

Romagna Wealth Management Group

2Q 2026 Investment Commentary

Q2 2026 was a risk-on quarter led by AI-linked equities, emerging markets, and a broadening U.S. small-cap rally. The macro backdrop was mixed: growth remained positive, labor cooled but did not crack, inflation reaccelerated, and the Fed stayed on hold.

Q2 2026 MARKET PERFORMANCE REVIEW

April 1 – June 30, 2026 | Prepared: July 6, 2026 | Source: Yahoo Finance / CME FedWatch

Instrument	Q2 Open	Q2 Close	Q2 Return (%)	Q2 High	Q2 Low	Type	Status	Key Context
S&P 500	6,575	7,499	+15.0%	7,621	6,543	Index	▲ +15.0%	Best quarter since Q2 2020; record highs Apr & May
Nasdaq Composite	21,841	26,214	+21.0%	27,190	21,735	Index	▲ +21.0%	Tech/semiconductor leadership; Magnificent Seven surge
Dow Jones	46,566	52,319	+13.0%	52,656	46,312	Index	▲ +13.0%	First closed above 52,000 on Jun 29 (52,182.74)
10-Yr Treasury	4.31%	4.42%	+1.1%	4.58%	4.31%	Yield	↑ +11bp	Ended Q2 at 4.46%; rose on Jun 30 jobs data
XLK Tech ETF	\$143.23	\$190.52	+33.9%	\$198.73	\$142.56	ETF	▲ +33.9%	Best sector Q2; semiconductors led late-quarter rally
XLF Financial ETF	\$ 47.89	\$ 53.61	+12.5%	\$ 56.52	\$ 47.45	ETF	▲ +12.5%	Solid quarter; bank earnings beat expectations
XLI Industrial ETF	\$130.45	\$146.90	+11.9%	\$147.12	\$129.67	ETF	▲ +11.9%	Defense & infrastructure spending tailwinds
XLE Energy ETF	\$ 59.01	\$ 53.11	-9.8%	\$ 63.45	\$ 53.11	ETF	▼ -9.8%	Only decliner; WTI ~\$70/bbl at quarter-end

KEY MACRO CONTEXT — Q2 2026

	U.S. equities posted their strongest quarterly performance in six years, with the S&P 500 gaining +15.0% and the Nasdaq surging +21.0%.
	The Dow Jones Industrial Average breached the 52,000 milestone for the first time ever, closing at 52,182.74 on June 29, 2026.
	Technology sector ETF XLK led all sectors, driven by semiconductor strength and AI-related momentum throughout the quarter.
	Energy was the sole decliner, pressured by WTI crude retreating toward \$70/barrel on Middle East ceasefire hopes and demand concerns.
	FOMC meetings on May 6–7 and June 17–18 both resulted in no change. Fed maintained a 'wait and see' stance on further cuts.
	Rate-cut probability for July meeting near zero as of early July 2026 (per CME FedWatch). Current Fed Funds target: 3.63%.

2Q26 Review:

- Equities rebounded sharply. U.S. large-cap indexes posted strong quarterly gains, with the Nasdaq leading, while developed and emerging international equities also rallied as earnings expectations improved.
- AI remained the dominant market narrative. Semiconductor, hardware and data-center exposure helped drive both U.S. growth stocks and several emerging markets.
- Small caps improved meaningfully. The Russell 2000 advanced strongly year-to-date through June 30, reflecting better earnings expectations, rate sensitivity, and a rotation into less expensive domestic cyclicals.
- The economy was resilient but less clean. Q1 real GDP was revised up to 2.1% annualized, June payroll growth slowed to +57,000 missing expectations, but unemployment dropped to 4.2% from 4.3% in May.
- Inflation remains sticky. May CPI rose 4.2% year-over-year and May PCE inflation rose 4.1%, keeping the Fed cautious.
- Rates stayed elevated. The FOMC held the federal funds target range at 3.50%–3.75% in June, while the 10-Year Treasury yield ended June near 4.44%.

What Mattered Most:

Quality growth worked, but selectivity mattered

AI-linked earnings power and capital spending remained a powerful force, but expectations became more demanding. The market rewarded businesses tied to real demand, supply-chain bottlenecks, and infrastructure buildout rather than purely thematic exposure.

Breadth improved, which is healthy

Small-cap and emerging-market strength suggested investors were willing to move beyond a narrow mega-cap trade. Broadening participation is typically constructive, but it also raises the bar for fundamentals because lower-quality cyclicals could rally quickly when risk appetite improves.

Inflation kept the Fed from becoming an obvious tailwind

The biggest challenge for a clean bullish narrative was sticky inflation. Rates near 4.4% on the 10-year Treasury and mortgage rates above 6% continued to pressure housing affordability and long-duration valuations.

