

Investment Narrative

Quarter Ending June 30, 2026



During the second quarter of 2026, the U.S. economy continued to expand, though growth moderated and economic conditions remained uneven. Real GDP grew at a 1.5% annualized rate, as a widening trade deficit weighed on overall growth. Inflation was volatile throughout the quarter, rising to 4.2% in May as the U.S.-Iran conflict disrupted global oil supplies before declining to 3.5% in June as energy prices eased. The labor market remained relatively stable, with unemployment declining to 4.2%, although the improvement largely reflected a lower labor force participation rate rather than a meaningful acceleration in hiring. Supported by relatively healthy labor market conditions, consumer spending remained resilient. However, consumer sentiment was depressed for much of the quarter as prices remained elevated and savings declined. Overall, the economy continued to show resilience during a turbulent period, though questions remain around how long that resilience can persist. Against this backdrop, Kevin Warsh was sworn in as Federal Reserve Chairman in late May, with monetary policy facing the competing pressures of elevated inflation and softer labor market conditions.

U.S. equity markets rebounded sharply following a difficult first quarter. Large-cap U.S. stocks, as measured by the S&P 500 Index, returned 15.2%, while small-cap stocks, represented by the Russell 2000 Index, gained 21.5%. The rally was supported by stronger corporate earnings, tighter credit spreads and easing energy prices, which helped offset continued uncertainty around inflation and the path of Federal Reserve policy. The broader artificial intelligence theme, which has supported markets for more than a year, remained an important driver of equity performance. Fixed income returns, on the other hand, were more modest as longer-term interest rates moved somewhat higher during the quarter. The Bloomberg U.S. Aggregate Bond Index returned 0.7%, while lower-quality credit generally performed better, with high-yield bonds returning approximately 3%. Overall, the second quarter represented a meaningful recovery in risk assets following the market weakness experienced earlier in the year, helping to alleviate some of the concerns that emerged during the first quarter.

Outside the U.S., economic growth remained mixed. Developed international economies generally experienced modest growth, with Europe continuing to face structural challenges while Japan benefited from a more supportive policy backdrop. Conditions across emerging economies were somewhat stronger overall, though economic trends varied considerably by country. The energy and inflation dynamics affecting the U.S. also had global implications. Economies with greater exposure to commodities and AI-related supply chains were generally better positioned, while countries dependent on imported energy or facing domestic challenges experienced greater pressure. As a result, the conflict in the Middle East and related volatility in energy prices added another layer of uncertainty to an already uneven global growth outlook.

International equity markets also posted strong returns during the quarter, led by emerging markets. Developed international equities, represented by the MSCI EAFE Index, returned 10.8%. Although returns were positive, developed international equities lagged both U.S. and emerging market equities as investors continued to favor areas of the market with stronger earnings growth and greater exposure to technology-related investment. Emerging market equities, represented by the MSCI Emerging Markets Index, returned 24.1%. Results within emerging markets varied significantly by region. Asian markets were supported by strength in technology and semiconductor companies, particularly in South Korea and Taiwan, while China and several Latin American markets experienced weaker performance. Similar to the dynamic observed in the U.S., a relatively small group of companies experiencing significant growth accounted for a meaningful portion of overall market performance.

Endowment Portfolio

The Endowment Portfolio delivered an 8.1% net return for the quarter, outperforming its benchmark by 0.4%, and finished the fiscal year with a 16.3% net return, 1.0% ahead of its benchmark. During the quarter, the portfolio benefited from its broad public equity exposure, particularly international and emerging market equities, while hedge funds were also additive to performance. For the full fiscal year, results were supported by contributions across public equities, hedge funds and private markets. The portfolio's diversified asset allocation also contributed to its relative outperformance.

Long-Term Portfolio

The Long-Term Portfolio returned 8.7% for the quarter, trailing its benchmark by 0.4%, and finished the fiscal year with an 18.2% net return, outperforming its benchmark by 0.2%. Performance varied among the underlying investment managers, as some strategies struggled to keep pace with the market's rapid recovery. However, U.S. public equities and emerging market equities delivered strong returns during both the quarter and the full fiscal year and were the primary contributors to overall portfolio performance.

Medium-Term Portfolio

The Medium-Term Portfolio delivered a 4.2% net return for the quarter, outperforming its benchmark by 0.1%, and a 9.8% net return for the fiscal year, ahead of its benchmark by 0.3%. With approximately 25% of the portfolio invested in equities, the portfolio participated in the second-quarter market rebound, while its larger fixed income allocation provided a more stable source of return. The combination of positive equity performance and contributions from fixed income supported results over both the quarter and the full fiscal year.

Intermediate-Term Portfolio

The Intermediate-Term Portfolio returned 0.8% for the quarter, outperforming its benchmark by 0.1%. Fixed income markets produced modest gains during the period as longer-term interest rates moved slightly higher. For the fiscal year, the portfolio delivered a 4.3% net return, outperforming its benchmark by 0.6%. Relative performance over the year was supported by manager selection, while the portfolio's all-fixed-income allocation continued to benefit from elevated interest rates.

Short-Term Portfolio

The Short-Term Portfolio returned 0.9% for the quarter and 3.8% for the full fiscal year, performing in line with its benchmark over both periods. The portfolio continued to benefit from elevated short-term interest rates and remained less sensitive to movements in longer-term yields. Going forward, performance will continue to be influenced primarily by the direction of short-term interest rates and Federal Reserve policy.

Sustainable Endowment and Non-Endowment Portfolios

The Sustainable Endowment and Non-Endowment Portfolios each returned 11.1% for the quarter, outperforming their respective benchmarks by approximately 0.3% to 0.4%. The portfolios' significant equity allocations benefited from the broad market rebound during the period. For the full fiscal year, the portfolios returned approximately 14% and performed generally in line with their benchmarks, consistent with the portfolios' index-based sustainable equity allocations.