Nordwand Capital LLC

Second Quarter 2026 Market Commentary

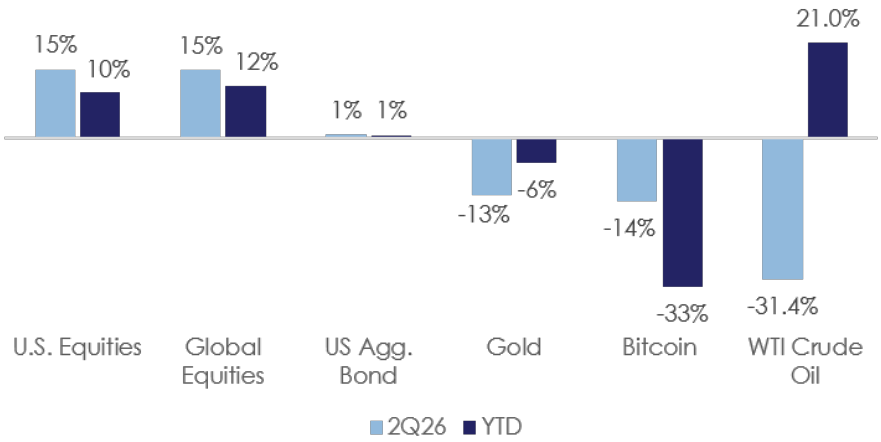
Equities come roaring back while leadership continues to rotate

July 2026

Executive Summary

- ***Equity markets*** *rallied strongly in 2Q, with most heavily-trafficked indices rising 15-25% during the quarter (Figure 2). Rotations continued as investors seek new ways to deploy capital into areas of the global economy where the business models seem resilient in the face of evolving A.I. and shifting trade policies.*
- ***Monetary policy*** *speculation has been more prominent, with the swearing-in of new Federal Reserve chair Kevin Warsh occurring in May. Markets have been chaotic in predicting rates cuts – and then rate hikes – given the swing in prices in the wake of the Iran conflict.*
- ***Commodities*** *(and their crypto proxies) have seen wild swings (Figure1), with gold and Bitcoin extending their losing streaks and crude oil receding dramatically from early-April highs. Oil prices, year over year, were up a modest 6.7% as of June 30th.*
- *We do not expect the political and cultural struggle over* ***data center growth*** *to diminish in the near-term; given the role these investments are playing in driving overall economic growth and will dictate critical outcomes, we think that battle should be met head-on.*
- *Thinking about* ***the rest of 2026*** *and beyond, some pockets look less attractive given recent moves higher, while others that benefit from capex growth or those stocks and sectors that have sold-off over the last 3-6 months could be good candidates for rebounds. We expect interest rates to be rangebound, and expect the Fed to keep its cards close to its vest.*

Figure 1: Asset Class Returns
(2Q26 & YTD)



Source: Bloomberg, Nordwand Capital as of June 30, 2026.
Note: US equities = S&P 500 Index; Global equities = MSCI ACWI Index.

Did you see those moves? What's happening next?

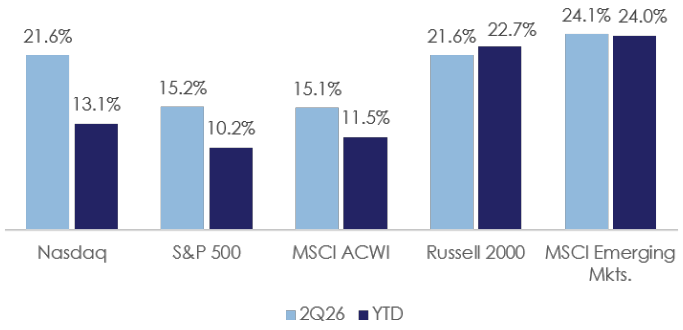
We wrote to clients after 1Q26 about the impact of the Iran war on global markets. The S&P 500 closed at its low point YTD on March 31, then proceeded to rally over 15% in 2Q (Figure 2) as the odds of the conflict turning more globally destructive began to recede.

