Q2 2026

NOTES ON THE MARKET

Ethos
STRATEGIC INVESTMENTS

Q2 2026 RECAP

The second quarter was a sharp reversal of the first. U.S. equities advanced broadly, with the S&P 500 returning just under 15%, its best quarter since the 2020 pandemic rebound. The turning point came when a U.S.–Iran ceasefire took shape mid-quarter and crude fell to three-month lows, as the two sides moved toward reopening the Strait of Hormuz. Easing energy costs and lower geopolitical risk fueled the recovery, though the agreement has proven fragile, with periodic flare-ups near the Strait.

Leadership at the Federal Reserve also changed hands, when Kevin Warsh was sworn in as chair in May and quickly set a firmer tone. Investors now anticipate shorter statements, less forward guidance, and a more concentrated emphasis on the 2% inflation target. Headline CPI reached 4.2% in May before easing to 3.5% in June.

The rally's defining feature was its breadth. Gains extended beyond mega-cap technology, with semiconductors posting a strong quarter and small caps surging. Earnings continued to exceed expectations, and forecasts for coming quarters point toward further growth. Even so, the index is up roughly 10% year to date, a reminder that the quarter was largely a recovery. If geopolitical risks remain contained and the Fed holds rates steady, conditions may support a more stable return profile heading into midterm elections.

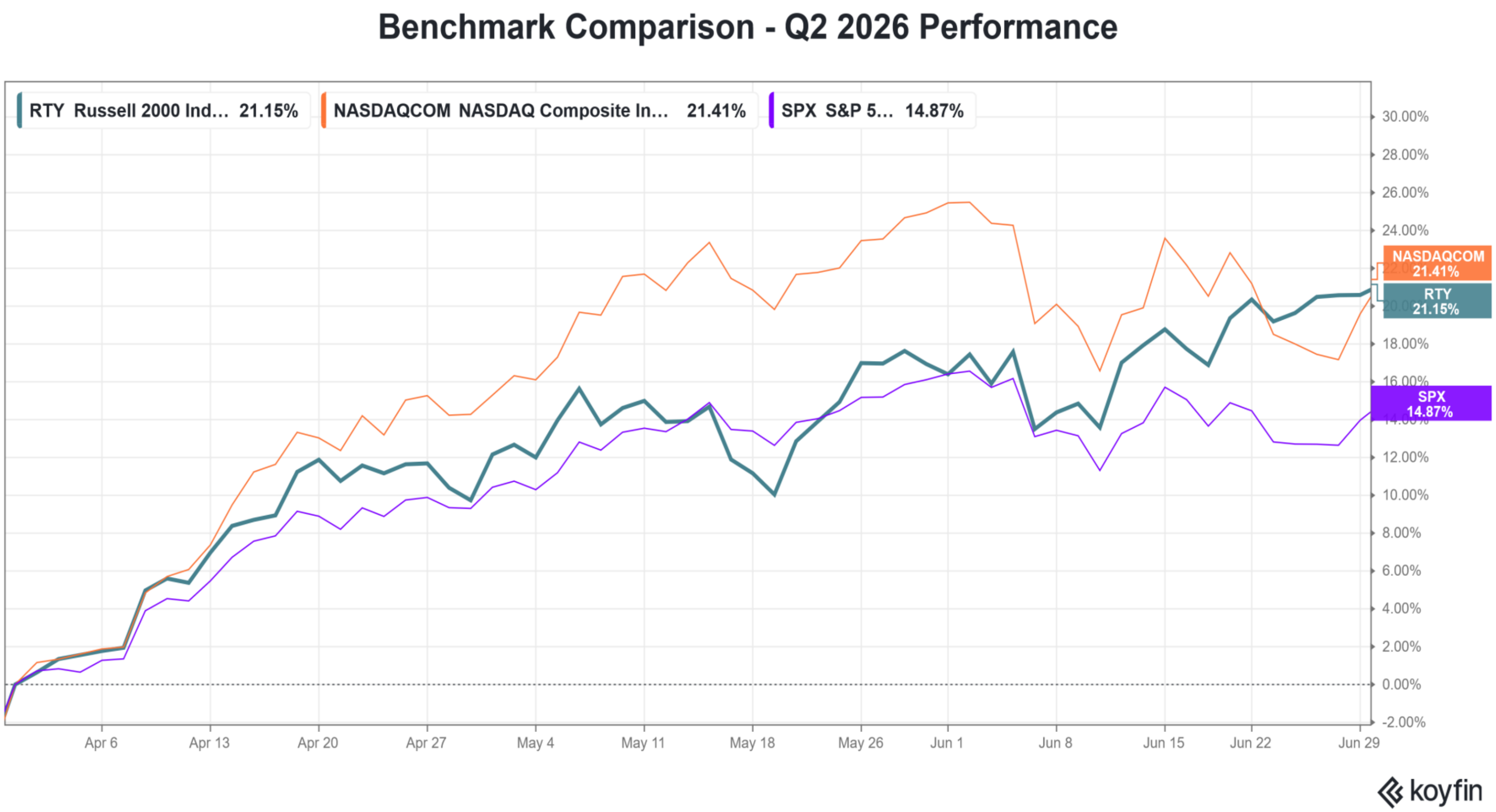
“Through discipline comes freedom.” ~Aristotle

