fairlight

Q2 2026

Market & Economic Snapshot – 2026

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MARKET & ECONOMIC SNAPSHOT

	WHAT HAPPENED	WHY IT MATTERS
U.S. STOCK MARKET	The US stock market gained 15.68%.	Q2 2026 ended with positive year-to-date returns for many major equity markets but significantly higher volatility, as investors shifted from chasing AI-driven gains toward managing inflation, interest-rate risk, and geopolitical uncertainty.
INTERNATIONAL STOCK PERFORMANCE	Developed Stock Markets Ex-US rose 11.77% in Q2, while Emerging Markets ended up 10.57%.	Global equities reflect improving growth expectations but are held back by energy risks and global uncertainty.
INTEREST RATES	The Federal Reserve held its benchmark interest rate in a range of 3.50% to 3.75%.	Under the new Fed chair, the US central bank shifted to a more cautious, less forward-guiding stance, signaling that inflation risks and geopolitical uncertainty are limiting its ability to ease policy further.
BOND MARKET	The US bond market rose 0.72% in the quarter. Yields on the 10-year Treasury note ended the quarter at 4.45%, up from 4.32% in volatile trading. Developed international bonds rose 1.50%. Bond prices increase as bond yields decrease.	Yields have experienced steep fluctuations as the focus shifted between monetary policy and fiscal sustainability concerns. Corporate bonds gained ground as inflation pressures showed tentative signs of moderating in the latter half of the quarter.

SOURCES: VIA KOYFIN, SEE DISCLOSURES

ASSET CLASS PERFORMANCE

ASSET CLASS	PERFORMANCE	
EQUITIES	**Q2 2026**	**12 MONTHS**
U.S. STOCK MARKET	15.68%	22.92%
DEVELOPED STOCK MARKETS EX-U.S.	11.77%	28.59%
EMERGING STOCK MARKETS	10.57%	23.84%
SECTORS		
OIL & GAS	-14.75%	25.47%
HEALTHCARE	8.70%	19.76%
TECHNOLOGY	45.33%	51.26%
REAL ESTATE	8.78%	9.97%
FIXED INCOME		
U.S. CORE BONDS	0.72%	3.79%
U.S. TREASURIES	0.34%	2.70%
U.S. HIGH YIELD	1.53%	4.61%
GLOBAL BONDS	1.50%	2.23%

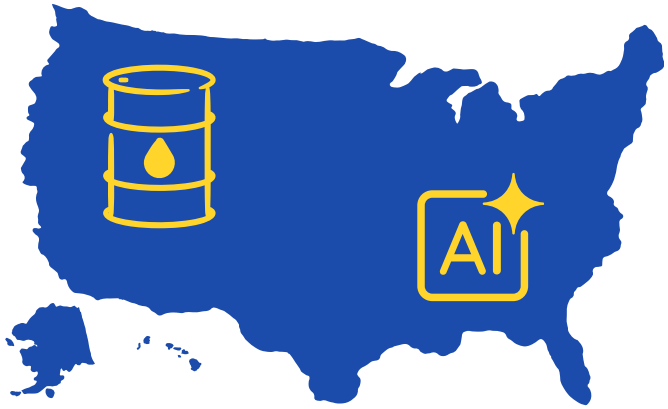
Oil and gas gave back some of last quarter's gains, when the Iran War pushed prices higher.

Technology stocks staged a comeback, leading the US stock market higher.

Bond income has improved, but prices are under pressure as yields have risen.

SOURCE: KOYFIN

STOCK MARKET SNAPSHOT



UNITED STATES

US stocks finished the quarter higher, supported by resilient corporate earnings and optimism around artificial intelligence. Technology remained the dominant market theme throughout Q2, but enthusiasm faded in June.

Energy markets were highly volatile because of geopolitical tensions in the Middle East. Oil prices surged earlier in the quarter but fell sharply toward quarter-end as supply concerns eased.

OUTSIDE THE US

European equities struggled late in the quarter as technology stocks sold off and investors weighed slowing economic growth alongside persistent inflation.

Asian markets experienced heightened volatility, with semiconductor-heavy markets seeing notable declines during the final week of the quarter.

The US dollar strengthened against various major currencies during Q2 as investors anticipated that the Federal Reserve could keep interest rates higher for longer.
A stronger dollar is generally negative for emerging markets because it makes EM dollar-denominated debt more expensive.

For developed markets, the impact is more mixed. A strong dollar can weigh on returns for US-based investors, but it can also help exporters (especially Europe and Japan).

BOND MARKET SNAPSHOT

Bond markets became more attractive as investors sought safety amid equity volatility.
Global bond funds recorded sustained inflows for much of the quarter, while expectations for potential interest-rate increases kept yields elevated compared with recent years.

