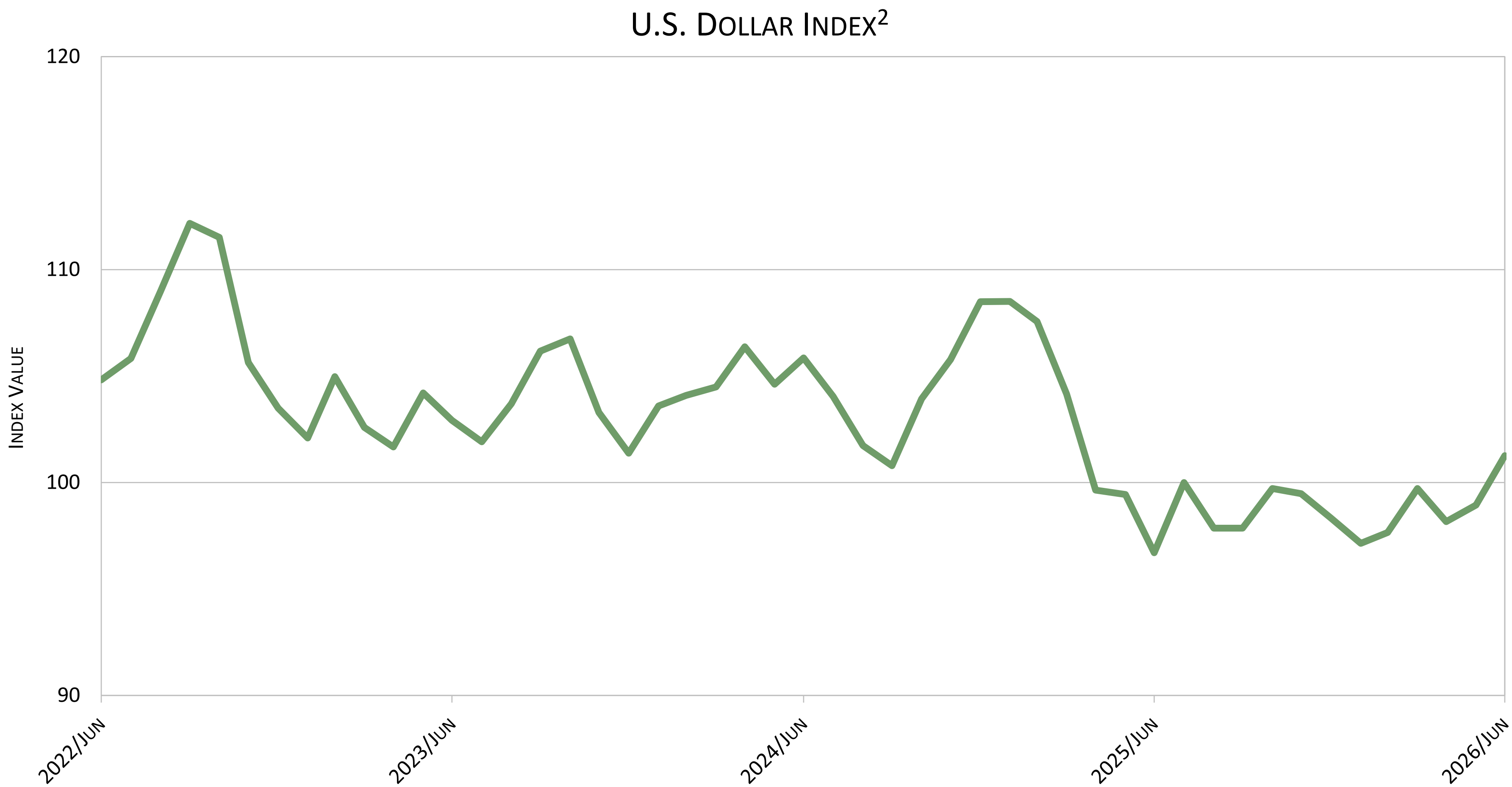
Second Quarter Highlights

The U.S. Dollar breaks out of narrow One-year valuation band, finishing above 100 in June

The U.S. Dollar Index has staged a strong recovery in the first half of 2026, fueled by resilient U.S. economic growth, a shift in expectations toward a Federal Reserve interest rate hike in 2026, and continued global demand for American assets. Higher-for-longer U.S. interest rates support the dollar: the inflation increases caused by the Q1 oil price spikes introduced the possibility that the Fed will raise rates in 2026.



