CALAMOS®
WEALTH MANAGEMENT

**2026 MID-YEAR OUTLOOK:**
# An Uneven Expansion

Growth is continuing. But it is not showing up the same way for everyone.

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# EXECUTIVE SUMMARY

The second quarter of 2026 told two stories at once. Equity markets delivered their best quarter in six years, with the S&P 500 gaining approximately 15% and the Nasdaq gaining more than 21%, per Bloomberg. At the same time, inflation climbed back to a three-year high. Both things are true, and understanding why they are happening together is where this outlook begins. If the first quarter of 2026 was defined by shock and repricing, following the Strait of Hormuz closure and a war that erased rate-cut expectations overnight, the second quarter was defined by digestion and a selective recovery: markets climbed the wall of worry even though the same core issues around energy, the Fed, and growth remained on the table. As of this writing in mid-July, that recovery narrative is being tested again by renewed tensions in the Strait of Hormuz, a reminder that the underlying tension has stabilized, not resolved.

We are in an expansion. But it is an uneven one. Four forces are shaping the second half of 2026, and each one has direct implications for how portfolios should be built and managed. Jon Adams, CFA®, our Chief Investment Officer, walks through each of them in this mid-year outlook.

### Theme 1: Geopolitics and Energy

Middle East conflict disrupted energy flows through the Strait of Hormuz and pushed energy prices up more than 23% year-over-year by May, per the U.S. Bureau of Labor Statistics. That single supply shock drove headline Consumer Price Index (CPI) from 2.4% in January to 4.2% in May, a three-year high, reversing a disinflation trend many investors had considered well established and complicating the Federal Reserve's path forward.

### Theme 2: Resilient but Slowing Growth

The base case is still expansion. S&P 500 earnings growth for Q2 2026 is estimated at 23.3% year over year and full-year growth at 24.1%, per FactSet. But payroll growth has softened, consumer sentiment remains low despite strong equity returns, and the K-shaped nature of this economy means outcomes vary significantly depending on where you look. The easiest part of this recovery is behind us.

### Theme 3: Trade Fragmentation

Global supply chains are being rebuilt for resilience, not cost efficiency. Trade tensions, tariffs, and geopolitical blocs are reshaping how goods and capital move globally. This is a structural shift, not a cyclical one, and it creates persistent cost pressures for globally exposed companies, wider dispersion across regions, and a stronger case for active management and diversification.

### Theme 4: A Wider Range of Outcomes

The distribution of plausible outcomes is wider than it has been in most prior cycles. Energy could normalize or remain elevated. Growth could broaden or narrow further. Policy could stabilize or escalate. The right response is not to pick a single scenario and position for it. It is to build portfolios that can perform across a range of outcomes, with income, quality, and diversification as the foundation.

## MID-YEAR MARKET SNAPSHOT

S&P 500: +15.2% in Q2 2026, best quarter since Q2 2020 | Nasdaq: +21.6% | CPI: 4.2% year-over-year (May 2026) | Core Personal Consumption Expenditures (PCE): 3.4% | Fed Funds Rate: 3.50%–3.75% | Unemployment: 4.2% | Q2 S&P 500 Earnings Per Share (EPS) growth estimate: +23.3% | Profit margins: 14.2% | 10-year Treasury: ~4.4%

*Sources: Bloomberg, FactSet Earnings Insight (July 2, 2026), U.S. Bureau of Labor Statistics, Bureau of Economic Analysis, Federal Reserve. Market return data as of June 30, 2026. Past performance is not indicative of future results.*