THE RALLY WIDENS ITS REACH

THE MARKET COMES UP FOR BREADTH

Participation widened across the market, though the path was far from linear.

- Markets broadened this quarter. Small cap stocks, as measured by the Russell 2000 (RTY, teal line), returned 21.15%, nearly matching technology stocks as measured by the NASDAQ Composite (NASDAQCOM, orange line) at 21.41%.
- With small caps and tech stocks outpacing the S&P 500 (SPX, purple line), which rose 14.87%, leadership widened beyond the Magnificent 7, which had dominated recent index performance.
- While the second quarter showed remarkable strength off the back of a weak first quarter, there were still pullbacks in mid-May and throughout June apart from smaller companies.



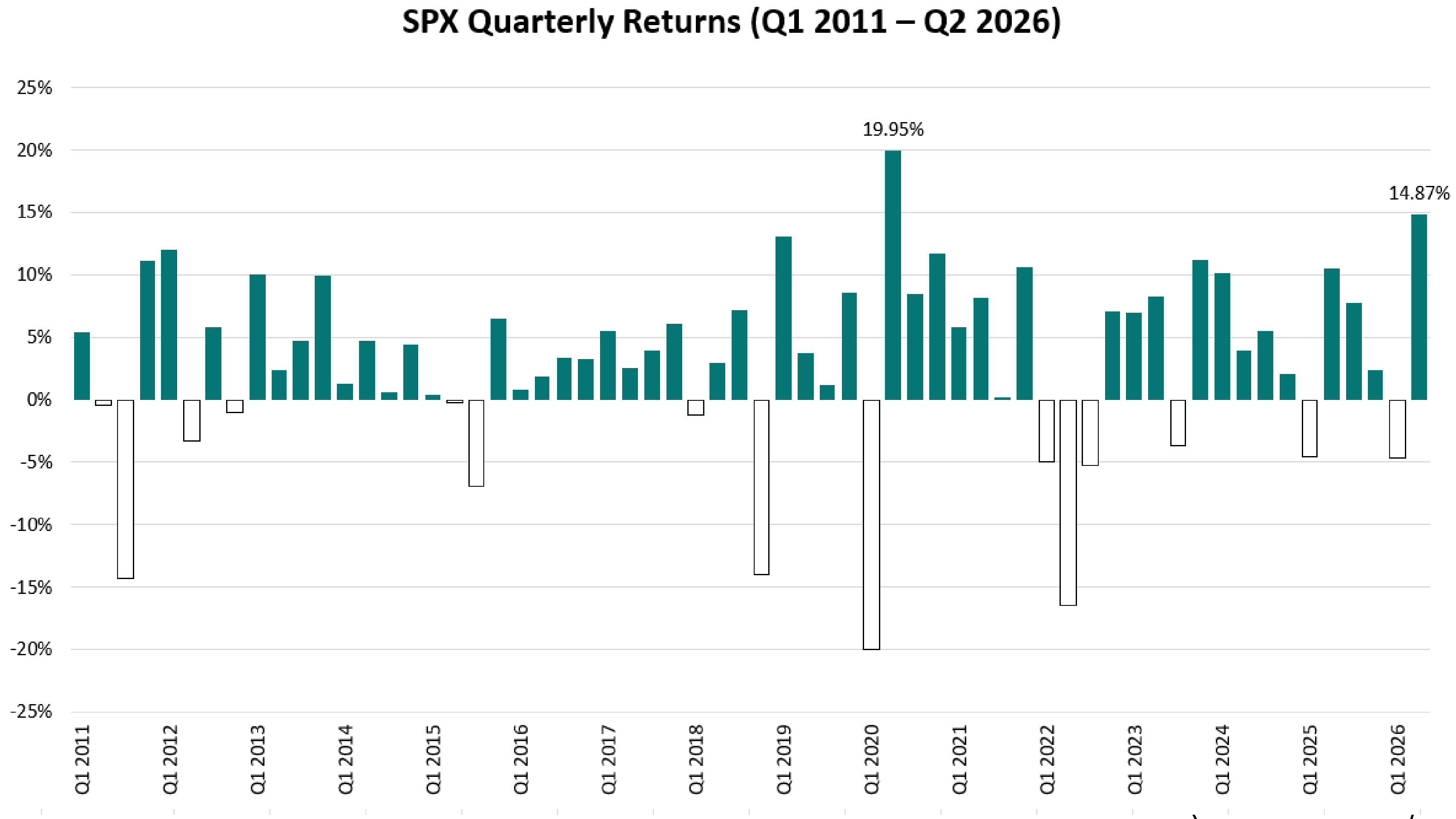
Data from Koyfin. Price returns as of June 30, 2026.

TAKING THE BULL BY THE HORNS

S&P PEAK PERFORMANCE

Q2 2026 returned +14.87%, the strongest quarter since Q2 2020

- The S&P 500 returned 14.87% in Q2, its strongest showing since the second quarter of 2020.
- Much of the strain felt in Q1 eased as the Strait of Hormuz reopened, oil dropped decisively through quarter end, and earnings accelerated.
- Over the past fifteen years, the S&P 500 has averaged 3.31% per quarter. Q2 2026 returned more than four times that long-run average.



Data from Fidelity as of June 30, 2026. Not dividend-adjusted.

