First to Market

July 1, 2026

STOCKS WRAP UP BEST QUARTER SINCE 2020

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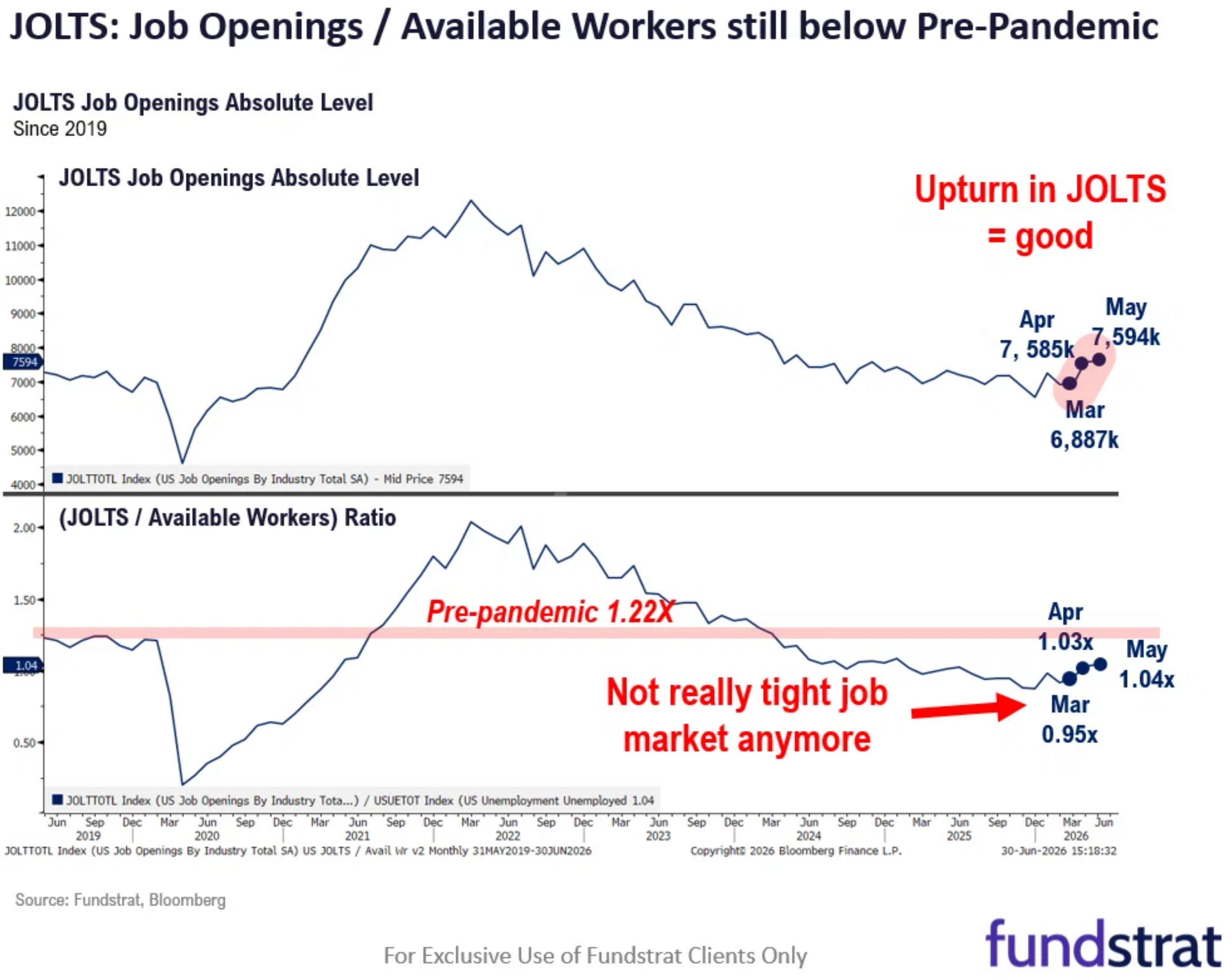
"Life breaks free. Life expands to new territories. Painfully, perhaps even dangerously. But life finds a way." — Jurassic Park

Chart of the Day



Good morning!

Investors' worst fear—war in the Middle East—raged on in the second quarter, but it didn't weigh heavily on the stock market.

