# **Newsletter** - US Capital Markets 2Q26

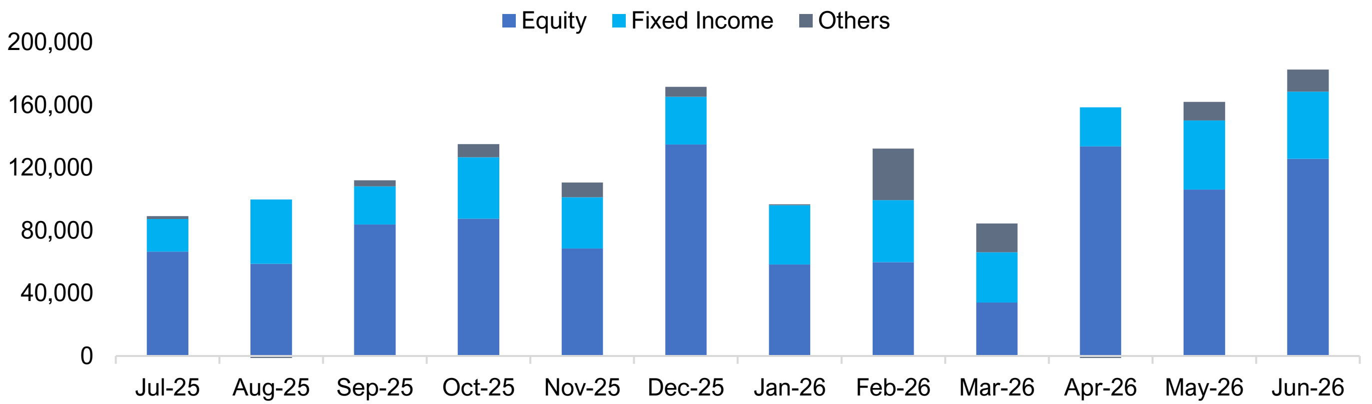
July 2026

# Table of Contents

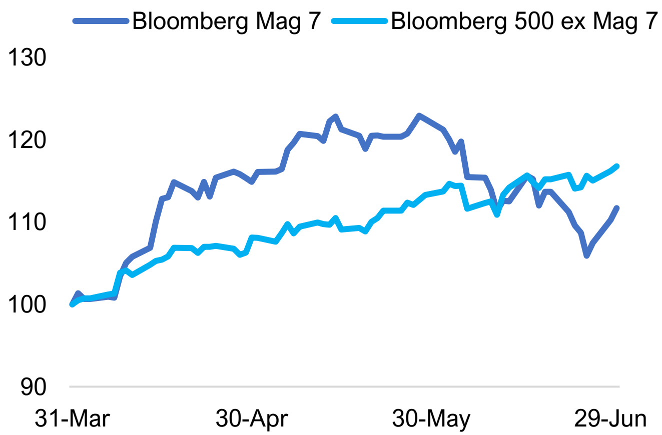
# US Equity Market Analysis (1/5)

Fund flows recovered, led by equities

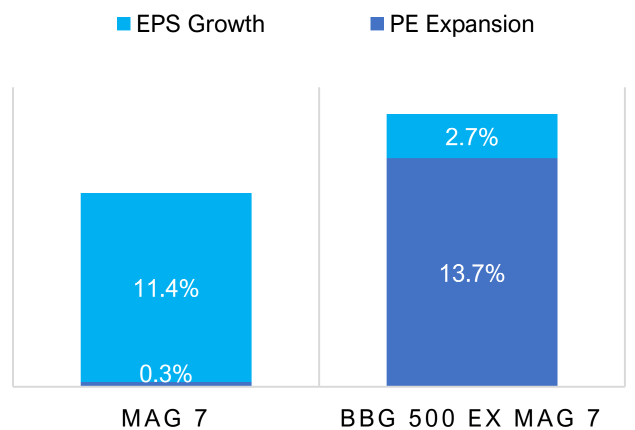
## US Fund Flows (USD mn)




## Mag 7 vs. Rest of US Large Cap




## Total Return Breakup Analysis



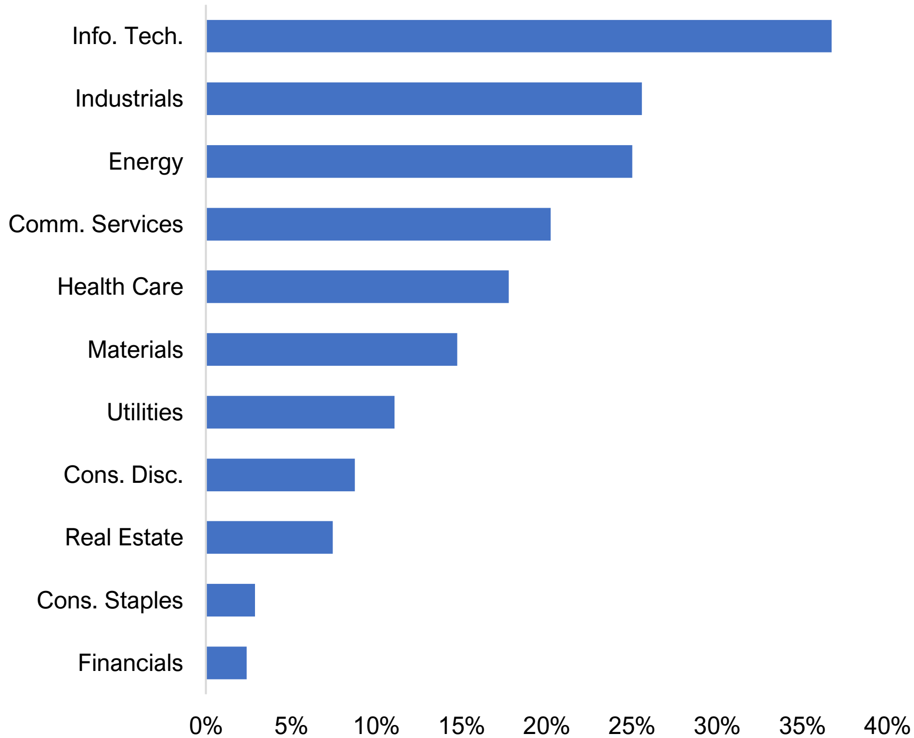

- US capital market fund flows **rebounded 58% QoQ** in 2Q26 driven by improving risk appetite after easing of Middle East tensions.
- Equity inflows **surged 140% QoQ** as oil prices retreated from its peak in April.
- Fixed income flows increased by a modest 2% QoQ owing to expectations of higher Fed rates which kept investors cautious on long-duration bonds.
- The **Mag 7 underperformed** broader US large caps for the second consecutive quarter, despite 11.4% EPS growth versus 2.7% for the rest of the index.
- P/E multiples expanded only 0.3% for Mag 7 compared with 13.7% for the broader market.

