Perspectives

A Quarterly Newsletter for Clients of Parsons Capital Management

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by John Mullen and Ruth Mullen

Investors didn't wait for the bullets to stop flying before diving back into risk assets. The S&P 500 hit its low for the year on March 30 before embarking on a furious rally over the next three months, culminating in the index's best quarter since Q2 2020 (and its 12th best since 1950). As a fragile ceasefire took hold and tanker traffic through the Strait of Hormuz recovered to 75% of its pre-war level, the economic catastrophe that had begun to be priced into markets no longer seemed likely. While investors were able to climb the wall of worry surrounding war and inflation, a new concern emerged in the closing weeks of June. With growing political resistance to data centers and AI companies issuing stock to fund their planned buildouts, investors began asking whether the extraordinary pace of AI spending could continue and how profitable might it ultimately be. The result was a June in which all Magnificent Seven stocks declined. Growth stocks lagged value by nearly five percentage points. While the cap-weighted S&P 500 fell nearly 1% during June, the Equal Weight S&P 500—where each of the index's 500 holdings carries the same influence—returned a positive 2.38%, though it still trailed the cap-weighted index by nearly four percentage points for the quarter. Emerging markets, whose countries' economies are generally more sensitive to changes in energy prices, were among the biggest beneficiaries of easing hostilities in the Middle East. Bitcoin, after rallying from March through mid-April, reversed sharply in June, extending the first quarter's -22% decline.

Data as of June 30, 2026	June '26	Qtr. 2 '26	YTD '26
S&P 500	-0.95%	15.20%	10.21%
MSCI AC World Index (incl. US)	-0.77%	15.06%	11.49%
MSCI EAFE (Europe, Asia, Far East)	0.09%	11.08%	9.84%
MSCI EM (Emerging Markets)	-1.36%	24.15%	24.02%
Russell 1000	-0.50%	15.15%	10.33%
Russell 1000 Growth	-2.68%	16.74%	5.33%
Russell 1000 Value	2.27%	13.87%	16.26%
Russell Midcap	3.11%	13.83%	15.30%
Russell 2000	3.74%	21.49%	22.57%
Bitcoin	-20.41%	-14.18%	-33.08%

Data provided by Tamarac Inc.

Fixed Income Markets

If there are concerns about the health of corporate America, high-yield bond investors have yet to show it. Building on strong first-quarter performance, the ICE Bank of America High Yield Index returned 2.45% during the second quarter, bringing year-to-date returns to 1.89%. For comparison, the Bloomberg U.S. Aggregate Index returned 0.67% for the quarter and 0.62% year to date. Turning to duration, a strong June separated long-dated bonds from shorter maturities. The Bloomberg U.S. Intermediate Government/Credit Index returned 0.10% in June and 0.43% for the quarter, while the Long Government/Credit Index gained 0.71% and 1.53% over the same periods.

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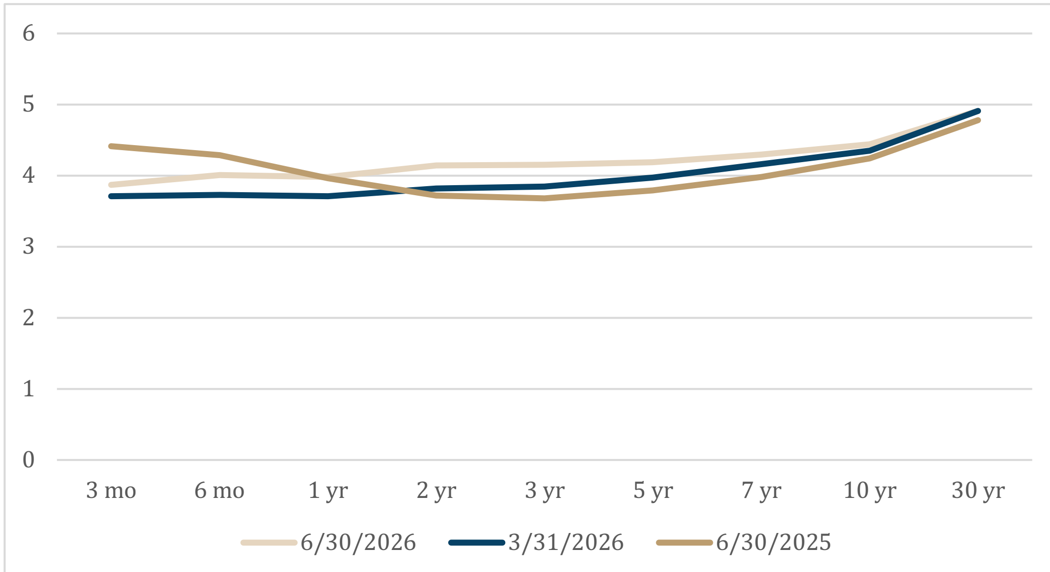
US Treasury Yields