# Theme 1: Geopolitics and Energy: Inflation's Return

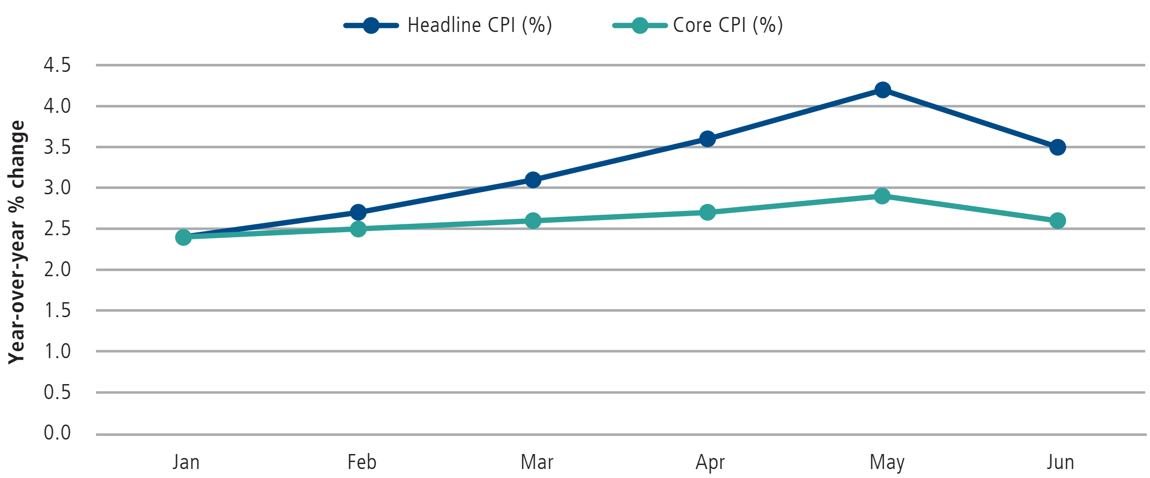
The Middle East conflict that began in late February 2026 disrupted energy flows through the Strait of Hormuz and drove energy prices up more than 23% year-over-year by May, according to the U.S. Bureau of Labor Statistics. That single supply shock pushed headline CPI from 2.4% in January to 4.2% in May, a 1.8 percentage point increase in five months and the highest reading in three years. This reversed a disinflation trend many investors had considered well established.

New Fed Chair Kevin Warsh, confirmed in May 2026, held rates steady at 3.50% to 3.75% at the June FOMC meeting. The June Summary of Economic Projections revised the Core PCE forecast for 2026 upward from 2.7% to 3.3%, per the Federal Reserve. Markets are now pricing approximately one rate hike before year-end. Warsh has also shortened the policy statement and declined to provide a rate forecast, signaling a quieter, more data-dependent approach that adds uncertainty to the timing of any policy move.

There was an important development on the other side of this picture in June. Oil fully round-tripped the conflict-driven spike, falling from a May high of $99.47 per barrel back into the high-$60s, and breakeven inflation measures fell sharply on optimism around a potential U.S.-Iran interim framework, per Bloomberg. That improvement began showing up in the data: June CPI cooled to 3.5% year-over-year, and core CPI eased to 2.6%, both below expectations.

That improvement should be seen as encouraging, not resolved. Tensions in the Strait of Hormuz reignited in early July: the ceasefire collapsed, U.S. forces struck Iranian targets again, and tankers came under attack. WTI has since bounced back into the high-$70s from its early-July trough in the low-$70s. Energy has returned to being a genuine swing factor rather than a clean tailwind for inflation. If the Strait remains contested, that reintroduces upside risk to headline inflation at a moment when the Fed is already flagging sticky core prices.

INFLATION REVERSED COURSE, THEN REVERSED AGAIN




*Source: U.S. Bureau of Labor Statistics (CPI, May and June 2026). Data believed reliable but not independently verified and subject to revision. Past performance is not indicative of future results.*

## PORTFOLIO IMPLICATION

We are building portfolios that can perform across different rate scenarios rather than betting on a specific Fed path. In our view, fixed income continues to offer diversification benefits and income potential, though neither is guaranteed in every environment. We believe bonds are well positioned to outperform cash over the second half, though rate and credit outcomes remain uncertain. We also believe active management matters in this environment: the dispersion between sectors and credit quality is wide enough that a passive approach may leave return opportunities on the table — though there is no assurance active management will outperform.

## Theme 2: Resilient but Slowing Growth: Selective, Not Broad

The U.S. economy continues to grow, but the growth is becoming more selective. The headline numbers are strong: S&P 500 earnings growth for Q2 2026 is estimated at 23.3% year-over-year, per FactSet Earnings Insight. Analysts raised estimates during the quarter, which is unusual. In a typical quarter, estimates fall by an average of 2.7% based on the ten-year historical average from FactSet. The fact that estimates moved higher reflects genuine corporate strength.

