



# 2026 2nd Quarter Review

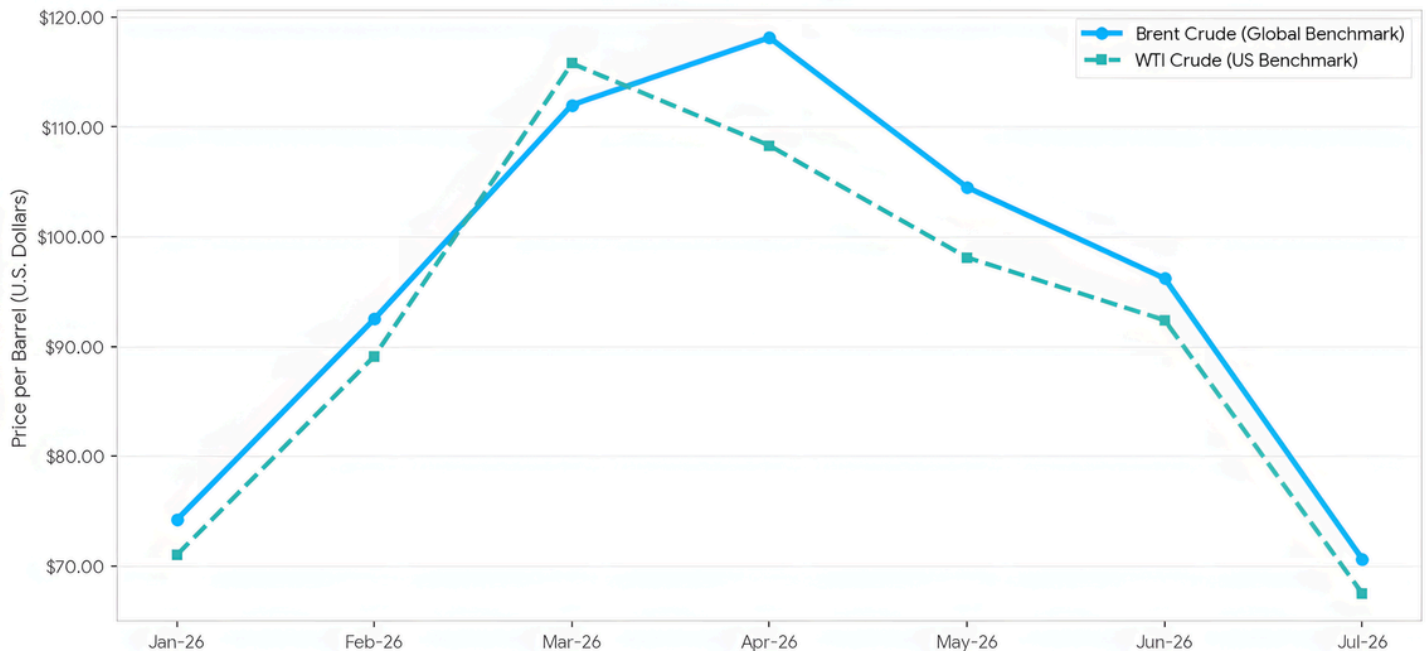
## ECONOMIC COMMENTARY

The second quarter brought about an abrupt change in sentiment, as the energy shock caused by the Iran War that drove oil prices much higher and pressured equity markets gave way to steady de-escalation and one of the strongest equity recovery rallies in recent memory. After the United States and Israel launched joint air strikes on Iran on February 28th and Iran responded by choking off tanker traffic through the Strait of Hormuz, the conflict dominated the early weeks of the quarter. The ensuing surge in energy prices and the war's unpopularity among voters put pressure on President Trump to seek a path to de-escalation, although the "art of the deal" has proven to be a challenge with the Iranian regime. An April agreement to lift the Iranian blockade repeatedly stalled, talks between the two sides broke down in mid-April, and the U.S. imposed a naval blockade of Iranian ports even as hundreds of loaded tankers waited in the Gulf. Momentum finally turned in June, when the United States and Iran signed a "memorandum of understanding" on June 17th to end nearly four

months of war, reopen the strait, and start a 60-day window to negotiate a permanent settlement. Under the framework, vessels may transit the strait toll-free for the duration, though disputes over long-term control of the waterway and a brief exchange of strikes late in the quarter served as reminders that the ceasefire remains fragile.

The de-escalation reverberated through energy markets. Brent crude, which had surged above \$117 per barrel at the height of the conflict after beginning the year near \$61, retreated toward pre-war levels, trading around \$78 by mid-June as shipments resumed and Iranian exports came back online. Wholesale energy prices had largely normalized by quarter-end, although refined fuel costs such as gasoline remained elevated, keeping upward pressure on headline inflation.