Bond yields rose as markets began to price in rate hikes instead of rate cuts as we all grappled with inflation prospects tied to the Strait of Hormuz being/remaining closed to global freight and energy traffic for a prolonged period. Unlike equities, which rallied off the bottom, yields on Treasuries remain elevated.

For the record, we are doubtful that the Fed under Kevin Warsh will hike rates this year unless it is genuinely backed into a corner to stamp out inflation. Markets are pricing in 1-2 25-basis point hikes this year, so we are taking the minority view for the time being. At the big annual gathering of central bank heads in Sintra, Portugal this June, Warsh discussed the data task force he's been creating to evaluate what he views as backward-looking data indicators driving less-optimal monetary policy decisions. His stated goal is to find better, more contemporaneous data that helps the Fed rely less on biased or unreliable surveys that don't accurately reflect the state of the economy. With this backdrop, and precluding any major economic shocks, we believe the Fed's bias may be to remain somewhat still until this new framework can be deployed over the next 9-12 months.

"Markets change, tastes change, so the companies and individuals who choose to compete in those markets must change."
– An Wang, Wang Laboratories

Figure 2: Equity Market Returns
(2Q26 & YTD)

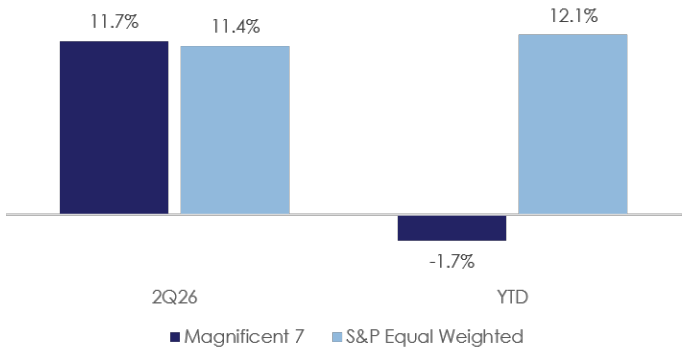


Source: Bloomberg, Nordwand Capital as of June 30, 2026.

We think the rally in developed and emerging market equities in 2Q supports the view that central banks are unlikely to increase interest rates in a way that would slow global growth in the near-term. We see the positive moves in small cap stocks (Figure 2, Russell 2000) and emerging markets (Figure 2) providing supporting evidence that risk-taking among investors is not waning – it's finding new assets to own in an effort to extend the rally.

Further evidence of this "rally extending" move can be found in the performance of the mega-cap stocks that have driven much of the market rally for the last 3.5 years. In Figure 3, we compare the returns of the Mag 7 tech stocks (i.e. AAPL, GOOGL, META, MSFT, NFLX, NVDA, TSLA) to an equal-weighted basket of S&P 500 stocks.

Figure 3: "Magnificent 7" vs. Equal Weight S&P 500 Returns (2Q26 & YTD)



Source: Bloomberg, Nordwand Capital as of June 30, /2026.

Three things are worth pointing out about Figure 3 and its implications.

First, the equal weighted S&P 500 has underperformed its cap-weighted peer index in each of the last 3 years. Smaller or less well-trafficked names outperforming the mega cap names more recently is an obvious indicator of investors diversifying their risk bets. Generally speaking, we view this as a healthy response.

Second, we should note that 2Q26 market performance leaned much more heavily on the Mag 7 to catch a bid. In other words, the Mag 7 names are still highly likely to find supporting buyers after a run of underperformance due to their leadership in the economy and the market. Given their prominence and liquidity, we expect this to continue, barring a tech collapse that sends buyers on strike.

Third, the leadership within the Mag 7 has been shifting. MSFT, NFLX, and META have been down meaningfully YTD, while only Google has outperformed the market for the year. This is doubly interesting when looking at technology leadership for the year. Many of us have lived in a world where software ruled for the last 20+ years – low capital intensity, high margins, long-term enterprise contracts are all good for high growth and higher multiples on earnings. While we still believe the "SaaS-pocalypse" fears are overblown in the near-term, semiconductor stocks are taking over leadership in a way that many retail investors and high net worth families might not appreciate if they don't look past NVDA. The Philadelphia Semiconductor Index (Ticker: SOX) was up 71% during 2Q26 and 84% YTD. As NVDA was up only 7% YTD through June 30, other stocks have been the leaders of this move. Once again, capital being allocated to less expensive or less well-owned names is a rotation that allows investors to spread their risk around and extend the rally.

