Mid-Year Investment Outlook 2026

MID-YEAR INVESTMENT OUTLOOK 2026

Market data as of June 30, 2026, unless otherwise noted.

KEY TAKEAWAYS

- Equities have absorbed a war, an oil shock, and a full repricing of Fed policy, and still sit near record highs. Our "broadening of growth" thesis is materializing: the equal-weight S&P 500 outperformed the cap-weighted index by roughly 1.8% in the first half, and small caps have led.
- The Fed has pivoted from cuts to a pause, with markets now assigning roughly even odds to a hike by year-end as Iran-war inflation pushed headline CPI to 4.2%. Our base case is a hold through year-end, contingent on oil remaining near or below current levels.[5]
- Our January dollar-bearish, yen-bullish currency call reversed: in the first quarter; the war reignited the dollar's safe-haven bid and pushed the yen toward a 40-year low. Going forward, however we continue to see a risk of Bank of Japan intervention and a disorderly carry-trade unwind as a key second-half risk.
- A US recession remains unlikely. We trim our full-year contraction probability from 25% to roughly 20%, but note the economy's growing single-point dependence: about half of projected 2026 GDP growth is attributable to AI capital expenditure.
- Our store-of-value hedges diverged sharply. Gold round-tripped from a record $5,405/oz to near $4,000 and remains a strategic overweight; Bitcoin's failure to behave as a store of value in exactly the environment that should have proven the thesis prompts us to formally downgrade the asset within our framework.

EXECUTIVE SUMMARY: WHAT CHANGED AT MID-YEAR

The first half of 2026 delivered the "policy shock" scenario highlighted in January, just not the one we expected. The outbreak of the Iran war in late February closed roughly a quarter of the world's seaborne oil supply, sent West Texas Intermediate from $70 to $97 and back again, and pushed headline inflation above 4%. That single event inverted the policy backdrop underpinning our January outlook; the Federal Reserve has moved from an expected easing cycle to a pause. While the dominant long-term forces of innovation and macroeconomic intervention remain, the fiscal stimulus we anticipated ahead of the mid-term elections has been crowded out by war and homeland security spending.

And yet the S&P 500 sits less than 4% below its all-time high, up roughly 9% year-to-date. Our core January theme, that market leadership would broaden beyond the Magnificent Seven, is playing out with small caps and the equal-weight index outperforming. Internationally, the AI supply chain has redrawn the map. South Korea's KOSPI returned 101% in the first half, while China remained a drag on emerging market indices.

The scorecard herein grades each of our January calls candidly. In short, our equity and credit views have held up well; our Fed, dollar, and Bitcoin calls have not. We enter the second half with a modestly pro-risk stance, a preference for breadth over concentration, upgraded inflation protection, and a sharper eye on the three fault lines we believe matter most; catalysts for CPI expansion, the market's dependence on AI capital spending, and the relative positioning of the dollar on the world stage.

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OUTLOOK SCORECARD: REVIEWING OUR JANUARY CALLS

We believe forecast accountability is the foundation of credible research. Below, each significant call from our January outlook is graded against the first-half record.

January Call	Mid-Year Reality	Evaluation
Continued momentum in developed and emerging markets, moderating from 2025's pace.	S&P 500 +9% YTD and within 4% of its high despite the Iran war; DM and EM (ex-China) equities positive. Momentum intact, moderated as expected.	**On Track**
25% probability of a US economic contraction during 2026.	No recession; Fed trimmed its 2026 GDP forecast from 2.4% to 2.2%. We now see contraction risk near 20%, with the caveat that ~half of GDP growth rests on AI capex.	**On Track**
Three to four Fed rate cuts, more than the market's two.	Zero cuts. War-driven inflation took easing off the table; markets now price roughly even odds of a hike by year-end. Our directional read on Fed politics was right; the exogenous shock made the call wrong.	**Off Track**
Bearish US dollar; bullish Japanese yen.	The war restored the dollar's safe-haven bid. The yen sits near a 40-year low, the opposite of our call, and now poses carry-trade unwind risk.	**Off Track**
AI-driven growth broadens beyond the Magnificent Seven; concentration mean-reverts.	Equal-weight S&P 500 beat cap-weight by ~1.8%; small caps outperformed; Mag 7 lagged the other 493. Breadth is improving, though leadership remains AI-adjacent (memory, datacenter, utilities).	**On Track**
Gold overweight; year-end target $4,800–$5,200 (base $5,000); structural floor above $4,000.	Gold hit a record $5,405/oz in January, exceeding our target, then fell to $4,002 in June as hike odds rose. Down ~7% YTD. Our floor held, barely. Target exceeded, then unwound; timing guidance ("buy $4,300–$4,400 pullbacks") proved early.	**Mixed**
Bitcoin transitions to a "commodity-like" store of value with pro-growth correlation.	Bitcoin fell to ~$58,500, its worst first half since 2022, trading as a high-beta risk asset precisely when a store-of-value profile should have emerged.	**Off Track**
Constructive on international developed markets and Japan; corporate reform tailwind.	Nikkei 225 +38% in H1 (in yen); KOSPI +101%; reforms and AI supply chain delivered. But returns were flattered by yen weakness we did not forecast.	**Mixed**
Credit spreads tight; returns moderating; watch dispersion beneath the surface.	IG spreads ground tighter to ~74 bps; HY widened modestly to ~280 bps; single-B/CCC dispersion widened as forecast.	**On Track**
Fed MBS purchases (QE) possible as a housing-affordability remedy.	The Fed abstained, but Fannie Mae and Freddie Mac executed a $200 billion MBS purchase program at White House direction which was essentially a "mini-QE" by another door. Right mechanism, wrong actor.	**Mixed**
Private credit covenant deterioration precedes spread widening by 12–18 months.	Playing out on schedule: the Proskauer default index rose to 2.73% in Q1 from 1.84% two quarters earlier, and direct-lending spreads have widened 50–100 bps since late 2025.	**On Track**

The pattern in our misses is instructive: most were triggered by a single exogenous event, the Iran war, rather than a flawed read of underlying fundamentals. That is not an excuse; it is a reminder that our January framework of "watching the hands that move the puppets" must extend beyond economic policymakers to geopolitical actors. We have widened our scenario set accordingly.

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SCENARIO MODELING: UPDATED PROBABILITIES

We re-underwrite our January scenarios below, showing the drift in our probabilities and adding one new scenario. The most significant change is to “Painkillers and Stimulants”, our January base case, in which policymakers medicate the economy into the elections. Our expectation of this occurring has been sharply downgraded. The Fed’s hands are tied by inflation, and Congress’s budgetary goodwill has been exhausted by war and homeland security spending. “Broadening of Growth” is now our base case.

2026 Scenario	January	July	What Changed
AI Delivers Ahead of Schedule (expansionary)	15%	15%	Memory-supplier margins and Q1 earnings (+28.8% y/y) have demonstrated that the capex is actually being spent but the impact going forward appears to be more diffuse across the economy.
Broadening of Growth (expansionary)	25%	35%	Equal-weight and small-cap outperformance, plus early evidence that AI integration, rather than disruption is the near-term impact, support the transition of value capture toward established sectors.
Painkillers and Stimulants (expansionary)	35%	20%	A reduction in dry powder is removing the potency of this scenario, while some Fed easing is off the table on 4%+ inflation, and fiscal stimulus (including “tariff checks”) is still likely, it is unlikely to have the potency it might have prior to the fiscal constraints and political muscle that existed prior to the war.
Pushing on a Rope (contractionary)	15%	25%	With policy credibility spent and roughly half of GDP growth resting on AI capex, a capex disappointment would find policymakers with fewer persuasive tools; mild 2H recession risk is modestly higher.
Deleveraging in DM (contractionary)	10%	5%	Unchanged. Long-end yields (30Y at 4.91%) and the $4.7 trillion deficit trajectory keep the overleveraging tail risk alive, but no trigger is imminent reducing the likelihood from now to YE

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OVERALL OUTLOOK FOR GLOBAL MARKETS

