

# Mid-Year 2026: What the First Half Teaches Investors About the Road Ahead



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There is a saying that smooth seas do not make skillful sailors. When it comes to investing, this has never rung truer than during the opening months of 2026. Investors confronted a series of major developments, including the war in Iran, oil prices pushing inflation to multi-year highs, and evolving questions around artificial intelligence (AI). Despite all of this, markets have climbed to new all-time highs, corporate earnings have grown at a double-digit pace, and a wide range of asset classes have delivered solid returns. The first six months have served as a clear reminder of why staying invested and keeping a longer time horizon matters.

This lesson carries even more weight today, given that the business cycle has now entered its seventh year while the market cycle is approaching its fifth. For many investors, it can feel as though the same set of concerns, including inflation, the Fed, and valuations, have been cycling in and out of focus repeatedly. Navigating these competing challenges is not just an unavoidable aspect of investing; it is precisely why investors who remain committed to their strategies tend to be rewarded over the long run.

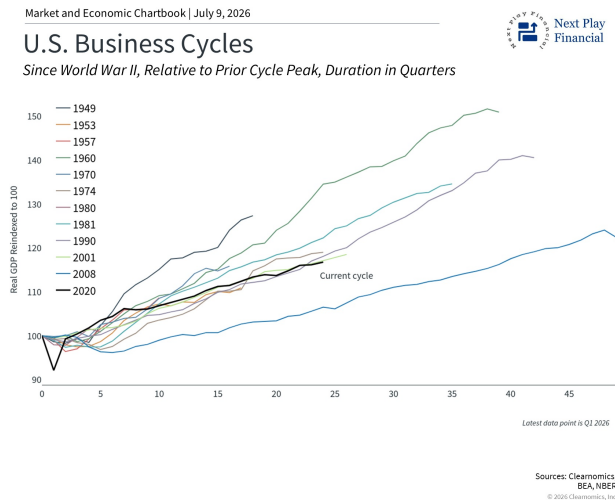
There will undoubtedly be unexpected events in the second half of the year, including further developments in the ongoing Middle East conflict, the upcoming midterm election, and new market activity such as initial public offerings (IPOs). Understanding how to maintain perspective as these events unfold is essential for investors.

## Key market and economic highlights from the first half of 2026<sup>1</sup>

- The S&P 500, Nasdaq, and Dow Jones Industrial Average have returned 9.6%, 12.8%, and 8.9% year-to-date through the end of June, respectively. The second quarter was historically strong, with the S&P 500 returning 14.9%, the Nasdaq 21.4%, and the Dow 12.9%.
- The Bloomberg U.S. Aggregate Bond Index has risen 0.6% year-to-date. The 10-year Treasury yield ended the second quarter at 4.47%, rising from 4.17% at the start of the year.
- Developed market international stocks (MSCI EAFE) have gained 7.7% and emerging market stocks (MSCI EM) have returned 22.7% year-to-date, both in U.S. dollar terms.
- The Bloomberg Commodities Index has risen 12.3% year-to-date, driven by a strong first quarter gain of 23.3%, followed by a decline of 8.9% in the second quarter.
- Brent crude peaked just under \$120 per barrel in May before closing the quarter at \$73 per barrel.

- Gold prices fell to \$4,007 per ounce while Bitcoin declined to a recent low of \$58,633.
- Headline CPI rose 4.2% year-over-year in May, driven largely by energy prices. Core CPI, which excludes food and energy, rose 2.9%.
- The Federal Reserve kept rates unchanged at 3.50% to 3.75% through the first half of the year. Kevin Warsh was sworn in as Fed Chair in May.

## The business cycle is now in its seventh year of expansion



It may come as a surprise to some investors that the current business cycle began in April 2020, in the midst of the pandemic, and recently passed its sixth anniversary during the second quarter. There have been numerous moments when investors and economists feared a renewed recession, including when inflation peaked in 2022 and when tariffs disrupted trade last year. Through all of these challenges, the economy has demonstrated remarkable resilience, continuing to grow steadily.