***Source:*** *Aranca Research, Bloomberg, Bloomberg Mag 7 Index NR and Bloomberg Large Cap Ex. Mag 7 Index NR*

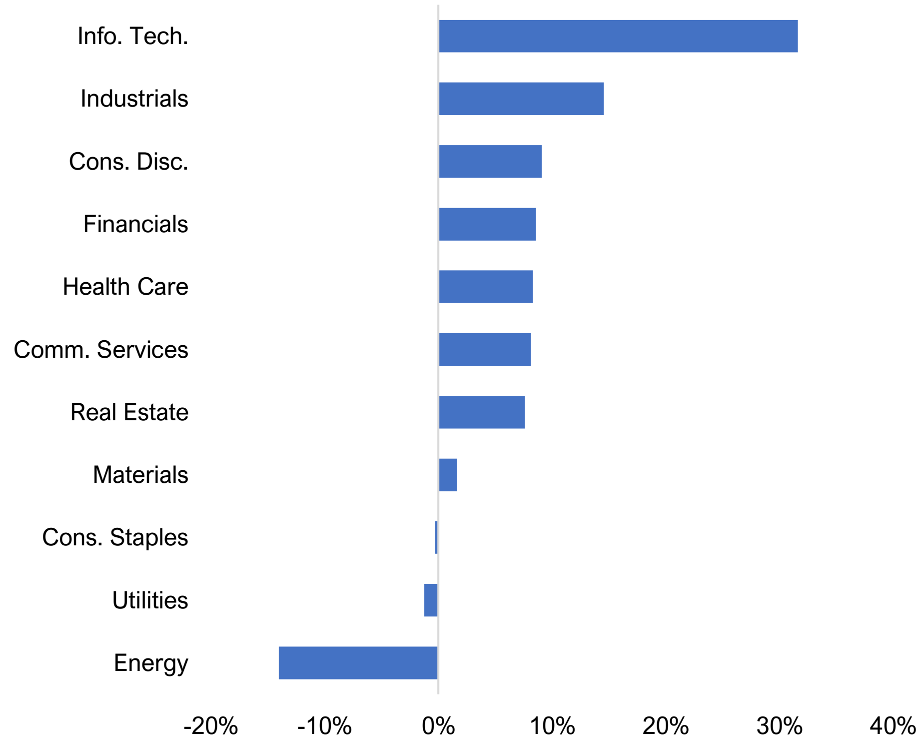
# US Equity Market Analysis (2/5)

Sector leadership rotates as Tech and Industrials lead in 2Q26 vs. 1Q26

**US 1-Year (LTM) Sectoral Returns**




**US 2Q26 Sectoral Returns**




- Over the past year, US equity returns were **led by information technology (37%), industrials (26%), and energy (25%)**, while **financials (2%) and consumer staples (3%) lagged**.
- 2Q26 leadership shifted to technology (+32%) and industrials (+15%), while energy fell 14% as oil retreated from its Middle East-driven peak. Utilities slipped 1% and staples were flat, marking a clear rotation away from 1Q26's commodity-led gains.

***Source:*** *Aranca Research, Bloomberg, S&P 500 Sector indices are used for sectoral returns*

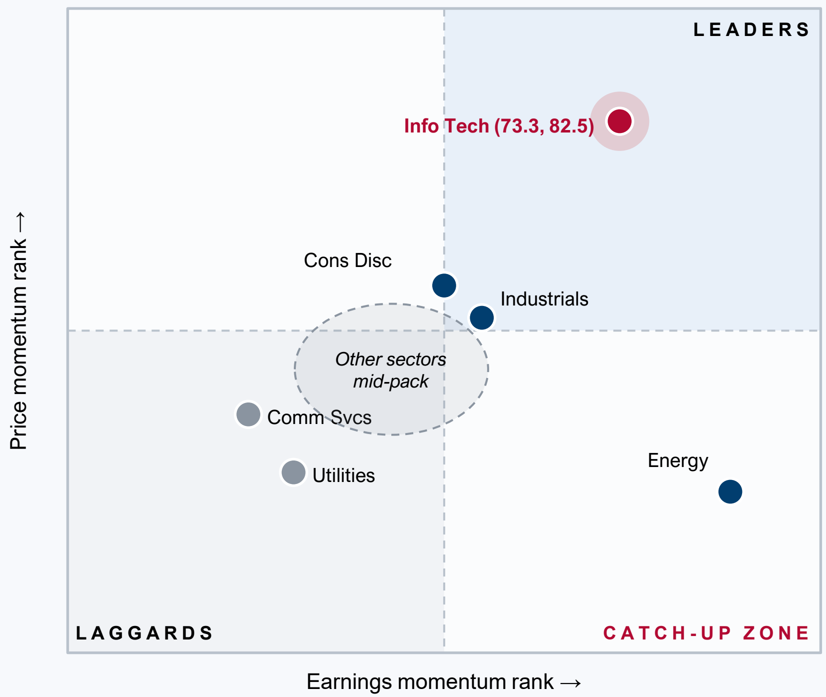
# US Equity Market Analysis (3/5)

Dual momentum indicator registers positive signals on Utilities and Information Technology

**3-month "Dual Momentum" analysis:** earnings and price momentum across S&P 500 sectors, 2Q26

### Dual Momentum Map — S&P 500 sectors

*Median momentum rank (0–100)*




**24.0%**
Median 3-month price momentum, top-quartile dual-momentum stocks

**6.0%**
Median earnings momentum of the same cohort, price-led re-rating

**82.5 / 73.3**
Info Tech price / earnings ranks, only firm top-right sector

### Earnings–price divergence

Sector earnings momentum held near the mid-40s in 2Q26, yet price leadership stayed concentrated in Info Tech alone rather than broadening out.

### Info Tech leads on both measures

The only sector positioned firmly in the top-right quadrant, well clear of the pack on both price and earnings momentum ranks.

### Energy is the clearest catch-up opportunity

Strongest earnings momentum by far, but sharply lagging price. Utilities and Communication Services remain weak on both measures.

### Stock-level opportunities — consumer & industrial tilt

Backed by strong earnings revisions and improving sentiment:

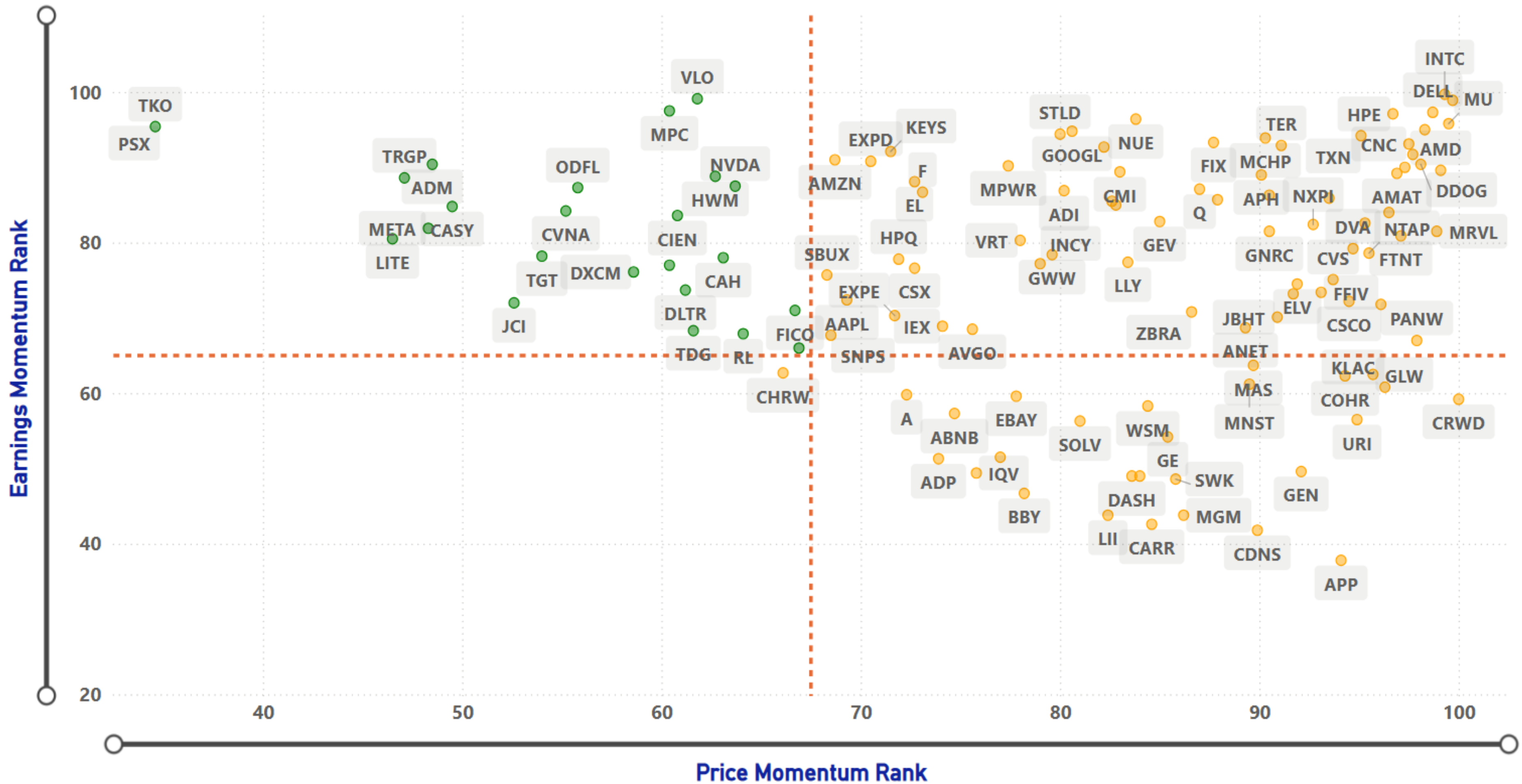
- **AMZN** Amazon
- **HWM** Howmet Aerospace
- **CVNA** Carvana

