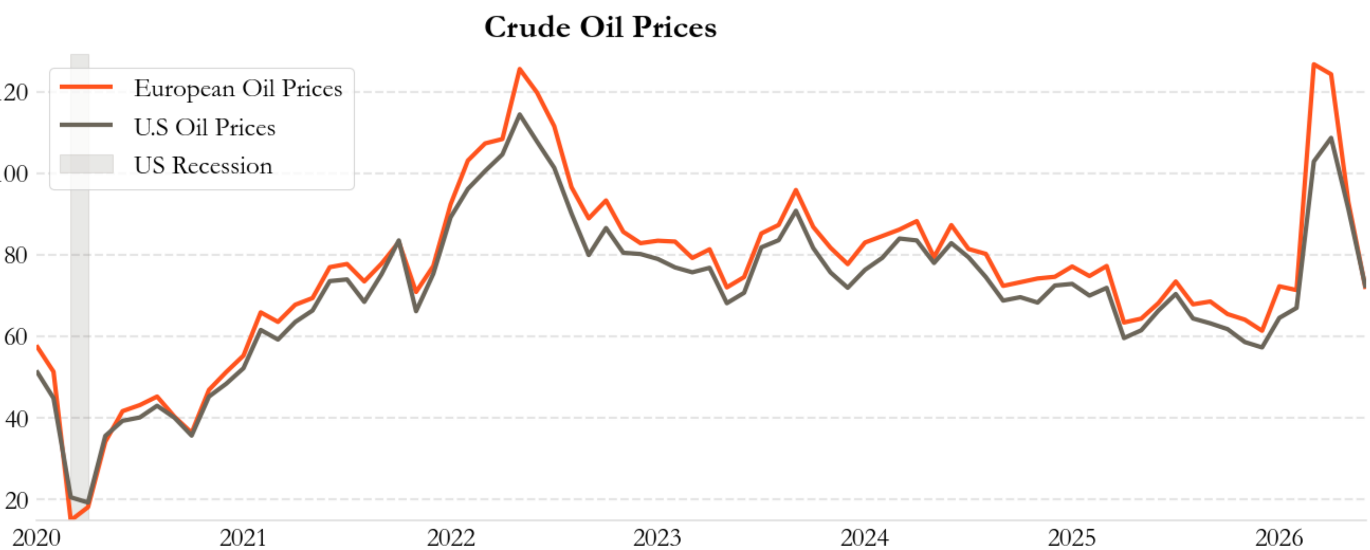
Q2 2026 Commentary

Economy

The second quarter of 2026 was defined by the unwinding of the energy shock that had upended the global economy in the final weeks of Q1. The war in Iran and the closure of the Strait of Hormuz—the chokepoint handling roughly a fifth of global oil and liquid natural gas flows—had driven crude prices to multi-year highs by the end of March. A mid-June interim peace agreement between the United States and Iran set the stage for the Strait of Hormuz to reopen, and oil prices retraced almost all of their spike by quarter-end. Yet the reprieve was incomplete: the inflationary aftershock of the Q1 surge continued to work its way through the data, and a Federal Reserve under new leadership answered with a decidedly hawkish hold—leaving markets to reprice the policy path even as the shock itself receded.

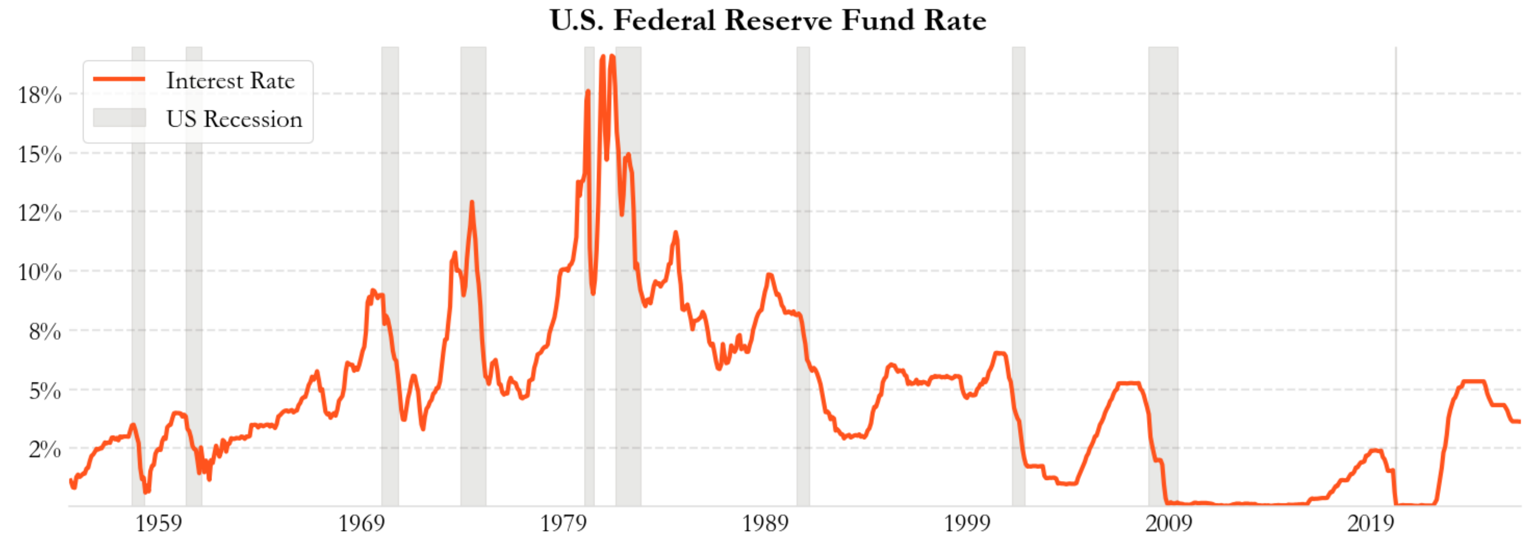
The turnaround was most visible in energy markets. After Brent crude spiked to roughly $126 per barrel in April—its highest level in years—prices fell sharply over the remainder of the quarter, ending June near $72, essentially back to their pre-war levels of mid-2025. US crude (WTI) traced the same path, retreating from a peak above $100 to around $70. The catalyst was diplomatic: the interim U.S.–Iran agreement announced in mid-June reopened the Strait of Hormuz, and despite a brief re-closure late in the month, tanker flows were normalizing by quarter-end. As the supply disruption eased, the war premium embedded in oil prices rapidly deflated, dragging gasoline prices down with it.



	2025-07	2025-08	2025-09	2025-10	2025-11	2025-12	2026-01	2026-02	2026-03	2026-04	2026-05	2026-06
European Crude Oil Price	73.4	67.8	68.5	65.4	64.1	61.4	72.2	71.3	126.7	124.2	92.9	71.6
U.S. Crude Oil Price	70.4	64.4	63.2	61.8	58.6	57.3	64.5	67.0	102.9	108.6	91.2	71.9

IRON Financial | Data: Federal Funds Effective Rate via FRED | June 30, 2026

Monetary policy, meanwhile, entered a new era. Kevin Warsh succeeded Jerome Powell as Chair of the Federal Reserve late in May, and at his first meeting in June, the committee left policy unchanged, holding the effective federal funds rate near 3.63% for the entire second quarter.