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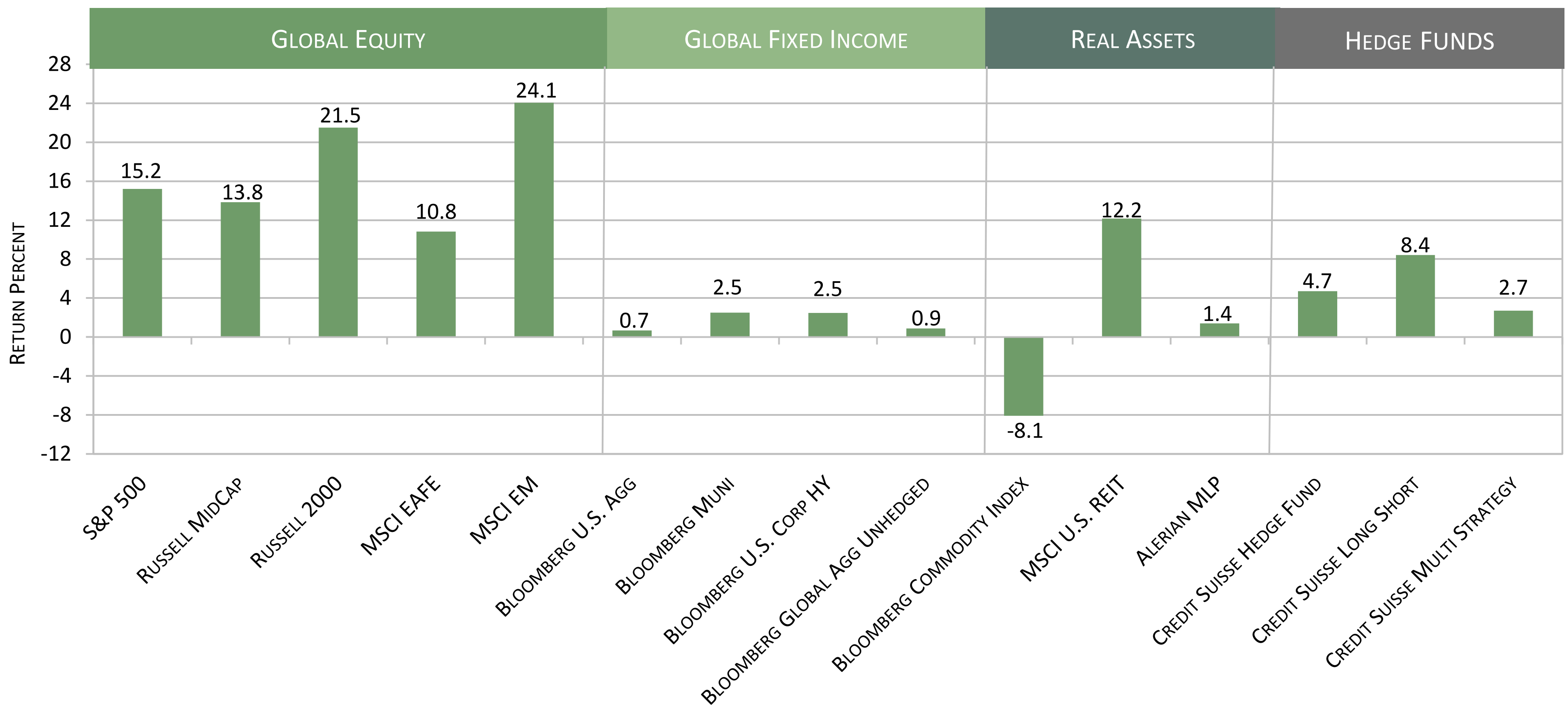
Second Quarter Highlights

Equities markets outstanding performance was led by US Small Caps and Emerging Markets

Emerging Markets roared to a 24.1% return as Taiwan's and South Korea's role in AI global supply chain continued to benefit both countries. U.S. small cap equities were up 21.5% as U.S. small cap companies are less susceptible to the global challenges of tariff wars and geopolitical risks. Nearly all real estate sectors were up and collapsing oil prices dragged down the commodity indices in Q2.

Market Returns: Second Quarter 2026[5]



