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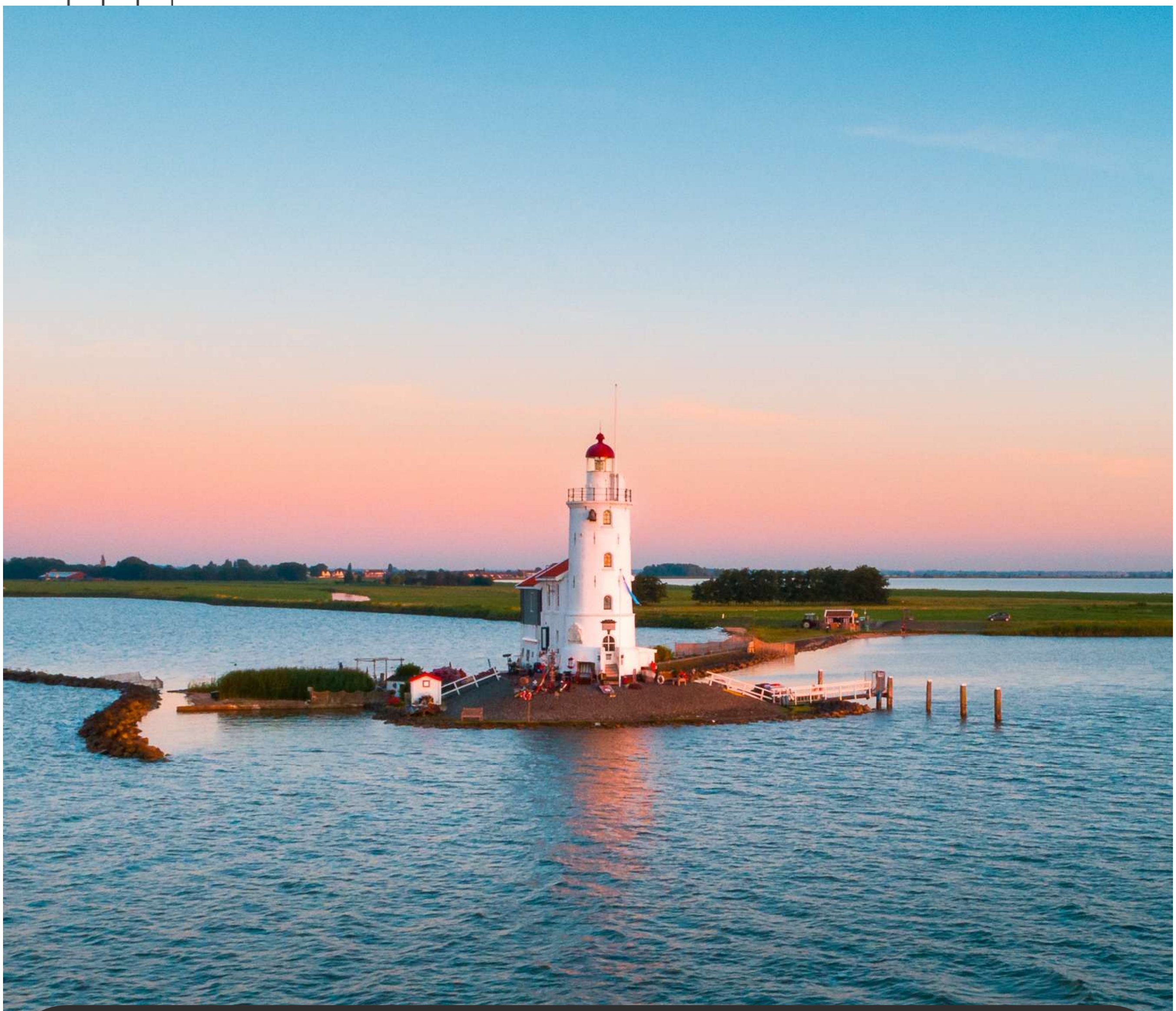

Market Update

Second Half 2026: What We're Watching

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Market Commentary

Second Half 2026: What We're Watching

As we move into the back half of the year, several crosscurrents are shaping our outlook — and on balance, we see more reasons for optimism than caution.

Manufacturing is turning a corner. After spending roughly three years below the key 50 threshold, the ISM Manufacturing Index has moved back above it. Historically, this kind of shift has preceded periods of accelerating corporate earnings growth, and we view it as an encouraging signal for the health of the broader economy.

Earnings momentum remains intact. Corporate profit growth continues to build, and current estimates point to meaningful upside for 2027 S&P 500 earnings — with some projections approaching the $400 mark. Sustained earnings growth is one of the most reliable long-term drivers of equity returns.

Inflation pressures should continue to ease. Oil prices have retreated toward levels last seen before recent geopolitical tensions escalated, which should help pull inflation lower in the second half. A cooling inflation backdrop would give the Federal Reserve more room to consider rate cuts later this year.

The bond market may be too pessimistic. Fixed income markets have priced in a fairly hawkish path for policy, arguably more cautious than warranted given where underlying inflation trends — adjusted for one-off distortions — actually stand. We believe the Fed retains more flexibility than the bond market is giving it credit for.

Leverage in the system is normalizing. Margin debt climbed roughly 55% year-over-year, a pace that historically precedes a period of consolidation as highly leveraged traders pull back. We see this as a healthy reset rather than a warning sign.

Professional money managers are under-invested. Active fund managers are trailing their benchmarks by the widest margin in five years. Historically, when professional investors fall this far behind, they tend to become buyers on pullbacks to close the gap — a dynamic that can provide support for markets ahead.

Bottom line: Improving manufacturing data, accelerating earnings, falling inflation, an under-levered trading environment, and underinvested professional managers create a constructive setup for the second half of 2026. As always, we're monitoring these trends closely and will keep you informed as conditions evolve.

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