The S&P 500 added 15% in the last three months, its best quarter since the second quarter of 2020. That brings the broad-based index's 2026 gains to 9.6%. The Nasdaq composite, meanwhile, rose 21%, also notching its best quarter since the second quarter of 2020. It's up 13% this year.

As has become the defining trend of the past five years, investors are quick to look past bearish scenarios, which in this year's case was closure of the Strait of Hormuz. Some of that quick reversal in sentiment can be explained by what happened in the prior quarter. Oil prices had already skyrocketed and the S&P 500 had already tumbled in the first three months of the year due to the closure, so one could make the argument for the impact from war being "priced in."

Those who had bet on a war TACO by buying the dip won big yet again, but to be clear, the TACO trade has evolved. The typically negative impact seen in the stock market from increased fighting faded away in the second quarter, yet the usual positive impact from peace talks being renewed still propels stocks higher in an asymmetric response.

That's a signal that volatility could continue to rule over the market in the coming months, at least until long-lasting peace has been achieved.

In the second quarter, oil prices slipped over 30%, their worst three-month performance since the first quarter of 2020. Prices are now almost back to pre-war levels. Some investors believe that means the worst of inflation data is now behind us, which coupled with a strong rebound in the job market makes the new Federal Reserve Chair Kevin Warsh's mammoth task in setting interest-rate policy ahead slightly easier.

There is also a bigger reason why it was easy to forget about the war—meteoric gains in memory and storage stocks were impossible to sit out on. Micron's strong earnings recently reaffirmed that the memory industry is evolving past its historical reputation of boom and bust cycles.

Its stock skyrocketed roughly 260% in the second quarter, the top contributor to the S&P 500's quarterly gain. Other semiconductor stocks fared well, too. Nvidia shares added 15%, and Advanced Micro Devices rallied 186%.

There are signs the rally can continue in the second half. Eight out of the S&P 500's 11 sectors finished in the green, typically viewed as a sign of sustainable gains. The small-cap focused Russell 2000 added 21%, outperforming the S&P 500 by the largest margin since the first quarter of 2021. It's having the best first half of the year since 2001.

The few areas of the market that didn't participate included ethereum, bitcoin, and the Magnificent Seven stocks, partly because investors had piled into them for safety in the first quarter. Fundstrat Head of Research Tom Lee believes that means they're ripe for outperformance.

Economic data summary:

The Job Openings and Labor Turnover Survey, a key indicator the Fed uses to assess the state of the US job market, reported mostly flatness across all metrics– job openings, hires, and separations.

The number of job openings for May rose to 7.59 million from 7.58 in the prior month, which still marked the highest level since May 2024, and hires for this month remained unchanged at 5.3 million; yet, there were 11,000 more hires in the federal government industry, and job openings in wholesale trade jumped 71,000 more than last month. Total separations marginally decreased to 5.1 million– 100,000 fewer than in April. Quits rose slightly from 3 million to 3.1 million, while layoffs and discharges stayed at 1.7 million. The number of other separations was unchanged at 328,000.

The consistency in job openings, hires, and separations suggests that the job market is humming along. The persistently low quit rates reflect low employee confidence in job-switching. This indicates that wages could catch up with inflation, which would give no solid reason for the Fed to expedite rate cuts in the near term. — *Dean Park*

The S&P Cotality Case-Shiller national index gained 0.8% year-over-year in April, and the 20-City composite rose 1.14%. This is its first uptick after months of slowing, and a beat against the 0.9% consensus. On its own that looks like a market turning back up. The reality is that against 3.8% inflation, it is doing the opposite. Prices have crawled up, while overall consumer inflation has risen much faster. By that measure, a home's real value has slipped for the 11th straight month. This means that the housing market is stuck. — *Jaime Lee*

Share your thoughts

How did your portfolio do this past quarter Click here to send us your response.

✍Here's what a reader commented ✍

Q: Outside of tech and AI, which sectors do you think are favorable right now?

A: Not a professional investor….still learning….but here is what I think today…..Healthcare and still AI and tech as trades and some holding, along with high dividend paying stocks or should I say NEOS type funds, and treasuries? Worried about treasuries due to interest rate hikes.

Catch up with Fundstrat

As the 2Q comes to an end, equity markets did well, but the market sees a more hawkish Fed. We remain less hawkish than the market and believe truflation being low supports our take. The May increase in NYSE margin debt is the single highest ever and adds to our view that we will see a downturn at some point later this year.

