GCM **GIRARD CAPITAL** MANAGEMENT

Q2 2026 REVIEW & OUTLOOK

War, Peace, and a Powerful Rally

Markets absorbed an energy shock, a new Fed chair, and the return of inflation, then delivered the strongest quarter in six years. A review of the second quarter and the positioning of client portfolios for the second half.

FROM THE DESK OF DAVID GIRARD

The second quarter of 2026 presented one of the most demanding macroeconomic environments in recent memory and one of the strongest market outcomes on record. The quarter opened under the shadow of the U.S.-Iran conflict, a near-total closure of the Strait of Hormuz, and crude oil above $118 per barrel, the most severe energy shock in decades. It closed with the S&P 500 at record highs, the strait reopened under a June memorandum of understanding, and crude back near $73.

The index gained 14.9 percent, the best second quarter of any midterm election year on record and the strongest quarterly advance since 2020. Equally notable, the rally broadened. What began as an advance led by large-cap AI names ended with small-cap, equal-weight, and value benchmarks all reaching new highs by June.

Inflation remains the central tension. CPI touched a three-year high of 4.2% in May, and core PCE reached 3.4%, well above the Federal Reserve's target. Chair Kevin Warsh presided over his first FOMC meeting in June, held the policy rate at 3.50% to 3.75%, and made clear that the Committee's priority is price stability. The median projection among Fed officials now points to a hike, not a cut, by year end.

Strong markets and rising prices can coexist, but only so long as earnings deliver. Profit growth expectations for the quarter climbed above 23%, and revenue growth is tracking at its fastest pace since 2022. Valuations, however, are full, and the margin for error is thinner than the headlines suggest. The pages that follow review the quarter in detail, assess the outlook for the second half, and outline how client portfolios are positioned in response.

David Girard
GIRARD CAPITAL MANAGEMENT
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QUARTER AT A GLANCE

+14.9%
S&P 500, Q2 2026

+9.6%
S&P 500, FIRST HALF 2026

4.47%
10-YR TREASURY, JUNE 30

3.4%
CORE PCE INFLATION, MAY

$73
WTI CRUDE AT QUARTER END, OFF A $118 PEAK

3.50–3.75%
FED FUNDS TARGET, UNCHANGED IN JUNE

Sources: S&P Dow Jones Indices, FactSet, Baird Asset Management, U.S. Bureau of Economic Analysis. Data as of June 30, 2026.

Equities: The Wall of Worry

After a turbulent first quarter driven by the Iran conflict and trade concerns, U.S. equities staged one of the strongest quarterly advances of this century. Both the S&P 500 and the Nasdaq-100 posted their best quarter since Q2 2020, with the Nasdaq-100 recording its second-best quarter in twenty-five years.

The advance began narrowly, powered by hyperscalers and large-cap growth off the March lows, then broadened meaningfully. By quarter end, small-cap, micro-cap, equal-weight, and value benchmarks had all reached record highs, a healthier foundation than a rally carried by a handful of names.

Fundamentals supported the move. Analysts raised Q2 earnings estimates during the quarter, unusual in itself, with consensus EPS growth now above 23% year over year and revenue growth near 12.3%, the strongest since 2022. Margins continue to expand, led by energy and technology. The catch: the index trades at roughly 20x forward earnings, above both its five and ten-year averages. From here, earnings have to carry the load.

INDEX / ASSET	Q2 2026	NOTE
S&P 500	+14.9%	Best Q2 since 2020
Bloomberg U.S. Agg	+0.67%	Income offset rates
IG Corporates	+1.17%	Spreads tighter
10-Yr Treasury Yld	+15 bps	4.47% at June 30
2-Yr Treasury Yld	+38 bps	Hawkish repricing
WTI Crude	$118 → $73	Hormuz reopened

Sources: Nasdaq, FactSet, Baird Asset Management, Bloomberg index data. Q2 2026, total return where applicable.

Fixed Income: A New Sheriff at the Fed

The bond story of the quarter was the changing of the guard. Kevin Warsh chaired his first FOMC meeting in June, held the policy rate at 3.50% to 3.75%, and broke with recent tradition by declining to submit his own rate projection and by shortening the policy statement. Markets read the meeting as hawkish. The 2-year yield jumped 16 basis points on decision day, the largest Fed-day move since 2008, and rose 38 basis points on the quarter.

The curve flattened hard as a result. The 2s10s spread compressed to 29 basis points from a February peak of 73, with the 10-year finishing at 4.47% after touching 4.67% intra-quarter. Futures markets, which began the year pricing cuts, ended June assigning high odds to at least one hike by year end.

> *"It's an OK economy for Americans; it's a great economy for the stock market."*
>
> DAVID KELLY, CHIEF GLOBAL STRATEGIST, J.P. MORGAN ASSET MANAGEMENT

Credit, meanwhile, shrugged. Investment grade spreads tightened about 15 basis points despite heavy issuance, including a $25 billion debut from SpaceX, the largest ever for a first-time investment grade issuer. The Aggregate index returned 0.67% for the quarter as coupon income absorbed the rate move. With high quality bonds yielding 4% to 5%, fixed income is doing its job again: real income, diversification, and dry powder.

