Mid-Year Market Review

OSAIC RESEARCH | INVESTOR CONTENT

2026

Resilience Amid Uncertainty

osaic

Research

EXECUTIVE SUMMARY

The first half of 2026 was a story of resilient markets overcoming a series of unexpected risks. Geopolitical conflict in the Middle East, a sharp rise in energy prices, and renewed inflation concerns led to significant volatility for portfolios and uncertainty for investors early in the year. However, improving market fundamentals, including broadening corporate earnings, solid economic growth supported by healthy consumer spending and business investment, and an improving labor market, helped stabilize sentiment and drive a recovery in markets as geopolitical risks began to ease towards midyear.

KEY TAKEAWAYS FROM THE FIRST HALF OF 2026[i]

U.S. Equities Overcame a Volatile Start to the Year

The S&P 500 increased 10.21%[i] in the first half of the year, supported by one of the strongest earnings seasons in recent history. Technology and artificial intelligence (AI)-related companies delivered outsized returns, fueled by enthusiasm around the AI buildout and upcoming AI-related initial public offerings (IPOs). Market leadership also broadened beyond large cap growth stocks, with small-cap stocks outpacing the S&P 500 by 12.36%[i] as economic growth fears faded and investor sentiment improved.

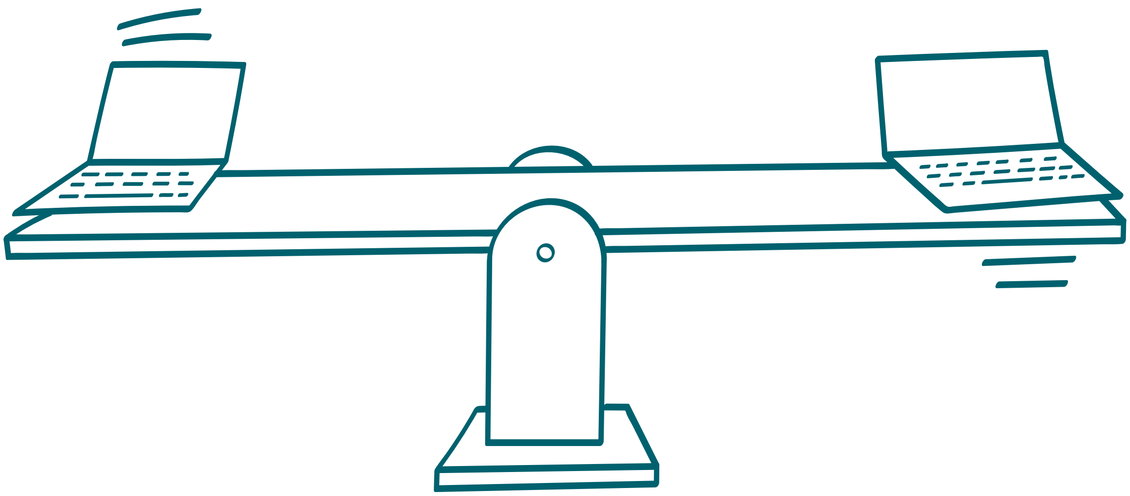
International equities continued to build on their momentum from last year. The MSCI EAFE rose 9.44%[i] on the back of strong earnings and continued secular tailwinds that include fiscal reforms and increased defense spending. Despite concerns around energy supplies, emerging markets increased 23.85%[i] and were one of the strongest performing asset classes, benefiting from their role in the global AI supply chain.

Fixed income delivered modest gains amid volatility. The Bloomberg Aggregate Bond Index rose 0.62%[i] as bond yields fluctuated in response to changing energy prices, elevated inflation, and shifting Federal Reserve policy expectations. Despite these headwinds, higher starting yields continued to provide attractive income opportunities, while strong corporate and municipal bond fundamentals remain supportive.

Alternatives provided diversification benefits with mixed results. Oil prices surged following the outbreak of conflict in the Middle East, briefly rising more than 85% the start of the year the year, before falling back to levels seen at the end of February as supply concerns moderated. However, industrial and precious metals experienced mixed returns as higher interest rates, a firmer dollar, and slower growth fears affected performance.

Key Lessons:

- Market volatility can emerge from unexpected sources, and maintaining a broadly diversified portfolio remains crucial for helping manage downside risk.
- Exposure to less correlated asset classes, such as commodities, can play an important role in helping balance portfolios during periods of market stress.
- Strong corporate earnings growth remains the backbone of market returns and a key source of stability in the midst of day-to-day headlines.



> ***Looking ahead to the second half of the year,*** the market backdrop remains supported by resilient corporate earnings, a stable labor market, continued investment in AI infrastructure, and moderating energy prices. Though risks remain, the easing of geopolitical tensions has also reduced a key source of uncertainty for markets and the global economy. Together, these factors provide a positive outlook, while continued portfolio diversification remains essential given the potential for changing economic and policy dynamics.

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ECONOMIC STRENGTH OVERCAME EARLY UNCERTAINTY

A Closer Look at Key Takeaways from the First Half of 2026[i]

The first half of 2026 was a powerful reminder that markets often face unexpected challenges, yet long-term fundamentals ultimately matter more than short-term headlines. As geopolitical tensions eased during the second quarter, investors refocused on fundamentals, helping equity markets recover from their first-quarter weakness and move to new highs. Participation broadened across U.S. tech, international equities, and small-cap stocks, reflecting improved confidence in the broader economic outlook.

