Capital Markets Review | 2nd Quarter 2026

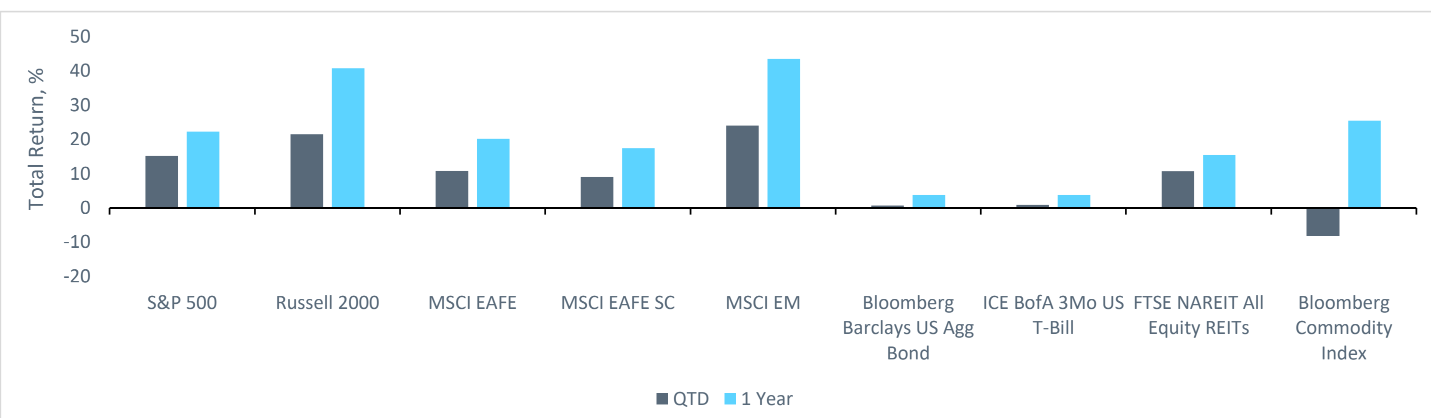
June 30, 2026

Overview

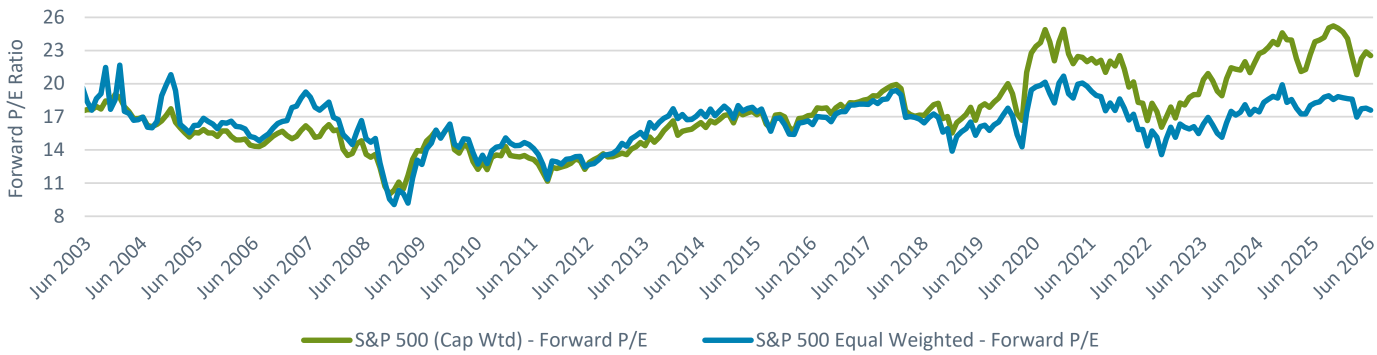
In Q2, equity markets rallied after a volatile first quarter, supported by de-escalation of the Iran War and continued strength in spending related to artificial intelligence (AI). Global equity markets advanced broadly, though performance diverged sharply by region and asset class. US equities led developed markets, with large-cap growth and semiconductor names initially driving the advance off March's lows before breadth widened into small- and mid-cap stocks by quarter-end. In early June, the public listing of SpaceX provided another catalyst for US stock market sentiment. Growth stocks decisively outperformed value stocks—a reversal from Q1—while small-cap stocks recovered after lagging earlier in the year. International developed posted positive but more modest returns, trailing the US after outperforming in Q1, while emerging markets equities were the top performing region. During the quarter, fixed income markets ultimately posted positive returns, however, Treasury yields initially experienced volatility from shifting inflation expectations, though they eased from their late-Q1 highs following the reopening of the Strait of Hormuz. Commodities declined meaningfully as crude oil fell sharply from its Q1 peak of nearly $120 per barrel, while gold and silver experienced a drawdown after an extended rally earlier in the year.

