

Market and Economic Recap & Outlook

First-Half 2026 Review | Second-Half 2026 Outlook

Prepared by Monarch Capital Advisors — Updated July 13, 2026 | Data through July 10, 2026

Executive Summary

The first half of 2026 was defined by geopolitical whiplash and a stunning market round-trip. Equity markets entered the year at record highs, fell into bear-market territory by early April after U.S. and Israeli strikes on Iran triggered the largest disruption to global energy markets since the 1970s, then staged a powerful recovery to new highs by late spring — only to face renewed turbulence as the fragile Iran ceasefire collapsed in early July. As of July 10, the S&P 500 has recovered substantially, posting a +13.67% year-to-date gain despite the spring bear market. Industrials (+49.5% YTD) and Energy (+21.5%) lead all sectors, while Consumer Cyclical (+1.0%) lag under the weight of tariff pass-through. Headline CPI remained elevated at 3.8% year-over-year in April. The Federal Reserve held rates steady at 3.50%–3.75% throughout the first half under new Chair Kevin Warsh, and June meeting minutes released July 8 signaled that the committee is now more likely to hike than cut — a significant hawkish shift. The June jobs report, released July 2, showed a concerning +57,000 nonfarm payrolls gain — the weakest reading in years — raising the specter of simultaneous stagflation. The collapse of the Iran ceasefire on July 7, with the U.S. declaring the deal "over" and resuming military strikes on over 80 Iranian targets, represents the dominant near-term risk as we enter the second half.

Part I — First-Half 2026 Recap

Equity Markets: Bear Market, Recovery, and New Highs

U.S. equities entered 2026 riding considerable momentum. The S&P 500 closed 2025 at a record 6,932.05 on December 24, and on January 28 it traded above the 7,000 level intraday for the first time in the index's history, extending a rally concentrated in a small number of mega-cap technology and AI-related names. Nvidia entered the year as the single largest constituent in the S&P 500 at roughly 7% of the index's weight, ahead of Alphabet, Apple, and Microsoft — underscoring just how much of the market's gains, and its risk, were concentrated in the AI trade.

That momentum reversed abruptly on February 28, when the United States and Israel launched coordinated strikes on Iran, killing Supreme Leader Ali Khamenei and triggering a near-total shutdown of the Strait of Hormuz. The S&P 500 bottomed at 4,982.77 on April 8 — a decline of roughly 28% from the December high. A U.S.-brokered ceasefire that day sparked an equally dramatic recovery: by mid-May the S&P 500 had climbed back above 7,400, and the index extended its advance through June to post a +13.67% year-to-date gain as of



early July. The recovery, however, was far from uniform: Industrials surged +49.5% YTD on the back of defense spending and AI infrastructure buildout, Energy gained +21.5% on elevated oil prices, and Technology added +19.1% led by AI-infrastructure names. Consumer Cyclical's trailed the field at just +0.98%, reflecting the tariff pass-through pressures weighing on household discretionary spending.

The Iran War and the Energy Shock

The conflict's impact on energy markets was the defining economic story of the first half. In the days after the February 28 strikes, Iran's Revolutionary Guard effectively closed the Strait of Hormuz to allied shipping, laid mines, and attacked dozens of merchant vessels. Combined Gulf oil exports fell from about 25 million barrels per day to roughly 10 million by mid-March — a decline of some 60% — while Saudi Arabia cut production by 20% after strikes on its offshore Safaniya field. Brent crude peaked near \$126 per barrel in mid-March; Dubai crude hit a record \$166. The IEA's 32 member states released 400 million barrels from strategic reserves, while a U.S.-brokered ceasefire on April 8 allowed a partial, contested reopening of the strait.

A renewed escalation in early July has brought the energy question back to center stage. On July 7, Iran attacked three vessels in and near the Strait of Hormuz, prompting the United States to launch retaliatory overnight air strikes hitting more than 80 Iranian military targets. Speaking at the NATO summit in Ankara, President Trump declared the U.S.-Iran deal "over." The U.S. Treasury's OFAC simultaneously rescinded Iran's sanctions waiver, effectively barring Iran from selling oil internationally. Brent crude surged approximately 8% on July 8, crossing \$80 per barrel, while Hormuz shipping volumes again collapsed to near zero. Gold rose to the \$4,060–\$4,240 range as investors sought geopolitical and inflation hedges. As of July 10, the situation remains highly fluid, with the Trump administration threatening a reimposition of a full Hormuz naval blockade and even the seizure of Iran's Kharg Island, the source of more than 80% of Iranian crude export revenues.