The business cycle touches every aspect of investing and financial planning, from mortgage costs to annual pay raises. A healthy economy supports consumer spending and business investment, which in turn fuels corporate earnings and, ultimately, stock market returns. While the stock market and

the broader economy are not identical, they are closely connected. The chart above places this cycle in historical context. The longest expansions on record, including the one that followed the 2008 financial crisis and the 1990s dot-com boom, extended for a decade or more.

How does the economy stand today? Inflation remains elevated, though it could ease if oil prices stay low. The labor market has regained momentum, reversing last year's concerns about sluggish hiring. The dollar has stabilized and recovered recently, trade conditions remain uncertain but have become less volatile, and business investment has picked up. Consumers are feeling cautious, yet continue to spend on both essential and discretionary items. On balance, the economy appears healthy despite some mixed signals, which has historically been a positive backdrop for financial markets over the long run.

## Broad asset class participation has supported diversified portfolios this year

## Asset Class Performance

Total returns and annual averages over the period shown

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Average
Fixed Inc. 7.8%	EM 18.6%	Small Cap 38.8%	S&P 500 13.7%	S&P 500 1.4%	Small Cap 21.3%	EM 37.8%	Fixed Inc. 0.9%	S&P 500 11.5%	Small Cap 20.0%	EM 28.7%	Fixed Inc. 16.3%	S&P 500 25.3%	S&P 500 25.0%	EM 34.4%	Small Cap 20.9%	S&P 500 14.7%
S&P 500 21.1%	EAFE 17.3%	S&P 500 21.4%	Balanced 6.4%	Fixed Inc. 15.9%	S&P 500 11.0%	EAFE 25.6%	S&P 500 -4.4%	Small Cap 25.5%	EM 18.7%	Commod. 27.1%	Fixed Inc. -23.0%	EAFE 18.5%	Balanced 12.1%	EAFE 22.8%	Small Cap 13.1%	S&P 500 19.8%
Balanced 0.6%	Small Cap 16.3%	EAFE 23.3%	Fixed Inc. 6.0%	EAFE 0.4%	Commod. 11.8%	S&P 500 21.8%	Balanced -4.9%	EAFE 22.7%	S&P 500 18.4%	Small Cap 14.8%	EAFE -14.0%	Small Cap 16.9%	Small Cap 11.5%	S&P 500 17.9%	Commod. 18.6%	Balanced 8.9%
Small Cap -4.2%	S&P 500 16.0%	Balanced 25.9%	Small Cap 4.9%	Balanced -1.9%	EM 11.6%	Balanced 15.2%	Small Cap -11.0%	Balanced 20.5%	Balanced 12.6%	Balanced 16.1%	Balanced 16.4%	Balanced 15.3%	EM 8.1%	Balanced 18.0%	S&P 500 10.0%	EAFE 8.2%
EAFE 11.7%	Balanced 11.4%	Fixed Inc. -2.0%	EM -1.8%	Small Cap 4.4%	Balanced 8.3%	Small Cap 34.6%	Commod. -11.2%	EM 18.9%	EAFE 8.3%	EM 11.8%	S&P 500 -18.3%	EM 10.3%	Commod. 5.4%	Commod. 15.8%	EAFE 6.9%	EM 6.6%
Commod. 13.3%	Fixed Inc. 4.2%	EM -2.3%	EAFE -4.5%	EM -14.6%	Fixed Inc. 2.6%	Fixed Inc. 3.5%	EAFE -13.4%	Fixed Inc. 8.7%	Fixed Inc. 7.5%	Fixed Inc. -1.5%	EM -19.7%	Fixed Inc. 5.5%	EAFE 4.3%	Small Cap 12.8%	Balanced 7.9%	Fixed Inc. 2.4%
EM -18.2%	Commod. -1.2%	Commod. -9.5%	Commod. -17.9%	Commod. -24.7%	EAFE 13.6%	Commod. 1.3%	EM -14.2%	Commod. 7.7%	Commod. -9.1%	-2.2%	Small Cap -20.4%	Commod. -7.8%	Fixed Inc. 1.2%	Fixed Inc. 12.9%	Fixed Inc. 5.0%	Commod. 1.0%

Latest data point is: Jul 8, 2026

The Balanced Portfolio is a 60/40 historical index calculation consisting of 40% U.S. Large Cap, 5% Small Cap, 10% International Developed Equities, 5% Emerging Market Equities, 20% U.S. Bonds, and 5% Commodities.