***Source:*** *Aranca Research*

# US Equity Market Analysis (4/5)

Intel and Dell lead the dual-score rankings, while Valero and TKO Group excel on EPS revisions but lag on price

## Top Quartile S&P 500 Companies Ranked by Dual Score Momentum



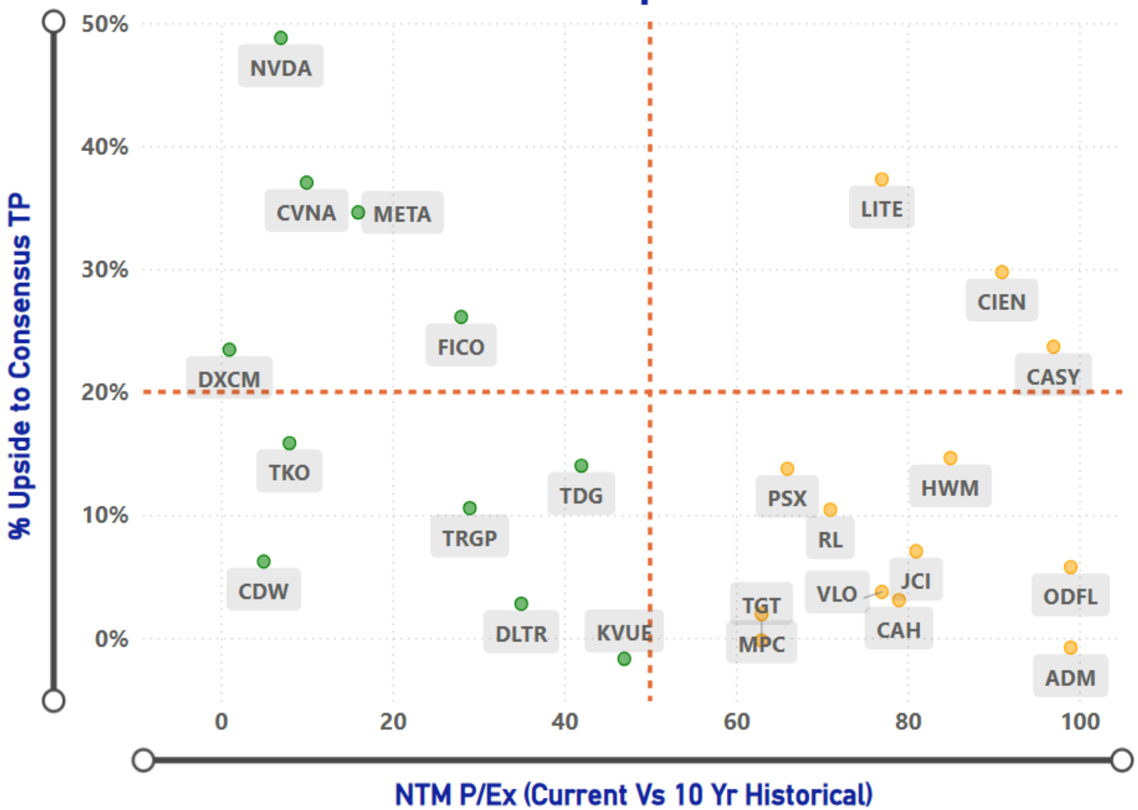

*Notes: Earnings Momentum is 3-months change in the consensus EPS estimate. Price Momentum is 3-months change in price returns. ** Excluding Financials and Real Estate*

**Source: Aranca Research**

# US Equity Market Analysis (5/5)

NVDA, CVNA, and META stand out; strong consensus upside paired with valuations still below historical averages

## Top Quartile S&P 500 Companies by Low Price Momentum and High Earnings Momentum Rank - Valuation Vs Consensus Potential Upside




### Top Companies by % upside to Cons. TP and relatively low valuation

| Ticker | First Sector | % Ups. to Cons. TP | 1Yr Fwd PEx |
|---|---|---|---|
| NVDA | Information Technology | 49% | 10.30 |
| LITE | Information Technology | 37% | 22.30 |
| CVNA | Consumer Discretionary | 37% | 7.80 |
| META | Communication Services | 35% | 20.10 |
| CIEN | Information Technology | 30% | 16.70 |
| FICO | Information Technology | 26% | 20.00 |
| CASY | Consumer Staples | 24% | 12.10 |
| DXCM | Health Care | 23% | 7.10 |
| TKO | Communication Services | 16% | 14.40 |
| HWM | Industrials | 15% | 15.00 |
| TDG | Industrials | 14% | 15.00 |
| PSX | Energy | 14% | 13.00 |
| TRGP | Energy | 11% | 19.80 |
| RL | Consumer Discretionary | 10% | 14.80 |