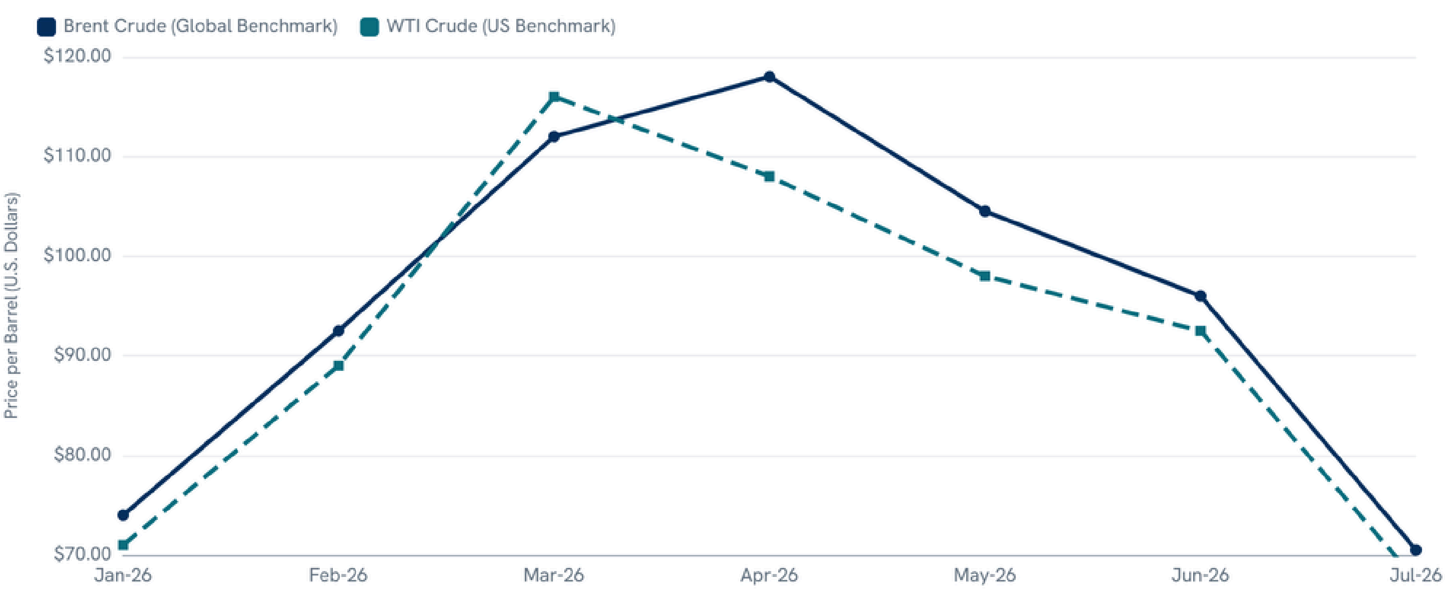
Our 2026 Outlook, published in January, leaned into the idea that governments and political policymakers would be influential players in shaping the direction of global markets, continuing a trend that has developed in recent years. With the 2026 mid-term elections looming large, we suggested the possibility of some combination of stimulus measures from the Fed and/or US government could be announced to keep stock market and economic growth in place through the important November elections. This scenario looks less likely at the mid-point of 2026 for several reasons. Policy easing from the Fed is unlikely due to heightened but stabilizing inflation caused by the Iran war. The US government also appears unlikely to engage in any stimulative measures to citizens, having exhausted its budgetary goodwill from Congress on the war and homeland security spending. The promised "tariff checks" to all US citizens were always a longshot, and the Supreme Court ruling invalidating the administration's tariffs has made it an impossibility as the US government is actively reimbursing companies for duties paid.

We highlighted the 2025 "Liberation Day" tariffs as an example of "policy error," and in late February we experienced what appears to be an even more substantial misstep in the form of the Iran war. While at the time of this writing, West Texas Intermediate oil has completed its round-trip from $70 to $116 and back again, the four-month disruption has left scars as the impact on fertilizer, food, and other costs continues to permeate through the economy.

EXHIBIT 1 • CRUDE OIL

Crude Oil Price Round Trip

Front-month Brent and WTI benchmarks, U.S. dollars per barrel



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

The inflation caused by the war has also effectively tied the hands of new Fed Chair Kevin Warsh, whom President Trump believed would be able and willing to lower interest rates immediately. The staggering cost of the war is now estimated at $132 billion[1] and counting, or roughly $1,000 in extra expense for the typical American household.

Despite the unfortunate economic consequences of the Iran war, the S&P 500 is sitting less than 4% below its all-time high at the mid-point of the year. One of our 2026 expectations was for a broadening of growth beyond the "Magnificent Seven" mega cap growth stocks, and that thesis appears to be playing out this year. Small cap stocks have been outperformers, and the Mag 7 stocks have collectively underperformed relative to the remaining 493 members of the S&P 500.

Thus, we enter the second half of the year against the backdrop of geopolitical disarray and a Fed poised to hike rather than cut, but with stocks looking unfazed. With the clock ticking down towards November election day, our expectation remains that President Trump will do whatever he can to propel markets higher in the intervening months. This expectation is founded on what we have already seen play out, with the release of news on the Iran war being managed around stock market trading hours.

ECONOMIC OUTLOOK

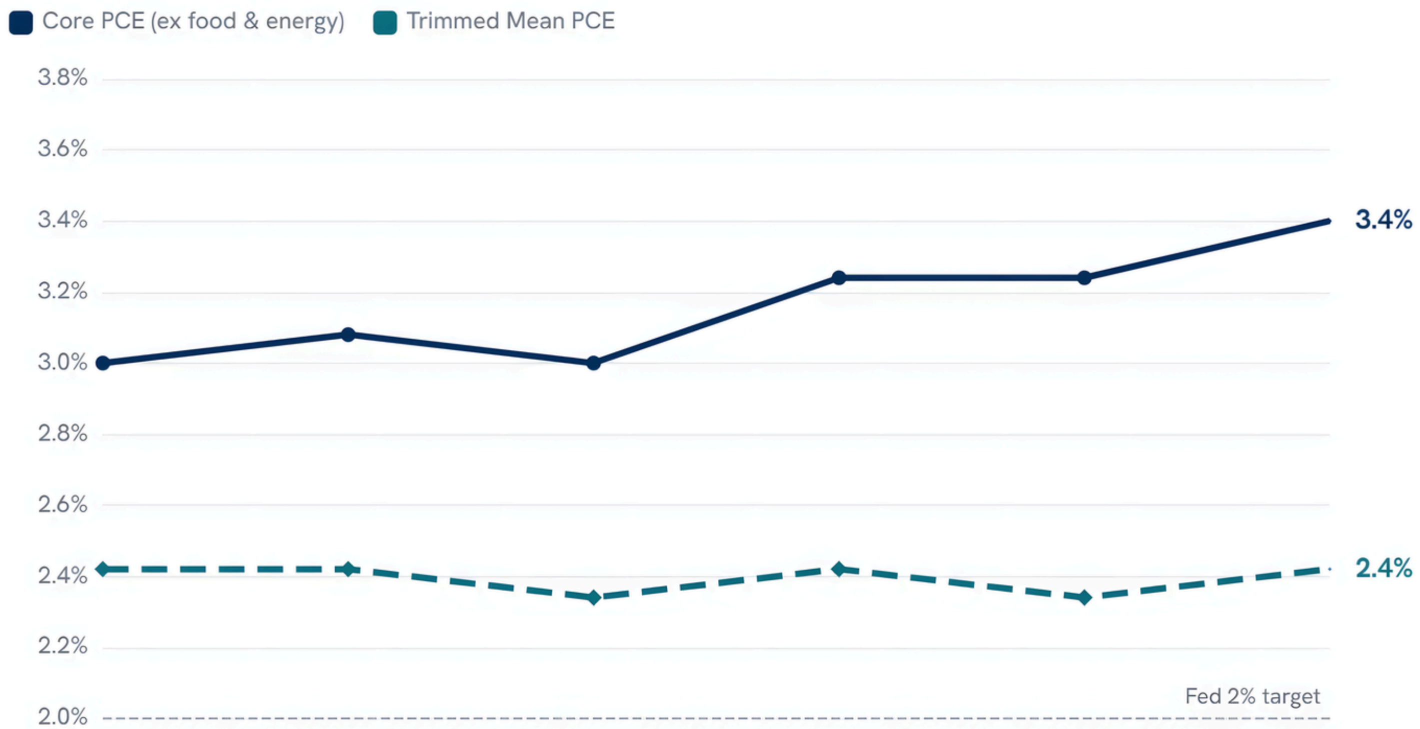
One victory President Trump can claim in the first half of 2026 is the appointment of a perceived ally to the role of Fed Chairman in Kevin Warsh. In comments to NBC News, Trump stated that he selected Warsh because he believed he would not raise interest rates, although Warsh has asserted the President never asked him to commit to maintain or lower rates. Warsh commenced his tenure as Fed Chairman with a Federal Open Market Committee (FOMC) announcement that many pundits considered hawkish, primarily because it removed prior language expressing an "easing bias" and contained an upward revision to the Fed members' collective "dot plot" interest rate forecasts.

