2026 Mid-Year Market Commentary

We once again find ourselves in what has become familiar territory over the past few years. We have a quarter that has produced very strong returns for investors despite an ever-increasing backdrop of chaos and uncertainty.

The S&P 500 once again set new record highs despite a near double-digit drawdown following the start of the War with Iran. However, the real story of the year so far has come from value stocks, small caps, and emerging markets, which have handily led the S&P 500 over the first six months of the year.

Year to Date Returns – Region, Style, & Size

	U.S.		Non-U.S. Developed		Emerging Markets	
	Value	Growth	Value	Growth	Value	Growth
Large	16.26	5.33	12.07	7.18	22.81	26.54
Small	22.99	22.18	5.32	9.84	13.84	11.92

Graphic Source: Avantis Investors. Data Source: FactSet. U.S. Equity, International Developed Markets and Emerging Markets Equity style boxes are represented by Russell, MSCI World ex USA and MSCI Emerging Markets indices, respectively. Data as of 6/30/2026

Indices Change Their Rules for SpaceX

The major financial story that broke containment from financial outlets into mainstream and social media was the SpaceX IPO and the “favoritism” being offered to the company along with its peers, OpenAI and Anthropic.

Headlines about these companies joining major stock indices can sound alarming — as if millions of retail investors are being forced into a handful of richly valued names overnight. In practice, the mechanics are far more modest than the coverage suggests.

Index providers build in safeguards specifically to prevent this kind of disruption. When SpaceX joined the Nasdaq, float-adjustment rules gave it an initial weight of about 1% in the index, versus the 5% weight it would have carried without that adjustment, because only a small sliver of its shares were available for public trading at the time. That's a deliberate design feature of modern indices: newly public mega-caps are phased in gradually rather than dropped in all at once.

On the other hand, the S&P 500 signaled that it would not change its rules to fast-track SpaceX's inclusion, sticking with its standard seasoning period. The same conservative approach will likely apply to OpenAI and Anthropic whenever they list.

This isn't unprecedented. Tesla, Facebook, and other large IPOs have joined major indices before, and in each case diversified portfolios absorbed the addition without any noticeable disruption to long-term returns. The story is rarely about the mechanics of inclusion, it's about whether the underlying business justifies its valuation over time, which is a separate question from indexing.

Volatility in the days and weeks after a debut, which we've already seen with SpaceX's swings, is normal and not a signal to make portfolio changes.

The investment strategies that we implement for clients will likely exclude or significantly underweight SpaceX, OpenAI, and Anthropic in the near-to-intermediate future. All three companies are classified as mega-cap, extreme-growth stocks that are largely unprofitable. We tilt portfolios toward the exact opposite of those three factors as we seek enhanced exposure to smaller companies, value stocks, and high-profitability companies.

Changing of the Guard at the Federal Reserve

Jerome Powell's tenure as the Chair of the Federal Reserve came to an end in May as Trump allowed his term to expire.

Generally, we appreciated Powell's stewardship of the Fed over the past eight years. In these very commentaries, we at times expressed frustration in the Fed's decision making. But in the end, Powell's clear communication and leadership over what were very consequential decisions as the country tried to climb out of the economic challenges brought on by COVID-19, we believe ended up sparing the U.S. from more adverse outcomes with respect to unemployment and inflation.

Kevin Warsh now assumes the leadership reins of the Federal Reserve. Warsh previously served as a Fed governor during the Great Financial Crisis. In his remarks, Warsh signaled that we will receive less forward guidance on the Fed's expectations for the path of interest rates. While we are not thrilled by the idea of less communication, the guidance by Powell rarely came to fruition anyway as rapidly evolving economic conditions continuously resulted in the Fed re-assessing its approach over the past six years.

In a somewhat surprising first meeting with Warsh as chair, the Fed governors unanimously voted to keep interest rates level. We, along with many others, expected a more hawkish approach to interest rates in Warsh's first remarks. We are cautiously optimistic that the Federal Reserve will continue to act independently under Warsh as it has throughout its modern history.

The last three months of news, taken together, is a reminder that markets have a way of rewarding patience over prediction. Headline-grabbing IPOs and a new Fed chair have added plenty of noise without changing the fundamentals of a sound long-term plan. We don't know what will lead the next six months, and neither does anyone else with any real consistency. As always, if anything in your personal situation has changed, that's potentially worth a re-strategizing with us. Short-term headlines, on their own, generally aren't.

Past performance is no guarantee of future results.