Sources: Cleantomics, LSEG © 2026 Cleantomics, Inc.

A wide range of global asset classes have contributed positively to portfolios so far this year, building on last year's trend. This includes not only large cap stocks, as represented by the S&P 500, but also small caps, emerging markets, and commodities, as shown in the chart above. The second quarter, in particular, ranked among the strongest on record, partly because the onset of the war in Iran meant that the market recovery began at the start of April.

A number of themes have underpinned these returns, including economic strength, hopes for a peace agreement in Iran, and enthusiasm surrounding AI. Many of these factors have contributed to robust corporate earnings growth, with profits rising over 20% in the past twelve

months for S&P 500 companies.<sup>2</sup> This favorable market environment has also sparked a wave of high-profile IPOs, including SpaceX in the second quarter and the anticipated listings of OpenAI and Anthropic, both AI companies.

While investors often focus on the first few days of an IPO when headlines are most prominent, the real benefits tend to materialize over a longer timeframe. These listings expand the opportunity set available to all investors, which is especially meaningful given that many companies have been choosing to remain private for longer periods. What matters most is how these businesses perform over the years and decades that follow. The largest technology companies today, for example, have built their scale across many market and economic cycles.

These positive trends do mean that U.S. stock valuations are historically elevated. The S&P 500 currently trades at a price-to-earnings ratio of 20x, above the long-term historical average of 16x.<sup>3</sup> Valuation ratios like these do not reliably predict what markets will do over the next year or two. Rather, they serve as useful guides for constructing long-term portfolios, particularly when considering other asset classes and risk management. Taken together, this year's asset class returns reinforce the value of maintaining balance across a portfolio.

## Inflation remains a concern, though easing oil prices offer some relief

## Middle East Conflicts and Markets

Major Middle East events, oil prices, and the S&P 500 since 2010



Latest data point is: Jul 8, 2026

Sources: Cleantomics, Standard & Poor's, LSEG © 2026 Cleantomics, Inc.

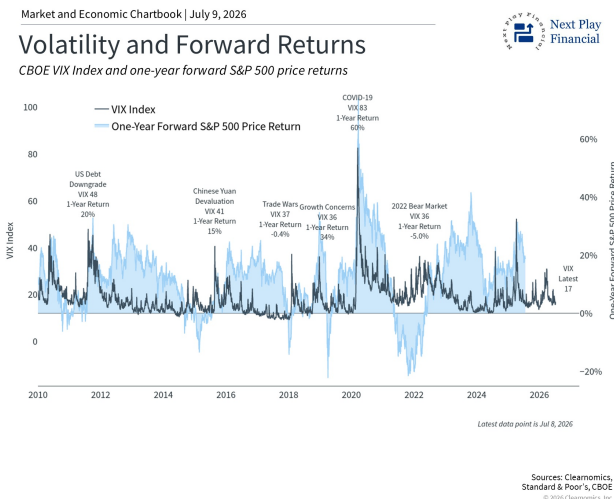
The shifting fortunes of the conflict in Iran have affected the U.S. economy primarily through energy markets. Disruptions to oil transportation through the Strait of Hormuz pushed Brent crude to nearly \$120 per barrel before prices pulled back significantly. In recent weeks, oil prices have fallen to around \$70 per barrel, close to pre-conflict levels. Gasoline prices have followed a similar trajectory on a delayed basis, peaking above \$4.50 per gallon nationally before retreating below \$4.00 per gallon more recently.<sup>4</sup>

These energy price swings have had a direct impact on inflation. The Consumer Price Index rose 4.2% year-over-year in May, its highest reading in several years, with the gasoline component jumping 40.5% over the same period. Notably, core CPI, which

excludes food and energy, rose only 2.9%.<sup>5</sup> This distinction highlights that inflationary pressure has been concentrated in fuel costs rather than spreading more broadly through the economy.

With oil prices declining recently, many economists are hopeful that inflation may be near its peak. This pattern is consistent with other past geopolitical shocks that disrupted oil supply, such as Russia's invasion of Ukraine in 2022, and several other episodes illustrated in the chart above. Once conditions stabilized in those cases, oil prices generally improved and inflation rates moved lower over time.

