Quarterly Economic and Market Review

Q2 2026

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Executive Summary

Markets Power Through Uncertainty

David Lundgren, CFA, Chief Investment Officer

The second quarter of 2026 was another reminder that while headlines often drive short-term volatility, corporate fundamentals ultimately determine long-term market direction. Investors entered April still digesting one of the most unsettling periods in recent years. The conflict in the Middle East had sent oil prices sharply higher, inflation expectations were rising, a new and possibly more hawkish Federal Reserve Chair had taken office, and bond markets were rapidly abandoning expectations for 2-3 interest rate cuts in favor of discussing the possibility of rate increases before year end. Political uncertainty surrounding trade policy, fiscal deficits, and global conflicts only added to the list of investor concerns. Yet despite an extraordinary number of potential obstacles, equity markets quickly regained their footing as ceasefires emerged, energy prices retreated, and investors shifted their attention back to corporate America.

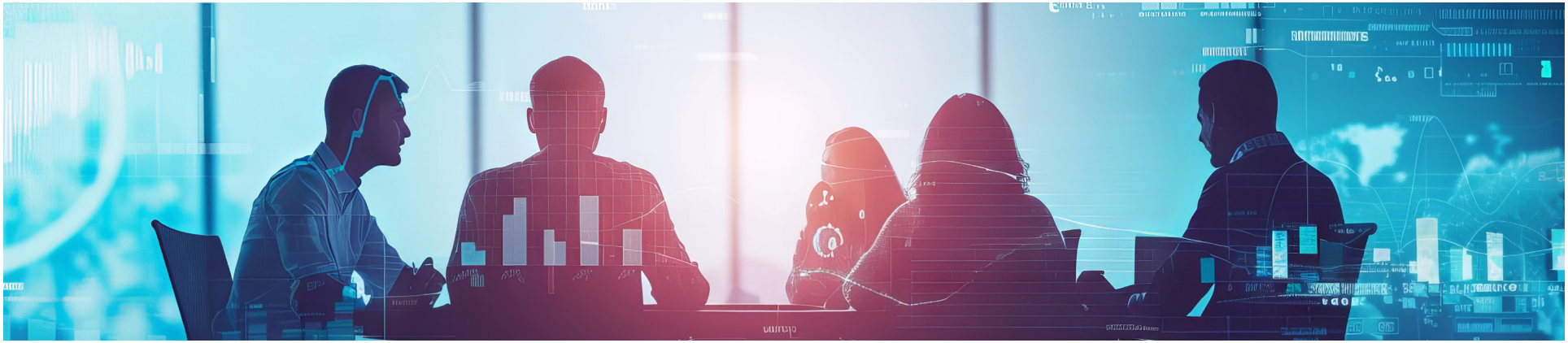
That shift proved well founded. The first quarter earnings season, reported during the second quarter, was among the strongest in years. Businesses continued investing at a remarkable pace in artificial intelligence, equipment, software, and data center infrastructure, fueling one of the largest capital spending booms in decades. Those investments translated into exceptional financial results as S&P 500 companies reported earnings growth approaching 29% and revenue growth of nearly 12%, both dramatically exceeding analysts' expectations. The combination of accelerating profits and continued confidence in long-term productivity gains powered the S&P 500 to a 15.2% quarterly return, its strongest quarter since the powerful rebound of 2020.

Equally encouraging was the broadening of market leadership. Rather than relying on a handful of mega-cap technology companies, market gains became increasingly widespread across investment styles, company sizes, and international markets. Healthy market advances supported by broad participation and exceptional earnings growth are generally more durable than rallies driven primarily by expanding valuations. While U.S. large-cap equities remain above long-term average valuation levels, strong profit growth left many valuation measures little changed from where they began the quarter, suggesting prices were increasingly supported by improving fundamentals rather than speculation alone.

Bond investors viewed the same environment quite differently. Rather than celebrating accelerating earnings growth, fixed income markets focused on the inflationary consequences of higher energy prices, expanding federal deficits, and a meaningful shift in Federal Reserve policy. Rising oil prices temporarily reignited inflation concerns, while new Federal Reserve Chair Kevin Warsh emphasized restoring price stability even if monetary policy remained restrictive for longer than previously expected. The result was higher Treasury yields across much of the curve and largely flat returns for high-quality bonds as steady coupon income was offset by modest price declines. By late June, however, falling oil prices and renewed negotiations with Iran had begun easing inflation fears and improving the outlook for fixed income investors.

Beneath the market headlines, the U.S. economy continued to display impressive resilience. Consumer spending moderated under the weight of higher gasoline prices earlier in the quarter, yet historically healthy household balance sheets, elevated net worth, low leverage, and abundant liquidity continued to support overall economic activity. Even more important, business investment remained the economy's primary growth engine. Equipment and software spending reached its fastest pace since the launch of the AI investment cycle, supporting productivity gains, record corporate profitability, and continued economic expansion. Meanwhile, the sharp decline in oil prices during the second half of the quarter, combined with moderating tariff-related price pressures, significantly improved the inflation outlook heading into the second half of the year.