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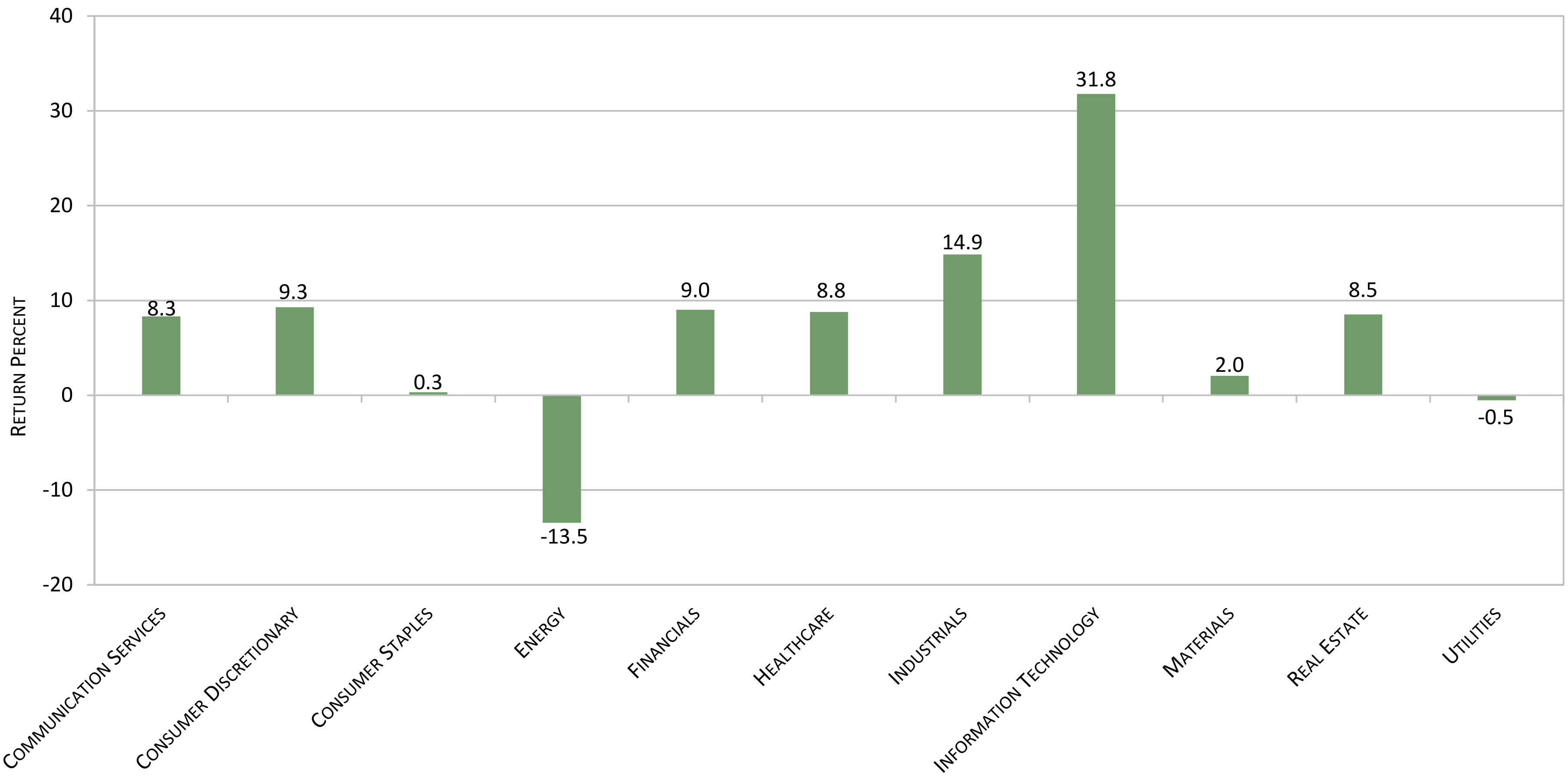
SECOND QUARTER HIGHLIGHTS

TECH SOARS AND THE DE-ESCALATION OF THE MIDDLE EAST CONFLICT BRINGS ENERGY SECTOR BACK DOWN

The technology sector soared. In Q2, investors bought back many, but not all, of the software stocks that they had sold in Q1. Nvidia helped sentiment by posting record revenue and AI capex estimates were raised. When Iran-U.S. ceasefire negotiations commenced, oil prices fell back to pre-war ranges. The energy sector was also hurt by reduced consumption and company earnings that lagged the Q1 oil price boom.

S&P 500 SECTOR RETURNS: SECOND QUARTER 2026[5]



