

Market Recap

First Half 2026: Resilience Rewarded Amid Rising Uncertainty

Despite strong headwinds in the first half of 2026, including sticky inflation, a spike in oil prices, and ongoing geopolitical tensions, financial markets delivered an impressive six months, supported by resilient corporate earnings, healthy consumer spending, and continued confidence in long-term economic growth. The period closed on a high note, with the S&P 500 and Nasdaq Composite posting their best quarterly gains since the second quarter of 2020, and market returns broadened as investor confidence expanded and strong earnings lifted performance across multiple sectors.

What follows is an overview of market performance, the economic and policy backdrop, and the developments shaping investor sentiment this year, along with our perspective on what they mean for the second half.

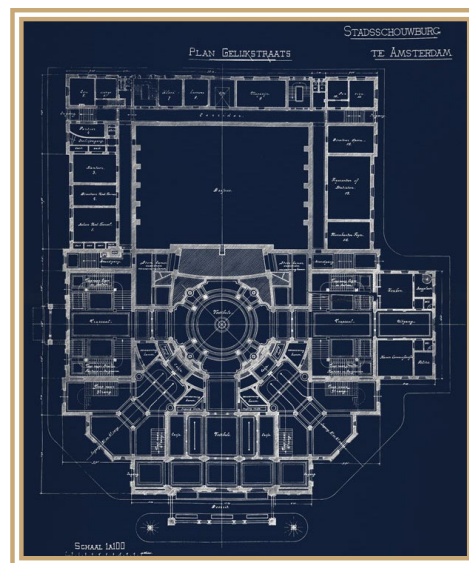
Market Performance: Gains Broaden Across Sectors

The numbers for the first half of 2026 tell a consistent story of broad-based strength. Year to date through June 30, U.S. equity markets produced attractive returns across most major asset classes, with large-cap stocks remaining strong while a surge from small-cap and cyclical sectors offered a healthy sign of broader participation. Fixed income, by contrast, stayed relatively flat, as interest rates ticked modestly higher amid continued uncertainty around the future direction of Federal Reserve policy. Behind these numbers lies a broader economic story worth unpacking, one that helps explain why markets have held up as well as they have.

Economic Backdrop: Resilience Defies Expectations

Underpinning this market strength has been perhaps the biggest surprise of 2026: the continued resilience of the U.S. economy. Economic expansion has continued at a healthy pace across most metrics, and the labor market remains sound, with steady job creation, historically low jobless claims, and continued wage growth all helping to support consumer spending. While hiring has moderated from the exceptionally strong pace seen in recent years, employment conditions appear more than sufficient to sustain growth.

Meanwhile, price pressures have eased significantly from their peak levels, aided by oil prices coming down from their earlier spike. Inflation, however, remains above the Federal Reserve's long-term target, and the resilience of the U.S. consumer suggests that progress toward lower inflation may continue to be a slow grind.



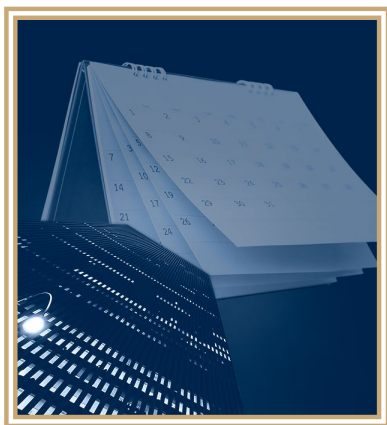
Corporate Earnings Continue to Impress

Against this economic backdrop, corporate earnings provided further reassurance. Corporate America once again exceeded expectations during the first-quarter earnings season, with S&P 500 companies delivering exceptionally strong year-over-year earnings growth and demonstrating that many businesses have largely adapted to a higher interest rate environment while continuing to improve productivity and profitability. Strong earnings remain an important driver supporting equity valuations. It's important to remember that although sentiment may swing from one week to the next, the first half was a reminder that profits, not headlines, are what ultimately can move stock prices.

Innovation Takes Center Stage

Earnings were not the only story capturing investor attention this quarter. One of the notable events of the period was the widely anticipated public debut of SpaceX, whose long-awaited IPO drew global attention and marked another milestone in the ongoing evolution of public markets. Beyond the excitement surrounding the offering itself, the transaction highlighted investors' continued enthusiasm for companies driving innovation across aerospace, artificial intelligence, communications infrastructure, and advanced manufacturing. As transformational technologies continue reshaping the global economy, innovation remains an important long-term driver of investment returns.

Federal Reserve & Inflation: A Patient Path Forward



Even as innovation fueled excitement, monetary policy remained the backdrop against which investment decisions were made, staying one of the most closely watched themes for investors in 2026. While the Federal Reserve has largely adopted a patient approach this year, uncertainty surrounding the path of future interest rates remains elevated. Markets currently expect additional pauses in policy, although some investors have begun pricing in the possibility of additional rate increases later this year should inflation persist.

The resilience of the consumer remains a key variable in this equation. Healthy household balance sheets and continued spending have supported economic growth, but they may also make the Federal Reserve's job more challenging as policymakers seek to bring inflation fully back toward target.

Global Developments: Easing Tensions, Linger Risk

Beyond domestic policy, developments abroad added another layer of complexity to the investment landscape in the first half of 2026. While tensions in several international conflicts have cooled from earlier in the year, risks remain elevated, and the global landscape continues to warrant close attention. Historically, geopolitical events have tended to create short-term market volatility rather than permanently altering long-term investment trends, and we continue to monitor developments closely while remaining focused on the underlying fundamentals that drive long-term portfolio performance.

Looking Ahead: Earned Gains, Guarded Optimism

The first half of 2026 offered a compelling reminder that markets reward patience and discipline as much as they reward optimism. Resilient corporate earnings, a labor market that continued to hold up under pressure, and a wave of innovation and capital investment all worked together to carry equities to their strongest quarterly gains since 2020, even as inflation, oil prices, and geopolitical tension tested investor conviction along the way.

As we look toward the second half of the year, that same balance of confidence and caution seems likely to define the road ahead. Corporate earnings remain strong, the labor market continues to demonstrate resilience, and enthusiasm for innovation and capital expenditure across industries may support long-term growth prospects. At the same time, equity valuations appear stretched in certain areas, uncertainty around Federal Reserve policy remains elevated, and geopolitical conflicts around the world remain unresolved.

Markets that climb as far as they have this year rarely do so in a straight line, and pullbacks or periods of volatility should not come as a surprise. What matters most, in our view, is staying anchored to long-term objectives rather than reacting to short-term noise. The first half of 2026 was a strong chapter, and we believe the discipline that got investors here is the same discipline that will serve them well in the chapters still to come.

Disclosures:

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value.

The Nasdaq 100 Index is an unmanaged group of the 100 biggest companies listed on the NASDAQ composite index. The list is updated quarterly and companies on this index are typically representative of technology-related industries, such as computer hardware and software products, telecommunications, biotechnology and retail/wholesale trade.

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