SECOND QUARTER 2026 REVIEW & OUTLOOK
EXECUTIVE SUMMARY

13 July 2026

PORTFOLIO THEMES

- While further volatility is possible, we believe the market's underappreciated positives outweigh potential headwinds, supporting a continuation of the global bull market.
- We expect non-US and Value equities to lead global performance from here, while US equities and Technology should also fare well on an absolute basis but trail headline indices.
- A steep global yield curve continues fueling strong loan growth, especially outside the US. This trend should remain a relative tailwind for non-US economies and cyclical equities, particularly as the US Fed evaluates its own policy path.

MARKET OUTLOOK

- **Geopolitical Conflict Has Proven Less Impactful than Feared:** Global markets rallied in Q2 as worst-case fears regarding the Iran conflict proved overblown. Despite the Strait of Hormuz remaining largely closed throughout the quarter, the world economy remains adaptive and resilient. Though uncertainty persists, stocks don't require clarity for the bull market to continue.
- **Political Tailwinds Should Support this Bull Market:** With few major elections globally and most trade negotiations now resolved, political uncertainty outside the US remains subdued. First half market volatility sets the stage for the Midterm Miracle in the latter half of the year, with the election expected to bring greater legislative gridlock – boosting returns.
- **Sentiment Has Improved but Has Further Room to Run:** While early signs of euphoria have emerged, particularly within US Tech and AI, sentiment remains muted elsewhere. Lingering uncertainty regarding the Iran conflict fosters skepticism, particularly outside of the US, keeping the wall of worry intact.

In Q2, global stocks notched their best quarter since the COVID rebound, with the MSCI ACWI Index gaining 15.1%, erasing Q1's slide. This brought year-to-date returns to 11.5%[i]. Six months in, 2026 looks like a somewhat better-than-average but not atypical positive US midterm election year, with the sweet spot still to come as stocks begin pricing in midterms' gridlock. While we see signs of euphoria such as sentiment toward AI and Tech, suggesting this bull market is in its later stages. There is a long way to go to late euphoria, and skepticism elsewhere balances this somewhat. As a result, we think this bull market has plenty of room to run.

Stocks navigated the Iran war largely in line with the three-step process we described last quarter. First, pre-conflict saber rattling sparked volatility in stocks and higher oil prices. Second, stocks dropped and oil surged as fighting erupted and markets priced worst-case scenarios. Global markets fell near correction territory, with oil nearing 2022 highs. The second quarter brought step three, as stocks rallied and oil fell. Markets fathomed that global growth seemed set to persist and the world would adapt to the Strait of Hormuz's closure. Higher oil prices induced increased supply in various forms, dampening prices as the quarter progressed.

i Source: FactSet, as of 01/07/2026. MSCI ACWI Index return with net dividends, 31/03/2026 – 30/06/2026 and 31/12/2025 – 30/06/2026.

Stocks didn't wait for clarity or the Strait's reopening. Furthermore, stocks didn't require a lasting peace deal, which still seems absent. Much like how markets reacted to tariffs last year, they simply moved on. This is shown in oil pricing, which has since fallen to where it was when the conflict began.

With ongoing war fears digested, markets resumed focus on earnings and growth over the next 3 – 30 months. The global economy continues to grow, with businesses worldwide investing in future growth. Data centres are part of this, but not the full story, which the full Review will discuss. Corporate earnings are growing swiftly, with strong results across most sectors, geographic regions and industries—not just Tech. Overall expectations are improving but not overstretched, especially outside the US and Tech. Plenty of positive surprise potential remains, giving stocks further room to run.

Our forecast for a strong global bull market year is on track. While US Tech and AI dominate headlines, they aren't solely driving this bull market. Value stocks are doing great. US stocks led during the war-driven mini-correction and initial rebound, but this faded in June and we expect non-US leadership to resurge. On the year, US returns are about even with the MSCI ACWI benchmark, while Japan, the Netherlands and others across Europe are doing much better. Industrials are outperforming alongside Tech.