In all, we have found the rotations, valuations, and rally to be healthier than in 2023 and 2024 when the concentration of returns felt unsustainable to us. While we all talk about A.I. nonstop (and while many of us decipher what that actually means in many ways) and figure out how it will truly impact the economy 3-5 years from now, finding ways to be exposed to this revolution without resorting to owning the stocks that won the popularity contest 6 months or 2 years ago will be vital.

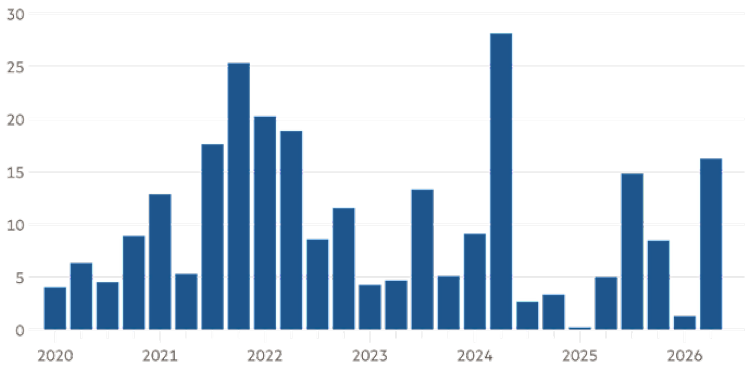
Odds & Ends: Private credit and other markets

We've been regular writers on the topic of private credit and its uses in client portfolios, and we feel that ongoing updates regarding our views on this area are warranted. As we have discussed in prior commentaries, publicly-traded business development companies (BDCs) and closed-end funds have been roiled by retail investors seeking to pull funds in recent periods of market stress. This was a foreseeable outcome, given that many investors are new to this segment of the market and so, too, are many of the advisors pushing clients into it.

Loans to smaller private tech companies, particularly software companies, were a significant cause of much of this stress. If A.I. is going to upend the software business model, the thinking goes, then loans to software companies may – or must – come under duress. The thinking itself is reasonable, but the magnitude and timing of the concern was owed at least in part to the clickbait age in which we find ourselves, and also possibly to some of the bigger banks that could be seen as benefitting from private credit alarm that would allow them to regain some of the market share surrendered since the 2008 global financial crisis. In the shadow of these factors driving investor concerns, many private credit strategies began gating (i.e. limiting) redemptions earlier this year. We have always viewed this as the correct response – private loans are illiquid, and even with healthy cash interest payments and loan origination fees, these investments were always meant to be held longer-term and not traded. Anecdotally, many of the funds with the biggest redemption queues are those with the most retail ownership and recent growth; those with largely institutional investors have seen much less turmoil during this period.

In fact, the Financial Times reported last week[1] that direct lending funds with mostly institutional clients raised $16 billion in 2Q (Figure 4), and that this period was the second strongest fundraising quarter for many of these strategies. As retail investors are puling assets, institutional investors are buying more – and asset managers in some high-profile cases are accelerating their fundraising schedule to meet this growth in demand. We are not suggesting there is nothing to be wary of in private credit, but as we have noted many times before, we find some of these concerns to be a bit cynical in their expression. We generally like the risk and return trade-offs that private credit can add to a portfolio when properly applied – and while we are always looking for emerging risk, we continue to be comfortable with exposures here.

Figure 4: Quarterly Fundraising for US Direct Lending Funds ($bn, as of 2Q26)



Source: Financial Times, Preqin. Note: Fundraising figures include closed-end direct lending funds, and exclude blended and opportunistic debt funds.