Looking ahead, uncertainty remains abundant. Negotiations with Iran continue, the Russia-Ukraine conflict remains unresolved, Congress continues debating tax and fiscal policy, federal deficits remain elevated, and the approaching midterm elections have the potential to reshape the political landscape. Each has the potential to generate periods of heightened market volatility. Yet history consistently demonstrates that markets have an extraordinary ability to adapt as businesses innovate, consumers adjust, and the American economy continues to evolve. As our nation celebrates its 250th anniversary, it is worth remembering that the story of the United States has never been one of avoiding adversity, but of overcoming it through innovation, entrepreneurship, and resilience. Those same qualities continue to define American businesses today and remain among the strongest reasons for optimism about the long-term investment outlook.



2Q26 Key Investment Highlights

EQUITIES

Capex Boom Drives Earnings

Business investment in equipment, software, and AI infrastructure accelerated during the second quarter, supporting one of the strongest capital spending environments in years. Those investments helped sustain record corporate profit margins and resilient earnings growth, reinforcing productivity as a key driver of profitability.

Market Leadership Broadens

Market gains expanded well beyond large-cap technology. Value stocks, small- and mid-cap companies, and international markets all posted strong returns, reflecting healthier market participation and broader investor confidence.

Geopolitical Shock Fades

The Iran conflict triggered a sharp but brief market pullback as oil prices climbed and uncertainty increased. As ceasefires emerged and negotiations resumed, equity markets quickly recovered, returning investors' focus to corporate fundamentals.

FIXED INCOME

Middle East Volatility

The Iran conflict pushed global bond yields higher as oil prices surged and investors priced in renewed inflation risks. Treasury volatility eased later in the quarter as hostilities subsided and energy prices retreated.

Inflation Fears Dominate

Volatile energy prices became the primary driver of inflation expectations, temporarily overshadowing improving trends elsewhere. As oil prices declined following renewed ceasefire efforts, inflation concerns and bond market volatility moderated.

Fed Turns Hawkish

New Federal Reserve leadership emphasized restoring price stability and signaled a willingness to keep policy restrictive if needed. The more hawkish tone pushed Treasury yields higher and tempered expectations for near-term rate cuts.

ECONOMY

Consumer Resilience

Higher oil prices and supply chain disruptions pressured consumers, but historically strong household balance sheets helped sustain spending. Elevated net worth and liquid assets continued to cushion economic growth.

Investment Leads Growth

Business investment remained the economy's strongest growth engine, with equipment and software spending reaching its fastest pace since the AI investment cycle began. Strong capital expenditures continued to offset softer consumer activity.

Inflation Outlook Improves

Lower oil prices following the Persian Gulf ceasefire and reduced tariff uncertainty improved the inflation outlook heading into the third quarter. With both sources of price pressure easing, the backdrop appears increasingly supportive of lower inflation and stronger consumer activity.

POLICY

Middle East: Fragile Peace

Repeated ceasefires, renewed violence, and ongoing negotiations reduced immediate market stress but left the conflict unresolved. Direct U.S.-Iran talks resumed at quarter end, keeping geopolitical and energy market risks elevated.

Congress: Tax Focus

Congress continued advancing a reconciliation package centered on extending many of the 2017 tax provisions while providing additional relief for households and businesses. The legislation could support growth, although its long-term fiscal impact remains a key consideration.

Supreme Court: Executive Authority

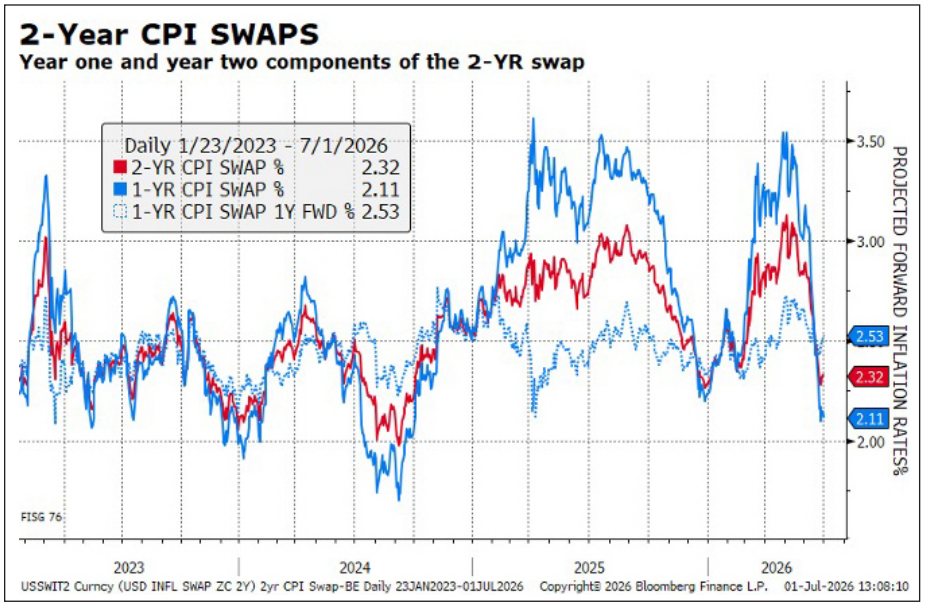
The Court strengthened presidential authority over executive agencies while preserving Federal Reserve Governor Lisa Cook's position pending appropriate legal process. Broader questions surrounding executive authority over independent agencies remain unresolved.

