Weekly Market Perspectives

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A Strong Second Quarter Gives Stocks Less Room for Error in the Third Quarter

U.S. stocks moved higher last week, with the NASDAQ Composite leading gains as large-cap technology stocks bounced and a softer June jobs report reinforced expectations that the Federal Reserve will remain patient. This week, June ISM Services, the FOMC minutes, and a quiet start to the Q2 earnings season line the calendar.

Last week in review:

- The S&P 500 Index rose +1.7%, while the NASDAQ Composite and Dow Jones Industrial Average each added +1.9%. The Russell 2000 Index slipped 0.3% but still reached fresh record highs during the week. Large-cap technology led the gains, with Apple, Alphabet, and Meta Platforms among the standouts.
- Treasury prices weakened, with yields rising across the curve. The U.S. Dollar Index fell 0.5%. Gold gained +0.7%, while West Texas Intermediate (WTI) crude slipped lower, settling back at pre-war levels as Strait of Hormuz flows continue to recover faster than expected.
- June nonfarm payrolls came in weaker than expected, and prior months were revised lower. However, the unemployment rate unexpectedly declined as labor force participation fell. Markets welcomed the report, and odds of a July rate hike fell to roughly 17% from about 30% ahead of the release. Elsewhere, June ADP private payrolls missed, ISM Manufacturing was largely in line, and consumer confidence came in below consensus.
- The AI theme remained the market's dominant driver. Meta Platforms rallied on reports it plans to sell excess compute capacity, while Apple gained on reports it is in talks with Chinese memory suppliers. Semiconductors underperformed on profit-taking after a record-breaking quarter, with the Philadelphia Semiconductor Index falling 4.4% on the week.
- In our view, bouts of AI enthusiasm and periods of doubt continue to drive large-cap leadership. Heading into the second-quarter earnings season, expectations point to another quarter of S&P 500 profit growth of +20%+, supported by AI-related capital spending and easier energy comparisons. **We believe the key test for markets in the coming weeks will be whether corporate guidance can justify current valuations after such a strong Q2 run.**

A strong second quarter gives stocks less room for error in the third quarter.

The S&P 500 Index rose nearly +15% in the second quarter, the best quarter for the Index since Q2'20, with the NASDAQ Composite and Russell 2000 Index each delivering returns exceeding +20%. Sector dispersion was wide, with Technology up over +31% for the quarter and Energy down 14%, with defensive sectors lagging most cyclical sectors. However, under the hood, the quarter looked more complicated than the headline returns imply. Notably, softening AI trends and momentum shifts at the end of the second quarter suggest investors are growing ever more demanding, with companies in the space likely to face greater pressure to deliver on expectations in the second half.

From a performance angle, returns in April and May did most of the heavy lifting. The U.S./Iran ceasefire in early April removed worst-case geopolitical tail risks,

helping oil slide 31% and pushing risk assets, such as stocks, higher. For example, the Philadelphia Semiconductor Index (+88.7%) posted its strongest quarter since its inception in 1993, with memory names the standout performers in Q2. By early June, the S&P 500 and NASDAQ had set fresh record closes, and market breadth was improving, suggesting broader stock participation across sectors and industries.

That said, the broader market narrative began to shift as Q2 came to a close. The S&P 500 and NASDAQ both finished the month modestly lower, with losses concentrated in Big Tech, while overall market breadth held up relatively well. For example, the Magnificent Seven collectively lost more than $2 trillion in market value in June (the worst month for the group in over a year), with Microsoft, Amazon, and Meta Platforms leading the decline. In our view, two major forces drove the rotation away from AI leaders at the end of Q2. The first was largely mechanical, positioning unwinds and source-of-funds trades to purchase the SpaceX IPO. The second was more substantive, and a repricing of the AI trade's risk profile. Soaring memory prices finally pushed Apple and Microsoft to raise device prices to offset input costs. Importantly, these are among the first visible pass-throughs of AI infrastructure costs into consumer hardware this cycle, and investors quickly took notice. Layer in a potential OpenAI IPO delay to 2027 following a tepid SpaceX reception, overall AI spending and usage concerns, cheaper open-source Chinese models, and U.S. scrutiny of frontier releases, and the AI trade exited Q2 with a wider distribution of outcomes than investors considered at the start of the quarter. Overall, we believe this broadening of risk pricing is constructive for the longer-term durability of the AI theme. However, it could create further pockets of volatility in Q3 as investors sort through upcoming earnings reports and outlooks set to begin in July.

Another Q2 development that could carry into Q3 is the growth in equity supply. After roughly a decade of net share-count shrinkage from corporate buybacks, especially in Tech, the supply picture is shifting. SpaceX's record IPO, Alphabet's $85 billion equity capital raise, and other capital raises across the Tech industry have put a large portion of equity into the market during the first six months of the year. In our view, how markets digest the added supply and what that means for tech leadership is something we expect investors to more closely scrutinize in Q3.

