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June Market & Economic Update

July 13, 2026

Nick Punko, MBA, CFA, CFP

Data as of: June 30th, 2026

For the Exclusive Use of RBC Dominion Securities Clients

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Key Takeaways

- The S&P 493 has outperformed the Mag 7 in the first half of 2026.
- Emerging markets have benefited from the AI trade.
- The U.S. economy remains resilient despite many challenges.

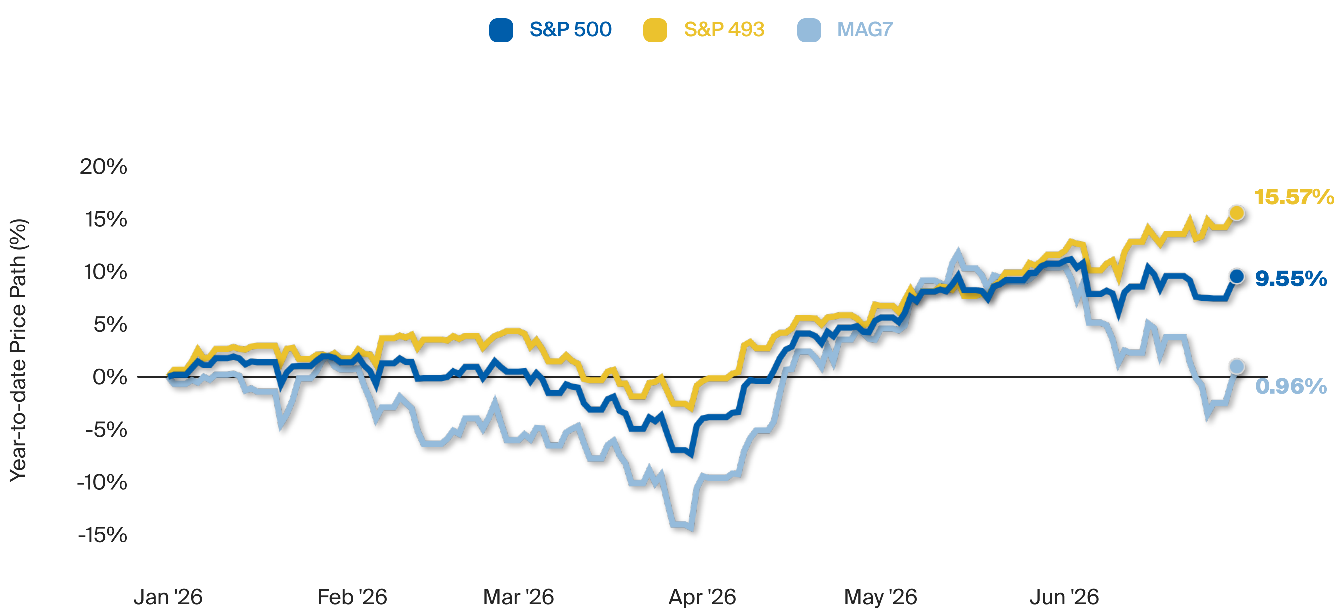
The stock market just completed a strong first half of 2026 as evidenced by the performance path of the S&P 500 and S&P 493 (which excludes the Mag 7) shown below.

Exhibit A

S&P 500 vs S&P 493 vs Mag7 in 2026

Year-to-date (YTD) Price Path of the S&P 500, S&P 493, and the Mag7

YTD 2026



Source: © Exhibit A, FactSet Research Systems Inc., Standard & Poor's | Latest: 2026-06-30

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For much of this bull market run, the biggest stocks have been responsible for the bulk of the gains in the S&P 500. That is not the case in 2026. In fact, the S&P 493 is outperforming both the S&P 500 and the Mag 7 by a wide margin this year. Many investors have been worried about stock market concentration and what would happen if the Mag 7 ever faltered. The good news is that the rest of the stock market is picking up the slack.

