NDS WEALTH ADVISORS

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MARKET REVIEW & OUTLOOK

2nd Quarter 2026

At Halftime with the Lead

ECONOMY & MARKETS

In the spirit of The World Cup and all the excitement around this awesome event, we thought we would use a sports theme for the title of our second quarter newsletter. As we enter the second half of 2026, investors have good reason to be encouraged. Despite persistent concerns ranging from interest rates, oil prices, and geopolitics to policy uncertainty, markets have delivered solid year-to-date gains and demonstrated notable resilience – particularly after a negative first quarter. Like a team heading into halftime with a lead, however, the objective is not simply to protect what has been earned but to continue executing through a more challenging stretch of the game. While we expect opportunities for further market appreciation over the balance of the year, we also anticipate periods of increased volatility. Staying disciplined, diversified, and focused on long-term objectives remains the most effective strategy for navigating what could be an eventful second half.

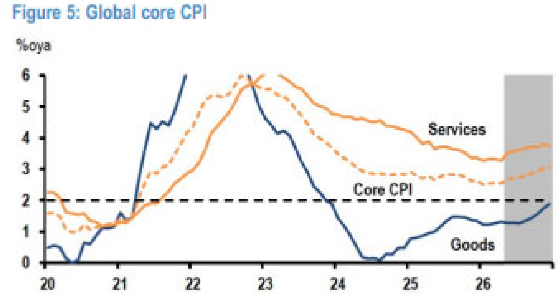
Once again, markets climbed the proverbial wall of worry during the quarter – geopolitical turmoil in Iran and the Middle East, volatile commodity prices (oil in particular), policy gridlock and uncertainty, stubborn inflation, above-average market valuations, a K-shaped economy, uncertain central bank policy, seemingly unsustainable debt levels … to name just a few (and then some …). Despite all the concerns, markets rebounded nicely in the quarter thanks largely to strong earnings growth and the ongoing AI investment boom.

For the second quarter of 2026, the **S&P** had its best quarter since 2020 and gained 18.6% while the **DJIA** rallied 16.20%. The **NASDAQ** leapt 26.3% (also it best quarter since 2020 and after being down 7.0% in Q1) with eye-popping gains in chip makers. International markets continued their march higher with developed markets (**MSCI EAFE)** up 11.5% while emerging markets (**MSCI EM**) added 22.8%. Bond prices rose slightly in the second quarter as the Bloomberg Aggregate **Bond Index** finished higher by 0.87% as debate over the Fed's next move continued.

For the year-to-date period, the **DJIA** is ahead by 9.8% while the **S&P 500** is higher by 10.2% thanks to the sharp second quarter rebound. The **NASDAQ** is up by 13.1% as technology stocks roared back in the 2nd quarter on continued AI-related investment. International markets remain strong this year with the **MSCI EAFE** index up 9.8% while the **MSCI EM** index is ahead by 24.0%. A resilient labor market, strong earnings, and stubborn inflation have kept the Fed on hold this year, and investors are no longer anticipating interest rate cuts in the second half of the year. As a result, bond yields and prices have been fairly flat so far this year. The Bloomberg Aggregate **Bond Index** added 0.62% for the year-to-date period through June.

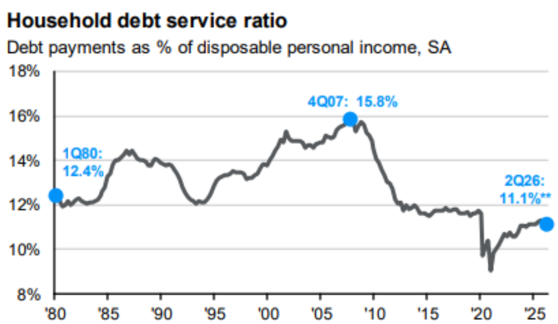
Earnings, inflation, and the Fed were front and center on investors' minds during the 2nd quarter. Inflation *(see below)* had been moderating until recently. Rising energy and shelter costs contributed to a jump in inflation in May as CPI came in at 4.2% y/y with Core CPI at 2.9% y/y. We expect weakening oil prices (now below pre-war levels) to help bring down inflation in the months ahead.

Figure 5: Global core CPI



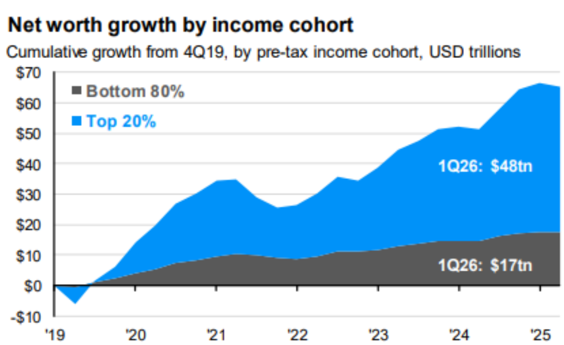
Source: J.P. Morgan Global Economics. Details on request. Global ex. China and Türkiye.

Naturally, inflation puts a strain on consumers' ability to service debt *(see below)*. With interest rates remaining high, debt payments as a percent of disposable income have risen sharply over the past 5 years while credit card delinquency rates have risen as well. Fortunately, a resilient labor market, albeit with slowing wage growth, has helped to keep the consumer's head above water.



Source: JP Morgan Asset Management, BEA

The K-shaped economy, *illustrated below*, highlights the wealth effect and the disparity between economic cohorts. It is clear that the top 20% of income earners have been able to weather the inflationary tendencies more than the bottom 80%.



Source: JP Morgan Asset Management, BEA

OUTLOOK

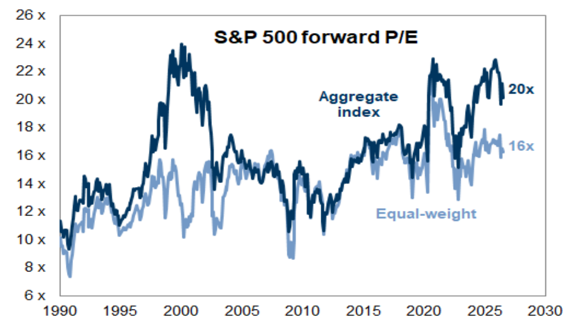
Overdue ...

History Indicates ...

Markets are overdue for a pullback. However, history indicates that the likelihood of markets finishing the year higher is quite strong. Since WWII, the S&P 500 has risen 77% of the time in the last six months of the year after a positive first six months (the success rate moves to 81% when first half gains exceed 5%). However, let's not forget that the average intra-year decline is roughly 14%. It is rarely easy.

22.4% Earnings Growth!

Earnings growth, GDP growth and labor market resilience support a favorable outlook. S&P 500 earnings growth is projected to be 22.4% for 2026 while GDP growth should come in around a decent 2.1%. Lastly, the labor market remains quite resilient. Despite this solid backdrop we suspect that volatility will pick up as mid-term elections bring uncertainty.



Source: JP Morgan, FactSet

Market valuations *(see above)* moved lower over the second quarter due to strong corporate earnings. The S&P 500 is trading at 20.4X forward earnings (nicely lower than the year-end level of 22.0X) versus the 30-year average of 17.2X, according to FactSet. Nonetheless, market averages are extended, and history has taught us that future returns will likely be less than average for the next few years, at least.

Bond prices moved higher in the second quarter as investors were encouraged by decent yield levels and hopes of moderating inflation. The Fed kept rates unchanged in Q2 as they adopted a wait-and-see stance as to whether or not inflation will resume its downward move.

Small and mid-cap equities add value to an asset allocation strategy, but we suspect that higher valuations and less upside to earnings may temper gains for the quarter ahead. Q2's strong rebound in small and mid-cap stocks likely took from future gains. *International equities* – both *developed* and *developing* are attractive as their valuation gap to U.S. equities remains compelling. International equities represent 36% of the MSCI All Country World Index. Again, we believe that *large-cap domestic companies with higher quality attributes* should continue to provide steady market returns. High quality stocks tend to outperform over most market cycles, and they remain core positions in client portfolios.

We suggest that investors maintain a fully diversified portfolio consistent with one's longer-term objectives and risk tolerance.

Enjoy the Summer!

Keeping You Safe in a Changing World

Learn about SchwabSafe at Schwab.com

Cybersecurity Tip 1: *Think before you click* – Every day, bad actors send emails pretending to be from individuals and entities recipients know and trust. One wrong click can drain financial accounts, expose you to identity theft, or install malware. Verify unexpected emails, text messages, calls, and links before responding. When in doubt, contact the organization using an official phone number or website.

Cybersecurity Tip 2: *Act Defensively* **-** Use strong, unique passwords that don't include personal information. Be sure to password-protect your laptop, phone or tablet. Enable multi-factor authentication (MFA) for your Schwab accounts which typically involves sending you a randomly generated number to your cellphone or email. Lastly, turn on security alerts via email or text that can notify you of individual transactions, such as trades confirmations or money transfers.

Cybersecurity Tip 3: *Keep Everything Updated* - Regularly update your devices, apps, and operating systems to protect against any known security vulnerabilities. You can generally authorize automatic updates through the application's or operating system's settings. When it comes time to discard old hardware, don't forget to perform a factory reset to securely remove all personal data.