Inflation and Federal Reserve Policy

The energy shock fed directly into consumer prices. U.S. CPI inflation rose to 3.3% year-over-year in March — a two-year high driven by a 21.2% single-month surge in gasoline prices, the largest monthly gain in the energy index since 1967 — before accelerating further to 3.8% in April on broad-based goods and services pressures. Core CPI reached 2.8% year-over-year in April, well above the Fed's 2% target.

The Federal Reserve, now led by Chair Kevin Warsh, held its target range for the federal funds rate steady at 3.50%–3.75% at each of its meetings through the first half, with the June 17 meeting resulting in a unanimous 12-0 vote to hold. The committee's June statement cited "elevated uncertainty" from "the conflict in the Middle East" and acknowledged that "inflation remains elevated relative to the 2 percent goal, in part reflecting supply shocks." The June meeting minutes, released July 8, revealed a significant hawkish shift: "a few" officials made the explicit case for a rate hike at the June meeting itself, while "almost all" members indicated that further policy firming would be appropriate if inflation remains elevated. Critically, the Fed dropped all language suggesting its next move would be a rate cut — a meaningful signal to markets that the easing cycle that many had anticipated for 2026 has been shelved. The 30-year mortgage rate stood at approximately 6.44% as of mid-July.



Trade Policy and Fiscal Developments

The trade policy landscape evolved considerably over the first half. In February, the Supreme Court struck down the bulk of the administration's IEEPA-based tariff regime, and the administration responded by installing a replacement 15% global tariff under alternative legal authority. By late June, the European Union had given final approval to a U.S.-EU trade agreement setting a 15% tariff ceiling on most EU exports — a partial resolution of one of the year's key trade disputes. The IEEPA tariff refunds flowing from the court ruling are already reaching companies: Nike expects approximately \$1 billion in refunds, McCormick received \$28 million, and shipping companies are passing over \$1 billion in credits to customers. However, Flexport warned in mid-June that a new tariff wave is expected to replace the expiring IEEPA duties by late July 2026, keeping business-planning uncertainty elevated.

Additional trade tensions emerged on June 26, when President Trump threatened 100% tariffs on any country imposing Digital Services Taxes, directly targeting European nations and naming Meta Platforms and Alphabet. The U.S. trade deficit hit a 14-month high in May as businesses front-ran anticipated tariff increases, and U.S. container imports jumped 8% in June for the same reason. Consumer-facing companies are feeling the pass-through effects, and the NY Fed reported in early July that firms in its district are not done passing tariff costs to consumers. The USMCA trade agreement also faces increased uncertainty heading into its renewal cycle.

Technology, AI, and Corporate Developments

Capital investment in artificial intelligence infrastructure continued at an extraordinary pace even through the macro turmoil. The standout story of the first half was Nebius Group, a European AI compute provider whose shares surged more than 230% after winning a \$27 billion, multi-year compute contract from Meta Platforms — one of the largest AI infrastructure commitments ever disclosed. Nvidia separately invested \$2 billion in Nebius (mirroring an identical \$2 billion investment in CoreWeave in January), cementing its role as the kingmaker in the AI infrastructure buildout. Nebius's Q1 2026 revenue surged 684% year-over-year with EBITDA swinging from a \$54 million loss to a \$130 million profit. Nvidia itself traded in the \$192–\$211 range in early July, well below its 52-week high of \$292.76 but recovering from spring lows, and H100 GPU rental pricing rose approximately 40% since October 2025, indicating older chips retain economic value longer than feared. AI infrastructure demand, in the words of Nebius CEO Arkady Volozh, "vastly outstrips supply."

SpaceX completed what was described as a record initial public offering, generating approximately \$500 million in banking fees for participating institutions — a windfall that contributed to record-level investment banking revenues heading into Q2 earnings season. Apple raised prices on iPads and Macs in late June due to memory shortages, sending its shares lower. Apple, trading around \$316, remains a key market bellwether as CEO Tim Cook prepares to hand leadership to John Ternus in September. On the regulatory front, Coinbase launched AI trading agents integrating its platform with large language models, Lyft announced a robotaxi partnership with Waymo set to launch in Nashville, and Paramount and Warner Bros. Discovery continued merger discussions aimed at creating a scaled streaming competitor to Netflix. The financial sector itself posted record-breaking Q1 trading results, with Goldman Sachs, Morgan Stanley, and Citigroup hitting all-time stock highs in late June; Q2 2026 is expected to be the second-best trading quarter of the decade. Big banks passed the Fed's annual



stress tests and announced fresh buyback and dividend programs.