Exhibit 1. Crude Oil Prices (Year-to-Date)



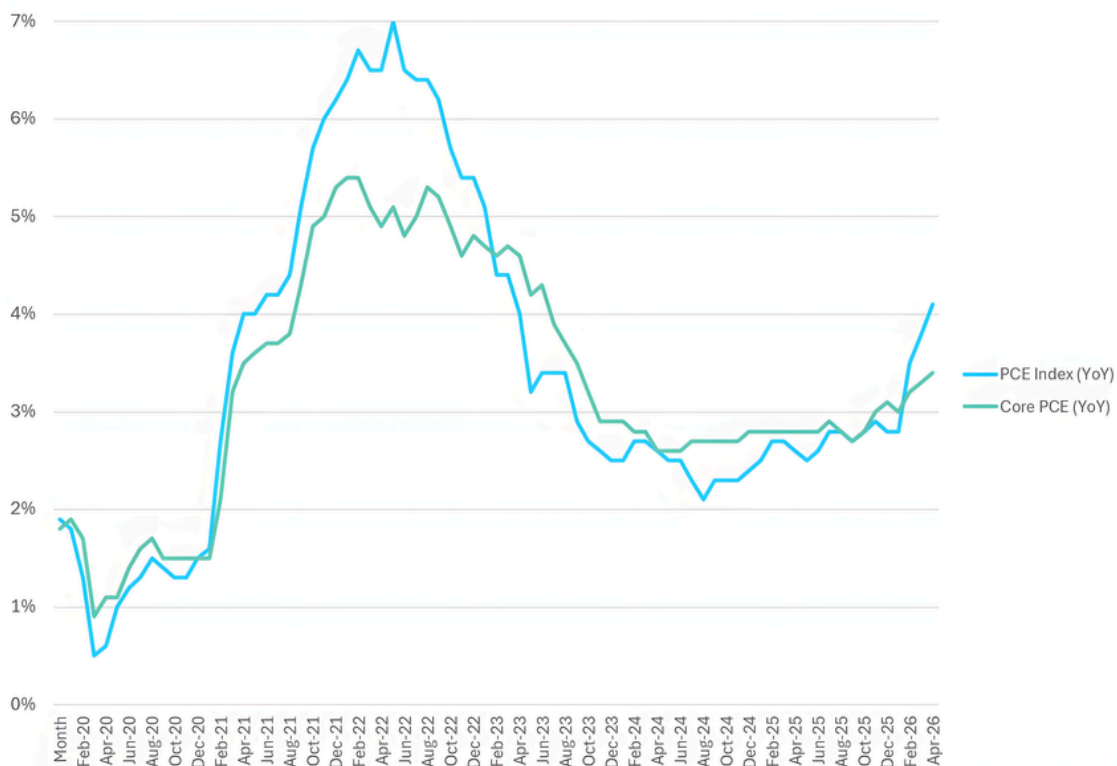
Data Sources: Intercontinental Exchange (ICE), New York Mercantile Exchange (NYMEX). Chart by VestGen.

The quarter also brought a leadership change at the Federal Reserve. Jerome Powell's term as Chairman ended in mid-May, and Trump's appointee Kevin Warsh was sworn in as the 17th Chair of the Federal Reserve on May 22nd. At his first meeting on June 16th–17th, the Federal Open Market Committee (FOMC) voted unanimously to hold the federal funds target rate steady at 3.5%–3.75%. Chairman Warsh moved quickly to reshape the institution's communications, releasing a dramatically shortened policy statement of roughly 130 words, stripping out forward guidance, and removing prior language that had signaled a bias toward future cuts. In the normally issued "dot plot," the median FOMC projection for the year-end funds rate rose to roughly 3.8% from 3.4% in March, effectively erasing the prior expectation of a 2026 cut, with about half of FOMC participants now penciling in a hike before year-end. Warsh declined to submit his own projection, calling the tool unhelpful, and announced task forces to overhaul major Fed operations. By quarter-end, futures markets were pricing better-than-even odds of at least one rate hike in the second half of the year, however it is possible that Warsh's task forces will serve to buy time for energy-driven inflation to ease and provide rationale for a rate-hike pause through year-end.

On the inflation front, the energy shock filtered into the data as expected. The Consumer Price Index (CPI) rose 4.2% year-over-year in May, driven largely by higher energy, oil, and gas prices; while core CPI, which excludes food and energy, held at a more contained 2.9% year-over-year and eased on a month-over-month basis from April. The Fed's preferred gauge, the personal consumption expenditures (PCE) price index, rose 4.1% year-over-year through May on the headline level and 3.4% excluding food and energy. With crude prices reverting toward pre-war levels, much of the headline pressure is expected to prove transitory.

The U.S. labor market continued to reflect a "low-hire, low-fire" dynamic, although June's data revealed some recent weakness. Nonfarm payrolls rose by 129,000 in May and just 57,000 in June, while the unemployment rate fell slightly to 4.2%. The June gains were almost exclusively driven by the Healthcare and Education sectors, which accounted for 69,000 jobs. The Leisure and Hospitality sector eliminated 61,000 jobs in June, which was completely unexpected during what is historically a seasonally strong month. Additionally, the US-hosted World Cup alone was estimated to create 40,000 June jobs.