There have been some unexpected winners this year

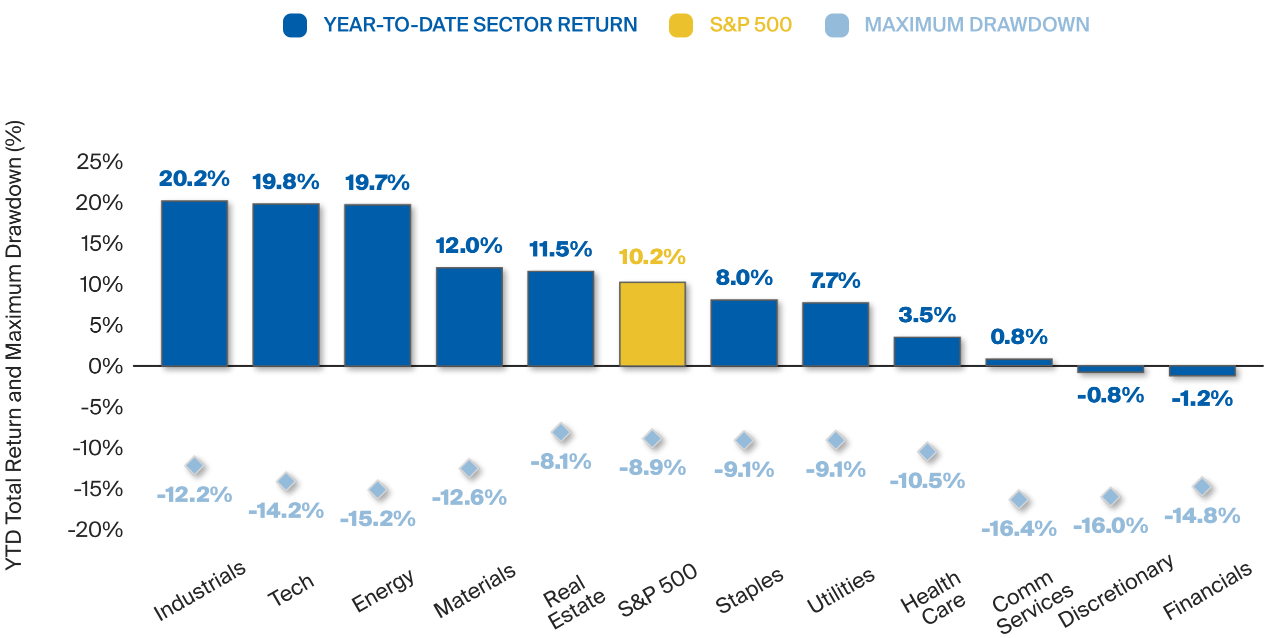
Tech stocks are having another great year which shouldn't be a surprise given the AI landscape. What is surprising is that the other sector leaders for the S&P 500 in 2026 are industrials, energy, materials, and real estate. It's also interesting to note that each of the four top performing sectors this year are up double-digits but also experienced a double-digit drawdown along the way. This has been a strong year for stocks, but there has been some volatility to earn those returns.

Exhibit B

S&P 500 Sector Performance in 2026

S&P 500 year-to-date (YTD) Sector Performance in 2026 (including dividends) with maximum drawdown