Except for the longest maturities, rates moved higher during the course of the quarter, though the short end remains notably lower than a year ago. The end result was a yield curve notably flatter than when the quarter began, as 2-year yields rose 16 basis points, and the 30-year fell by 5. The primary cause of the move higher in rates seemed to come from a shift in investor expectations for the Fed, as an easing bias no longer seems the default. Indeed, new Chairman Warsh's first speech was taken as unexpectedly hawkish, with a focus on price stability (i.e. inflation concerns).



Data from U.S. Treasury

Commodities

The hoped for resolution of the war with Iran sent the entire energy complex spiraling lower in the quarter, dragging down the broader commodity index. Following oil's drop, gasoline was down nearly -10% in the quarter but remains up 69% for the year.

Gold's rally, dented with a -10% decline in March, failed to reassert itself in the second quarter; a rally that began in the early months of 2022 now looks tenuous. The price decline left gold at the same level it first reached back in early October 2025. Silver suffered even more with a decline of -22% in the quarter and now sits nearly -18% below where it started the year.

A bright spot, and perhaps an indication of continued economic growth, was copper which rallied 11% in the quarter to more than erase a small decline in the first three months of the year.

Commodity	Qtr. 2 '26	Year to Date '26
CRB (broad index)	-4.17%	20.53%
Oil	-31.45%	21.04%
Gold	-14.26%	-7.22%

Data from Trading Economics

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Macro Overview

No single macro event drove market returns more during the first quarter than the outbreak of war in the Middle East, as the conflict roiled commodity markets and snarled supply chains. While bombs were still falling, however, U.S. companies began reporting first-quarter earnings—and the results were historic.

Earnings for the S&P 500 grew 28.6% year over year, more than double the consensus expectation of 13%. These exceptionally strong results, reported primarily from late April through mid-May, allowed investors to largely look past concerns that had built during the first three months of the year.

At the same time Corporate America was reporting earnings, the economic backdrop also began to improve. The Citigroup Economic Surprise Index moved higher across most major economies and economic regions during the quarter. Domestically, the index reached its highest level since 2023. Importantly, the improvement wasn't simply the result of widespread pessimism following the closure of the Strait of Hormuz—the underlying economic data also strengthened.

The ISM Manufacturing Index recorded its sixth consecutive month in expansion, registering 53.3 in June. Before January of this year, the last time the index stood above 50 (indicating expansion) was January 2025—and before that, September 2022. The ISM Services Index likewise remained firm throughout the quarter. Importantly, the June report saw the largest increase in its employment component since 2024 while the prices-paid measure eased to a four-month low.

Helping to validate the improving ISM readings, the domestic labor market remained resilient throughout the quarter. Employers added 57,000 jobs in June, led by healthcare, construction and manufacturing. The average workweek held steady at 34.3 hours while average hourly earnings rose 3.5% year over year—enough to keep pace with inflation without materially pressuring corporate margins.

The primary blemish in the report was a notable decline in the labor force participation rate to 61.5%, which, outside of the Covid period, is the lowest reading in roughly five decades. Despite headlines suggesting a jobs apocalypse, layoffs remain historically subdued.