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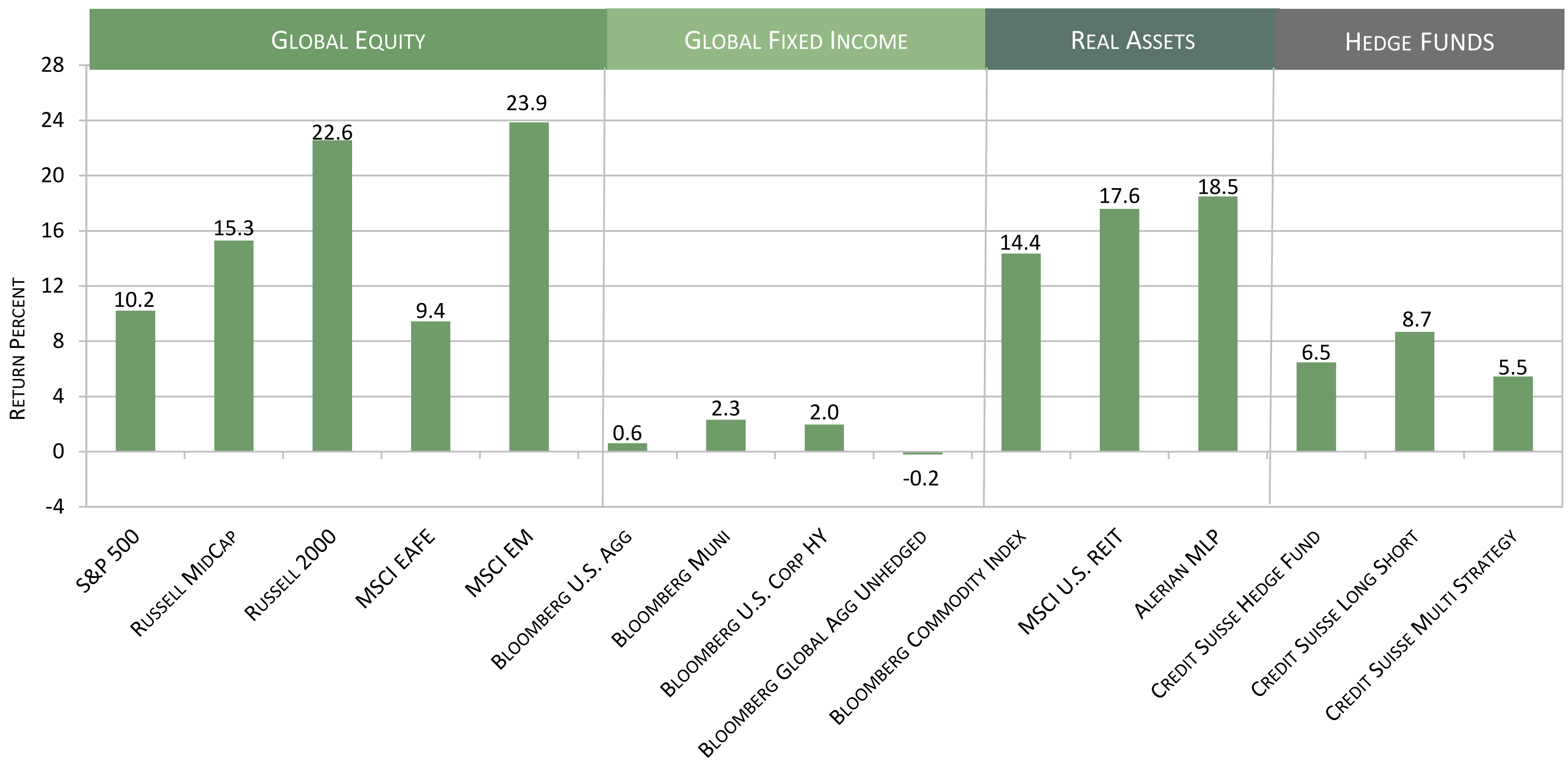
Second Quarter Highlights

Emerging markets equity and U.S. Small Caps lead the way while global fixed income lags

Emerging Markets equities delivered a YTD return that was over double the U.S. Large Cap equity return. EM benefited from a weaker U.S. dollar, Taiwan and South Korea's role in the AI supercycle, and China's mild recovery. U.S. Small Cap equities returned over +20% as the benefits of the AI boom extended to smaller companies. The U.S. fiscal policy stimulus also helped U.S. small companies the most.

Market Returns: First Half 2026[5]



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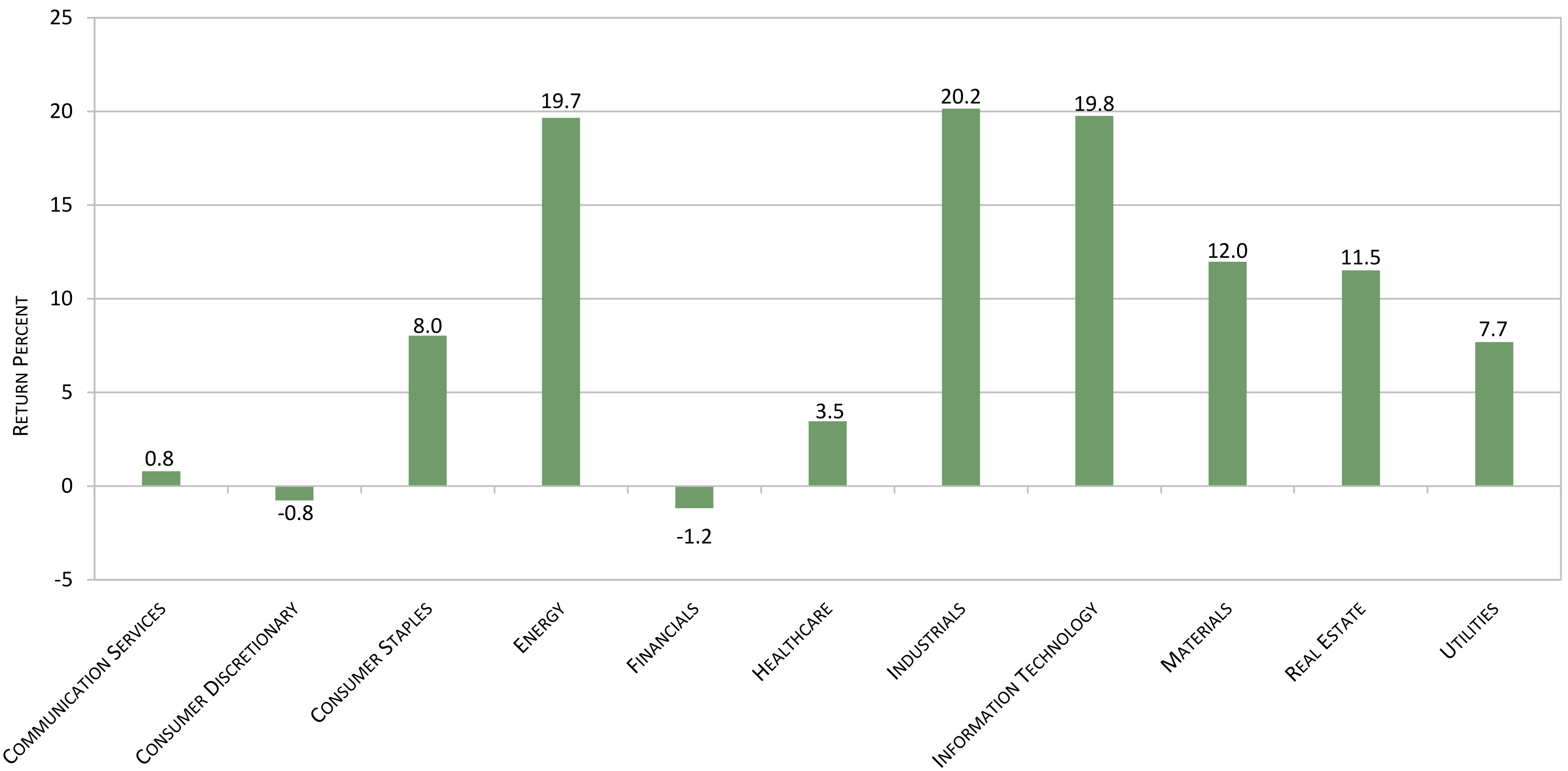
SECOND QUARTER HIGHLIGHTS