Our interpretation is that Warsh's inaugural FOMC was less of a hawkish shift and more of a calculated move to establish credibility while also buying time for the energy-driven inflation shock to dissipate. By revising the policy language, Warsh signaled that he was sensitive to the undeniable uptick in inflation and demonstrated that he is not the "puppet Fed Chair" that some lawmakers had attempted to portray him as during his confirmation hearing. During his press conference, Warsh also announced the formation of five independent Fed task forces to reassess communications, balance sheet management, data sourcing, inflation modeling, and the macroeconomic impact of AI. While we acknowledge these to be legitimate and useful pursuits, we also can't help but speculate that Warsh is attempting to forestall rate decisions by calling the data into question. The committees are tentatively expected to deliver recommendations by year-end, which would provide a convenient reason to take a "wait and see" stance on inflation and rate hikes.

EXHIBIT 2 • INFLATION

Core PCE vs. Trimmed Mean PCE

12-month inflation rate (year-over-year), seasonally adjusted



Data Sources: US Bureau of Economic Analysis, Federal Reserve Bank of Dallas. Chart by VestGen.

As it stands presently, hot inflation data does seem more supportive towards a rise in interest rates versus supportive of a rate cut. By most measures, inflation is far above the Fed's 2% target. The headline Consumer Price Index (CPI) is running at 4.2% and the Personal Consumption Expenditures (PCE) rate is similarly high at 4.1%. Core measures excluding food and energy are at 2.9% and 3.4% for CPI and PCE, respectively, demonstrating that inflation is not isolated to the Iran war's global energy shock. Chairman Warsh has introduced a new inflation metric to the discussion, the Dallas Fed's Trimmed Mean PCE, which is notably lower at 2.4% and roughly unchanged over the past year. Trimmed Mean PCE takes 177 component categories and throws out roughly 55% of them to isolate the center of the distribution curve and provide a less volatile measure of inflation. It is uncertain whether Warsh can convince his peers to embrace this favorable measure of inflation, but his advocacy for alternative inflation measures suggests he favors a more patient policy approach than markets may be projecting.

Our view is that a US recession is unlikely, despite diminished GDP growth due to the Iran war. The onset of the war prompted the Fed to lower its 2026 forecast modestly from 2.4% to 2.2%. Higher gas and utility costs, along with tariffs, have acted as indirect "consumer taxes" and depressed real disposable income. Roughly half of the projected 2026 GDP growth is attributed to capital expenditures on artificial intelligence,[2] highlighting how dependent the US economy has become on emerging technology.

While our original outlook was for multiple interest rate cuts, we now view a pause as more likely, absent a re-escalation of the Iran war. This view is predicated on oil prices remaining near or below current levels to keep inflation in check and continued elevated capex spending from the AI buildout supporting 2% or better GDP growth.

ASSET CLASS, REGIONAL, AND SECTOR OUTLOOKS

Equities

The first half of the year should be viewed as a success as equity markets were able to generate positive returns despite a major geopolitical disruption, with multiple indices reaching all-time highs.

At the mid-year point, US tariffs seem like a long-forgotten story, with the war in Iran now dominating the news cycle and driving market sentiment. While our initial assumption of policy intervention from the Fed or US lawmakers now appears much less likely, we still believe the Trump administration is highly motivated to spur markets higher by reaching a finalized deal to end the war in Iran before the mid-terms.

A return to normalcy would provide a pathway for stocks to reach double digit gains for a fourth consecutive year, supported by strong earnings growth and a burgeoning new AI industry that is beginning to deliver on its promise to reshape the way companies across many industries do business.

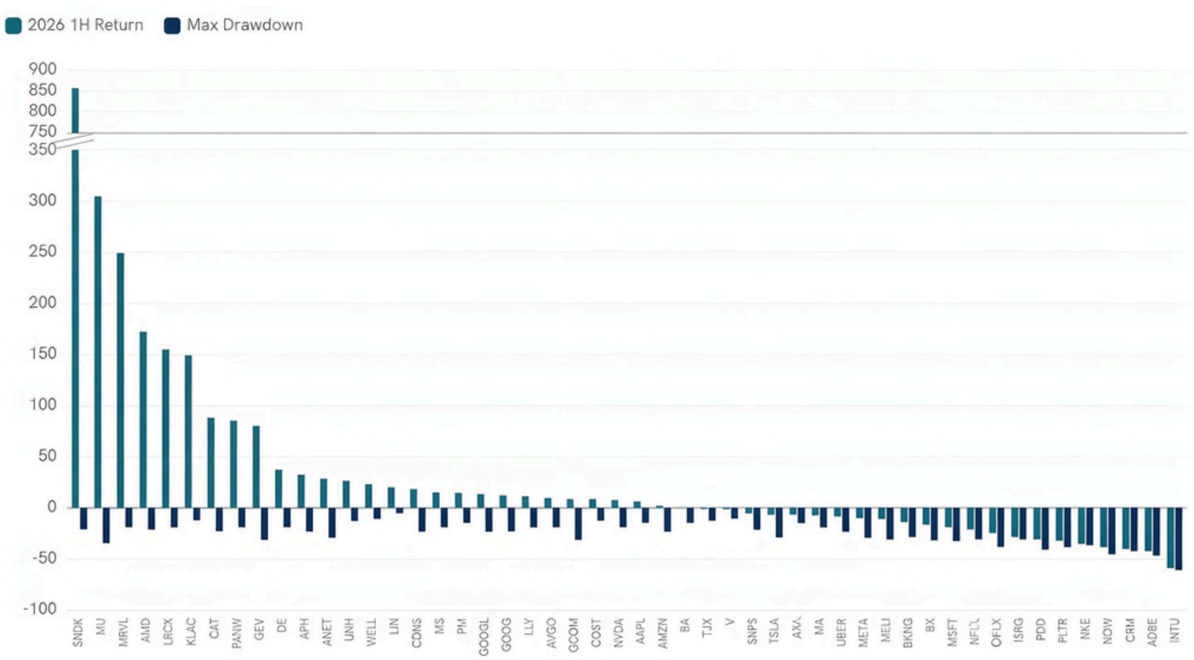
US Equities

US stocks have shown resilience to the macroeconomic headwinds of geopolitical instability and inflation. The S&P 500's 9% year-to-date gain is somewhat remarkable given the complete market repricing of Fed policy from multiple cuts to possible hikes, and the outbreak of a war which cut off roughly a quarter of the world's oil supply.

EXHIBIT 3 • DISPERSION

An uneven pattern of return with similar downside volatility

2026 first-half return vs. maximum drawdown, by constituent (%)



Data Source: VestGen analysis of S&P 500 constituent returns. Chart by VestGen.

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The headline stability masks under-the-surface churn, however, with the average S&P 500 member suffering a mid-year maximum drawdown of -21%. This suggests the rotational broadening we forecasted in our initial outlook is beginning to materialize. For the first half of the year, the equal-weight S&P 500 outperformed the market cap-weighted S&P 500 by roughly 1.8%. Moreover, when measured on an individual security basis, volatility has been even more outsized relative to historical norms. This is a reminder that a placid index (individual stock volatility, dampened by low cross-correlation, produces the calm VIX) can conceal a violent market beneath.

