PDS Wealth Management

Quarterly Investment Report – Q2 2026

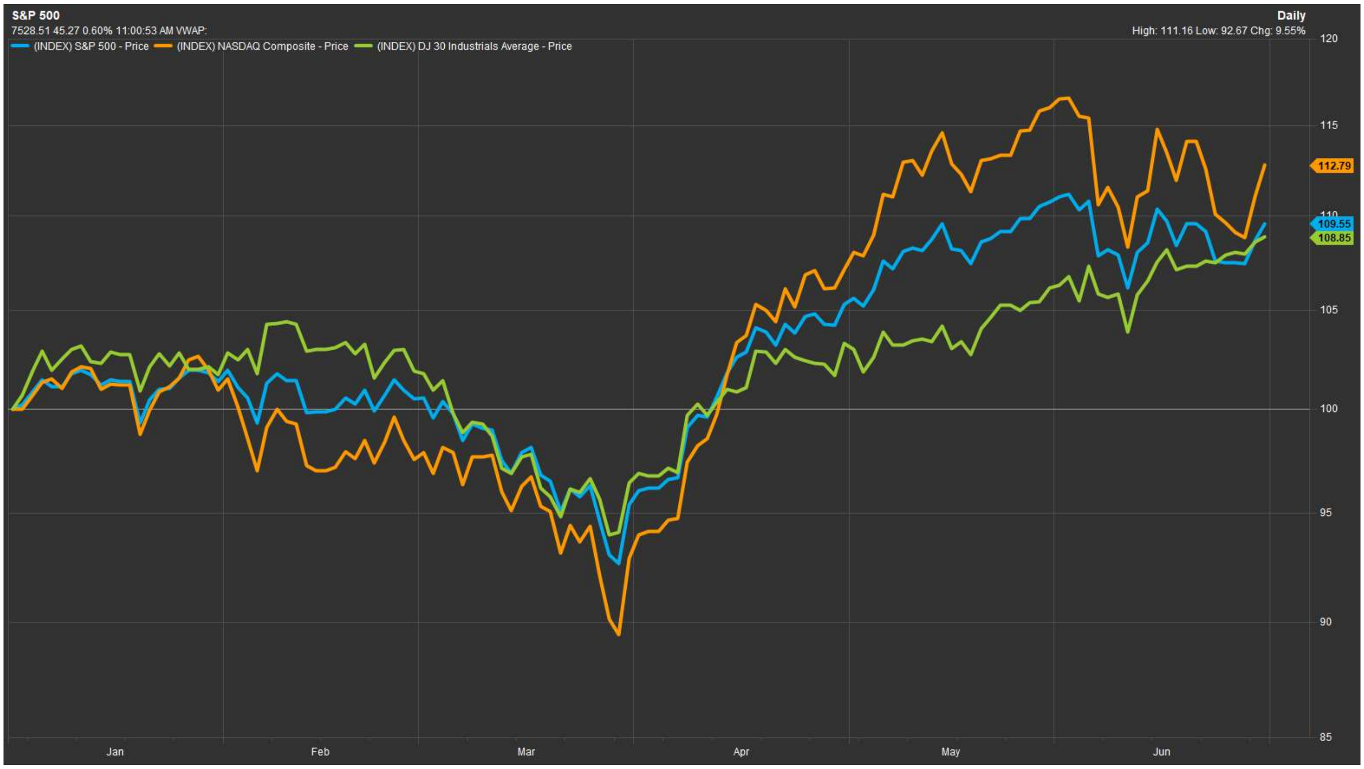
Happy Summer and Happy 250th America! After a dismal first quarter, the second quarter delivered a welcome rebound in markets following a temporary pause in the war with Iran and solid Q1 corporate earnings reports. The Federal Reserve also welcomed a new Chair, Kevin Warsh, who came out of the gates talking tough against inflation. Despite the apparent resumption of hostilities in Iran, the markets have held in well, though there is some cooling off in the AI-focused companies as "everything else" plays catch-up. Interest rates have also risen towards their highs for the year, which bears watching as we head into the back half of 2026.