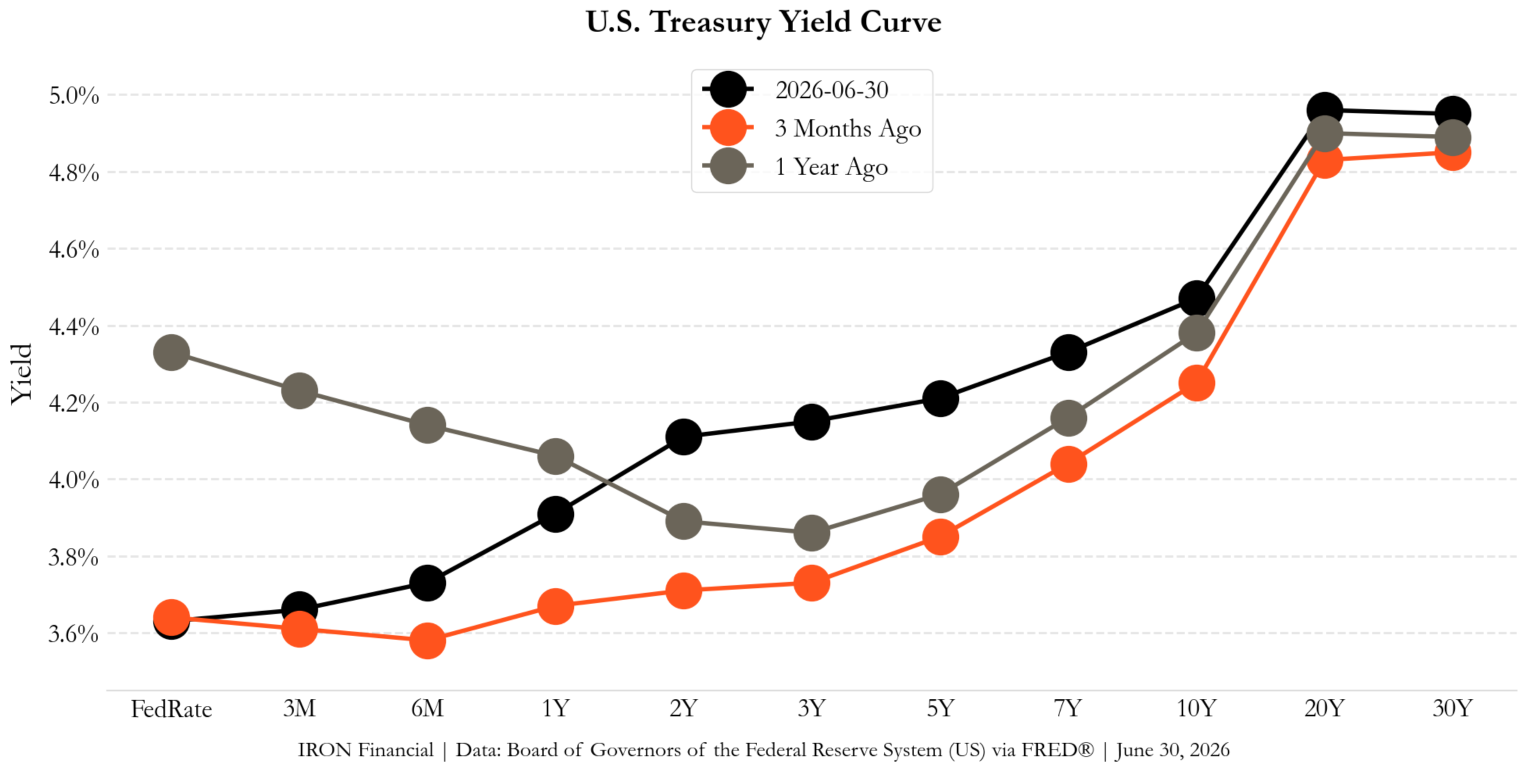


	2025-07	2025-08	2025-09	2025-10	2025-11	2025-12	2026-01	2026-02	2026-03	2026-04	2026-05	2026-06
Fed Rate %	4.33%	4.33%	4.22%	4.09%	3.88%	3.72%	3.64%	3.64%	3.64%	3.64%	3.63%	3.63%

IRON Financial | Data: Federal Funds Effective Rate via FRED | June 30, 2026

The hold, however, came with an unmistakably hawkish message. The post-meeting statement was shortened, forward guidance was eliminated, and the committee's projections flipped from implying further cuts toward the possibility of a hike before year-end. With the inflationary pass-through of the Q1 energy spike still building, the new chairman made clear that restoring price stability is the Fed's priority—and markets repriced accordingly, moving from the rate-cut expectations that prevailed at the start of the year toward a potential tightening.

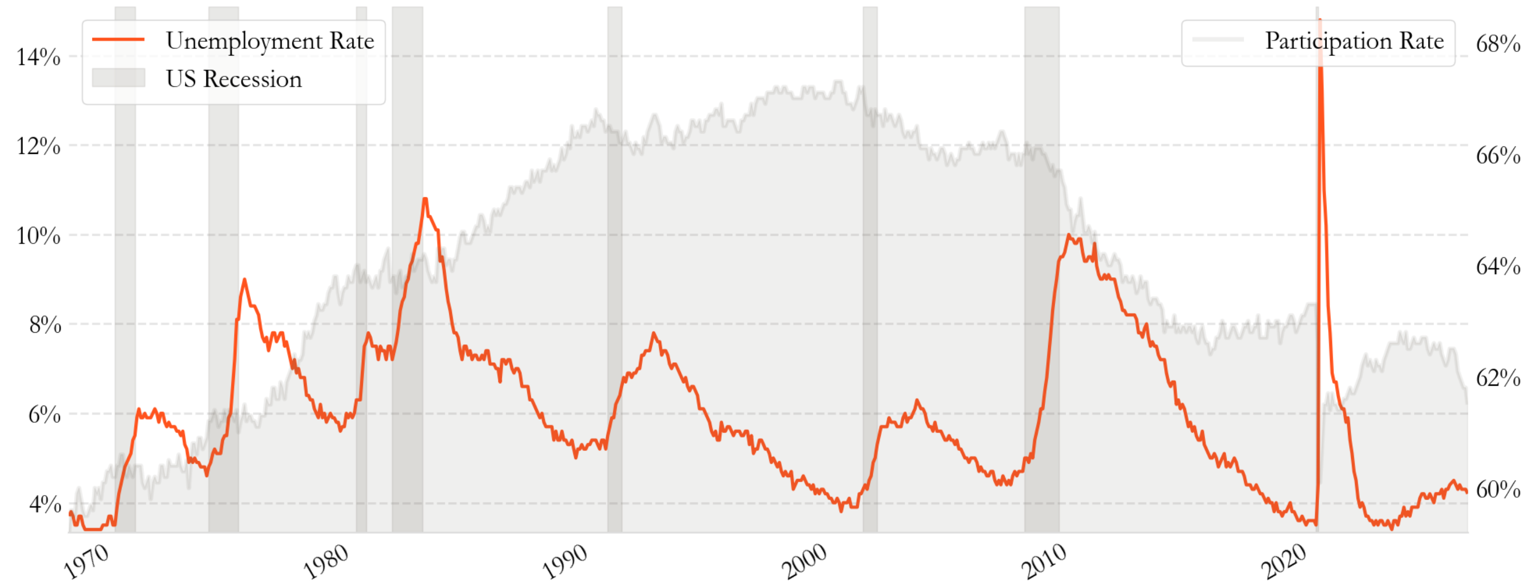
The bond market reflected that repricing. While the very front of the curve (short term rates) remained pinned to the fed funds rate—the 3-month yield ended the quarter around 3.7%—yields further out (longer term rates) rose meaningfully as the market priced out cuts and began to contemplate hikes.



The move was concentrated in the belly of the curve: the 2-year yield rose from roughly 3.7% to roughly 4.1% over the quarter, the 10-year climbed from roughly 4.25% to about 4.47%, and the 30-year edged up toward 5%. The result was a bear flattening—short and intermediate-term yields rising faster than long-term ones—consistent with a market bracing for a more restrictive Fed rather than one fearing entrenched long-run inflation. Yields did come off their peaks late in the quarter as oil collapsed, but they ended June well above where they began it.

The labor market continued its quiet cooling beneath a stable surface. The headline unemployment rate held in a narrow 4.2% band through the quarter. Beneath the surface, however, the labor force participation rate extended its steady decline, slipping from 61.9% in March to 61.5% by June. As in the prior quarter, the stable unemployment rate appears to be more due to workers exiting the labor force than robust hiring, leaving the consumer base on a softer footing as it absorbs the lingering costs of the energy shock.