Key Market & Economic Reference Points — Updated July 10, 2026	
S&P 500 record close (Dec 24, 2025)	6,932.05
S&P 500 intraday first close above 7,000	January 28, 2026
S&P 500 first-half low (Apr 8, 2026)	4,982.77 (≈28% below Dec. high)
S&P 500 YTD return (through July 10, 2026)	+13.67%
Best-performing sector YTD (Industrials)	+49.5%
Fed funds target range (held all half — June 17 mtg.)	3.50% – 3.75%
Fed Chair (appointed 2026)	Kevin Warsh
CPI inflation, year-over-year (April 2026)	3.8% (headline) / 2.8% (core)
Nonfarm payrolls — June 2026	+57,000 (weakest in years)
Unemployment rate — June 2026	4.2%
Brent crude, H1 peak (mid-March 2026)	~\$126/barrel
Brent crude, after Iran ceasefire collapse (July 8)	~\$80/barrel (+8% in one session)
Gold (early July 2026, geopolitical hedge)	\$4,060 – \$4,240/oz
30-year mortgage rate (mid-July 2026)	~6.44%
Iran ceasefire status (July 7, 2026)	Collapsed — U.S. resumed strikes

Sources: S&P; Dow Jones Indices; Federal Reserve Board FOMC statements and June 2026 meeting minutes (released July 8, 2026); U.S. Bureau of Labor Statistics (CPI April 2026, Employment Situation June 2026); International Energy Agency; Yahoo Finance sector dashboard; industry and wire service reporting on the 2026 Iran conflict and Strait of Hormuz crisis.



S&P 500 Sector Performance — Year-to-Date through July 10, 2026		
Sector	YTD Return	Index Weight
Industrials	+49.5%	11.0%
Energy	+21.5%	4.4%
Technology	+19.1%	31.7%
Real Estate	+11.0%	2.1%
Utilities	+10.2%	2.0%
Healthcare	+9.9%	9.1%
Basic Materials	+6.9%	2.5%
Consumer Defensive	+6.0%	4.4%
Communication Services	+3.7%	9.5%
Financial Services	+3.4%	13.7%
Consumer Cyclical	+1.0%	9.5%
S&P 500 (overall)	+13.67%	—

Source: Yahoo Finance Sectors Dashboard, July 12, 2026.

Part II — Second-Half 2026 Outlook

The second half opens with markets having broadly recovered from the spring's shock — the S&P 500 sits more than 13% above its 2025 close — but with every major source of first-half volatility not only unresolved but, in the case of Iran, actively re-escalating. We see five themes as most likely to drive markets and the economy through year-end.

Iran, the Strait of Hormuz, and Energy

The collapse of the Iran ceasefire on July 7 is the most consequential development of the third quarter to date. With the U.S. declaring the deal "over," OFAC rescinding Iran's sanctions waiver, and Hormuz shipping again near zero, the region has returned to a state of open conflict — arguably more dangerous than the initial February episode, given the deteriorating diplomatic framework and the hardening of Iranian domestic politics following the conclusion of Khamenei's burial rites. Brent's 8% single-session move on July 8 is a reminder of how rapidly oil prices can reprice; as of July 10 prices remain volatile and elevated near \$80 per barrel, well above pre-war levels.

The asymmetric risk remains to the upside. A full reimposition of the Hormuz naval blockade, or any U.S. military action against Kharg Island, would remove a substantially larger share of global oil supply than the



spring episode — and strategic reserve capacity has already been partially drawn down. OPEC+ spare capacity and U.S. shale production provide some buffer, but the pace at which shale can respond to sudden demand is limited. We would expect energy security to command a significantly larger and more persistent risk premium in H2 than markets priced heading into the year. Rystad Energy analyst Jorge León observed that oil prices remain "extremely sensitive to any escalation around the strait, given its role as a critical transit route for global oil flows."

Federal Reserve Policy: From Cuts to Potential Hikes

The most significant policy shift of the midyear update is the Federal Reserve's tonal pivot. Where consensus at the start of 2026 anticipated multiple rate cuts, the June meeting minutes released July 8 reveal a committee that is actively debating whether to hike: "a few" officials argued for an immediate increase at the June meeting, and "almost all" members see further firming as appropriate if inflation remains elevated. The Fed has explicitly dropped the language signaling that its next move would be a cut — a meaningful communications shift under Chair Warsh, who has moved to reduce the committee's forward guidance footprint.

The data justify the hawkish tilt. Headline CPI at 3.8% in April is nearly double the Fed's target, core CPI at 2.8% is still running hot, and the renewed Iran escalation introduces fresh upward pressure on energy and goods prices. The June payrolls report (+57,000 — the weakest reading in years) complicates the picture: the labor market is softening, but not fast enough to justify easing given still-elevated inflation. The result is a committee that is likely to remain on hold through at least one or two additional meetings while it assesses whether the July inflation data (to be released in mid-August) shows any relief from Iran-driven energy pass-through. A rate hike before year-end is now a non-trivial probability if inflation re-accelerates above 4%.