INDUSTRIALS, TECHNOLOGY, AND ENERGY SECTORS LEAD DUE TO DATA CENTER SPENDING AND IRAN CONFLICT

The industrials sector benefited from the data centers buildout boom. The centers rely on industrial firms to provide electrical infrastructure, cooling systems, construction, and specialized equipment. Technology fell sharply in Q1 then snapped back in Q2 as AI firm earnings proved the skeptics wrong. Energy stocks grew in Q1 as the Iran conflict pushed oil prices up, then fell in Q2.

S&P 500 SECTOR RETURNS: FIRST HALF 2026[5]



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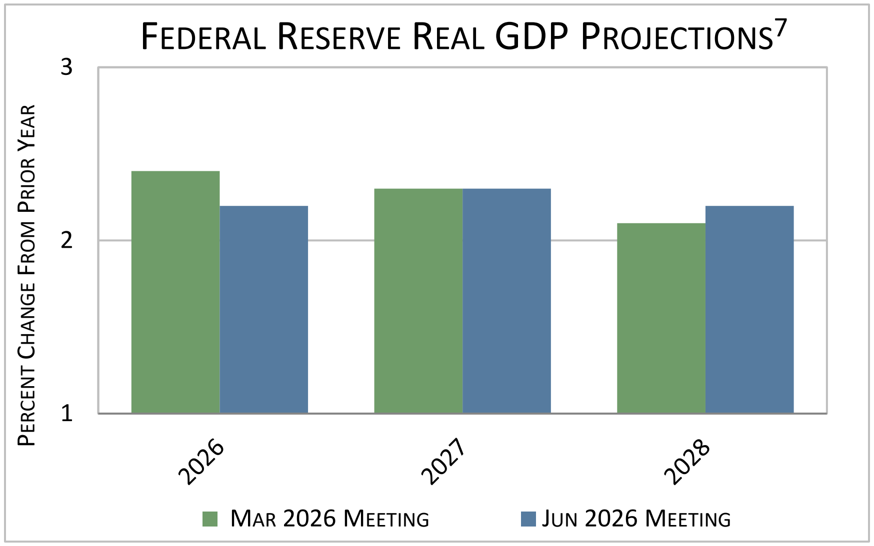
Outlook

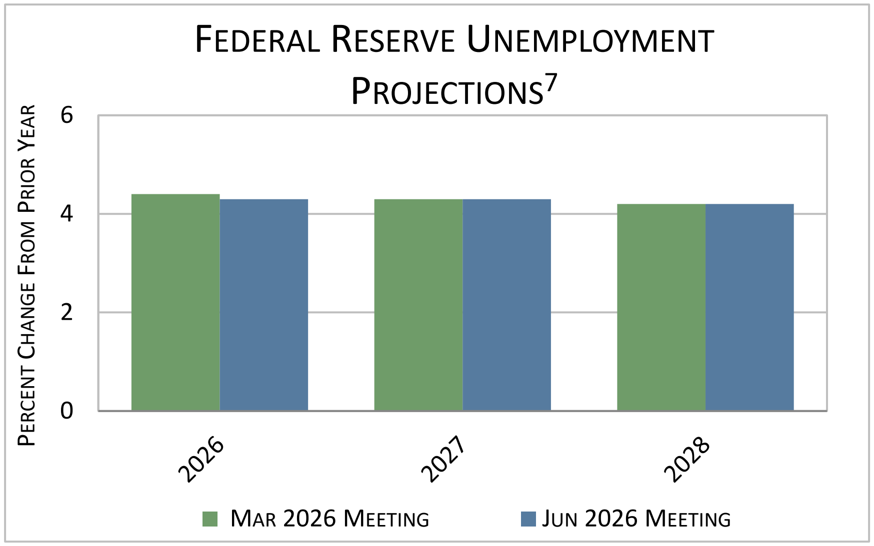
De-escalation of conflict allows investors to focus on economic and earnings fundamentals