U.S. Unemployment & Labor Participation Rates

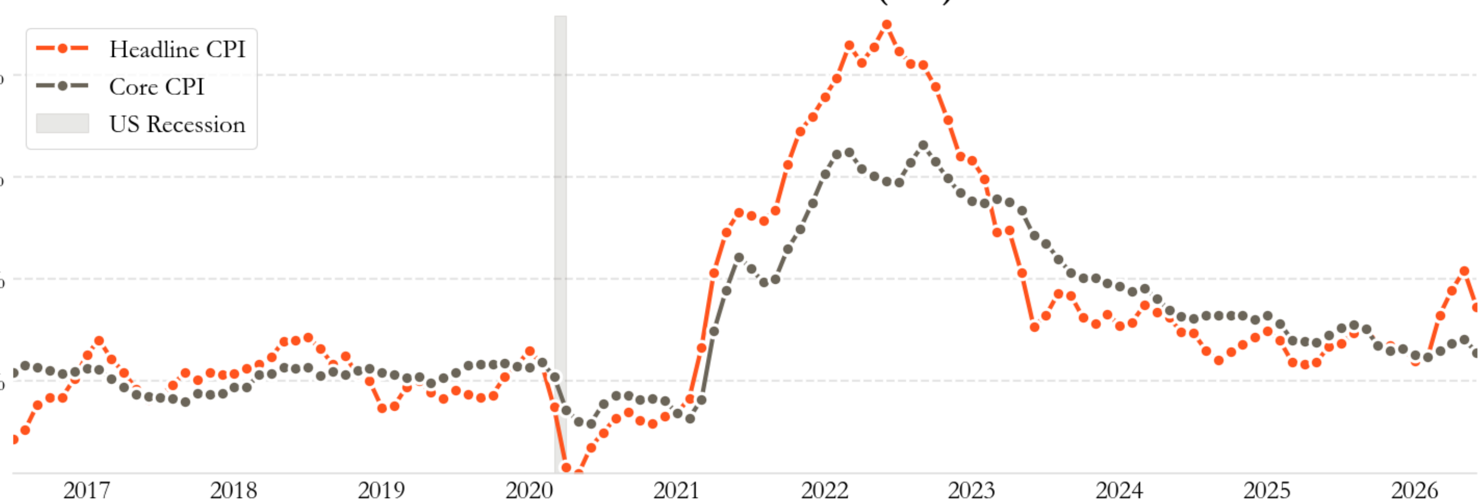


	2025-06	2025-07	2025-08	2025-09	2025-11	2025-12	2026-01	2026-02	2026-03	2026-04	2026-05	2026-06
Unemployment Rate	4.1%	4.3%	4.3%	4.4%	4.5%	4.4%	4.3%	4.4%	4.3%	4.3%	4.3%	4.2%
Participation Rate	62.3%	62.2%	62.3%	62.5%	62.5%	62.4%	62.1%	62.0%	61.9%	61.8%	61.8%	61.5%

IRON Financial | Data: US Federal Reserve Bank of St.Louis | June 30, 2026

The inflationary aftershock of the energy spike became the quarter's dominant macro story. Headline CPI, which had jumped to 3.78% in April, accelerated further to 4.17% in May and declined to 3.46% by June—as the energy shock passed through into the broader price level. Core CPI, which strips out volatile food and energy, rose far more gradually, from 2.60% in March to 2.82% in May then falling back to 2.57% in June indicating that the acceleration remained concentrated in energy-linked categories rather than broadening across the economy.

U.S. Consumer Price Index (CPI)



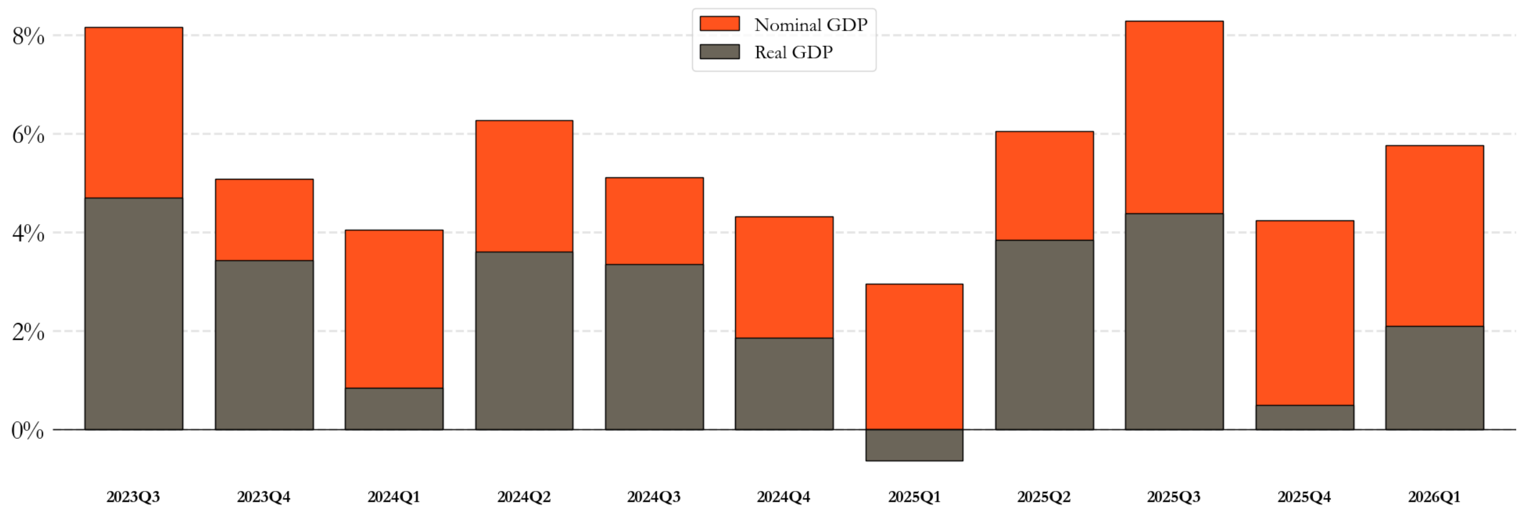
	2025-07	2025-08	2025-09	2025-10	2025-11	2025-12	2026-01	2026-02	2026-03	2026-04	2026-05	2026-06
CPI: Headline	2.74%	2.94%	3.02%	2.73%	2.70%	2.65%	2.39%	2.43%	3.29%	3.78%	4.17%	3.46%
CPI: Core	3.05%	3.11%	3.02%	2.70%	2.60%	2.65%	2.51%	2.47%	2.60%	2.74%	2.82%	2.57%

IRON Financial | Data: U.S. Bureau of Labor Statistics via FRED | June 30, 2026

Against this turbulent backdrop, economic output proved more resilient than the headwinds implied. Real GDP grew at a 2.1%

annualized rate in the first quarter of 2026, a solid rebound from the sluggish 0.5% pace of Q4 2025. Nominal GDP growth also rose to 5.8%.

