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Milliman Financial Risk Management

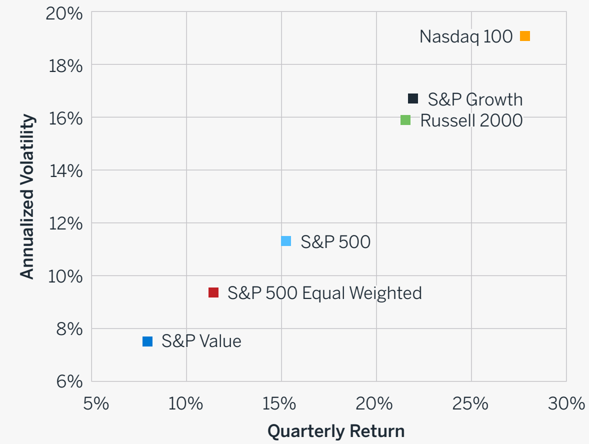
MARKET COMMENTARY – JUNE 2026

Q2 2026 MARKET RECAP

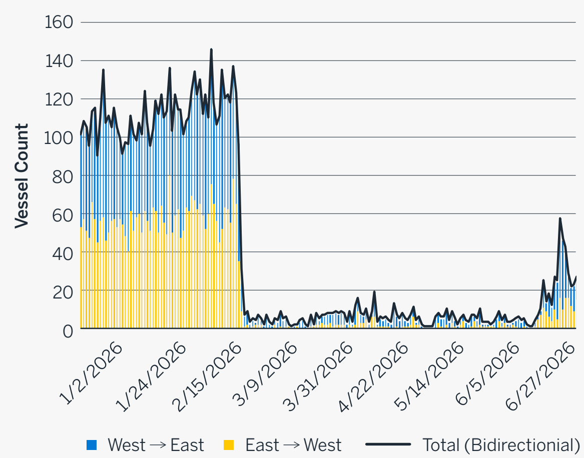
- **U.S. Equities Surge:** Following a turbulent and anxious first quarter where the S&P 500 shed over 4.3%, the second quarter of 2026 delivered a risk-on turnaround. The primary catalyst was a dramatic shift in macroeconomic sentiment. As early-year fears of sticky, “higher-for-longer” inflation began to cool and geopolitical anxieties eased, sidelined capital aggressively rotated back into risk assets. This 15% surge effectively erased Q1 losses, marking one of the index’s strongest recovery quarters in years.
    - The technology sector was the undisputed engine of the Q2 rally, skyrocketing nearly 32%. This growth was anchored by massive capital expenditure budgets from major cloud hyperscalers. Companies doubled down on infrastructure to support next-generation artificial intelligence applications, resulting in a supply-constrained demand boom for advanced GPUs and semiconductors.
    - The Industrial sector remained resilient, closing the quarter at 1-year highs, driven by structural expansions in data center construction and manufacturing reshoring
    - In a stark reversal of 1Q 2026 market leadership, Energy was the worst-performing sector, plunging over 13% as crude oil fell from $114 to the $70s following a shaky U.S.-Iran ceasefire agreement.
        - Daily traffic through the Straight of Hormuz has picked up, but still well below pre-conflict levels.
- **Small Caps Rally:** Market breadth improved significantly in Q2. Small-cap stocks, measured by the Russell 2000, surged over 20%. This outperformance relative to large caps signaled that investor risk appetite had matured beyond a few mega-cap tech giants. Falling energy costs and stabilizing inflation expectations gave smaller, more domestically focused, and rate-sensitive companies some breathing room.
- **Global Markets Broadly Gain:** Most global equities posted strong double-digit returns, supported by robust corporate fundamentals and upward EPS revisions.
    - The MSCI UK vastly underperformed the global rally, held back by falling oil prices and a lack of major technology exposure.

