

The second quarter of 2026 delivered one of the sharpest reversals investors have seen in some time. Where Q1 was defined by shock and drawdown, Q2 was defined by recovery and, in places, outright exuberance. Equity markets staged a powerful rally as earnings comfortably beat expectations and the artificial intelligence investment cycle broadened beyond the largest technology names into memory chips, infrastructure and Japanese exporters. At the same time, the geopolitical backdrop that so unsettled markets in Q1 gradually eased, with ceasefire negotiations over the course of the quarter helping oil prices retreat from their highs. It has, however, been a quarter of two halves for fixed income, where firmer central bank rhetoric on both sides of the Atlantic pushed yields higher and tested the resolve of bond investors. As ever, our approach with our key investment partners, Rathbones and Titan Wealth, remains anchored in disciplined, diversified portfolio construction built for periods of volatility as much as periods of calm.

Executive Summary

Q2 2026 marked a decisive turnaround from the volatility of the first quarter. Equity markets rallied hard across almost every region, powered by an AI and memory-chip led earnings boom and gradually easing Middle East tensions. Emerging markets were the standout, with the MSCI EM Index posting its best quarterly gain since 2009, while the S&P 500 and TOPIX both closed the quarter at or near record highs. Fixed income also fared better than headlines suggested: global investment grade bonds and high yield both delivered positive returns as credit spreads tightened, even as a hawkish Federal Reserve under new Chair Kevin Warsh and a June rate hike from the ECB pushed government bond yields higher in places. Diversified, multi-asset portfolios again demonstrated their value through a quarter that swung from cautious optimism in April to record highs in May, a bout of volatility in early June, and renewed strength as the quarter closed.

Market Performance at a Glance

Asset Class	Q2 2026	Key Driver
S&P 500 (US Equities)	+15.0%	AI/memory-chip earnings boom; easing Middle East tensions
TOPIX (Japan)	+10.1%	Yen dynamics; AI-linked exporters and chip-equipment makers
MSCI Emerging Markets	+24.1%	Best quarterly EM gain since Q2 2009; Korea/Taiwan chip cycle
MSCI Developed Markets ex-US (EAFE)	+10.8%	Japan +14.2%, Europe ex-UK +12.8%; UK lagged at +4.1%
Global Investment Grade Bonds	+1.5%	Credit spreads tightened; yields stabilised after Q1's reset
US High Yield Bonds	+2.5%	Spread tightening; EUR high yield outperformed at +3.7%
Japanese Govt Bonds (JGBs)	-1.3%	BoJ hiked to 1.0% in June; 10Y JGB yield reached 2.7%

Figures sourced from J.P. Morgan Asset Management's "Review of markets over the second quarter of 2026", MSCI regional index data, and quarter-end S&P 500/TOPIX index closes.

Key Themes of the Quarter

1. The AI Trade Broadens: From Mega-Caps to Memory

Having faced scrutiny in Q1, the AI investment cycle roared back in Q2. Strong Q1 earnings from the major hyperscalers reassured investors that capital expenditure was translating into genuine demand, while the standout story of the quarter was memory chips: with AI workloads consuming an ever-larger share of global high-end DRAM production, semiconductor and memory names posted extraordinary gains. Leadership was narrow at first but broadened as the quarter progressed, lifting Japanese and Korean exporters alongside US technology names.

2. Middle East De-escalation and the Oil Price Reversal

The conflict and Strait of Hormuz closure that dominated Q1 initially intensified, pushing Brent crude above \$113 a barrel in the early part of the quarter. However, ceasefire negotiations gathered momentum through May and June, with talks between the US and Iran progressing in Doha. Oil prices fell sharply as a result, easing one of the key inflationary pressures markets had been grappling with, even as negotiations remained fragile and incomplete by quarter-end.

3. Central Banks Diverge: A Hawkish Fed and an ECB Rate Hike

Kevin Warsh was confirmed as Federal Reserve Chair in May and struck a notably hawkish tone at his first FOMC meeting in June, holding rates at 3.50%–3.75% amid still-elevated inflation readings and open dissent among policymakers. The market narrative shifted from "how many cuts?" to "how high will rates go?" The ECB went a step further, raising rates in June as energy-driven inflation in the euro area rose to 3.2%, marking a notable divergence from the rate-cutting path many investors had expected coming into the year.

Regional Highlights

■ ■ United States

The S&P 500 rose approximately 15%, closing the quarter near record highs after a powerful two-month rally in April and May. Technology led throughout, though a bout of volatility from early June — as AI-related names cooled and yields rose — briefly interrupted the advance before markets recovered into quarter-end.

■ ■ Japan

TOPIX gained roughly 10.1% (MSCI Japan +14.2% in USD terms), supported by AI-linked exporters and chip-equipment makers. The Bank of Japan delivered a widely expected rate hike to 1.0% in June, with business confidence among large manufacturers reaching its highest level since 2018 despite the energy shock from the Middle East conflict.

■ Europe

Continental European equities rallied on de-escalation in the Middle East and resilient economic sentiment, with MSCI Europe ex-UK returning +12.8%. UK equities lagged at +4.1%, held back by heavier exposure to the commodity downturn and a more defensive sector mix. The ECB nonetheless raised rates in June as energy-driven inflation persisted.

■ Emerging Markets

Emerging markets delivered their best quarter since 2009, with the MSCI EM Index up 24.1%, led by Korea and Taiwan on the back of the memory-chip and AI infrastructure cycle. South Korea's KOSPI hit record highs, powered by leading semiconductor names, though Middle East-linked energy import exposure remained a watchpoint for parts of Asia.

Fixed Income Perspective

- Global bond markets lacked a clear direction over the quarter, but credit outperformed government bonds as spreads tightened: global investment grade returned +1.5% and US high yield +2.5%, with EUR high yield stronger still at +3.7%.
- Government bonds were more mixed. UK Gilts gained 2.1%, recovering more than the previous quarter's losses, while Japanese government bonds fell 1.3% as the Bank of Japan hiked rates to 1.0% in June and 10-year JGB yields rose to 2.7%.
- The US Treasury curve saw continued repricing at the short end as the Fed, under new Chair Kevin Warsh, struck a hawkish tone at its first meeting under his leadership in June.
- The ECB raised rates in June as energy-driven inflation persisted, a notable divergence from the rate-cutting path many investors had expected coming into the year.
- Emerging market debt also benefited from the improving inflation outlook and expectations of less restrictive policy, rallying 4.0% over the quarter.

Portfolio Positioning for Q3 2026

Key Considerations

- Maintain geographic diversification — Q2's leadership from emerging markets and Japan is a reminder that concentration in any single region carries risk.
- Within fixed income, credit continued to reward investors through the quarter; government bonds were more mixed, and duration positioning should reflect the divergent paths of the Fed, ECB and BoJ rather than a single view on rates.
- Monitor the durability of the Middle East ceasefire talks and their knock-on effect on energy prices and inflation expectations.
- Within equities, be mindful of concentration risk after a strong AI-led rally, particularly given the scale of the move in emerging market and technology-linked names; broadening exposure across quality names and value stocks remains sensible.
- Continue to watch central bank divergence — a hawkish Fed and ECB alongside a BoJ now actively hiking creates currency and relative-value opportunities worth monitoring.

Please do take the opportunity to reach out — we are only too happy to review your portfolios and provide sound financial advice. Contact us at info@synergi-investment.ch

The data and market summary is courtesy of JP Morgan Asset Management and MSCI. Synergi does not accept responsibility for the accuracy of third-party data contained herein.