Beneath the surface, the picture is more mixed. Payrolls came in at 57,000 in the most recent reading, with a negative revision of 74,000 to the prior two months. Unemployment has declined to 4.2%, but consumer sentiment remains low despite strong market returns. The S&P 500 is powering on despite a significant disconnect between sentiment and equity performance. Elevated inflation and the K-shaped nature of this economy, where outcomes vary significantly by income level, likely explain much of that gap: the top 20% of households by income account for over half of total income and roughly 40% of total spending, which helps explain why strong equity markets are not translating into broadly improved sentiment. Economic surprises are on a strong upward trend overall, with all sectors positive except housing and real estate. On balance, the growth picture has actually firmed a bit: consensus 2026 Gross Domestic Product (GDP) growth expectations have risen to 2.1% from 2.0% in April, and recession odds have fallen to 25% from 33% over the same period, the lowest reading since early 2025. Better growth does not eliminate the Fed's inflation concerns, but it is a meaningful data point in the resilience column.

Earnings concentration is also worth naming. Energy sector EPS estimates rose 61.5% during Q2 and Information Technology rose 8.7%, per FactSet. The other nine sectors contributed positively but less dramatically. Much of the Technology strength traces back to AI-related capital spending: Big Tech's data center buildout is flowing directly to chipmakers, and Nvidia in particular books those chip sales as immediate revenue while buyers depreciate them as capital assets over several years, a dynamic that flatters current earnings on both sides of the transaction. The breadth of corporate confidence is notable too: nearly 65% of S&P 500 companies issued positive EPS guidance this quarter, the highest share of positive Information Technology guidance since the metric began in 2006, and the fewest companies issuing negative guidance since Q2 2021. This is a selective recovery, not a broad one. The forward P/E for the S&P 500 is approximately 20.4 times, modestly above historical averages, per FactSet, which means the market is not cheap and leaves limited room for disappointment.

### EARNINGS ARE STRONG. THE GROUND UNDERNEATH IS SOFTER.

Q2 2026 earnings and economic snapshot

| WHAT'S STRONG | |
|---|---|
| +23.3% | Q2 2026 S&P 500 EPS growth, year-over-year (FactSet) |
| +24.1% | Full-year 2026 EPS growth estimate (FactSet) |
| 14.2% | S&P 500 profit margins, vs. 12.3% five-year average (FactSet) |

| WHAT'S SOFTENING | |
|---|---|
| 57,000 | Most recent payroll reading, with a -74,000 revision to prior months |
| 4.2% | Unemployment rate |
| ~20.4X | S&P 500 forward P/E, modestly above historical average (FactSet) |

The market is pricing in confidence that the labor data has not fully confirmed — valuations leave limited room for disappointment.

*Sources: FactSet Earnings Insight (July 2, 2026). Bloomberg. U.S. Bureau of Labor Statistics. Full-year 2026 EPS and revenue growth figures are consensus analyst estimates, are subject to change, and actual results may differ materially. Historical economic and earnings data is not indicative of future results.*

### PORTFOLIO IMPLICATION

A resilient but slowing economy is not one to exit. It is one to be selective in. We favor companies with durable earnings, pricing power, and strong balance sheets over broad index exposure. We are watching small and mid-cap equities for continued market broadening. The Russell 2000 gained 21.5% in Q2, per Bloomberg, and may offer better risk-adjusted value than large-cap indices at current valuations.

