

Second Quarter 2026 – Wealth Management Insights



Economic Overview

Steve Scranton, CFA, SVP, Economist

Despite the continued negative consumer sentiment surveys, the economy continued to grow in the 2nd quarter. Although the first estimate for the 2nd quarter growth will not be released until late July, the current forecasts from the two real-time Federal Reserve models forecast growth above 2.0%. The Atlanta Federal Reserve's model is forecasting 2.5% growth, while the New York Federal Reserve's model is forecasting 2.7%. Although growth remains positive there were clearly areas that "worked" and areas the "did not work."

What Worked?

The driving engine for 2nd quarter GDP growth was business spending. Companies across all industry sectors continue to invest in hardware and software focused on productivity gains. The headlines focused on the massive spending on data centers, artificial intelligence, and semiconductors, but other industry sectors focused on upgrading hardware, software, and infrastructure to increase productivity. The second area that "worked" was the labor market. The near zero growth in jobs in 2025 led many economists and analysts to conclude that we were in a job recession. What we have discovered in 2026 is that the massive slowdown in jobs in 2025 may have been due to the elevated level of uncertainty due to a new administration and fiscal policy. The surprise for 2026 has been that jobs growth resumed. Through May, four out of the five months experienced jobs growth above 160,000 per month with only one month seeing a negative result.

What Did Not Work?

The major area where this "did not work" was the effort to bring the inflation rate back to 2.0%. Just as we hoped inflation would be defeated, it surged again. This was due to a combination of the war with Iran and the delayed effects of tariffs. The resulting elevated level of prices is negatively impacting the average worker.

The second area that "did not work" was consumer spending. The US consumer is showing signs of fatigue and possibly the first stages of exhaustion. Higher prices have reached the point where the real average hourly wage growth has been negative for the last three months (March, April, May). Even though real personal spending grew 2.1% on a year-over-year basis in May, much of that spending is occurring with the high-net-worth households. The lower income households are struggling to pay their bills and are relying on credit cards or drawing down their savings to cover their core expenses.

Conclusions

While the economy continued solid growth in the second quarter, beneath the headlines, we continue to see a bifurcated economy. Strong corporate spending masks a struggling consumer. Going forward, it will be important to monitor whether the current pace of corporate spending continues and whether the current elevated price levels force continued cutbacks from the consumer.

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Strategy Review

Derrick Wilson, CIMA®, VP, Portfolio Manager

Risk assets continued to perform well during the 2nd quarter, with US equities once again leading global markets. The Iran war remained in the background, periodically contributing to market volatility as ceasefire announcements were followed by renewed military exchanges. Despite these headline risks, investors remained focused on resilient economic fundamentals, corporate earnings, and the ongoing growth of artificial intelligence (AI), allowing equity markets to maintain their upward momentum.

Equities were the primary driver of portfolio performance during the quarter, although market leadership broadened beyond US large-cap stocks. US small-cap equities delivered one of their strongest quarterly performances on record, gaining more than 20%, while US large-cap and mid-cap equities advanced approximately 14% and 12%, respectively. International equities generated positive returns but lagged the US overall. Within international markets, however, emerging markets significantly outperformed developed markets, returning more than 18% compared with approximately 6.5%.

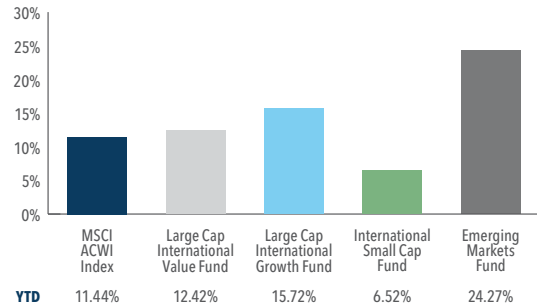
As major US hyperscalers continue investing in data center capacity, increased demand for advanced semiconductor and memory technologies has benefited leading manufacturers in Taiwan and South Korea, contributing meaningfully to emerging market equity performance.

