THE THODE
INVESTMENT CONSULTING GROUP
of Wells Fargo Advisors

2nd Quarter 2026 Market Commentary

KEY POINT: It’s déjà vu for the markets

For the markets, this first quarter has felt like déjà vu. Last year, markets experienced sharp swings following tariff announcements from the White House. This year, we’re seeing similar pullbacks driven by the war in the Middle East. In both cases, investor concern has centered on higher inflation and the possibility that it could limit the Federal Reserve’s ability to ease monetary policy.

Notably, the rocky start to 2025 faded quickly, with markets finishing the year strong—something that could happen again if the current conflict does not drag on. Secretary of State Marco Rubio recently stated that the war is expected to last “weeks, not months.” While we can only hope that proves accurate, there is evidence that supports his view.

Over the past two weeks, both sides have stepped back from escalations that could have sent energy prices significantly higher. From reversing threats to energy infrastructure to discussions around ceasefires, deadlines, and extensions of those deadlines, it appears neither side is eager to prolong the conflict. The way both parties have moderated their threats to avoid the worst economic outcomes suggests political constraints may ultimately help keep the duration of the war relatively short.

That said, the situation is far from ideal. Extensions tend to prolong uncertainty about what comes next, and we are already seeing global economic effects in the form of higher energy prices at the pump. While I do expect a temporary uptick in inflation in the months ahead, I believe it will be limited in both size and duration—manageable enough to keep U.S. economic growth and corporate earnings on a positive trajectory.

Another important dynamic is the gradual erosion of last year’s tariff-related issues and their political appeal. Tariffs raise prices, slow economic growth, hurt corporate profits, and increase global tensions. With recent court rulings striking down many new tariffs, it seems unlikely the administration will fully replace them. In short, the tariff tide appears to be receding, which should help ease inflationary pressures later this year. Combined with the potential for an early exit from the conflict with Iran, we could see energy prices decline further, providing additional relief on inflation.

If inflation does cool as we move into 2027, the Federal Reserve may feel justified in beginning to cut interest rates—particularly under new leadership.

Bottom line: recent market dislocations may present opportunities, especially for long-term investors. Geopolitical events like the one we’re experiencing tend to have short-term impacts on markets rather than causing permanent setbacks.