It's important to note that while consumer spending remains strong, rising close to 7% year-over-year (YoY) through the latest available May data, inflationary pressures remain uneven across the economy, extending just beyond energy. For many consumers, housing-related costs continue to weigh on household budgets, reflecting a K-shaped economic background and keeping some people out of the housing market. For example, a homebuyer in 2019 faced $20,000 in annual ownership costs, which included mortgage payments, taxes, insurance, and maintenance. That annual cost has more recently risen above $28,500 and outpaced broader inflation measures by 13%, underscoring the continued strain in housing affordability even as overall inflation trends are expected to gradually moderate.[ii, iii]

Looking back, the first six months of the year reinforced the importance of maintaining a disciplined, long-term investment approach, as short-term volatility ultimately gave way to underlying economic and earnings strength.

WHAT CAUGHT OUR EYE

A Quiet Comeback: America's Manufacturing Renaissance

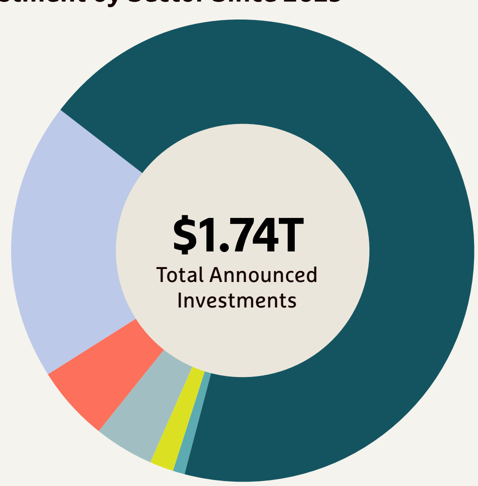
In 2026, the long-running trend of manufacturing moving overseas appears to be showing signs of reversing. A convergence of factors, including tariffs that encourage domestic production, tax incentives within the One Big Beautiful Bill Act (OBBA), supply chain security, and growing investment in automation and artificial intelligence, has created the most significant period of manufacturing investment in the United States in decades.

Evidence of this shift is becoming increasingly visible. With $1.7 trillion of new manufacturing investment announced since the start of 2025[iv], the ISM Manufacturing PMI has remained in expansionary territory for six consecutive months in 2026, marking the longest stretch of growth since 2022. Manufacturing output has steadily improved since early 2025 and has now surpassed pre-pandemic 2019 levels. At the same time, productivity rose 3.6% in the first quarter, suggesting that manufacturers are becoming more efficient and generating greater output.

CHART 1[XIV]

Announced U.S. Manufacturing Investment by Sector Since 2025

68.8%	Semiconductors & Tech	$1,216.9B
19.5%	Pharmaceuticals	$345.8B
5.2%	Industrial & Materials	$91.6B
4.0%	Automotive	$71.0B
1.7%	Energy & Infrastructure	$30.6B
0.8%	Food & Consumer	$13.7B



A QUIET COMEBACK: AMERICA'S MANUFACTURING RENAISSANCE
Continued

While manufacturing activity has improved, it has not yet been accompanied by a meaningful increase in employment. Manufacturing job growth has remained largely unchanged over the past year, however, there are early signs that job growth may follow. Employment in nonresidential construction has accelerated over the past year, reflecting increased investment in factories, infrastructure, and industrial facilities. As these projects move from construction to operation, manufacturing employment could follow.

Whether this ultimately proves to be a lasting manufacturing renaissance remains to be seen. However, after decades of offshoring and underinvestment, the combination of supportive policy, supply chain diversification, technological advancement, and capital spending is creating one of the strongest backdrops for domestic manufacturing that the United States has experienced in decades.

RECOVERY ACCELERATED AS UNCERTAINTY EASED

U.S. Equities[i]

The S&P 500 returned 10.21% in the first half of 2026, overcoming a volatile start to the year. Equity markets initially faced pressure in the first quarter as software and other technology stocks sold off amid concerns surrounding AI, followed by growing geopolitical uncertainty after the outbreak of the Iran war. However, as tensions eased, markets recovered on strong earnings, with S&P 500 earnings increasing by 28.8% YoY in the first quarter.[vi]

As the conflict in Iran began, the energy sector benefited from higher oil prices and rose 20.92%, marking its best first-half performance since 2022, following the onset of the Russia-Ukraine war. However, an initial ceasefire in April helped ease geopolitical tensions, which ultimately led to a more permanent resolution of the conflict. The reopening of the Strait of Hormuz allowed oil tanker volumes to recover back toward February levels, supporting a broader rebound in markets from their March lows.

Positive sentiment was further bolstered by the long-awaited IPO of SpaceX, the largest in history, which added momentum to the technology sector. The stock rose more than 19% on its first day of trading, with the company becoming the sixth largest in the U.S. by market capitalization at over $2.2 trillion. As the company went public, it also generated significant wealth creation, with an estimated 4,400 current and former employees reaching millionaire status through stock options and equity ownership.[vii] This was shortly followed by announcements of both the Anthropic and OpenAI IPO’s which are expected for later this year, and potentially next year.