During the quarter, the US Federal Reserve entered a new leadership era as Chairman Jerome Powell's term expired on May 15, and Kevin Warsh was confirmed by the Senate as the new Chairman of the Board of Governors. In June, Mr. Warsh's first Federal Open Market Committee (FOMC) meeting as Chair resulted in a unanimous vote to hold the federal funds rate steady for a fourth consecutive meeting at a target range of 3.50–3.75%. However, the accompanying *Summary of Economic Projections* turned more hawkish, with the median dot shifting to imply a rate hike by year-end, rather than the rate cut anticipated as recently as March. Under Mr. Warsh, a shorter, simplified policy statement was released that dropped forward guidance and unveiled a series of task forces to review its operations, communications, and approach to measuring inflation. Inflation remained a central concern throughout the quarter, with headline Consumer Price Index (CPI) accelerating to a multiyear high in April before beginning to moderate as energy prices retreated late in the quarter. Tariff policy also remained a source of uncertainty. The temporary 10% baseline tariff, enacted in Q1, approaches its 150-day expiration later in July, setting up a new policy inflection point for markets to navigate in Q3. Amid recent economic uncertainty, data released during the quarter painted a *(continued on next page)*

Quarter-to-Date (QTD) and 1 Year Performance



Growing Valuation Dispersion Between Capitalization- and Equal-Weighted S&P 500 Indexes
(Valuations Adjusted for Forecasted 1Y Earnings)

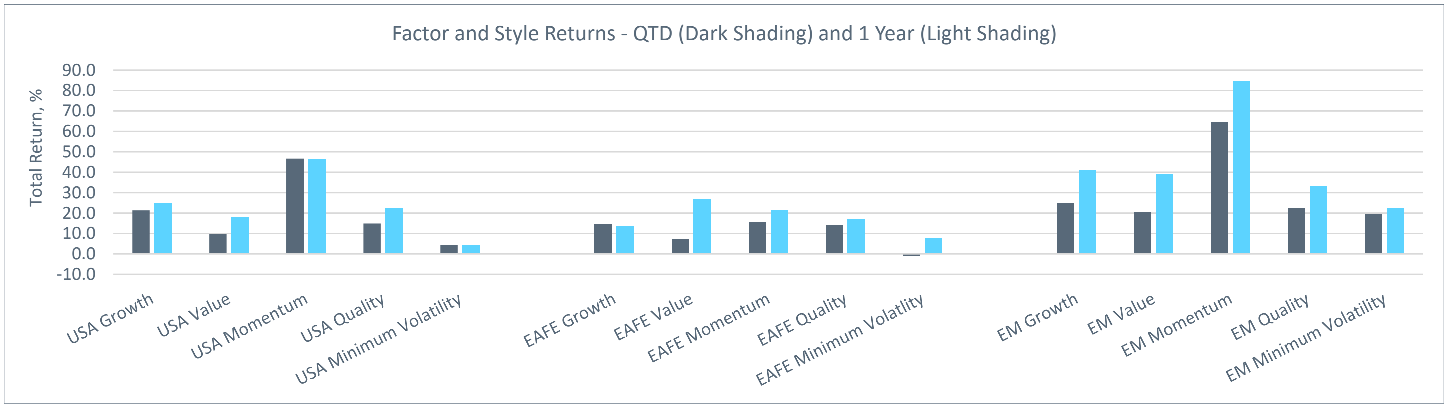


fairly resilient picture. The final estimate of Q1 2026 real GDP growth was revised upward to 2.1%, well above the initial reading, reflecting stronger underlying momentum than recent market volatility had suggested. With unemployment remaining relatively stable but broader labor market indicators sending mixed signals, policymakers raised their year-end inflation forecasts while trimming expectations for economic growth, underscoring the delicate balance between persistently elevated price pressures and the risk of slowing growth momentum.

