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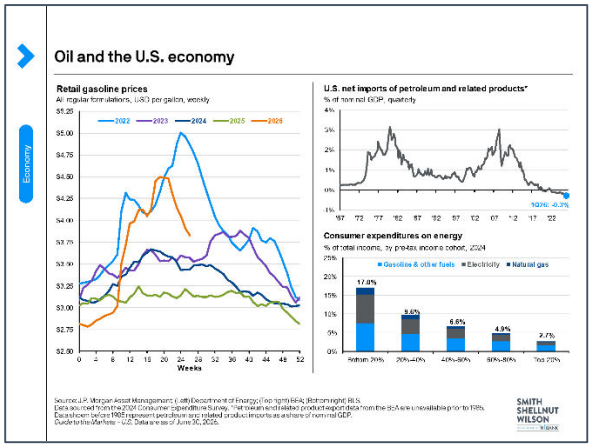
ECONOMIC AND MARKET COMMENTARY

2nd Quarter 2026

I. SECOND-QUARTER 2026 ECONOMIC RECAP

By Frank Smith, III, CFA

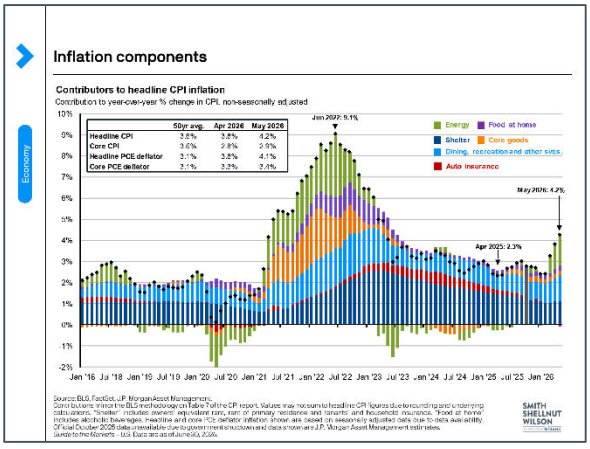
The primary story in early 2026 has been the conflict with Iran, which has driven oil prices higher. While worst-case scenarios persist, prices have begun to stabilize but remain elevated. Further de-escalation could ease global supply constraints, and even a modest decline in oil prices may reduce gasoline and transportation costs and inflation expectations. As the U.S. is now a net oil exporter, higher prices present a mixed picture: increased costs for consumers are partly offset by stronger producer revenues. However, lower- and middle-income households continue to feel the impact of higher energy costs most acutely, so any price relief would meaningfully improve affordability ahead of the November elections.



Beyond oil, economic growth reflects a balance between demographic challenges and technological advances. Slower immigration and an aging workforce are tightening labor supply, even as the economy operates near full employment. At the same time, productivity is rising, supported by strong investment in equipment and R&D related to AI, a trend that appears sustainable. As a result, growth may moderate from the robust pace seen in mid-2025. Business investment, consumer spending, and government spending remain key drivers, while net exports and housing continue to weigh modestly on growth. Fiscal stimulus has been partially offset by higher inflation, and while pre-election measures such as tariff rebate checks may provide temporary support, fiscal support is likely to diminish or reverse in 2027, especially if Democrats win the House.

The labor market accelerated in the second quarter, exceeding expectations. However, hiring may slow as a smaller labor pool and productivity gains enable firms to operate with fewer employees. This constrained supply should keep unemployment low, likely near 4.0% by year-end, down from 4.3% currently. Wage growth is expected to remain modest, reducing the risk of wage-driven inflation.

Inflation may have peaked in May. Headline CPI is expected to decline through December, assuming energy prices ease, potential tariff relief follows the IEEPA ruling, and housing inflation continues to cool as slower immigration reduces rental demand. In this environment, the Fed is likely to hold rates steady as long as disinflation persists.



Bond yields have risen, but had a slightly positive return in the second quarter. In equities, large-cap U.S. stocks remain expensive and concentrated, with the top 10 S&P 500 companies accounting for nearly 40% of market value. This underscores the importance of broader diversification. In contrast, international equities appear attractive due to relative valuations, a potentially weaker dollar, investor under-allocation, and improving fundamentals in emerging markets and Japan.

II. SECOND-QUARTER 2026 EQUITY MARKET RECAP

By Cameron Greer and Dodd Williams

In Q2 2026, Equity markets exhibited a strong rebound and ended the quarter in positive territory. The OEX, MID, SPX, SML, RIY, RTY, and RAY indices all posted double-digit gains for the quarter. As discussed last quarter, a primary driver of these returns was continued easing in the Middle Eastern conflict with Iran, which moved toward a resolution in June, when the U.S. and Iran signed a memorandum of understanding to end hostilities and reopen the Strait of Hormuz. The Strait, which under normal circumstances sees the transportation of nearly 20 million barrels of oil per day, had been largely shut down since March, and shipping began to resume by the end of the quarter, sending oil and gas prices sharply lower and easing the acute inflation fears that dominated the prior quarter. A second major development this quarter pertained to the Federal Reserve. Jerome Powell's term as the Federal Reserve Chairman ended in the quarter and Kevin Warsh was confirmed as the new Fed Chair in May. He used his first press conference in June to signal a renewed focus on inflation, a shift that has markets now pricing on the possibility of rate hikes rather than the rate cuts anticipated at the start of the year. Equity markets also received a boost from SpaceX's historic IPO, the largest market debut in history, which briefly pushed the company's valuation above $2 trillion and made CEO Elon Musk the world's first trillionaire.