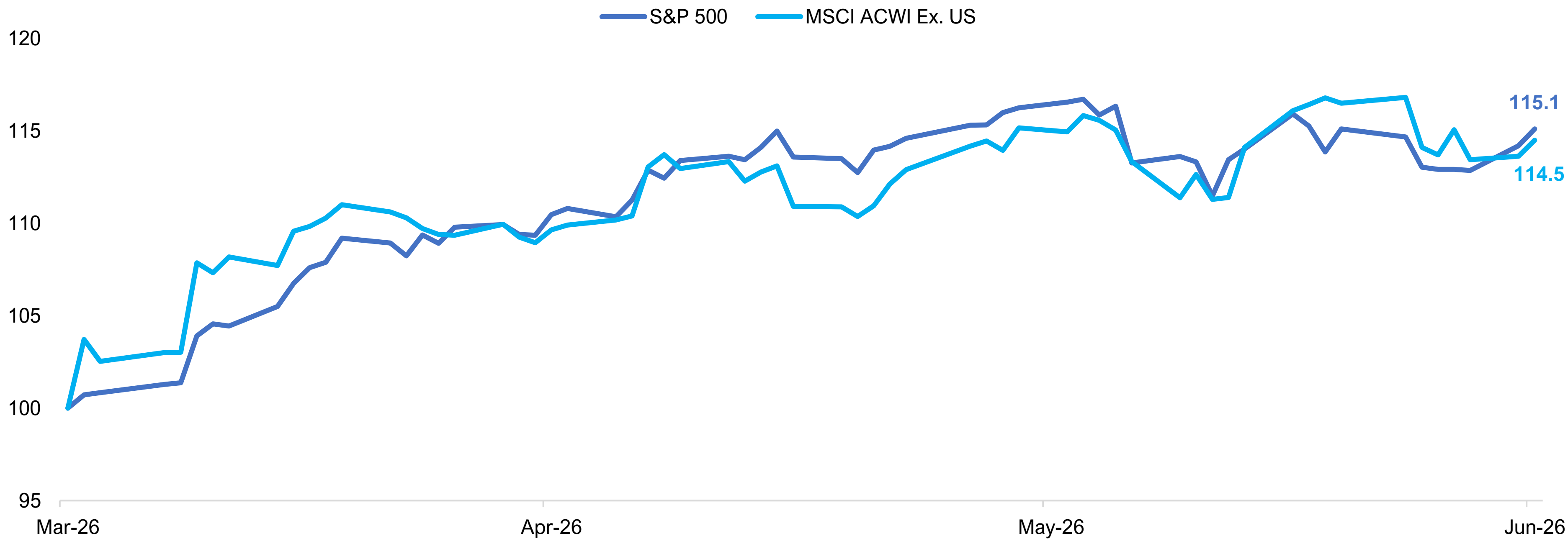
***Notes: X Axis NTM P/Ex Rank (Current Vs 10 Yr Historical)*** *– Ranking of individual Stock NTM P/Ex Vs. its 10 year historical average. For e.g. a rank of 90th percentile Vs 10 year history indicate that in last 10 years only 10% of the times the stock has traded above the current NTM PEx. This also means the valuation is elevated vs historical average*
***Y Axis % upside to Consensus TP*** *– (CMP/Consensus TP -1) ** Excluding Financials and Real Estate*

***Source: Aranca Research***

# US vs. Non-US Equities (1/2)

Both US and non-US equity ended 2Q26 with similar returns

## US vs. Non-US Equity Performance



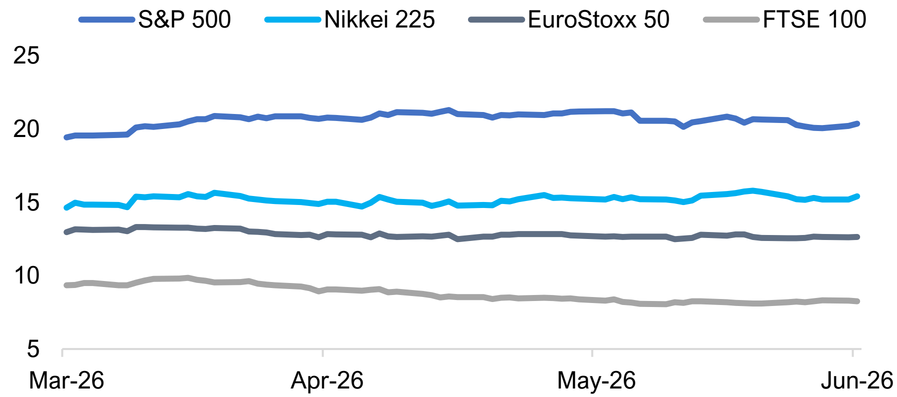

- During the quarter, **US equities edged out non-US markets by a narrow margin**, led by a resurgence in mega-cap technology and AI-linked capex spending.
- US markets strengthened at the mid point **led by easing Middle East tensions and with easing inflation concerns due to decline in oil prices**. This was despite the Fed's hawkish pivot in its June meeting lifted the dollar to its highest level in over a year.

***Source:*** *Aranca Research, Bloomberg*

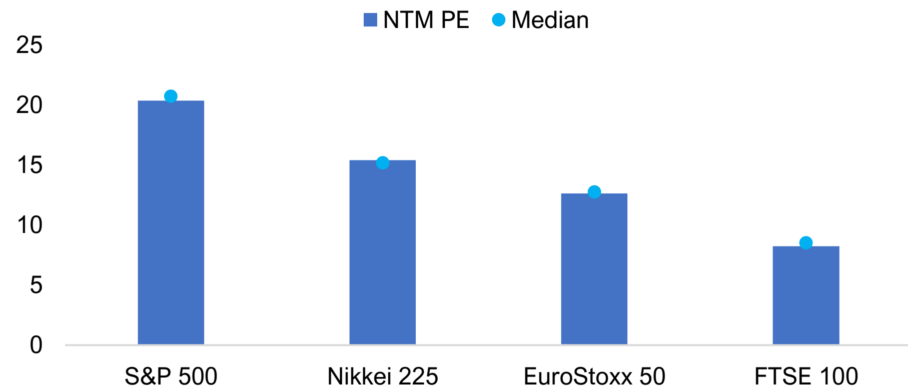
# US vs. Non-US Equities (2/2)

Valuation divergence: US and Japan re-rate while FTSE compresses

**NTM PE of Key Geographies**




**NTM PE Comparison with Median**




- **Equity valuations diverged**, with NTM P/E multiples ending at 20x (S&P 500), 15x (Nikkei 225), 13x (Euro Stoxx 50), and 8x (FTSE 100).
- The **FTSE de-rated**, with its multiple falling from 9.4x to 8.2x as Brent crude declined to low USD 70s, weighing on earnings expectations for energy majors.
- The **S&P 500 and Nikkei re-rated higher**, while the Euro Stoxx 50 remained broadly stable, highlighting that the FTSE weakness was market-specific rather than macro-driven.

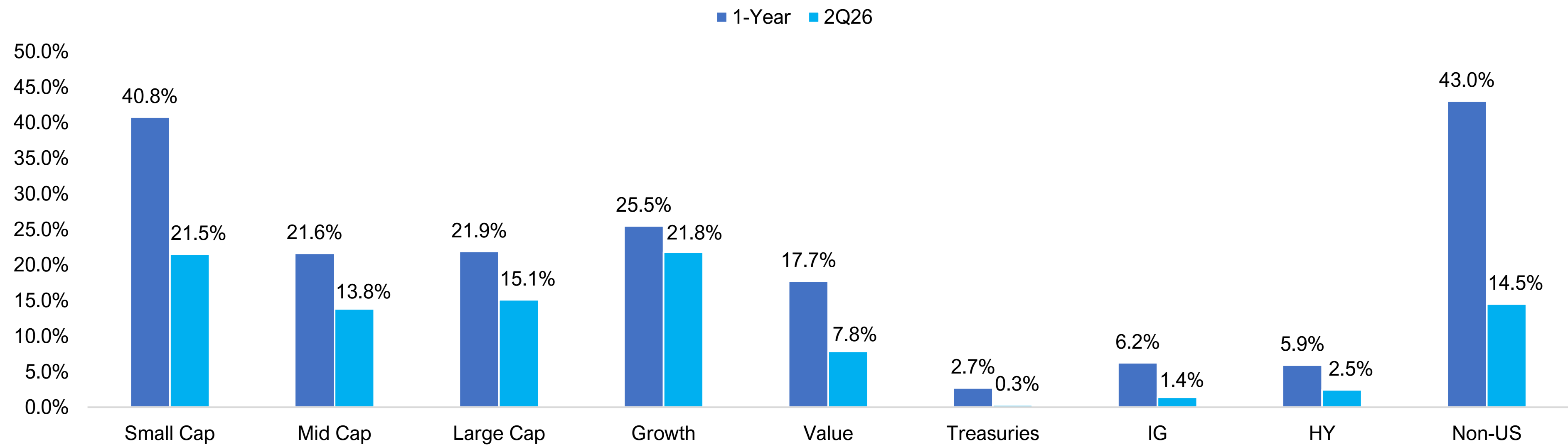
- The S&P 500 and FTSE closed marginally below their medians, while the Nikkei and Euro Stoxx ended above.
- Overall, this indicates valuations have moderated compared to 1Q26.
- **Multiples held broadly steady through the period**, with the quarter's action **driven by earnings rather than any re-rating**.