Sector	2Q 2026	YTD Return	YTD vs. 52-Week High	YTD vs. 52-Week Low
S&P 500	15.2%	10.2%	-1.3%	22.5%
Technology	31.8%	19.8%	-6.5%	39.0%
Industrial	14.9%	20.2%	0.0%	27.3%
Consumer Desc	9.3%	-0.8%	-5.7%	12.9%
Financial	9.0%	-1.2%	-4.1%	12.6%
Health Care	8.8%	3.5%	-1.3%	25.3%
Real Estate	8.5%	11.5%	-2.8%	12.7%
Telecomm	8.3%	0.8%	-10.6%	23.5%
Materials	2.0%	12.0%	-5.0%	20.8%
Consumer Stap	0.3%	8.0%	-7.1%	11.1%
Utilities	-0.5%	7.7%	-3.7%	15.0%
Energy	-13.4%	19.7%	-15.2%	29.8%

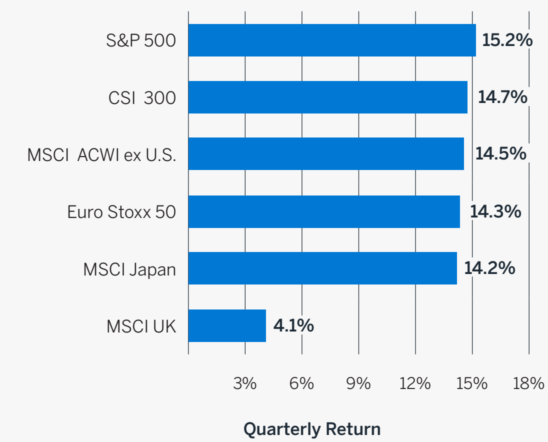
Risk/Return



Hormuz Commercial Vessel Crossings



Global Equity Indices



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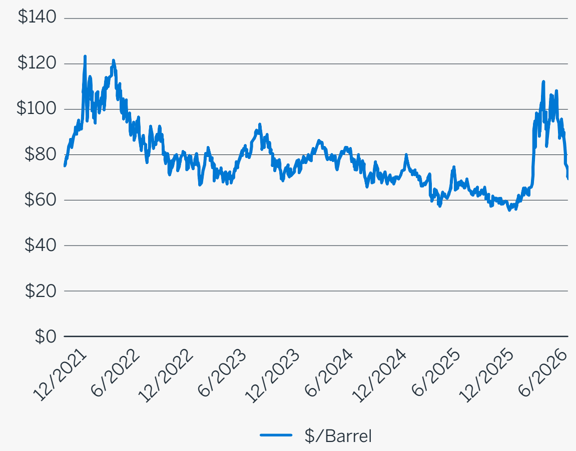
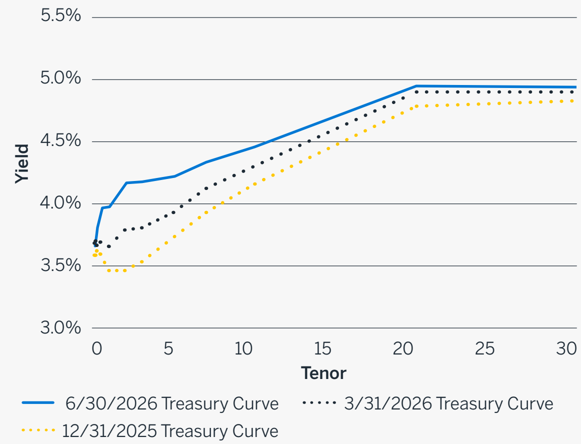
- **U.S. Treasuries:** While equity markets surged on a "risk-on" wave in Q2 2026, the fixed-income market experienced a notable bear flattening. Treasury yields shifted upward across almost the entire curve, but the short-to-intermediate end surged much faster than longer-term yields.
  - Yields rose steadily through the first half of the year, but the acceleration picked up in Q2. Strong economic data, robust corporate earnings, and resilient industrial activity forced bond markets to price in a more resilient economic environment, pushing yields higher (and bond prices lower).
  - Short-to-medium-term yields (specifically the 1-year to 3-year tenors) rose the sharpest, with the 2-year Treasury climbing 37.9 basis points to end the quarter at 4.175%. This reflects growing market expectations that policy rates will need to remain higher for longer to anchor the strong economy.
  - Because short-term rates rose significantly faster than long-term rates, the yield curve flattened dramatically. The 10- and 2-Year spread compressed from +52.3 bps at the end of Q1 to just +29.1 bps by the end of Q2.
- **Market Inflation Expectations Cool:** Breakeven rates on TIPS, which can be used to proxy the market's expectation of average annual inflation over the life of the bond, have collapsed in the near term.
  - The 1-Year breakeven, which skyrocketed from 2.29% (end of 2025) to a peak of 5.20% at the end of Q1 as the Middle East conflict stoked fears of an energy-led inflation spiral. In Q2, as the U.S.-Iran ceasefire materialized and oil plunged, near-term inflation fears subsided, sending the 1-Year breakeven tumbling down 378 basis points to finish at 1.42%.
- **Credit Spreads Tighten:** Credit spreads experienced a notable "round-trip" compression during the second quarter of 2026. After spiking in late March due to heightened geopolitical tensions and oil shocks, spreads narrowed steadily through April and May, before grinding slightly wider at the very end of June.
  - Liquidity remains abundant in the financial system and credit markets are not worried about defaults. Bond investors are highly confident the economy is resilient enough to handle a "higher-for-longer" regime.