Index	Ticker	Description	Quarterly Return
S&P 100	OEX	The largest 100 companies	15.40%
S&P 400	MID	The 101st to 500th largest companies	14.46%
S&P 500	SPX	The largest 500 companies combined	15.19%
S&P 600	SML	Small capitalization companies – smaller than S&P 500	19.66%
Russell 1000	RIY	The largest 1000 companies – comprises 93% of the investable market	15.14%
Russell 2000	RTY	Another index of small capitalization companies (the next 2000 after the Russell 1000) – comprises only 8% of the larger Russell 3000	21.54%
Russell 3000	RAY	The broadest representation of the U.S. stock market representing 98% of the investable market	15.44%

Another event that occurred in the market in the second quarter was the beginning of significant sector rotation within information technology. Rather than pulling back, the sector extended its multi-year run, though leadership shifted meaningfully beneath the surface. Elevated valuations and lingering questions about the payoff on AI-related capital spending pushed investors away from the largest AI hyperscalers and into the companies that manufacture the underlying chips. A few noteworthy events occurred during the quarter regarding AI, such as Micron (MU), Intel (INTC), and Advanced Micro Devices (AMD) adding a combined $2 trillion in market capitalization as memory and chip shortages drove prices sharply higher. Additionally, networking-gear maker Marvell Technology (MRVL) and chip-design licensor Arm Holdings (ARM) surged as investors broadened their bets beyond Nvidia.

On the global front, during the second quarter, the MSCI Emerging Markets ETF (EEM) returned 13.33%, Japan's Nikkei Index was up 37.30% and the FTSE 100 Index in the United Kingdom returned 4.01%. Overall, the Equity market in the second quarter of 2026 proved to be a strong one, with easing Iranian conflict tensions and a resurgent AI trade at the very center. However, moving into the 3rd quarter, it appears that the Iranian conflict has begun to heat back up which leads to uncertainty regarding oil prices and supply.

References:

Review of markets over the second quarter of 2026 | J.P. Morgan Asset Management

How the Stock Market Performed in the Second Quarter of 2026 | Yahoo Finance

AI chip rally in Q2 adds $2 trillion in value to Micron, Intel, AMD | CNBC

US stock market jumps as US-Iran deal stirs hopes for end to energy turmoil | Al Jazeera

III. SECOND-QUARTER 2026 BOND MARKET RECAP

By Chad McKeithen

The second quarter of 2026 continued many of the themes that emerged earlier in the year, as fixed-income investors navigated elevated interest rates, persistent inflation concerns, and evolving expectations surrounding Federal Reserve policy. Despite higher Treasury yields across the curve during the first half of the year, bond market performance remained resilient, supported by attractive income levels and stable credit fundamentals.

Interest rates moved notably higher through the first six months of 2026. The 2-year Treasury yield increased 78 basis points to 4.25%, while the 10-year Treasury yield rose 43 basis points to 4.60%. The Federal Reserve maintained a cautious stance, leaving policy rates largely unchanged as inflation remained above target and economic growth proved more resilient than anticipated. The rise in shorter-term yields outpaced longer maturities, resulting in a flatter yield curve, with the spread between the 2-year and 10-year Treasury narrowing from 69 basis points to 35 basis points.

Municipal bonds performed well despite the rising rate environment. Strong investor demand, favorable seasonal reinvestment flows, and healthy state and local government balance sheets supported the sector. Municipal bonds generated a year-to-date total return of 2.32%, outperforming most taxable bond sectors. Relative valuations remained stable, with the ratio of AAA municipal yields to Treasury yields ending the quarter at 66%, largely unchanged from year-end levels.

Agency mortgage-backed securities (MBS) continued to benefit from attractive income characteristics and stable credit fundamentals. Although higher Treasury yields created some price pressure, MBS generated a positive year-to-date return of 0.99%. Asset-backed securities also delivered strong risk-adjusted performance, benefiting from shorter average maturities and resilient consumer credit conditions.

Corporate credit markets remained constructive throughout the quarter. Investment-grade corporate bonds produced a year-to-date total return of 0.86%, while high-yield bonds returned 1.96%. Corporate fundamentals remained generally healthy, supported by solid earnings trends and manageable leverage levels. Credit spreads experienced modest fluctuations but remained well below long-term averages, reflecting continued investor confidence in corporate balance sheets.

While rising interest rates limited broad market returns, higher starting yields helped offset price declines. The Bloomberg U.S. Aggregate Bond Index generated a positive year-to-date return of 0.62%, demonstrating the renewed income-producing characteristics of fixed income after several years of historically low yields. Bond sector yields finished the quarter near multi-year highs, with investment-grade corporates yielding 5.20%, agency MBS yielding 4.97%, and high-yield bonds yielding 7.16%.

As investors enter the second half of 2026, fixed income remains well positioned to provide attractive income, portfolio diversification, and downside protection. Although uncertainty surrounding inflation and Federal Reserve policy persists, current yield levels continue to offer compelling opportunities across high-quality taxable and tax-exempt sectors. Maintaining a disciplined approach to duration and credit risk remains essential as markets navigate an environment of elevated but potentially stabilizing interest rates.