CHART 2

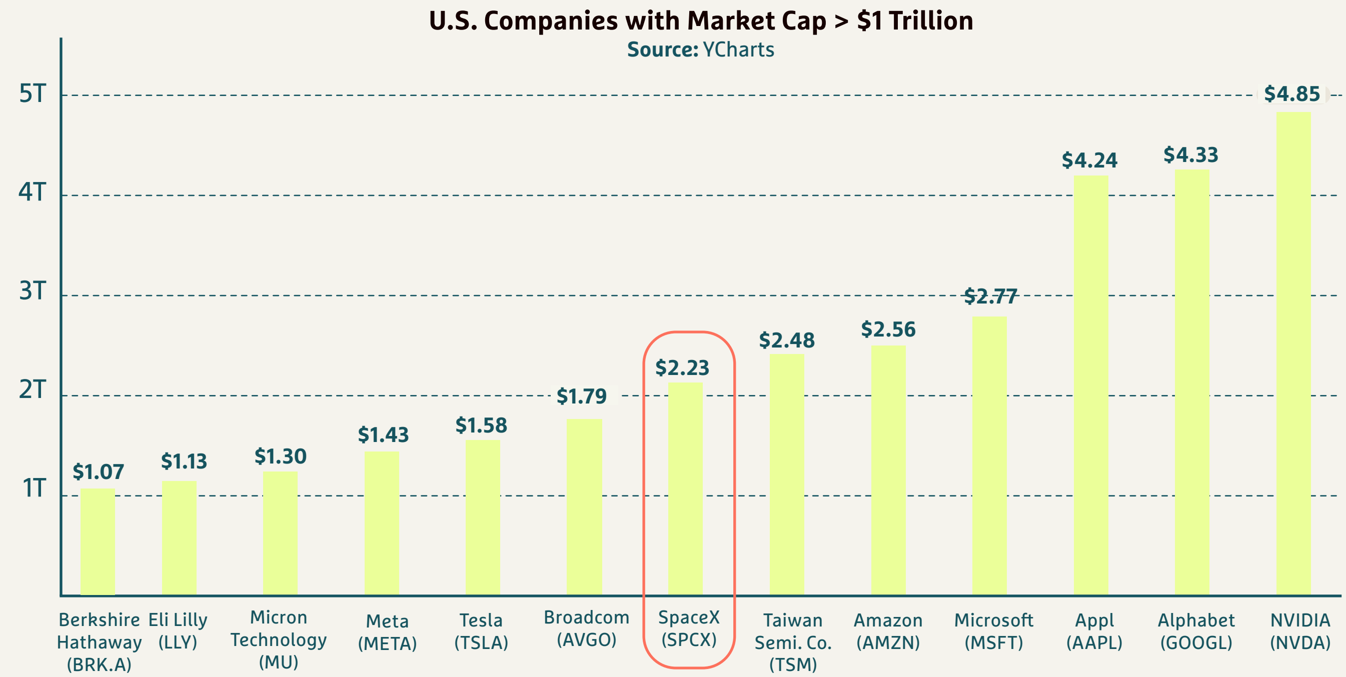
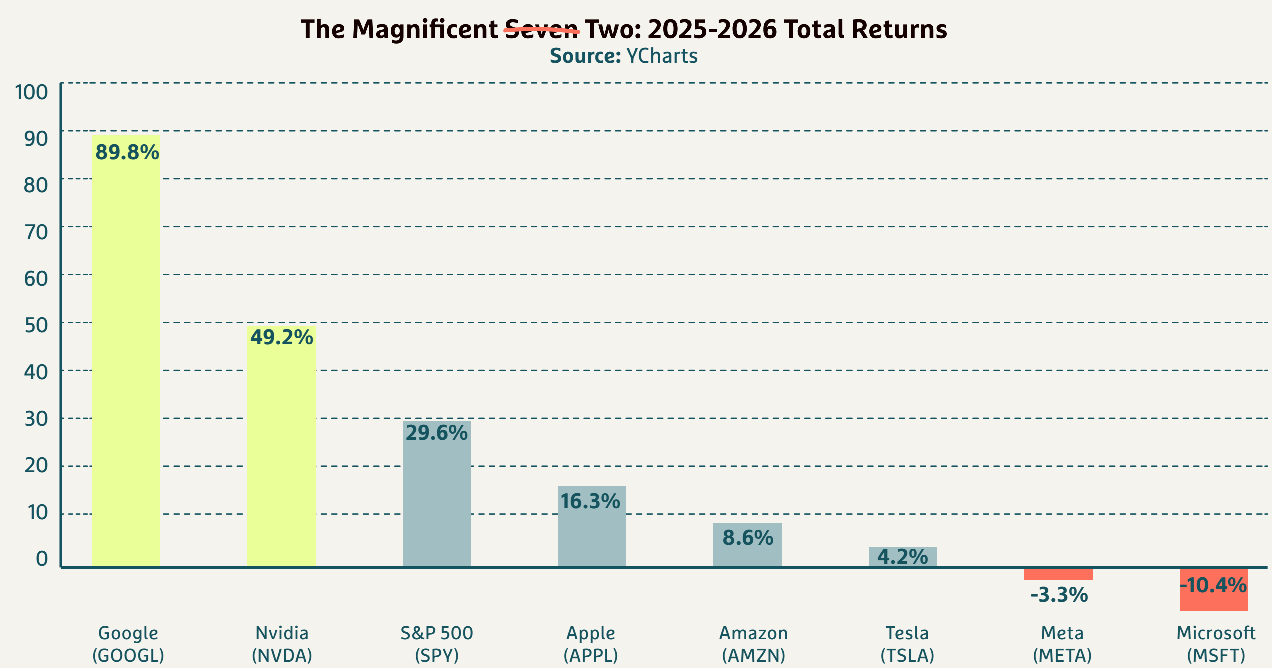


