SIGMA
PRIVATE OFFICE

Q2 2026 MARKET REVIEW AND OUTLOOK

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Global equity markets recovered strongly during the second quarter, reversing the weakness seen during the March sell-off. The recovery was driven by a combination of lower energy risk, resilient economic data, improving earnings expectations and a significant improvement in investor sentiment.

The MSCI World Index rose 13.5% over the quarter, bringing year-to-date performance to 8.7%. US equities recovered sharply, with the S&P 500 up 14.9% over the quarter, while the Nasdaq Composite outperformed, rising 21.4% over the quarter and 12% year-to-date. The STOXX Europe 600 was up 10% over the period, while the more energy-heavy FTSE 100 lagged, rising only 3.2%. The breadth of the rebound shows that investors increasingly looked through near-term geopolitical uncertainty and refocused on the fact that the broader earnings and economic backdrop remained largely intact.

This pattern is not unusual, as markets often follow a recognisable path during energy-linked geopolitical conflicts. First, volatility rises as investors begin to price the risk of disruption. Second, the start of conflict tends to trigger a sharper sell-off as markets discount a wider range of worst-case outcomes. Third, if the economic fallout proves contained, markets often begin to recover well before the conflict itself is resolved. Chart 1 shows that regional conflicts have historically produced sharp but relatively short-lived equity-market reactions once investors concluded that the impact on global growth and earnings would remain limited.

CHART 1
S&P500 RETURNS DURING REGIONAL CONFLICTS

		Month After Start		
Global Events	**Full Conflict**	**1**	**6**	**12**
Suez Crisis (1956)	1.6%	-3.9%	0.5%	-8.1%
Six-Day War (1967)	3.6%	3.6%	9.4%	16.6%
Yom Kippur War (1973)	0.8%	-3.7%	-13.8%	-38.4%
Iran-Iraq War (1980)	180.0%	1.6%	5.7%	-6.9%
Iraq-Kuwait Invasion (1990)	6.8%	-7.8%	-0.6%	14.1%
Desert Storm (Gulf War) (1991)	12.5%	13.0%	19.1%	31.9%
Iraq Invasion (2003)	65.4%	2.2%	19.4%	29.0%
Israel-Hezbollah War (2006)	0.9%	0.8%	14.2%	25.7%
NATO-Libya Conflict (2011)	-0.8%	2.2%	-4.0%	12.6%
Crimea Annexation (2014)	0.9%	1.6%	9.2%	17.1%
Russia-Ukraine War (2022)	?	6.1%	-4.6%	-5.9%
Israel-Hamas War (2023)	?	1.4%	21.7%	34.1%
US-Iran War (2026)	?	-7.7%	?	?
Median	-	**1.6%**	**7.5%**	**15.3%**
Average	-	**0.7%**	**6.3%**	**10.1%**

Source: Finaeon Inc. Data as of April 13, 2026.

Q2 broadly followed this pattern. The escalation around Iran and the Strait of Hormuz initially raised fears of a major energy shock, higher inflation and delayed central bank easing. However, as oil prices gave back part of their earlier risk premium, markets became increasingly comfortable that the shock would be manageable. WTI crude oil fell 32.4% over the last three months, although it remains up 21.4% year-to-date after the earlier surge.

Central banks were therefore once again forced to respond to a more complicated inflation backdrop. In the US, Kevin Warsh chaired his first Federal Open Market Committee meeting in June and kept interest rates unchanged. However, the message was more hawkish than markets had expected, with the Federal Reserve signaling that inflation risks remained elevated and that investors should not assume a quick return to rate cuts.

In Europe, the policy response was more direct. The European Central Bank raised its interest rate by 25 basis points at its June meeting, reflecting concern that higher energy prices could keep inflation above target for longer while also revising down their growth forecasts. The Bank of England remained cautious, keeping rates unchanged at 3.75%, while the Bank of Japan moved decisively, raising its policy-rate target to 1.0% in June. Taken together, the message from major central banks was clear; the rate-cutting backdrop investors had hoped for at the start of the year became less certain as energy-driven inflation risk re-emerged. As a result, the US dollar strengthened against most major currencies as markets adjusted to this more cautious policy backdrop, creating a headwind for international equity market returns when translated back into dollars.

