From the Desk

Sentry Point Private Wealth

Q2 2026: Growth Momentum in a Mixed and Uneven Economy

The second quarter of 2026 reflected a combination of improving momentum and uneven performance across the U.S. economy. Activity strengthened in several areas, supported by ongoing investment in artificial intelligence and steady service-sector spending. At the same time, goods-producing industries softened, and inflation remained elevated due to energy pressures tied to the Iran conflict. Despite these challenges, the United States continued to show resilience to energy shocks, helped by high levels of domestic production. Financial markets responded to these crosscurrents with strong but concentrated equity performance and shifting expectations around monetary policy.

Economic Pulse

Economic conditions improved as the quarter progressed, although the pace of growth varied across sectors. Updated Q2 data showed a clear divide between services and goods. The services PMI registered 54.8, indicating expansion, while the manufacturing PMI fell to 47.2, signaling contraction. Real consumer spending on services increased 0.6 percent during the quarter, while spending on goods declined 0.3 percent. Durable goods orders fell 1.1 percent in May, reflecting softer demand in goods-related categories.

Labor market conditions firmed. Payrolls grew by 172,000 in May, with a three-month average of 181,000. This was a notable improvement from the slower pace seen over the prior year. The unemployment rate moved down to 4.3 percent. Wage growth remained moderate at 3.4 percent year over year, resulting in slightly negative real wage growth after adjusting for inflation.

Inflation remained elevated. Headline CPI reached 4.2 percent in May, driven largely by energy prices linked to the Iran conflict. Several structural forces helped offset these pressures. Tariff levels on imported goods declined from 11.0 percent in late 2025 to an estimated 7.3 percent in May. Shelter inflation eased as new lease rents grew only 1.7 percent over the past year and rental vacancy rates reached a multi-year high of 7.3 percent. Productivity trends also improved, with output per hour on track to rise 2.5 percent this year.

The United States continued to show greater resilience to energy shocks than many other developed economies. Domestic crude production reached roughly 13.3 million barrels per day, one of the highest levels on record. Net petroleum imports fell to their lowest point in four decades, and natural gas production remained at all-time highs. These factors helped cushion the impact of global energy volatility.

Monetary policy expectations shifted meaningfully during the quarter. Markets began pricing in more potential rate hikes than central banks have signaled. The inflation spike has been driven more by energy than by broad economic overheating, creating a challenging backdrop for policymakers. With Kevin Warsh beginning his term as Federal Reserve Chair, the central bank appears inclined to maintain a steady stance. Even if rate cuts resume later, their impact may be influenced by ongoing balance sheet reduction. Jerome Powell's continued presence as a voting member adds a somewhat more cautious tone, but not necessarily one that aligns with the degree of tightening currently reflected in market pricing.

How Markets Moved

Market performance in the second quarter reflected a clear divide between long-term structural themes and traditional cyclical indicators. The global push to build AI infrastructure remained a dominant force across asset classes.

U.S. equities reached 24 new all-time highs during the first half of the year. Gains were driven primarily by strong corporate earnings tied to AI-related investment rather than broad economic strength. Forward earnings expectations rose by 15 percentage points, while valuation multiples contracted by 7 percent.

Performance varied widely across sectors. Technology and communication services led the market with strong earnings growth. Semiconductor and hardware companies benefited from increased demand for computing capacity and infrastructure. Some large technology platforms delivered solid earnings but saw more mixed stock performance as investors evaluated the return on AI-related spending. Software companies experienced pressure as usage-based pricing models continued to reshape legacy revenue structures. More traditional sectors, including consumer staples and real estate, saw slower earnings growth.

International equities outperformed the U.S. after a strong 2025. Emerging markets benefited from their role in the global hardware supply chain. Developed markets such as Europe and Japan faced early headwinds from higher energy costs but later found support from corporate governance reforms, the end of negative interest rates, and increased defense spending.

Fixed income markets were influenced by the Iran conflict, persistent inflation, and a more cautious tone from some Federal Open Market Committee members. Short-duration yields rose nearly 70 basis points year to date as markets repriced expectations from three rate cuts to the possibility of a full rate hike. The two-year Treasury yield moved 60 basis points above the federal funds rate. Despite flat total returns, income generation within fixed income improved. Credit spreads remained tight, supported by strong balance sheets across households, corporations, and municipalities.

Energy prices surged early in the quarter due to geopolitical tensions but began to ease after diplomatic progress reopened the Strait of Hormuz. Wholesale crude and retail gasoline prices fell in late May and early June. This decline is expected to contribute to a 7 percent month-over-month drop in the energy component of the June CPI report.

Investment Lens

Our investment lens this quarter focused on observing long-term structural trends while maintaining awareness of near-term economic variability. The uneven nature of the current environment, combined with concentrated market leadership, highlights the importance of maintaining perspective across a range of potential outcomes.

Several themes stood out. Companies connected to AI-related investment continued to show strong earnings momentum. At the same time, index concentration reached historically high levels, prompting broader discussions across the industry about diversification and risk management. Financial companies, international value segments, and other areas tied to structural reforms or improving fundamentals continued to attract attention from market participants.

Within fixed income, yields across short and intermediate maturities remained elevated relative to cash-like instruments. Market participants continued to evaluate the growing influence of technology-related issuers within corporate credit indices, as well as the potential impact of future policy decisions on rate markets.

Alternative strategies, including approaches designed to respond to market trends or corporate activity, continued to play a role in helping investors navigate periods of volatility and dispersion. Real assets such as infrastructure and transportation remained areas of interest due to their income characteristics and potential sensitivity to global energy and supply chain dynamics.

What We Are Watching

Several developments may influence markets over the next twelve to eighteen months.

The next phase of the AI cycle will focus on how companies translate investment into revenue growth. Any signs of slowing capital expenditure among large technology platforms could lead to shifts in market sentiment.

Energy and geopolitical developments remain important. A lasting resolution to the Iran conflict would help ease global inflation pressures and support regions that are more sensitive to energy costs.

U.S. elections and fiscal policy will shape the outlook for 2027. A change in congressional control could limit the scope of future fiscal stimulus and lead to a more moderate pace of economic growth.

Central bank divergence is another key theme. While the Federal Reserve appears inclined to hold rates steady, the European Central Bank and Bank of Japan are preparing for potential tightening. A narrowing yield gap may influence currency trends and international asset performance.

Final Word

The past quarter reminded us that markets rarely move in straight lines. Some areas of the economy are gaining strength while others are still finding their footing, and financial markets continue to respond to a mix of encouraging data and lingering uncertainties. Rather than trying to interpret every short-term shift, we believe it is more useful to step back and look at how the broader themes are taking shape. Growth is still moving forward, even if unevenly, and many of the long-term forces shaping the economy remain firmly in place.

As we look ahead, the environment will likely continue to evolve as policy decisions, global developments, and structural trends play out. Staying focused on long-term goals, maintaining balance, and keeping perspective can help support stability through different market conditions