



I hope this message finds you well! Last quarter told two stories that didn't quite match. The economy slowed, and the war between the U.S. and Iran rattled energy markets, yet the stock market thrived.

Most forecasters now expect growth to ease rather than accelerate, and inflation progress has stalled. Even so, the [Federal Reserve](#) held rates firmly in place and signaled that cuts aren't coming soon.

None of that held stocks back. Corporate earnings have been [impressive](#), and investors continue to pay premium valuations for companies viewed as winners, especially in technology and AI.

The overview below shows how each index performed and what fueled the divergence.

Major U.S. Stock Indices

- The S&P 500 [climbed](#) 14.87%.
- The Nasdaq 100 [surged](#) 27.53%.
- The Dow Jones Industrial Average [rose](#) 12.90%.

The S&P 500 and Nasdaq posted their strongest quarterly gains in years, and the explanation is straightforward. Corporate profits have topped expectations for several quarters running, and as companies kept beating those numbers, analysts kept raising their Q2 and full-year estimates.

Growth: Cooling From a Hot Start

Coming into Q2, surprisingly strong early-year economic data had set an upbeat tone. That tone faded a notch as the quarter unfolded. Household income and spending kept inching higher, but savings remained thin.

Currently, there's enough growth to support corporate profits, but not enough progress on inflation to justify lower rates, and the fallout from the U.S.-Iran conflict is still working through oil and shipping markets, keeping investors cautious.

Inflation: The Last Mile Gets Harder

Investors entered 2026 expecting inflation to glide gently back toward the Fed's 2% objective. Q2 disrupted that narrative. Headline inflation reaccelerated, driven partly by energy and other volatile categories, while core inflation (which excludes food and energy) stopped falling and hovered above target. Prices are not spiraling, but moving from 3-4% back to the ideal 2% is proving much harder than expected.

The Fed: Hawkish Patience, Not a Pivot

The Fed's June meeting set the tone for the quarter. Under new chair Kevin Warsh, the committee left rates unchanged again. Officials were explicit that inflation remains too high and that further hikes are still on the table if the data don't improve. They were equally clear that cuts are not being discussed, signaling more tolerance for higher rates and slower growth.

Key Moments in Q3 Worth Watching

Q3 will see Q2's GDP advance estimates and revisions, which will continue to shine a light on how the U.S. economy is moving. Beyond that, monthly releases of key inflation indicators (like CPI and PCE) and labor market updates will be worth watching.

Additionally, the Fed will meet several times throughout the quarter, which will continue to provide insight into the Fed's policy direction under Warsh's leadership.

We Are Here for You

Last quarter showed how far markets can run even when the underlying picture is mixed. Know that I am watching how things develop and am always here if you'd like to talk through what it means for you.

And as always, if you'd like a portfolio review or would like to talk through any questions you have, just let me know. I am here to be a resource for you.