Q2 2026

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Quarterly Market Update

Key Developments

- After a volatile March, the S&P 500 had its best quarter since 2020.
- The need for diversification was driven home by small companies and developing countries outperforming larger U.S. stocks.
- The Federal Reserve held interest rates steady despite inflationary concerns as economic and labor conditions otherwise remained solid.
- We continue to see resiliency in the economy, with stable employment numbers and growing earnings though consumer sentiment is weak.

Markets Shake Off Global Uncertainty

On-again, off-again tensions in the Middle East, combined with volatile oil prices, continued to create uncertainty for investors in Q2. Nonetheless, U.S. and international markets posted gains last quarter. In fact, the S&P 500 had its best quarter since 2020.

The last few months remind us that regional conflicts rarely cause bear markets. In Q2, economic conditions remained resilient, with steady employment, healthy corporate earnings, and signs of continued economic expansion despite growing concerns of inflation.

As we pass the halfway point of 2026, traditional investing wisdom still applies. Volatility is normal. A diversified portfolio can help you keep pace with change so that you're not left chasing ups or downs in the markets.

Q2 Market Snapshot

Domestic

- The S&P 500 Index rose 15.20% in the second quarter.
- The Russell 2000 Index rose 21.49%.
- The Bloomberg U.S. Aggregate Bond Index increased only slightly, up 0.67%.

International

- The MSCI EAFE Index rose 11.08%.
- The MSCI Emerging Markets Index jumped 24.15% in the second quarter.
- The MSCI ACWI ex-US Index increased 14.69%.

Ceasefires and Semiconductors Fuel Increases

The April 8 ceasefire between Iran and the U.S. hasn't lasted, but as peace talks progressed in Q2, oil prices retreated and continued to drop as the quarter closed.

Falling oil prices and relative economic stability were not the only reasons investors were optimistic last quarter. Smaller companies (as measured by the Russell 2000) and companies in developing countries (as measured by the MSCI Emerging Markets Index) performed well in Q2, thanks in large part to a semiconductor rally. In fact, both indexes outperformed many of the mega-cap stocks that have led the markets in recent years.

These results provide another lesson in diversification. Sectors and regions can outperform for different reasons and in surprising ways. Many people think of the "Magnificent 7" companies when looking for tech stock winners, but recent results point to other tech companies around the world who are making gains. Being broadly diversified increases the chances that you can benefit when different sectors of the market outperform while also mitigating against being overly concentrated when one sector underperforms.

Monetary Policy Remains Cautious

Kevin Walsh replaced Jerome Powell as Federal Reserve chair on May 22, 2026. One change he brought with him that could increase market volatility is his resistance to what's known as "forward guidance." This is when the Fed foreshadows potential interest rate moves or other policy positions. The risk here is a loss of transparency in Fed decisions, which could lead to bigger reactions in the markets when policy shifts are announced.

So far, the Fed hasn't changed interest rates. Inflation pressure remains high due to elevated energy costs, but employment numbers and other economic indicators suggest that the economy remains on stable footing. As policymakers continue their "wait-and-see" approach, we should all avoid reacting to headlines and keep our eyes on long-term retirement goals and disciplined investing.

Your Partner in Retirement

Fisher\SMB helps businesses navigate the complexities of offering an employer–sponsored retirement plan, while setting employees up for a comfortable retirement.

Sources: FactSet