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summaries

SIGMA INVESTMENT COUNSELORS

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MARKET COMMENTARY

The second quarter of 2026 was a good reminder that markets often climb a "wall of worry." Stocks rose strongly even as the underlying data sent a mixed signal: the job market softened, inflation stayed above the Fed's 2% target, and business and consumer confidence stayed low. Part of the story was an energy price shock tied to the conflict in Iran, which pushed prices higher just as hiring was slowing, a combination that would normally give investors pause. But markets looked past it. Corporate earnings held up better than expected, consumers kept spending, and stocks moved higher across nearly every category we track. Once again, the data mattered more than the mood.

The numbers back that up. The S&P 500 returned 15.2% for the quarter, its best quarterly showing since the post-pandemic rebound, and is up 10.2% for the year. Smaller companies did even better: the S&P 400 gained 14.5%, and the S&P 600 led all major U.S. categories at 19.7%, as investors rotated into names that benefit most from a strong economy. International markets joined in too. Developed markets, measured by the MSCI EAFE, rose 10.8%, while emerging markets were the standout of the quarter, up 24.0%. Bonds were the exception: the Bloomberg U.S. Aggregate returned a modest 0.7%, a reminder that fixed income is not offering much cushion while the Fed stays cautious.

Underneath these numbers, the strength is uneven. Lower income households are still stretched after years of rising food, housing, and energy costs, and slower wage growth has only made that worse. Higher earners, meanwhile, are more than making up the difference: the top 10% now account for roughly half of all consumer spending, up from about 35% three decades ago, powered by gains in stocks, real estate, and cash yields. That is good news for spending today, but it also means the economy is leaning more heavily on a narrower group of households than it used to, a dynamic worth watching if markets ever hit a rougher stretch.

The Fed also entered a new chapter this quarter. Kevin Warsh was sworn in as Fed Chair in May, and his early tone has leaned more hawkish than markets expected, favoring the fight against inflation over near-term rate cuts. That stance has kept upward pressure on bond yields, which helps explain why fixed income lagged behind stocks even in a quarter that otherwise rewarded risk-taking. How Warsh balances that inflation focus against a softening labor market will be one of the more important storylines to watch through the rest of the year.

Trade policy also shifted in a more favorable direction. Earlier this year, the Supreme Court struck down the administration's broadest legal authority to impose tariffs, a ruling that narrows the path for sweeping future action even as the details of what replaces it continue to evolve. That added a real measure of certainty for companies and consumers alike. We are watching how trade negotiations unfold from here, along with the ongoing annual review of the United States-Mexico-Canada (USMCA) trade agreement.

A more speculative story ran underneath this quarter's gains. SpaceX completed the largest IPO in history in June, pricing at $135 a share for a $1.77 trillion valuation. The stock spiked above $225 in the days that followed, then fell back to the mid-$150s, even as the company posted a $5 billion loss last year. Anthropic and OpenAI have since filed to go public as well, at valuations near $1 trillion, and neither is consistently profitable yet. These are real, important companies building real technology, but their business models remain unproven, and the market is still working out where the lasting value in this AI build-out will actually land. Memory chip stocks tell a different story. Prices for the core components powering AI data centers are up well over 100% this year, and some stocks have tripled, on genuine supply shortages and real demand. Our concern there is not whether that demand is real, it clearly is. It is whether today's outsized pricing power lasts, since shortages like this one tend to invite their own solution, through new capacity, new technology, or clever workarounds, over time.

As a firm, we continue to build portfolios around balance and diversification rather than the headline of the moment. Stocks remain our primary driver of long-term growth, while bonds provide steady income and ballast when markets get choppy. Within stocks, we favor companies with strong cash flow, solid balance sheets, and real pricing power, the kinds of businesses built to compound value through an uneven environment rather than depend on a single narrative. We also continue to find opportunities in small and mid-size companies and in international and emerging markets, areas of the market that were rewarded this quarter.

This quarter had real challenges: a softening job market, inflation that remains persistent, a consumer economy leaning on its wealthiest households, and a new Fed chair still finding his footing. But the positives were just as real: resilient spending, added clarity on trade, and broad gains across markets both at home and abroad. Markets rarely wait for every worry to clear before moving higher, and this quarter was a good reminder of that pattern once again.

Thank you for your continued trust.

Paul Warholak Jr
Senior Research Analyst

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186 E. Main Street • Suite 200 • Northville, MI 48167 • tel (248) 223-0122 • fax (248) 223-0144 • www.sigmainvestments.com