Macroeconomics Review & Outlook [1-6]

Paul Teten, CFA, Chief Investment Strategist

AS HORMUZ HOSTILITIES ABATE, OIL PRICES PLUMMET

While the contentions that triggered Operation Epic Fury on the last day of February are far from resolved, the ceasefire, the end of the U.S. blockade and the sort of reopening of the Strait of Hormuz have resuscitated the flow of oil, liquified natural gas, petrochemicals and fertilizers from the Arabian Gulf to supply-shocked economies across the globe, bringing industrial materials prices and operating costs down across a wide spectrum. The break in energy prices coincides with a turn for the better from the other main inflationary irritant, tariff pass-throughs on imported goods, which have been dissipating as a result of the Supreme Court and the Court for International Trade rulings that tariffs collected last year were illegally authorized and should be rebated. Core goods inflation, apart from food and energy prices, has moderated substantially in recent months, sparking a resurgence of demand for imported goods, despite the broader environment of diminished purchasing power from high energy prices and consumer wariness toward the lure of travel and leisure services, among other discretionary purchases. Our expectation is that negotiations with Iran will drag on through the summer and longer, avoiding a resumption of conflict until at least after the midterm elections in November. Meanwhile, inflation expectations have dropped precipitously, as expressed in Consumer Price Index swap contracts, with nearby 1-YR CPI inflation projections dropping from 3.50% to 2.11% over the last six weeks. Receding energy price inflation should impact CPI and other inflation metrics as early as this month, setting the stage for consumer-friendly inflation news and improved household spending this summer and into the fall.



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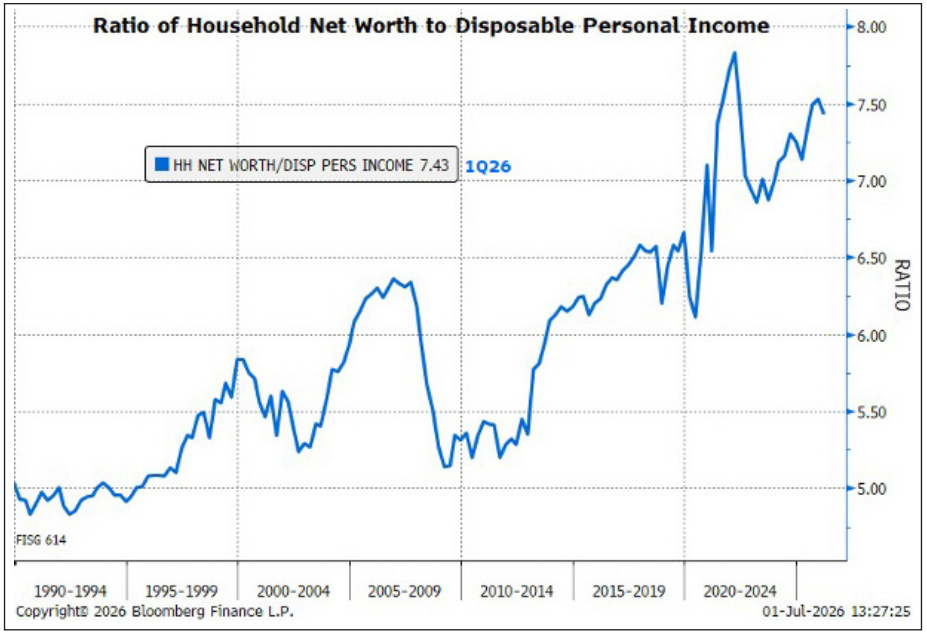

THE U.S. CONSUMER OUTLOOK ENTAILS MORE THAN INCOME

Consumer spending slowed last fall from resistance to tariffs and this spring from the shock of spiking gasoline prices. The combined impact might have been more destabilizing in other eras, and recession risk has been in forecast conversations, but the U.S. economy plodded ahead last year, with remarkably resilient economic growth, apart from the GDP noise of volatility in supply chains, import surges and government shutdowns. Several components combine to buttress household finances now more substantially than any prior economic cycle, fostered by the deleveraging purge that followed the Great Financial Crisis in 2008 and persisted for a decade with the benefits continuing today. Total household debt, including mortgages, credit cards, auto and student loans, peaked in 2009 at 117% of disposable personal income (DPI) and dropped to 87% at the outset of the pandemic in 2020, and receded further to 79% this spring. The credit card component peaked at 8% of DPI in 2009, dropped to 5.7% pre-COVID, and remains low at 5.3% today. Partnered with low debt, households are also flush with available liquidity; hoarding cash, deposits and money market funds amounting to 65% of GDP, subtracting credit card debt at 61%, record levels of liquidity apart from the transfer payment helicopter money distributed during the pandemic. And finally, household net worth has soared far above the prior peak level in 2008, to 7.4 TIMES DPI. Household balance sheets are on the whole in excellent condition, with a wealth effect and ample liquidity backstopping consumers through the disruptions from tariffs, the Persian Gulf war, inflation and sluggish jobs growth.