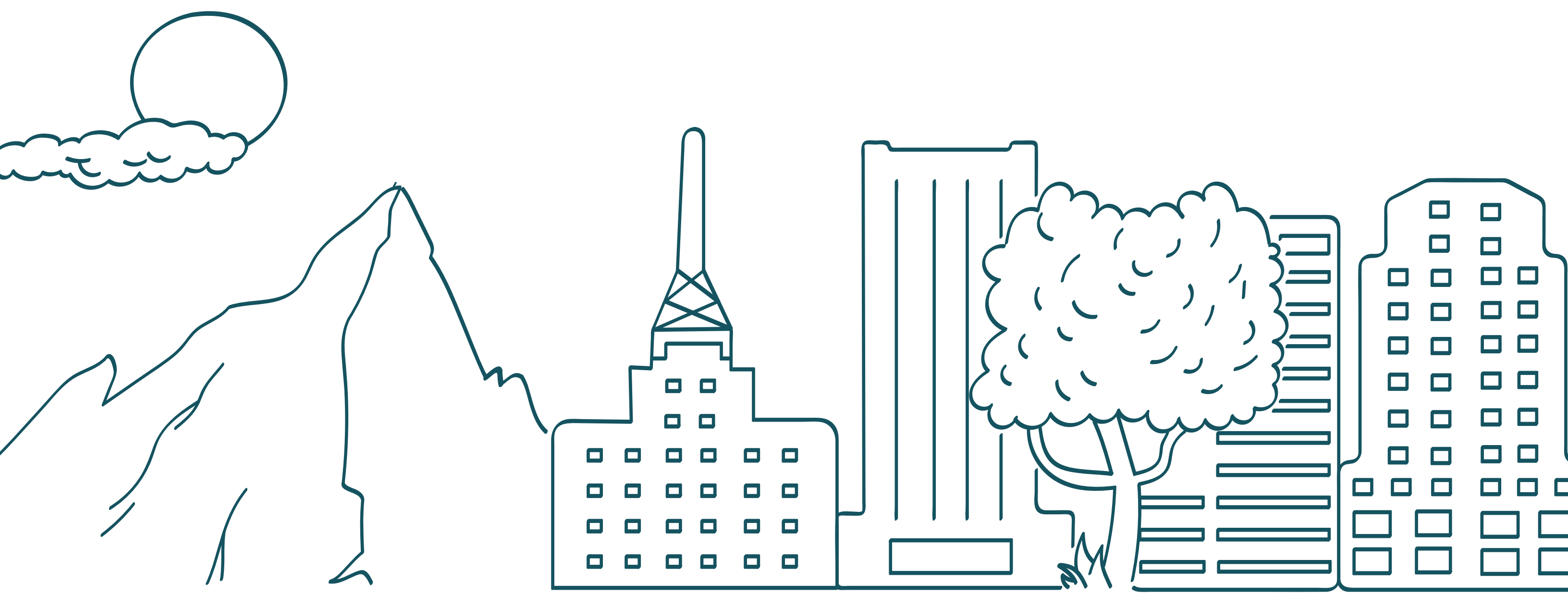
CHART 3



U.S. EQUITIES *Continued*

The tech-heavy Nasdaq rose 13.13% in the first half, led by a rebound in previously pressured software names and enthusiasm around the buildout of AI infrastructure. Mega-cap tech companies are on track to spend $700 billion this year with estimates rising to $870 billion next year.[iix] To put this in perspective, that figure is roughly equivalent to the combined annual GDP of Sweden and Finland. However, market participation broadened meaningfully across the market as 9 of 11 S&P 500 sectors finished in positive territory. Importantly, the "Magnificent 7", the group of mega-cap technology leaders that dominated market returns in 2023 and 2024, has lagged the S&P 500 over the past two years, underscoring a notable increase in market breadth, as shown in Chart 3. In fact, since the start of 2025, two of the Mag-7 stocks (Meta and Microsoft) delivered negative returns (Chart 3). This broadening was also reflected in the equal-weighted S&P 500, which returned 12.13%, further signaling that performance was not isolated to a handful of companies. Meanwhile, small cap equities (22.57%) outperformed large caps and led domestic markets as economic growth fears faded and earnings growth expectations rebounded. Small caps outperformed the S&P 500 in the first half by their widest margin since 2001.

Overall, investors who stayed invested through first-quarter geopolitical volatility were rewarded with strong gains in the second quarter. While valuations are slightly elevated relative to long-run averages, both earnings momentum and investor sentiment remain supportive as markets head into the second half of the year.