YTD 2026



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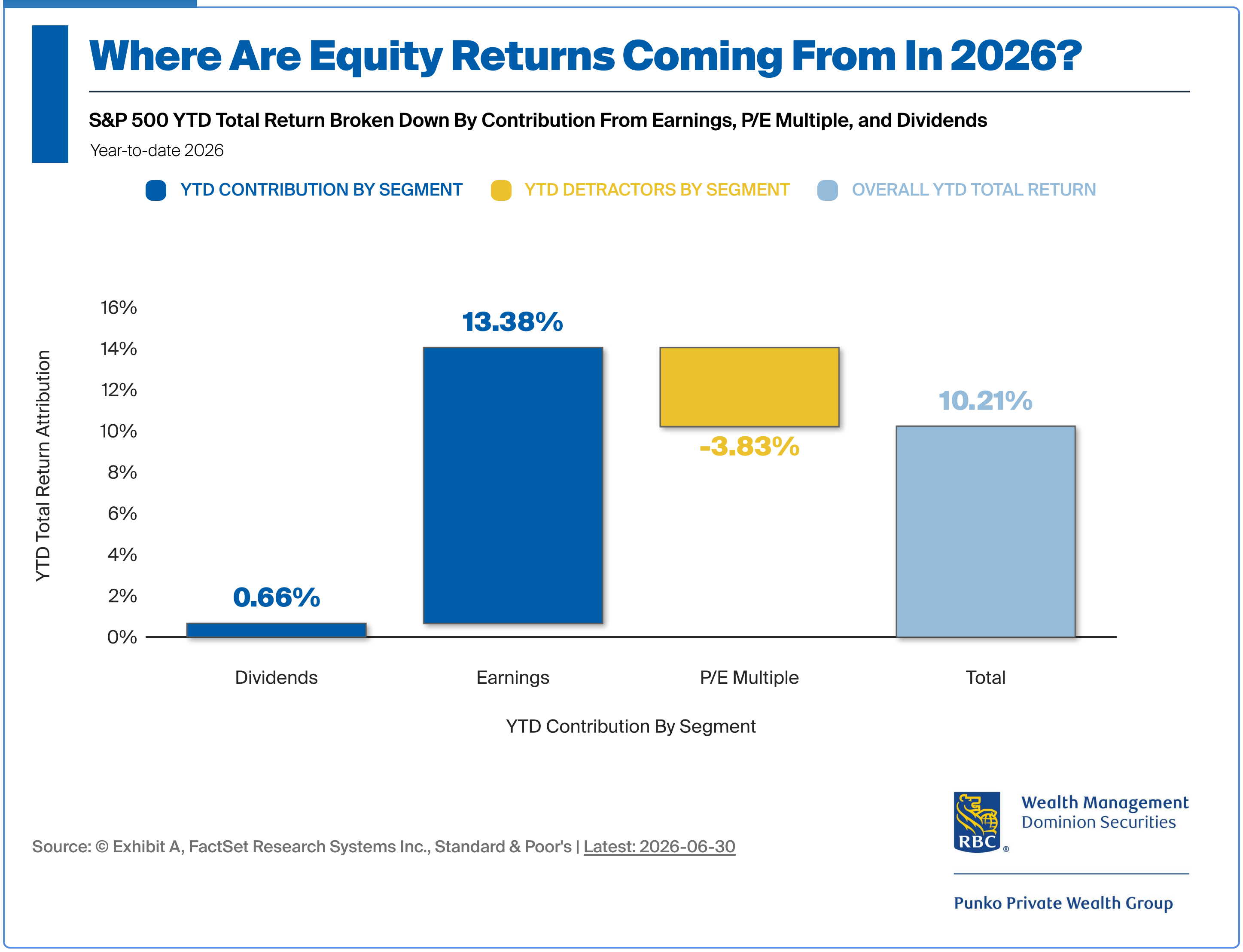
Earnings have driven the stock market

Jack Bogle had a formula for calculating expected stock market returns that looks like this:

Stock market returns = dividend yield + earnings +/- the change in PE ratio.

The fundamentals (dividends and earnings) tend to matter much more over the long run while valuations often say more about how investors are feeling about the current market environment. What's interesting about the returns in 2026 is that fundamentals are so strong that valuations have actually fallen!

Exhibit C



Earnings growth has continued to be the engine for stock market returns this year.