Cybersecurity Tip 4: *Protect Your Networks* - Secure your home Wi-Fi, avoid accessing sensitive accounts on public Wi-Fi, and be cautious about sharing personal information online. One way to access the internet in public is to use a Virtual Private Network (VPN) or tether your connection to a "personal hotspot" – a feature on many smartphones.

Cybersecurity Tip 5: *Stay Alert and Educate Others* - Watch for scams that target you and your family, monitor your financial and credit activity, and trust your instincts—if something seems suspicious or too good to be true, it probably is.

Meet the New Federal Reserve Chairman: Kevin Warsh

The Real Deal ...

Kevin Warsh became Chair of the Federal Reserve in May 2026. He had previously served as a Federal Reserve governor from 2006 to 2011, including during the global financial crisis and early recovery. Appointed by President George W. Bush at age 35, he became the youngest governor in Federal Reserve history. Before returning to the Fed, Warsh was affiliated with Stanford's Hoover Institution and taught at Stanford Graduate School of Business. Earlier in his career, he worked in mergers and acquisitions at Morgan Stanley. He holds an A.B. in Public Policy from Stanford University and a J.D. from Harvard Law School. His background gives him an unusual combination of central-banking, financial-market, and policy experience.

The consensus view is that the FOMC under Warsh will be more hawkish, more data-dependent, and less willing to guide markets toward a specific policy path. He is expected to refocus the Fed on its core inflation and employment mandates, reduce reliance on forward guidance, and allow incoming economic data to carry more weight between meetings. He has also signaled interest in reassessing the Fed's balance sheet and communication framework. That may make Fed communications less predictable than under recent chairs, with fewer explicit signals about future rate moves. Markets generally expect the Fed to hold rates steady in the near term, with the possibility of one additional hike if inflation remains sticky. The likely tradeoff is clearer institutional discipline, but potentially higher bond-market volatility as investors adjust to a Fed that says less in advance and lets the data speak more loudly.

2nd QUARTER 2026 SCOREBOARD

Historic Q2 Rebound

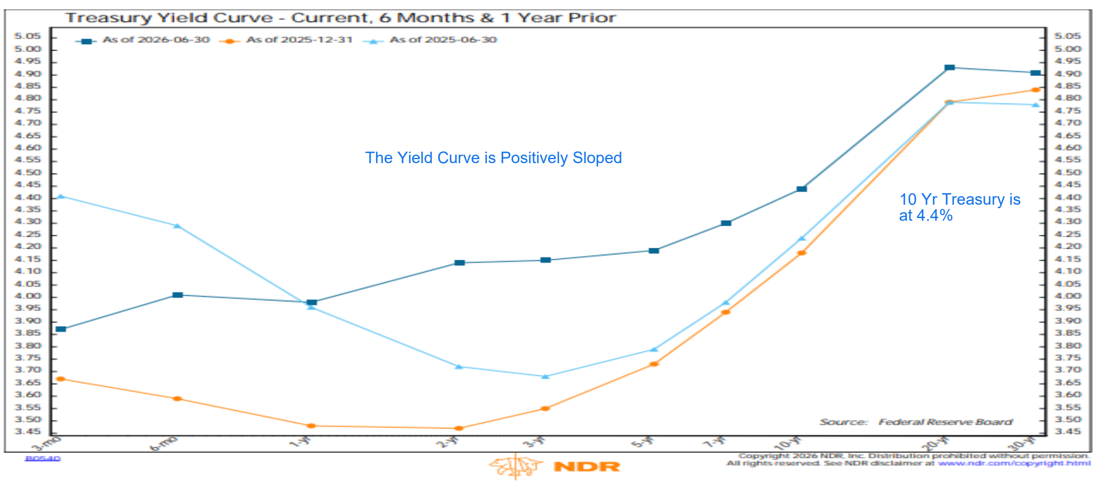
Index	Close	2nd Quarter % Change	Year-to-Date % Change
DJIA	52319.2	16.2	9.8
S&P 500	7499.4	18.6	10.2
NASDAQ	26213.7	26.3	13.1
Russell 2000	3024.4	25.7	22.6
MSCI EAFE	11606.4	11.3	9.4

3 Month T-Bill	3.75%	Fed Funds Rate	3.50% - 3.75%
5 Year T-Note	4.21%	Prime Rate	6.75%
10 Year T-Note	4.44%	Gold	$4022.90
30 Year T-Note	4.93%	Oil	$69.50

Gold prices declined 13.4% in Q2 and are down 7.0% year-to-date

Oil prices sank 31.4% in Q2 and are up 21.0% year-to-date

Rates are Reasonable ...



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