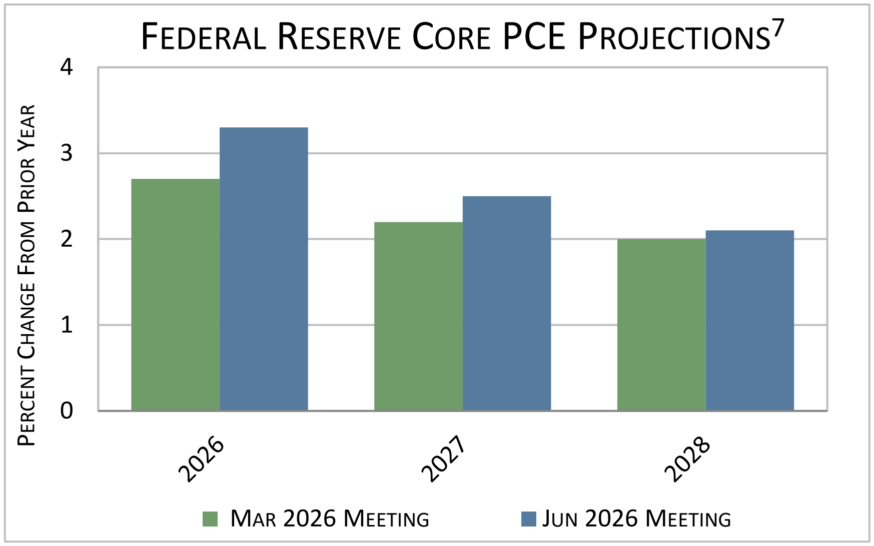
- The prognosis for global equities remains positive, driven by strong earnings growth fueled by rising corporate capital expenditures. AI spending remains one of the primary growth drivers, but it is also now one of the market's most significant sources of risk. Earnings and sales growth rates continue to rise, but the risks created by higher inflation, geopolitical turmoil, and monetary policy uncertainty may lead to bouts of volatility.
- Mega caps may revert to their leadership position after some unsteadiness in the first half. Apple, Alphabet, and Meta are all coming off a lackluster first half. The AI trade rotated from the Mag 7 stocks to the semiconductor supply chain that supports them. Companies like Micron, Broadcom, ASML Holdings, and Taiwan Semiconductor dramatically outperformed the Mag 7 stocks. Finally, in the second half of 2026, it is anticipated there will be at least two more mega IPOs (OpenAI and Anthropic) hitting the public market following the SpaceX IPO in June.
- The U.S. economy has been extraordinarily resilient in the face of tariffs, inflation pressures, and the Iran conflict. Economists are encouraged by improving productivity and moderating labor cost pressures. Stronger productivity growth allows companies to increase profit margins while easing inflationary pressure. Analysts believe that the AI productivity dividend is beginning to show up in the economic data.
- Europe was among the hardest hit by the Iran conflict in the first half of 2026. As oil prices normalize and Strait of Hormuz traffic resumes, European markets are positioned for a strong cyclical bounce back. Europe is supported by Germany's fiscal stimulus - a fundamental policy shift for the historically conservative German government.
- Emerging equities markets continue to provide investment opportunities. The non-U.S. AI supply chain runs directly through Taiwan and South Korea. The seven largest companies in the MSCI Emerging Markets Index — Taiwan Semiconductor, Samsung Electronics, SK Hynix, Tencent, Alibaba, MediaTek and Delta Electronics — make up 33% of the index. These companies have smaller market capitalizations and higher earnings growth expectations than their U.S. counterparts.