Emerging markets have benefited from the AI trade

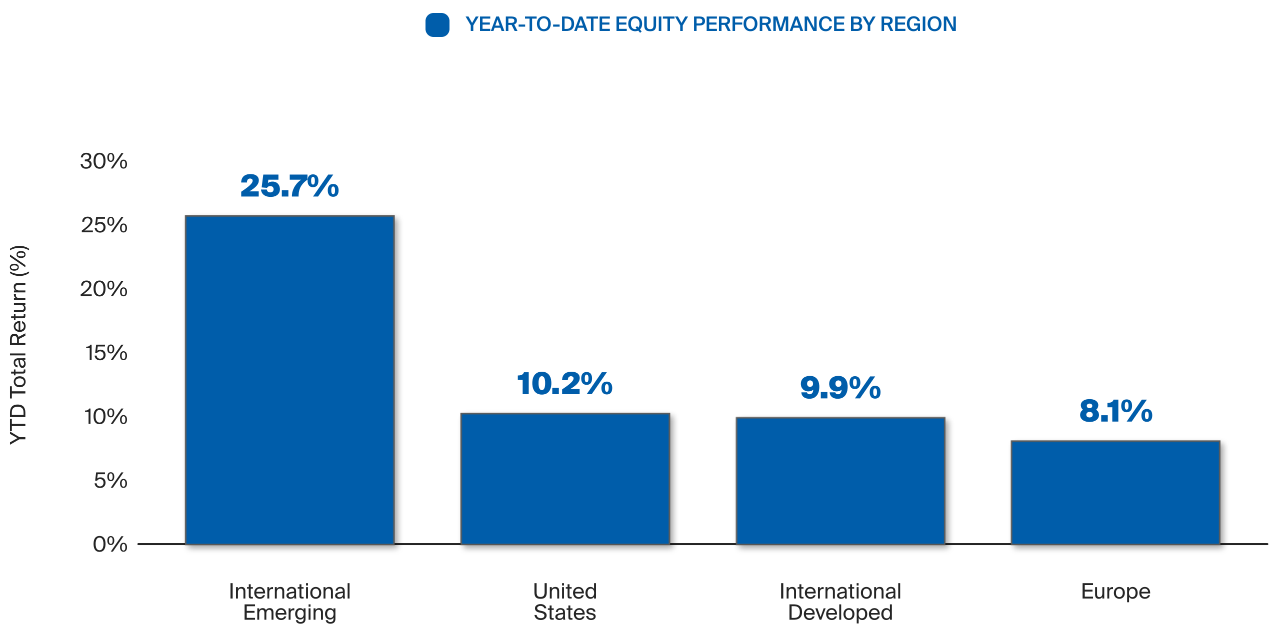
One of the biggest reasons the U.S. stock market outperformed the rest of the world for more than a decade is that U.S. markets have carried some of the most important technology companies. Most other countries didn't have tech stocks that could keep up. That trend has been changing in recent years and emerging markets are the beneficiaries. Countries like Taiwan and South Korea have been among the biggest winners from the semiconductor boom caused by all of the AI capex and memory demand.

Exhibit D

Regional Equity Performance in 2026

International (Developed & Emerging), United States, and Europe year-to-date (YTD) Equity Total Return (%)

YTD 2026



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Emerging markets outperformed by a wide margin in 2025. They are outperforming by an even wider margin so far in 2026. One of the potential benefits of diversification is that the winners can come from unexpected places.

