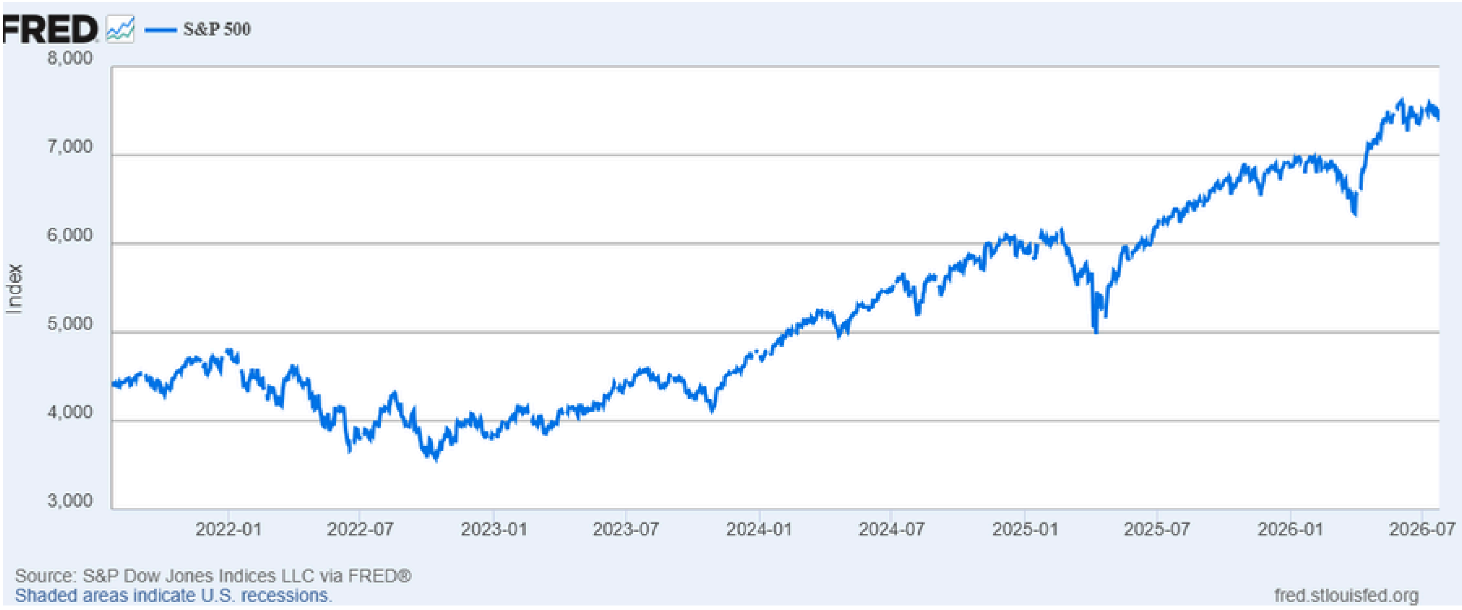
Mosaicfi *Market Insights*

JULY 2026



Q2 2026

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The 2nd quarter of 2026 brought us no shortage of geopolitical and other market-moving events to contemplate. As the war with the U.S. and Israel fighting Iran continued, oil prices, along with overall inflation, continued to rise.

More importantly, we had a changing of the guard at the Federal Reserve. Chairman Jerome Powell handed over the reins to Kevin Warsh. Leading up to the transition, there was a lot of concern about whether he (or anyone nominated by the President) would act in a manner independent of politics or would yield to the pressure from the President to lower interest rates, regardless of the economic environment.

Q2 2026

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Much to the relief of many market watchers (this one included), Warsh came out of his first Fed meeting as Chair and made it abundantly clear that his primary focus was to bring inflation back down to the mandated 2% target. Given that inflation has been running in the 3-4% range so far in 2026, this could necessitate the Fed[1] potentially raising interest rates, but most certainly not lowering rates in the near term.

