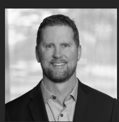
The Road Ahead: Mid-Year Outlook 2026



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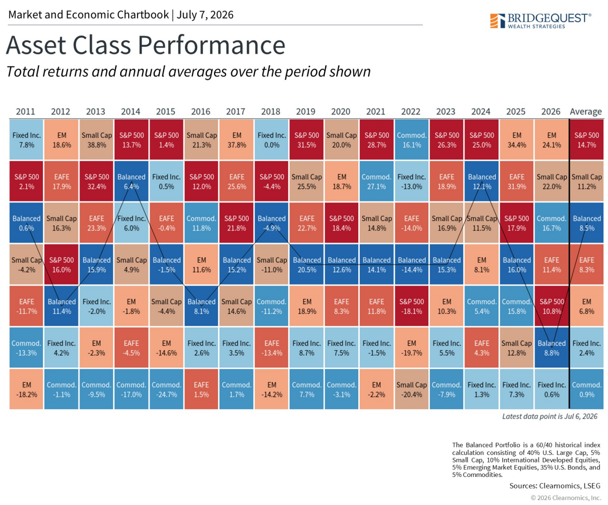
There is a saying that smooth seas do not make skillful sailors...when it comes to investing, at no time has this been more true than during the first half of this year. Investors faced major events including the war in Iran, oil prices pushing inflation to multi-year highs, high equity valuations, and many questions around artificial intelligence (AI).
And yet, markets continued to climb to new all-time highs and corporate earnings grew at a double-digit pace.

How is the economy doing today? Inflation is high but could improve if oil prices remain low. The job market has begun to heat up again, reversing last year's concerns over the slow pace of hiring. The dollar has stabilized and rebounded more recently, trade is still uncertain but has stabilized, and business investment has accelerated. While many consumers are feeling pessimistic, they continue to spend on both necessities and discretionary items.

Consider World Cup ticket prices: even in Kansas City, entry-level seats (think nose bleeds) ranged from over $400 apiece for group-stage matches to more than $1,500 for quarterfinals. Despite higher costs, consumers continue to spend on experiences they value, highlighting resilient demand. While economic signals remain mixed, the broader economy appears healthy—a backdrop that has historically been supportive of long-term market performance.

The first six months have been a reminder of the importance of staying invested and not giving up on true asset allocation. There will no doubt be unexpected events in the second half of the year, including more developments in the ongoing Middle East conflict, the upcoming midterm election, and continued concerns over market valuations. How can investors maintain perspective and stay wisely allocated as these events unfold?

Asset class diversification is key



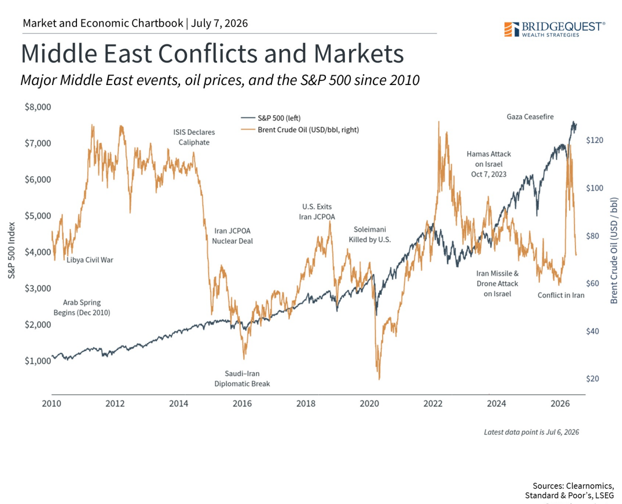
A variety of global asset classes have contributed to portfolios so far this year, continuing last year's trend. This includes not only large cap stocks, represented by the S&P 500, but also small caps, emerging markets, and commodities, as shown in the chart above. The second quarter, in particular, was one of the strongest on record. This is partly due to the timing of the war in Iran which resulted in the market recovery beginning at the start of April.

There are many themes behind these returns, including the strength of the economy, hopes of a peace deal in Iran, and enthusiasm around AI. Many of these factors have driven corporate earnings growth, with profits rising over 20% in the past twelve months for S&P 500 companies.[2] This strong market environment has also led to a wave of high-profile IPOs, including SpaceX in the second quarter, and the anticipated listings of OpenAI and Anthropic, both AI companies.

While investors often focus on the first few days of an IPO when there are the most headlines, the real benefits accrue over a longer period. The benefit of these listings is that they broaden the opportunity set for all investors, which is especially important since many companies have been staying private longer. What matters most is how these businesses then perform over the years and decades that follow. The largest technology companies today, for instance, have grown over a long period through many market and economic cycles.