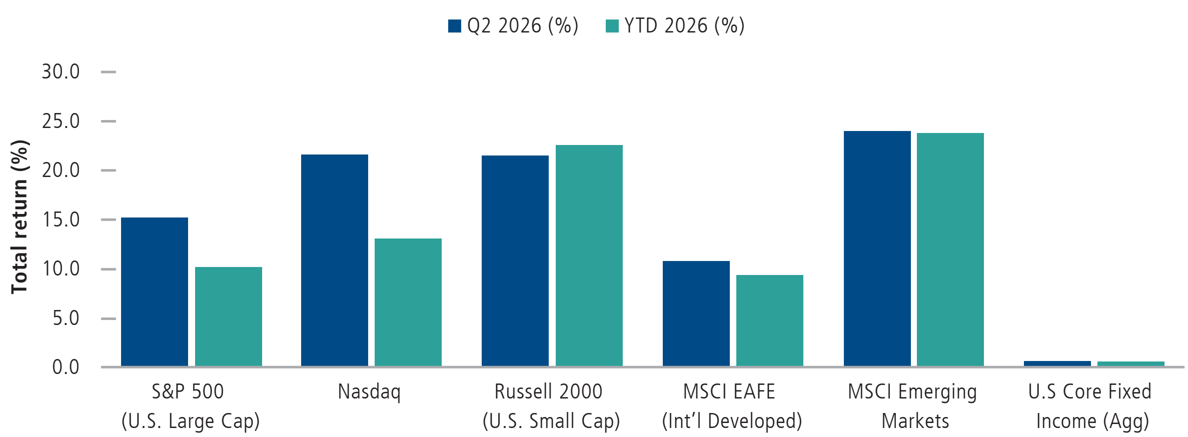
# Theme 3: Trade Fragmentation: Built for Resilience, Not Cost

The global trading system is undergoing a structural change, not a cyclical one. Trade tensions, tariffs, and geopolitical blocs are reshaping supply chains around strategic independence rather than cost efficiency. This is a multi-year reorientation of how goods and capital move globally, and it will not reverse when any particular negotiation concludes or administration changes.

The investment consequences are real and lasting. Companies that relied on globally optimized supply chains face persistent cost pressures. Margins in globally exposed sectors face structural headwinds that were not present three years ago. At the same time, economies and sectors that benefit from onshoring, nearshoring, and domestic manufacturing investment are seeing structural tailwinds. The dispersion of outcomes across regions and sectors is wider than it has been in most prior cycles.

Monetary policy is also diverging across regions as central banks respond to different growth and inflation conditions. That divergence creates currency risk, rate risk, and opportunity that broad passive international exposure does not naturally capture. Active management and regional selectivity matter more in this environment. Global diversification has become more important precisely because fragmentation is creating dispersion. The rebound in international equities in 2025 and into 2026 illustrates this directly, and the character of that rebound has evolved: in the first quarter, emerging markets were marked by extreme internal divergence between winners and losers, whereas participation broadened meaningfully in the second quarter.

### INTERNATIONAL MARKETS KEPT PACE WITH — OR BEAT — U.S. LARGE CAP




*Source: Bloomberg. Total returns as of June 30, 2026. Past performance is not indicative of future results.*

## PORTFOLIO IMPLICATION

We have maintained meaningful international exposure and are not reducing it. The diversification argument is stronger now, not weaker, as fragmentation creates wider dispersion across regions. Alternatives including private credit and infrastructure also serve a diversification role, providing return streams with lower correlation to public equity markets. Diversification through alternatives is no longer just an institutional strategy.

## Theme 4: A Wider Range of Outcomes: Planning Beyond the Base Case

We are in a period where the distribution of plausible outcomes is genuinely wider than it has been in most prior cycles. Consider the range on just a few key variables heading into the second half of 2026.

» **Energy and inflation:** If the U.S.-Iran interim framework holds and oil stabilizes, inflation could ease meaningfully and the Fed may have room to hold or cut. If disruptions resume or escalate, the Fed faces real pressure to hike. Both scenarios remain live: oil round-tripped lower in June, but the ceasefire collapsed in early July and prices have since bounced back into the high-$70s on renewed Hormuz tensions. The path from here is genuinely two-sided.

» **Growth:** Corporate earnings are strong and economic surprises are broadly positive. But payroll growth is softening, consumer sentiment is low, and the K-shaped nature of this economy means weaker households face real financial strain. A broadening recovery and a further narrowing of growth are both plausible paths from here.

» **Trade and policy:** Supply chain fragmentation is structural, but the pace at which it affects costs and margins depends heavily on policy decisions still being made. Further escalation would create real near-term disruption. Stabilization would reduce margin pressure in globally exposed sectors.

» **Politics and policy:** Republicans currently hold narrow majorities in both the House and Senate. Democrats are considered favored to retake the House, while the Senate is closely contested with Republicans a slight favorite. This will become more of a factor as we move toward the November midterms, particularly heading into September. Even a change in control of one or both chambers would most likely affect oversight, committee agendas, and the fate of narrow bipartisan bills rather than produce sweeping new legislation, given the difficulty of enacting major legislation under divided government.