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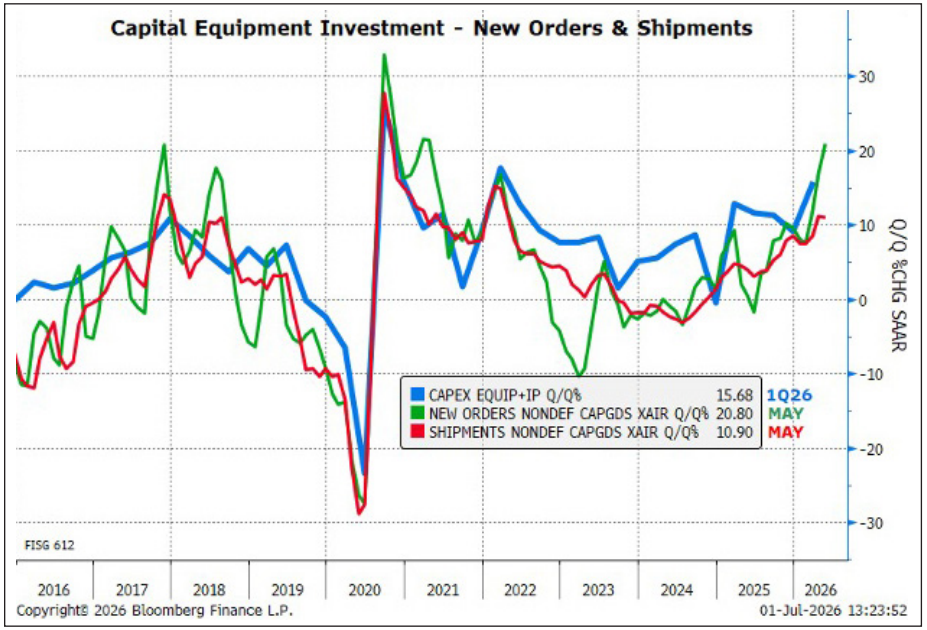


STRONG CAPITAL INVESTMENT POWERS THE U.S. ECONOMY THROUGH THE FOG OF WAR

The U.S. economy witnessed the strongest investment in capital equipment and software in 1Q26 since the launch of Chat GPT in 2022. Since 2023 technology investment trends have steadily grown, reaching the heights of a 15.7% Q/Q annual rate of increase in 1Q26, undoubtedly furthered by capital expensing provisions in last summer's federal budget reconciliation, widely known as the One Big Beautiful Bill. Equipment and software investment provided fully 1.6% of the 2.1% Q/Q AR gain in 1Q26 Real GDP, with modest assists from consumer spending and government consumption, rebounding from the shutdown in 4Q25. Ongoing acceleration through May in new orders for non-defense capital goods ex aircraft, a standard barometer of capital equipment investment, leads us to expect another solid contribution to 2Q26 Real GDP, likely to include a healthier consumer contribution than the paltry 0.5% Q/Q AR in 1Q26, and possibly additional catch up in government consumption. With an offset likely from net exports and an expanding trade deficit, our assessment is that 2Q26 Real GDP growth will likely be in the vicinity of 3% Q/Q AR, with tailwinds picking up this summer from receding inflation. The second half of 2026 is looking up!

Our assessment is that 2Q26 Real GDP growth will likely be in the vicinity of 3% quarterly growth, with tailwinds picking up this summer from receding inflation. The second half of 2026 is looking up!

	INDEX	2026 SECOND QUARTER	2026 FIRST QUARTER	YTD 2026	LAST 12 MONTHS
US	S&P 500	15.2%	-4.3%	10.2%	22.3%
	NASDAQ COMPOSITE INDEX	21.6%	-7.0%	13.1%	29.5%
	S&P 500 GROWTH	21.9%	-8.1%	12.0%	25.7%
	S&P 500 VALUE	8.0%	0.0%	8.0%	18.4%
	S&P 500 EQUAL WEIGHTED	11.4%	0.7%	12.1%	19.2%
	S&P MID CAP 400	14.5%	2.5%	17.3%	25.9%
	S&P SMALL CAP 600	19.7%	3.5%	23.9%	37.5%
INTERNATIONAL	MSCI AC WORLD	14.9%	-3.2%	11.2%	23.7%
	MSCI EAFE	10.8%	-1.2%	9.4%	20.2%
	MSCI EAFE SMALL CAP	9.0%	-1.3%	7.6%	17.4%
	MSCI EAFE EMERGING MARKETS	24.1%	-0.2%	23.8%	43.5%

Equities [7]

Martin Sirera, CFA, Director of Equities

POWERING THROUGH UNCERTAINTY

In the first half of 2026, equity markets dealt with an unusual level of uncertainty accompanied by a historic surge in business investment spending (i.e., capital expenditures, or capex). Unfavorable domestic and international court rulings on the Trump Administration's tariff policies and the initiation of military action against the state of Iran and its terrorist proxies elevated worries about economic resilience and nagging inflation, but investor confidence in the promises of Artificial Intelligence (AI) helped power equity markets in the second quarter to one of their best performances in decades.