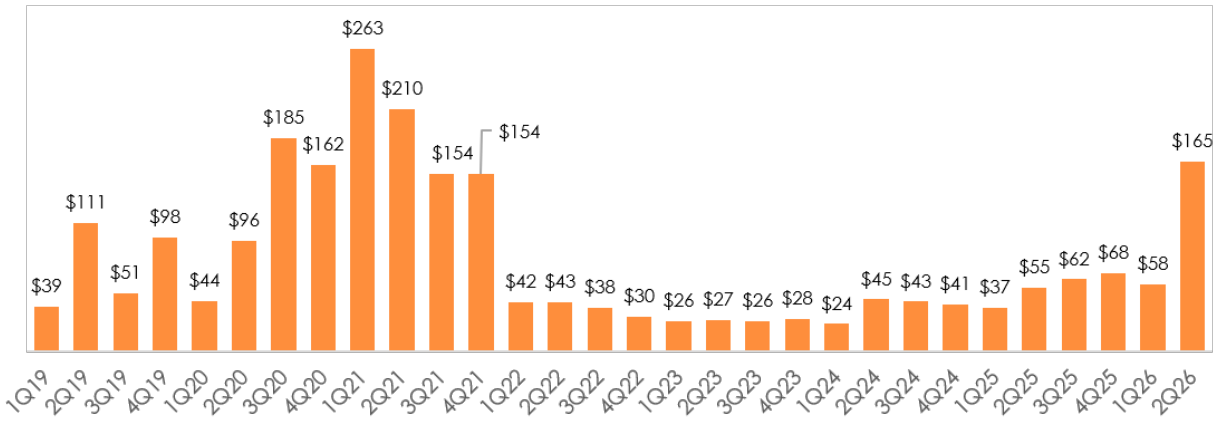
In the public equities space, the IPO market has indeed begun to heat up. SpaceX (ticker: SPCX) came public in June with an $86 billion listing. Further, with offerings likely from OpenAI (the CHAT

[1] Zoffer, J., (2026, July 6), "Data centers are a crucial test of US industrial resolve," Financial Times, Big investors commit billions to private credit despite turmoil

GPT operator) and Anthropic (Claude) later this year, as well as a US listing of SK Hynix, the South Korean technology company that produces, among other things, in-demand memory to support all the data crunching that is required in the A.I. race, the volume of new equity listings in the US looks likely to be impressive.

Despite the headlines, a few words of caution about the health of the IPO market and what it means for private equity. SpaceX and its gargantuan peers finding a market to list their shares publicly does not necessarily read across to the dozens – or hundreds – of smaller companies that have languished in late-stage private equity funds awaiting a chance to monetize. While the big listings will attract attention and perhaps increase risk appetite – which we view positively after several years of subdued activity – we should note that investors clearing way in portfolios for 3-4 >$100 billion companies may soak up excess liquidity, effectively delaying some other listings beyond 2026. We are cautiously optimistic that the upward trend we've been seeing since 2024 will continue but feel we will all need more midsize-company data before it's all clear to hop back into that pool. The private equity queue is sizable, and the interest among LPs in finding liquidity is huge, so we expect continued dam-breaks in the near future. Avoiding recession, interest rate spikes, or geopolitical trouble are all key to this future, of course.

Figure 5: Quarterly IPO Filing Activity
($bn, 2019-2026)



Source: Bloomberg, Nordwand Capital, as of July 3, 2026.

Conclusion

As we move into the second half of 2026, markets are generally higher, diversification is benefitting investors as the rally broadens, and the economy looks to be on reasonably solid footing. Concerns about geopolitics, inflation, and A.I. hype continue to nag at the margins - and indeed a spike in any one of these would be cause for serious concern – but overall the first half went well. Looking ahead, we think earnings will be the story of the second half if we don't get a monetary policy shift or a broader Iran problem. Investors increasingly turning to non-tech sectors, market laggards, and international exposures gives us hope that short-term issues like quarterly earnings will not deflate the market on their own, but we remain very watchful for any medium-term slowdowns in A.I. capex that is driving much of the longer-term earnings and macroeconomic growth that is providing the backdrop for this market to continue moving higher. We look forward to our next update in due course.

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