

Bulls & Bears



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From Easing to a Standstill

Markets entered 2026 pricing in a continuation of the Fed's easing cycle after 175 basis points of cuts since September 2024. That narrative broke down quickly. The Fed held rates steady at 3.50%–3.75% through its first four meetings of the year, and a February Supreme Court ruling that the President lacked authority to impose tariffs under emergency powers added a fresh layer of policy uncertainty just as the Fed was trying to read through tariff driven inflation noise.

The bigger story was leadership. Chair Powell's term expired in May, and incoming Chair Kevin Warsh used his first meeting in June to pivot the Fed's tone toward price stability over labor market support, a notable shift from the prior easing bias. Committee projections now show members split between one to two hikes this year rather than cuts, though Warsh himself declined to submit an individual projection, leaving the path deliberately ambiguous.

Futures markets currently assign roughly a 70% probability of zero rate cuts in 2026. We expect policy to stay firmly data dependent, with the July CPI print and the July 28–29 FOMC meeting as the next key catalysts. Bond investors should prepare for a wider range of outcomes than in recent years and consider laddered duration exposure rather than betting on a single rate path.

No Earnings Reset

The S&P 500's forward earnings estimate has climbed to about \$373/share, up roughly 32% year-over-year. Since 1990 this growth rate has only been matched following the financial crisis and the pandemic. But unlike those episodes, this boom isn't rebounding from slashed forecasts. The prior dip was only about 6%, versus 38% and 22% in those earlier periods. The 2022 reset came through falling stock prices rather than falling earnings, with the forward P/E dropping from about 21.5x to 15.3x while estimates held up.

Growth is broad, all 11 sectors are expanding, eight in double digits, but the growth is uneven. Technology leads at ~82%, the Magnificent Seven at ~44%, and the equal-weight S&P 500 index at ~21%. Because this cycle didn't start from depressed expectations, there's less room for error. With earnings season underway, companies now must deliver on already high estimates rather than simply clear a lowered bar.

AI Supercycle

AI infrastructure spending has been one of the dominant equity market drivers of the year. The four largest hyperscalers, Amazon, Alphabet, Microsoft, and Meta, now plan to spend approximately \$725 billion on AI infrastructure in 2026, up 77% year-over-year, with some estimates pushing 2027 capex above \$1 trillion. Early quarter results reinforced the bull case. Google Cloud revenue grew roughly 63% year-over-year and AWS around 28%, and all major hyperscalers describe their businesses as supply constrained rather than demand constrained.

The flip side is valuation and concentration risk. AI infrastructure linked equities now trade at multiples approaching levels last seen before the 2000 dot-com peak, and the largest ten S&P 500 names, most of them AI beneficiaries, account for roughly 40% of the index's market capitalization. Investor scrutiny has shifted from "how much are they spending" to "is the revenue showing up," and any disappointment in monetization could trigger outsized index level volatility given that concentration.

Second-quarter hyperscaler earnings will be closely watched for updated capex guidance and cloud margin trends. We continue to favor diversified AI exposure beyond just mega-cap names into power, construction, and productivity beneficiary companies like the health care sector that have lagged the rally but carry less single name concentration risk.

Please contact us at 1-855-829-7192 if we may be of assistance.

Market Indicators

6/30/26 Year-to-Date Change

S&P 500	10.19%
NASDAQ	13.14%
Russell 2000	22.69%

Interest Rates 12/31/25 6/30/26

10-Year Treasury Note	4.15%	4.42%
3-Month Treasury Bill	3.63%	3.83%



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