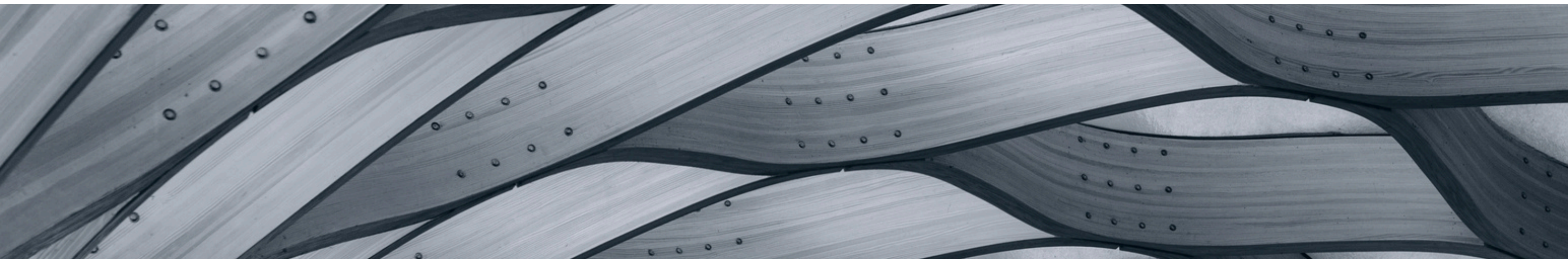
Our initial assumption as of January was that secondary effects of AI implementation could be the catalyst for improved market breadth outside the mega cap hyperscalers. Thus far, most of the beneficiaries remain upstream AI plays such as builders of datacenters and the utilities powering them, and (especially) memory suppliers who have seen their margins skyrocket as AI redefines the traditional demand cycle dynamics for memory. The biggest impact beyond these AI "picks and shovels" has been a negative repricing of software stocks, which has been dubbed the "SaaS-Pocalypse." Legacy software companies are grappling with potential obsolescence as customers drastically audit their software stacks and look to replace SaaS providers with AI tools where possible.

Whether US equities hit double-digit returns for a fourth consecutive year will require convincing investors that the massive AI capital expenditures on chips, data centers, and memory are translating into tangible revenue and cost savings. There were some positive surprises from software companies in the first quarter that suggest the SaaS fears may be overblown, and AI can be a positive addition to the business model rather than an existential threat to the industry.   We also see the broad percentage of earnings beats across sectors as being constructive that either capex spending or AI productivity or both is beginning to impact main street.

First quarter earnings, overall, were remarkably strong, with the S&P 500 reporting its highest year-over-year earnings growth since the fourth quarter of 2021 at 28.8%. Second quarter EPS is anticipated at around 23%. There is little margin for error, however, as even good earnings were punished in prior quarters by investors uneasy with the billions of dollars being allocated to AI capex. For better or worse, the fate of US stocks is tied to AI quickly proving its worth.

Small and Mid-Cap Equities

Our January outlook argued for broadening participation which has translated directly into small cap equities being among the year's best performers. We are constructive on small and mid-cap (SMID) equities for the second half, for three reasons. First, the broadening thesis logically lives here: if AI value capture migrates from the buildout layer to the application layer, industry-specific operators, disproportionately SMID companies, are the beneficiaries. Second, SMID valuations continue to trade at a wide discount to large caps even after first-half outperformance. Third, a Fed on hold (rather than hiking) removes the worst-case scenario for a cohort that is more floating-rate-levered than large caps. That last point is also the risk; SMID is the most rate-sensitive equity exposure we recommend, and an inflation-forced hike cycle would hit it first. We express the view through active managers with quality and balance-sheet screens rather than passive small-cap beta.



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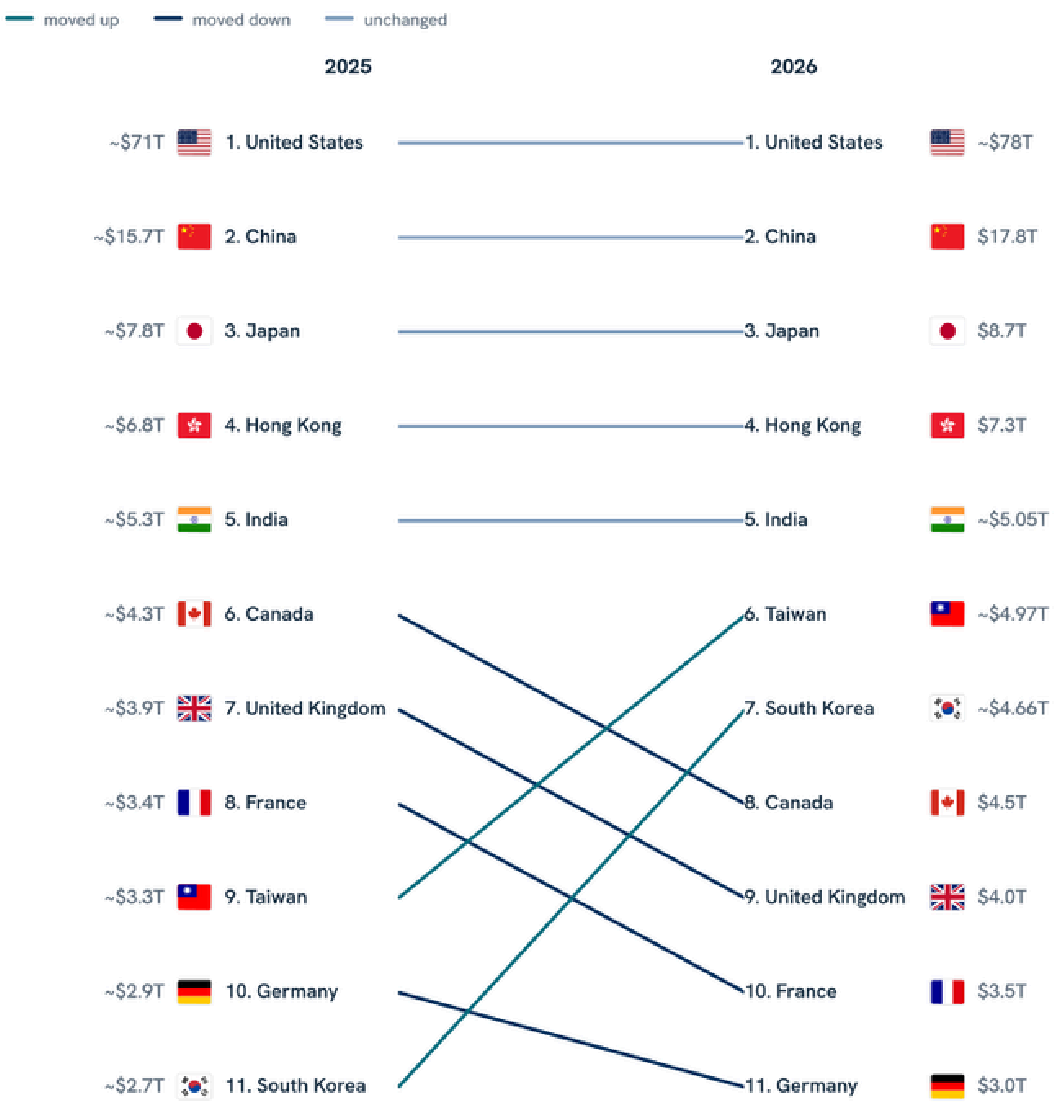
The Blurring of International Equities and Emerging Markets

Developed Market international stocks turned in a strong first half, especially considering the outsized impact of the Iran war on DM nations who rely on energy imports that must pass through the Strait of Hormuz. In part due to all these disruptions, there was significant change in market cap leadership among global equity indexes.

EXHIBIT 4 • GLOBAL MARKET CAP

The AI-driven reshuffle of the world's largest stock markets

Rank and total domestic market cap, end-2025 vs. late June 2026. A chip-stock rally lifted Korea and Taiwan, but a late-June pullback left India holding fifth.



Data Sources: WFE, Bloomberg & Moneycontrol compilations (total domestic market cap, USD). 2025 figures are approximate year-end estimates; 2026 as of late June 2026. Chart by VestGen.

