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Second Quarter 2026 Commentary

As I reflect on the past quarter, I am again reminded that markets rarely ever move in a straight line. After a sharp drop immediately following the start of the war with Iran, investors regained confidence as the economy showed resilience throughout the second quarter. Improved corporate earnings, economic resiliency, and a clearer view of where monetary policy may be headed all contributed to a stronger than expected quarter.

A major focus during the quarter was the transition of the Federal Reserve, with Kevin Warsh taking over as chair in May. June marked the new chair's first meeting, and while the Fed left interest rates unchanged, their overall message was notably different. Updated projections suggest policymakers are prepared to keep rates higher for longer if inflation does not improve. His early message was one of continuity: inflation remains the central concern, and the Fed is committed to making decisions based on economic data rather than political pressure. Holding rates steady at his first meeting, rather than dropping them as our current administration has requested, helped reinforce the importance of an independent Federal Reserve. An aversion to rate cuts also points to sustained concern that inflation will remain above the Fed's long-term target for the foreseeable future.

Although inflation remains sticky, the overall trend has shown continued improvement through the end of the second quarter. Progress has been slower in recent months, but the broader economy has remained solid. Energy prices, which contributed to rising inflation this spring, have eased from May highs, levels that haven't been seen since mid-2022. Housing costs have cooled slightly, unemployment remains relatively low, and consumer spending continues, all of which point toward a resilient economy. If inflation stays elevated while the economy continues to grow, consumers will need to get used to current elevated rates. A silver lining to higher rates is that long-term savers will continue to see increased yields on bonds and CD's alike.

One of the most encouraging developments this quarter is broader participation across the entire market. I've mentioned the Magnificent Seven dominating the market over the past couple of years. We are finally seeing stronger market participation from the rest of the firms in the S&P 500. Small-cap stocks and international equities both showed renewed strength as investors looked beyond the biggest U.S. companies and found opportunities in areas that previously lagged. The overall market is far from perfect in my opinion, but this rotation away from only a handful of U.S. firms often points to a healthier overall market environment.

As we enter the second half of the year, there will almost certainly be new headlines and reasons for market volatility. This has always been part of investing. Challenges remain, particularly around inflation and the path of interest rates, but our foundation is stronger than it was three months ago. For long-term investors, Q2 reinforced the value of staying invested and remaining patient. I will be contacting you throughout the next quarter and look forward to scheduling our portfolio review.

Thank you and please take care,

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These are the opinions of Travis Brock and not necessarily those of Cambridge, are for informational purposes only, and should not be construed or acted upon as individualized investment advice.

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