Away from stocks and Tech, investor views on the Fed also shifted in Q2. By quarter-end, futures markets were pricing a meaningful probability of at least one rate hike by year-end, a sharp change from the easing bias that had framed investor expectations earlier in the year. Newly minted Kevin Warsh's first FOMC meeting as Chair in June, widely expected to lean dovish given the political framing around his appointment, delivered the opposite. Forward guidance was scrapped, and the Committee was described as unanimous in its commitment to price stability (i.e., bringing inflation lower). Nevertheless, we believe the weaker-than-expected June payrolls report released after quarter-end complicates forward rate policy, likely leaving the Fed on hold for now – a potential positive for stocks at the start of Q3. Yet the near-term rate path has flattened, and the direction of travel in rate policy over the balance of the year is uncertain, a change from the one-way easing bias that framed most of 2025 and investor expectations at the start of this year.

Notably, the labor market showed signs of softening as the second quarter came to a close. June payrolls materially undershot consensus estimates, and April and May jobs were revised lower. The unemployment rate ticked down to 4.2%, but a drop in labor force participation did most of the work. Wage growth firmed modestly, and jobless claims continue to sit at low levels. In our view, labor conditions are on solid footing at the start of the third quarter and will be closely watched in Q3 for implications for rate policy and knock-on effects on inflation.

Importantly, the rest of the U.S. macroeconomic picture held up relatively well over the last three months, despite concerns about the Middle East. Manufacturing and services surveys firmed, retail sales expanded, and core inflation continued to run above the Fed's +2.0% target, with limited pass-through effects from higher energy costs so far. Consumer sentiment stayed depressed, though spending trends held up, a disconnect that has become a durable feature over recent quarters. And importantly, Q1'26 S&P 500 earnings grew an eye-popping +28.6% year-over-year, the strongest print since Q4'21, with earnings expected to grow another +23% annually in Q2’26. If second-quarter earnings grow anywhere near estimates, we believe modest bouts of volatility in Q3 would likely be met with eventual buying given the strong profit backdrop across U.S. companies at present.

Finally, cross-asset moves in the second quarter reflected the hawkish repricing in Fed policy and the de-escalation of risk in the Middle East. Treasury yields rose on the front end of the curve and traded in a wide range at the long end. For example, the 30-year briefly hit 5.18% in mid-May, the highest since 2007, before easing into quarter-end. The U.S. dollar strengthened, Gold posted its worst quarter since 2013 after gaining in nine of the prior ten, and West Texas Intermediate (WTI) crude unwound most of Q1's run higher as Strait of Hormuz traffic began to improve by the end of June.

Bottom line: The second half of the year may be less about finding new reasons to buy stocks and more about whether companies can deliver on what the market has already priced in. Notably, corporate earnings strength remains the anchor for the market, and it may be enough to carry equities higher in the second half if companies deliver. But expectations have moved up meaningfully since the start of the year, and the tolerance for disappointment has narrowed significantly, particularly in the parts of tech and AI that led in Q2. In addition, new leadership at the Fed introduces a period of policy recalibration that markets will need to work through in Q3. Our first impressions of Chair Warsh suggest that investors should not assume continuity with the Fed's prior communication style, and market reactions may be more volatile around policy meetings.

Layer in a mid-term election cycle that tends to inject volatility into the fall months regardless of macro conditions, and a Middle East that remains a source of episodic headline risk even with the U.S./Iran ceasefire holding, and Q3 is likely to feel bumpier than Q2's strong returns suggest. Yet we believe the fundamentals under this market are genuinely constructive. Profits are growing well above normal levels, consumers are spending despite how they feel, and the labor market, while cooling, sits in an overall healthy condition. We believe the right posture into the second half is to stay invested, lean into diversification, and treat inevitable pullbacks as opportunities to rebalance toward long-term targets rather than reasons to reduce risk. The bar for further upside in stock prices from here is higher now. But fundamental conditions point to more reasons to stay positive on the market outlook rather than succumb to the fears of "what if".

The week ahead:

- June ISM Services (Monday) and the FOMC minutes (Wednesday) will offer the latest read on services activity and the Fed's internal debate around rate policy.
- The Q2 earnings season kicks off this week with reports from Levi Strauss, Cintas, PepsiCo, and Delta Air Lines setting the tone ahead of the barrage of bank reports next week.