Chart 1 – Rate & Bond Sector Changes

Rates/Indicators

	6/30/26	12/31/25	Q / Q Change
Prime	6.75	6.75	0.00
Effective Fed Funds	3.62	3.64	-0.02
3m Tbill	3.82	3.63	0.19
2yr UST	4.25	3.47	0.78
10yr UST	4.60	4.17	0.43
2-10yr UST Spread	0.35	0.69	-0.34
10y AAA Muni/10y UST	66%	65%	1%

Bond Sector Yields

	6/30/26	12/31/25	Qtr Change
U.S. Aggregate	4.73	4.32	0.41
IG Corps	5.20	4.81	0.39
U.S. High Yield	7.16	6.53	0.63
Municipals	3.58	3.60	-0.02
MBS	4.97	4.63	0.34
Asset Backed	5.14	4.69	0.45

Bond Sector Total Returns

	YTD Total Return	Avg Maturity
U.S. Aggregate	0.62%	8.20
IG Corps	0.86%	10.40
U.S. High Yield	1.96%	4.80
Municipals	2.32%	13.40
MBS	0.99%	7.10
Asset Backed	1.62%	2.20

Source: J.P. Morgan/Bloomberg

The source of the information in this commentary is SSW, J. P. Morgan Asset Management, Bloomberg COMP, Yahoo Finance, Al Jazeera, and CNBC.

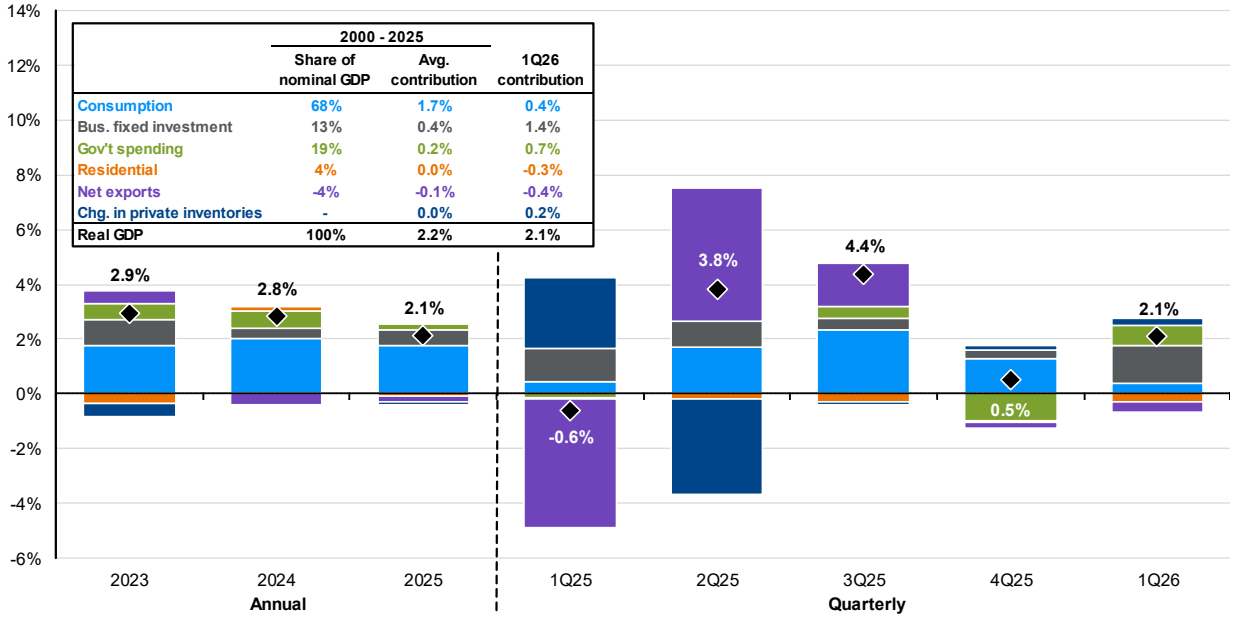
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Components of GDP growth

Contributors to real GDP growth

Seasonally adjusted annualized rate



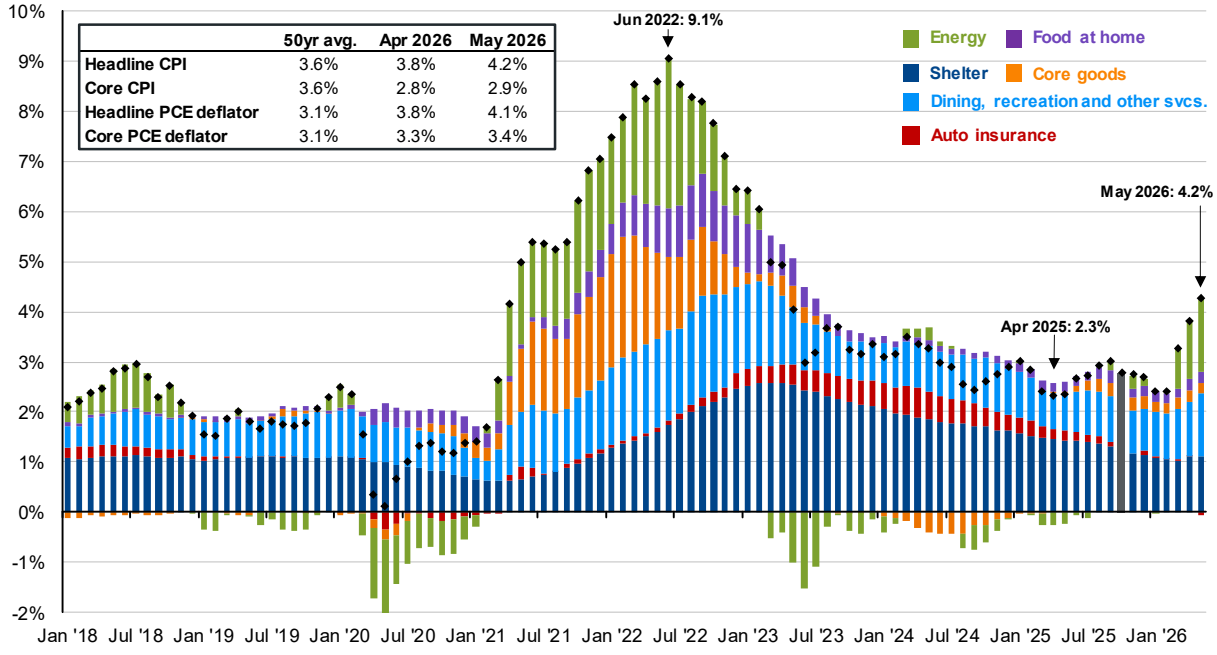
	2000 - 2025 Share of nominal GDP	Avg. contribution	1Q26 contribution
Consumption	68%	1.7%	0.4%
Bus. fixed investment	13%	0.4%	1.4%
Gov't spending	19%	0.2%	0.7%
Residential	4%	0.0%	-0.3%
Net exports	-4%	-0.1%	-0.4%
Chg. in private inventories	-	0.0%	0.2%
Real GDP	100%	2.2%	2.1%

