

## **Ridgetop Wealth Management**

### **Market Update**

#### **Are We Having Fun Yet?**

Heading into 2026, expectations were for steady growth and moderate inflation, supported by easing monetary policy. Shortly into the year, the U.S./Israel-Iran conflict began which put inflation into the pipeline beginning with commodity prices which is now flowing into consumer prices. So here we are still in Q2, and this inflation has already derailed Fed rate cuts that the market was expecting under the new Chair Kevin Warsh.

The other primary story of the first half was the 'AI-destroys-software trade' which has taken a giant bite out of the price of software stocks. As we speak, the market is still attempting to decipher winners and losers along with what this world is going to look like just two or three years out.

As a result of all the above mentioned fun we have been having, one story that has gotten far less attention is historically strong earnings growth from corporate America. The +20% earnings growth we saw in Q1 is common coming out of a recession, but not in year seven of an economic expansion.<sup>1</sup> I do not want to underplay this here: the profitability of the majority of companies in the S&P 500 has been absolutely astounding.

#### **The Market's Advance**

There is little doubt that it is these earnings that are the impetus for the gains we are seeing on Wallstreet. The S&P 500 gained 16.1% in April-May, the biggest two month rally since April-May 2020 and the fifth best since 1950.<sup>2</sup> The rally we saw over the last nine weeks is one for the record books. In fact this Bull run is tied for the sixth longest since 1928 and fourth longest since WWII.

---

<sup>1</sup> Ned Davis Research

<sup>2</sup> Ned Davis Research

On Friday June 5<sup>th</sup> the market dropped -2.6%, with many AI related stocks falling much further.<sup>3</sup> As I write this the market is down another -1.5% today. While this never feels good, this near-term consolidation is a likely a positive prognosis over the intermediate term as it relieves some of the excess optimism. Using history as our guide, we knew that a pause was inevitable. We also know from history that the most likely outcome from a monster multi month rally is a period of consolidation, followed by a resumption of the market uptrend.

### **What Has Us Concerned?**

Well, almost everything. As you have heard us say most of this year, we are “begrudgingly bullish.” Seasonal patterns, cyclical patterns, rising interest rates, insatiable hunger for IPOs, heating inflation, tariff policy, concerning levels of investor optimism, oh and a little thing called war.

Also concerning is what we call market divergence. Returns within the stocks in the S&P 500 have almost never been more widespread. Even with the S&P 500 making new record highs, both the number of individual stocks making new highs or making new lows are both high. This is a sign of bearish breadth or a market out of gear. The risk is the AI theme becomes too popular that the rally will become so narrow that it will falter when the inevitable AI slowdown occurs. Most divergences clear up on their own, with the market eventually broadening out and the popular averages moving higher. That said, most tops in the market start with divergencies like this so the phenomenon must be monitored.

Despite these concerns, as always, we follow the weight of the evidence approach in evaluating the state of both the economy and markets. While one indicator can sometimes give misleading signal, a group of indicators leaning in the same direction tones down the data noise and can strengthen the conviction on a call. Right now the weight of the evidence is telling us that despite all of these headwinds, the U.S. economy, along with corporate profits and the market remain in expansion mode.

---

<sup>3</sup> Ned Davis Research

## **The Second Half of The Year**

Seasonal and cyclical patterns suggest a higher likelihood of volatility before year end, especially if inflation trends push bond yields higher which would likely put pressure on equities. The sustainability of technology leadership is also obviously paramount to the market's advance. Additional weakness is possible especially amid election angst, but as the outcome becomes less uncertain, history tells us the market tends to enter a year-end rally.

## **In Conclusion**

As the sayings go, "Don't fight the Fed & Don't fight the tape." As always, we lean on our models for allocation decisions and timing. Using those models and history as our guide helps us stay on the right side of the market. For now, that side is still with the Bulls.

## **Disclosures:**

The information contained in this commentary is not a solicitation to purchase or sell investments. Any information presented is general in nature and not intended to provide individually tailored investment advice. The strategies and/or investments referenced may not be suitable for all investors as the appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Investing involves risks and there is always the potential of losing money when you invest. The views expressed herein are those of the author and may not necessarily reflect the views of UBS Financial Services Inc. Neither UBS Financial Services Inc. nor its employees (including its Financial Advisors) provide tax or legal advice. You should consult with your legal counsel and/or your accountant or tax professional regarding the legal or tax implications of a particular suggestion, strategy or investment, including any estate planning strategies, before you invest or implement.

The past performance of an index is not a guarantee of future results. Each index reflects an unmanaged universe of securities without any deduction for advisory fees or other expenses that would reduce actual returns. An actual investment in the securities included in the index would require an investor to incur transaction costs, which would lower the performance results. Indices are not actively managed and investors cannot invest directly in the indices.

As a firm providing wealth management services to clients, UBS Financial Services Inc. offers investment advisory services in its capacity as an SEC-registered investment adviser and brokerage services in its capacity as an SEC-registered broker-dealer. Investment advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate arrangements. It is important that you understand the ways in which we conduct business, and that you carefully read the agreements and disclosures that we provide to you about the products or services we offer. For more information, please review client relationship summary provided at **[ubs.com/relationshipsummary](https://ubs.com/relationshipsummary)**, or ask your UBS Financial Advisor for a copy.