Similarly, fixed income markets responded to renewed uncertainty. US Treasury yields rose over the quarter, led by the front end of the curve, as investors reduced expectations for near-term rate cuts. Global bonds still provided some stability, with the Bloomberg Global Aggregate Bond Index rising 1.3% over the quarter and 1% year-to-date, while corporate bonds were slightly weaker.

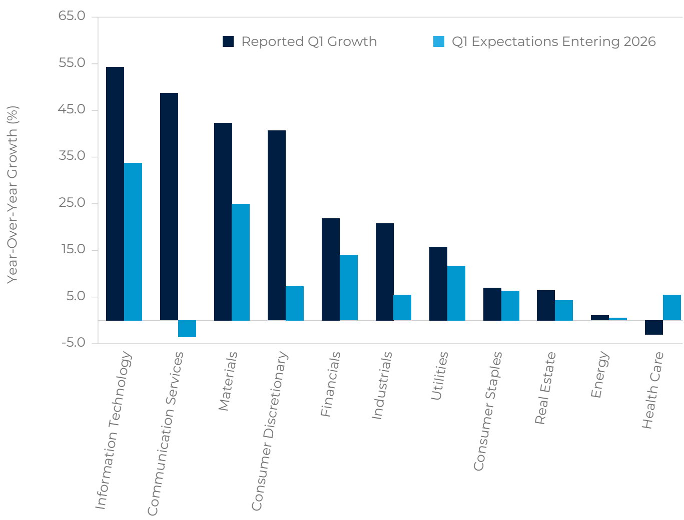
Japan was the standout regional market, with the Nikkei 225 rising 37.2% over the last three months and 40% year-to-date. The strength appears to have been supported by a combination of yen weakness, AI-related equity leadership and continued investor interest in Japan's corporate reform story.

A weaker yen is generally positive for Japanese exporters because it increases the value of overseas earnings when translated back into local currency, while Japan's technology, semiconductor equipment and industrial companies also benefited from the broader recovery in AI-linked equities. At the same time, continued corporate-governance reform and higher shareholder returns have kept international investor interest in Japan elevated.

Relative sector performance continued along similar lines to late last quarter. The strongest areas were those most exposed to technology, AI infrastructure and improving investor confidence. Information Technology was the clear sector leader, rising 37.4% quarter-to-date and 21.6% year-to-date. Industrials and Financials also performed well, supported by better risk appetite and continued economic resilience. By contrast, Energy fell 14.7% over the quarter as oil prices reversed part of their earlier surge, although the sector remains up 18.4% year-to-date.

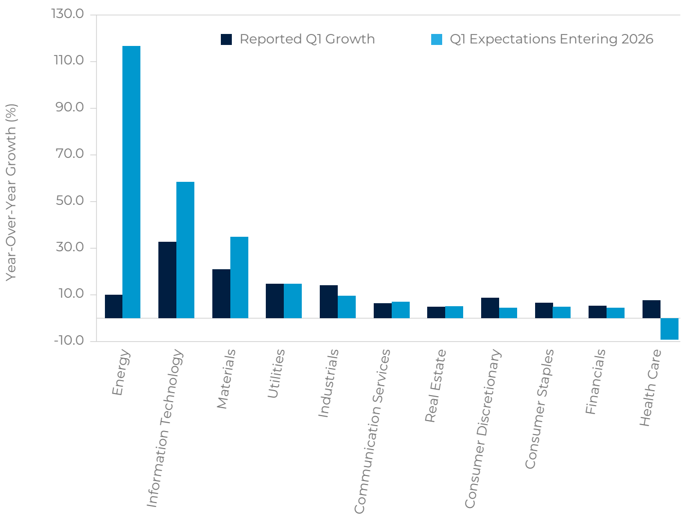
The strength in Technology was not only a function of better sentiment. It was also supported by earnings delivery. As shown in Chart 2, Q1 earnings were significantly stronger than expected across several sectors, with Information Technology and Communication Services delivering particularly strong growth relative to expectations. This matters because markets move on whether reality is better or worse than what investors have already priced in. In Q1, the earnings reality was far better than expected, which helped support the rebound in equity markets.