Despite lingering uncertainty regarding the conflict, Emerging Markets (EM) seemed to move on as well in Q2, ending the quarter up 24.2%.[ii] Many of the worst-hit EM stock markets in March were those most dependent on Middle East oil exports—e.g., India, Indonesia, the Philippines, Taiwan and South Korea. However, as oil prices subsided, many of them bounced big in April—with Taiwan and South Korea leading markets on the way up. Markets seemingly pre-priced a worst-case scenario. Though the conflict continues to weigh on sentiment, EM growth remains resilient, supporting the continued bull market. Reports released in May showed EM industrial production kept rising broadly in April and May even with elevated energy prices and supply chain challenges from the Strait of Hormuz's closure. Further, June manufacturing purchasing managers' indexes (PMIs) indicate further growth, with PMIs for China, Taiwan, South Korea, Malaysia, the Philippines, Thailand and India all topping 50.

Managing temptation is critical as sentiment warms into euphoria. Today, we seem to be in the early stages of this process. SpaceX's rocky ride is one sign. Reports that OpenAI is considering delaying its IPO are another bullish indication. In late-stage euphoria, OpenAI's principals wouldn't worry about possibly debuting below a $1 trillion valuation. They would take success as a foregone conclusion. Their skepticism shows how much room sentiment has to improve.

Today's high-profile IPOs are raising equity supply—a fundamental negative we routinely track. However, many others now track it too, with headlines frequently worrying whether there is sufficient demand to digest the large increases in new stock supply. All the attention suggests markets have pre-priced the rise in equity supply, defanging the risk to a large degree.

ii Source: FactSet, as of 07/07/2026. MSCI EM Index return with net dividends, 31/03/2026 –30/06/2026.

Early euphoria is concentrated in areas like US Tech and AI. Elsewhere, moods are much calmer—even pessimistic in Europe. IPOs are less common, including in Japan, where they hit 15-year lows this year.[iii] Living cost angst hangs over consumers despite tame money supply growth and little inflation outside energy and gasoline. Fear of new US Fed head Kevin Warsh cutting rates aggressively and overheating the economy morphed overnight into fears of rate *hikes*.

Politically, we still think the framework of this year's US midterms favours the Democrats taking additional seats, increasing gridlock. We will discuss this more in the full Review, but there is still significant time before the US election—so most of our pre-election analysis will come in Q3. We think current worries tied to rhetoric and primary election outcomes are typical pre-midterm jitters gridlock should abate—and are too early to affect the midterm miracle significantly.

Abroad, UK Prime Minister Keir Starmer's resignation—and presumptive replacement by Manchester Mayor Andy Burnham—sparks fear of a move to the left stifling economic growth. Europeans spent June sweating the potential economic costs of El Niño and having to refill winter gas reserves amid elevated costs. Australia bemoans capital gains tax changes. Japan stews over BoJ rate hikes and inflation. We see all as areas for reality to top expectations.

iii "Japan IPOs Fall to 15-Year Low With No Rapid Rebound in Sight," David Keohane, Financial Times, 28/06/2026.

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Should you have any questions about any of the information provided, please contact FIA at:

Email: Australia@Fisher-Investments.com.au

If within Australia dial 1800 118 107

All other locations dial +61 1800 118 107

Mail: Level 12, 20 Martin Place, Sydney NSW 2000 (Australia)

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INDEX DESCRIPTIONS

MSCI ALL COUNTRY WORLD

MSCI All Country World Index is a free float-adjusted market cap-weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI Index consists of 23 developed country and 24 emerging market country indexes. Unless otherwise specified, returns shown include dividends after deducting estimated withholding taxes. MSCI calculates estimated withholding taxes using the maximum rate of the constituent company's country of incorporation applicable to non-resident institutional investors that do not benefit from double-taxation treaties.

MSCI EMERGING MARKETS

MSCI Emerging Markets Index is a free float-adjusted market cap-weighted index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of 24 emerging market country indices. Unless otherwise specified, returns shown include dividends after deducting estimated withholding taxes. MSCI calculates estimated withholding taxes using the maximum rate of the constituent company's country of incorporation applicable to non-resident institutional investors that do not benefit from double-taxation treaties.

S&P 500

The S&P 500 Index is a capitalization-weighted, unmanaged index measuring 500 widely held US common equities of leading companies in leading industries, representative of the broad US equity market.

MSCI EAFE

The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The Index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries.