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The Headlines Changed but the Fundamentals Didn't

One of the most challenging parts of investing is that the news cycle can change much faster than the underlying fundamentals.

Just three months ago, the headlines were dominated by tariffs, geopolitical tensions, inflation concerns, and a worry that higher interest rates might finally slow a US economy that continues to surprise with its resiliency. Investors understandably became nervous, and markets stumbled during the first quarter.

In the second quarter the narrative shifted meaningfully. Consumers are still spending, businesses continue investing, some key inflation readings are cooling and the U.S. economy has once again shown remarkable resilience. As a result, the S&P 500 rebounded 15% during the second quarter to reach new highs.

It's a good reminder that patience is usually rewarded.

	2Q 2026 (%)	YTD 2026 (%)
Dow Jones Industrials	12.90	8.85
Standard & Poor's 500	15.20	10.21
NASDAQ Composite	21.60	13.13
Russell 2000	21.49	22.57
Russell MidCap	13.83	15.30
Russell 1000 Growth	16.74	5.33
Russell 1000 Value	13.87	16.26
Barclays Capital Govt./Corp. Bond	0.70	0.49
Bloomberg 5 Year Municipal Bond	1.07	1.08
MSCI ACWI ex US Net	14.49	13.68

Source: Morningstar as of July 1, 2026

What We're Watching

Interest Rates

There is a new Federal Reserve Chairman in town named Kevin Warsh.

Inflation is improving but not back to the Fed's 2% target (currently 3.5%) down from 4.2%. How will Warsh respond? He's not able to cut interest rates in the near term as much as President Trump would like it, and if the economy is stronger than expected, he may have to consider a rate hike before year end.

UBS expects interest rates to stay relatively stable through the remainder of 2026 before gradually declining next year if inflation continues to moderate.

Earnings Still Matter

Strong corporate profits are the main engine driving the S&P 500 higher.

In a recent conversation, Head of UBS US Equity Strategies, David Lefkowitz, expects second quarter earnings growth of 28% vs last year. His year end target for the S&P 500 is 7900 and his one-year target is 8200, which is around 7% and 11% above the S&P 500 at the time of this writing. He believes there could be upside to these forecasts based on fundamentals.

If oil prices and interest rates stay higher for longer than expected it could act as a headwind, but we do not think it derails the constructive outlook.

Broadening Growth

The AI story is important and evolving. While most investors focus on the big companies making computer chips such as Nvidia, we are seeing broader benefits in manufacturing, business formation is near record highs, productivity is improving and companies are investing more in their businesses and hiring more workers.

What this Means for Investors

The first half of this year reinforces several lessons worth remembering. Markets rarely move in a straight line, news is always more volatile than the fundamentals, and trying to predict short term market moves is a fools' errand (just ask the Fed).

Successful investing is less about making bold predictions and more about consistently owning high quality assets while remaining disciplined during periods of uncertainty. It's always been a matter of time in the market rather than market timing.

While we expect volatility may continue particularly as investors watch inflation, interest rates and the mid-term elections, we continue to believe the outlook remains positive.

The best advice for summer is to get a good book and enjoy time with family and friends.

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