Source: BEA, FactSet, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of June 30, 2026.

Inflation components

Contributors to headline CPI inflation

Contribution to year-over-year % change in CPI, non-seasonally adjusted



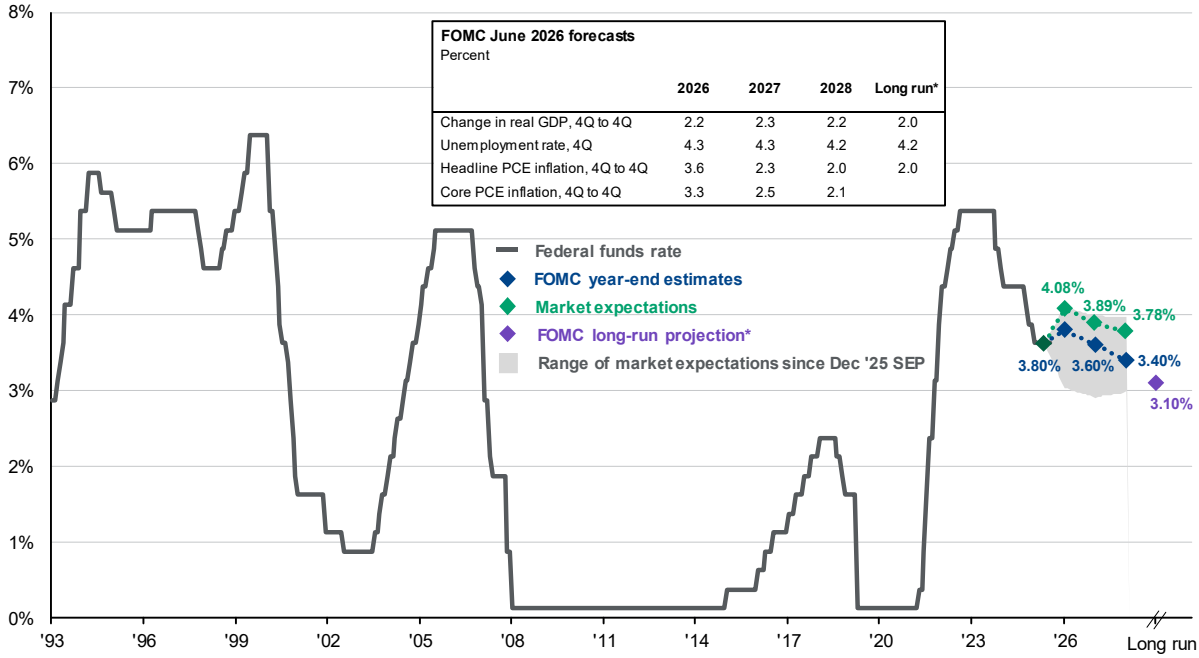
	50yr avg.	Apr 2026	May 2026
Headline CPI	3.6%	3.8%	4.2%
Core CPI	3.6%	2.8%	2.9%
Headline PCE deflator	3.1%	3.8%	4.1%
Core PCE deflator	3.1%	3.3%	3.4%

Source: BLS, FactSet, J.P. Morgan Asset Management.
Contributions mirror the BLS methodology on Table 7 of the CPI report. Values may not sum to headline CPI figures due to rounding and underlying calculations. "Shelter" includes owners' equivalent rent, rent of primary residence and tenants' and household insurance. "Food at home" includes alcoholic beverages. Headline and core PCE deflator inflation shown are based on seasonally adjusted data due to data availability. Official October 2025 data unavailable due to government shutdown and data shown are J.P. Morgan Asset Management estimates.
Guide to the Markets – U.S. Data are as of June 30, 2026.