Artificial Intelligence, Technology, and Semiconductors

AI infrastructure spending remains the single largest driver of equity market returns and concentration risk, and the first half provided validation of the investment thesis at scale. The Nebius Group's \$27 billion Meta contract, Nvidia's dual \$2 billion strategic investments in Nebius and CoreWeave, and GPU rental pricing up 40% since October collectively demonstrate that hyperscaler capex plans were not derailed by the macro turmoil — demand is, in the words of one CEO, "vastly outstripping supply." We expect this theme to intensify through H2 as hyperscalers report Q2 capex alongside earnings in mid-to-late July, with any upward guidance revision likely to benefit Nvidia, Broadcom, Arista Networks, and the neocloud operators disproportionately.

Regulatory and legal risk is rising in parallel. The Pentagon's "supply chain risk" designation of a domestic AI developer, the first state lawsuit against a major AI chatbot, and the EU's evolving AI Act all point to a policy environment becoming more consequential for the sector. Export-control policy toward China on advanced GPU shipments and the durability of large compute contracts will be the key swing factors for semiconductor revenues through year-end. The SpaceX IPO's success — and reported preparations by OpenAI and Anthropic for potential public offerings later in 2026 — could add further AI-related supply to public equity markets and serve as a sentiment barometer for the sector.



Trade Policy and Tariff Uncertainty

The tariff environment entering H2 is arguably more uncertain than it was in January. While the EU-U.S. 15% tariff ceiling represents a partial stabilization, Flexport's warning of a new tariff wave expected in late July — replacing expiring IEEPA duties — suggests businesses cannot yet exhale. Trump's June 26 threat of 100% Digital Services Tax tariffs introduces a new front, particularly for large-cap technology companies with European revenue exposure. The front-running of anticipated tariff increases — visible in the 14-month-high May trade deficit and June's 8% surge in container imports — suggests some of the import demand pull-forward that cushioned Q2 activity will not repeat in Q3. Consumer-facing companies' continued tariff pass-through, documented by the NY Fed, keeps inflation risks skewed to the upside even as energy prices normalize (or fail to, given Iran).

Financial Sector and Consumer Resilience

One of the more underappreciated stories of the first half is the resilience of both the financial sector and the American consumer. Large-cap banks — JPMorgan, Goldman Sachs, Bank of America, Morgan Stanley, Citigroup — all passed the Fed's annual stress tests and announced fresh capital return programs. Goldman, Morgan Stanley, and Citigroup hit all-time stock highs in late June, and Q1 2026 is described by analysts as the best trading quarter of the decade. The Bank of America Institute reported that consumer card spending accelerated to +6.3% year-over-year in June — the strongest rate in four-plus years — suggesting the AI-driven capital markets supercycle is generating sufficient wealth effects to sustain consumer activity despite tariff headwinds. Q2 bank earnings, reporting July 15–16, will be the first major test of whether that momentum continued into the quarter marked by the Iran ceasefire collapse and oil price spike.

Closing Thoughts

The defining story of 2026 so far is not the bear market — it is the recovery from it. In the span of a single quarter, U.S. equities absorbed one of the most severe geopolitical energy shocks in half a century, a 28% drawdown, and a significant inflation re-acceleration, and still managed to close the first half with a double-digit gain. That resilience reflects genuine underlying strength: the most powerful technology investment cycle since the internet, record corporate earnings in the financial sector, and a consumer that continues to spend with confidence. These are not temporary tailwinds — they are structural forces that we expect to remain in place well beyond 2026.

The near-term uncertainties are real, and we are watching them closely. But they also need to be kept in perspective. Markets have already navigated an Iran war, a bear market, a Supreme Court tariff ruling, and a Fed chair transition in a single year — and emerged higher. The AI-driven productivity boom is accelerating, not slowing. Consumer balance sheets remain healthy. The financial system is well-capitalized. U.S. energy production, IEA reserve capacity, and OPEC+ flexibility provide meaningful buffers against even severe supply disruptions. And the Fed's data-dependence, while creating short-term uncertainty, also means that if inflation eases — as it has every time an energy shock has subsided historically — the door to a more accommodative policy stance reopens quickly.



Monarch Capital Advisors remains focused on what matters most to our clients: building and preserving wealth across market cycles. The volatility of 2026 has created real opportunities alongside its risks — in energy, industrials, AI infrastructure, and select financials — and our team is actively positioned to pursue them. We will continue to monitor developments as they unfold and look forward to discussing how these themes apply to your specific portfolio and long-term financial plan. As always, we are grateful for the trust you place in us.

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