The equity markets enjoyed robust performance in the 2nd quarter. The strength was driven by a continued focus on everything related to AI. This year there has been a pivot in what investors are getting excited about. Last year it was the 'hyper-scalers' (i.e., Google, Amazon, Meta, etc.) driving the run-up in the markets as the focus was on the builders of the AI technology.

In the 2nd quarter, there was a shift to the providers of infrastructure for AI data centers. As an example, the index of semiconductor chip makers was up 88%[1] while the Magnificent 7 was up only 11%.[2]

The Equity Markets

Global equity markets, as measured by the MSCI All Country World Index were up 14.93%[3] in the 2nd quarter. The developed international equity markets underperformed U.S. equity markets. International developed markets were up 10.22%[4] for the quarter vs. U.S. equity markets, which were up 15.44%.[5]

Emerging markets were again the top-performing equity market for the quarter, up a whopping 24.05%.[6] U.S. REITs had another great quarter- up 12.37%.[7]

The U.S. small cap market once again outperformed large cap stocks in the 2nd quarter. Small cap stocks were up 21.49%[8] for the quarter versus large caps, which were up 15.14%.[9] Large cap value stocks underperformed large cap growth; value stocks were up 13.87%[10] vs. growth stocks up 16.74%.[11]

The Fixed Income Markets

After the about-face in the expected direction of interest rates from an anticipated decline to a possible rise in the 1st quarter, the bond markets continued to price in a rising interest rate environment this year. Interest rates generally increased across the maturity spectrum.

The yield on the 10-year UST increased 14 basis points, ending the quarter at a yield of 4.44%.[12] The U.S. bond market, as measured by the Bloomberg U.S. Aggregate bond index, returned .67%[13] for the quarter. The municipal bond market, as measured by the Bloomberg Municipal bond index,[14] ended the 1st quarter up 2.50%.

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Corporate bond spreads tightened in the 2nd quarter, outperforming the treasury market. Intermediate corporate bonds were up .98%,[15] with comparable treasuries up .22%.[16] The high-yield market also had a tightening of spreads, ending the quarter up 2.47%.[17] With continued concerns over rising inflation, U.S. TIPS (inflation protected securities) performed well. Overall, TIPS were up .89%[18] for the quarter.

So, what did all this mean for investors?

Depending on the asset allocation, given the performance of the stock and bond markets, a diversified index portfolio in the 2nd quarter was up between 4-14%.[19]

Looking Ahead

As we look ahead, the focus will remain on not only stated inflation, but on consumer inflation expectations as well; oddly enough, the more we expect higher inflation, the more likely inflation will rise. Federal Reserve chairman, Kevin Warsh, has made it clear he will raise interest rates in response to higher inflation.

This would likely deflate the equity markets' enthusiasm. How long the Iran war continues will likely influence the inflation picture.

Another important factor of the current state of the equity markets is that corporate earnings remain strong. This has reinforced investor enthusiasm over equities and provides justification for high stock market valuations.

If there is a downward shift in earnings, the market reaction could be swift and harsh.

As always, we would love to hear from you, so feel free to contact us at any time.

*"**Oddly enough, the more we expect higher inflation, the more likely inflation will rise**."*