The U.S. economy has been resilient

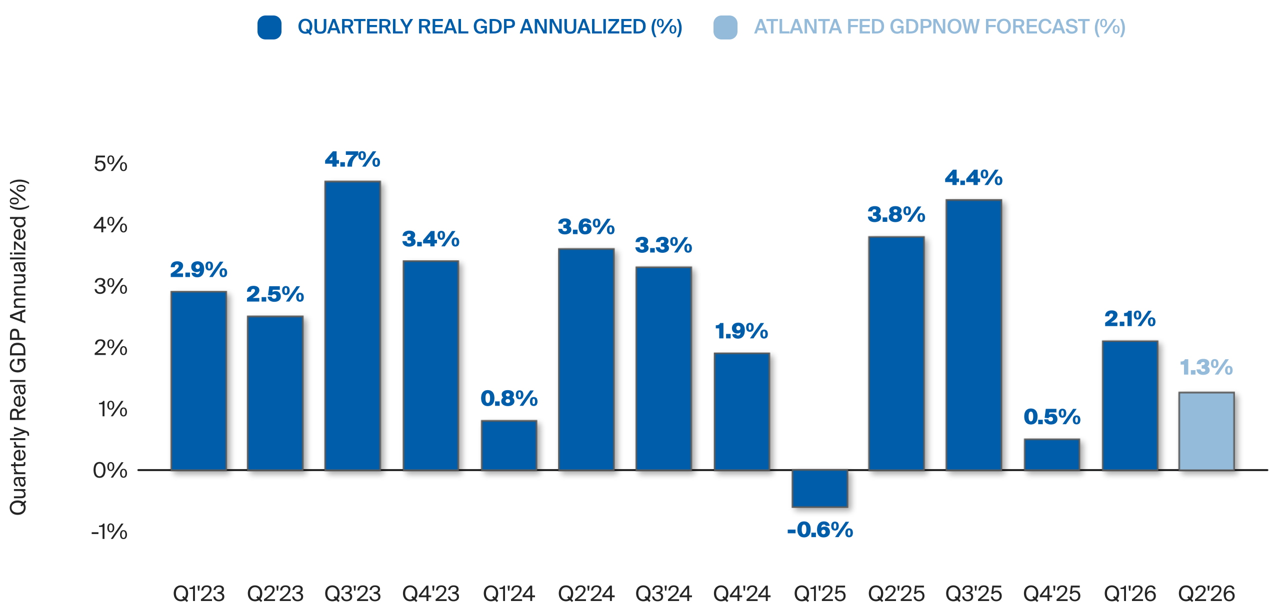
There has been a lot thrown at the U.S. economy in the 2020s. Here are some examples: the pandemic, supply chain shocks, 9% inflation, an aggressive Federal Reserve hiking cycle, tariffs, and two wars that caused energy prices to move substantially higher. And yet the economy continues to expand in the face of every challenge. There have been slowdowns but every time the economy has bounced back.

Exhibit E

How is the U.S. Economy Performing?

Past 3 Years and Upcoming Quarter Forecast (When available from Atlanta Fed)

Past 3 Years and Upcoming Quarter Forecast



Source: © Exhibit A, U.S. Bureau of Economic Analysis, Federal Reserve Bank of Atlanta via FRED | Latest: 2026-04-01

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So far in 2026 the economy is still producing positive real GDP growth. Despite all of the recession calls the U.S. economy marches higher.

Job losses are still low despite AI concerns

One of the big reasons the economy has remained so resilient is because most people are still employed. The consumer makes up around 70% of the economy and as long as people have jobs, they are willing to spend money. There are many worries about the impact of AI on the labor market in the years to come. It's possible those concerns will be valid in the future, but they're not showing up in the economic data just yet.