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Europe

If recent progress towards a peace deal holds and the strait reopens, European stocks should be among the biggest beneficiaries, particularly in the automotive, chemical, and industrial sectors. The Euro has maintained relative stability against the dollar, while valuations for European stocks remain at a meaningful discount compared to their US peers. European stocks also scored a win after the Supreme Court struck down President Trump's tariffs, but this victory was short-lived as Trump has pivoted to alternative justifications for tariffs. Trump has recently invoked Section 301 of the Trade Act of 1974, which allows the President to investigate and invoke retaliatory tariffs on foreign nations that engage in unfair trade practices, and Section 122 to implement a temporary 10% global tariff.

Developed Asia

Japanese stocks face a more uncertain second half, after the Nikkei 225 surged 38% in the first half (priced in yen, unadjusted for currency exchange), driven by both AI-industry gains and yen weakness which boosted the impact of foreign currency-denominated sales from Japanese multinationals. Prime Minister Sanae Takaichi has aggressively pushed forward corporate governance reforms to improve shareholder returns, attracting trillions in foreign capital into Japanese markets.

At the mid-point of 2026, we have been forced to reassess our initial view that US dollar weakness would be a tailwind to DM equities. Instead, the unexpected war in Iran has reignited the dollar's safe haven status, weakening other currencies. Among these, the yen is under the heaviest pressure, hovering near a 40-year low against the dollar and posing a risk to Japanese (and US) equities in the second half of the year. The concern is that prolonged currency weakness could push the Bank of Japan to accelerate interest rate hikes or execute a direct currency intervention, which would trigger a rapid unwinding of the yen carry trade in which investors have borrowed yen at low rates to invest in higher yielding assets. VestGen still seeks and maintains exposure to DM equities, but we acknowledge that a more nimble, active approach may be better suited than pure passive exposure given the numerous macroeconomic variables at play.

Emerging Asia

The mid-year outlook for Emerging Markets is heavily bifurcated between countries benefiting from the global AI boom and those with economies tied to commodity production. EM nations with advanced chip-manufacturing pipelines were the standout performers in the first half of 2026.

South Korean tech giants Samsung Electronics and SK Hynix drew in massive foreign capital inflows as the premier suppliers of crucial memory components, propelling the South Korean KOSPI index to a 101% first half 2026 return, leading all other nations by a significant margin. Driven by this unprecedented bull run, the KOSPI officially overtook London's FTSE 100 to become the eighth most valuable national equity index in the world, with South Korea surpassing India to claim the spot as the world's sixth-largest stock market.

China, the largest single component of EM indices, remained a persistent weight on performance during the first half of 2026 as investors poured capital into South Korea, Taiwan, and India. Tariff disputes and sluggish domestic retail consumption were headwinds to Chinese corporate earnings, and the ongoing government interventions have failed to solve the country's multi-year real estate deflation crisis. We do not anticipate China's economic woes, many of which are rooted in the demographic imbalances of its aging population, to be easily resolved.

We view the ascendence of South Korean and Taiwanese tech to be an exciting development for EM investors, who up until now could only point to rock-bottom P/E multiples as the basis for maintaining exposure. These countries have become crucial parts of the AI supply chain and have delivered outsized returns, particularly for active managers with the foresight to recognize the opportunity.

Latin America

Commodity-sensitive Latin American stocks were also laggards, notably due to softer demand for minerals, metals, and other raw materials from China. South American oil producers briefly enjoyed better margins with the onset of the Iran war, but those gains quickly evaporated as oil prices completed their round trip back to the $70 range. The "regionalization" theme, nearshoring supply chains to the Americas under a friendlier hemispheric trade posture, has yet to deliver a measurable earnings lift and following the Supreme Court tariff ruling and the pivot to Section 301/122 authorities, the policy visibility that regionalization requires has arguably deteriorated. We keep LatAm at a modest weight within EM, viewing it as a call option on a China demand recovery and a commodity restocking cycle rather than a standalone thesis.

RATES

At the beginning of the year, rate cuts from the Fed were the base case under the assumption that inflation would ease by mid-year and Trump would have appointed a Fed Chair aligned with his desire for low interest rates. President Trump got his man at the Fed, appointing Kevin Warsh to take the central bank helm, but he may have to wait some time for rate cuts, due to the self-inflicted inflationary effects of the Iran war.

Trump's "One Big Beautiful Bill" will add roughly $4.7 trillion to the deficit over the next decade,[3] financed by a flood of long-term government debt, which has pushed the term premium higher at the long end of the curve. The 30-Year Treasury yield has surged from 4.54% at the start of the year to 4.91% at the midpoint. Shorter-duration government debt yields have also risen to reflect the repricing in rate cut odds at the front end of the curve, which the Fed has more influence on. The result is higher rates across the yield curve, except for ultrashort, 1-month yields which are unchanged. The 2-10 Year yield spread remains relatively unchanged from where it started 2026, at roughly 30 basis points.

With the Fed hamstrung by inflation data, President Trump has become something of a policymaker himself, conveniently releasing social media posts and major announcements to calm markets whenever the 10-Year yield has threatened to move above the 4.5% level. Trump's desire for lower rates is partially because he views them as a path to housing affordability without sacrificing high home prices, which he has said he also wants to maintain to protect homeowners' wealth. In our initial 2026 outlook, we speculated that the Fed could engage in purchases of mortgage-backed securities (MBS) to spur affordability. The Fed did not initiate MBS purchases, but Government Sponsored Enterprises (GSE) Fannie Mae and Freddie Mac did, at the direction of the White House. The $200 billion GSE purchase program functioned as a mini-QE but is close to being exhausted, which will likely cause MBS spreads to widen in the second half of the year.

Inflation-Protected Securities

Our January outlook discussed inflation extensively, yet covered rates exclusively in nominal terms. With headline CPI at 4.2% and the Fed institutionally motivated to be patient, we note that our use of Treasury Inflation-Protected Securities (TIPS) has been additive to portfolio performance. The case is straightforward; if the Warsh Fed succeeds in redefining the inflation conversation the Trimmed Mean PCE (2.4%) while headline measures run near 4%, the gap between realized inflation and policy response is precisely what TIPS are designed to monetize. Intermediate TIPS also carry meaningfully less duration risk than the long nominal bonds most exposed to the term-premium repricing described above. Within fixed income sleeves, we fund a TIPS allocation primarily from long-duration nominal Treasuries. The principal risk to the position is a rapid peace-dividend disinflation, which we view as a manageable cost given the asymmetry of inflation outcomes from here.

CREDIT (PUBLIC)