While U.S. large cap stock valuations remain above historical averages, valuations are just one factor in long-term investing. **This year's market performance reinforces the value of diversification across high-quality companies, market capitalizations, industries, and geographies—an approach that remains central to BridgeQuest portfolios.**

Inflation remains a concern but oil prices have improved

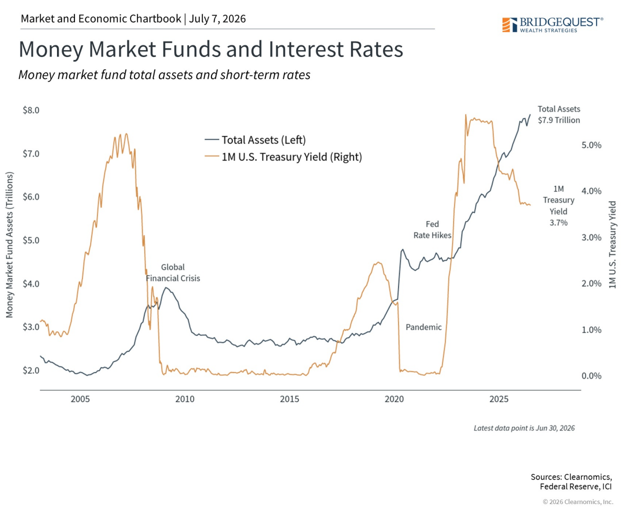


The ups and downs of the conflict in Iran have primarily affected the U.S. economy through energy markets. Disruptions to oil transportation through the Strait of Hormuz pushed Brent crude to nearly $120 per barrel before prices pulled back significantly. In recent weeks, oil prices have fallen back in the $70s per barrel. Gasoline prices have followed a similar path on a delayed basis, peaking above $4.50 per gallon nationally before retreating below $4.00 per gallon more recently.[4]

Energy price swings have directly impacted inflation rates. The Consumer Price Index rose 4.2% year-over-year in May, its highest reading in several years, with the gasoline component jumping 40.5% over the same period. Importantly, core CPI, which excludes food and energy, rose only 2.9%.[5] This shows that inflation has been concentrated in fuel prices, and is not yet a broader phenomenon.

With oil prices falling recently, many economists hope that we are near peak inflation levels. This is similar to other past geopolitical shocks that affected the supply of oil, such as Russia's invasion of Ukraine in 2022, and many others shown in the chart above. Once the situation stabilized, oil prices often improved, bringing inflation rates back down over time.

It's important to stay invested



One effect of investors exiting the market during periods of volatility is often referred to as "cash on the sidelines." The primary problem with this strategy is knowing when to get back in. The chart above shows an example of just how much is held in cash today. Money market fund assets have reached a record $7.9 trillion, more than double their pre-pandemic level when interest rates were near zero. This reflects both market uncertainty over the past few years and a period of higher short-term rates that made cash more attractive.

While cash may feel safe and is stable, the challenge is that cash yields often do not offset inflation. For instance, the current average rates on certificates of deposit mean that the real income from cash is currently negative after adjusting for inflation.[7] Even when nominal yields on money market funds and short-term instruments appear attractive, there can be challenges both due to inflation and the ability to maintain those rates. Altogether, this means that the purchasing power of cash holdings can erode over time. The bottom line is that short term money markets and savings instruments known as "cash" are best utilized (and very important) to be held as emergency and short term expense needs, not as growth instruments for offsetting inflation over the longer term.

The current environment reinforces the importance of broad diversification. We believe maintaining exposure across geographies, market capitalizations, and investment styles—including domestic and international equities, large- and small-cap companies, and growth and value strategies—is critical especially in this stage of the market cycle.

The bottom line? The first half of 2026 has rewarded investors who stayed truly diversified in their holdings, and we believe will only be more critical moving forward in the second half of 2026.

References

1. All figures are as of June 30, 2026 and are on a price return basis unless otherwise noted
2. Clearnomics research and LSEG data as of June 30, 2026
3. Ibid.
4. https://gasprices.aaa.com/
5. https://www.bls.gov/news.release/cpi.nr0.htm
6. Clearnomics research and Standard & Poor's data as of June 30, 2026
7. Clearnomics research and FDIC data as of June 30, 2026

Index Descriptions

S&P 500

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Dow Jones Industrial Average
The Dow Jones Industrial Average consists of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.

NASDAQ
The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.

MSCI Emerging Markets Index
The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa, Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

MSCI EAFE Index
The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

Bloomberg US Aggregate Bond Index
The Bloomberg U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

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