



First Citizens Wealth[®]

Making Sense

Quarterly Market Review – Q2 2026

July 1, 2026



Global Markets

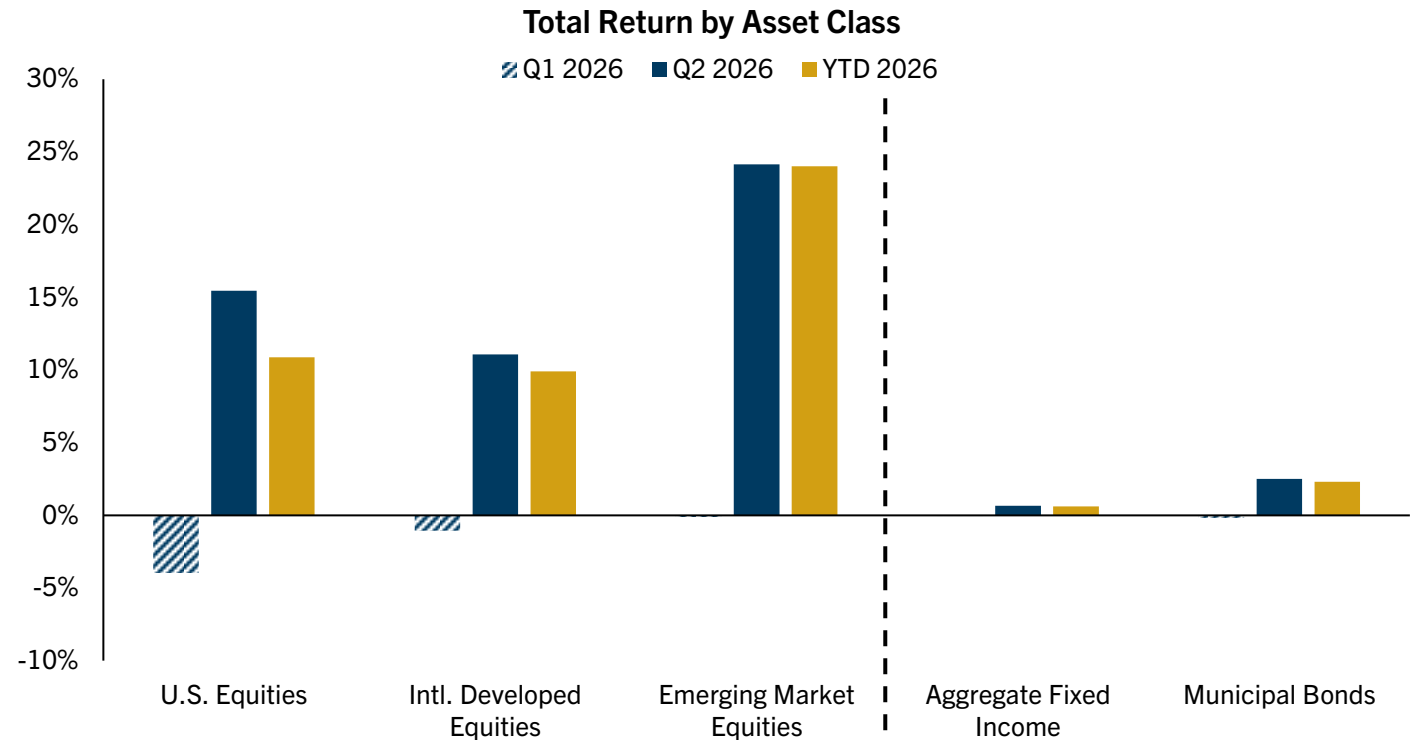
After a volatile Q1, equity markets rebounded sharply in the second quarter with global equities posting their strongest quarterly returns since 2020. Early-April announcements of Middle East peace talks and a robust corporate earnings season emboldened investor confidence and catalyzed gains, particularly in the US and emerging markets.

Equity markets posted sharp, broad-based gains during a two-month rally through May, with US equities rising more than 10% in April alone and finishing the quarter up 15%. International developed markets gained 11% in Q2, while emerging markets advanced 24% after a flat return in Q1.