***Source:*** *Aranca Research, Bloomberg, Median: 2Q26*

# Asset Class Performance (1/2)

Small caps and growth lead 2Q26; Non-US lead on one-year return

**Asset Class Performance - 2Q26 and 1-Year (LTM)**



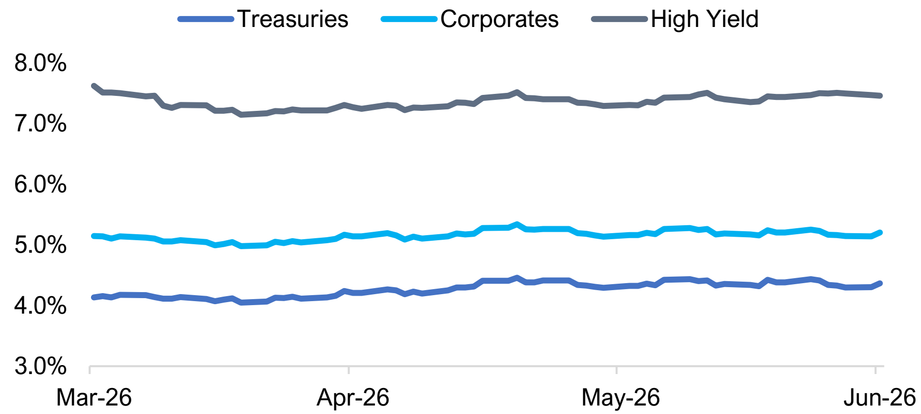

- On a one-year basis, returns were positive, across market caps, growth and value, primarily led by small caps (40.8%) and growth style (25.5%), while fixed income delivered modest returns. Small cap rallied on the back of amid rate cuts in late 2025.
- In 2Q26, small caps and growth delivered similar returns, followed by large caps (15.1%) and mid caps (13.8%). Overall, **equities were backed by AI capex theme while, fixed income underperformed due to expectations of higher policy rates keeping duration demand subdued**.
- Over the 1-year trailing period, non-US equities outperformed on strength in value sectors such as financials and industrials. Returns stood at 14.5% in 2Q26 (vs -1% in 1Q26) from easing Middle East tensions, aided by AI supply-chain exposure that sits disproportionately outside the US.

***Source:*** *Aranca Research, Bloomberg, Small cap: Russell 2000 NR, Mid Cap: Russell Mid Cap NR, Large Cap: S&P 500 NR, Growth: S&P 500 Growth NR, Value: S&P 500 Value NR, Treasuries, IG and HY: Bloomberg US Aggregate indices for Treasuries, Corporate and High Yield (TR, Value Unhedged, USD)*

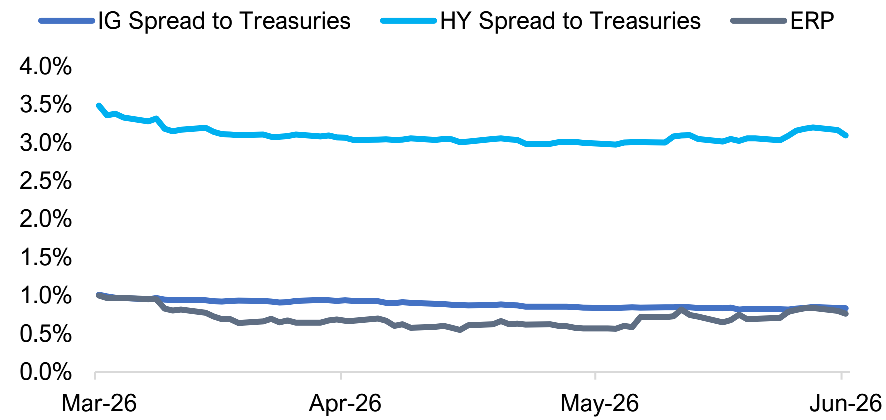
# Asset Class Performance (2/2)

Treasury yields rise, credit spreads tighten

## Yield Analysis




## Spread Analysis




- The 10-year Treasury yield rose ~23 bps QoQ to ~4.4%, while investment-grade yields held near ~5.2% and high-yield yields eased to ~7.5% as spreads tightened.
- **Treasury yields were volatile intra-quarter**, initially falling on easing Middle East tensions, lower oil prices, and renewed expectations of Fed rate cuts.
- The **June FOMC triggered a sharp repricing**, lifting Treasury yields as the Fed adopted a more hawkish stance and reinforced a higher-for-longer rate outlook.

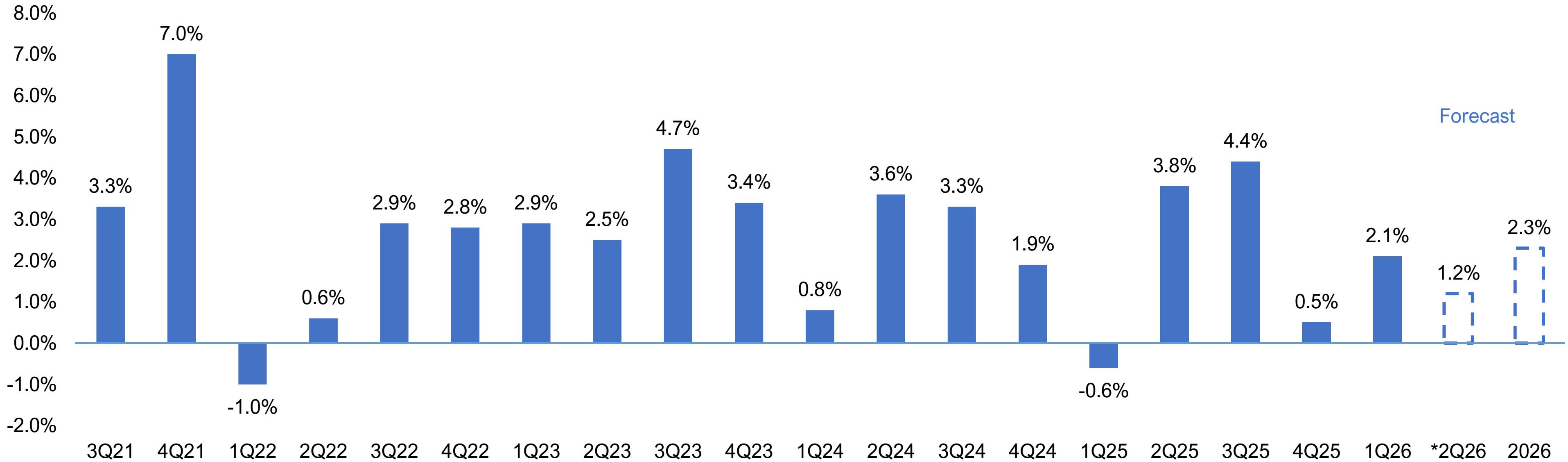
- Credit spreads tightened further through the quarter, with investment-grade spreads narrowing from 101 bps to 83 bps and high-yield spreads from 348 bps to 309 bps.
- Despite volatility in government bond yields, spreads remained near historically tight levels, **reflecting resilient credit market sentiment**.
- The limited widening suggests markets still viewed corporate fundamentals and default risk as stable, though tighter policy could pressure spreads if growth falls.