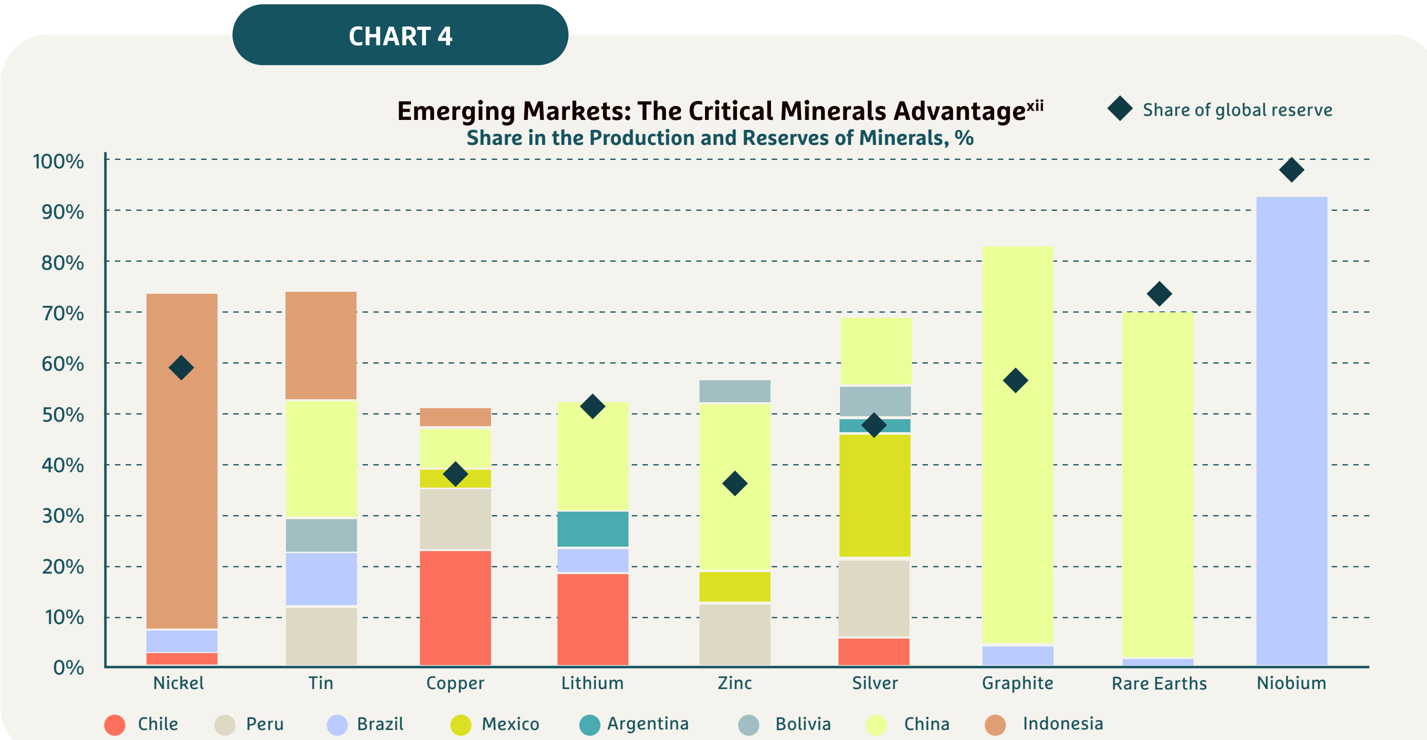
EMERGING MARKETS BENEFITED FROM AI EXPANSION

International Equities[i]

International equities started the year with strong returns, following one of its best calendar year performances in over two decades in 2025. Markets were supported by several secular tailwinds, including increased fiscal spending, reshoring, a more accommodative regulatory backdrop, and a weaker U.S. dollar. However, performance came under pressure in March amid the Iran conflict which highlighted their vulnerabilities to reliance on imported oil through the Strait of Hormuz. However, as the year progressed, markets began to look through the conflict with both developed and emerging markets recovering from their first quarter lows.

Emerging markets continued to outperform all major equity indexes, gaining 23.85% in the first half, largely driven by their critical role in the ongoing AI buildout. Countries such as South Korea and Taiwan benefited from sustained demand for semiconductors and memory chips, while emerging economies in regions like Latin America remained important suppliers of the critical minerals and commodities needed to support AI infrastructure development (Chart4). A single large AI data canter can require up to 50,000 tons of copper for power distribution and cooling systems, about the equivalent used in 600,000 electric vehicles, highlighting the growing importance of commodity-producing emerging economies in the AI ecosystem. [ix]