The S&P 500 Index posted a total return of 15.2% for the full quarter, the second-best quarterly performance since the initial rebound after the Great Recession of 2007-2009. (The best quarter recently was the second of 2020, also a rebound from the brief but deep 2020 recession.) The Technology stock heavy Nasdaq Composite Index returned more than 21.0% in the quarter, its second-best quarter going all the way back to the rebound from the "Dot Com" Crash.

In this environment of growing investor confidence, there has been a persistent broadening out of good performance beyond the Mega Cap Growth category, home to the Magnificent Seven companies (Nvidia, Apple, Microsoft, Amazon, Alphabet, Meta, and Tesla). Smaller capitalization stocks have proven strong. International Developed Markets have mostly kept pace with the S&P 500. And Emerging Markets have been the source of the best results both in 2026 and over the last 12 months.

RISING EXPECTATIONS AND SURPRISINGLY STRONG RESULTS

The driver behind these strong equity market results has to this point been a historical explosion in technology sector investment spending. In the period of 2024-2026, just the four largest so-called hyperscalers – Amazon, Microsoft, Alphabet, and Meta – are projected to invest an estimated $1.5 Trillion in the AI "Arms Race.*"

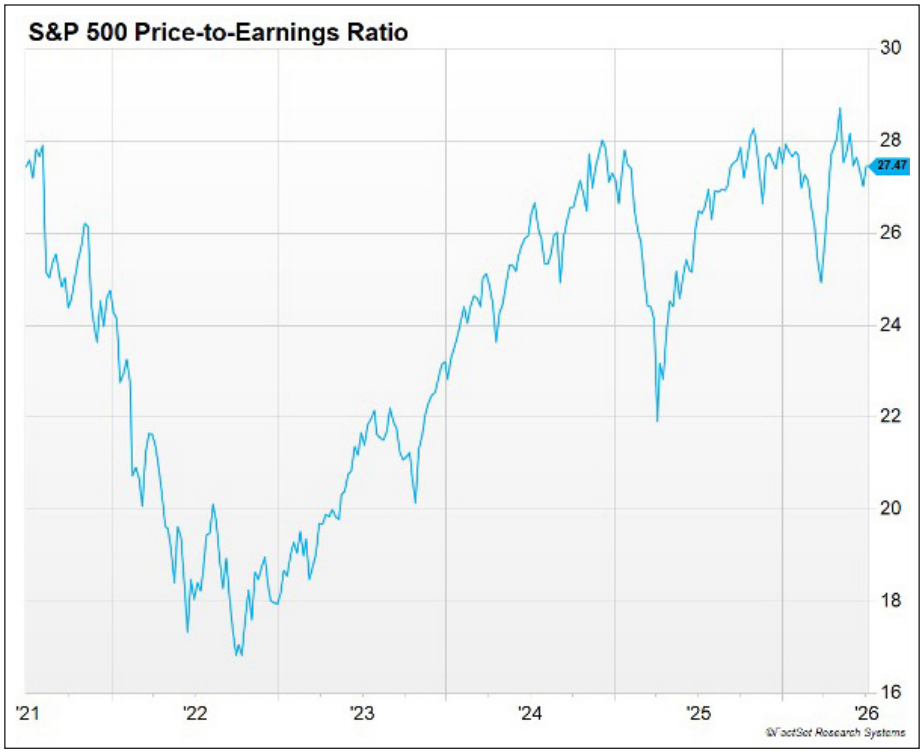
This spending is directed towards semiconductor purchases and a place to house all those chips: giant server farms. Data center construction is booming and includes facilities and computer servers dedicated to cloud computing and data storage. The construction boom is taking place across the U.S.A., particularly in states with lower electricity costs. The spending is flowing not just to technology suppliers, but also to construction firms, materials suppliers, sub-contractors, and so on. This is a nearly unprecedented surge in income in businesses and communities (large and small) around the country, and for that matter, around the world.

* understandingai.org/p/16-charts-that-explain-the-ai-boom

STRONG FUNDAMENTAL GROWTH

The spending has driven corporate financial results far higher than nearly anyone forecasted at any point in the recent past. In the first quarter of 2026, results of which became public during the second quarter, S&P 500 Earnings-per-Share (EPS) grew 28.9% and S&P 500 Sales grew 11.8%. At the beginning of the quarter, analysts in the aggregate forecasted those growth rates to be 12.9% and 8.1%, respectively. This is an astonishingly large positive surprise factor, and the strong growth drove valuation measures a bit lower. This valuation decline was especially pronounced at the end of March, as the Iran War fried investor nerves, resulting in a sharp stock selloff in that month.

Going into the second half of 2026, it is likely that the surge in technology investment will not wane. Productivity enhancements are being felt broadly throughout the economy, and the AI revolution is still in its early stages.