In the meantime, please enjoy our lookback at Q2.

Markets

Stocks

US Stock Indices YTD – S&P 500, Dow Jones Industrial Average, Nasdaq Composite



Source: FactSet; as of June 30, 2026

In similar fashion to 2025, stocks staged an impressive rebound off their Q1 lows as a resolution to the war with Iran came into focus. For the second quarter, the DJIA gained 13%, the S&P 500 added 15.2%, and the Nasdaq charged 21.6% higher.

The Technology sector was the standout performer in the second quarter, posting a 31.8% gain after losing nearly 10% in Q1. The group was led by the semiconductors and other AI exposed companies. Industrials were the next best group with a 14.9% rise. Consumer Discretionary, Financials, Healthcare, Real Estate, and Communication Services all rose between 8-9%. Materials added 2% and Consumer Staples eked out a 0.3% gain. After enjoying a 38% rise in the first quarter, the Energy sector dropped 13.4% in Q2 as oil prices slid on the expectations for resolution with Iran. Utilities were the only other sector that failed to post a positive gain, losing 0.5%.

The international MSCI EAFE index rose 10.5% in Q2 as technology-focused markets (South Korea/Japan) outperformed.

So, what's the reason for the strong performance in stocks? While always difficult to point to one reason, revenue and earnings growth has been impressive. According to Ryan Grabinski at Strategas (as of May 19, 2026), companies that make up the S&P 500 reported 11% revenue growth on average in the first quarter while earnings grew 28%!

Bonds

Bond prices remained under pressure during the second quarter as yields drifted higher. For the quarter, the yield on the 10-Year Treasury Note rose 12bps to 4.4%.

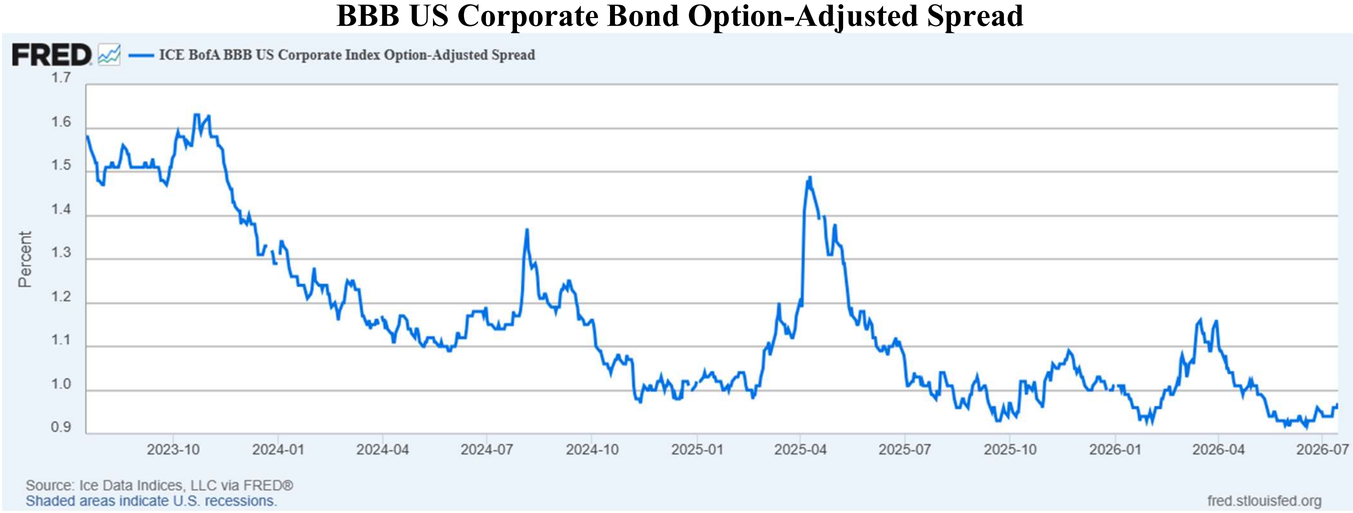
10-Year US Government Note Yields

Source: FactSet; as of July 15, 2026

The Barclays Aggregate Bond Index managed a 0.5% total return for the first half of 2026. The S&P 500 Bond Index (investment-grade corporate bonds) returned +1% in the first half while the S&P 500 High Yield Corporate Bond Index has delivered ~2% return year-to-date.