CHART 4



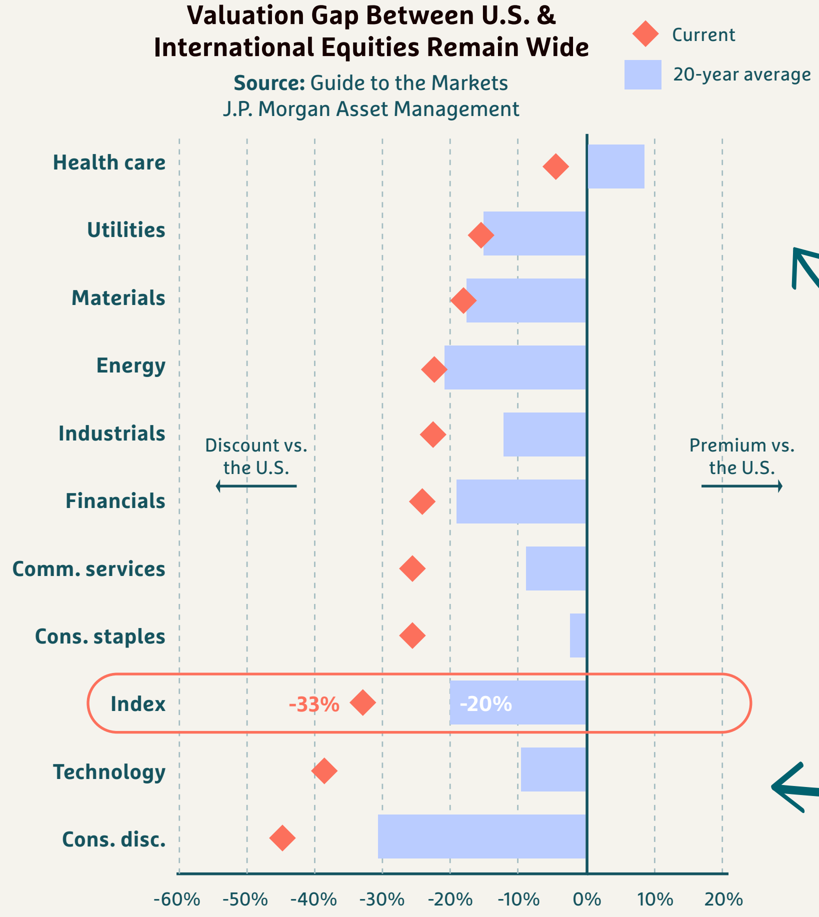
INTERNATIONAL EQUITIES *Continued*

Developed markets, as measured by the MSCI EAFE Index, advanced a more modest 9.44%, largely keeping pace with the S&P 500. International developed markets in the first quarter experienced some of the most durable earnings growth in the past two decades and offer more attractive valuations relative to U.S. in every major sector. With the conflict in the Middle East likely coming to a conclusion, both developed and emerging markets may have the potential to build on recent gains throughout the year, underscored by attractive valuations, favorable policy environments, and long-term structural growth themes.

CHART 5

Valuation Gap Between U.S. & International Equities Remain Wide

Source: Guide to the Markets J.P. Morgan Asset Management



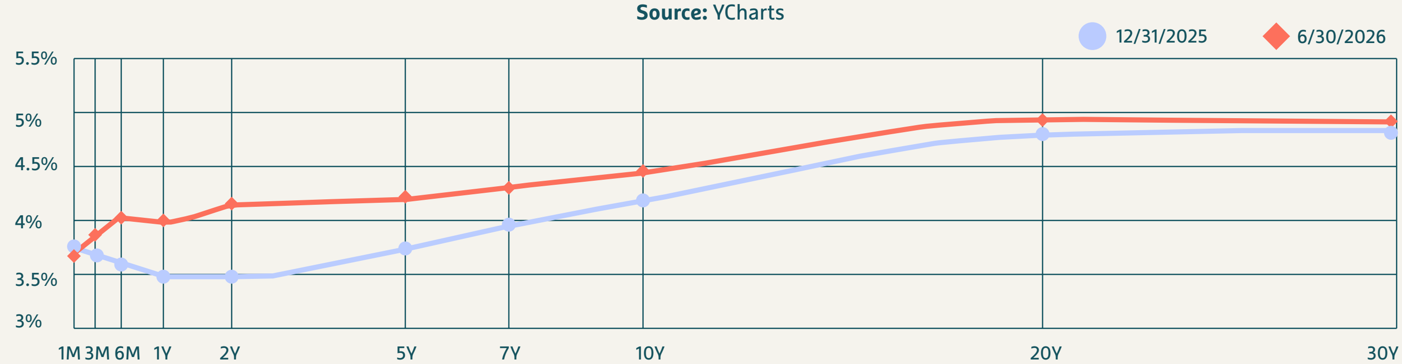
HIGHER RATES CREATED SELECT BOND OPPORTUNITIES

Fixed Income[i]

Fixed income markets delivered modestly positive but uneven returns as renewed inflation concerns and higher-for-longer interest rate policy expectations pushed yields higher globally. Markets saw a notable shift in expectations for rate cuts as fears of rate hikes increased in response to rising energy costs. The 10-year Treasury yield trended higher as well but fell from a year-to-date high of 4.67% in early June as progress towards a durable ceasefire in Iran ultimately resulted in a deal.

CHART 6

Treasury Yields Moved Higher
Source: YCharts



Against this backdrop, the Bloomberg U.S. Aggregate Bond Index (0.62%) and Global Aggregate Bond Index (-0.21%) posted mixed returns. High yield bonds, which initially lagged core fixed income, ultimately modestly outperformed and were supported by attractive higher coupons and relatively insignificant default expectations.

Looking ahead, bonds are currently priced for both elevated inflation and Fed rate hikes. Into the second half of the year, fixed income could resume its traditional roles of generating income and limiting volatility within a diversified portfolio. Likewise, municipal bonds, which rose 2.32% through the first half of the year, maintain starting yields near multi-year highs which provide a strong foundation for tax-free income and total return potential with low default risk.

With the Fed on pause at least through the end of July, rates are likely to remain somewhat elevated and range-bound in the near term. While corporate credit fundamentals remain strong, and earnings continue to surprise to the upside, investors are not being paid much extra today for taking on additional credit risk of owning riskier high yield bonds. Looking ahead, higher credit quality bonds, securitized credit, and municipal bonds for investors seeking tax-free income should provide attractive opportunities without taking on extended duration risk.