Bonds were useful, but were marginal

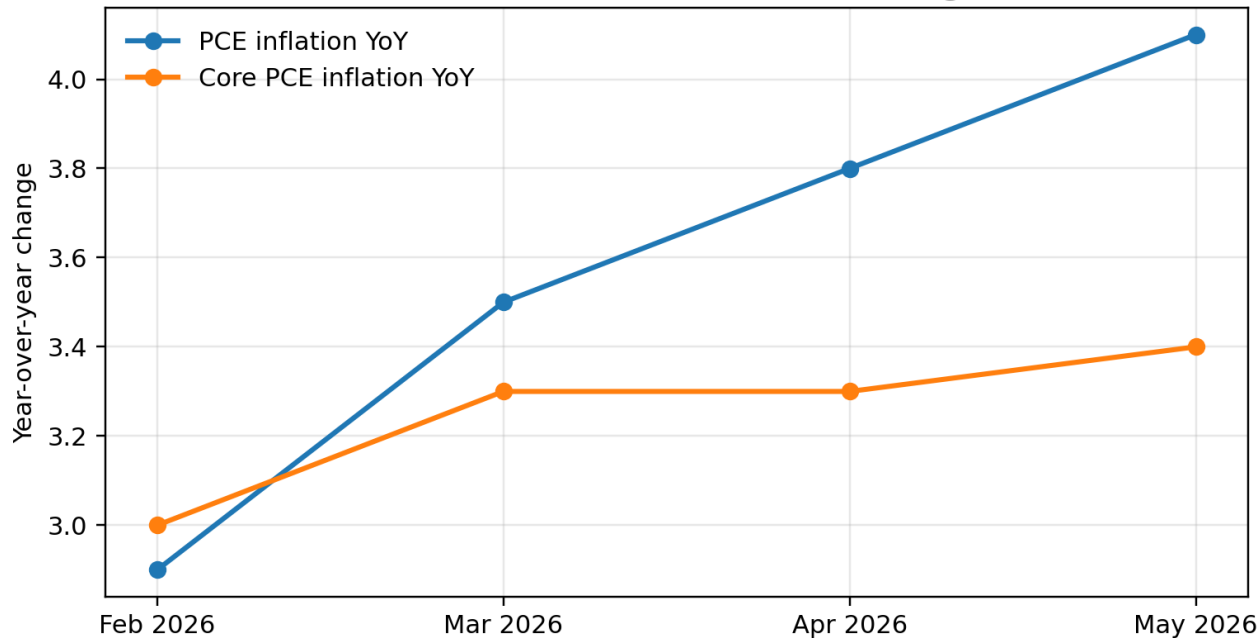
With yields still elevated, fixed income offered more income than in the post-2008 era. However, bond returns were constrained by inflation uncertainty and shifting expectations for the Fed.

The Biggest 2Q26 Highlights:

Highlight	Context
1. AI reasserted market leadership	The AI investment cycle returned as the market rewarded semiconductor, data-center, hardware, and infrastructure exposure. This supported growth-style leadership and helped EM markets with large technology supply-chain weights.
2. Earnings expectations improved	The market looked through policy and geopolitical noise as earnings revisions improved. Estimates for 2026 global equity earnings growth were revised up meaningfully, with IT as a key driver.
3. Small caps broadened the rally	Small caps had a strong first half, with the Russell 2000 up ~23% year-to-date through June 30. This suggested better breadth and rising confidence in domestic growth-sensitive businesses.
4. Inflation reaccelerated	Inflation was the main macro tension. May CPI was 4.2% year-over-year; May PCE was 4.1% and core PCE was 3.4%, complicating the path to easier policy.
5. Labor cooled, but did not break	June payroll growth slowed to +57,000 while unemployment remained 4.2%. That combination supported a “soft landing but sticky inflation” narrative rather than an outright recession scare.
6. The Fed stayed patient	The FOMC held the federal funds target range at 3.50%–3.75% at its June meeting, leaving markets focused on whether inflation or labor weakness would dominate the second-half policy debate.
7. Rates remained a valuation headwind	The 10-year Treasury yield ended June around 4.4%. Elevated discount rates continued to matter for long-duration growth assets, housing, and credit-sensitive parts of the economy.
8. Housing remained constrained	Mortgage rates above 6% kept affordability pressure elevated, limiting the speed of any housing recovery even as supply-demand fundamentals remained structurally tight in many markets.

Inflation Remains Stubborn:

PCE inflation reaccelerated during Q2



Source: BEA Personal Income and Outlays, May 2026. PCE inflation figures are year-over-year; May was the latest release available as of July 6, 2026.