***Source:*** *Aranca Research, Bloomberg, Small cap: Russell 2000 NR, Mid Cap: Russell Mid Cap NR, Large Cap: S&P 500 NR, Growth: S&P 500 Growth NR, Value: S&P 500 Value NR, Treasuries, IG and HY: Bloomberg US Aggregate indices for Treasuries, Corporate and High Yield (TR, Value Unhedged, USD)*

# US Macroeconomic Performance (1/6)

US growth rebounds in 1Q26 but near-term momentum fades on widening trade drag

## US Real GDP Growth



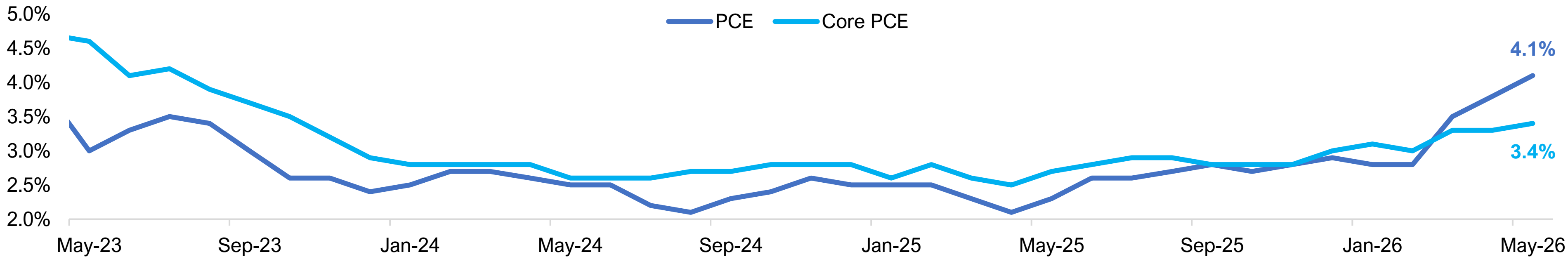

- **US real GDP growth recovered to 2.1% from 0.5% in the prior quarter**, driven mainly by stronger business investment and higher government spending, while consumer spending slowed to its weakest in several quarters, indicating subdued underlying retail demand.
- **GDP outlook weakened**, with the Fed's estimates for 2Q26 falling to 1.2% by late June from 3.7% in early April. A wider trade drag and cooling consumer spending drove the downgrade, leaving business investment as the economy's main support amid ongoing global uncertainty.

***Source:*** *Aranca Research, Bloomberg, *2Q26 data as per Atlanta Fed latest release*

# US Macroeconomic Performance (2/6)

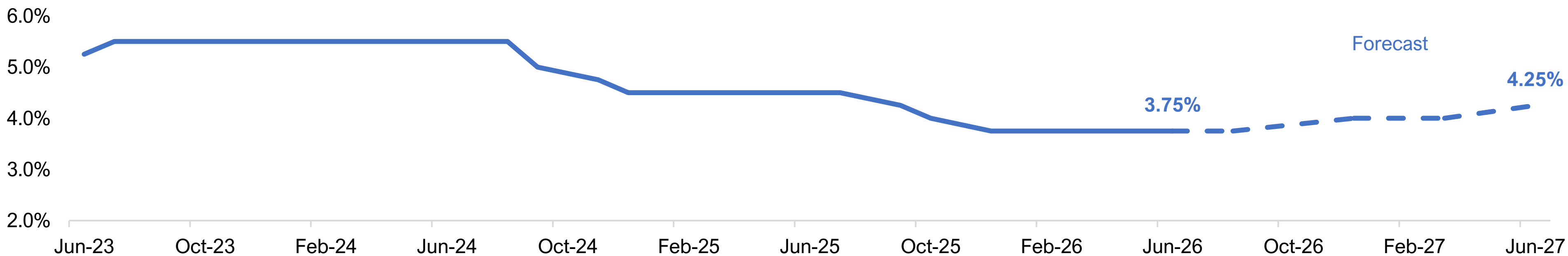
Inflation rises on energy shock; fed pivots to a hike bias

## US Inflation




- US inflation increased sharply through 2Q26, unwinding the stability seen in late 2025. Headline PCE increased for 3rd consecutive month to 4.1% in May, it's highest since April 2023. The core PCE edged up to 3.4%, with the spike driven largely by the surge in energy prices tied to the Iran conflict and trade disruptions in Strait of Hormuz.

## Fed Policy Rate (Upper Bound)



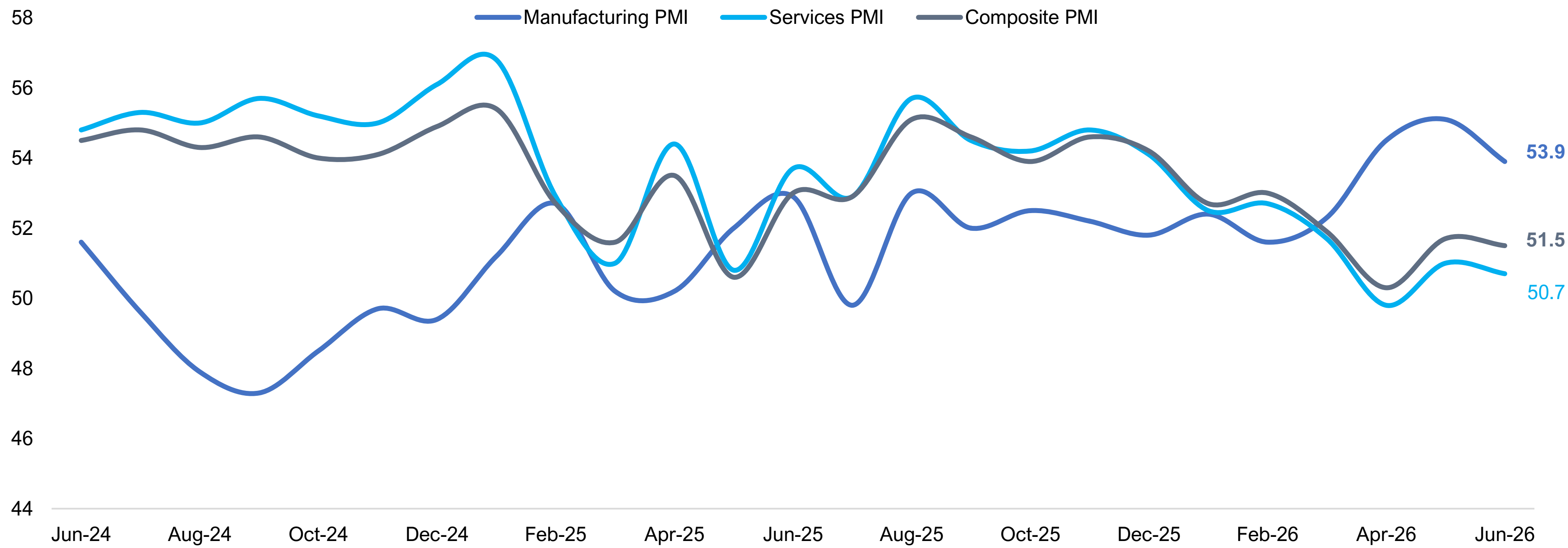

- The Fed held its policy rate at a 3.75% upper bound in June but signaled a more restrictive policy outlook under new Chair Kevin Warsh, removing the easing bias and shifting the median 2026 projection from an implied cut to a hike.