COMMODITY PERFORMANCE DIVERGED ACROSS MARKETS

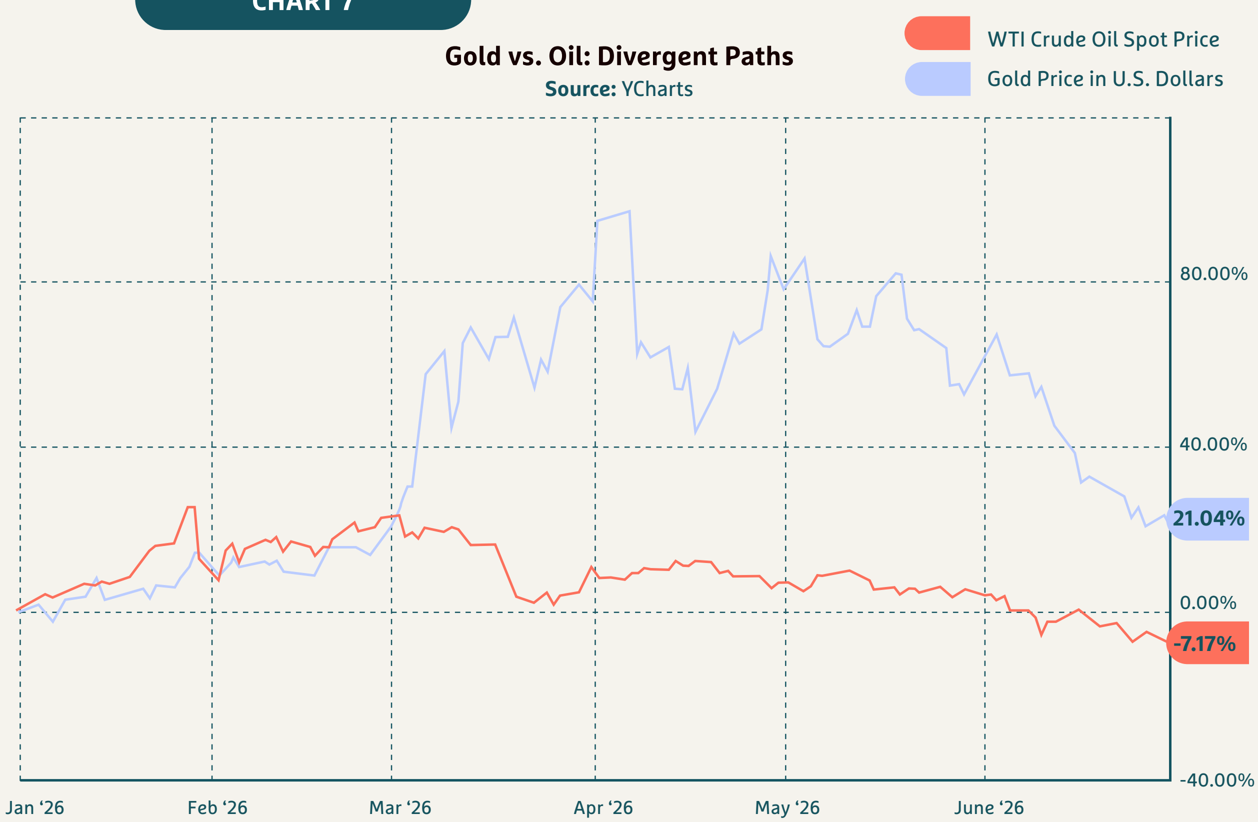
Alternatives

At first glance, the first half of the year may look like it should have pushed all commodity prices higher due to geopolitical tensions, but the numbers have been more nuanced. For example, coal has been one of the strongest performers, reflecting robust demand in parts of Asia and supply constraints. U.S. natural gas on the other hand declined, despite conflict in the Middle East, due to abundant domestic production, healthy storage levels, and regional market dynamics. As expected, oil prices surged following the closure of the Strait of Hormuz as an estimated 15 million barrels per day of global crude oil supply were temporarily taken offline.[x] However, prices reversed toward the end of the second quarter on the back of positive U.S.-Iran developments and back to levels before the start of the war. The national average for a gallon of regular gasoline fell rapidly and ended the quarter at $3.84 from a peak of $4.56 in May.[xi]