Commodities & Real Assets

Energy dominated. Oil's round trip from $118 to $73 drove both the inflation spike and its expected moderation. Precious metals finally corrected after a historic run, with gold posting its largest single-month decline since 1975. The move is best understood as profit-taking within a longer structural story tied to deficits and debt, not the end of that story.

Three forces continue to define the 2026 investment landscape: global fragmentation, inflation, and artificial intelligence. Six months into the year, all three have asserted themselves, and the shocks they produced have repriced risk and created dislocations that represent compelling entry points for patient, disciplined capital. The assessment below reflects Girard Capital Management's analysis, informed by mid-year research from J.P. Morgan Asset Management and other institutional sources.

I. The economy is strengthening, not stalling

Economic momentum has improved through mid-year. The AI investment boom and consumption from upper-income households, supported by four years of wealth gains, have more than offset war-related uncertainty and higher energy prices. Provided the Hormuz resolution holds, inflation is likely to drift down from May's 4.2% CPI peak over the balance of the year, and growth should extend into the fourth quarter. The midterm elections are the key variable for fiscal policy beyond that horizon. The appropriate posture for the second half is to remain invested in equities and risk assets: profits and interest rates are what ultimately drive equity returns, and profit growth has been exceptional.

II. A patient, inflation-focused Fed

The base case is a Federal Reserve on extended hold, with risks tilted toward a hike rather than a cut, and a 10-year Treasury yield likely range-bound between 4% and 4.5%. Under Chair Warsh, forward guidance has been curtailed in favor of strict data dependence, which means individual inflation and employment reports will move markets more than they have in years. Shorter duration and high-quality credit remain the preferred fixed income posture, a view reflected in GCM portfolios.

III. AI is now a capital expenditure story

The buildout of data centers, power, and chips has become the single largest driver of earnings and of GDP growth at the margin. Crowding risk is real, and a sharp correction in AI leaders would surprise no one. Computational demand, however, remains strong enough that return-on-investment questions are unlikely to become the decisive issue in 2026. GCM portfolios hold meaningful exposure to this theme, with concentration managed deliberately.

THE ALTERNATIVES CORNER

Private Markets: From Satellite to Structural

Private markets now approach an estimated $20 trillion and function less like a portfolio satellite and more like a structural pillar of global finance. With stock-bond correlation trending positive, the traditional 60/40 mix diversifies less reliably than it once did, strengthening the case for real assets and private strategies in suitable portfolios.

PRIVATE EQUITY

Entering 2026 on firmer footing. Valuations are realigning, credit is more borrower-friendly, and the small and mid-market segment looks best positioned as deal activity normalizes. AI epitomizes the private-for-longer trend; healthcare is generating steady exits.

PRIVATE CREDIT

Still offers a healthy yield premium over public credit, with senior-secured U.S. direct lending the standout. The asset class is maturing: expect less retail money, more concentration among established managers, and scrutiny of software exposure into 2028 maturities. Manager selection is everything.

REAL ASSETS

Core infrastructure capex is set to outpace depreciation for the first time in a century, driven by energy demand and the AI power buildout. Commercial real estate is entering a recovery phase with power availability now central to industrial site selection.

- **Staying invested, staying disciplined.** A market supported by earnings growth in excess of 20% is not one to fight, but at roughly 20x forward earnings it is not one to chase either. New capital is being deployed methodically, and concentrated positions continue to be trimmed into strength rather than after the fact.
- **Broadening beyond the mega caps.** The rally's expansion into equal-weight, value, and smaller companies validates the diversification built into client portfolios over the past year. Quality and cash-flow oriented exposure continues to be added alongside core growth so that portfolios are not dependent on a single theme.
- **Keeping duration short and cash productive.** With the front end of the curve yielding more than 4% and hike risk on the table, GCM favors short and intermediate maturities, and idle cash continues to be swept into government money market funds and Treasury bill vehicles rather than left uninvested.
- **Treating inflation as a planning input, not a headline.** At core inflation above 3%, cash that is not earning a real return is losing ground. Financial plans, withdrawal rates, and return assumptions are being stress-tested against a higher-inflation baseline.
- **Monitoring the second half catalysts.** The July and September Fed meetings, the durability of the Iran ceasefire and oil prices, second quarter earnings season beginning mid-July, and the midterm elections in November. Any of these can reprice markets quickly; none of them changes a long-term plan.

A CLOSING WORD

The first half of 2026 tested investors with a war, an energy shock, a new Fed chair, and the return of inflation. The reward for staying the course through the March lows was a 15% quarter. The lesson is durable: disciplined plans work when they are allowed to.

Clients whose financial circumstances have changed, or who wish to review their portfolio in light of the developments discussed above, are encouraged to contact the firm to schedule a conversation.

GIRARD CAPITAL MANAGEMENT WESTBOROUGH, MASSACHUSETTS Q2 2026 CLIENT LETTER