### Exhibit 2. Personal Consumption Expenditure (PCE) and Core PCE Inflation



Data Source: Bureau of Economic Analysis. Chart by VestGen.

## MARKET COMMENTARY

Equity markets staged a violent reversal in the second quarter, rebounding from the March lows to deliver one of the strongest quarterly advances of the century. The S&P 500 gained roughly 15% during the quarter, its best three-month performance in six years, and pushed past 7,600 for the first time before a modest pullback in the final weeks left the index up in the high single digits for the year. The Nasdaq 100 gained 20.6% for the index's best quarter since 2020. What began as a rally led by large-cap growth and the mega-cap hyper-scalers broadened meaningfully as the quarter progressed, and by quarter-end small-cap, micro-cap, equal-weight, and value benchmarks were all reaching new record highs. We view this expansion of market breadth to be a healthier and more durable form of market participation than the narrow, tech-driven leadership of recent periods.

Artificial intelligence and semiconductors were once again at the center of the action. Memory chips emerged as the critical bottleneck in the AI build-out, and the Philadelphia Semiconductor Index surged roughly 88% during the quarter for its best quarterly performance since its inception in 1994. While there are some concerns about semiconductor and memory company frothiness, overall earnings were exceptionally strong and provided support to the bull market rally. First-quarter S&P 500 earnings grew nearly 28% with revenue growth of roughly 12%, and analysts expect similarly robust results for the second quarter, with earnings projected to grow above 20% and revenue growth around 12%. The market's escalation remains very supported by earnings increases.

In June, gains shifted toward more cyclical and defensive areas of the market as investors took profits in Technology and Communications, as Industrials, Financials, and Health Care outperformed. Industrials finished the first half as the top-performing sector, up more than 20% year-to-date. The Energy sector, by contrast, reversed its first-quarter dominance and lagged for a second consecutive month as oil prices fell back toward pre-crisis levels, unwinding the wartime premium that had made it the market's best performer in Q1.

Small-cap stocks were a standout performer, with the Russell 2000 hitting record territory during the quarter. The structural case for smaller companies of attractive valuations, improving earnings, and a more favorable regulatory backdrop outweighed concerns over their higher sensitivity to potentially higher interest rates. In addition, the expectation for improved productivity through deploying AI into companies of all sizes provides an optimistic outlook for continued earnings growth.

International equities were a notable source of strength, vindicating the case for global diversification. A weaker U.S. dollar for much of the first half, more favorable inflation dynamics abroad, and supportive government policy propelled foreign markets higher. Developed-market equities, measured by the MSCI EAFE Index, advanced 8.6% during the quarter while emerging-market equities surged 21.1%, as measured by the MSCI Emerging Markets Index.

Fixed income markets were steady despite the elevated geopolitical risk. The 10-year US Treasury yield spent much of the quarter around the 4.5% level before easing to around 4.36% later in June as oil prices fell and growth concerns resurfaced. High yield bond spreads, the difference between the interest rate on high yield bonds versus equivalent maturity US Treasuries, have widened slightly, sitting around 280 basis points at midyear, a modest uptick from January's low of 259 basis points. The trailing twelve-month high yield bond default rate of 2.9% remains manageable and below the long-term historical average of 3.2%.

The quarter saw commodities reverse sharply. Crude oil's collapse from its wartime peak back toward pre-war levels was the dominant story, but the move in gold was nearly as dramatic. After setting an all-time high near \$5,590 per ounce in late January and ending the first quarter near \$4,500, gold fell through the second quarter as real yields rose and gold's safe-haven demand faded, briefly dipping below \$4,000 per ounce in late June before stabilizing near that level. Volatility in gold spiked above 50% during the war before receding.



## CLOSING REMARKS

If the first quarter was a lesson in how quickly geopolitical risk can reshape the investment narrative, the second quarter was a reminder of how rapidly those fears can reverse. The recovery, however, is not without its risks. The ceasefire remains fragile, resting on a 60-day negotiating window and unresolved questions over control of the strait, and a renewed flare-up could quickly reintroduce oil price increases. Headline inflation remains elevated, and the Federal Reserve under new leadership has pivoted decisively away from an easing bias, with a rate hike now a live possibility rather than a remote tail risk.

Even so, there are meaningful reasons for measured optimism as the second half begins. Corporate earnings are growing at a double-digit pace, corporate balance sheets are healthy, productivity is improving, and the labor market and consumer have proven resilient. Most encouraging is the broadening of market leadership beyond the mega-cap technology names to include value stocks, mid and small cap stocks, and international stocks; a rotation that points to a more durable and healthier form of participation. The path forward will depend heavily on whether the US-Iran settlement holds and how quickly energy-driven inflation recedes. As always, diversification remains the best antidote to an uncertain and fast-moving environment, and we continue to position portfolios accordingly while hoping for durable peace and the safety of all US service members in the region.

Happy 250th America!

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