CHART 7

Gold vs. Oil: Divergent Paths

Source: YCharts

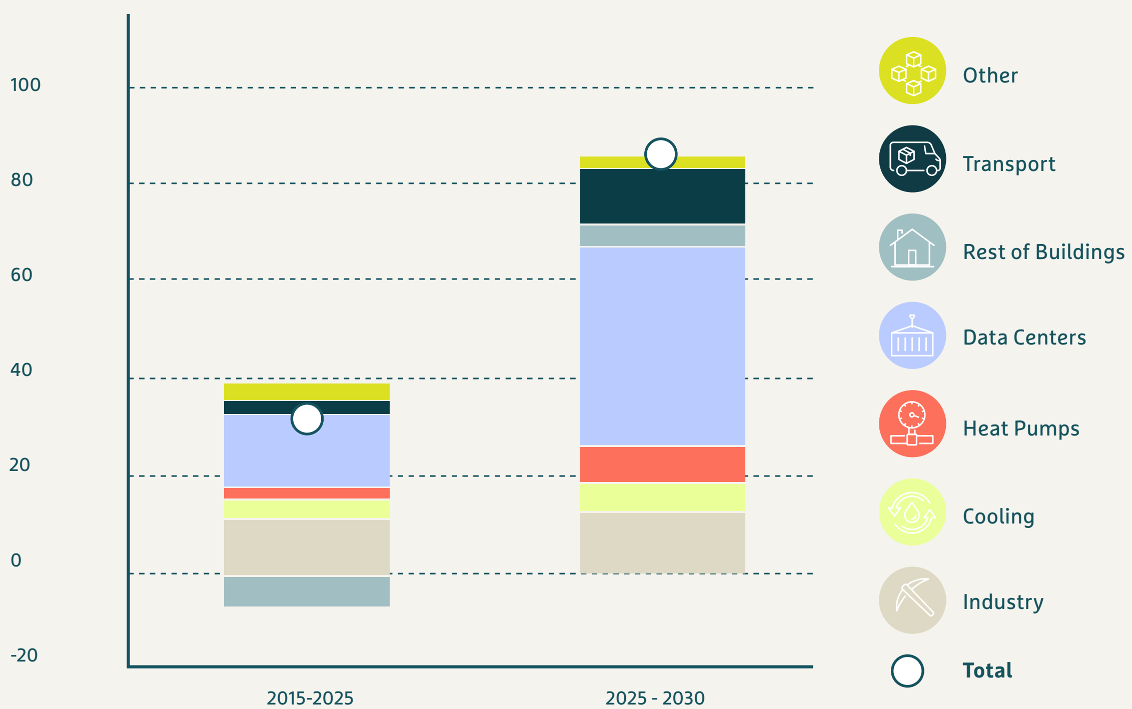


Industrial metals displayed increasingly divergent performance, with copper experiencing gains supported by durable structural demand drivers, including artificial intelligence infrastructure buildout, electrification trends, and ongoing investment in power grids, while other industrial metals saw comparatively more muted gains. Precious metals also moved unevenly, as gold and silver gave back a portion of gains earlier in the year amid shifting interest rate expectations and evolving investor sentiment. Agricultural commodities delivered steady but less headline-grabbing gains, supported by a combination of weather-related dynamics, evolving trade flows, and adjustments in global supply conditions.

Overall, the first half of 2026 underscored that commodities are not a single, unified basket, but rather a collection of distinct markets, each driven by their own mix of macroeconomic, geopolitical, and supply-demand fundamentals. Looking ahead to the second half of the year, commodities are likely to play an important role in diversified portfolios, offering both potential inflation protection and a source of uncorrelated returns supported by ongoing supply constraints and longer-term structural tailwinds.

CHART 8

U.S. Electricity Demand Growth by Sector[xiii]



Conclusion

The market's ability to navigate the uncertainty and volatility experienced during the first half of 2026 serves as a reminder of the importance of remaining invested through periods of disruption rather than focusing on short-term headlines. While the outlook for the second half of the year remains positive, investors should continue to expect periodic periods of volatility as geopolitical and policy developments evolve. Although inflation currently remains elevated, declining energy prices should help prices continue to ease. Importantly, the temporary spike in energy costs from the Iran war has not meaningfully affected broader inflation or wage growth and we believe a rate hike by the Fed is far from certain. As geopolitical concerns fade, attention is likely to shift back towards the fundamental drivers of market performance. Strong corporate earnings, stable economic growth, an improving labor market, and continued enthusiasm and investment in AI infrastructure provide a supportive backdrop for the economy and markets as we move through the remainder of the year.

Economic Definitions

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States of America.

GDP: Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

Gold: Gold is mostly traded on the OTC London market, the US futures market (COMEX) and the Shanghai Gold Exchange (SGE). The standard future contract is 100 troy ounces.

Initial Public Offering (IPO): The process by which a private company becomes a public company through the sale of equity shares on a public exchange, such as the New York Stock Exchange (NYSE) or the National Association of Securities Dealers Automated Quotations (NASDAQ).

ISM Manufacturing Index: The Manufacturing ISM Report On Business is based on data compiled from purchasing and supply executives nationwide. Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (New Orders, Backlog of Orders, New Export Orders, Imports, Production, Supplier Deliveries, Inventories, Customers' Inventories, Employment and Prices), the report shows the percentage reporting each response, the net difference between the number of responses in the positive economic direction and the negative economic direction, and the diffusion index. A PMI reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally declining.

WTI: WTI Crude oil futures are the benchmark for oil prices in the United States and serve as a reference point for global oil pricing.

Natural Gas: The natural gas futures price is based on delivery at the Henry Hub in Louisiana, the nexus of 16 intra- and interstate natural gas pipeline systems that draw supplies from the region's prolific gas deposits. The contract trades in units of 10,000 million British thermal units (mmBtu).

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represents approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg US Agg Bond: The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg High Yield Corp: The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

Bloomberg Global Agg: The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Municipal Bond Index: The Bloomberg U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

VIX: The VIX Index is a financial benchmark designed to be an up-to-the-minute market estimate of the expected volatility of the S&P 500 Index and is calculated by using the midpoint of real-time S&P 500 Index (SPX) option bid/ask spread.

[i] Bloomberg data as of 06/30/2026
[ii] Fixed Income Monthly Report
[iii] Cost of Home Ownership: How Much Does It Cost to Own a Home? | Angi
[iv] US Manufacturing Investment Tracker 2026 | IndustrialSage
[v] Productivity and Costs News Release - 2026 Q01 Results
[vi] FactSet Earnings Insight
[vii] SpaceX cafeteria workers poised to become millionaires after blockbuster IPO — 4,400 employees set to hit 7-figures
[viii] US hyperscaler capex to top $700bn in 2026, investors fear overbuild and weak returns - Moody's - DCD
[ix] The Copper Appetite of a 1 GW AI Data CenterIs The Same as 500,000 Cars | Oil and Gas Investments Bulletin
[x] Strait of Hormuz - About - IEA
[xi] AAA Fuel Prices
[xii] Mineral Commodity Summaries 2026 - USGS
[xiii] Demand - Electricity 2026 - Analysis - IEA
[xiv] US Manufacturing Investment Tracker 2026 | IndustrialSage