The Fed and interest rates

Federal funds rate expectations

FOMC and market expectations for the federal funds rate

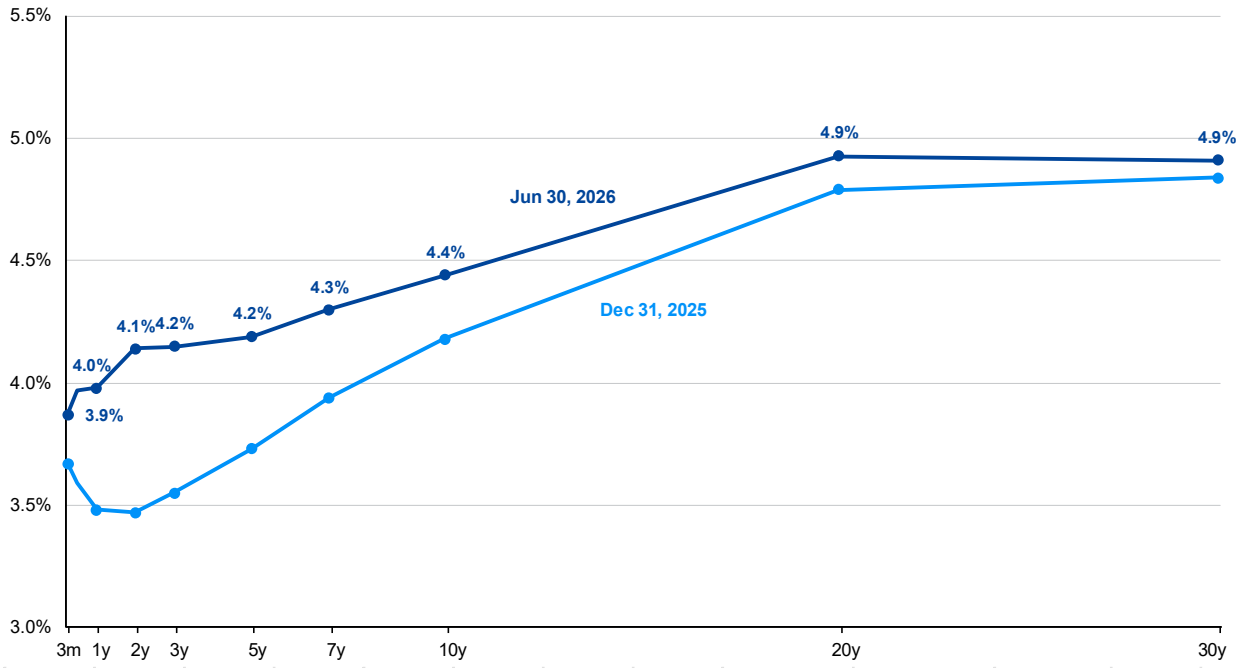


Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Market expectations are based off of USD Overnight Index Swaps. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.
Guide to the Markets – U.S. Data are as of June 30, 2026.

Fixed Income

Yield curve

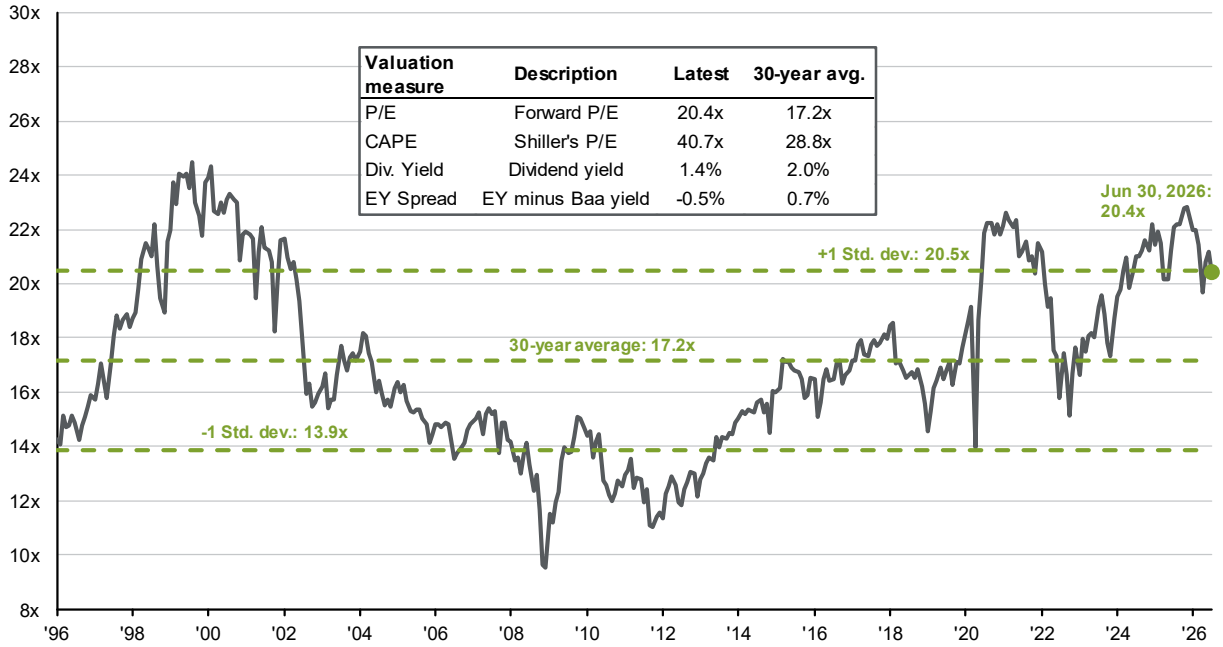
U.S. Treasury yield curve



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of June 30, 2026.