Fixed income delivered modest positive returns but remained well behind equities. Aggregate bond returns generally ranged between 0.4% and 0.7%, with intermediate bonds modestly outperforming short-term bonds. While inflation concerns persisted throughout much of the quarter, expectations eased toward quarter end, helping support bond prices. Treasury Inflation-Protected Securities (TIPS) returned nearly 0.6%, placing them near the upper end of core fixed income performance. Credit-sensitive sectors benefited from improving investor sentiment, with emerging market bonds returning approximately 4.6% and high yield bonds gaining roughly 2.5%.

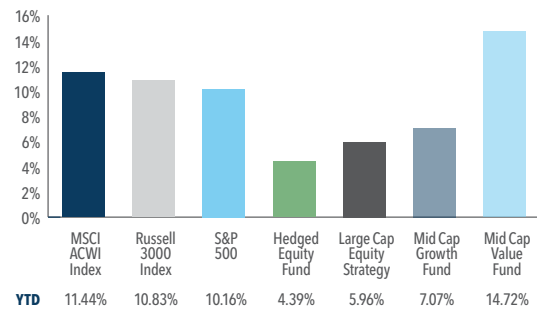
Alternative investments produced mixed results across asset classes. Broad commodities declined 8%, driven primarily by lower gold and oil prices. In contrast, real estate posted strong gains of more than 10%, while global infrastructure remained positive, advancing just over 1%. Managed futures experienced modest losses of less than 1% in changing market trends and increased volatility, while global macro strategies delivered positive returns of approximately 2.5%, outperforming traditional core fixed income.

In the near term, equities are likely to remain the primary source of portfolio returns, although elevated valuations warrant continued caution. Encouragingly, market leadership has broadened beyond US large-cap stocks, with stronger participation from US small caps and emerging markets, supporting a healthier and more diversified market environment. Fixed income continues to provide attractive levels of income and portfolio stability, though returns may remain relatively muted until there is greater clarity regarding inflation and the path of Federal Reserve policy. Alternative investments are also expected to experience varying outcomes across strategies but should continue to play an important role in providing diversification, inflation protection, and downside risk mitigation.

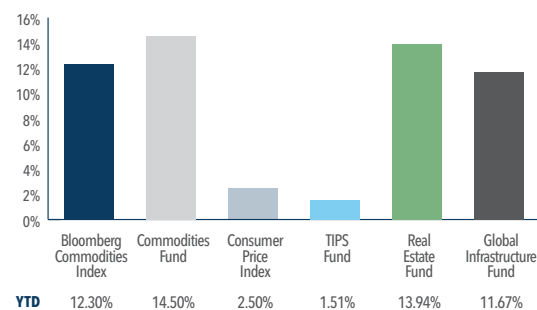
INTERNATIONAL DIVERSIFICATION YEAR-TO-DATE PERFORMANCE



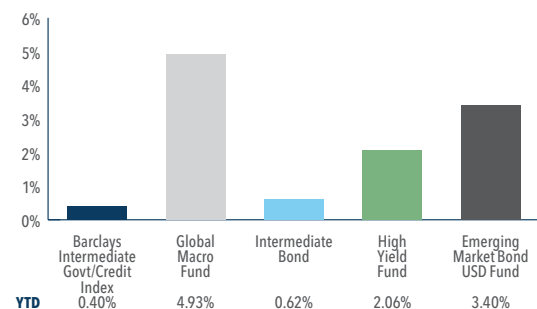
DOMESTIC DIVERSIFICATION YEAR-TO-DATE PERFORMANCE



REAL RETURN (INFLATION PROTECTION) DIVERSIFICATION YEAR-TO-DATE PERFORMANCE



INCOME DIVERSIFICATION YEAR-TO-DATE PERFORMANCE



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Domestic Equities

Allan Prins, CFA, Portfolio Manager

US equities rebounded sharply in the 2nd quarter, following a difficult start to 2026. Expectations for a peaceful resolution to the Iran conflict, strong 1st quarter earnings growth, and renewed AI enthusiasm drove market gains. The Nasdaq led major indexes, gaining more than 21.6%, while the small-cap Russell 2000 closely followed with a 21.5% advance; the S&P 500 gained 15.2%.