RISKS ABATE BUT DO NOT DISAPPEAR

Indeed, growth expectations continue to be strong and stock price gains have reflected that. The more attractive valuations that existed at the end of March faded in the strong second quarter, leaving S&P 500 valuations highly elevated once again. Broader economic growth, especially in the U.S. seems to be solid, if not robust, easing but not eliminating fears of a recession or slowdown. The Iran War spike in crude oil prices has completely reversed, which will lead to lower energy costs, reducing pressure on cost-push inflation. Yet the general level of inflation remains sticky and above the 2.0% level that has been a U.S. Federal Reserve target through many terms of Fed leadership. The newly installed Fed Chair seems to be tilted toward a less interventionist approach to monetary policy, which should allow equity investors to focus more on underlying fundamental growth prospects than on whether the Fed has set the price of overnight money correctly.

Geopolitical risks also appear to be ebbing. As dialog continues between the Trump Administration and Iran, oil prices spikes and the associated threat of inflation have cooled but have not been eliminated completely. The Iran War is not yet in the rear-view mirror. Domestic political risk, on the other hand, appears to be on the upswing, at least in terms of interrupting the priorities of the current Administration. Change in control of Congress in the fall elections could certainly alter investor expectations, which would have an impact on stock prices.

DIVERSIFICATION STILL MATTERS

The broadening out of investor attention to categories other than U.S. Large Cap Growth stocks is a strong positive, signaling that investor confidence in the strength of underlying fundamentals is building. Portfolio Diversification has become a solid contributor to overall returns. With attractive relative valuations and improving growth prospects, Smaller cap U.S., International Developed Markets, and Emerging Markets will continue to be important components of well-positioned portfolios.

CONCLUSION

Markets have weathered a few recent stormy patches, but investor confidence has proven resilient. Valuations are high for Large Cap U.S. stocks, but outside that group have not become overextended in an environment of solid and strengthening economic growth. Although some points of worry exist on the horizon, equity investors should continue to enjoy good results going into the latter part of 2026.

Bond Market [1]

Jeffery Tanguis, Director of Fixed Income

THE BIG PICTURE

The second quarter of 2026 was one of the most turbulent periods for U.S. bonds in recent years. Three primary forces collided, a shooting war in the Middle East, a rebound in inflation and a leadership change at the Federal Reserve, to catapult longer term Treasury yields to levels not seen since 2007. Changing U.S. tariff policy and spiraling federal debt were also lingering sources of uncertainty that kept bond investors apprehensive. Thankfully, a late-quarter Iran peace deal and collapsing oil prices brought some bond market relief.

THE IRAN WAR: THE QUARTER'S DEFINING EVENT

Events surrounding the U.S. war with Iran, which began in late February, dominated the quarter. The conflict disrupted oil flows through the Strait of Hormuz, sending energy prices sharply higher and igniting inflation fears across global markets. By mid-May, the 30-year Treasury yield touched 5.18% — its highest level since 2007 — as investors demanded higher compensation for holding long-dated U.S. debt. The selloff was broad: bond markets in Europe and Japan fell in tandem, and the G-7 convened a special discussion on the global bond rout. The quarter's interest rate inflection point came in late May when President Trump signaled the U.S. was in the "final stages" of Iran talks. Treasury prices surged and interest rates began to slide as the pall of war hanging over the bond markets began to subside. The rally was reenergized in mid-June after the U.S. and Iran agreed to an interim deal to end the war and reopen the Strait of Hormuz. Bond markets rallied hard on the news as Brent crude oil fell below $80 a barrel after topping out at $118 on April 29th. The peace, however, remained fragile. Regular breakdowns in the negotiations over the framework of a permanent solution to end hostilities sparked brief selloffs and kept the bond markets on edge. Interest rates generally continued to trend lower alongside falling oil prices into quarter end on rising optimism for a durable ceasefire.

INFLATION STAYS HOT

Consumer inflation accelerating to its fastest pace in more than three years was a core driver of bond market heartburn in the second quarter. The rise in the CPI price index to 4.25% YoY in May, well above the Fed's 2% target and the fastest pace since April 2023, kept investors jittery. While skyrocketing energy prices related to the Iran war were clearly the primary culprit, investors also fretted over the inflationary impact of the massive ongoing technology data center buildout, changing tariff policies and unstoppable consumer spending. Oil prices were largely back to pre-war levels by quarter end, but it remained unclear how long it will take the global economy to digest the array of inflationary impulses and return to normal.

FEDERAL RESERVE: A NEW CHAIR, A HAWKISH TURN

This was the most significant quarter for Fed policy in recent memory. Kevin Warsh replaced Jerome Powell as Fed Chairman in late May and presided over his first policy meeting on June 17–18. Warsh immediately signaled a tough stance on inflation, vowing to restore price stability. The Fed held the benchmark lending rate steady at 3.50% to 3.75% at the June meeting but made clear rate cuts were no longer likely in 2026, a reversal from the committee's most recent March rate forecast. Policymakers expressed growing support for rate hikes if inflation did not materially improve in the coming months. Fed officials in uncommonly blunt terms stated rate hikes are now "on the table" because of the Iran war. Treasury Secretary Bessent publicly endorsed Warsh's tough stance. The June meeting's surprisingly hawkish message sent shock waves through the rates markets. In a dramatic yield curve flattening move interest rates on highly Fed sensitive Treasury 2-year notes surged back to their highest levels since early 2025 while longer-term yields inched lower on the view the Fed was finally getting serious about inflation.