Looking beyond the U.S., central banks around the world have begun backing away from their easing bias as inflation pressures prove more persistent than anticipated. The European Central Bank, along with the central banks of Japan, New Zealand and Australia, all raised policy rates during the second quarter. At the same time, the Federal Reserve, under new Chairman Warsh, surprised many investors with what was widely interpreted as a more hawkish tone following its latest meeting.

Meanwhile, the November elections continue to move closer. While publicly professing indifference, the White House has continued pulling policy levers intended to support economic growth and cushion consumers. Recent polling, combined with the historical tendency for the party in power to lose congressional seats during midterm elections, would appear to favor Democrats retaking the House and Senate. Questions surrounding candidate quality and electability, however, continue to cloud that outlook.

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Investment Implications

The (at least temporary) cooling of hostilities in the Middle East, coupled with exceptional first-quarter earnings from the S&P 500 (+28.6% year over year versus expectations of +13%), underpinned a 15% return for the index during the second quarter. What makes that gain even more remarkable is its historical context as the second quarter of post-presidential election years has consistently been the weakest of the 16 quarters in the presidential cycle, posting an average decline of -4.4%.

While the headline return was certainly eye-catching, leadership shifted beneath the surface. Technology was the only sector to outperform the S&P 500 during the quarter, returning 31.6%. June, however, told a different story. Technology joined Communication Services, Energy and Consumer Discretionary among the weakest-performing sectors, while the Equal Weight S&P 500 gained 2.38% despite the capitalization-weighted index posting a loss.

In the midst of the rosy scenario of second quarter results, clouds are gathering on the horizon. This bull market has been built on four primary pillars: aggressive AI investment, resilient consumer spending, accommodative monetary policy and restrained investor sentiment.

The first of those pillars is beginning to face greater scrutiny. Investors are increasingly questioning whether the current pace of AI spending by the hyperscalers is sustainable. Google has issued equity, Amazon and Oracle have tapped debt markets in size, and Meta may soon move into negative free cash flow as capital spending accelerates. At the same time, data centers are having their own "fracking moment," becoming an increasingly attractive political target.

Consumers may also face greater challenges in the months ahead. Larger-than-expected tax refunds helped cushion households during the inflation shock following the conflict with Iran. With missiles once again flying at the start of the third quarter, there is less capacity to absorb another shock and little prospect of additional fiscal support from Washington. Should hostilities persist and inflation expectations move higher, equities will face a more challenging environment.

Higher inflation would also complicate the Federal Reserve's path. Even with markets being focused on Chairman Warsh's hawkish tone, we continue to believe he remains inclined to keep rates on hold. The greater concern, in our view, is his stated desire to shrink the Fed's balance sheet. As we've written before, equity markets perform best with ample liquidity. Should the Fed drain liquidity without offsetting the move elsewhere, conditions would become materially less supportive for risk assets.

Despite those concerns, it remains difficult to argue investors have become excessively optimistic. Thanks to strong earnings, the S&P 500's price-to-earnings multiple has actually contracted over the past year as earnings growth has outpaced price appreciation. Investor sentiment also remains restrained, with the latest AAII survey showing 31.4% bulls versus 42.3% bears. The one notable pocket of speculation remains the IPO market, where SpaceX's debut generated tremendous enthusiasm and other high-profile offerings are waiting in the wings.

Other warning signs that typically accompany major market tops—including weakening earnings revisions, rising real rates, widening credit spreads and sustained defensive leadership—have either failed to materialize or have yet to establish durable trends. June did bring a rotation toward more defensive leadership, and renewed inflation would almost certainly force the Fed into a more restrictive posture, but those remain risks to monitor rather than conclusions to draw.

Economically, the U.S. remains on solid footing, and AI has thus far done more to expand corporate margins than eliminate jobs. We continue to expect elevated volatility through the remainder of the year, but until broader cracks emerge in earnings, liquidity or credit markets, we believe pullbacks are more likely to present opportunities than signal the beginning of a sustained bear market.

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