### Market volatility has remained within manageable bounds



Investors have grown increasingly familiar with brief bouts of volatility triggered by macroeconomic events. Tariffs, the Middle East conflict, and uncertainty surrounding the Fed have each contributed to short-lived market swings over just the past year. This pattern is visible in the VIX, a widely followed measure of stock market volatility. Encouragingly, the current VIX reading of 16 sits below its long-term average of 18.4 and well below recent peaks, as shown in the chart above. This also underscores that periods of elevated volatility can represent some of the most meaningful opportunities for investors.

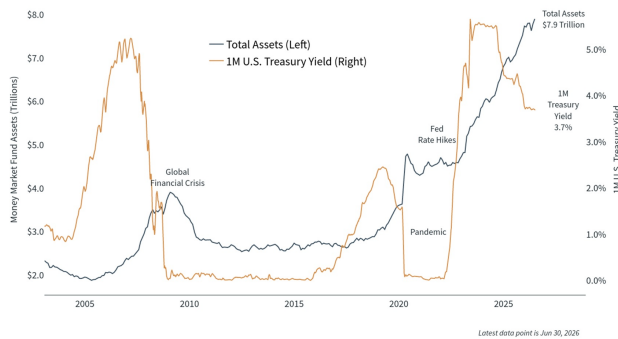
Another useful lens for understanding how market moves affect investors is the largest pullback within a given year. So far in 2026, the S&P 500's largest peak-to-trough decline has been 9%. While such pullbacks are never comfortable, markets have a tendency to rebound when investors least anticipate it. Not only has the market fully recovered from its earlier decline, but the S&P 500 has reached 24 new all-time highs so far this year.<sup>6</sup>

The first half of 2026 illustrates that the greatest risk investors face during turbulent episodes is not the volatility itself, but their reaction to it. It is tempting to try to time the market during periods of uncertainty, but this approach can easily backfire. A more effective approach is to hold a portfolio constructed to withstand all phases of the market cycle while supporting long-term financial goals. By doing so, investors are better positioned to navigate the inevitable periods of uncertainty that lie ahead in the second half of the year.

### The risks of moving to cash and away from invested markets

## Money Market Funds and Interest Rates

Money market fund total assets and short-term rates



Sources: Cleonomics, Federal Reserve, ICI  
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One consequence of investors exiting the market during volatile periods is often described as "cash on the sidelines." The central challenge with this approach is knowing when to re-enter the market. The chart above illustrates just how significant these cash holdings have become. Money market fund assets have reached a record \$7.9 trillion, more than double their pre-pandemic level when interest rates were near zero. This reflects both the market uncertainty of recent years and a period of elevated short-term rates that made holding cash more appealing.

While cash may appear safe and stable, the challenge is that cash yields often fail to keep pace with inflation. For example, current average rates on certificates of deposit mean that the real income

from cash is negative after adjusting for inflation.<sup>7</sup> Even when nominal yields on money market funds and short-term instruments look attractive, investors face the dual challenge of inflation eroding purchasing power and the difficulty of sustaining those rates. Over time, this means that the real value of cash holdings can quietly diminish.

This is why holding a balanced portfolio capable of benefiting from growth, income generation, and capital preservation remains so important. As both the market and economic cycle continue to evolve, this principle will only become more relevant.

**The bottom line? The first half of 2026 has rewarded investors who stayed diversified and maintained a long-term perspective, even as geopolitical and economic headlines created short-term uncertainty.**

### References

1. All figures are as of June 30, 2026 and are on a price return basis unless otherwise noted
2. Cleonomics research and LSEG data as of June 30, 2026
3. Ibid.
4. <https://gasprices.aaa.com/>
5. <https://www.bls.gov/news.release/cpi.nr0.htm>
6. Cleonomics research and Standard & Poor's data as of June 30, 2026
7. Cleonomics research and FDIC data as of June 30, 2026

### Index Descriptions

#### S&P 500

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

#### Dow Jones Industrial Average

The Dow Jones Industrial Average consists of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.

#### NASDAQ

The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.

**MSCI Emerging Markets Index**

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa, Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

**MSCI EAFE Index**

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

**Bloomberg US Aggregate Bond Index**

The Bloomberg U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

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