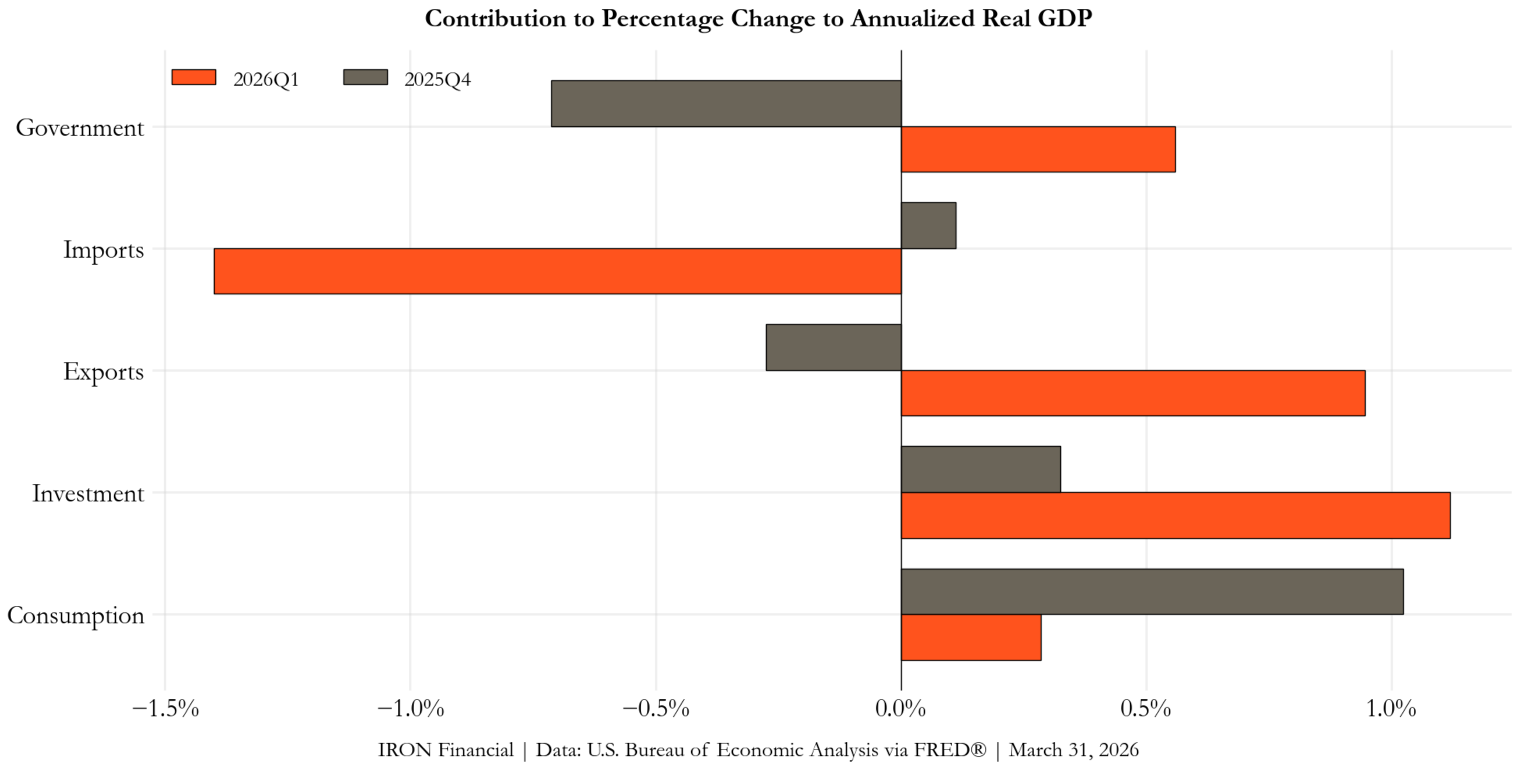
US Nominal & Real GDP Annualized Growth



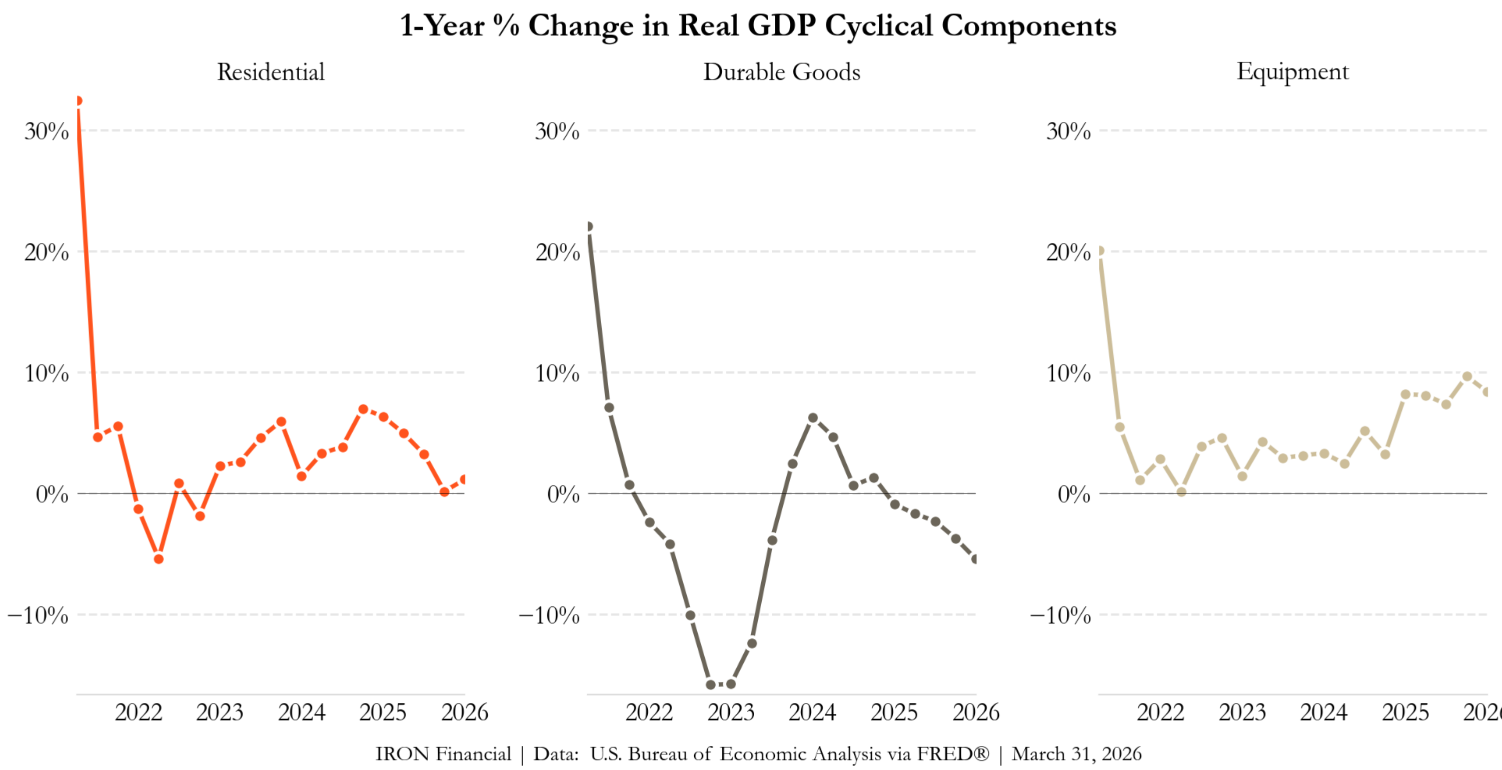
	2023Q3	2023Q4	2024Q1	2024Q2	2024Q3	2024Q4	2025Q1	2025Q2	2025Q3	2025Q4	2026Q1
Nominal GDP (%)	8.2%	5.1%	4.0%	6.3%	5.1%	4.3%	2.9%	6.0%	8.3%	4.2%	5.8%
Real GDP (%)	4.7%	3.4%	0.8%	3.6%	3.3%	1.9%	-0.6%	3.8%	4.4%	0.5%	2.1%

IRON Financial | Data: U.S. Bureau of Economic Analysis via FRED® | March 31, 2026

The composition of first-quarter growth, however, revealed a shift in its underlying drivers. Business investment was the standout contributor, powered by the ongoing buildout of artificial intelligence infrastructure, while personal consumption's contribution faded to one of its weakest readings in years. Government spending made meaningful contributions as activity normalized following the late-2025 federal shutdown, and net trade remained a drag as imports outpaced exports. The rebound in the headline figure thus rested heavily on corporate spending rather than the consumer—an increasingly familiar pattern.

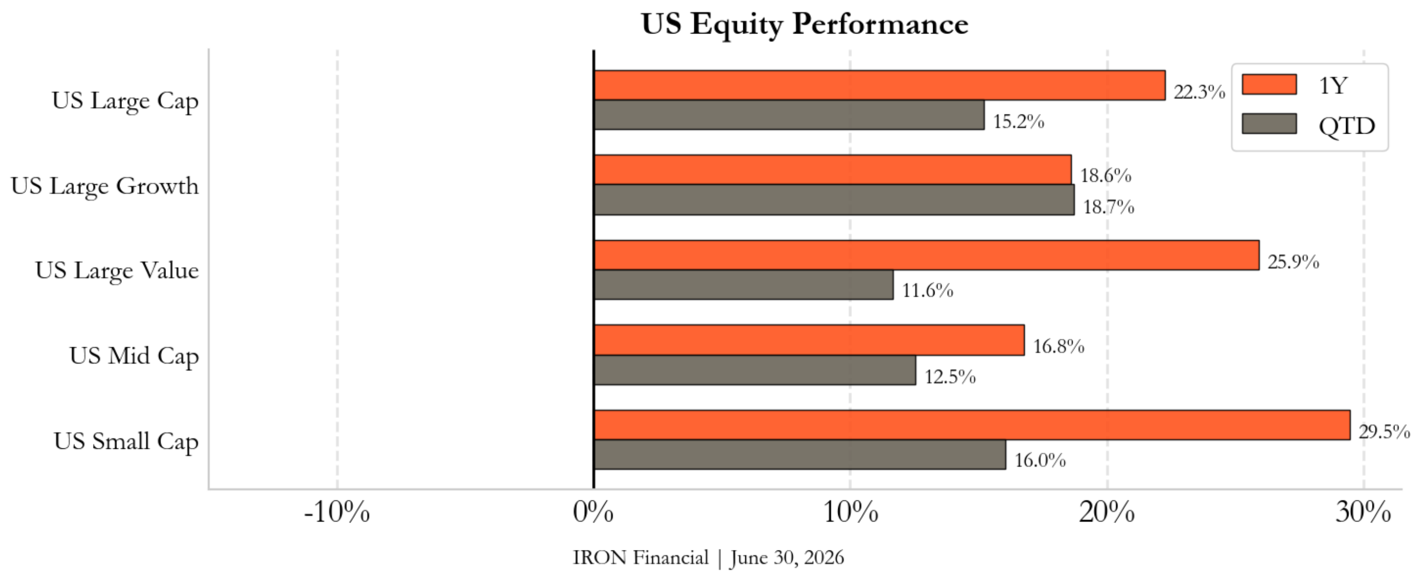


A deeper look at the one-year percentage change in real GDP's cyclical components reinforced this divergence. Consumer-linked segments remained weak, with residential investment hovering near zero and durable goods still mired in contraction. Business investment in equipment, by contrast, continued to run well ahead of the rest of the economy, propelled by AI-related capital spending. The picture remained one of a consumer retreating toward baseline spending, set against a corporate sector still aggressively building out capital equipment and technological infrastructure.