Higher yields across Europe and globally (due to deficits and inflation risk) have pressured prices, even as income improves.

Income is better, but prices are under pressure because yields are rising.

The US Treasury yield curve — the spread between 2-year and 10-year Treasury yields — is in a bear steepening, with long-term yields rising faster than short-term yields as investors demand more compensation for:

- Inflation risk
- Large government borrowing (bond supply)
- Uncertainty about long-term policy

Treasury Yield Curve

When the yield curve steepens like this, it indicates that the market believes the economy is holding up — but inflation, deficits, and long-term uncertainty are bigger risks than we thought.
It also demonstrates expectations that interest rates may stay higher for longer, which can create new risks for both stocks and bonds.

Why Interest Rates Don't Always Move Markets the Way We Expect

Over the past year, one of the biggest surprises for many nonprofit boards has been this:
Interest rates have stayed high — but the stock market hasn't fallen the way people expected.

To understand why, it helps to step back and look at how interest rates affect different parts of the market and how the Fed fits into the picture.

FIRST: WHAT DOES THE FED DO?

The Federal Reserve helps guide the economy by setting short-term interest rates.

- When inflation is high, the Fed may raise rates to slow spending
- When the economy is weak, the Fed may lower rates to encourage borrowing and growth

BOND MARKET SNAPSHOT

It's important to recognize that the Fed doesn't directly control the stock market. At all. But its decisions strongly influence borrowing costs, investment decisions, and expectations about the future.

We are also in a period of transition; every time the US gets a new Fed chairperson, it adds another layer of uncertainty as global markets adjust to potential shifts in policy direction.

Fed Chair Kevin Warsh took office this May. His early signals suggest a strong focus on maintaining credibility around inflation, especially at a time when price pressures remain above the Fed's long-term target.

In simple terms, one of the Fed's most important jobs is not just reacting to inflation, but shaping what people expect inflation to be in the future. If businesses and consumers believe prices will keep rising, they may raise wages and prices in ways that worsen inflation. Warsh has emphasized that keeping those expectations "anchored" is critical, which may mean holding interest rates steady longer than expected — or being cautious about cutting rates too soon.

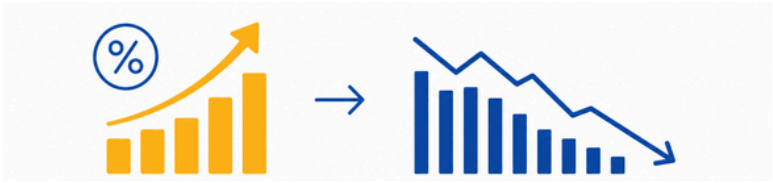
FOR BOARDS, THE TAKEAWAY IS THIS:

Even with a new leader, the Fed's priority remains the same: bringing inflation under control without derailing the economy. But the path forward may include more caution and fewer abrupt policy moves than markets might hope for.

The Relationship Between Rates & Markets Isn't Simple

Many people assume:

HIGHER RATES =
STOCK MARKET GOES DOWN.



That's sometimes true — but not always, and not immediately.
Here's why:

1

Markets Look Ahead

Investors don't wait for rate cuts or hikes to happen — they try to predict them in advance.

- If investors believe rates will fall in the future, stocks may rise before cuts happen
- If investors think rates will stay high, markets adjust early

2

The Economy Has Been Resilient

Even with higher rates:

- Large companies are still earning strong profits
- Consumers are still spending (though unevenly)
- Job growth is decent, in the Fed's eyes
- That resilience has helped support stock prices, even in a higher-rate environment.

3

Different Investments React Differently

Interest rates don't impact all investments the same way.

Some benefit while others struggle.

Typical Winners and Losers When Rates Rise

Category	What Happens	Why
Bonds (existing)	Prices fall	New bonds offer higher yields, making older ones less attractive
New bonds/cash	More attractive	Higher interest income
Growth stocks (tech)	Often pressured	Future earnings are discounted more heavily at higher rates
Value stocks	Can hold up better	More tied to current earnings than future growth
Banks/financials	Often benefit	Can earn more on loans
Real estate	Often challenged	Higher borrowing costs reduce demand
Nonprofits	Mixed impact	Investment returns may vary, and borrowing costs increase

GLOSSARY

Asset Classes
A grouping of investments that exhibit similar characteristics, are subject to the same laws and regulations and often behave similarly to one another in the marketplace.

Bond Issuers
Governments, banks, corporations, municipalities, or special purpose vehicles that borrow money from bond investors with the promise of paying periodic interest and repayment of the principal amount upon maturity of the bonds.