Stock Market Recap

Benchmark	Total Returns			LTM PE		Yield %	
	Weekly	MTD	YTD	Current	5-Year Median	Current	5-Year Median
S&P 500 Index: 7,483	1.7%	-0.2%	10.0%	27.8	25.3	1.0	1.3
Dow Jones Industrial Average: 52,900	1.9%	1.1%	11.0%	23.5	22.4	1.4	1.8
Russell 2000 Index: 7,446	-0.3%	-0.9%	21.4%	92.5	44.4	1.1	1.3
NASDAQ Composite: 25,833	1.9%	-1.5%	11.5%	39.2	37.8	0.5	0.7
Best Performing Sector (weekly): Health Care	5.3%	3.3%	6.8%	25.9	23.2	1.6	1.6
Worst Performing Sector (weekly): Energy	-1.4%	0.3%	20.0%	19.5	13.6	2.9	3.4

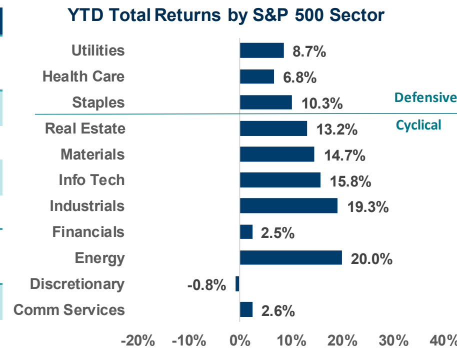
Source: Factset. Data as of 07/02/2026

Bond/Commodity/Currency Recap

Benchmark	Total Returns		
	Weekly	MTD	YTD
Bloomberg U.S. Universal	-0.4%	-0.1%	0.7%
West Texas Intermediate (WTI) Oil: $68.68	-5.5%	-1.2%	19.9%
Spot Gold: $4,123.61	2.4%	2.9%	-4.6%
U.S. Dollar Index: 100.86	-0.6%	-0.3%	2.6%
Government Bond Yields	Yield Chg		
	Weekly	MTD	YTD
2-year U.S. Treasury Yield: 4.13%	3 bps chg	-2 bps chg	65 bps chg
10-year U.S. Treasury Yield: 4.47%	8 bps chg	3 bps chg	29 bps chg

Source: Factset. Data as of 07/02/2026. bps = basis points

YTD Total Returns by S&P 500 Sector



Source: S&P Global, Factset. Data as of 07/02/2026

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Diversification does not assure a profit or protect against loss.

Commodity investments may be affected by the overall market and industry- and commodity-specific factors, and may be more volatile and less liquid than other investments.

There are risks associated with **fixed-income** investments, including credit (issuer default) risk, interest rate risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer term securities.

Stock investments involve risk, including loss of principal. High-quality stocks may be appropriate for some investment strategies. Ensure that your investment objectives, time horizon and risk tolerance are aligned with investing in stocks, as they can lose value.

Investments in **small cap companies** involve risks and volatility greater than investments in larger, more established companies.

Generally, **large-cap** companies are more mature and have limited growth potential compared to smaller companies. In addition, large companies may not be able to adapt as easily to changing market conditions, potentially resulting in lower overall performance compared to the broader securities markets during different market cycles

The products of **technology** companies may be subject to severe competition and rapid obsolescence, and their stocks may be subject to greater price fluctuations.

Past performance is not a guarantee of future results.

An index is a statistical composite that is not managed. It is not possible to invest directly in an index.

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The **S&P 500 Index** is a basket of 500 stocks that are considered to be widely held. The S&P 500 index is weighted by market value (shares outstanding times share price), and its performance is thought to be representative of the stock market as a whole. The S&P 500 index was created in 1957 although it has been extrapolated backwards to several decades earlier for performance comparison purposes. This index provides a broad snapshot of the overall US equity market. Over 70% of all US equity value is tracked by the S&P 500. Inclusion in the index is determined by Standard & Poor's and is based upon their market size, liquidity, and sector.

The **NASDAQ Composite** index measures all NASDAQ domestic and international based common type stocks listed on the Nasdaq Stock Market.

The **Dow Jones Industrial Average** (DJIA) is an index containing stocks of 30 Large-Cap corporations in the United States. The index is owned and maintained by Dow Jones & Company.

The **Russell 2000 Index** measures the performance of the small-cap segment of the US equity universe. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set. The Russell 2000 includes the largest 2000 securities in the Russell 3000.

The **US Dollar Index** (USDX) indicates the general international value of the USD. The USDX does this by averaging the exchange rates between the USD and major world currencies. This is computed by using rates supplied by approximately 500 banks.

West Texas Intermediate (WTI) is a grade of crude oil commonly used as a benchmark for oil prices. WTI is a light grade with low density and sulfur content.

The **Philadelphia Semiconductor Index** (SOX) is a stock market index that tracks the performance of companies in the semiconductor (chip) industry.

ADP Payroll Report is a report that summarizes payroll information for employees and the organization during a selected pay period or date range.

ISM Manufacturing Report: A monthly survey-based economic indicator issued by the Institute for Supply Management that assesses changes in manufacturing activity, including new orders, production, employment, supplier deliveries, and inventories, to identify expansion or contraction in the U.S. manufacturing sector.

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