In international markets, the reopening of the Strait of Hormuz in mid-June calmed global energy markets and provided relief from economic pressures. In response to inflation, the European Central Bank (ECB) increased rates for the first time in three years, while the Bank of Japan (BOJ) continued to push rates higher in response to a weakening yen. Emerging market country returns exhibited wide dispersion during the quarter. Leading semiconductor producers, such as South Korea and Taiwan, advanced strongly alongside the broader AI theme, while China and India lagged due to weaker domestic demand and idiosyncratic headwinds. Overall, international markets reflected cautious optimism, tempered by the fragility of the ceasefire between Iran and the US and a looming tariff expiration later in July.

Expanded Review of Key Economic Indicators

	Q2 2026	Q1 2026	Q4 2025	10-Year Average
Federal Funds Rate	3.63%	3.64%	3.63%	2.35%
Treasury (2-Year)	4.15%	3.79%	3.48%	2.46%
Treasury (10-Year)	4.44%	4.32%	4.17%	2.81%
Treasury (30-Year)	4.93%	4.91%	4.84%	3.23%
Breakeven Inflation (5-Year)	2.26%	2.54%	2.26%	2.09%
Breakeven Inflation (10-Year)	2.24%	2.30%	2.25%	2.09%
Breakeven Inflation (30-Year)	2.18%	2.19%	2.22%	2.10%
BB US Corp: Hi Yld Index - OAS	2.70%	3.17%	2.66%	3.77%
Capacity Utilization	76.10%	75.53%	75.80%	76.61%
Unemployment Rate	4.20%	4.30%	4.40%	4.56%
ISM PMI - Manufacturing	53.30%	52.70%	47.90%	53.07%
ISM PMI - Service	54.00%	54.00%	54.40%	55.58%
Consumer Confidence (Conf. Board)	91.20	91.80	94.20	109.99
CPI YoY (Headline)	3.50%	3.30%	2.70%	3.23%
PPI YoY - Producer Prices	5.51%	4.29%	3.00%	3.11%
US Dollar Total Weighted Index	120.89	121.04	119.75	117.44
WTI Crude Oil per Barrel	$70	$101	$57	$66
Gold Spot per Ounce	$4,008	$4,667	$4,325	$2,002



US Equity

US equity markets advanced strongly to start Q2, as capital expenditures aimed at AI development continued to fuel the buildout of data centers. However, markets pulled back slightly by the end of June as core inflation ticked up, stoking concerns about future rate hikes. Despite the late-quarter weakness, the semiconductor industry, including memory chip producers, accounted for a substantial proportion of market performance.

During the quarter, the Russell 3000 Index returned 15.4%. Growth stocks outperformed value stocks, with the Russell 3000 Growth Index returning 17.1% versus 14.0% for the Russell 3000 Value Index. Small-cap stocks, particularly small-cap growth stocks, significantly outperformed large-cap stocks, with the Russell 2000 Index returning 21.5% and the Russell 2000 Growth Index returning 25.7%, versus 15.1% for the Russell 1000 Index. After a weaker Q1, stocks within the Magnificent 7 performed comparably to the overall market, with 6 out of the 7 producing positive returns in Q2.

Generally, the market environment favored passive over active management with sentiment remaining subdued for industries viewed as threatened by AI development, such as software. Active managers that tended to hold more diversified portfolios—with smaller positions in the largest index constituents or exposure to companies facing concerns about AI-related disruption—generally experienced relative performance weakness.

Non-US Equity

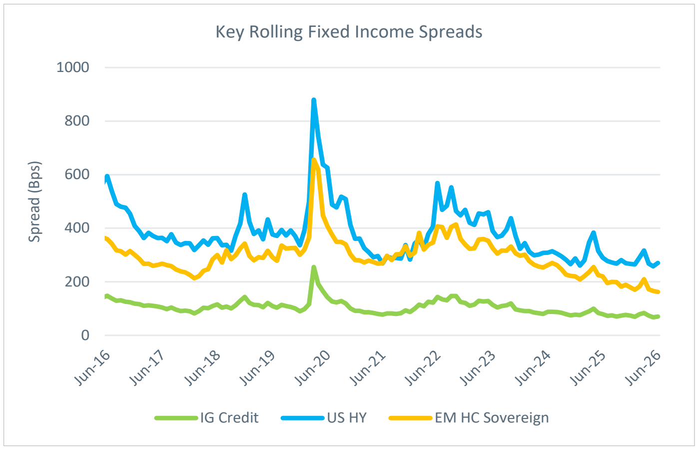
Developed international markets delivered strong absolute returns in Q2, with the MSCI World ex US Index returning 10.5%, though performance lagged both US and emerging markets. In contrast to Q1, growth stocks outperformed value stocks, though they still slightly lagged value stocks year-to-date. Small-cap stocks underperformed their large-cap counterparts during the quarter.