***Source:*** *Aranca Research, Bloomberg*

# US Macroeconomic Performance (3/6)

Manufacturing leads while services reach near stagnation

## US PMI



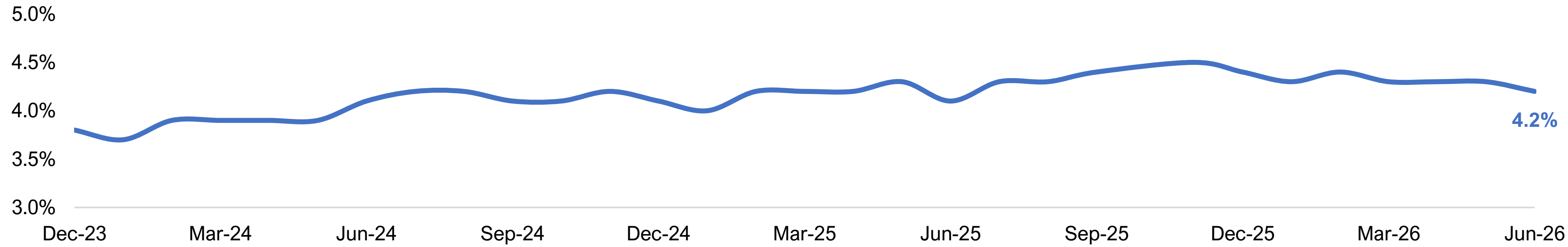

- Post 1Q26's mild slowdown, PMIs improved in 2Q26. Manufacturing PMI strengthened to a four-year high in May before easing to 53.9 in June, marking 11th straight month of expansion.
- Services PMI remained soft, recovering slightly from March's contraction and hovering above the 50 mark. As a result, the composite stayed in expansion at around 51.5, led by manufacturing PMI rather than a broad services recovery.

***Source:** Aranca Research, Bloomberg*

# US Macroeconomic Performance (4/6)

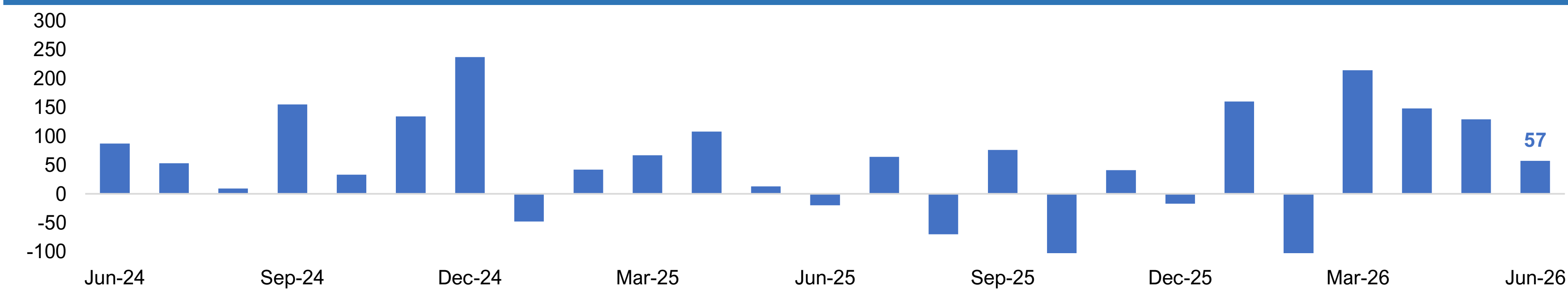
Labor market cools further; falling unemployment masks weaker hiring and participation

## US Unemployment




- US unemployment edged down to 4.2% in June from the 4.3% level that had held for 4 consecutive months, marking its lowest reading in a year.
- The decline reflected labor-market contraction, not strength as workers exited the workforce rather than found jobs.

## US Non-Farm Payrolls (in '000s)



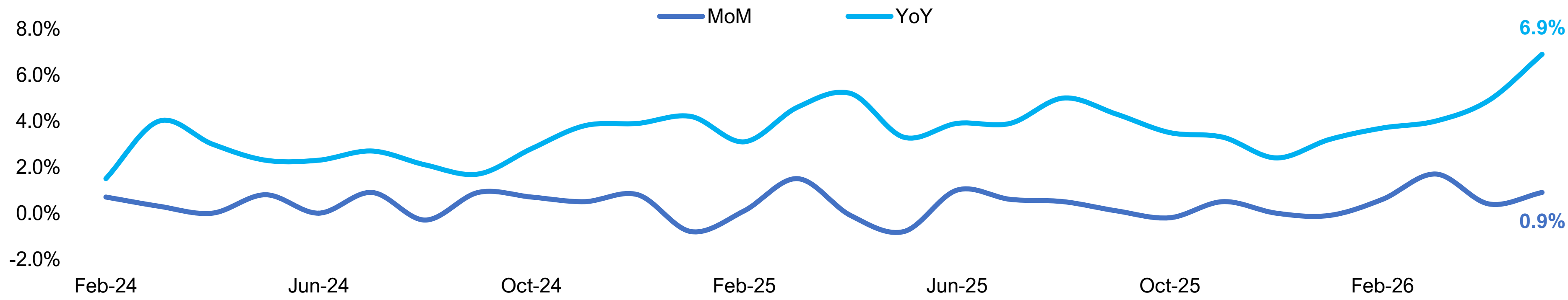

- Payroll momentum weakened sharply in 2Q26 (57,000 in June) as softer demand, slower immigration, and policy uncertainty restrained hiring.

***Source:*** *Aranca Research, Bloomberg*

# US Macroeconomic Performance (5/6)

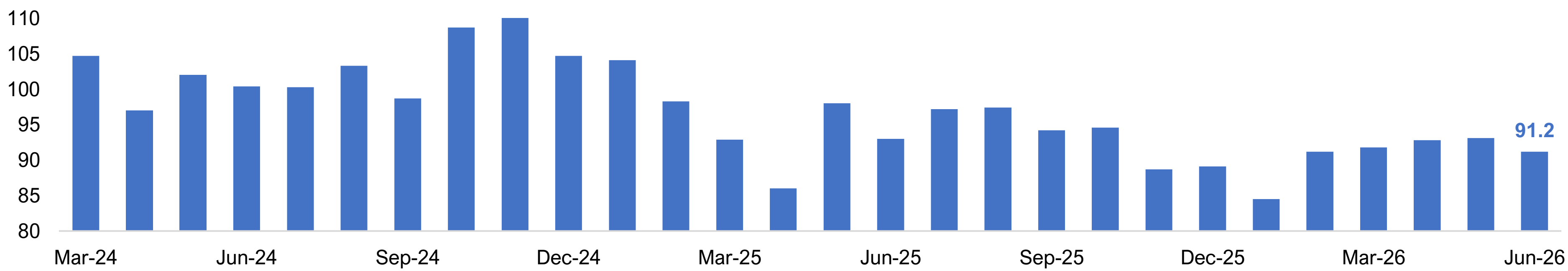
Retail spending accelerates despite depressed consumer confidence

## US Retail Sales Growth




- US retail sales strengthened through 2Q26, with sales up 6.9% YoY in May 2026. Much of the gain reflects tariff and higher energy price pass through rather than higher volumes, leaving underlying demand softer than the headline implies.

