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Second Quarter 2026

S&P 500 - YTD 9.55%[2] *MSCI INTERNATIONAL - YTD 12.21%*[2]

"How Many Roads Must a Man Walk Down Before You Call Him a Man?"[1]

How many stock market records must be set before we call it a bull market? The S&P 500 has set 24 closing highs so far in 2026. The most recent record closing high occurred on June 2, when the index finished at 7,609.78[3]. Although I am fairly certain Bob Dylan wasn't folking (another new word I created for no reason) about the stock market and macroeconomics, his words always seem somewhat prescient.

Fundstrat's Tom Lee has been calling this market "the most hated V-shaped rally" since April of 2025. Yes, for fifteen months, a few of the best and brightest on Wall Street have taken the novel, and somewhat non-consensus stance of looking to the future rather than the past… yours truly included. So how long will this bull market continue? "The answer my friend is blowing in the wind."[1] Let's have "One more cup of coffee"[1] and dive into what moved markets over the last three months, and what we might look for in the second half.

The second quarter of 2026 will be remembered as volatile as it was triumphant. Following a bruising first quarter that saw global equities "Knocking On Heaven's Door"[1] battered by intense geopolitical friction, soaring energy costs, and deep macroeconomic uncertainty, the second quarter showed how quickly "The Times They Are A-Changin,"[1] and markets came roaring back, "Like a Rolling Stone"[1] staging a historic turnaround. The S&P 500 surged by 15%, while the tech-heavy Nasdaq 100 skyrocketed by 25%, marking the strongest quarterly performances for both indices since the post-pandemic rebound of 2020. This was due in large part to several distinct catalysts that shaped the trajectory of the stock market during these pivotal three months. A critical ceasefire in the Middle East, a changing of the guard at the Federal Reserve, and a record-breaking mega-IPO, just to name a few.

Coming into April, the single largest threat clouding global financial markets was the risk of a regional war in the Middle East. Direct military conflict between the United States and Iran in the first quarter had severely disrupted global shipping lanes and forced the temporary closure of the Strait of Hormuz—a choke point responsible for a significant portion of the world's petroleum transit. The threat of structural stagflation loomed large as crude prices hovered at uncomfortably high levels. However, the narrative completely flipped in May. Intense diplomatic negotiations led to a formal suspension of hostilities and a subsequent comprehensive, yet equally fragile, ceasefire agreement. The reopening of critical shipping lanes released a massive wave of pent-up energy supply back into the global market, causing Brent Crude oil price to plummet from $114.44 on May 4th to $73.43 by the end of June, a 36% contraction in eight short weeks[3].

The impact on the equity market was profound and, in fact, quite reminiscent of spring 2025. This sudden collapse in energy costs acted as an immediate tax cut for both consumers and corporations. Input costs for manufacturing, logistics, and transportation companies plummeted overnight, driving a massive relief rally across multiple sectors, such as airlines, automotive manufacturers, and retail equities. This reduction in oil prices spilled over into the fixed-income markets as well. Our old friend… and foe, interest rates, reacted in kind, as the yield on the 10-year US Treasury note contracted by 30 basis points from 4.66% on May 19th to 4.36% by June 29th[3].

As we look into the second half of 2026, we continue to remain constructive. Looking ahead to next year's earnings has caused us to update our 2026 year-end target from 7800 to 8250. How do we get an almost 6% increase in our target? We've discussed the past; now let's talk about the future. According to consensus, 2027 earnings are projected to be approximately $396 of earnings per share (EPS). However, we are seeing margin expansion due to the widespread adoption of AI across all sectors of the economy. This margin expansion has accounted for an increase of $41 per share for the S&P 500 for 2027 since the start of 2026[3], and we don't see this phenomenon turning around anytime soon. ARPG believes consensus EPS estimates for 2027 will reach $410. However, as earnings estimates continue to increase but at a slower rate, this will likely cause the earnings multiple to contract from a high of 22.5x earlier in the year to just over 20x by year's end, thus making the broad market actually cheaper than it was at the beginning of 2026.

As strong as earnings are forecasted to become, there appear to be a few headwinds along the way. We have seen a material rise in margin debt, which has now risen 55% in the last twelve months[4]. This marks the 5th-highest rise ever in the past 70 years[4]. Prior surges like this were followed by some correction as the market digests this higher level of borrowing. Investors using margin are a specific cohort, and this high level of debt also could signal the limits of their buying power. Thus, we believe this high level of margin debt will be another factor supporting a minor drawdown at some point later this year.

Happy 250th Birthday, America! As we endure these hot summer days, take some time to get "Tangled Up In Red, White and Blue"[1] and reflect on the blessings and good fortune of living in America. There are no stronger markets, places, or people than those we have right here at home. Although we may be 250 years old now, America is "Forever Young"[1]. "Time Passes Slowly,"[1] but the autumn leaves will be here before we know it, so enjoy the sunshine while we have it. In any season or market, the best investors always focus on the long term, and ARPG will continue to practice our approach to value investing: "Intelligent Investment is Investment on Value, buying high quality companies in low quality times". This is what we believe sets ARPG apart from the rest. As always, we thank you for your confidence and are humbled by your trust. Please feel free to contact us at any time.

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Sincerely,
Matthew D. Dahl
Chief Investment Officer

1. Bob Dylan
2. ARPG / Stockcharts.com
3. Factset
4. Macromicro

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