A MARKET OF TWO MINDS

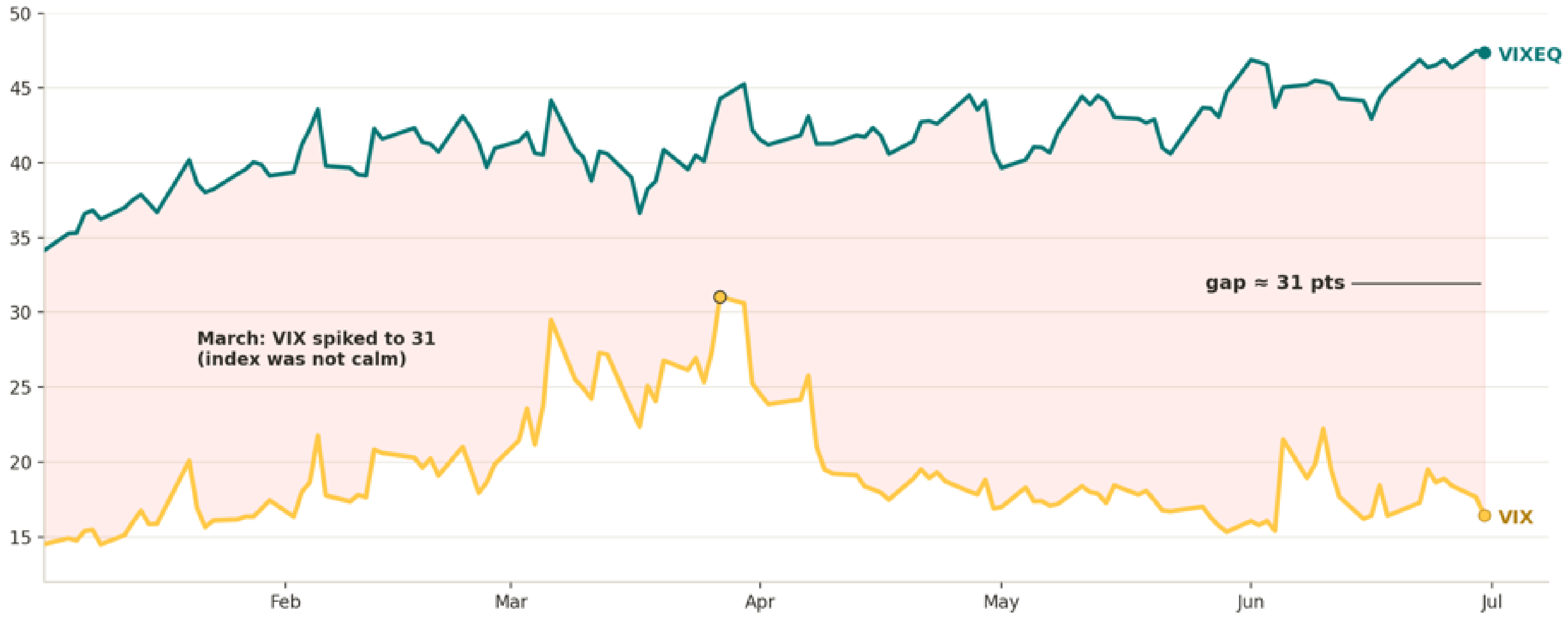
CALM SEAS, CHOPPY CURRENTS

Why the market can look quiet and feel risky at the same time.

- The lower line (VIX) tracks how bumpy or volatile the whole market is expected to be; the upper line (VIXEQ) tracks the volatility of the average single stock in the S&P 500.
- By late June, the gap between them was the widest this year, meaning individual stocks are moving in greater swings than the index.
- Overall market volatility is low, near 16, below its long-run average. The VIXEQ has been steadily rising all year. The churn is happening at the individual stock level, beneath a calm surface.
- If a few large holdings drive your portfolio, the ride may feel choppier than the headlines suggest. Gaps this wide have sometimes come before broader pullbacks, though they can also narrow on their own. Diversifying and rebalancing may help but cannot remove the risk of loss.

Single stocks swung the most in years, even as the market held steady

Single-stock volatility (VIXEQ) vs. S&P 500 index volatility (VIX), 2026 daily close, actual data



Source: CBOE/Fidelity. Actual daily closes. For illustration, not a recommendation.

In one line: a calm-looking market can still be a bumpy one underneath.

HOUSTON, WE HAVE A MEGA IPO

THE STOCK MANY NOW OWN BY DEFAULT

Index rule changes, not investor decisions, determined who gained exposure to the largest IPO on record.

	Nasdaq-100 (INCLUDED)	S&P 500 (NOT YET)
ADDED SPACEX?	Yes	No
EFFECTIVE	July 7, 2026	Not before mid-2027
RULE APPLIED	Fast-entry, waived	Unchanged profit test
EST. FORCED BUYING	~$4.3 billion	None
FUND HOLDERS NOW	~0.5% to 0.7%	No exposure yet

Data from J.P. Morgan, Nasdaq, S&P Dow Jones Indices, and Morningstar. Securities named are for illustration only and are not recommendations.

- SpaceX completed the largest IPO in history in June, then joined the Nasdaq-100 on July 7 under a new provision that shortened the usual waiting period to roughly fifteen trading days.
- Funds tracking the Nasdaq-100 were required to buy the stock, an estimated $4.3 billion in passive purchases, while S&P 500 funds bought none, as that index left its profitability and seasoning requirements unchanged.
- Limited public shares available limits SpaceX to below 1% of the index for now. As lockups expire, its weight in the index could rise, a reminder that index construction, not the investor, may shape what a portfolio holds.

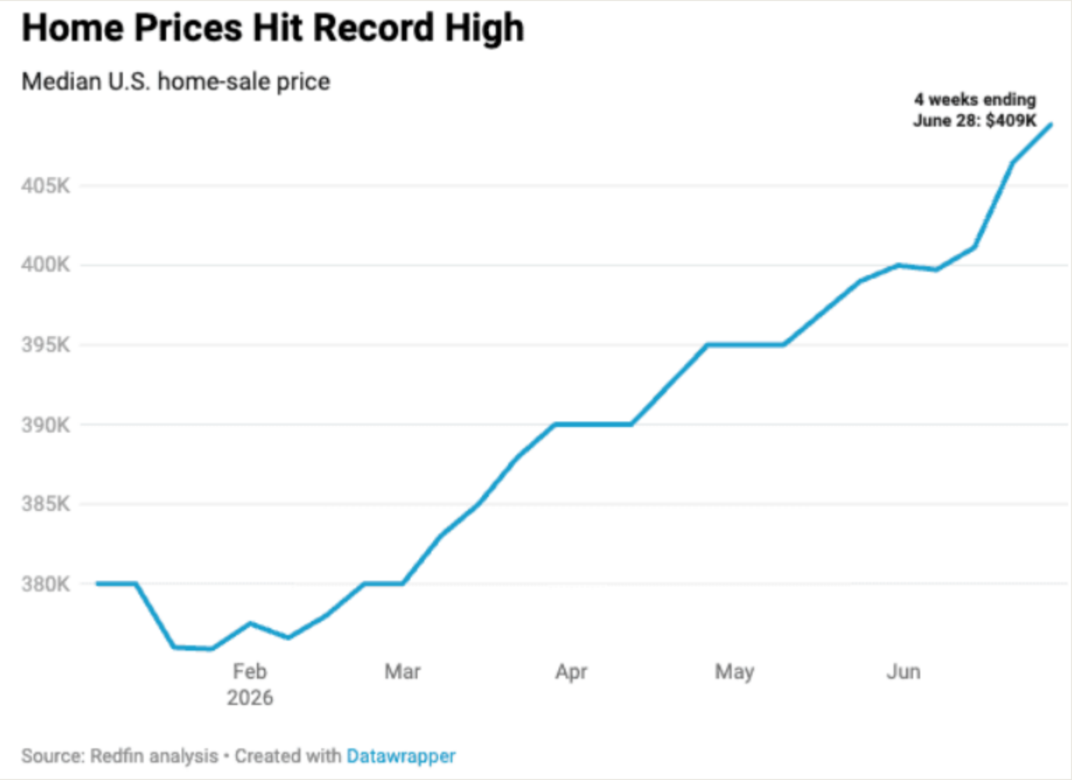
Why the index weight is small now, and why it may change

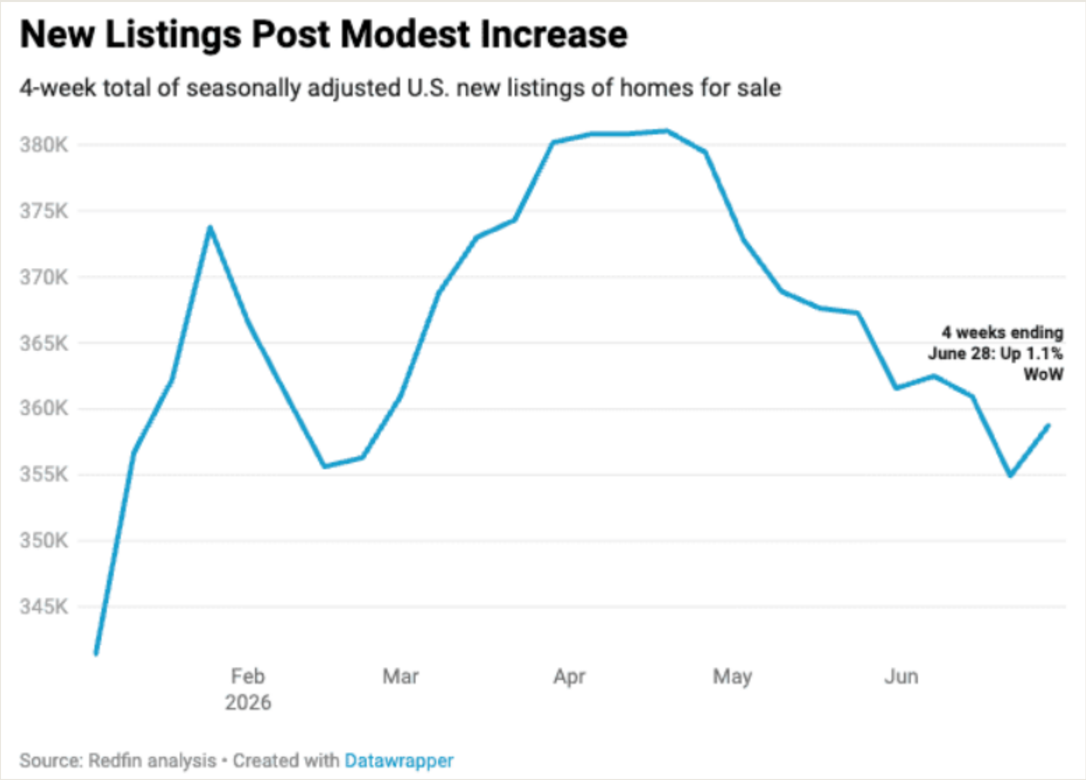
Free float shares (shares available to purchase by the public) near 4% puts SpaceX around 1% of the index, versus roughly 4% for Amazon. As lockups expire through December, that weight could climb toward 5%.

NO PLACE LIKE HIGH PRICES

PRICES CLIMBED AS INVENTORY LAGGED

- Home prices continued to climb in Q2 2026, remaining stubbornly high.
- New home listings declined throughout the quarter after rising sharply in Q1.
- Pending sales rose on modestly declining mortgage rates while months' supply of inventory fell, shifting the market slightly in the seller's favor, a reversal from the buyer-favorable conditions noted last quarter.





Data from Redfin. https://www.redfin.com/news/data-center/

WHERE DO WE GO FROM HERE?

It has been an exciting year so far, with sharp moves in markets and sectors rotating rapidly. Wars have been started and a new Fed Chair has ushered in a new era for the Federal Reserve. While things have been a bit more volatile than in the past, recovery has been as swift as drawdowns. Much of this may be attributed to changes in market structure as trillions of dollars get funneled into indexed products and more leveraged ETFs and derivatives hit the market, producing forced buying, selling, and overall wider daily swings. These changes may be here to stay.

After the strength seen this past quarter, it would not be unlikely for markets to take a pause in the short-term. Outside of geopolitics and the possibility of a rise in inflation from oil, the macro backdrop remains structurally positive. While investors may be pricing in the odds of a rate hike, our view is this possibility remains quite low. Artificial intelligence continues to create efficiencies and productivity improvements, while labor markets remain strong domestically.

The future may be full of uncertainties, but it is also quite bright and full of potential. As always, the steadiest response remains a disciplined, long-term approach.

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Questions? Comments? Like what you read?
Reach out to chat or schedule a financial review:

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