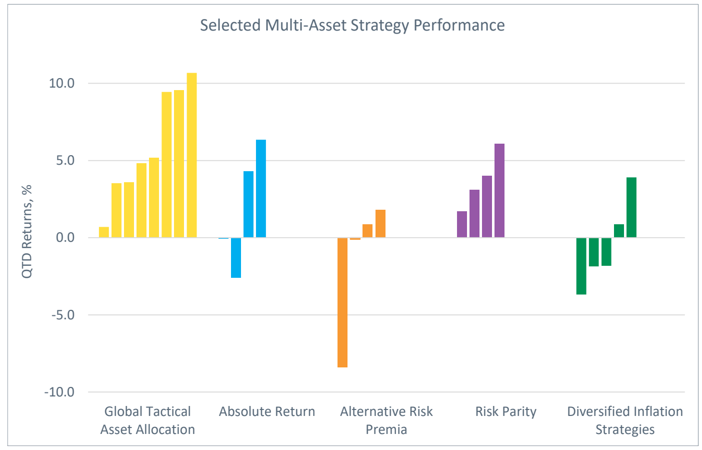
Inflation continued to influence the actions of global central banks, largely stemming from the Iran War energy shock. The ECB navigated the balance between energy-driven inflation risk and modest growth with its first rate hike in three years, while the BOJ maintained its gradual tightening path.

Emerging markets outperformed developed markets by a significant margin, with the MSCI Emerging Markets Index returning 24.1% in Q2. Similar to the rest of the world, growth stocks outperformed value stocks, while small-cap stocks underperformed large-cap stocks.

This stark outperformance of growth and large-cap stocks was supported by market concentration, as three Korean and Taiwanese stocks now account for approximately one-third of the MSCI Emerging Markets Index: Samsung, SK Hynix, and Taiwan Semiconductor. The strong performance of this narrow set of stocks has presented a challenge to active managers attempting to create a portfolio with more diversified return drivers.

Fixed Income and Multi-Asset Commentary





Fixed Income

In Q2, relatively stable labor market data and persistent inflation pushed prior rate-cut expectations aside. Under new Chair Kevin Warsh, FOMC commentary underscored a commitment to restoring inflation to its 2% target. The future path for interest rates remains unclear, as the May release of the Core Personal Consumption Expenditures (PCE) price index showed a 3.4% year-over-year increase, well above the 2% target. During the quarter, the 2-year Treasury yield rose to 4.14%, while the 10-year Treasury increased more modestly to 4.44%, leading to a curve flattening between these points.

The Bloomberg US Aggregate Bond Index returned 0.7% during the quarter, while the Bloomberg US Corporate Investment Grade Index gained 1.4%. Investment-grade corporate spreads tightened, reflecting strong investor demand despite elevated new issuance, including substantial borrowing from AI-related companies. High-yield corporate debt performed particularly well as spreads narrowed, returning 2.5% as measured by the Bloomberg US Corporate High Yield Index.

Emerging market debt (EMD) delivered strong returns in Q2, rebounding from negative results in Q1. Hard currency EMD, represented by the JPM EMBI Global Diversified Index, returned 4.6%, while local currency EMD, represented by the JPM GBI Global Diversified Index, returned 3.9%.