Technical

Tuesday's minor gains left $SPX and $QQQ still coiled within their triangles with breadth mixed (barely more advancing than declining issues and NYSE volume again heavier in decliners), so the range stays unresolved with 7,550 the upside trigger and 7,300 the line in the sand on $SPX.

Crypto

Crypto gave back most of yesterday’s gains today, with the selloff beginning overnight and continuing into the U.S. session. The inability for the market to stage a rebound on a day when QQQ and SPX were both higher, suggests the Strategy-related supply overhang remains a meaningful drag on both sentiment and flows.

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- Supreme Court Rejects Trump's Bid to Curtail Birthright Citizenship WSJ

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- Iran says it is selling oil at 20% premium as end of U.S. blockade sees 40 million barrels exported CNBC
- Tech leads first half stock gains — but the biggest winners weren't in the U.S. CNBC

Business

- Microsoft is reportedly planning thousands of layoffs as it spends on AI MW
- Anthropic gets all-clear to let foreigners use latest model ahead of crucial IPO MW

Politics/U.S.

- Trump Made More Than $1 Billion on Crypto Deals, Part of 2025 Windfall WSJ
- Trump to Take Maiden Flight on Qatari-Gifted Air Force One WSJ
- The Birthright Decision Was Surprisingly Close, Some Legal Scholars Say NYT

Overseas

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Of Interest

- Inside the Egg Price-Fixing Scandal That Spiked American Grocery Bills WSJ

Overnight

S&P Futures	-20 ▼ point(s) (-0.27% ▼)
overnight range:	-38 ▼ to +2 ▲ point(s)

APAC

Nikkei	+0.59% ▲

Topix	+0.42% ▲
China SHCOMP	+0.44% ▲
Hang Seng	-0.63% ▼
Korea	-2.04% ▼
Singapore	-0.18% ▼
Australia	-0.64% ▼
India	+0.62% ▲
Taiwan	+1.94% ▲

Europe

Stoxx	50 -0.09% ▼
Stoxx	600 -0.09% ▼
FTSE	100 -0.20% ▼
DAX	+0.38% ▲
CAC	40 -0.40% ▼
Italy	0.00%
IBEX	-0.41% ▼

FX

Dollar Index (DXY)	+0.22% ▲ to 101.41
EUR/USD	-0.32% ▼ to 1.1386
GBP/USD	-0.11% ▼ to 1.3247
USD/JPY	-0.10% ▼ to 162.71
USD/CNY	-0.11% ▼ to 6.7944
USD/CNH	-0.12% ▼ to 6.7998

USD/CHF	-0.25% ▾ to 0.8104
USD/CAD	-0.20% ▾ to 1.4224
AUD/USD	-0.40% ▾ to 0.6891

UST Term Structure

2Y-3M Spread narrowed	-1.5bps ▾ to 33.5bps
10Y-2Y Spread widened	0.4bps to 29.1bps
30Y-10Y Spread widened	0.6bps to 49.1bps

USD HY OaS

All Sectors	-6.8bps ▾ to 295bps
All Sectors ex-Energy	-13.2bps ▾ 292bps
Cons Disc	-39.4bps ▾ to 439bps
Indu	-21.9bps ▾ to 228bps
Tech	-9.6bps ▾ to 229bps
Comm Srvcs	-9.0bps ▾ to 294bps
Materials	-6.9bps ▾ to 263bps
Energy	-8.4bps ▾ to 274bps
Fin Snr	-7.9bps ▾ to 195bps
Fin Sub	-6.8bps ▾ to 303bps
Cons Staples	-13.2bps ▾ to 458bps
Healthcare	-14.0bps ▾ to 307bps
Utes	-10.2bps ▾ to 207bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
7/1	9:45 AM	Jun F S&P Manu PMI	55.7	55.7
7/2	8:30 AM	Jun AHE m/m	0.3	0.3
7/2	8:30 AM	Jun Unemployment Rate	4.3	4.3
7/2	8:30 AM	Jun Non-farm Payrolls	115	172
7/2	10:00 AM	May F Durable Gds Orders	-4.5	-4.5
7/6	9:45 AM	Jun F S&P Srvcs PMI	n/a	51.3
7/6	10:00 AM	Jun ISM Srvcs PMI	54.2	54.5
7/7	8:30 AM	May Trade Balance	-78.7	-55.881

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