

Dallas, Texas

QUARTER ENDING JUNE 30, 2026

Market Navigator

Against a backdrop of easing geopolitical risks and strong earnings growth, markets rallied strongly across the board. The S&P 500 and Nasdaq turned in their strongest quarters since the second quarter of 2020. Throughout the quarter, the U.S. and Iran moved slowly toward the signing of a Memorandum of Understanding (MOU) to potentially end the war in the Middle East. As a result, the benchmark U.S. crude price declined more than 30 percent.

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AFM Armstrong Fleming & Moore, Inc.

Beyond the Headlines: Market Rally Gains Liftoff

Enthusiasm around artificial intelligence and the SpaceX (SPCX) initial public offering led a strong technology sector rally for the quarter. Technology was by far the best performing part of the market and led to a strong rally in the Nasdaq, which led U.S. index performance. However, broad market participation was evident as the small-cap Russell 2000 also rose more than 20 percent. International stocks also delivered double-digits returns, with emerging markets up almost 25 percent.

Reduced geopolitical risks provided a market tailwind, but strong fundamentals drove stocks higher as well. Corporate America reported phenomenal first-quarter earnings growth of 28.6 percent for S&P 500 constituents, which was twice the consensus expectations for growth at the beginning of the quarter. In addition, 2026 full-year S&P 500 earnings estimates have moved up almost 9 percent since the end of February, prior to the start of military action in the Middle East. Equally as encouraging for investors is that, according to FactSet, the 493 non-Magnificent Seven stocks in the index are forecasted to grow almost 16 percent for the full year. Improving fundamentals is a key to a sustainable rally.

Nasdaq Composite	S&P 500	Dow Jones Industrial Average
⇧21.60%	⇧15.20%	⇧13.38%

Fixed Income Update: Bond Investors Relieved by Progress in the Middle East

Enthusiasm for the MOU and lower oil prices outweighed a hawkish debut by new Federal Reserve (Fed) Chairman Kevin Warsh at the June Federal Open Market Committee meeting for fixed income investors. Bonds were higher across the board. Given the strong equity markets, it isn't surprising that the higher-risk high-yield index led the way.

Despite the rally in bonds, yields did move higher as market participants now expect the Fed to raise rates by the end of the year. As a result, 2-year Treasury yields moved up 35 basis points while the 10-year yield moved up 15 basis points and closed the quarter at 4.47 percent. However, that was down from the peak yield in mid-May when it approached 4.70 percent.

Bloomberg Aggregate Bond Index

⇧ 0.67%

In the second quarter

Bloomberg U.S. Corporate High-Yield Index

⇧ 2.47%

In the second quarter



Bluebonnet Field, Burnet, Texas

Geopolitical and Economic Update: Reopening the Strait of Hormuz Becomes the Key

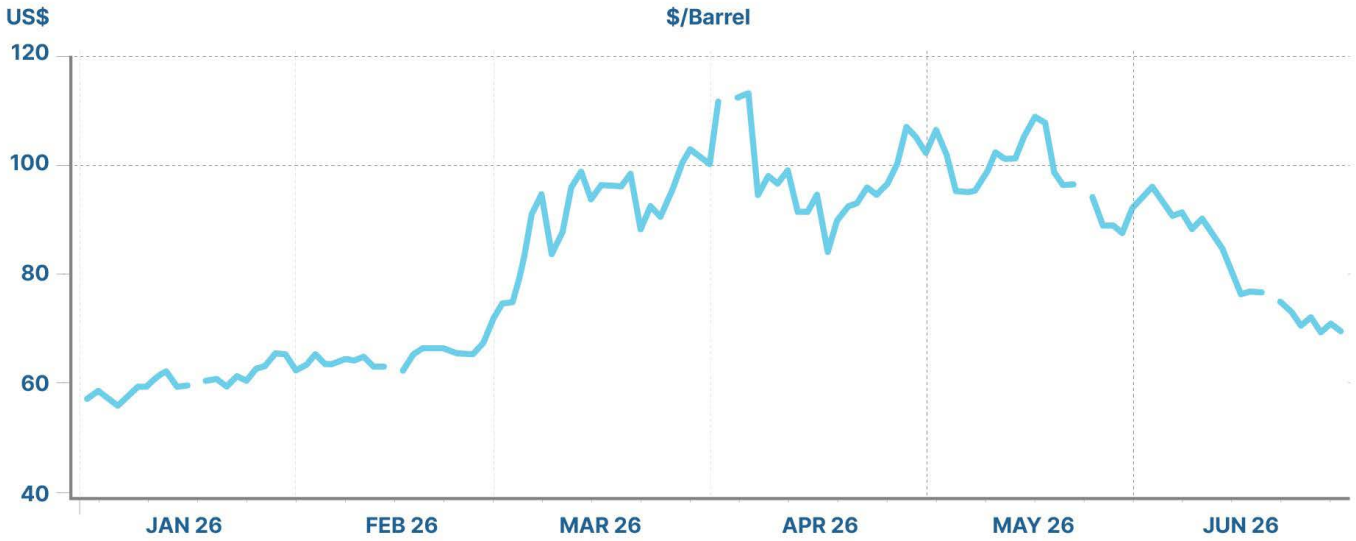
Economic data over the quarter continued to be supportive of solid economic growth. The employment picture continued to improve after a challenging first quarter for job seekers. Despite consumer confidence indicating concerns persist about the future, retail sales showed consumers are still willing to spend.