Equity Sectors
Categories of companies that operate in different areas of business. According to the Global Industry Classification Standard, there are 11 stock market sectors: Financials, Utilities, Consumer Discretionary, Consumer Staples, Energy, Healthcare, and Industrials.

Federal Funds Rate
The target interest rate range, set by the Federal Open Market Committee (FOMC), at which commercial banks borrow and lend their excess reserves to each other overnight. The FOMC, which is the policymaking body of the Federal Reserve System, meets eight times a year to set the target federal funds rate, which is part of its monetary policy.

Gross Domestic Product (GDP)
A monetary measure of the market value of all the final goods and services produced in a specific time horizon by a country or countries. GDP is a key indicator of the size and health of a country's economy.

Market Crash
A price drop of 20% or more from the last peak.

Market Rally
A broad increase in market prices after a market crash or persistently down market.

Recession
A significant, widespread, and prolonged downturn in economic activity commonly classified as two consecutive quarters of negative gross domestic product (GDP).

Inflation

- *Headline Inflation*

The general increase in prices that includes all goods and services in an economy. It considers the price changes across various sectors, including food, energy, housing, transportation, and other consumer goods. Headline inflation is reported through the Consumer Price index or CPI.

- *Core Inflation*

The general rise in prices excluding certain volatile components, such as food and energy prices. The purpose is to focus on the underlying inflation trend by removing the short-term fluctuations.

Core inflation provides a more stable and long-term measure of inflation, reflecting the general price changes in non-volatile sectors of the economy.

- *Disinflation*

A decrease in the rate of inflation, meaning the prices of goods and services rise more slowly.

- *Deflation*

A general decrease in prices.

- Stagflation

An economic condition where slow growth, high unemployment, and persistent inflation occur at the same time. This rare combination poses major challenges, as typical policies to address inflation or unemployment can worsen the other problem.

Volatility

The rapid and significant fluctuations in the prices of assets, such as stocks, bonds, or commodities, within a short period. These price changes can be caused by various factors, including economic events, geopolitical developments, investor sentiment, and market conditions.

Yield Curve

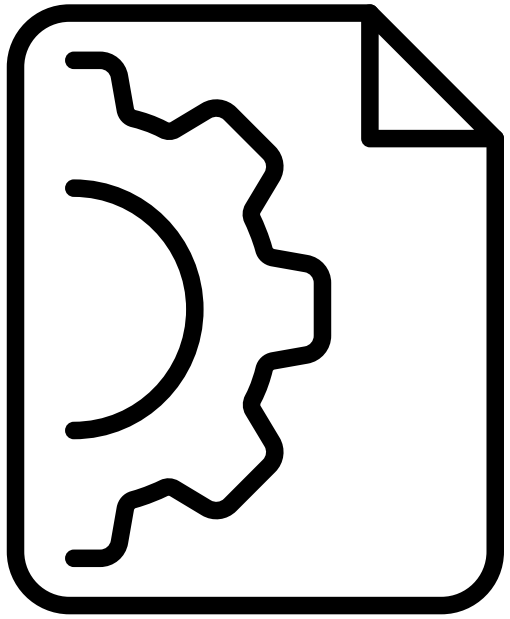
Graphical representation that plots bond time-to-maturity against yield.

- *Normal Curve:* An upward-sloping curve in which bond yields of the same credit quality increase as time-to-maturity increases. A normal yield curve is most commonly associated with positive economic growth.

- Flat Curve: A horizontal line in which there is little difference between short-term and long-term rates for bonds of the same credit quality. A flat yield curve is typically an indication that investors and traders are worried about the macroeconomic outlook.

- Inverted Curve: A downward-sloping curve in which bond yields of the same credit quality decrease as time-to-maturity increases. An inverted yield curve reflects bond investors' expectations for a decline in longer-term interest rates, typically associated with recessions.

FAIRLIGHT ADVISORS LLC: DISCLOSURES



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BENCHMARK REFERENCES

Koyfin data sources: XOP: SPDR S&P Oil & Gas ETF, XLRE: Real Estate SPDR ETF, VEA: Vanguard FTSE Dev Mkts ETF, AGG: iShares Core US Bond ETF, GOVT: iShares US Treasury ETF, HYG: iShares High Yield Bond ETF, VWO: Vanguard FTSE Emerging Markets ETF, BNDX: Vanguard Total Int'l Bond ETF, SCHB: Schwab US Broad ETF, XLV: Health Care SPDR ETF, XLK: Tech Sector SPDR ETF, VOX: Vanguard Comm Services ETF.

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Contact U.S.

Today!

support@fairlightadvisors.com

844.309.6248

www.fairlightadvisors.com