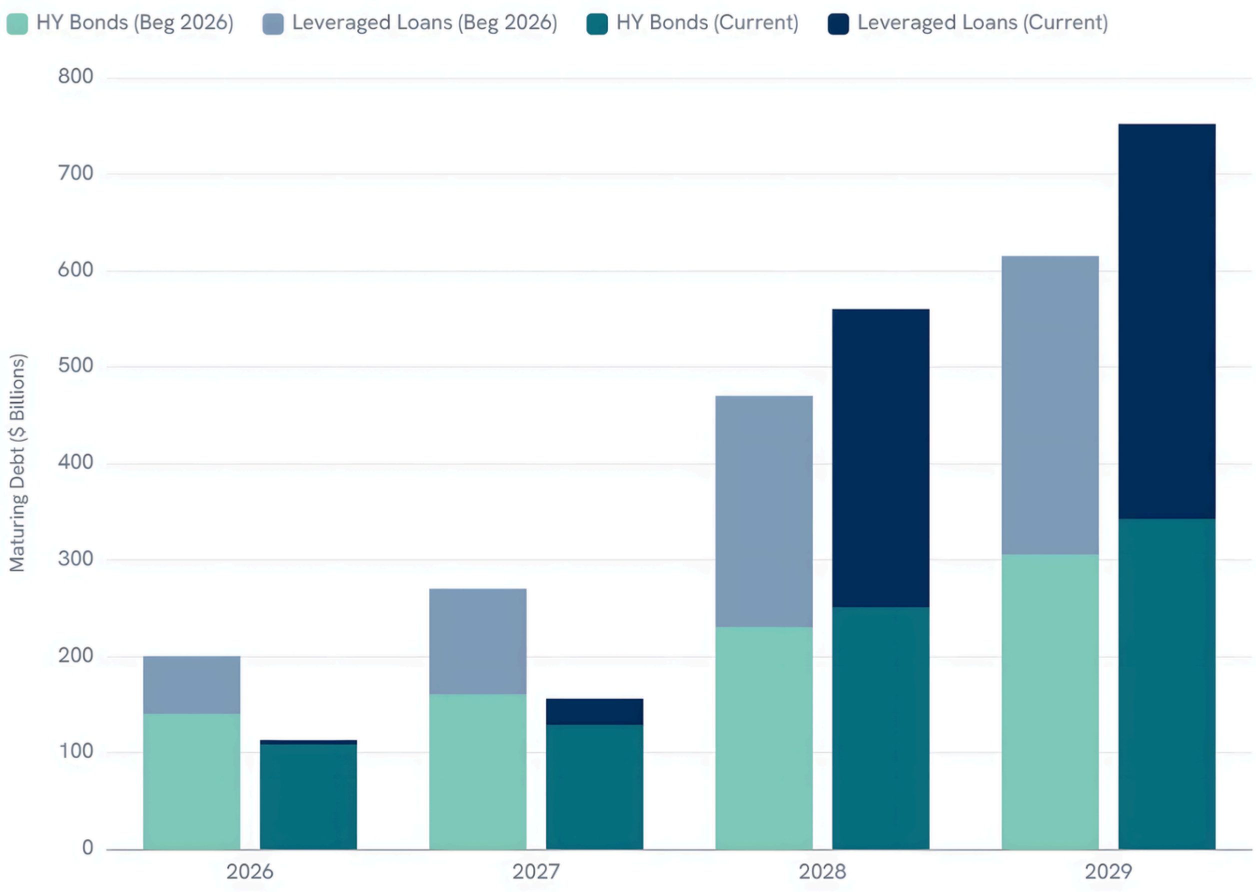
Investment Grade credit spreads were remarkably resilient, grinding tighter in the first half of the year despite the onset of war and a hawkish repricing of Fed interest rate forecasts. The ICE BofA US Corporate Index Option-Adjusted Spread now stands at roughly 74 basis points, down from the 92 basis points cited in our January outlook and well inside the 25-year median of 135 basis points.

High Yield bond spreads have widened slightly, sitting around 280 basis points at midyear, a modest uptick from January's low of 259 basis points. The spread remains tight relative to historical standards, reflecting a benign default environment and low perceived recession risk. Default rates remain manageable with the trailing 12-month default rate running at 2.9%,[4] remaining below the long-term average of 3.2%. As we noted in January, dispersion beneath the headline-level calm continues to widen, with weaker single-B and CCC credits trading meaningfully wide of the broader market even as headline spreads stay tight.

EXHIBIT 5 • CREDIT MATURITIES

U.S. Corporate Maturities: Beginning of 2026 vs. Current

Maturing high-yield bonds and leveraged loans, U.S. dollars in billions



Data Source: VestGen analysis of high-yield and leveraged-loan maturity schedules. Chart by VestGen.

For now, the 2026 maturity wall we flagged in January has been temporarily delayed via “amend and extend” refinancing issuance, dramatically reducing the amount of debt coming due in 2026 and 2027. For high yield borrowers, the ability to kick the can a few more years down the road is a near-term positive, reducing the likelihood of immediate default risk and hedging against a possible Fed rate hike by locking in today’s rates. Leveraged Loans, on the other hand, benefit from the near-term reduction in default probabilities but now face greater uncertainty in the event of rising rates, given their floating rate coupon structure.

With Investment Grade spreads at 74 basis points, investors are being paid less than ever this cycle to take corporate credit risk. We hold IG at a modest underweight funded into short Treasuries and TIPS, retain a quality bias within high yield, and would view any war-related spread widening as an opportunity to re-enter at better levels rather than a signal to de-risk further.

Municipal Bonds

Two forces make munis timely. First, the same term-premium repricing that lifted the 30-Year Treasury to 4.91% has lifted long municipal yields, making tax-equivalent yields for investors in top federal brackets the most attractive in years, especially in high-tax states. Second, our January outlook flagged rising political appetite for redistributive taxation as wealth concentration grows; to the extent marginal rates rise from here, the value of the tax exemption rises with them. Credit selection still matters as does trade implementation.   We believe the decentralized nature of the market lends itself to the use of specialists where possible, ideally ones with sustainable execution or research advantages.   For taxable accounts of clients in upper brackets, we treat intermediate and long munis as a core fixed income allocation rather than an afterthought, and advisors should review placement of fixed income between taxable and tax-deferred accounts accordingly.

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F/X AND STORES OF VALUE

Gold

Gold delivered a full market cycle inside six months. The metal opened the year extending its historic 2025 advance, setting more than a dozen record highs and peaking at $5,405 per ounce (LBMA PM) in late January through the top of our $4,800–$5,200 January target range. It then round-tripped violently, falling to a June low of $4,002 as the Iran war's inflationary impulse forced markets to price out Fed cuts and price in roughly even odds of a hike. Gold enters the second half down approximately 7% year-to-date with realized volatility near 30%,[5] and the World Gold Council's return-attribution model identifies geopolitical risk, the US–Iran conflict above all, as the dominant first-half driver.[5]

The correction is best understood as a rates story, not a demand story. Reported central bank purchases slowed to a trickle in the first quarter, but the World Gold Council's analysis of London OTC flows and Swiss refinery shipments suggests actual official-sector buying accelerated to an estimated 244 tonnes in Q1, up from 208 tonnes the prior quarter, led by unreported Chinese accumulation, with Chinese net imports nearly tripling quarter-over-quarter to 317 tonnes.[6] The de-dollarization pillar of our thesis is intact; what changed is the opportunity cost, as the prospect of Fed hikes restored a real-yield headwind.

Our scorecard on gold is honestly mixed. The January structural floor "reset above $4,000" held. Our guidance to buy pullbacks toward $4,300–$4,400 proved early. Looking forward, we retain the strategic overweight but mark our year-end target down to $4,400–$4,800 (from $4,800–$5,200), reflecting the hawkish repricing. The World Gold Council's base case sees gold rangebound within roughly ±5% of recent levels absent new shocks,[5] while J.P. Morgan Global Research, at the bullish end of the street, still projects $6,000 by year-end in their June research note.[6] Our positioning logic is asymmetric: in our two contractionary scenarios and in Energy Shock Redux, gold is one of the few assets we expect to work, and we are willing to accept rangebound carry in the base case to own that insurance.

Digital Assets

Our January digital assets thesis failed the test the first half posed. We argued Bitcoin was undergoing a "metamorphosis" from speculative investment to store of value that would produce a "commodity-like" return pattern in a pro-inflationary cycle. The first half of 2026 delivered exactly the pro-inflationary, geopolitically stressed environment that should have validated the thesis and caused the dollar to split flows with alternative stores of value; however, Bitcoin instead traded as a high-beta risk asset. Bitcoin closed the first half near $58,500, down more than 50% from its October 2025 all-time high of $126,272 and on pace for its worst first half since 2022, with sentiment gauges deep in "extreme fear."[7]

The proximate causes included sustained ETF redemptions reversed the institutional flows that powered 2024–2025; the higher-for-longer rate repricing removed the liquidity tailwind; capital rotated toward AI equities; and the largest corporate holder's revision of its capital policy in June (its shares fell roughly 41% that month) put a visible overhang on the market.[7] Regulatory catalysts (the CLARITY Act) remain stalled in the Senate. Total crypto market capitalization has contracted from roughly $3.5 trillion at the late-2025 peak to about $2.1 trillion.[7]

Where does that leave the allocation? We formally downgrade Bitcoin within our liquid store-of-value framework: it has not earned the gold-like role we hypothesized, and position sizing must treat it as what it has proven to be; a leveraged expression of liquidity conditions and risk appetite. This makes it impractical for use in model portfolios. For more bespoke aggressive allocations, there remains some portfolio value in Bitcoin, but it must be considered an illiquid asset play as its price realization may take a more extended horizon than is appropriate for daily traded portfolios despite the liquid nature of the product. Those who remain committed to ride out this decline can take comfort that this years' cycle's is "only" a 50% decline compares to 77% in 2022. For those considering potential future regulatory shocks to the asset class, they may want to take advantage of native (cold-storage) options over the next year or two prior to the 2028 major election cycle.