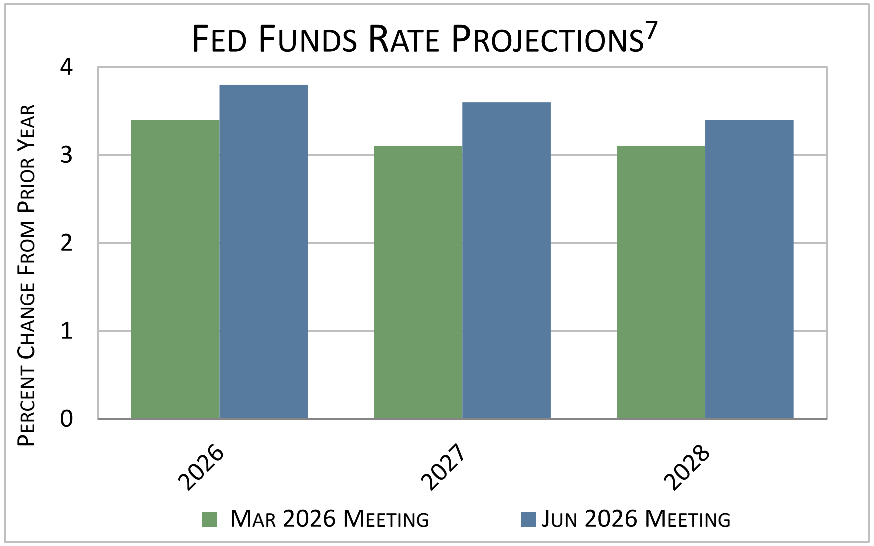
OUTLOOK

AS THE FED FORECASTS RISING INFLATION, THE MARKET HAS PRICED IN RATE HIKES IN 2026









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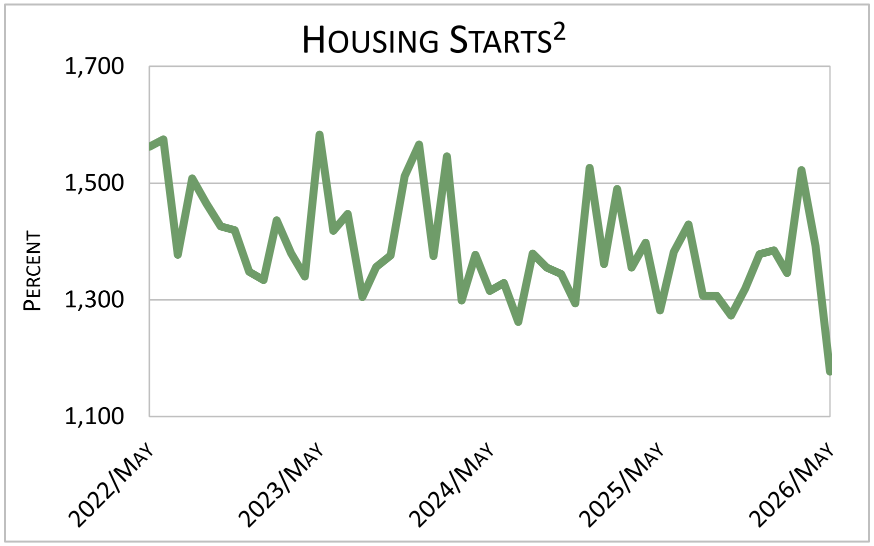
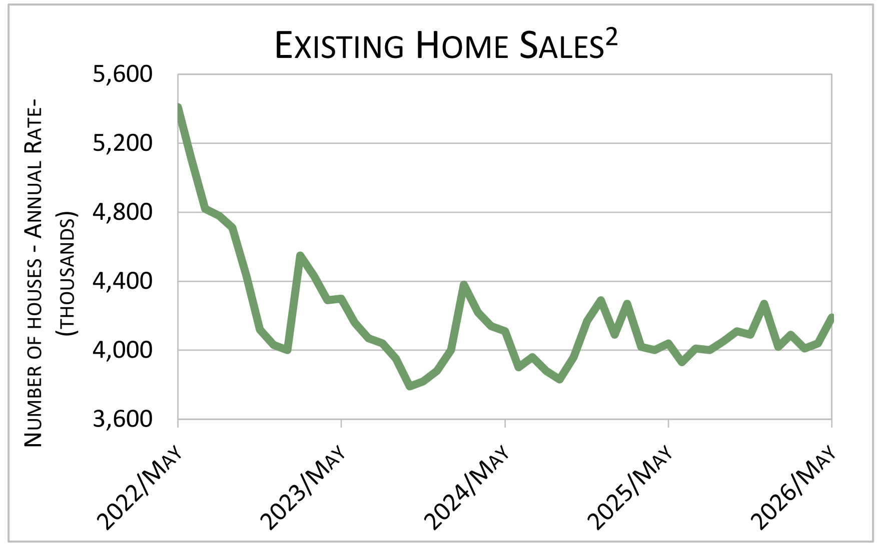
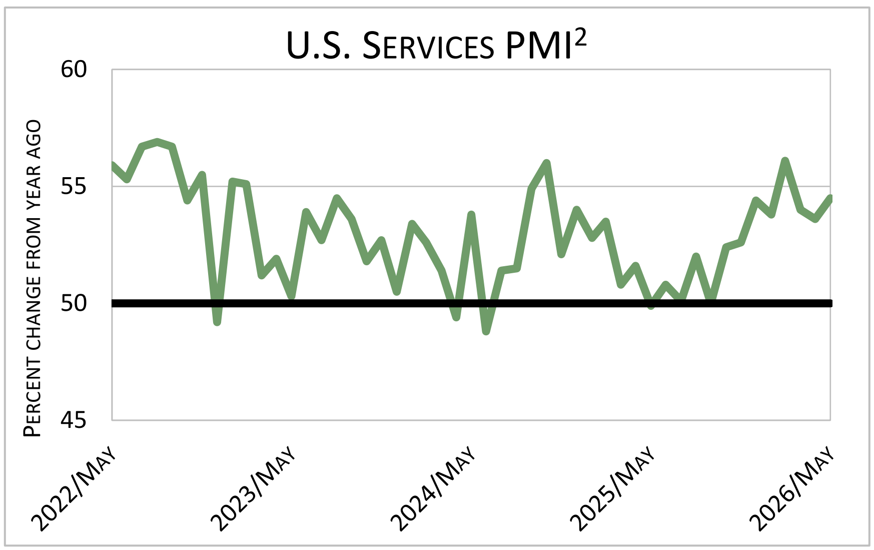
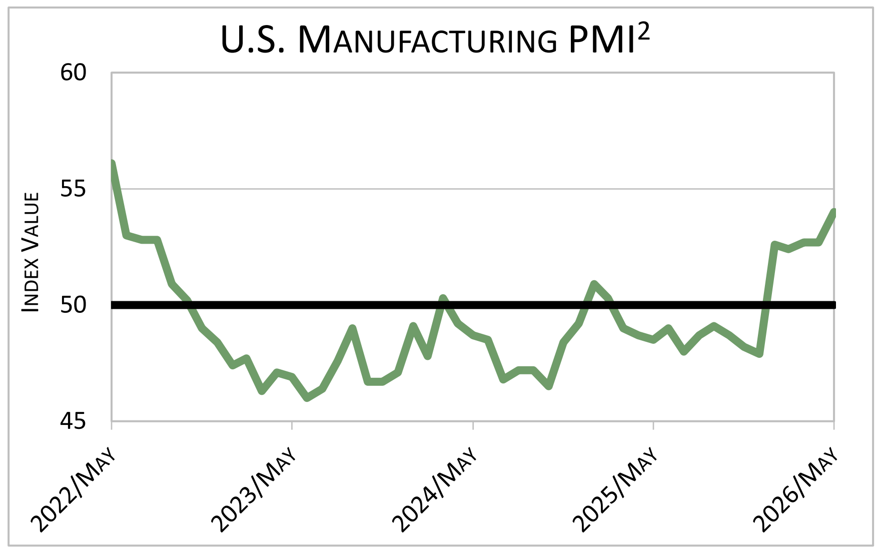
Outlook