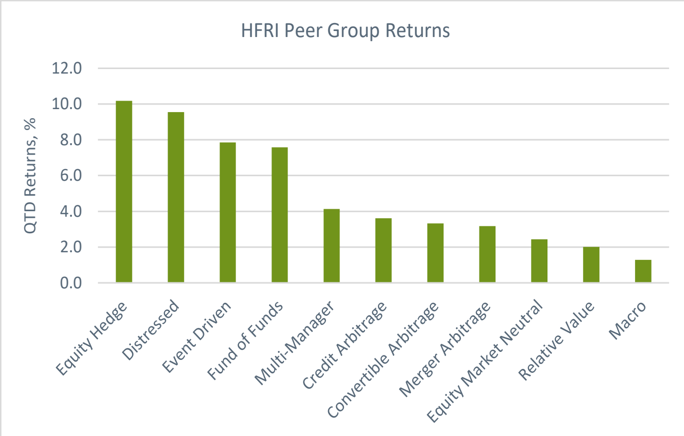
Multi-Asset

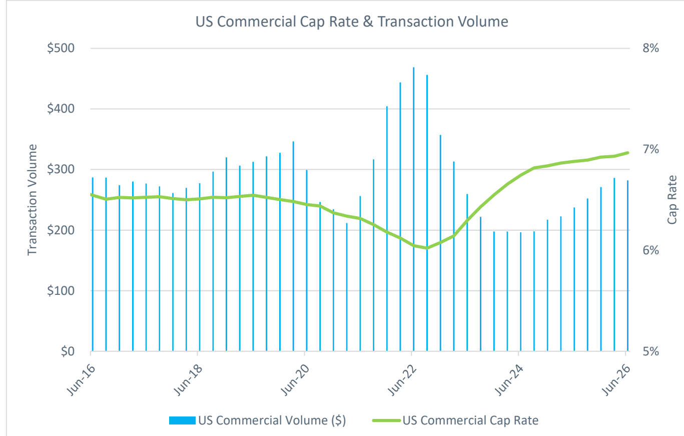
Global Tactical Asset Allocation (GTAA) strategies that RVK follows closely delivered positive results in Q2, with several outperforming a US-centric blend of 60% equity and 40% fixed income (60/40 blend). The top-performing long-biased GTAA strategies benefited from higher allocations to global equities, particularly those with technology sector or emerging market equity exposure. Managers who lagged peers tended to hold higher exposures to US and global core bonds and commodities.

Multi-asset managers that target reduced correlations, low volatility, and limited market sensitivity generally posted disparate returns for the quarter, with all underperforming a 60/40 blend. Alternative Risk Premia strategies that RVK follows closely also posted uneven returns. The best-performing managers in this peer group benefited from equity-related style premia. Within equities, stock selection gains were supported by defensive and momentum factors, while industry positioning also benefited from momentum exposures.

Diversified Inflation Strategy (DIS) strategies reported disparate performance, though all underperformed a 60/40 blend. Top-performing managers benefited from larger allocations to infrastructure equities, REITs, and US TIPS. Managers that underperformed their peers generally maintained higher allocations to precious metals as well as greater exposure to energy within natural resource equities.

Hedge Fund and Real Estate Commentary





Diversified Hedge Funds

Hedge funds performed well in Q2, with most strategies finishing in positive territory. Preliminary performance indicates that the HFRI Asset Weighted Composite Index returned 4.9% in Q2, bringing its year-to-date performance to 6.1%.

Equity managers were the top performers during the quarter, as markets rebounded strongly from March lows amid easing tensions in the Middle East, allowing risk-on sentiment to take hold. Higher-beta managers performed best in Q2, with the HFRI Equity Hedge Index posting gains of 10.2%, while its less directional counterpart, the HFRI Equity Market Neutral Index, returned a much more modest 2.4%.

Event-driven managers also posted strong gains, with the HFRI Event-Driven Index returning 7.8% in Q2. Two "mega-deals," Dominion Energy's merger with NextEra Energy and the Paramount & Warner Bros. deal, closed during the quarter. Each was in excess of $100 billion.

Macro-oriented disciplines posted modest gains. Macro managers contended with the rapid repricing of crude oil, its downstream products, and the broader energy complex. The HFRI Macro Index returned 1.3% in Q2, bringing its year-to-date total return to 6.1%.

Real Estate

Core private real estate generated a positive 1.5% total return in Q2 (preliminary and gross of fees), as reported by the NFI-ODCE Index. Performance was driven by a 1.0% income return and positive price appreciation of 0.5%. Income returns continue to be the key source of returns for NFI-ODCE, as price appreciation remains muted. The current one-year income return of 4.1% remains above the five-year trailing income return of 3.9%. The muted recovery in private real estate continues following the significant correction that began in 2022. The positive return in Q2 marked the eighth consecutive quarter of positive returns, though quarterly returns have been fairly range-bound. Publicly traded real estate delivered a total return of 10.7%, as measured by the FTSE/NAREIT All REITs Index.

Private real estate managers remain cautious, as they continue to balance mostly positive fundamentals with uncertainty around the economy and global geopolitics. Public REITs began the year impacted by geopolitics but performed well in Q2. Transaction activity in 2025 and 2026 has increased from 2023 and 2024 lows, but higher interest rates continue to keep activity below longer-term averages. For core real estate, income is expected to continue to be the primary driver of returns over in the near-term.

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