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PRIVATE MARKETS

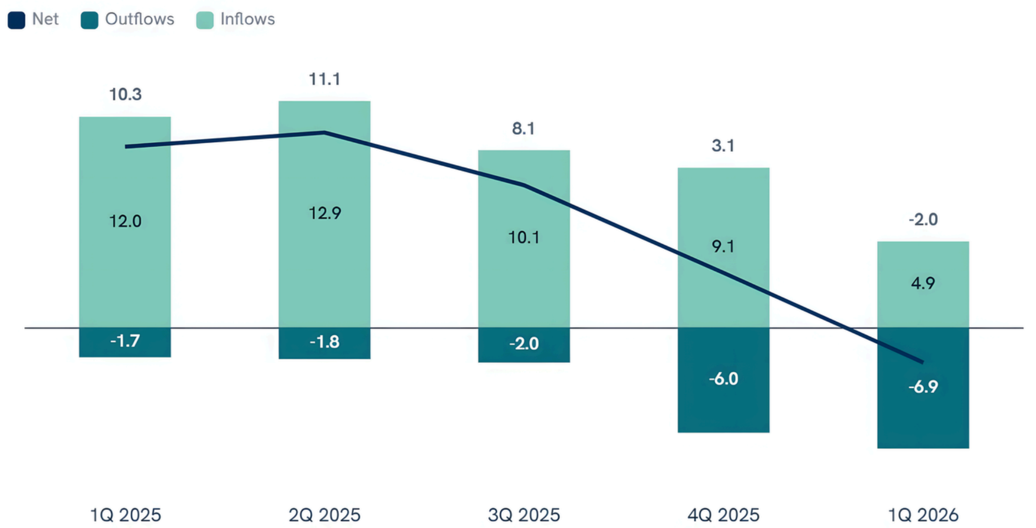
Private Credit

Our January warning that covenant deterioration historically precedes spread widening by 12–18 months is tracking on schedule, and this section upgrades that watch item to an active repositioning. Defaults are surfacing: the Proskauer Private Credit Default Index, covering nearly 700 loans totaling $189 billion, registered a 2.73% default rate in Q1 2026, up from 1.84% two quarters earlier,[8] and measures that include liability-management exercises and selective defaults run materially higher. Payment-in-kind income, interest paid in promises rather than cash, now averages roughly 8% of investment income at public BDCs.[9] The stress has a sector signature that should sound familiar from our equity pages: direct lenders spent a decade concentrating in software and technology borrowers, the very cohort now being repriced by the “SaaS-Pocalypse.”

EXHIBIT 6 • FUND FLOWS

Quarterly Fund Flows

Inflows, outflows, and net flows, U.S. dollars in billions



Data Source: VestGen analysis of quarterly fund-flow data. Chart by VestGen.

But sometimes a liquidity issue can be self-fulfilling. As net redemptions are expected to become the new normal in 2H 2026, the level of distributions from these funds and the ability to maintain the most marketable of sequirites will represent a test for BDC sponsors. A major manager’s decision in February to permanently freeze redemptions on its flagship fund and liquidate on its own schedule[10] was a reminder that semi-liquid wrappers do not manufacture liquidity from illiquid loans, a point we make regularly with clients evaluating interval funds. Policymakers have taken notice: the Financial Stability Board’s May report flagged valuation opacity, private ratings reliance, and bank interconnectedness across the estimated $1.5–2 trillion market.[11]

Yet stress is producing exactly the re-entry conditions our January framework anticipated. New-issue direct lending spreads have widened roughly 50–100 basis points since late 2025, accompanied by lower leverage, more covenants, and fewer PIK requests.[9] Systemic contagion risk appears contained: private credit represents roughly 9% of total corporate borrowing and most exposure sits with long-horizon institutions rather than banks.[12] Our positioning distinguishes sharply by vintage: underweight legacy 2021–2023 exposure in evergreen vehicles, where marks may still be generous, while committing selectively to new-vintage drawdown funds with disciplined managers who can be choosy. Dispersion, not direction, is the trade.

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Private Equity and Venture

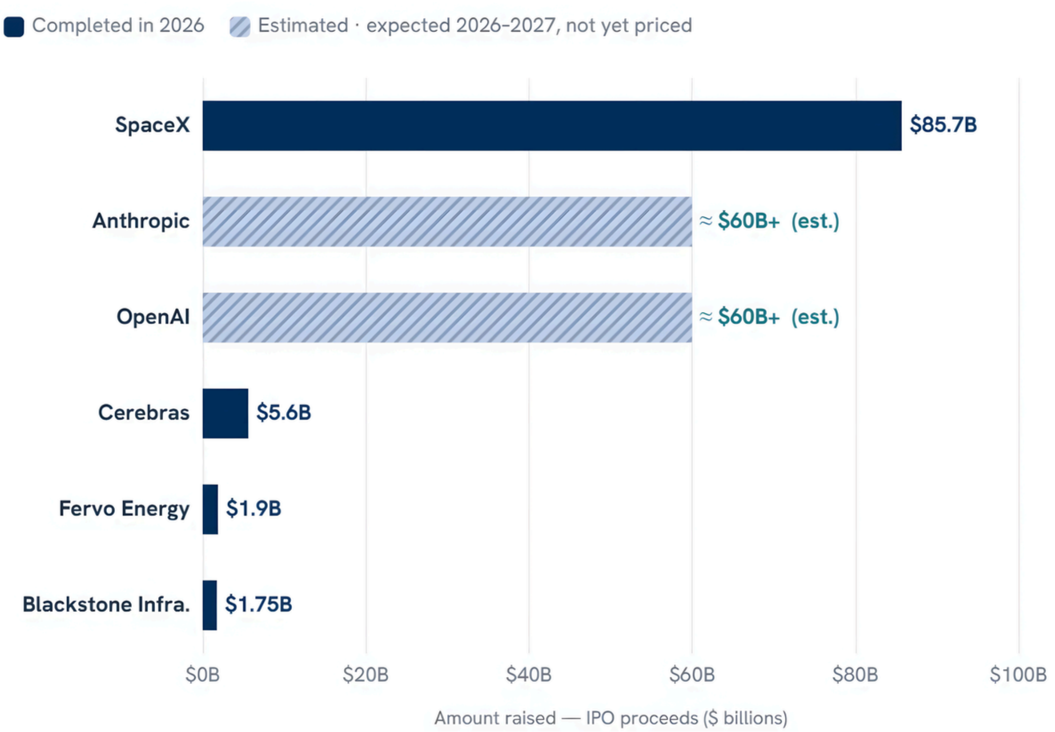
We also add here brief coverage of private equity and venture. The exit environment is improving from a low base: sponsors are motivated sellers after three slow distribution years, and strategic acquirers flush from AI-adjacent earnings are engaged. We expect the IPO window, headlined by anticipated mega-listings in the space economy and AI infrastructure, to be a meaningful 2027 story, with 2026 serving as the staging period. For qualified clients, we favor secondaries (buying seasoned funds at discounts, benefiting from the distribution drought) and lower-middle-market buyout strategies where entry multiples never reached 2021 excess. We remain cautious on late-stage venture marks, which in many portfolios have yet to reconcile with public AI-valuation volatility.

Venture and individual deal opportunities present a variety of idiosyncratic opportunities.   In a disruptive backdrop as powerful as AI, plus the opening of IPO markets to unprofitable companies will have a meaningful effect on the valuation of not yet public companies.

EXHIBIT 7 • PRIMARY MARKETS

Largest IPOs of 2026 - and the AI mega-IPOs on deck

By amount raised (proceeds), U.S. listings. Anthropic and OpenAI are estimates - neither has priced.



Data Source: VestGen compilation of 2026 U.S. IPO proceeds. Chart by VestGen.