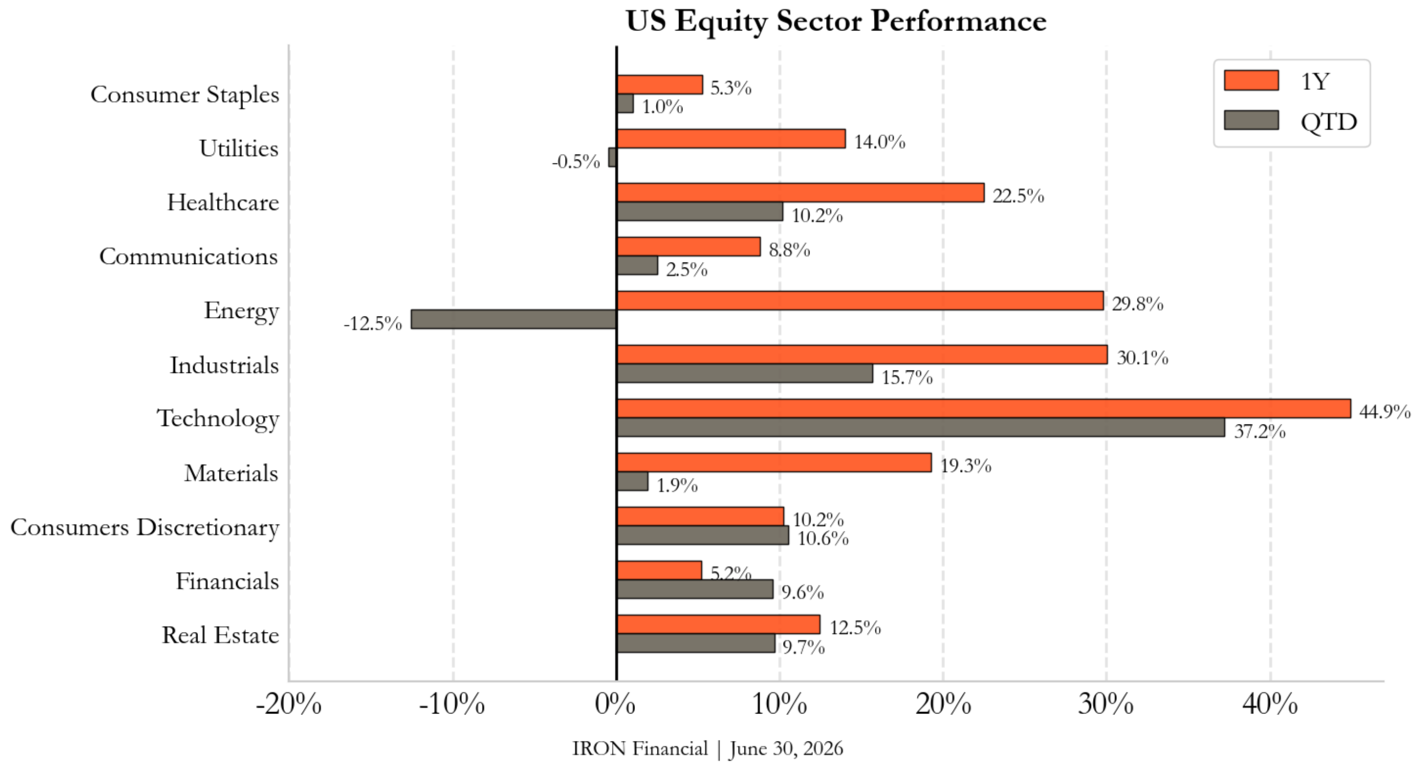
Equity Markets

The second quarter of 2026 marked a powerful recovery for US equities, with the market posting its best quarter in 6 years. The US equity market overall gained 15.7%. In a sharp reversal of the previous quarter's trend, Growth stocks reasserted their leadership over Value. US Large Growth equities gained 18.7%, while US Large Value stocks posted a more modest gain of 11.6%. Small-cap equities led among the size segments, posting a gain of 16.0%, while mid-caps advanced 12.5%. Large caps overall posted a 15.2% gain. Over the past year, US All-Cap Equities have gained 23.2%. During the same period, US Large Value stocks have gained 25.9%, while US Large Growth stocks posted a yearly gain of 18.6%. Small-Cap equities outperformed large-caps on a one-year basis, posting a 29.5% gain. US mid-cap equities posted a gain of 16.8%.



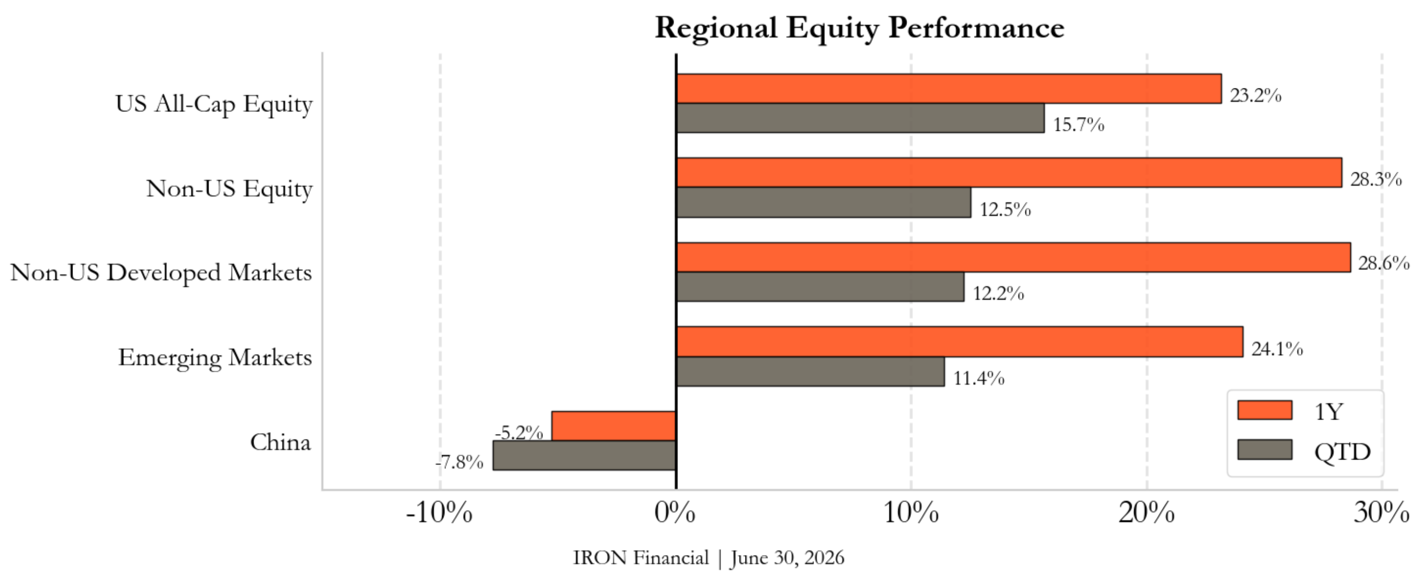
Equity sector performance in Q2 was again heavily skewed, but the leadership flipped entirely. The top-performing sector by a wide margin was Technology, which surged 37.2%, powered by the ongoing wave of AI infrastructure investment. Industrials, Consumer Discretionary, Healthcare, Real Estate, and Financials also posted strong returns, gaining 15.7%, 10.6%, 10.2%, 9.7%, and 9.6%, respectively. Energy and Utilities were the only sectors to decline. Energy, the prior quarter's leader, tumbled 12.5%, while Utilities slipped 0.5%. Communications, Materials, and Consumer Staples posted more muted gains of 2.5%, 1.9%, and 1.0%, respectively.

Over the past year, the top-performing sectors were Technology, Industrials, and Energy, which gained 44.9%, 30.1%, and 29.8%, respectively. Notably, Energy held onto a strong one-year gain despite this quarter's sharp reversal, as the bulk of its advance was generated during the prior quarter's oil spike. Financials and Consumer Staples were the laggards. Financials gained 5.2%, while Consumer Staples gained 5.3%.



International stocks joined the global rally in the quarter. Non-US Equities overall gained 12.5% during Q2. Non-US Developed Markets posted a gain of 12.2%. Developed markets narrowly outperformed Emerging Market equities, which posted a solid 11.4% gain. Chinese equities remained the notable exception, posting a 7.8% loss.

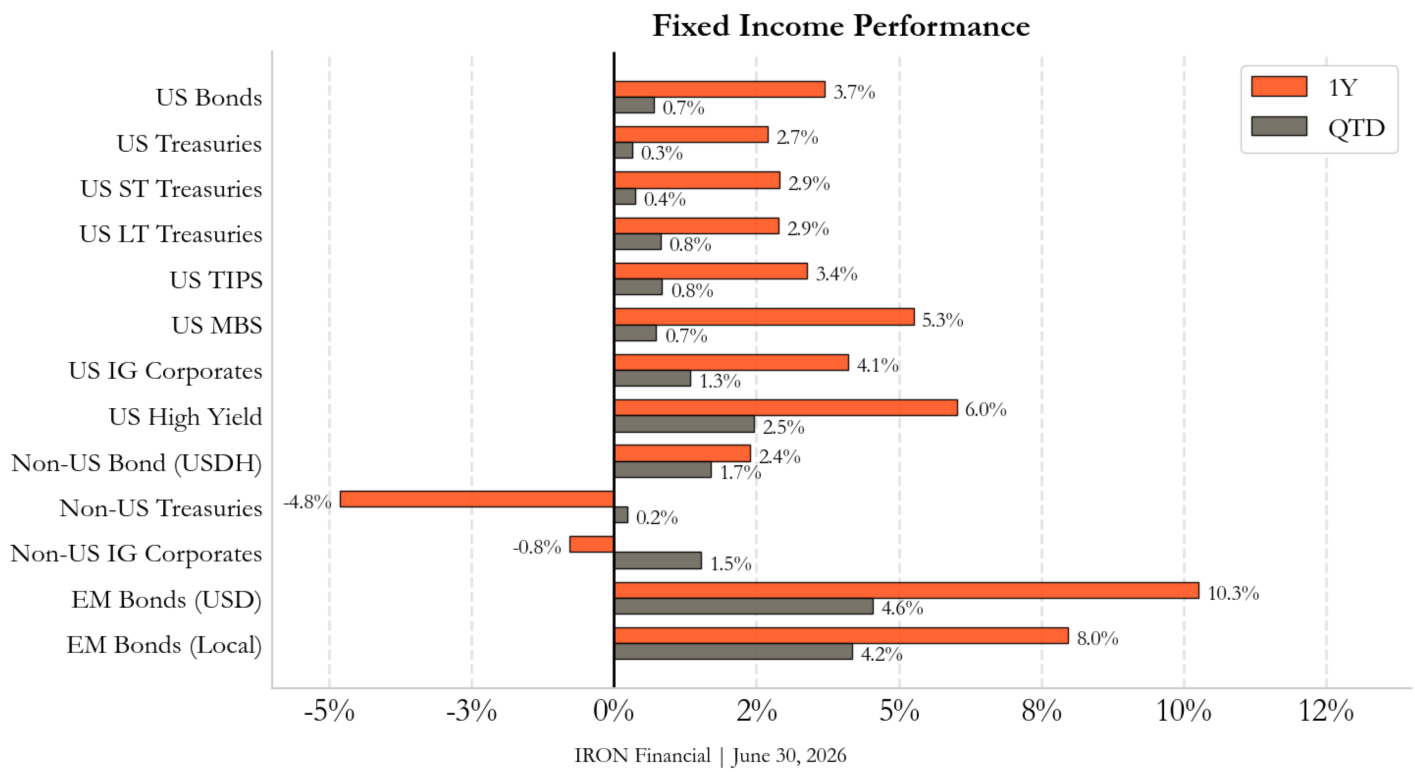
Over the past year, international equities have continued to perform well. Non-US Equities overall posted a gain of 28.3%. Non-US Developed Markets gained 28.6%, while Emerging Markets posted a gain of 24.1% over the past year. In contrast, Chinese equities slid into negative territory, posting a 5.2% loss over the past year.



Fixed Income Markets

The bond market posted broadly positive returns in the second quarter, with income offsetting the drag from rising yields. Overall, US Bonds gained 0.7% during the quarter. US high-yield bonds led the domestic complex with a 2.5% gain, while US IG ("Investment Grade") Corporates rose 1.3%. US MBS ("Mortgage-Backed Securities") posted a 0.7% gain. Among government bonds, US LT ("Long Term") Treasuries gained 0.8%, while US ST ("Short Term") Treasuries added 0.4%. Non-US bonds also advanced across the board. Non-US Bonds (USD-hedged) rose 1.7%, Non-US IG Corporates gained 1.5%, and Non-US Treasuries edged up 0.2%. EM ("Emerging Market") Bonds were the standout. EM bonds denominated in US Dollars gained 4.6%, while local currency EM Bonds gained 4.2%.

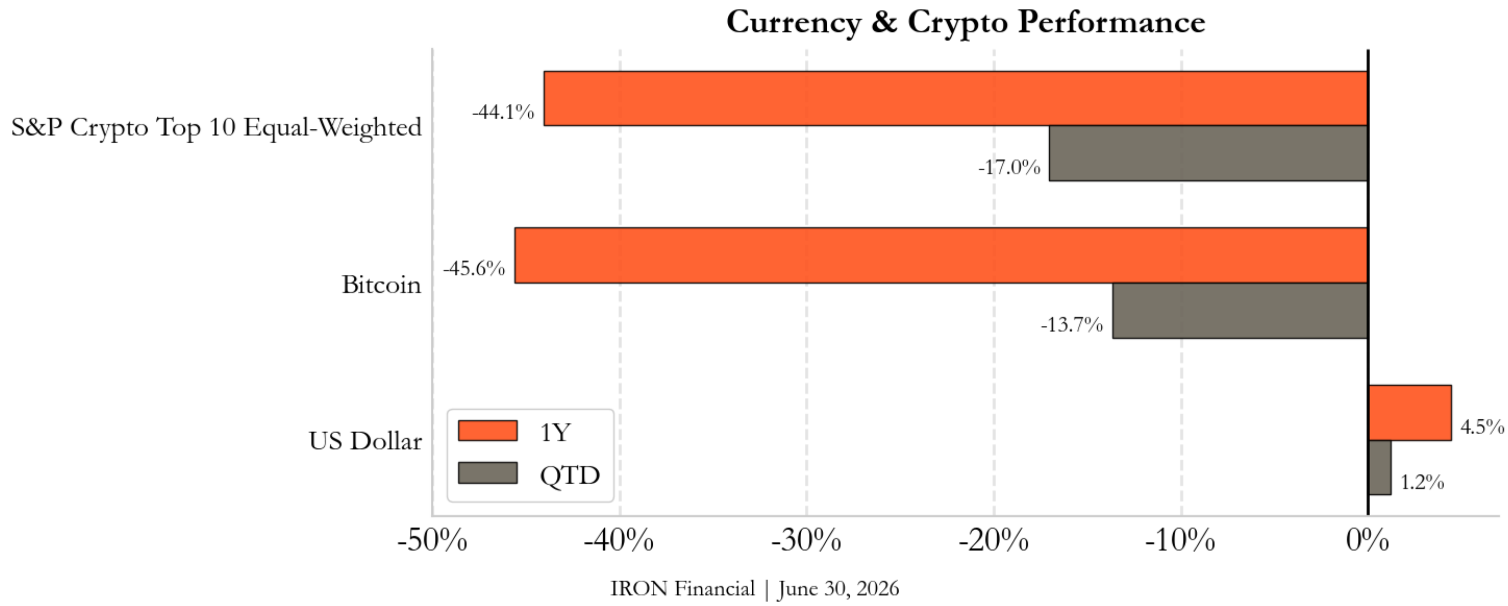
Bonds have posted moderate gains over the past year. US bonds have gained 3.7%. The top-performing fixed-income instruments were EM Bonds (USD), which gained 10.3%. Additionally, EM Bonds (Local) posted an 8.0% gain, and US high-yield bonds gained 6.0%.



Commodities & Currency Markets

Commodities gave back some of the prior quarter's gains, posting an overall loss of 8.1% for the quarter while holding a 24.8% gain on a one-year basis. Crude Oil was the biggest decliner, plunging 38.4% for the quarter—a dramatic reversal from the prior quarter's 94.5% surge as the energy shock unwound. Gold also pulled back after its extended rally, posting a 12.7% loss for the quarter, though it retained a 22.2% gain over the past year. Industrial Metals eked out a 0.8% gain, while Agriculture and Livestock commodity futures declined 3.2%.

The US dollar gained 1.2% against a basket of other major currencies[1] in the quarter and has now appreciated 4.5% over the past year. The cryptocurrency market extended its severe correction. Bitcoin fell 13.7% in Q2, deepening its losses to 45.6% over the past year. The broader crypto market fared similarly, with the S&P Crypto Top 10 Equal-Weighted Index dropping 17.0% for the quarter and 44.1% over the last year.