S&P 500 valuation measures

S&P 500 index: Forward P/E ratio



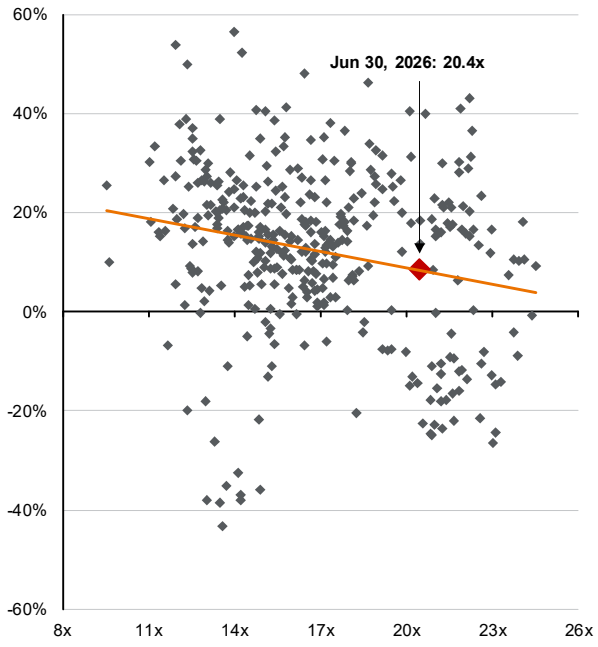
Valuation measure	Description	Latest	30-year avg.
P/E	Forward P/E	20.4x	17.2x
CAPE	Shiller's P/E	40.7x	28.8x
Div. Yield	Dividend yield	1.4%	2.0%
EY Spread	EY minus Baa yield	-0.5%	0.7%

Source: Bloomberg, FactSet, Moody's, Refinitiv Datastream, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management.
Forward P/E ratio is the most recent S&P 500 index price divided by consensus analyst estimates for earnings in the next 12 months, provided by IBES since March 1994 and FactSet since January 2022. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as consensus estimates of dividends in the next 12 months, provided by FactSet, divided by the most recent S&P 500 index price. EY minus Baa yield is the forward earnings yield (the inverse of the forward P/E ratio) minus the Bloomberg U.S. corporate Baa yield since December 2008 and interpolated using the Moody's Baa seasoned corporate bond yield for values beforehand.
Guide to the Markets – U.S. Data are as of June 30, 2026.