REAL ESTATE AND INFRASTRUCTURE

The office story, which we described in January at its bleakest, with vacancy at levels unseen since 1991, has quietly inflected. National office vacancy declined in the first quarter to 18.6% by CBRE's measure, with prime vacancy falling 80 basis points to 12.7% and Midtown Manhattan prime space effectively full at 2.9% vacancy. Construction completions were the lowest in the 36 years the data has been tracked, and office investment volume is projected to rise 20% this year.[13] Supply, not demand, is doing the healing: conversions and demolitions now remove more stock than construction adds. Our allocation to REITs has proven rewarded portfolios but the recovery remains a bit fragile, focused on a top-of-market phenomenon; commodity office remains challenged.

Multi-family fundamentals firmed, with vacancy declining to 4.8% as absorption outpaced completions,[14] supported by an affordability-locked housing market, the same "lock-in effect" we described in January keeping owners in place and would-be buyers renting. Data centers remain the sector's singular growth engine and the clearest real-asset expression of the AI capex theme, though investors should recognize that this makes such allocations correlated with the very AI-disappointment risk flagged elsewhere in this report.

The sector's principal headwind remains the cost of capital. With the 30-Year Treasury at 4.91% and an estimated $1.5 trillion of commercial real estate debt maturing through end-2026, refinancing, not operations, is where distress will surface, particularly for office and retail loans underwritten at 2021 rates. For income-oriented clients, we continue to favor sector-specific vehicles (the product innovation we highlighted in January) over broad-index REIT exposure, emphasizing industrial, data center, and multifamily, and we treat any GSE-program-related MBS spread widening in the second half as a potential entry point in agency mortgage strategies.

SECOND-HALF RISK MAP

Complacency is itself a risk: markets have absorbed a war with remarkable speed. The five exposures we monitor most closely for the second half, in rough order of expected portfolio impact:

- **Iran re-escalation / Strait of Hormuz closure.** A second oil spike would arrive on a higher inflation base, converting the Fed's pause into inflation and re-running the H1 stress with less policy cushion. This is the scenario our gold and TIPS positions are built to absorb.
- **AI capex disappointment.** With roughly half of GDP growth and much of the earnings narrative resting on AI investment, a high-profile pullback in datacenter or memory spending would hit equities, data-center real assets, and tech-concentrated private credit simultaneously.
- **Yen carry-trade unwind.** A BOJ intervention or accelerated hiking cycle from a 40-year currency low could force rapid deleveraging across global risk assets, as borrowed-yen positions unwind. Fast-moving; hedged best by duration in the belly and by gold.
- **Policy error into the mid-terms.** A politically motivated collision between the White House and a Fed defending its credibility, in either direction, could unanchor the long end. The 10-Year's behavior around the 4.5% level is our early-warning gauge.
- **Private credit / MBS technicals.** Rising private credit defaults meeting semi-liquid redemption structures, and MBS spread widening as the $200 billion GSE program exhausts, are the two most likely sources of a credit-market air pocket. We view both primarily as future entry points, but sequencing matters.

FINAL THOUGHTS

The first half of 2026 validated the central intuition of our January outlook, that the hands moving the puppets matter more than the strings, while humbling us on the specifics. We correctly anticipated that political actors would dominate market outcomes; we did not anticipate that the cause would be a war.

The second half sets up as a contest between two powerful forces. On one side: an administration with overwhelming incentive to calm markets and voters and propel asset prices into November, and a demonstrated willingness to manage news flow to that end. On the other: an economy whose growth rests uncomfortably either directly or indirectly on a single technology investment cycle. Our base case, Broadening of Growth at 35%, threads these forces: a de-escalating war, a patient Fed that neither cuts nor hikes, and an equity market whose leadership continues to widen beyond the hyperscalers. That is a bullish backdrop, but a conditional one.

The January themes we retain with the most conviction are breadth over concentration, real yields and real assets over nominal exposure, and quality overreach in credit. The theme we retire is the notion that any single store-of-value asset is a complete hedge: gold, TIPS, and diversification across scenarios did the job in the first half, but we are replacing Bitcoin with Commodities in 2H. And the theme we would leave clients with is patience. The K-shaped pressures, wealth concentration dynamics, and fiscal trajectories we described in January have not gone away; they have been deferred by a war and an election. Portfolios built for multiple scenarios, rather than a single forecast, remain the best response. As always, these views are inputs to a conversation with your advisor, not a substitute for one.

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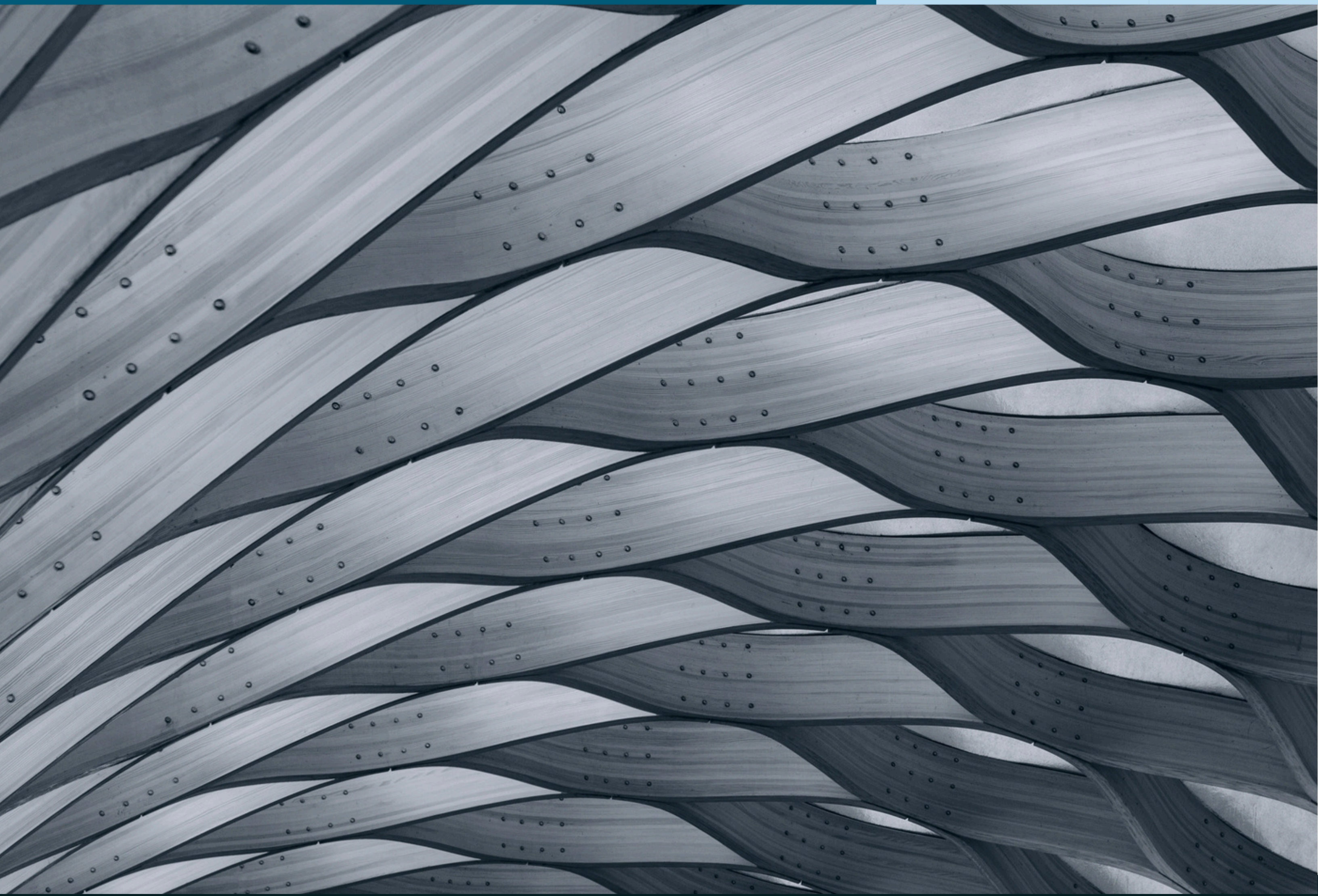

Disclosure