Outlook

The first half of 2026 delivered a major stress test. The closure of the Strait of Hormuz triggered the largest oil supply shock in generations, nearly doubling crude prices before they retraced and driving 10% equity drawdowns. Inflation, already near 3%, faces renewed upward pressure, and rate markets swung from expecting cuts to pricing hikes in under three months. The AI build-out has entered a new phase as platform companies exhaust internal cash and turn to global bond markets to finance expansion.

Energy shocks transmit via higher prices, disrupted supply chains, tighter financial conditions, and weaker confidence — stagflationary for net importers. Europe, the U.K., and Japan face the biggest drag; Canada and Australia stand to benefit; the U.S. is in between. Pain concentrates among low- and middle-income households, deepening the K-shaped divide.

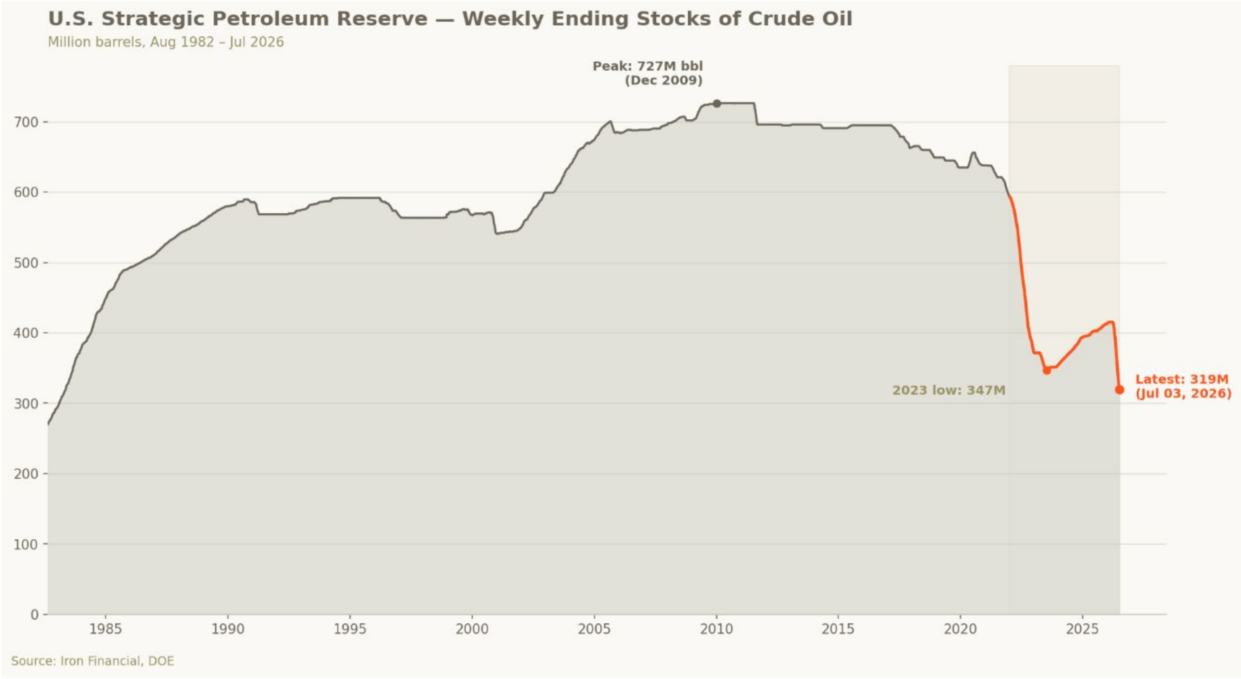
Yet this shock landed on a different economy than in 2022. Fiscal policy is constrained by heavy debt loads, labor markets have loosened, and rates start from neutral-to-restrictive rather than zero. The economy is likelier to absorb it through lower real incomes and softer wage growth than a self-reinforcing price spiral, which contains inflation but raises recession risk.

Rate expectations repriced sharply: April futures implied ~73% odds that the federal funds target would remain at 3.50%–3.75% by December. By late June, the modal outcome had shifted to 3.75%–4.00% (~40%), with nearly 80% probability of at least one hike by year-end and easing fully priced out.

Central banks face a paradox: inflation argues for tightening, while growth risks argue against it. With price stability as their sole mandate, the ECB and BoE have less room to look through the shock than the Fed — though the market's repricing has already tightened financial conditions on policymakers' behalf, and central banks rarely validate the full extent of a panic-driven move.

Major powers share an interest in cheap energy, and de-escalation appears to be underway. A prolonged conflict would still be costly even for net exporters like the United States, which has already drawn its Strategic Petroleum Reserve down to roughly 319 million barrels — below the 2023 low and less than half its 2009 peak — to help stabilize prices, leaving a thinner buffer against the next disruption.

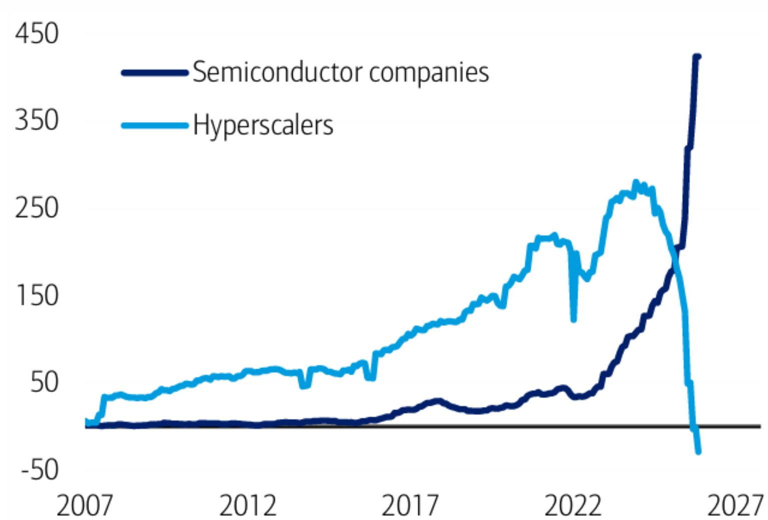
Post-quarter-end note (July 10, 2026): In early July, hostilities resumed—Iran attacked commercial tankers transiting the Strait of Hormuz, the United States responded with strikes on Iranian military targets, and President Trump declared the mid-June ceasefire over. The situation remains fluid as of this writing.



For now, though, the economy keeps chugging along, with the AI build-out a powerful structural force. Platform companies raised combined 2026 capital expenditure by $130 billion to more than $650 billion; cloud revenue is re-accelerating; the cost of contracted, frontier-generation compute is up roughly 40% since October; and the bottleneck sectors — semiconductors, networking, power — show explosive growth and wide margins at reset valuations. Data center construction has nearly quadrupled as a share of nonresidential building.

What has changed is who holds the cash. Forward free cash flow for the five largest platform companies has collapsed from a ~$275 billion peak in 2024 to roughly zero — even slightly negative — as capex overwhelms operating cash flow. Over the same period, semiconductor complex free cash flow (FCF) has surged from ~$50 billion to more than $400 billion, fully inverting the historic relationship in about eighteen months. A build-out once funded by cash flow is now funded by bond markets, which makes credit conditions a direct input into the cycle's pace.