Despite the lackluster returns for bonds year-to-date, spreads for corporate bonds have barely budged off historically low levels, indicating an optimistic outlook for corporate health.

BBB US Corporate Bond Option-Adjusted Spread

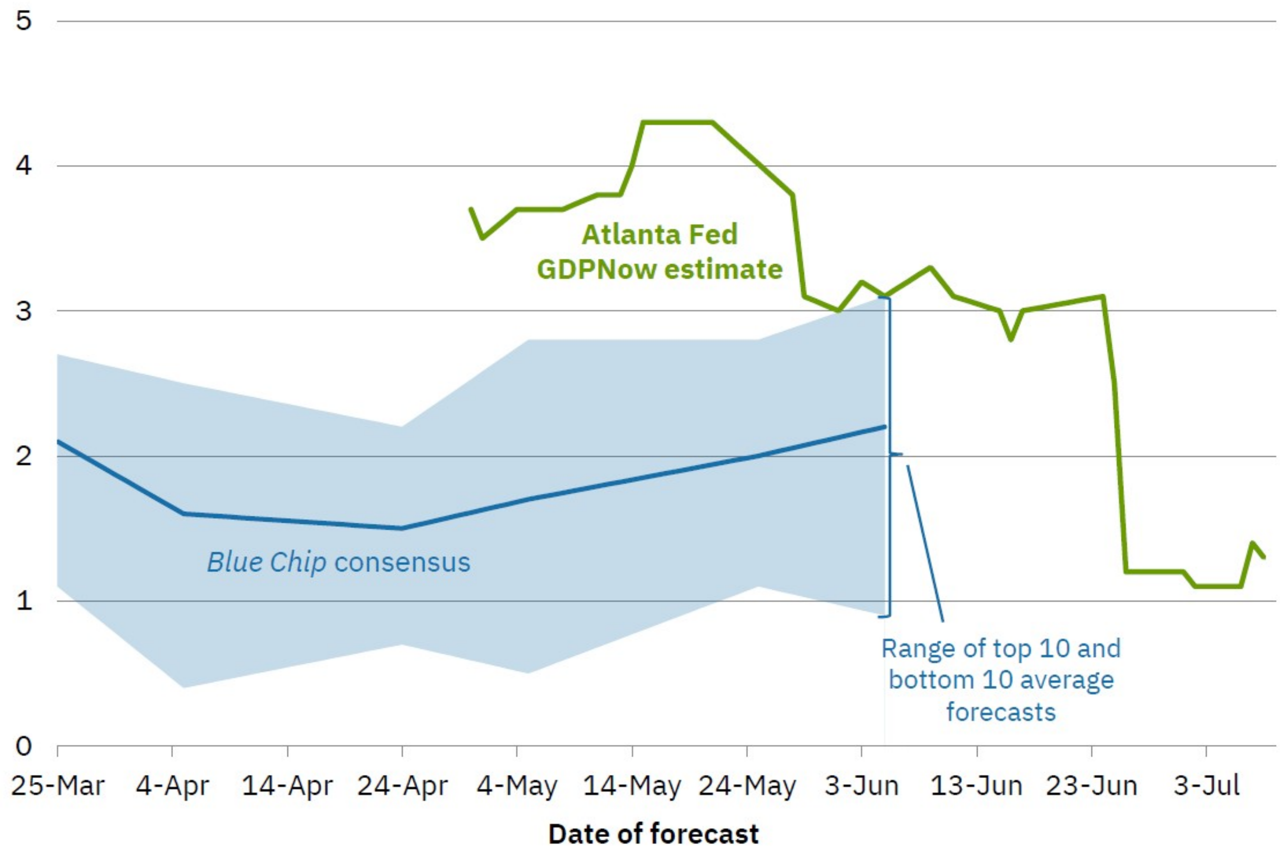


Source: St. Louis Federal Reserve; as of July 14, 2026

Economics

Economic growth has moderated from 2025 levels towards 1-2% but remains positive. Q1 Real GDP grew 1.6% year-over-year and Q2 is forecasted to rise 1.3%.