The fly in the ointment remains inflation, which has moved higher due largely to increased oil prices flowing through the system. The most recent readings showed consumer price inflation and producer price inflation exceeded 4 percent and 6 percent annually, respectively.

Despite fits and starts in negotiations since the signing of the MOU, the market appears to have discounted a full reopening of the Strait of Hormuz. Oil prices closed out June at levels not seen since the war started in February.

While traffic through the Strait has increased recently, it remains well below the levels seen in February. If negotiations ultimately lead to a full reopening and return of oil supply to global markets, this would be a positive sign for inflation through the remainder of the year.

Figure 1: Domestic Spot Market Price: WTI, Cushing, Year-to-Date



Source: EIA/CME/Haver, as of June 30, 2026

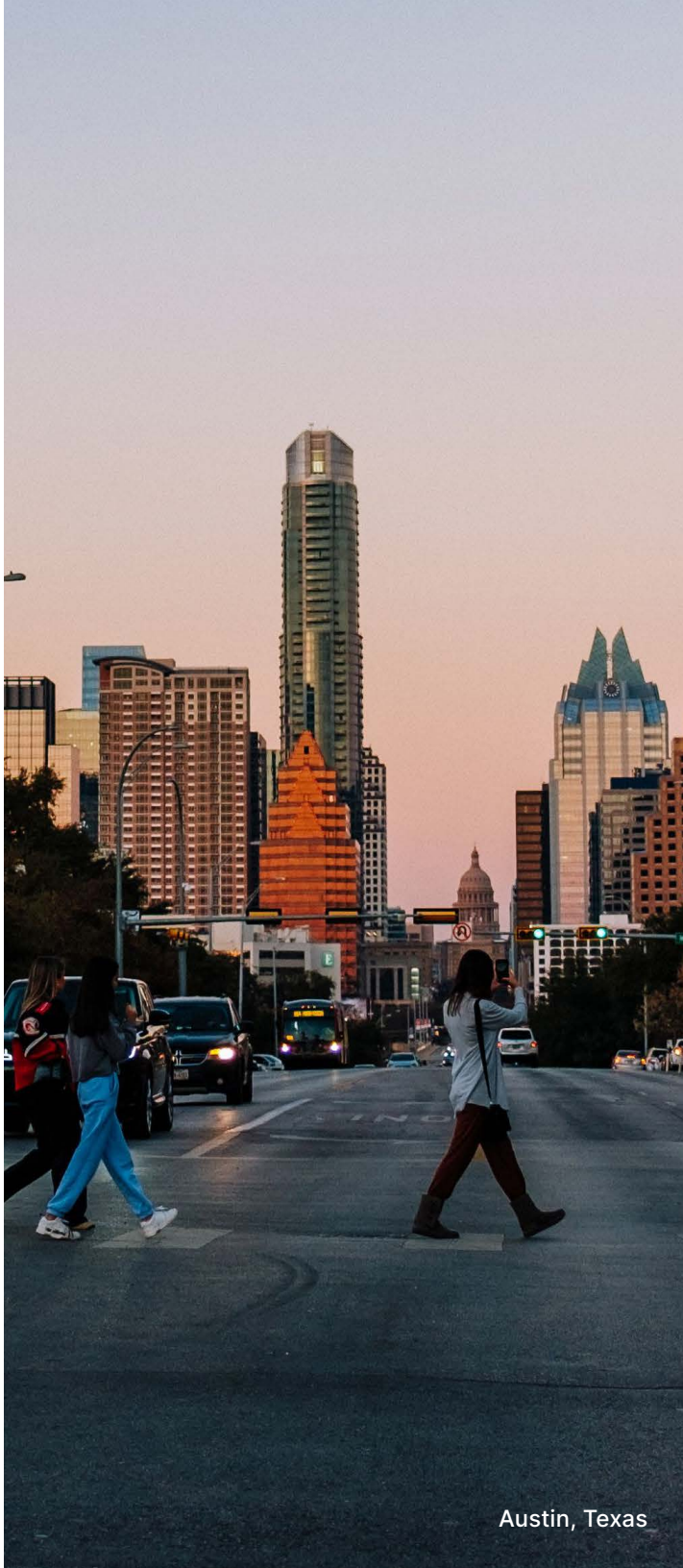
Looking Ahead: Crosscurrents Worth Monitoring

Moving forward, there are three stories to monitor:

- Reopening the Strait over the next 30–60 days and allowing oil prices to stabilize at current levels would go a long way to reduce pressures on consumers and businesses. Any setbacks could push oil prices back up quickly.
- Despite the recent drop in oil prices, Chairman Warsh made it clear that policymakers remain focused on inflation. Warsh reiterated the Fed's commitment to its 2 percent inflation target and signaled little willingness to adjust policy based on declining oil prices alone. If rates do rise, it could pressure markets.
- Attention will soon turn to second-quarter earnings. Analysts are projecting approximately 22 percent year-over-year growth for the S&P 500. While this raises the risk of disappointment, recent history suggests resilience. Over the past five quarters, companies have continued to deliver strong results despite policy and trade-related uncertainties. If earnings momentum continues, it should provide a foundation for markets over the longer term.

Fundamentals drive markets over the long term, and they remain relatively solid for now. Solid jobs growth, continued consumer spending, and strong earnings growth should lead to economic growth and further market appreciation.

Uncertainty remains high and further short-term volatility is possible. However, a diversified portfolio that matches long-term goals and risk tolerance remains the best path forward. If concerns remain, please contact us.



Austin, Texas



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