Energy prices remained volatile, with crude oil surging as much as 68% to \$112 – amid the largest oil supply shock in history – before reversing nearly as sharply after geopolitical tensions eased. By quarter-end, oil prices had plunged to \$69, just 4% above pre-conflict levels.

Fixed income markets rebounded modestly after little change in Q1. Yields declined from their peaks after geopolitical tensions eased, but they remain elevated compared to pre-conflict levels as inflation and economic growth stay firm.

Global markets posted strong gains in Q2 2026



Source: Bloomberg. Note: Chart data represents Russell 3000, MSCI EAFE, MSCI EM, Bloomberg Aggregate Bond, Bloomberg Municipal Bond. Data as of 6/30/2026.

US Equity Performance

An exceptional first-quarter earnings season delivered robust gains in US equity markets across the board. Small cap equities outperformed large cap across the style spectrum in Q2 and year to date as the broadening trend in US equities continued. Large cap growth equities have taken a back seat so far this year following a sell-off in mega cap technology stocks during the quarter.

Small cap stocks continued to outperform in Q2

Quarter-to-Date US Equity Returns As of 06/30/2026			Year-To-Date 2026 US Equity Returns As of 6/30/2026				
	Value	Blend	Growth		Value	Blend	Growth
Large	14.1%	15.5%	17.1%	Large	15.6%	9.1%	5.4%
Mid	13.4%	13.8%	14.5%	Mid	17.6%	15.3%	7.3%
Small	17.2%	21.6%	25.8%	Small	23.2%	22.7%	22.3%