March market volatility gave way to a more constructive 2nd quarter market backdrop. While US-Iran tensions persisted, investors priced in an eventual peace agreement. Oil prices, a key source of inflation unease, retreated late in the quarter as geopolitical risks eased and Strait of Hormuz maritime traffic improved. Supported by AI capex and strong earnings growth, US equities proved resilient despite inflation concerns and a shift in Federal Reserve (Fed) rate-cut expectations.

Boosted by the robust AI spending backdrop, AI hardware suppliers, particularly semiconductor companies, were notable 2nd quarter outperformers. Supply-demand dynamics, margin expansion, and limited free cash flow concerns were key drivers. The iShares Semiconductor ETF (SOXX) returned an astounding 95.1% in the 2nd quarter, with Micron Technology and Intel posting gains of 241% and 216%, respectively. By contrast, AI hardware buyers such as Meta Platforms and Microsoft notably lagged the broader market; investor focus will remain on whether these companies can demonstrate meaningful monetization.

While investors entered 2026 anticipating additional Fed rate cuts, expectations have since shifted toward the possibility of rate hikes by year end. Although lower energy prices have perhaps eased inflation fears, inflation remains above the Fed's 2% target, and new Fed Chair Kevin Warsh is committed to price stability. Earnings growth has helped offset higher-rate concerns, though elevated bond yields could ultimately pressure equity valuations.

Although the Information Technology sector, driven by semiconductors, was the standout performer in 2nd quarter, up 31.8%, performance leadership pivoted toward the Industrials, Health Care, and Financials sectors in June. Industrials, supported by AI infrastructure, electrification, and onshoring demand, is the year-to-date sector performance leader. Small caps continued to shine, with the Russell 2000 up 22.6%.

The S&P 500's forward P/E multiple of 20.2x remains above its five- and ten-year averages of 19.9x and 19.0x. Still, expectations for 20%+ earnings growth over the next several quarters appear supportive. Monetary policy, earnings growth, and the trajectory of AI capex and monetization could be key second half market drivers.



Fixed Income

Callen Young, VP, Portfolio Manager

US Treasuries posted modest gains in the 2nd quarter, ending a weak start to the year as inflation expectations eased late in the period. The Bloomberg US Treasury Index gained 0.39% for the quarter. Performance was roughly flat through May, after the war-driven spike in energy prices pushed inflation expectations higher and reduced market conviction that the Federal Reserve would cut rates. Benchmark yields reached year-to-date highs before pressure eased in June as oil moved back toward pre-war levels.

Performance was uneven across the curve as longer maturities benefited on a relative basis from lower oil prices and reduced inflation risk premiums, while shorter maturities remained pressured by the possibility that persistent inflation could require tighter Fed policy. The result was a flatter curve, with long-term yields rising less than front-end yields.

The June FOMC meeting, the first chaired by Kevin Warsh, reinforced the Fed's focus on price stability. The committee left rates unchanged, but updated projections and a revised policy statement pointed to a less accommodative bias than investors had expected. Warsh also signaled more limited forward guidance and a broader review of the Fed's policy framework, communications, and operating practices.

The projections showed greater support for at least one rate increase if inflation remains elevated. Warsh emphasized the Fed's commitment to price stability, helping ease concerns that the central bank might cut rates prematurely in response to political pressure. The message was notable because investors had entered the quarter expecting the next move to be a cut.

By June, investors were also questioning whether the US economy might require higher rates regardless of oil's path. Resilient employment data contributed to periodic selloffs, while core inflation remained well above the Fed's 2% target. Heavy spending on artificial intelligence infrastructure added another complication: potential productivity gains could be disinflationary over time, but near-term demand for labor, power, equipment, and capital may add to price pressure.

The two-year Treasury yield, which is highly sensitive to Fed expectations, reached a 2026 high of 4.23% on June 22 and ended the quarter near 4.17%, up more than 36 basis points. The smaller increase in long-term yields captured the market's split view: near-term policy risks remained elevated, while longer-term inflation concerns eased as oil prices fell.

Looking ahead, incoming data should drive rate moves in the 3rd quarter. A July hike appears unlikely, but September could become more consequential if the earlier oil shock feeds into broader inflation or if the labor market reaccelerates. Our base case is that the Fed leaves rates unchanged through year end. While the June projections were hawkish, support for rate hikes appeared concentrated among a limited group of participants, and Warsh continued to argue that AI-driven productivity gains could support growth without sustained inflation. For Treasury investors, the front end remains most exposed to policy repricing, while the long end will likely reflect a broader mix of forces, including energy prices, inflation expectations, economic growth, and the term premium associated with federal debt and deficit spending.

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International

Matthew Clarke, CIMA*, VP, Senior Client Portfolio Manager

The international markets delivered a strong 2nd quarter after a volatile start to the year. While investors continued to navigate geopolitical tensions, trade negotiations and shifting expectations for central bank policy, international equities benefited from attractive valuations, resilient corporate earnings across Europe and parts of Asia and easing concerns around the US-Iran war.

The developed international markets regained momentum after a modest 1st quarter setback. The MSCI Europe, Australasia, and Far East (EAFE) Index climbed 11%, more than recovering its 1% decline in the 1st quarter. **Japan was a standout performer**, supported by corporate governance reforms, stronger shareholder returns, and improving business confidence. The Nikkei 225 returned 37%, marking its strongest quarterly gain since 1965. In Europe, markets in Germany, France, and Spain rose 10%-15%, helped by investment in artificial intelligence, a rebound in financial and consumer sectors, and easing geopolitical concerns. The United Kingdom also posted its sixth straight quarterly gain, with the FTSE 100 rising 4% on strength in aerospace, defense, and bank earnings.

Emerging markets also rebounded sharply. The MSCI Emerging Markets Index returned 24% after a slight decline to begin the year. **Taiwan and South Korea were among the strongest performers**, benefiting from global demand for semiconductors and AI-related technology. Taiwan's TAIEX surged 46%, bringing its year-to-date gain to 60%, while **South Korea's KOSPI climbed 68% in the quarter and 102% through the first half of the year.** India, despite remaining one of the world's strongest long-term growth stories, returned a more modest 7.1% for the quarter and remained down 9.4% for the year as foreign investor selling and geopolitical headwinds weighed on sentiment. The weakest markets included Indonesia and Brazil, where indices fell 38%-41% amid political instability, capital flight, and energy-related pressures.

China remains a more complicated story. Despite continued policy support, the economy continues to struggle with property-sector weakness, soft domestic consumption, and cautious business investment. The MSCI China Index declined 6.5% for the quarter, bringing its full-year loss to 14%. By contrast, the Shanghai Composite, which has greater exposure to state-owned enterprises, gained 13% for the quarter and 8.6% year to date.

Global bonds posted modest but positive returns. The Bloomberg Global Aggregate Index gained 0.9%, while European high yield bonds returned 3.7%. Emerging market bonds also rebounded as improving fundamentals and more favorable inflation trends supported investor confidence.

Although international markets enjoyed a strong first half of 2026, volatility is likely to remain part of the story. The second half will test whether improving fundamentals can continue to outweigh policy uncertainty, geopolitical risk, and inflation pressures.

Additional and expanded information to this newsletter discussion may be obtained by contacting your relationship manager. We will be happy to expand our discussion with you to meet your individual requirements as a client of Wealth Management & Advisory Services.

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