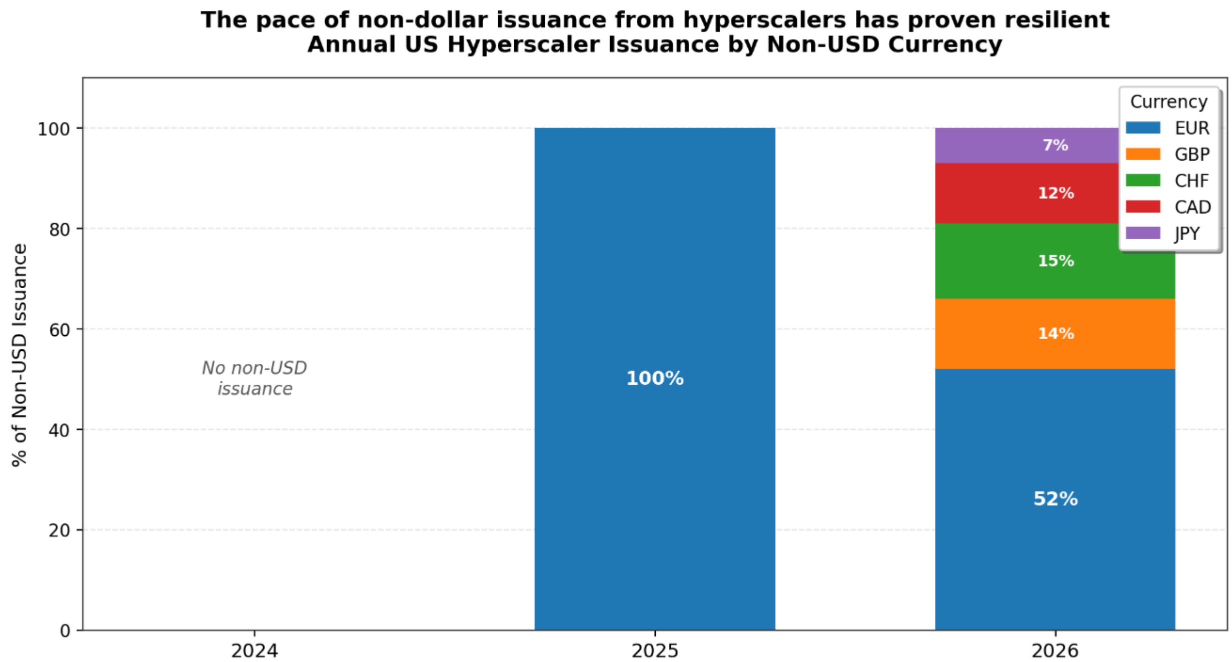
Exhibit 6: A generational transfer in free cash flow is taking place
12m forward FCF of "hyperscalers" and semiconductor companies, $bn



Source: BofA Research Investment Committee. Hyperscalers = AMZN, GOOGL, META, MSFT, ORCL. Semiconductor companies = NVDA, MU, AVGO, & AMAT

BofA GLOBAL RESEARCH

Hyperscalers have also increasingly funded AI capex with debt across multiple currencies. Issuers that sold no non-dollar debt two years ago now tap euros (roughly half the non-USD mix), Swiss francs, sterling, Canadian dollars, and yen — including a record foreign yen bond. This creates rare AA-rated paper — from issuers whose balance-sheet cash still covers about three-quarters of debt even as cash flow tightens — across currencies at supply-driven spreads. And because these issuers remain far from dominating their benchmarks, heavy issuance and the concessions that come with it should persist.



Source: Bloomberg, Bond Radar, ICE BofA, Morgan Stanley Research.

Step back from the noise, and the change of regime is clear. Consumer prices have risen more than 25% cumulatively this decade, while core bonds returned a few percent in total. “One-time” shocks — pandemic, war, tariffs, immigration swings, and now an energy crisis — keep arriving before the last one's effects have faded, and each round of repetition risks normalizing higher inflation in wages, contracts, and pricing behavior. Meanwhile, the U.S. economy is experiencing one of the largest capex infusions on record. This has a double-edged effect on prices: the build-out adds demand for power, materials, and skilled labor today, while the productivity it enables is only disinflationary later. Taken together, inflation's floor likely sits closer to 3% than to 2%, with fatter tails in both directions. In turn, we believe that diversification remains the best bet for investors.

Market Performance Table

Equities						
Asset Class	**Proxy**	**Ticker**	**QTD**	**YTD**	**1Y**	**3Y**
US All-Cap Equity	Vanguard Total Stock Market ETF	VTI	15.7	11.1	23.2	20.4
US Large Growth	Vanguard Growth ETF	VUG	18.7	6.4	18.6	22.9
US Large Value	Vanguard Value ETF	VTV	11.6	15.4	25.9	18.0
US Mid Cap	Vanguard Mid-Cap ETF	VO	12.5	11.8	16.8	15.3
US Small Cap	Vanguard Small-Cap ETF	VB	16.0	18.2	29.5	16.7
US Large Cap	Vanguard S&P 500 ETF	VOO	15.2	10.2	22.3	20.6
VIX	CBOE Market Volatility (VIX) PR USD	VIX	-34.9	10.0	-1.7	6.6
Consumer Staples	Vanguard Consumer Staples ETF	VDC	1.0	8.1	5.3	7.6
Utilities	Vanguard Utilities ETF	VPU	-0.5	7.3	14.0	14.7
Healthcare	Vanguard Health Care ETF	VHT	10.2	4.7	22.5	8.5
Communications	Vanguard Communication Services ETF	VOX	2.5	-4.4	8.8	21.4
Energy	Vanguard Energy ETF	VDE	-12.5	20.9	29.8	13.4
Industrials	Vanguard Industrials ETF	VIS	15.7	21.4	30.1	22.1
Technology	Vanguard Information Technology ETF	VGT	37.2	27.2	44.9	30.0
Materials	Vanguard Materials ETF	VAW	1.9	11.1	19.3	9.7
Consumer Discretionary	Vanguard Consumer Discretionary ETF	VCR	10.6	1.1	10.2	12.8
Financials	Vanguard Financials ETF	VFH	9.6	-0.4	5.2	19.7
Real Estate	Vanguard Real Estate ETF	VNQ	9.7	11.1	12.5	9.1
Non-US Equity	Vanguard FTSE All-Wld ex-US ETF	VEU	12.5	14.6	28.3	19.0
Non-US Developed Markets	Vanguard FTSE Developed Markets ETF	VEA	12.2	15.0	28.6	19.3
Emerging Markets	Vanguard FTSE Emerging Markets ETF	VWO	11.4	11.2	24.1	17.1
China	iShares MSCI China ETF	MCHI	-7.8	-14.7	-5.2	7.2

Fixed Income						
Asset Class	**Proxy**	**Ticker**	**QTD**	**YTD**	**1Y**	**3Y**
US Bonds	Vanguard Total Bond Market ETF	BND	0.7	0.7	3.7	4.2
US Treasuries	iShares US Treasury Bond ETF	GOVT	0.3	0.4	2.7	3.1
US ST Treasuries	Vanguard Short-Term Treasury ETF	VGSH	0.4	0.7	2.9	4.4
US LT Treasuries	Vanguard Long-Term Treasury ETF	VGLT	0.8	0.6	2.9	-0.5
US TIPS	Schwab US TIPS ETF™	SCHP	0.8	1.3	3.4	3.9
US MBS	Vanguard Mortgage-Backed Secs ETF	VMBS	0.7	1.2	5.3	4.7
US IG Corporates	iShares iBoxx $ Invmt Grade Corp Bd ETF	LQD	1.3	0.7	4.1	4.9
US High Yield	SPDR® Portfolio High Yield Bond ETF	SPHY	2.5	2.0	6.0	8.9
Non-US Bonds	Vanguard Total International Bond ETF	BNDX	1.7	1.3	2.4	4.3
Non-US Treasuries	SPDR® Blmbg Intl Trs Bd ETF	BWX	0.2	-2.5	-4.8	0.9
Non-US IG Corporates	SPDR® Blmbg Intl Corp Bd ETF	IBND	1.5	-1.5	-0.8	6.0
EM Bonds (USD)	iShares JP Morgan USD Em Mkts Bd ETF	EMB	4.6	2.5	10.3	9.6
EM Bonds (Local)	iShares JP Morgan EM Local Ccy Bd ETF	LEMB	4.2	2.3	8.0	6.1

Commodities						
Asset Class	**Proxy**	**Ticker**	**QTD**	**YTD**	**1Y**	**3Y**
Commodities	abrdn Blmb AllCmdStrK1Fr ETF	BCI	-8.1	14.1	24.8	11.2
Crude Oil	Oil Price Brent Crude PR	OIL	-38.4	19.8	7.9	-0.9
Gold	iShares Gold Trust	IAU	-12.7	-6.7	22.2	27.9
Industrial Metals	S&P GSCI Industrial Metal TR USD	INDMETAL	0.8	6.9	28.6	14.1
Agriculture & Livestock	S&P GSCI Agrcl&Livestock TR	AGRI&LIVES	-3.2	1.5	4.7	2.1

Currency						
Asset Class	**Proxy**	**Ticker**	**QTD**	**YTD**	**1Y**	**3Y**
US Dollar	US Dollar	DXY	1.2	2.9	4.5	-0.6
Bitcoin	Bitcoin	IBIT	-13.7	-33.0	-45.6	0.0
Crypto	S&P Crypto Top 10 Equal-Weighted	SPCRYPTO	-17.0	-35.4	-44.1	4.6

Source: Morningstar Direct (as of 6/30/2026)

1 With respect to valuation of the US Dollar, the basket of other currencies is defined as follows: Euro (EUR) 57.6%, Japanese Yen (JPY) 13.6%, British Pound (GBP) 11.9%, Canadian Dollar (CAD) 9.1%, Swedish Krona (SEK) 4.2%, Swiss Franc (CHF) 3.6%.

Disclosure

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