CHART 2
Q1 EARNINGS EXCEEDED EXPECTATIONS...



Source: FactSet. Data as of June 6, 2026.

CHART 3
AS A RESULT, Q2 EARNINGS EXPECTATIONS HAVE MOVED MEANINGFULLY HIGHER

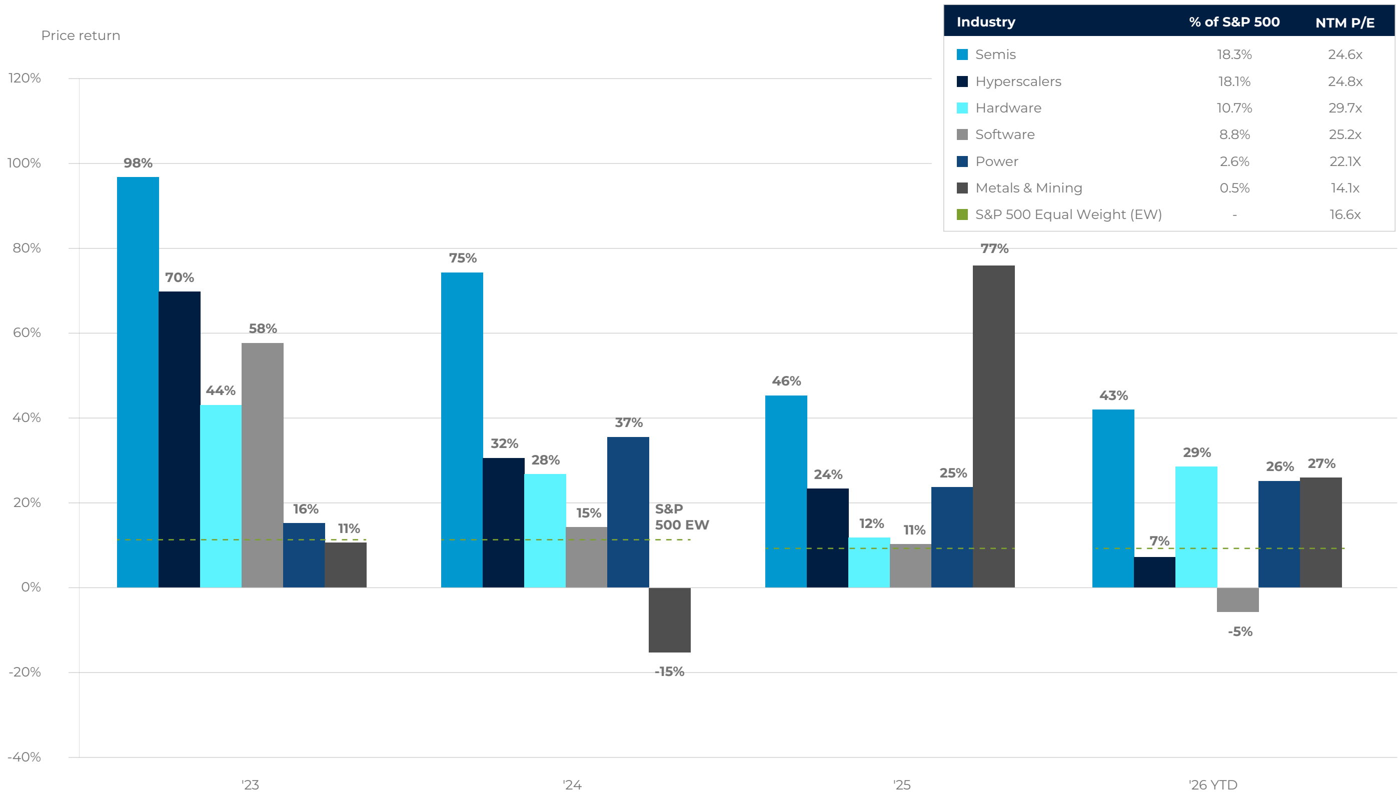


Source: FactSet. Data as of June 6, 2026.