## US Conference Board Consumer Confidence



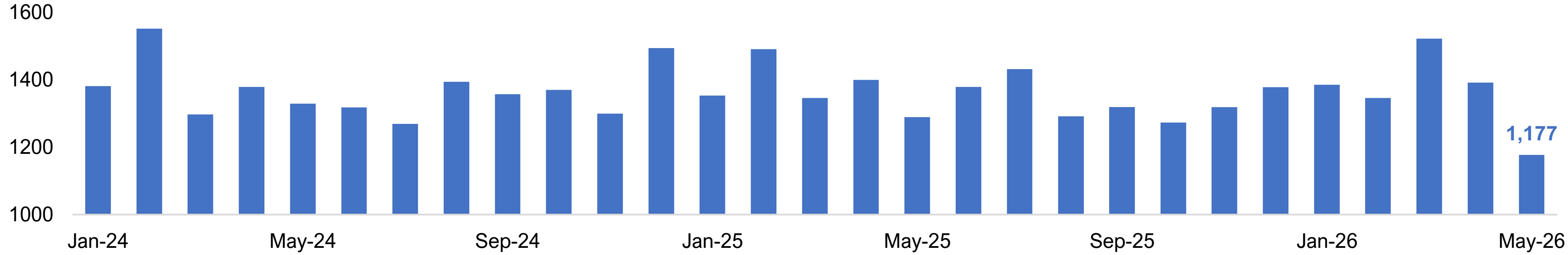

- Consumer confidence stabilized in the low 90s during 2Q26, recovering from January lows but remaining below 2024 and mid-2025 levels. Easing inflation expectations provided some support, though weaker labor market perceptions kept sentiment subdued.

***Source:*** *Aranca Research, Bloomberg*

# US Macroeconomic Performance (6/6)

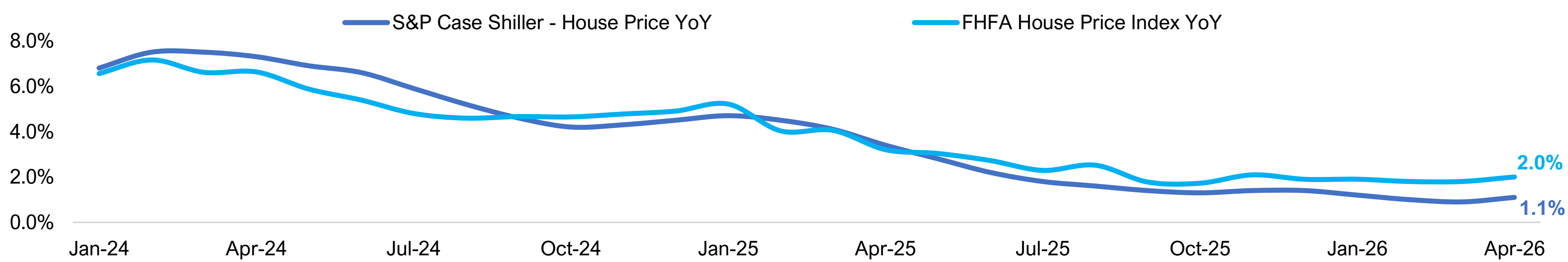
Housing activity falls sharply and price growth stalls as affordability stays stretched

## US Housing Starts (in '000s)




- U.S. housing starts fell sharply in May to 1,177,000, with the decline led by the volatile multifamily segment. Elevated mortgage rates continue to weigh on demand and keep builders cautious, so the pullback points to a still-soft housing market rather than a one-off drop.

## US House Prices YoY Change



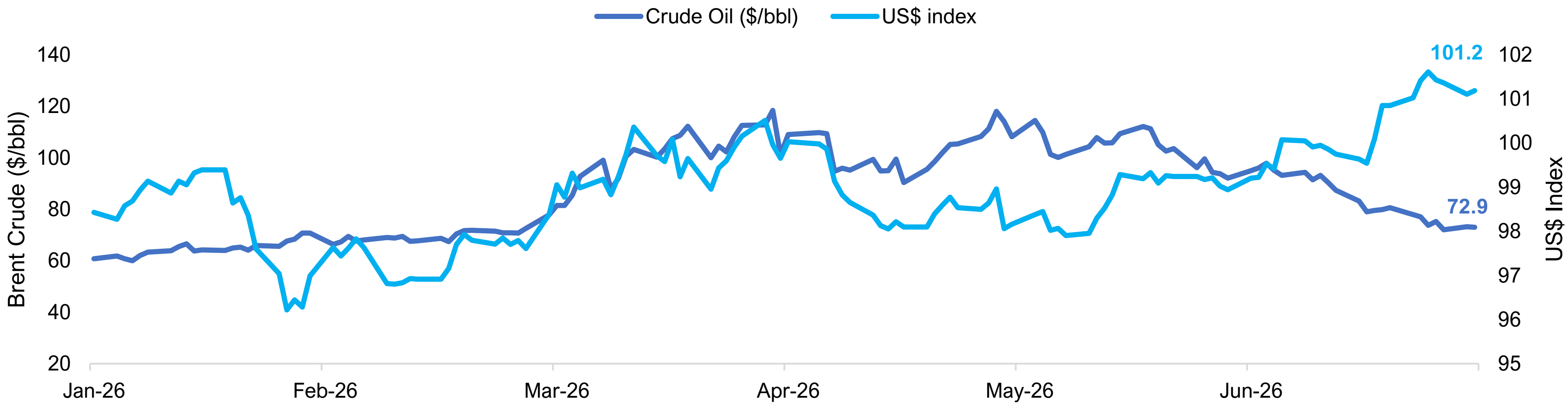

- House prices continued to moderate in April 2026, with FHFA and Case-Shiller both signaling a clear slowdown versus start of 2025.
- Persistent affordability pressures and still-elevated mortgage rates are keeping demand contained and restraining further price appreciation.

***Source:*** *Aranca Research, Bloomberg, LSEG Workspace*

# Ceasefire and the Unwind

Israel-Iran de-escalation reverses the Q1 oil spike as the US dollar breaks out

## Oil Round-Trips as the Dollar Breaks Out




- A US-brokered ceasefire in April–May rapidly erased the war-risk premium as Israel-Iran tensions eased toward a negotiated settlement.
- Brent surged to ~$120/bbl in March, then fell to ~$72/bbl by quarter-end, a 40% below its peak and near pre-war levels.
- With energy risks fading and the Fed maintaining a restrictive stance, the dollar index rose to 101.4, tightening financial conditions even as equities reached record highs.

Lower oil prices have **eased the immediate inflation risk from the conflict**, but the underlying US-Iran tensions remains. Inflation is still above target, growth is uneven, and the market is leaning on a narrow set of drivers. This leaves **markets vulnerable to a shock should any of these support weakens in 2H26**. The key variables to watch are how the **durability of AI capex and consumer spending** holds up under elevated prices.

***Source:*** *Aranca Research, Bloomberg*

**2500+**
Global clients

**500+**
Strong, professional team across multi-disciplinary domains

**120+**
Sectors and sub-sectors researched by our analysis

**80+**
Countries where we have delivered projects

## ABOUT ARANCA

### Growth Advisory & Procurement
CXOs in Strategy, SBUs, Sales, Marketing, CI/MI, Innovation

### Valuation & Financial Advisory
CFOs in Start-ups, PE/VC Firms, Corporate M&A Teams, Mid-market Companies

### Technology | IP Research & Advisory
R&D, Tech Scouting, Open Innovation, IP Teams, Product Development

### Investment Research & Analytics
Brokerage, Hedge Funds, IRPs, I-Banks, AMCs, Investor Relations

# Decide Fearlessly

From startups to the Fortune 500, private equity and global financial firms, Aranca is the trusted research and advisory partner for over 2500 companies