BONDS BY THE NUMBERS

Interest rates across the yield curve finished the quarter higher with shorter term maturities leading the way. The U.S. Treasury 2 year note yield climbed +38 basis points to 4.17% as markets repriced rates higher in anticipation of Fed hikes. The bellwether U.S. Treasury 10 year note yield rose +15 basis points to 4.47%. The U.S. Treasury 30-year long bond yield finished the quarter just +4 basis points higher at 4.91% after peaking at 5.18% in mid-May. The broad intermediate term investment grade bond market as evidenced by the Bloomberg Intermediate Aggregate Bond Index finished the quarter fractionally positive at +0.47% and +0.59% year-to-date total return. Intermediate-term investment grade corporate bonds were the better performing sector for the quarter returning +0.98%. Mortgages Backed Securities and Intermediate Treasury securities returned 0.58% and 0.18% respectively.

Despite the hawkish rhetoric from Fed officials, we believe the bar for Fed rate hikes remains high.

OUTLOOK FOR THE REST OF 2026

The path forward for bonds depends heavily on two variables: inflation and a successful resolution to the Iran conflict. If oil prices continue to drift lower and inflation shows signs of easing, the Fed may remain on hold, and yields could stabilize or decline modestly. However, if inflation remains elevated, a Fed rate hike as early as September is a real possibility — which would push short-term yields higher and pressure bond prices further. Despite the hawkish rhetoric from Fed officials, we believe the bar for Fed rate hikes remains high. For investors, the key takeaway is that bonds are offering attractive yields, but price volatility remains elevated. Short to intermediate term high-quality investment-grade bonds may offer the best balance of income and stability in this environment.

Policy and Politics [1-3, 8-21]

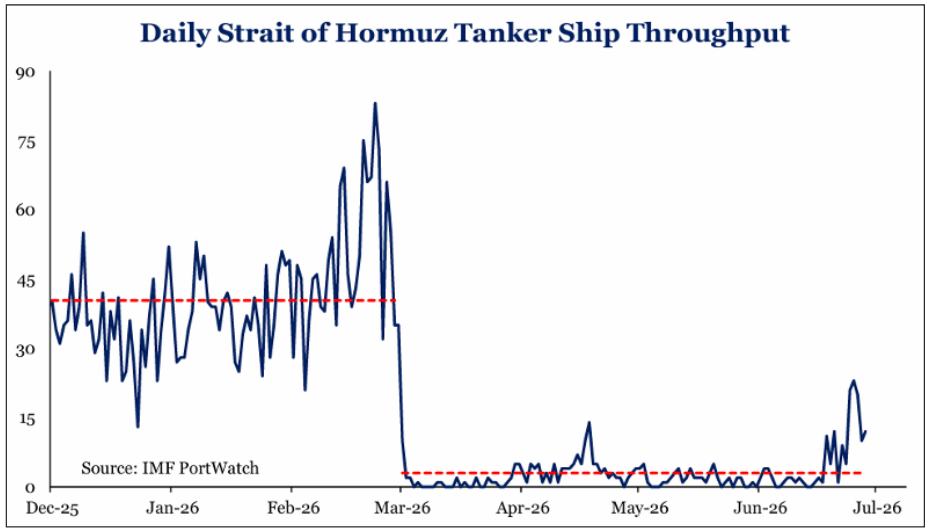
David Lundgren, CFA, Chief Investment Officer

MIDDLE EAST CONFLICT: FRAGILE PEACE, UNEASY MARKETS

The dominant policy and geopolitical issue of the second quarter remained the Middle East conflict and the repeated attempts to contain its impact on global energy markets. Since April 1, the situation has unfolded as a series of starts and stops. Negotiations resumed, interim understandings were reached, shipping lanes briefly improved, and then violence or brinkmanship returned. The Memorandum of Understanding reached during the quarter established a framework for reopening the Strait of Hormuz, extending a ceasefire, releasing certain frozen Iranian assets, and beginning broader discussions on Iran's nuclear program, sanctions relief, and regional security. Yet almost immediately after portions of the agreement took effect, renewed attacks on commercial shipping and disputes over management of the Strait demonstrated how fragile the arrangement remains.

The central market issue continues to be the Strait of Hormuz. The conflict's escalation drove oil prices sharply higher, increased inflation expectations, pressured bond markets, and weighed on investor confidence before conditions improved as commercial traffic gradually resumed. Lower energy prices have since helped ease inflation concerns and restored expectations that the Federal Reserve may eventually have greater flexibility on monetary policy. Even so, shipping volumes remain below normal, alternative routes continue to be developed, and Iran has repeatedly demonstrated its ability to disrupt one of the world's most important energy corridors with relatively limited military action. As a result, energy markets remain highly sensitive to even modest changes in the security environment.

The diplomatic backdrop remains equally uncertain. Iran appears to be pursuing a strategy of patience, seeking additional sanctions relief, access to frozen assets, and greater influence over commercial shipping while avoiding a broader military confrontation. President Trump has continued to pursue negotiations but has repeatedly warned that further attacks on commercial shipping or U.S. interests would invite a stronger military response. Indirect negotiations resumed in Doha at the end of June through Qatari mediators, although major disagreements remain over navigation through the Strait, nuclear inspections, sanctions relief, and Lebanon. The most likely near-term outcome remains neither durable peace nor renewed full-scale war, but an uneasy cycle of negotiations, limited agreements, and periodic escalation.