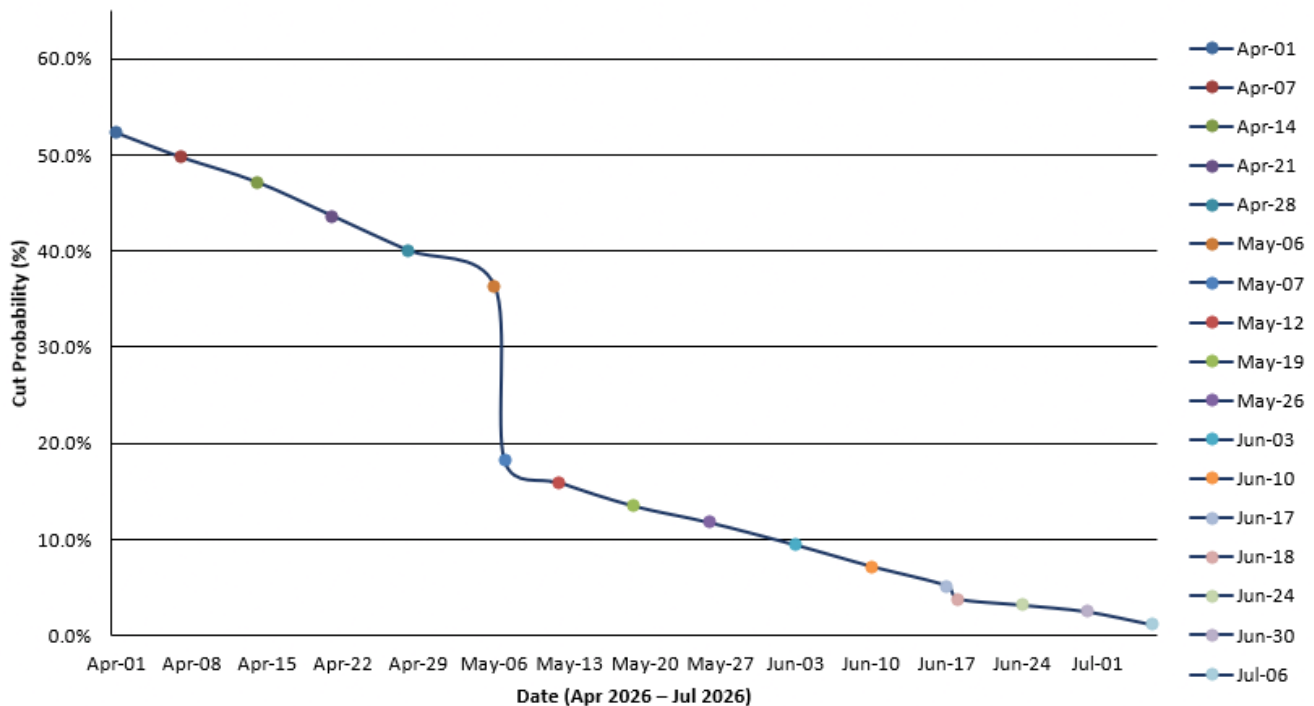
CPI inflation rose 4.2% year-over-year in May, while core CPI rose 2.9%. The Fed’s preferred PCE gauge also moved higher during the quarter, with May PCE at 4.1% year-over-year and core PCE at 3.4%. This limited the Fed’s flexibility and kept the debate focused on whether policy was restrictive enough.

Federal Reserve and Rates:

The markets are also digesting a new Federal Reserve Chairman, Kevin Warsh. At the June 16–17 FOMC meeting, the Federal Reserve held the federal funds target range at 3.50%–3.75%. The decision reflected a difficult mix: labor markets were cooling, but inflation was still materially above the 2% objective. Markets therefore entered the second half of the year focused on the next few inflation prints and whether the Fed would prioritize inflation risk or growth/labor risk. The probability of a rate cut has fallen from ~50% to almost 0% for the next FOMC meeting.

FED POLICY CONTEXT — Q2 2026		
Current Fed Funds Target Rate	3.63%	Held throughout Q2 2026
FOMC May 6-7, 2026	No Change	Unanimous hold; inflation still above 2% target
FOMC Jun 17-18, 2026	No Change	Wait-and-see; labor market resilient
Next FOMC Meeting	Jul 28-29, 2026	Cut probability ~1.2% as of July 6, 2026
July 28-29 Outlook	Hold Expected	Near-zero probability of cut per CME FedWatch
Policy Stance	Restrictive / Watch	Fed awaiting further disinflation progress

Implied Fed Rate-Cut Probability (%) | Q2 2026 | Source: CME FedWatch



What to watch in 2H 2026

- June and July inflation releases and whether PCE inflation moves back toward the Fed's target.
- Q2 GDP release on July 30 and whether growth is accelerating or merely stable.
- Q2 earnings season, especially whether AI capital spending continues to translate into revenue and free cash flow.
- Labor-market breadth beyond headline payrolls: hours worked, wage growth, unemployment claims, and hiring plans.
- Treasury yields and mortgage rates, which remain critical for housing, banks, REITs and valuation-sensitive growth stocks.
- Geopolitics and oil prices, particularly any renewed supply shock that would pressure headline inflation.

If you would like to explore how these developments may influence your current portfolio, give us a call and we can walk through the potential impacts together.

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