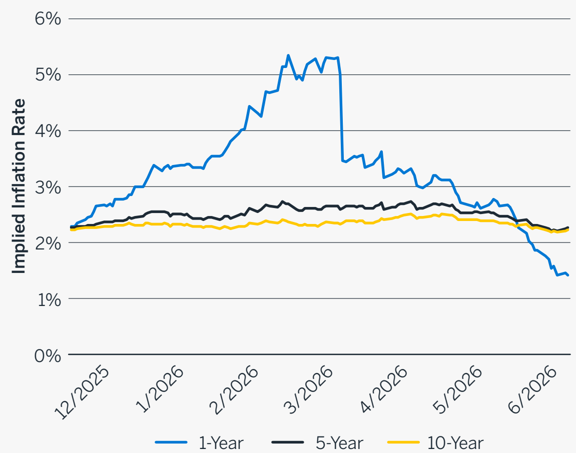
Crude Oil Price Per Barrel



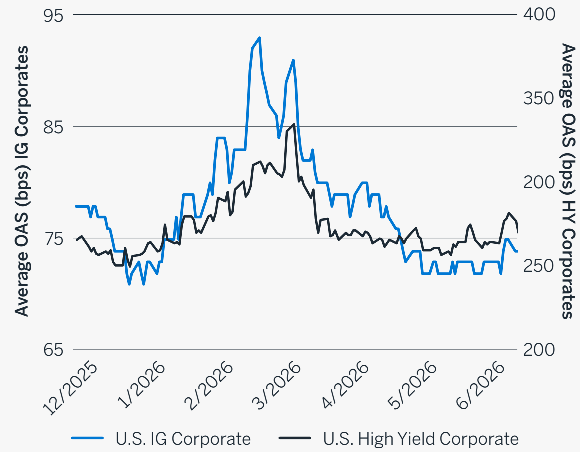
Treasury Yield Curves



TIPS Breakeven Rates



Corporate Bond Credit Spreads



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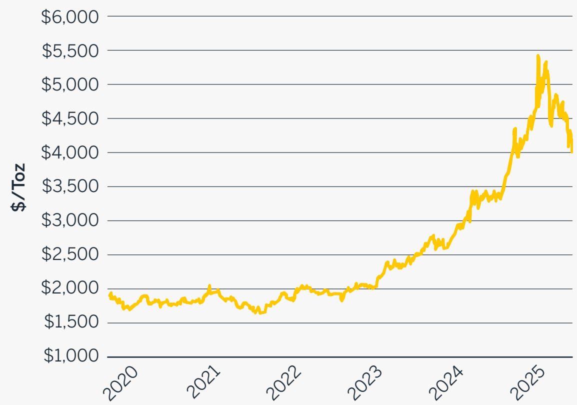
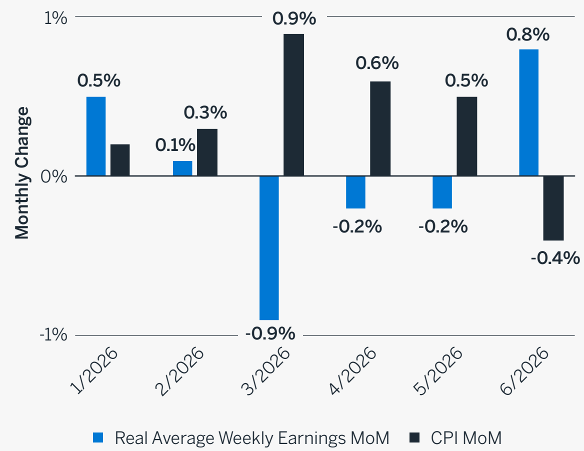
OUTLOOK