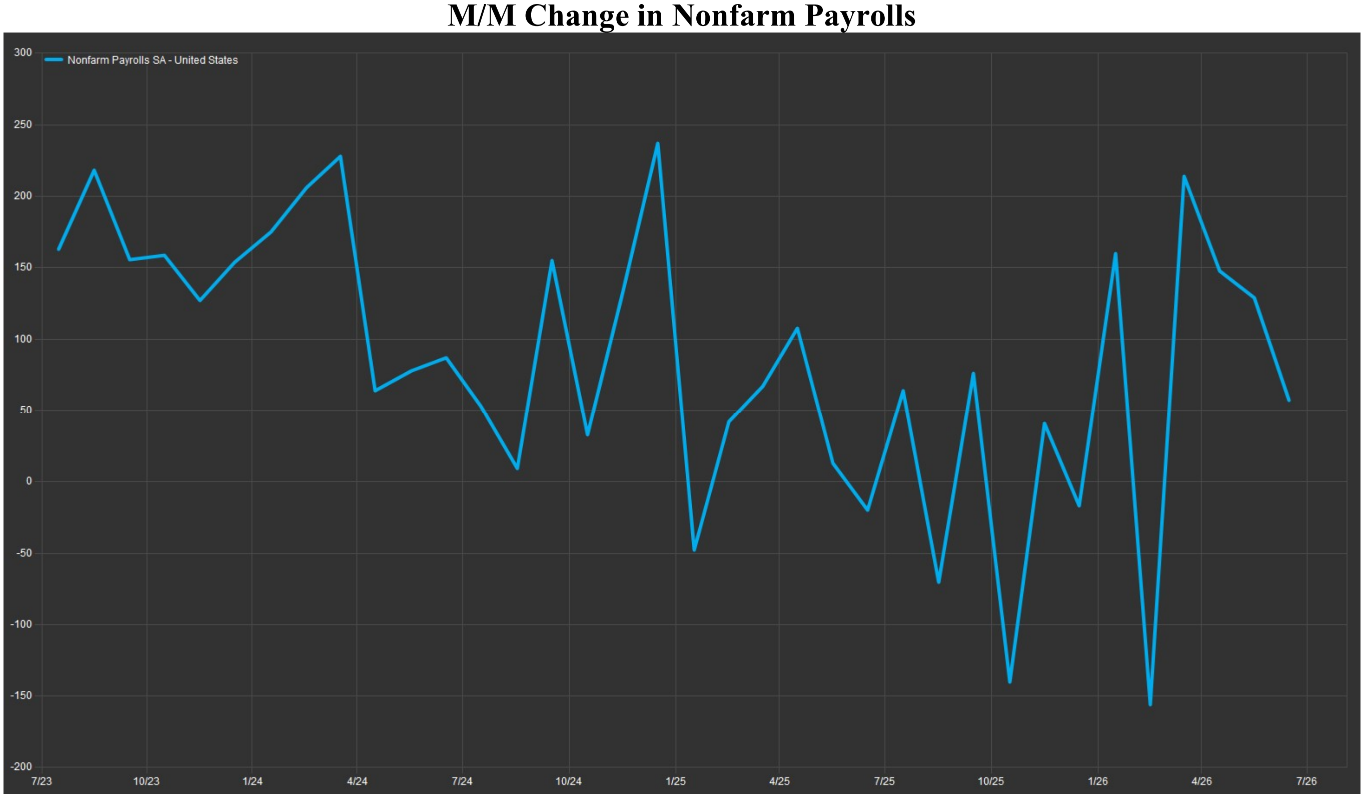
GDPNow Estimate



Source: Federal Reserve Bank of Atlanta; as of July 8, 2026

Job growth numbers have tempered and shown increased month-to-month volatility but are not yet ringing any alarm bells…….