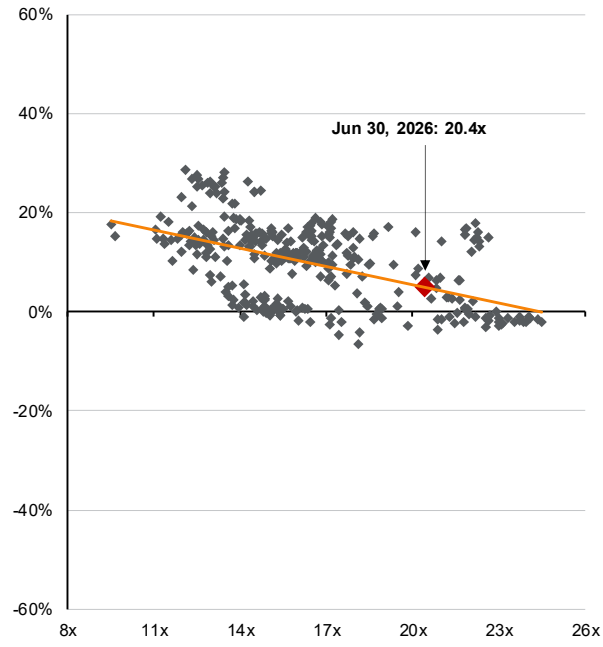
Equities

P/E ratios and equity returns

Forward P/E and subsequent 1-year returns
S&P 500 Total Return Index



Forward P/E and subsequent 5-year annualized returns
S&P 500 Total Return Index

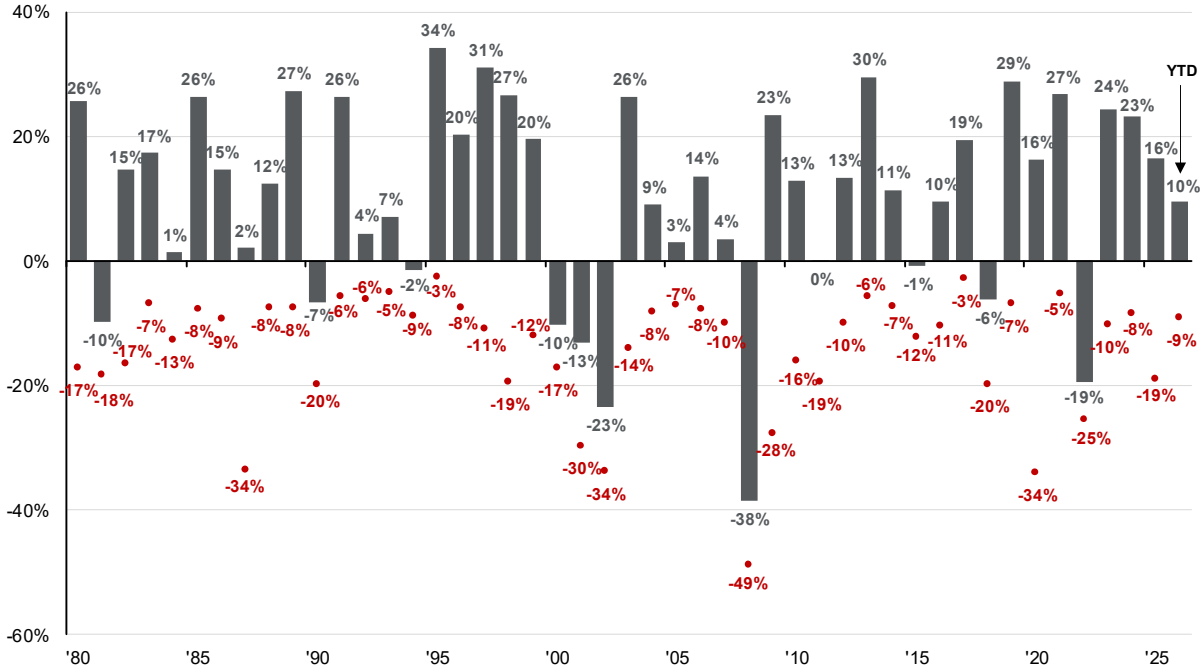


Source: FactSet, Refinitiv Datastream, Standard & Poor's, J.P. Morgan Asset Management.
Returns are 12-month and 60-month annualized total returns, measured monthly, beginning 12/31/1993. The forward P/E ratio is the most recent S&P 500 index price divided by consensus analyst estimates for earnings in the next 12 months, provided by IBES since December 1993 and FactSet since January 2022. Past performance is no guarantee of future results.
Guide to the Markets – U.S. Data are as of June 30, 2026.

Annual returns and intra-year declines

S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.2%, annual returns were positive in 35 of 46 years



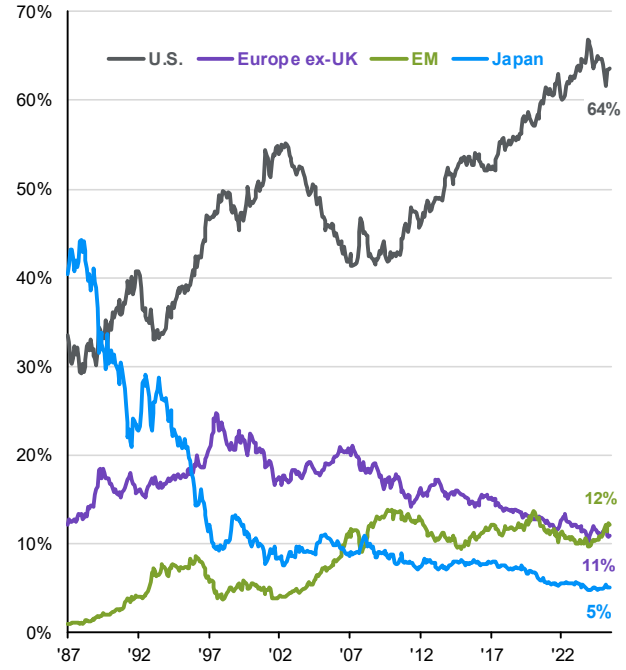
Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest peak-to-trough decline during the year. Returns shown are calendar year returns from 1980 to 2025, over which the average annual return was 10.7%. Past performance is no guarantee of future results.
Guide to the Markets – U.S. Data are as of June 30, 2026.

Global equity markets

Returns	2026 YTD		2025		15-years
	Local	USD	Local	USD	Ann.
Regions					
U.S. (S&P 500)	-	10.2%	-	17.9%	14.4%
Non-U.S.	16.6%	14.0%	25.1%	33.1%	7.1%
EAFE	12.1%	9.8%	21.2%	31.9%	7.4%
Eurozone	13.1%	10.1%	24.7%	41.3%	7.6%
Emerging markets	26.9%	24.0%	32.1%	34.4%	5.7%
Selected Countries					
Japan	20.2%	16.0%	24.7%	25.1%	8.3%
UK	7.6%	6.2%	25.8%	35.1%	6.4%
France	6.2%	3.4%	14.2%	29.5%	7.0%
Canada	11.5%	7.7%	30.9%	37.4%	7.2%
Germany	2.2%	-0.5%	20.9%	37.1%	6.2%
China	-14.8%	-14.9%	30.7%	31.4%	2.9%
Taiwan	64.8%	62.6%	34.0%	39.8%	16.9%
Korea	135.4%	118.9%	96.5%	100.8%	11.3%
India	-4.9%	-9.7%	9.5%	4.3%	5.7%
Brazil	4.5%	9.5%	35.6%	50.4%	0.4%

Share of global market capitalization

% weight in MSCI All Country World, USD, monthly

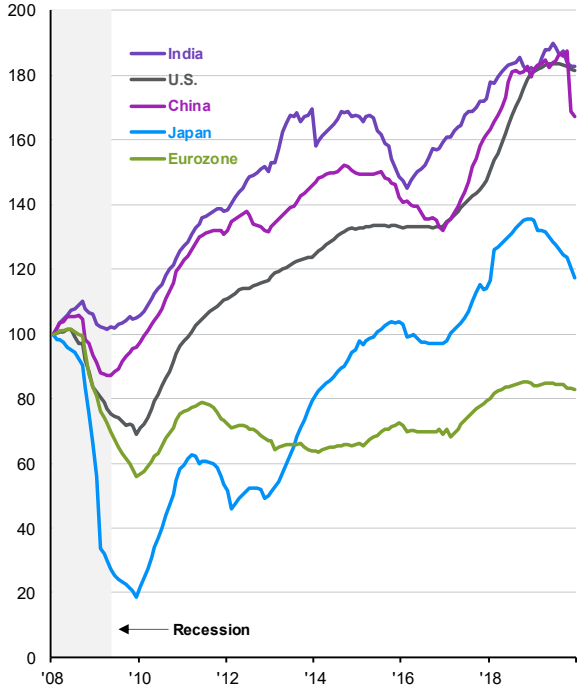


Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.
(Left) All return values are MSCI Total Return Index (Gross) data. Non-U.S. is MSCI AC World ex USA Index. 15-year history based on USD returns. 15-year annualized return figures are calculated using a rolling 12-month period ending with the previous month-end. Please see disclosure page for index definitions. Past performance is no guarantee of future results.
Guide to the Markets – U.S. Data are as of June 30, 2026.