- As global markets transition into the second half of 2026, the sweeping "risk-on" momentum that defined the second quarter is evolving into a more selective, fundamentally-driven phase. The spectacular Q2 recovery—which saw the S&P 500 surge over 15%—successfully priced in the easing of acute geopolitical risks and the deflation of the early-year energy shock.
- Looking forward, Q3 and the remainder of the year will be defined by a crucial transition from speculative valuation expansion to real earnings execution:
    - **The Death of the "Fear Trade":** Gold prices—which acted as a primary safe haven in Q1, peaking at $5,417.21 on January 28—tumbled by 14% in Q2 to close at $4,008.02. This massive capital rotation out of defensive assets and back into equities underscores strong investor confidence in a non-inflationary "soft landing."
    - **The Consumer Rebounds as Inflation Cools:** The pressure on consumer wallets is rapidly reversing. After severe real wage erosion in March, June represented a dramatic turning point. Falling energy prices drove monthly CPI negative to -0.4%, boosting Real Average Weekly Earnings by +0.8% month-over-month. This recovery in purchasing power will act as a major anchor for retail sales and consumer discretionary growth in Q3.
    - **Valuations Mandate Earnings Delivery:** The S&P 500 Forward 12-month P/E rebounded to $20.97 at the end of Q2 (up from $20.11 at the end of Q1). While this represents a healthy contraction from the $23.35 peak seen in late 2025, it remains significantly above the long-term historical average of $17.34. Because multiples are elevated, further index-level gains in H2 must be driven by robust corporate earnings growth rather than multiple expansion.

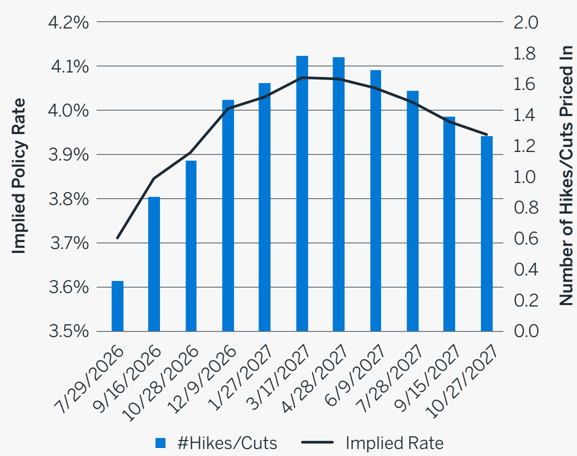
Gold



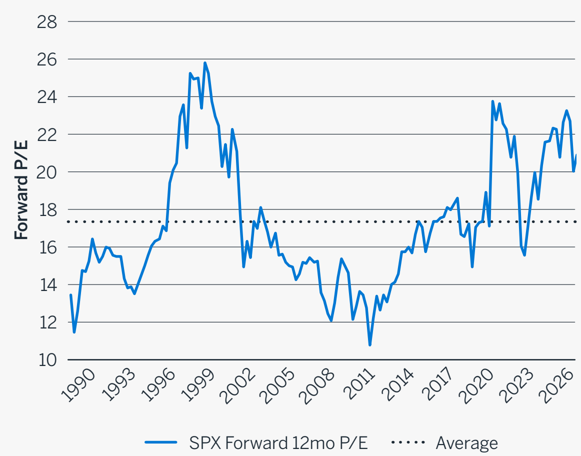
MoM Change in Average Weekly Earnings vs. CPI-U



Implied Fed Funds Rate & Number of Hikes/Cuts



S&P 500 12mo Forward P/E



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CREATING TRANSFORMATIONAL IMPROVEMENT IN THE RETIREMENT SAVINGS INDUSTRY

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Milliman Financial Risk Management LLC is a global leader in financial risk management to the retirement savings industry. Milliman FRM provides investment advisory, hedging, and consulting services on over $273.2 billion in global assets (as of June 30, 2026). Established in 1998, the practice includes more than 190 professionals operating from three trading platforms around the world (Chicago, London and Sydney). Milliman FRM is a subsidiary of Milliman, Inc.

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