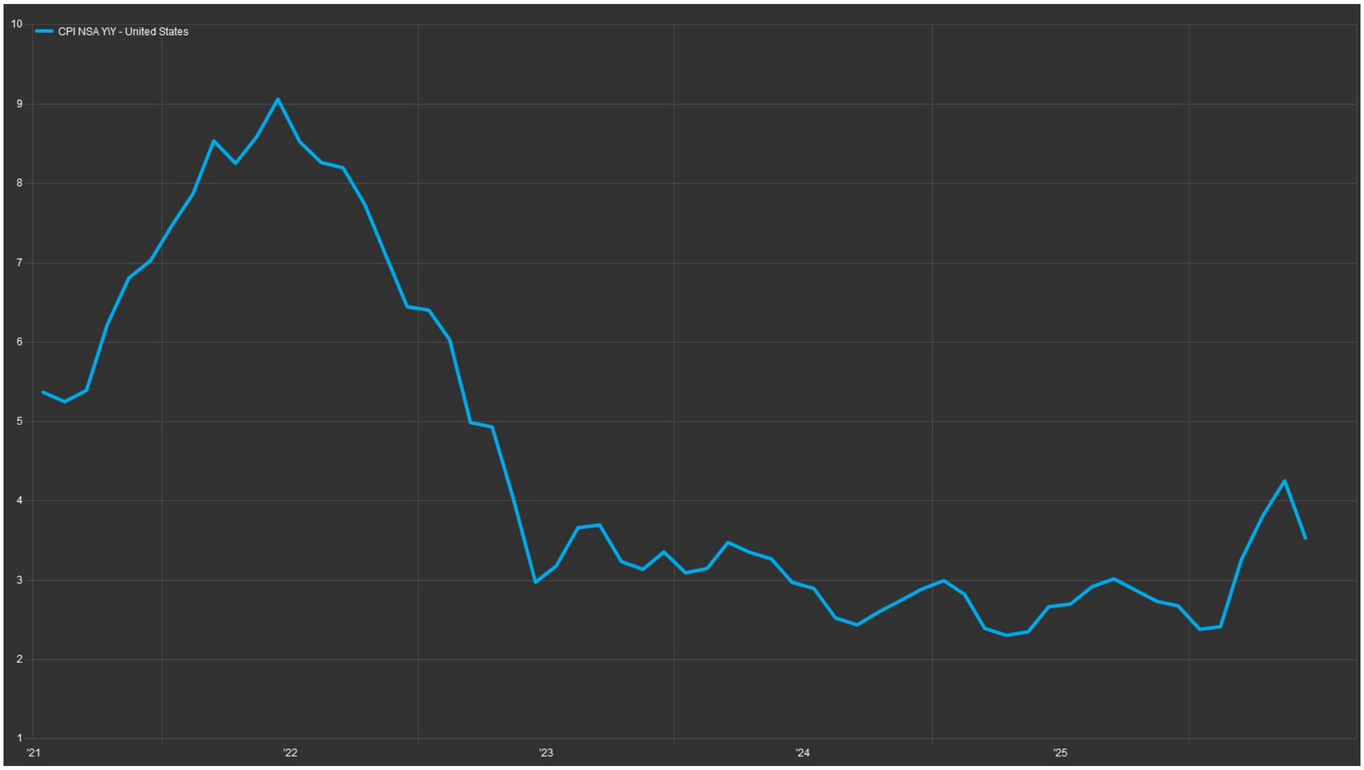
M/M Change in Nonfarm Payrolls



Source: FactSet; as of June 30, 2026

…which leaves all the attention on inflation. CPI followed oil prices higher earlier in the year but did show a modest decline in the June reading of +3.5% (y/y), down from +4.2% in May.

CPI Y/Y



Source: FactSet; as of July 14, 2026

Coming into the year, Fed futures markets were pricing in two 25bp cuts in 2026. After the uptick in inflation and tougher talk from new Fed Chair Warsh, markets now expect one or two 25bp hikes before year-end.

We wish you a peaceful and restful remainder of your summer!

Paul Spencer, CFA®

Director