Market Review

as at June 30, 2026

The second quarter delivered a strong recovery for investors despite a volatile start. Markets rebounded sharply following the April correction as concerns surrounding trade tensions eased and confidence returned to both economic growth and AI-driven investment opportunities.

While asset returns were broadly positive across equity markets, inflationary pressures and elevated borrowing costs continue to create uncertainty and are likely to remain important themes through the second half of the year.

Asset Returns

Despite elevated volatility, the second quarter delivered strong returns for investors. Following a selloff in late Q1, markets rebounded as trade-related concerns eased, inflation expectations stabilized, and investors renewed confidence in economic growth and AI-driven investment themes.

In North America, large-cap equities rebounded, led by the technology sector on strong earnings and growing enthusiasm around AI. The technology- and growth-oriented Nasdaq Index returned 21.6% for the quarter, bringing its year-to-date return to 13.1%. The Russell 2000 Index, which represents small-cap equities, also performed strongly, returning 21.6% for the quarter. Meanwhile, the S&P 500 Index, representing large-cap equities, rose 14.4%, driven primarily by large technology stocks.

International equities underperformed North American markets in Q2 and on a year-to-date basis, with Europe particularly affected by energy-sector inflation and a relative lack of leading technology companies. The MSCI EAFE Index, which represents Europe, Australasia, and the Far East, posted a year-to-date return of 11.1%. Emerging markets performed strongly in Q2, supported by South Korean and Taiwanese technology companies, with the MSCI Emerging Markets Index returning 23.8% year to date.

Broad fixed income returns have been muted despite higher yields, reflecting uncertainty and a reduced likelihood of near-term rate cuts as inflation has proven more persistent than expected. High-yield fixed income has rebounded from weakness earlier in the year, while emerging market debt has performed strongly so far this year.

Commodity markets weakened in the second quarter as geopolitical tensions eased, though prices remain elevated. Oil is up 43.8% year to date despite declining 21.6% in Q2. Gold has struggled in 2026, falling 13.5% year to date after its strong gains in 2025, despite its traditional role as a hedge during periods of uncertainty.

Inflation Concerns

One of the key concerns arising from recent geopolitical conflicts is their potential long-term impact on inflation. Following the post-pandemic period, inflation proved far less transitory than initially expected, with price levels remaining elevated even as headline inflation moderated. For many households, the resulting increase in the cost of living continues to be a significant source of economic pressure. These concerns have been one factor encouraging diplomatic efforts, including the recent memorandum of understanding between the United States and Iran.

Energy markets remain particularly vulnerable. Oil supply routes and production capacity have been disrupted, and there are few quick solutions available. Saudi Arabia is exploring the expansion of pipeline infrastructure to the Red Sea; however, this route is not without risk given the ongoing instability in Yemen. Kuwait Petroleum Corporation has also discussed potential pipeline expansion projects with Saudi Arabia and the United Arab Emirates to increase export capacity for Kuwaiti oil. Meanwhile, the United Arab Emirates is developing additional west-east pipeline capacity to Fujairah, providing an alternative route that bypasses the Strait of Hormuz.

While infrastructure investment is generally supportive of economic growth and is often viewed positively by markets, these projects are being pursued primarily to improve energy security and reduce dependence on vulnerable transportation corridors rather than to alleviate existing capacity constraints. The need to build and maintain alternative infrastructure raises costs across the energy supply chain. Over time, these additional costs could contribute to structurally higher energy prices, increasing the risk that inflation remains more persistent than many policymakers currently anticipate.

Technology and AI Volatility

Large technology companies often use a combination of cash flow and debt financing to fund growth initiatives. Recently, hyperscale technology firms have increasingly turned to debt markets to support the substantial capital investments required for AI infrastructure and data centres, with Alphabet's issuance of a 100-year bond serving as a notable example. While AI remains a compelling long-term opportunity, the scale of current investment far exceeds the revenue being generated today. As a result, many companies are taking on additional debt to fund projects whose returns remain uncertain, increasing their sensitivity to changes in growth expectations, profitability assumptions, and financing costs.

This sensitivity is evident in the volatility experienced across the AI supply chain. Companies such as Micron, SanDisk, and other component manufacturers frequently experience significant share-price movements based not only on their own results, but also on spending outlooks provided by major software and hyperscale companies. Much of the sector's growth story depends on large technology firms maintaining their willingness to continue investing aggressively in AI infrastructure. If those investments slow, companies further down the supply chain could see a meaningful reduction in demand.

At the same time, inflation has remained more persistent than many market participants expected, keeping borrowing costs elevated. Earlier valuation assumptions often incorporated a series of interest-rate reductions through 2026 and 2027. Those expectations have become less certain as inflationary pressures have proven more durable. Higher financing costs increase the expense of funding long-term AI projects and reduce the present value of future earnings, placing additional pressure on technology valuations.