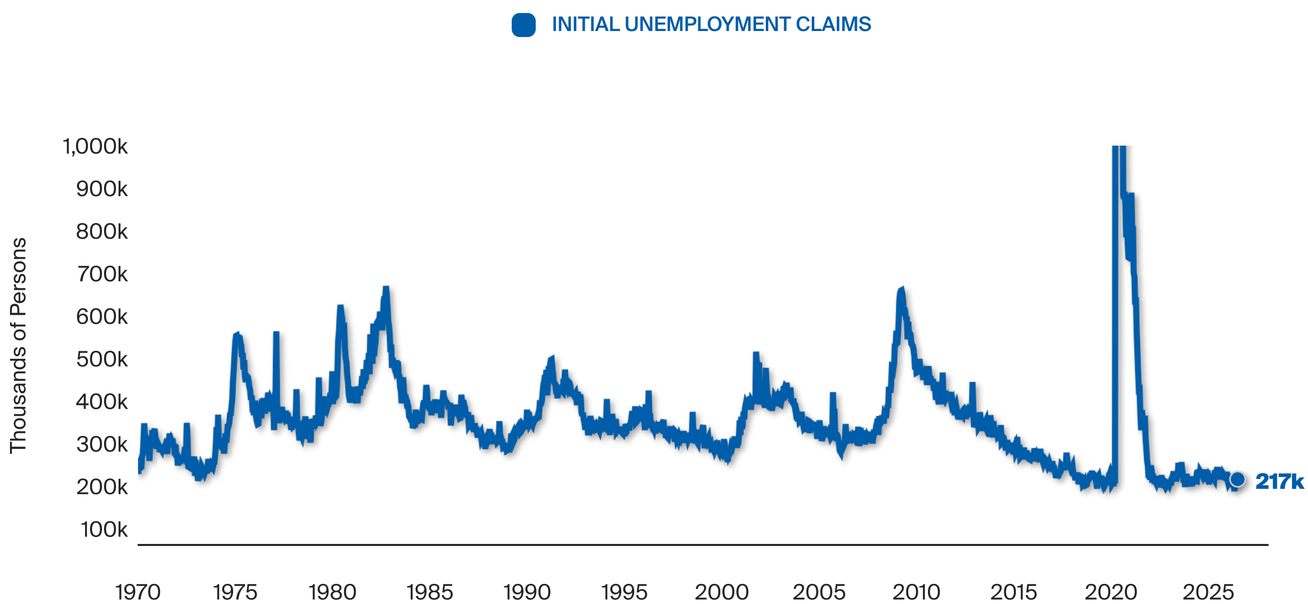
The U.S. unemployment rate is still 4.2%. Initial unemployment claims are still very low. In fact, during the 1990s economic boom times, initial unemployment claims never once got as low as they are today.

Exhibit F

Job Loss in the United States

Initial Unemployment Claims

Since 1970



Source: © Exhibit A, U.S. Department of Labor via FRED | Latest: 2026-06-27

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As long as job losses stay low, the economy has the potential to keep growing.

Inflation expectations remain muted

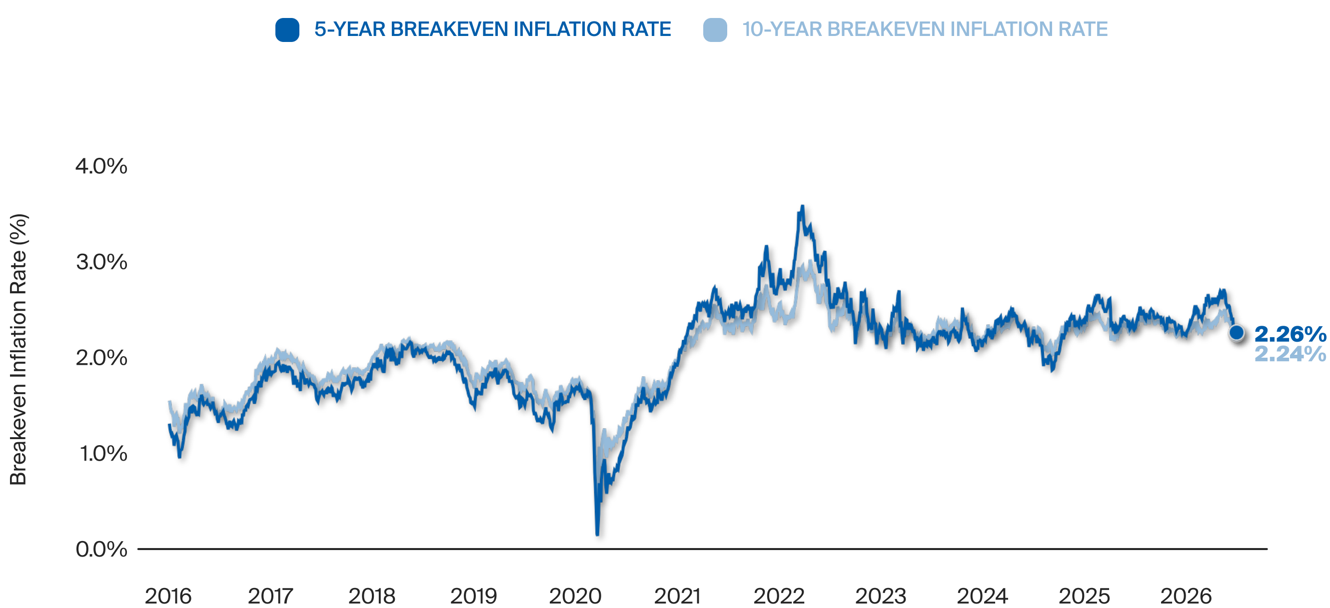
Inflation rose back to 4.2% in May due to some combination of the war in Iran, spiking energy prices, and a resilient U.S. economy. The stock market took the higher inflation reading in stride, however, as there wasn't much of a market reaction to the news. Bond yields have been steady over the past three months as well. The chart below shows both 5-year and 10-year inflation breakeven rates falling recently which may be the market's way of pricing in a more transitory outcome for inflation versus a longer, persistent inflationary cycle.