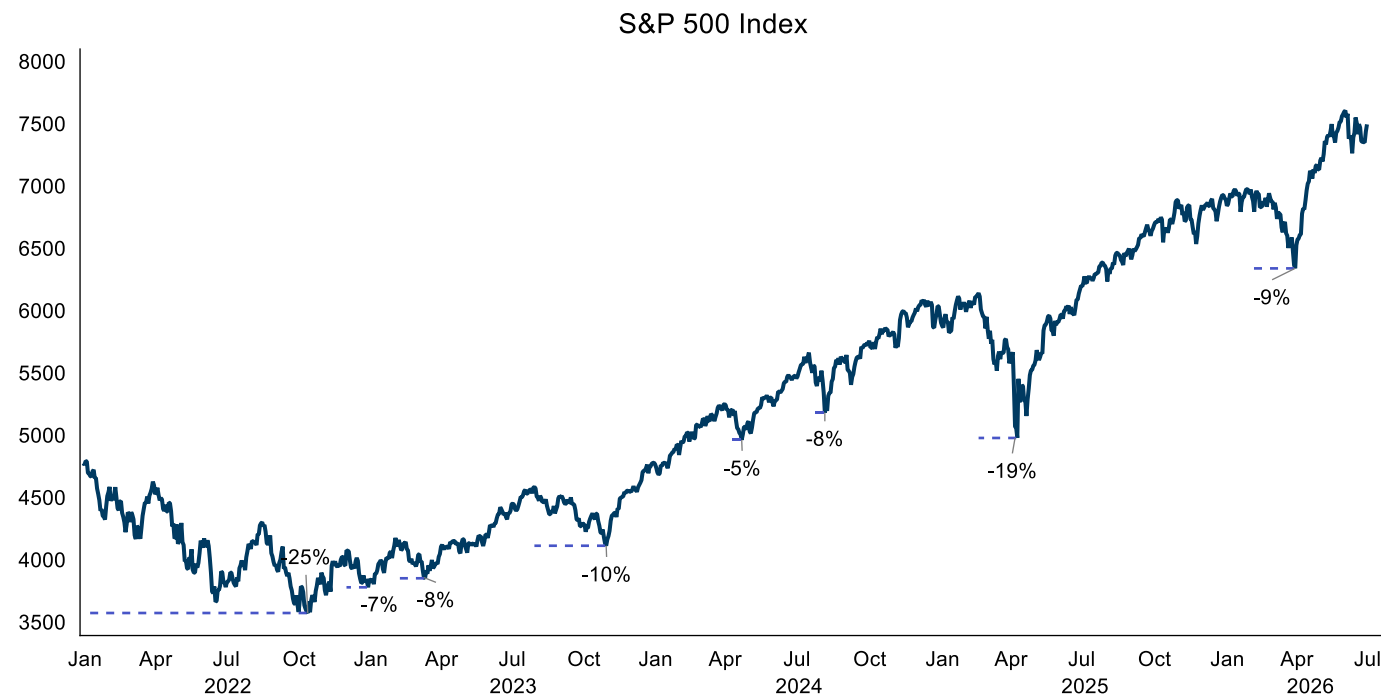
US Equity Performance

The S&P 500 gained 15% in the second quarter, more than recovering the 5% decline in Q1. While easing geopolitical tensions in the Middle East likely supported investor sentiment, the primary driver was a robust Q1 earnings season, with more than 80% of companies beating estimates and earnings growth exceeding 25% year-over-year – the fastest pace since 2021.

As a result, full year 2026 earnings expectations have been revised materially higher – to 24% from 17% three months ago. Earnings estimates have risen so sharply that S&P 500 valuations have actually declined despite the recent price rally. At the end of Q2, the S&P 500 traded at 20.2x forward earnings, down from 22.0x at the start of the year.

In light of stronger earnings, expanding profit margins, and improving market breadth, we recently raised our 12-month-ahead S&P 500 price target to 8,000 from 7,300. We remain cautiously constructive on US equities and continue to monitor key risks, including above-target inflation and a rapidly evolving artificial intelligence landscape.