» **Markets:** The S&P 500 had its best quarter since 2020. History shows that strong quarters are sometimes followed by consolidation and sometimes by continuation. The current earnings backdrop is supportive, but valuations at approximately 20.4 times forward earnings leave limited room for downside surprises.

This is not pessimism. It is an honest description of the environment. A wider range of outcomes does not mean we expect the worst. It means the appropriate portfolio response is one that can hold up across multiple scenarios rather than one optimized for a single directional call.

High uncertainty means the Federal Reserve is in a genuine wait-and-see posture, as Chair Warsh has signaled through shortened statements and the absence of a rate forecast. We are taking a similar approach: not passive, but deliberate. Making tactical adjustments as conditions change rather than committing to a directional bet that may not survive contact with the data. We made tactical shifts during Q2 in response to changing conditions, and we will continue to do so.

### PORTFOLIO IMPLICATION

The right response to a wider range of outcomes is income to cushion volatility, quality at the company level that holds up when conditions are less predictable, and diversification across asset classes and geographies so that no single scenario creates a decisive drag on the portfolio.

# 2026 PORTFOLIO POSITIONING

An uneven expansion does not call for dramatic repositioning. It calls for discipline around what matters most when outcomes are less predictable: quality, income, and diversification. We are not chasing the market's gains. We are building portfolios designed to participate in the upside while holding up if conditions deteriorate.

## 01 U.S. Equities: Quality Over Concentration

We remain constructive. Earnings are strong and margins are above historical averages, per FactSet. But the S&P 500's top-heavy structure means broad index exposure carries more single-name and sector risk than in most prior cycles. We prefer companies with durable earnings, pricing power, and strong free cash flow. We are watching small and mid-cap equities for continued broadening of market leadership. The Russell 2000 gained 21.5% in Q2, per Bloomberg.

## 02 Fixed Income: Active Management Required

The U.S. Aggregate Bond Index returned 0.6% in the first half, per Bloomberg. Bonds still provide ballast and income. The 10-year Treasury yield near 4.4% and wide credit dispersion mean active management is generating real return differences. We expect bonds to outperform cash in the second half and favor active managers over passive index exposure.

## 03 International Equities: Maintaining Exposure

MSCI EAFE returned 10.8% and MSCI Emerging Markets gained 24.0% in Q2, per Bloomberg. The case for global diversification has strengthened as trade fragmentation creates wider dispersion across regions. We are maintaining the international exposure we have built. The argument for holding it is more compelling today than when we established these positions.

## 04 Private Alternatives: Structural, Not Tactical

For suitable clients, private credit, infrastructure, real assets, and secondary strategies remain a core part of portfolio construction. We recommend 10% to 30% in private alternatives for suitable clients, with careful attention to liquidity planning and manager selection. Private credit headlines have been challenging, but we view reported stress as concentrated in public credit markets. The underlying opportunity remains intact.

## THE BOTTOM LINE

An uneven expansion is not a reason to step back from markets. It is a reason to be more deliberate about how you are in them. We are favoring quality over size, income over speculation, and diversification across asset classes over concentrated index exposure. That is how we are managing portfolios for the second half of 2026 and how we intend to serve our clients through whatever the next phase of this cycle brings.

Data sources: Bloomberg / U.S. Energy Information Administration (market returns, yield data, oil prices, inflation breakevens); FactSet Research Systems (earnings estimates, revenue growth, profit margin data, P/E ratios, EPS guidance statistics; FactSet Earnings Insight as of July 2, 2026); U.S. Bureau of Labor Statistics (CPI, May and June 2026); Bureau of Economic Analysis (Core PCE, May 2026); Federal Reserve (FOMC June 2026 Summary of Economic Projections); University of Michigan Survey of Consumers. All return data as of June 30, 2026 unless otherwise noted. Forward-looking statements are based on current expectations and are subject to change.



To learn more about our approach to the second half of 2026, visit **wm.calamos.com** to connect with a Calamos Wealth Management advisor.

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TODAY FOR TOMORROW

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