Exhibit G

Expected Inflation in the U.S.

5-Year and 10-Year Breakeven Inflation Rates

Past 10 Years



Source: © Exhibit A, Federal Reserve Bank of St Louis via FRED | Latest: 2026-06-30

As always, if you have any questions about any of this, please don't hesitate to reach out.

Chart Disclosures

Exhibit A: Year-to-date (YTD) Price Path of the S&P 500, S&P 493, and the Mag7: The S&P 500 tracks the performance of 500 large-cap U.S. companies, serving as a benchmark for the U.S. stock market. The index is weighted by market capitalization. The chart displays year-to-date price returns of the S&P 500, S&P 493, and Mag7. The Mag7 refers to Apple, Microsoft, Amazon, NVIDIA, Meta Platforms, Alphabet, and Tesla—seven large-cap stocks often cited for their market leadership. The S&P 493 represents the remaining constituents of the S&P 500 after excluding the Mag7. This breakdown highlights the performance gap between the index's largest names and the broader market.

Exhibit B: S&P 500 year-to-date (YTD) Sector Performance in 2026 (including dividends) with maximum drawdown: The S&P 500 tracks the performance of 500 large-cap U.S. companies, serving as a benchmark for the U.S. stock market. The index is weighted by market capitalization. The 11 S&P 500 Sectors represent the 11 distinct categories of companies within the S&P 500 index, each reflecting a specific area of the economy. The chart shows the S&P 500 and its sector index total returns year-to-date with maximum drawdowns as diamonds. Total returns include dividends. Dividends are payments made by companies to shareholders, typically from profits, as a return on investment. The chart is sorted highest to lowest by year-to-date return. The maximum drawdown measures the largest decline in the value of each sector index, calculated as the difference between the peak and the trough within the year.

Exhibit C: S&P 500 YTD Total Return Broken Down By Contribution From Earnings, P/E Multiple, and Dividends: The S&P 500 tracks the performance of 500 large-cap U.S. companies, serving as a benchmark for the U.S. stock market. The index is market cap weighted. Total return reflects price changes plus reinvested dividends. Year-to-date return attribution is broken into three components: earnings growth, which captures the impact of changes in trailing twelve-month earnings; P/E multiple expansion, which measures the effect of changes in the S&P 500's trailing 12-month price-to-earnings ratio; and dividends, which represent the return contribution from dividends paid.

Exhibit D: International (Developed & Emerging), United States, and Europe year-to-date (YTD) Equity Total Return (%): The S&P 500 Index tracks the performance of 500 large-cap U.S. companies and serves as a benchmark for the U.S. stock market. The index is market-cap weighted. Returns shown represent year-to-date total return performance as of the current date. The following tickers are used as proxies for international equity markets: EFA (International Developed), EEM (Emerging Markets), and IEV (Europe). Total return includes dividends.