For markets, the primary transmission channel remains energy. A sustained reopening of the Strait would likely support lower inflation, stronger consumer spending, and a more constructive outlook for monetary policy. Conversely, renewed disruptions to shipping would risk higher oil prices, renewed inflation pressures, weaker consumer confidence, and a more difficult policy environment for the Federal Reserve. Although markets have recovered much of the initial shock, the Middle East remains the single most important geopolitical variable influencing the economic outlook entering the second half of the year.

CONGRESS: RECONCILIATION REMAINS THE LEGISLATIVE PRIORITY

Congress devoted much of the quarter to advancing a broad budget reconciliation package centered on extending the administration's economic agenda. Because reconciliation avoids a Senate filibuster, it has become the primary legislative vehicle for tax policy, spending priorities, border security, and other key administration initiatives. Republican leadership continues working toward final passage while balancing competing priorities among fiscal conservatives, moderates, and Senate procedural requirements.

The largest market and economic implications center on tax policy, household income, and the federal deficit. The legislation would make many provisions of the 2017 Tax Cuts and Jobs Act permanent, including current individual income tax rates, the higher standard deduction, and the expanded child tax credit, while also providing temporary tax relief for tips, overtime pay, and certain auto loan interest. These measures would support disposable income and business cash flow, but the accompanying increase in projected federal deficits is expected to keep Treasury issuance elevated and could place upward pressure on longer-term interest rates, offsetting some of the bill's near-term economic stimulus.

The principal hurdle remains securing sufficient Republican support while resolving differences over spending reductions and the overall fiscal impact. Senate reconciliation rules may also require additional revisions before final passage. Although congressional leadership continues to target enactment before the August recess, negotiations remain fluid and additional changes to the legislation remain likely. For financial markets, the ultimate balance between near-term fiscal stimulus and longer-term deficit expansion will remain the principal consideration.

SUPREME COURT: EXECUTIVE AUTHORITY CONTINUES TO EXPAND

The Supreme Court concluded its term with several decisions carrying meaningful implications for financial markets and the regulatory environment. The most closely watched market-related case involved Federal Reserve Governor Lisa Cook. Rather than conclusively resolving the President's authority to remove a Federal Reserve governor, the Court effectively preserved Cook's position for now by requiring any removal effort to proceed through the appropriate legal process. While the ruling does not foreclose future action by the administration, it provides near-term stability for the Federal Reserve as markets continue to monitor inflation, interest rates, and future Fed leadership.

At the same time, the Court strengthened presidential authority over several independent executive agencies, further expanding executive branch authority across much of the federal government. Together, these decisions produce a nuanced outcome for investors. The Federal Reserve appears insulated from immediate political intervention, but the broader boundaries of presidential authority over the central bank remain unsettled. More broadly, increased executive authority may accelerate regulatory and policy implementation across numerous agencies, increasing both the speed and potential variability of future policy decisions.

The Federal Reserve appears insulated from immediate political intervention, but the broader boundaries of presidential authority remain unsettled.

RUSSIA AND UKRAINE: A LONG WAR WITH NO CLEAR END

Russia's full-scale invasion of Ukraine began in February 2022, and the conflict has now entered its fifth year with no clear path toward resolution. During the second quarter, momentum shifted modestly toward Ukraine as Kyiv expanded long-range drone and missile strikes against Russian military infrastructure, logistics hubs, fuel facilities, and air bases. These operations exposed vulnerabilities deep inside Russia, disrupted portions of its military supply network, and forced Moscow to devote greater resources toward homeland defense.

Russia continues to maintain advantages in manpower and industrial capacity while pressing offensive operations along portions of the front. However, Ukraine has demonstrated an increasing ability to impose meaningful costs far beyond the battlefield, complicating Russia's military planning and highlighting continuing pressure on its economy and infrastructure. Even with these operational successes, neither side appears positioned to achieve a decisive military breakthrough.

The conflict is therefore likely to remain a prolonged war of attrition. Russia has shown little willingness to abandon its strategic objectives, while Ukraine continues to rely on Western military and financial support to sustain its defense. The most probable outcome remains continued periodic shifts in battlefield momentum, persistent attacks on military and energy infrastructure, and no immediate diplomatic framework capable of producing a durable peace.

Sources

Sources: [1] Bloomberg Finance, L.P., [2] Wall Street Journal, [3] Congressional Budget Office, [4] Committee of a Responsible Federal Budget, [5] Bureau of Labor Statistics, [6] Dr. Gad Levanon, Chief Economist at Princeton University's Burning Glass Institute, [7] FactSet, [8] Strategas Research Partners, [9] Axios, [10] Associated Press, [11] Reuters, [12] Financial Times, [13] Qatar Ministry of Foreign Affairs (Doha negotiations), [14] Institute for the Study of War, [15] Financial Times, [16] BBC News, [17] SCOTUSblog, [18] Punchbowl News, [19] Roll Call, [20] Politico, [21] The Hill

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