However, that also means the bar is now higher. Chart 3 shows that Q2 earnings expectations have been revised higher, most notably in Energy and Information Technology. The upgrade to Energy reflects the earlier rise in oil prices, but the move in Technology is more important for the broader market because it sits at the centre of current market leadership. Investors are no longer simply looking for resilience. They are increasingly expecting continued earnings acceleration, particularly from the companies most closely linked to AI and the wider technology investment cycle.

This is where the AI discussion becomes more specific. Chart 4 shows that AI-related industries have continued to perform strongly, but the leadership is no longer uniform. Semiconductors remain the standout, rising 43% as of the end of May, after already strong gains in previous years. Hardware, power and metals-related companies have also performed well, reflecting demand for data centres, networking equipment, electrical infrastructure and the physical capacity needed to support AI. At the same time, hyperscalers have been more muted this year and software has lagged, suggesting that investors are becoming more selective about where the economic benefits of AI will accrue.

CHART 4
AI-RELATED INDUSTRY PERFORMANCE HAS VARIED SIGNIFICANTLY OVER THE YEARS



Industry	% of S&P 500	NTM P/E
Semis	18.3%	24.6x
Hyperscalers	18.1%	24.8x
Hardware	10.7%	29.7x
Software	8.8%	25.2x
Power	2.6%	22.1X
Metals & Mining	0.5%	14.1x
S&P 500 Equal Weight (EW)	-	16.6x

Source: JPMorgan Guide to the Markets. Data as of May 30, 2026.

That is a healthier market structure. AI remains a significant structural growth driver, but it is not one single trade. It is a semiconductor cycle, an infrastructure buildout, a software disruption risk, a productivity opportunity and a capital-spending cycle all at once. Different parts of that value chain will capture different economics. The companies supplying bottleneck components may see the benefits quickly, while others will need to prove that heavy investment can translate into durable revenue growth, pricing power, cash generation and attractive returns on capital.

The improvement in sentiment is also visible beyond listed equities. The SpaceX IPO, together with reported discussions around potential OpenAI and Anthropic listings, shows that investor appetite for large, high-profile growth companies has improved materially. This marks a clear change from the 2022–23 period, when higher interest rates, lower valuations and weaker risk appetite effectively closed much of the IPO market.

While the reopening of the IPO market is a positive signal for confidence and capital-market functioning, it also reinforces the need for discipline. When sentiment improves quickly, expectations can move even faster. The lesson is not to avoid AI or growth companies, but to remain selective and focused on whether future earnings, cash flow and returns on capital can justify the prices investors are now being asked to pay.

The contrast with parts of private markets is becoming more noticeable. While public equity markets have recovered and capital-market sentiment has improved, pressure in private credit and private equity has continued to build beneath the surface. In private credit, the concerns have moved beyond isolated redemption headlines and are now showing up in weaker cash coverage, greater reliance on non-cash income, rising unrealised losses and persistent redemption queues.

One risk in semi-liquid funds is that investors who redeem may be paid out at NAVs that have not fully adjusted to current market conditions, which can leave remaining investors with a less liquid and potentially more leveraged portfolio. In private equity, slower exits, longer holding periods and weaker distributions continue to pressure liquidity and fundraising. This is not currently a systemic event but the deterioration in liquidity, income quality and exit conditions makes it an area where developments should continue to be monitored.

Looking ahead, the outlook remains constructive, but the market is likely to be less forgiving than it was at the start of the recovery. Earnings are expanding, economic growth remains positive and broad based, and financial conditions are supporting accelerating loan growth and capex spending. However, expectations have also moved meaningfully higher, particularly in the areas that have led the rebound, leaving less room for disappointment. The path for markets over the second half of the year will therefore largely depend on whether economic reality continues to validate the stronger expectations now reflected in prices.

We look forward to updating you again next quarter and thank you for taking the time to read our Market Review and Outlook.

Sigma Investment Committee