Global equity earnings

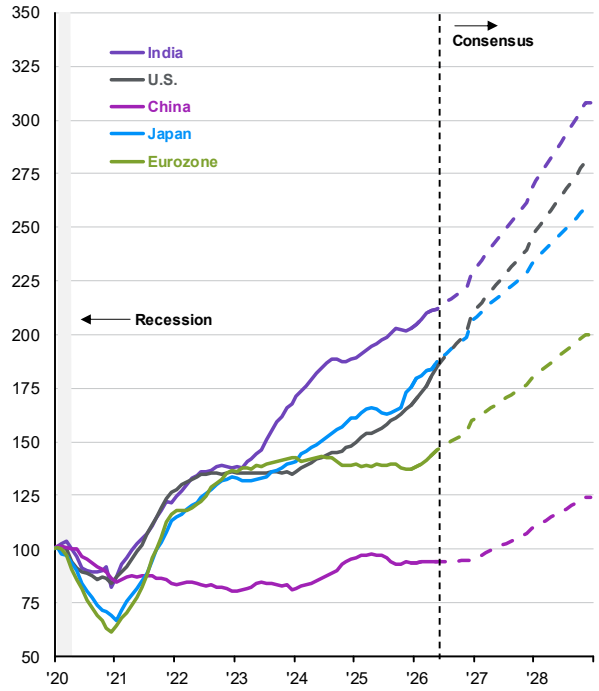
Earnings growth: GFC to pre-pandemic

Jan 2008 = 100, last 12 months, local currency, monthly



Earnings growth: Pandemic to present/consensus estimates

Jan 2020 = 100, last 12 months, local currency, monthly

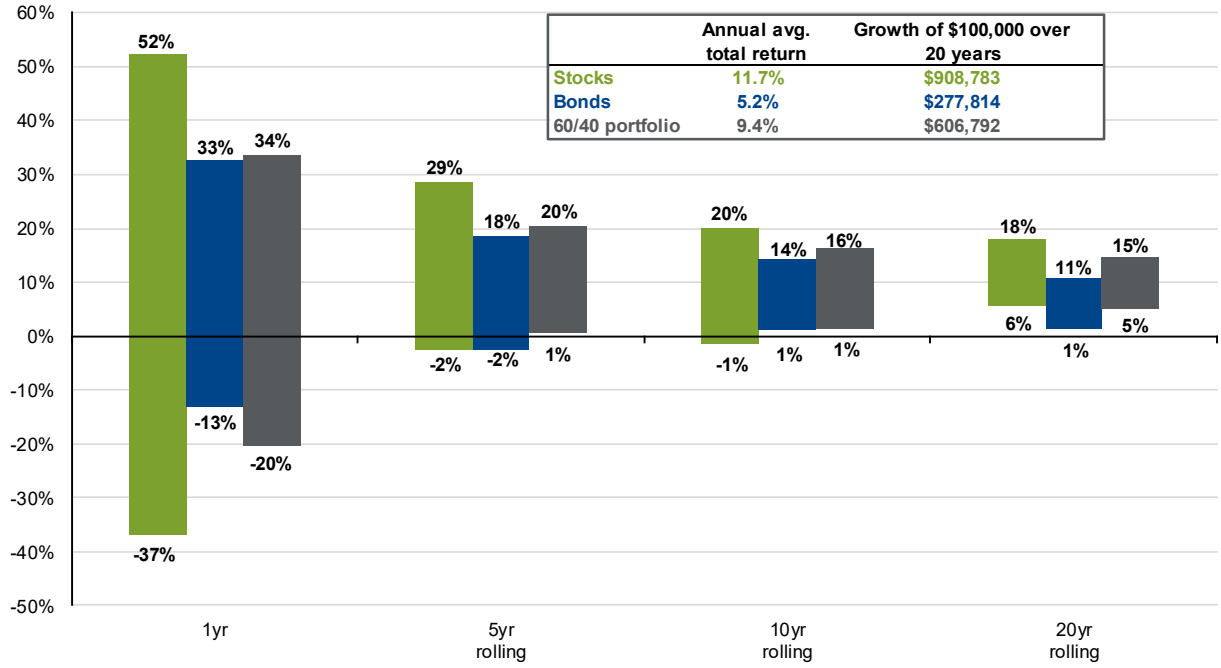


Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.
Countries are represented by their respective MSCI country index except for the U.S., which is represented by the S&P 500. GFC = Global Financial Crisis.
Guide to the Markets – U.S. Data are as of June 30, 2026.

Time, diversification and the volatility of returns

Range of stock, bond and blended total returns

Annual total returns, 1950 - 2025



	Annual avg. total return	Growth of $100,000 over 20 years
Stocks	11.7%	$908,783
Bonds	5.2%	$277,814
60/40 portfolio	9.4%	$606,792

Source: Bloomberg, FactSet, Federal Reserve, Standard & Poor's, Strategas/Ibbotson, J.P. Morgan Asset Management.
Returns shown are based on calendar year returns from 1950 to 2025. Stocks: S&P 500; Bonds: Strategas/Ibbotson for periods prior to 1976 and the Bloomberg U.S. Aggregate thereafter. Growth of $100,000 is based on annual average total returns from 1950 to 2025.
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