One of the Best Quarters in a Decade: Markets Surge into the Second Half on AI, Earnings, and Economic Resilience

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Markets posted one of the best quarters in a decade. All major global equity indices recorded double-digit growth, pushing year-to-date returns above 10% and completely reversing negative returns realized in the first quarter. Market strength was fairly broad, though semiconductor stocks provided a massive tailwind as AI capital spending remained robust, leading to strong upward earnings revisions. The bond market also logged in a slightly positive quarter despite rising yields.

Index	1Q 2026	Q2 2026	YTD 2026	One-Year	Three-Year
S&P 500	-4.3%	15.2%	10.2%	22.3%	20.6%
Russell 1000	-4.2%	15.1%	10.3%	22.0%	20.4%
ACWI	-3.2%	14.2%	11.6%	23.9%	19.8%
ACWI-Ex US	-0.6%	12.4%	14.6%	28.3%	18.9%
US Agg Bond	-0.0%	0.7%	0.6%	3.8%	4.2%

Source: Orion

Driving the quarterly performance were several themes.

AI remained front and center, showing no signs of slowing compute demand or robust capital expenditure. Big tech earnings reports highlighted this driver, with semiconductor stocks being the big beneficiary. There was also continued attention on the "picks-and-shovels" aspect of the AI trade, benefiting groups involved in datacenter construction, cooling, and power production. However, this driving theme came with scrutiny leading to volatility on concerns including concentration, monetization/capex ROI, token commoditization, ongoing memory constraints, open-source/Chinese competition, and an uncertain regulatory backdrop.

The conflict involving Iran also spent most of the quarter stumbling toward a diplomatic solution. Direct military action between the US and Iran continued until an early April ceasefire; however, sporadic fighting occurred in the following weeks, and traffic through the Strait of Hormuz remained near a standstill. While the consensus was that the US and Iran would reach a memorandum of understanding and embark on deeper discussions of key issues, that did not materialize until June.

While the conflict remains unresolved at quarter-end, the market has largely discounted the possibility of a major escalation, and the renewed flow of some Hormuz tanker traffic helped push year-end WTI futures back toward levels just prior to the war.

There was a notable shift away from expectations for further Fed easing; at quarter's end, Fed funds futures were pricing in nearly a full 25 bp hike before the end of 2026. Numerous Fed officials made hawkish remarks across the quarter, voicing worries about above-target inflation, contrasting with signs of a stabilizing labor market. The June FOMC meeting was seen as decidedly hawkish despite the changeover at the chair to Kevin Warsh, who offered no forward guidance but stressed that the committee was unanimous about the importance of price stability.

The earnings season was very strong, with the S&P 500's 28.6% y/y earnings growth well above the ~13% expected at the start of the quarter. Overall growth was the highest since Q4'21. All S&P 500 sectors reported earnings growth, led by tech at 31.9% y/y. Sentiment for the coming Q2 earnings season remains positive, with strong results again expected against a solid economic backdrop and amid continued AI investment.

The economic picture also continued to illustrate a solid backdrop. April and May nonfarm payroll reports were both above consensus, with June's expected to continue the solid growth trend. Jobless claims remained at low levels despite numerous layoff announcements. Annualized core inflation continued to run above the Fed's 2% target, though there were limited signs that higher energy prices were bleeding through into the core. Consumers continued to spend, as evidenced by ongoing strength in the retail sales control group. Despite this, consumer sentiment remained depressed, and consumers had increased worries about price levels and job availability.

There was also a lot of focus on IPO volumes and other share sales, which topped $250B YTD through June, eclipsing H1'21's $239B. A big part of that was SPCX's $86.2B launch, the largest IPO in history; GOOGL raised $85B through a share sale. And more very large offerings are expected soon, with Anthropic looking to IPO as soon as October. But the parade of offerings has also raised concerns about equity demand in the face of positive supply growth.

Summary

Markets enjoyed a standout second quarter. As the second half of the year unfolds many of the same drivers are still in place which should be supportive of the markets. While areas of the equity markets may be at risk from concentration in high momentum stocks and potentially speculative excess, overall earnings trends are positive and supportive of further broadening of performance across value, cyclical, and international as well. AI and technology more broadly will also likely remain an investable thematic driver going forward given strong growth drivers, but expectations have risen as well. Overall, we recommend well-diversified portfolios as markets move through the rest of the year.