The S&P 500 rebounded sharply to new all-time highs



Source: Bloomberg
Data as of: 6/30/2026

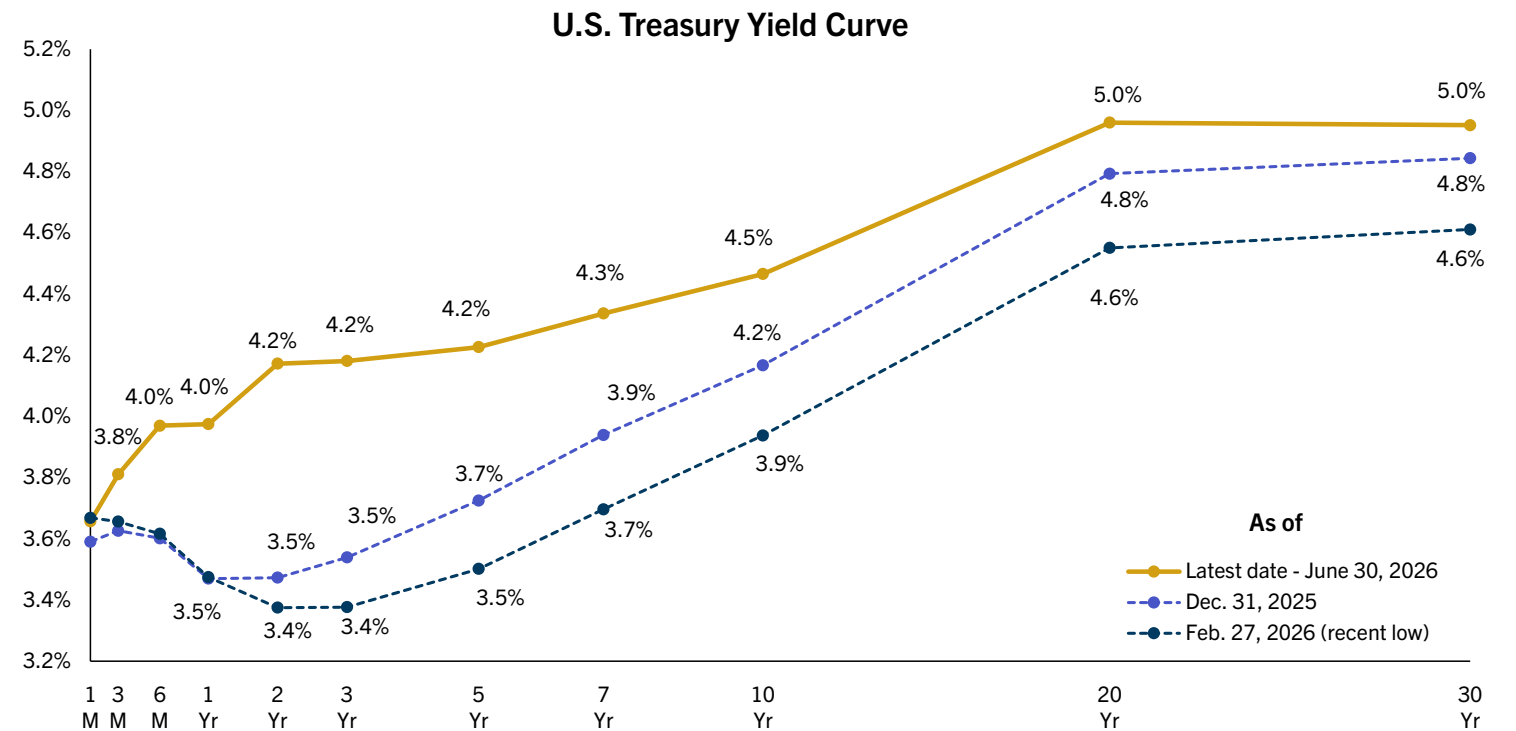
Fixed Income

Oil prices and market-based inflation expectations have plummeted from their peaks in June, but Treasury yields are still elevated compared to pre-conflict levels. Since the start of the conflict, 2-year and 10-year yields are still higher by 80 and 53 basis points respectively, as markets price for higher interest rates and greater uncertainty.

Inflation has remained above the Federal Reserve’s target for five years as the “last mile” of disinflation to the Fed’s 2% target proves the hardest – reinforcing concerns that price pressures may prove more durable than expected. Despite a recent pickup in monthly job growth, we still think the labor market remains in a “low-hire, low-fire” setting.

This backdrop has led to a notable shift in expectations for Fed policy. Earlier in the year, markets were priced for two to three rate cuts in 2026, but those expectations have since reversed. Investors now anticipate a more hawkish policy stance, with the possibility of at least one rate hike this year. Persistent inflation and a resilient economy – supported by private sector investment in AI and steady consumer spending – underpin that outlook.

Yields remain elevated, especially at the short-end



Source: Bloomberg. Data as of 6/30/2026.

Fixed Income

Fixed Income posted modest gains during the quarter as yields across the board came off their highs. After reaching 4.6% in early May, the 10-year Treasury yield has now dropped to 4.5%. Investment grade bond yields were largely unchanged while yields in the high yield space declined 0.2%. Municipal bond yields moved lower in Q2 and are also little changed year-to-date.

We continue to think yields present an attractive entry points for fixed income investors.