As a result, investors are increasingly focused on the sustainability of current AI spending levels. A key concern is that if one of the major hyperscalers begins to moderate investment growth, it could trigger a broader reassessment of demand assumptions across the industry. Such a shift could result in lower spending throughout the supply chain and a corresponding decline in valuations as growth expectations are revised downward. While the long-term potential of AI remains compelling, the path forward is likely to remain volatile as markets balance significant capital requirements against the uncertain timing of future returns.

Outlook and Portfolio Positioning

We remain positive on the long-term outlook for markets, while expecting short-term volatility to persist. In this environment, managing near-term capital needs remains important, and investors should consider longevity and lifestyle risks alongside investment risk when making financial decisions.

We continue to maintain the strategic asset allocation established earlier in the year. Portfolios remain diversified across geographies and asset classes to help mitigate market, economic, and geopolitical risks. While market shocks are likely to remain a recurring theme, we remain committed to a disciplined, long-term investment approach focused on sustainable wealth creation and prudent risk management.

ARGUS Wealth Management

Macro Indices Report as at June 30, 2026 (percent)

	JUN	MAY	APR	Q2 2026	YTD	2025	Annualized 3 Years	5 Years
GLOBAL EQUITY								
MSCI AC World Total Return	-0.8	5.2	10.2	14.9	11.2	22.3	19.7	11.0
MSCI EAFE	0.1	3.2	7.6	11.1	9.9	32.0	17.1	9.7
NORTH AMERICA EQUITY								
S&P 500 Total Return	-1.0	5.3	10.5	15.2	10.2	17.9	20.6	13.4
DOW JONES INDUSTRIAL AVG	2.7	2.9	7.2	13.4	9.8	14.9	17.1	10.8
S&P 400 Net TR	3.5	2.4	7.8	14.4	17.1	7.0	14.9	8.6
NASDAQ COMPOSITE	-2.7	8.4	15.3	21.6	13.1	21.2	24.8	13.4
RUSSELL 2000 INDEX	3.7	4.4	12.3	21.6	22.7	12.8	18.6	7.0
S&P/TSX COMPOSITE INDEX	0.5	2.5	3.8	7.0	11.2	31.7	23.5	14.9
EUROPE EQUITY								
S&P EUROPE 350 INDEX	3.1	3.1	5.4	12.0	11.0	20.4	15.2	11.1
FTSE 100 INDEX	1.0	0.7	2.3	4.0	7.6	25.7	15.7	12.2
CAC 40 INDEX	3.0	2.4	4.4	10.1	5.7	14.3	7.6	8.5
DAX INDEX	-0.4	3.3	7.1	10.2	2.1	23.0	15.7	10.0
ASIA EQUITY								
MSCI AC Far East Ex Japan	-1.9	12.9	17.4	29.9	32.7	37.2	25.5	5.6
NIKKEI 225	5.7	11.9	16.1	37.3	40.4	28.7	30.6	21.8
HANG SENG INDEX	-8.5	-1.7	4.0	-6.4	-9.2	32.5	10.8	-1.0
S&P/ASX 200 INDEX	0.7	1.3	2.2	4.2	2.9	11.4	11.8	9.1
SHANGHAI SE COMPOSITE	1.2	-0.8	5.7	6.0	4.1	21.7	11.6	5.4
SOUTH AMERICA & EM EQUITY								
MSCI EM Net Total Return USD Index	-1.4	9.7	14.7	24.1	23.8	33.6	23.0	7.2
S&P LATIN AMERICA 40	-2.1	-4.0	3.1	-3.0	12.6	54.6	14.6	10.1
BRAZIL IBOVESPA INDEX	-1.0	-7.2	-0.1	-8.2	6.8	34.0	13.3	6.3
S&P BSE SENSEX INDEX	2.7	-2.5	6.9	7.1	-9.4	10.5	7.2	9.3
FIXED INCOME								
ICE BoA 1-3 Year US Treasury Index	0.1	0.1	0.2	0.4	0.7	5.1	4.4	1.9
BLOOMBERG US Agg	0.2	0.3	0.1	0.7	0.6	7.3	4.2	0.1
BLOOMBERG Multiverse (Unhedged)	-0.6	0.4	1.3	1.0	-0.1	8.4	3.7	-1.3
Citi World BIG US Hedged	0.3	0.6	0.3	1.3	1.1	5.1	4.3	0.2
ICE BoA US High Yield Index	0.2	0.5	1.7	2.5	1.9	8.5	8.8	4.1
JPM EMBI Global Core – US$	0.8	1.0	2.7	4.6	2.7	13.9	9.8	2.1
JPM EM Global Cove – Local	0.4	0.9	2.8	4.2	1.8	19.0	6.8	2.0
COMMODITIES								
BLOOMBERG Commodity Index	-8.8	-3.8	3.9	-8.9	12.3	11.1	6.7	5.4
GOLD	-11.8	-1.2	-0.7	-13.5	-7.4	62.5	26.8	17.0
OIL (WTI)	-18.5	-13.3	11.0	-21.6	43.8	-7.6	17.8	14.7

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