Purchasing Manager Indices indicate expansion; High mortgage rates slow housing starts









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Vogel Tactical Recommendations

Overweight to emerging markets; Retain overweight to cash due to geopolitical risks

Asset Class	Action	Commentary
Domestic Large-Cap Equity	Equal weight	Despite a difficult start to 2026, optimism remains that the Mag 7 companies will see continued earnings growth and drive total market return through their massive capital expenditures. The Fed is expected to remain inactive in 2026, cutting only once.
Domestic Mid-Cap Equity	Equal weight	At the outset of 2026, U.S. mid cap equities were trading at a 30% discount to their large-cap peers, the widest valuation gap in over two decades. Mid-sized companies are attractive acquisition targets for cash-rich and growth-hungry large caps.
Domestic Small-Cap Equity	Equal weight	Despite their superior earnings projections, small caps are still trading at extreme valuation discounts. Small cap companies' greater focus on domestic markets insulates them from the tariff-related headwinds that hit large multinational companies harder.
International Developed Equity	Equal weight	After a strong 2025, developed international equity markets still look attractive. U.S. equities are trading at a 30% P/E premium to international developed ex-US markets.
International Emerging Market Equity	Overweight	The new overweight to emerging markets is based on (1) expectations of strong economic and financial markets growth in China, (2) concerns over a weakening dollar, and (3) favorable emerging markets equities' fundamentals and valuations.
Fixed Income	Equal weight	Inflation fears due to oil price shocks sent bond prices falling in Q1, meaning they did not provide their usual diversification protection against negative equity returns. We expect higher bond market volatility, but not enough to underweight the asset class.
Hedge Strategies	Underweight	Hedge funds perform poorly in whipsaw markets. The world may experience just such a market in 2026, depending on the role geopolitical disruptions play.
Real Assets	Equal Weight	Energy prices jumped in Q1 2026 due to the Middle East conflict. However, prices look to settle down as the conflict abates and more U.S. suppliers, including Alaska-based producers, come online. Commercial real estate looks to outpace residential in 2026.
Cash	Overweight	Cash provides a cushion to protect the portfolio in the event that global conflicts continue to disrupt trade or drive up energy prices.

QUARTERLY MARKET REPORT

DISCLOSURES

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Sources: *Number below corresponds to the superscript notation in chart titles and text blocks*

Sources:

1. U.S. Bureau of Labor Statistics, All Employees, Total Nonfarm [PAYEMS], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PAYEMS, June 30, 2026.
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