Fixed income yields have declined but remain elevated

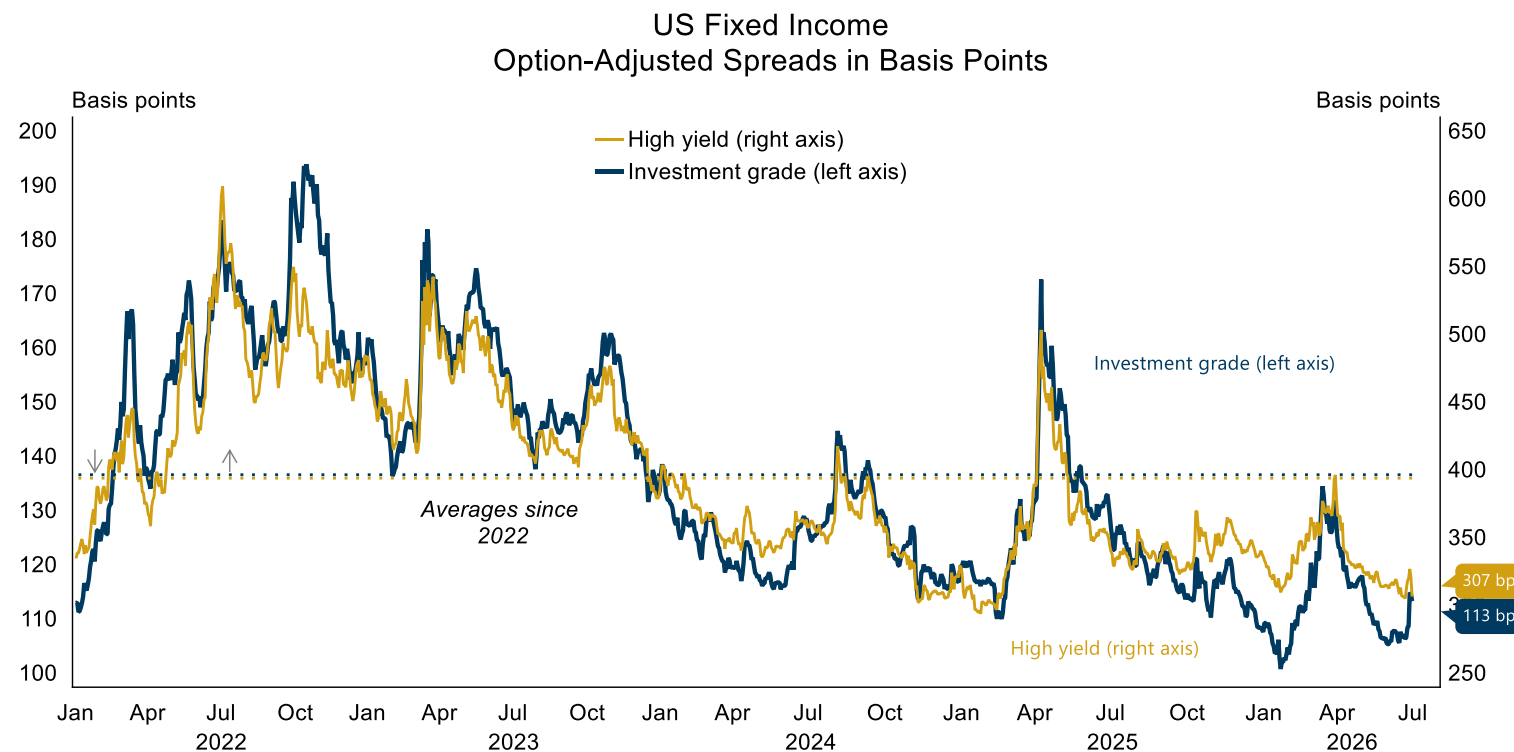
Fixed Income Indices			
	Yield to Worst		
	6/30/2026	3/31/2026	12/31/2025
2-Year Treasury	4.2%	3.8%	3.5%
10-Year Treasury	4.5%	4.3%	4.2%
30-Year Treasury	5.0%	4.9%	4.8%
Aggregate Bond	4.7%	4.6%	4.3%
Intermediate Government/Credit	4.4%	4.2%	3.9%
Municipal Bond	3.6%	3.8%	3.6%
Investment Grade Corporate Bond	5.2%	5.1%	4.8%
High Yield Corporate Bond	7.2%	7.4%	6.5%

Fixed Income

After a moderate rise in Q1, corporate bond spreads retraced to tight levels in Q2. Despite a move higher in investment grade yields following May's broader bond sell-off, spreads have remained contained. The tightness in spreads underscores the benign credit environment despite concerns in the market around private credit and AI related risk in certain segments in the economy.

Credit spreads serve as a useful proxy for perceived market risk. While fixed income markets are not currently pricing in any immediate dislocation, it is worth monitoring closely as the macro environment continues to evolve.

Corporate credit spreads returned to tight levels



Source: Bloomberg
Data as of: 7/1/2026

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