Chart Disclosures

Exhibit E: Past 3 Years and Upcoming Quarter Forecast (When available from Atlanta Fed): Real GDP is Gross Domestic Product adjusted for inflation, representing the total value of all goods and services produced in the U.S. economy, serving as a measure of economic growth. The Atlanta Fed GDPNow Forecast is a real-time estimate of U.S. GDP growth provided by the Federal Reserve Bank of Atlanta. It uses a dynamic model to update projections for real GDP growth as new economic data is released, offering a timely and data-driven outlook on the economy's performance. It can be found here: https://www.atlantafed.org/cqer/research/gdpnow. The chart shows the quarter over quarter annualized change in Real GDP along with the Atlanta Fed GDPNow's forecast for the upcoming quarter.

Exhibit F: Initial Unemployment Claims: Initial Unemployment Claims represent the number of new applications for unemployment benefits filed by individuals who have recently lost their jobs. This metric is a key indicator of labor market conditions, providing insights into the level of job loss and overall economic health. A rise in initial claims often signals economic weakness, while a decline suggests labor market strength. The Y axis is capped at 1,000k to prevent the April 4, 2020, COVID-19 initial unemployment claims reading of 6,137k from distorting the chart and obscuring historical patterns.

Exhibit G: 5-Year and 10-Year Breakeven Inflation Rates: The 5-Year Breakeven Inflation Rate measures the difference between the 5-year U.S. Treasury yield and the 5-year Treasury Inflation-Protected Securities (TIPS) yield, representing the market's expectations for average inflation over the next five years. The 10-Year Breakeven Inflation Rate measures the difference between the 10-year U.S. Treasury yield and the 10-year Treasury Inflation-Protected Securities (TIPS) yield, representing market expectations for average inflation over the next decade. The chart shows the difference between short-term (5 years) and long-term (10 years) inflation expectations of market participants.

Definitions

The S&P 500 tracks the performance of 500 large-cap U.S. companies, serving as a benchmark for the U.S. stock market. The index is weighted by market capitalization. Indices are unmanaged and investors cannot invest directly into them.

The 11 S&P 500 Sectors represent the 11 distinct categories of companies within the S&P 500 index, each reflecting a specific area of the economy. The sectors are listed in the chart along the x axis. Each sector groups companies with similar business activities.

The Atlanta Fed GDPNow Forecast is a real-time estimate of U.S. GDP growth provided by the Federal Reserve Bank of Atlanta. It uses a dynamic model to update projections for real GDP growth as new economic data is released, offering a timely and data-driven outlook on the economy's performance. It can be found here: https://www.atlantafed.org/cqer/research/gdpnow

Real GDP is Gross Domestic Product adjusted for inflation, representing the total value of all goods and services produced in the U.S. economy, serving as a measure of economic growth.

Initial Unemployment Claims are the number of new claims for unemployment benefits, used as a key indicator of the strength or weakness in the labor market.

The NASDAQ Composite is a stock market index that includes over 3,000 companies listed on the NASDAQ exchange, with a strong focus on technology and growth sectors. It serves as a key indicator of tech and innovative industry performance. Indices are unmanaged and investors cannot invest directly into them.

The Dow Jones Industrial Average (DJIA) is a stock market index that tracks 30 large, publicly traded U.S. companies. It is a key benchmark for the overall performance of the U.S. stock market. Indices are unmanaged and investors cannot invest directly into them.

The 10-Year Breakeven Inflation Rate measures the difference between the 10-year U.S. Treasury yield and the 10-year Treasury Inflation-Protected Securities (TIPS) yield, representing market expectations for average inflation over the next decade.

The 5-Year Breakeven Inflation Rate measures the difference between the 5-year U.S. Treasury yield and the 5-year Treasury Inflation-Protected Securities (TIPS) yield, representing the market's expectations for average inflation over the next five years.

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