Your paragraph text

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Sources

1 Index (SOX), an unmanaged, capitalization-weighted index of companies primarily involved in the design, distribution, manufacture, and sale of semiconductors. Index returns shown are for reference only and do not represent the performance of any advisor-managed portfolio. Investors cannot invest directly in an index.
2 Magnificent 7" refers to an informal, commonly used grouping of seven large-capitalization U.S. technology companies (Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta Platforms, and Tesla). It is not a formal index maintained by an index provider, and the performance figure shown is an unweighted illustration for discussion purposes only; it is not indicative of the performance of any advisor-managed portfolio.
3 MSCI All Country World Index (ACWI) data sourced from MSCI Inc. The index captures large- and mid-cap representation across developed and emerging market countries. Index returns shown are for reference only and do not represent the performance of any advisor-managed portfolio. Investors cannot invest directly in an index.
4 MSCI EAFE Index data sourced from MSCI Inc. The index measures the equity market performance of developed markets outside the U.S. and Canada. Index returns shown are for reference only and do not represent the performance of any advisor-managed portfolio. Investors cannot invest directly in an index.
5 U.S. equity market performance referenced here is measured by the Russell 3000 Index, which represents approximately 98% of the investable U.S. equity market. Index returns shown are for reference only and do not represent the performance of any advisor-managed portfolio. Investors cannot invest directly in an index.
6 MSCI Emerging Markets Index data sourced from MSCI Inc. The index captures large- and mid-cap representation across emerging market countries. Index returns shown are for reference only and do not represent the performance of any advisor-managed portfolio. Investors cannot invest directly in an index.
7 FTSE Nareit All Equity REITs Index data sourced from Nareit. The index measures the performance of U.S. equity real estate investment trusts. Index returns shown are for reference only and do not represent the performance of any advisor-managed portfolio. Investors cannot invest directly in an index.
8 Small cap performance referenced here is measured by the Russell 2000 Index. Index returns shown are for reference only and do not represent the performance of any advisor-managed portfolio. Investors cannot invest directly in an index.
9 Large cap performance referenced here is measured by the Russell 1000 Index. Index returns shown are for reference only and do not represent the performance of any advisor-managed portfolio. Investors cannot invest directly in an index.
10 Large cap value performance referenced here is measured by the Russell 1000 Value Index. Index returns shown are for reference only and do not represent the performance of any advisor-managed portfolio. Investors cannot invest directly in an index.
11 Large cap growth performance referenced here is measured by the Russell 1000 Growth Index. Index returns shown are for reference only and do not represent the performance of any advisor-managed portfolio. Investors cannot invest directly in an index.
12 Yield data sourced from the U.S. Department of the Treasury's daily par yield curve rates. Treasury yields are shown for reference only and are not indicative of the performance of any advisor-managed portfolio.
13 Bloomberg U.S. Aggregate Bond Index data sourced from Bloomberg Index Services Limited. The index measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. Index returns shown are for reference only and do not represent the performance of any advisor-managed portfolio. Investors cannot invest directly in an index.
14 Bloomberg Municipal Bond Index data sourced from Bloomberg Index Services Limited. The index measures the performance of the U.S. municipal bond market. This illustration is for reference only and not indicative of any client or model portfolio results.
15 Bloomberg U.S. Intermediate Corporate Bond Index data sourced from Bloomberg Index Services Limited. The index measures the investment grade, U.S. dollar-denominated, fixed-rate corporate bond market with maturities of 1 to 10 years. Index returns shown are for reference only and do not represent the performance of any advisor-managed portfolio. Investors cannot invest directly in an index.
16 Bloomberg U.S. Intermediate Treasury Index data sourced from Bloomberg Index Services Limited. The index measures U.S. Treasury securities with maturities of 1 to 10 years. Index returns shown are for reference only and do not represent the performance of any advisor-managed portfolio. Investors cannot invest directly in an index.
17 Bloomberg U.S. Corporate High-Yield Bond Index data sourced from Bloomberg Index Services Limited. The index measures the U.S. dollar-denominated, high-yield, fixed-rate corporate bond market. Index returns shown are for reference only and do not represent the performance of any advisor-managed portfolio. Investors cannot invest directly in an index.
18 Bloomberg U.S. Treasury Inflation-Protected Securities (TIPS) Index data sourced from Bloomberg Index Services Limited. The index measures the performance of U.S. Treasury Inflation-Protected Securities. Index returns shown are for reference only and do not represent the performance of any advisor-managed portfolio. Investors cannot invest directly in an index.
19 The 4-14% range shown is a hypothetical illustration based on the blended performance of the indices referenced above across a range of equity/fixed income allocations. It does not represent the performance of any actual client account, model portfolio, or advisor-managed strategy, and does not reflect the deduction of advisory fees, transaction costs, or other expenses, which would reduce returns. Investors cannot invest directly in an index.

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