



Investment Review & Outlook 2026 Second Quarter Investment Report

This may be the most unexpected rally since the COVID recovery in 2020, with the second quarter showing remarkable gains after all the uncertainty weighted down the markets in the first three months of the year.

A breakdown shows that just about anybody who invested anywhere in the markets experienced unusual gains. Looking at large-cap stocks, the widely quoted S&P 500 index of large company stocks is up 9.32% as of the end of June.

As measured by the Russell 2000 Small-Cap index, investors in smaller companies have reaped a 22.18% gain. The technology-heavy Nasdaq Composite index gained 12.8% in the second quarter and now stands at a 21.4% return for the first half of the year.

Foreign market returns were a bit more muted. The broad-based EAFE index of companies in developed foreign economies gained 9.80% in dollar terms in the second quarter of 2026, posting a 7.74% gain for the first six months of 2026. Emerging market stocks of less developed countries, as represented by the MSCI Emerging Markets index, gained 22.68% for investors in the first six months of the year.

In the bond markets, Treasuries of 3-month (3.75%) and 6-month (3.93%) maturities are offering comparable yields to securities with 1-year (3.92%) maturities. 5-year Treasuries are yielding 4.23%, 10-year government bonds are yielding 4.48%, and 30-year maturities are generating 4.99% annual coupon rates. 5-year municipal bonds are yielding 2.56% in aggregate, while 30-year munis are yielding 4.15%.

By any measure, the second quarter—and, indeed, the first half of the year—represents a massive market rally. Market sentiment seems to be impervious to a shaky truce in the Middle East, inflation, rising interest rates, and jobs reports that suggest an economic downturn somewhere on the near horizon. No doubt, the enthusiasm has been stoked by the fact that corporate earnings have exceeded expectations, and the artificial intelligence spending boom hasn't abated. Aggregate earnings for the companies in the S&P 500 have increased by 25% year over year, and most analysts are on record predicting that their momentum will continue.

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The question of the hour is whether the spectacular market rally is also being driven by speculative fever—what we used to call FOMO (fear of missing out). A recent Harris poll found that 80% of respondents admitted they had been making high-risk or speculative investments recently because they feel financially left behind. On top of that, American households now hold an unprecedented 45% of their total financial assets directly in stocks, despite also sporting a rising debt burden.

While these market signals often tell conflicting stories, they serve as a healthy reminder that we cannot look at tea leaves, earnings, crystal balls, economic reports, or pundit forecasts as flawless indicators of what will happen next. If you had asked observers what they expected after a somewhat miserable first three months of the year, the typical answer would have been "more of the same"—which is definitely not what we got. Just like a rollercoaster, when markets soar, it is time to tighten our seat belts for some expected turbulence—and hope it does not come. But when volatility does arrive, staying diversified and focusing on the long term will get you through it!

As always, please reach out with any questions. If your personal or financial circumstances have changed, let us know and we can schedule a time to review your plan.

The FAM Team