Same rules, new path

2026 BOK FINANCIAL MIDYEAR MARKET UPDATE

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Base case outlook

Economic outlook

The U.S. conflict with Iran has dampened expectations for growth but its resolution removes some pressure. We do not forecast a recession.

Risks: Higher unemployment, additional geopolitical events and higher tariffs.

Policy

Interest rates are expected to reflect a strong economy, though some inflation risks remain. Government spending should continue to support growth.

Risks: Unexpected difficulty financing government debt and inflation expectations increasing materially.

Financial markets

Credit spreads are not forecasting a recession, and the yield curve remains positive. Earnings estimates are increasing, and historically equity markets tend to do well after elections, which should be positive for stocks in the tail end of the year.

Risks: The unlikely event of a recession leading to material earnings decline and widening credit spreads.

Where are we now?

The first half of 2026 has been a reminder that outcomes and headlines aren't always the same thing. If you look at where the economy and markets stand today, much of it resembles what we expected coming into the year: positive economic growth and solid market performance. How we arrived here, however, has looked very different. Geopolitical tensions, including the conflict involving Iran, have pushed energy prices higher and periodically rattled markets, while the effects of tariffs and supply chain adjustments continue to work their way through the global economy.

Yet despite those challenges, the economy has continued to move forward. Markets have experienced bouts of volatility, but they have also shown notable resilience, supported by healthy corporate earnings, steady economic activity and continued investment in areas such as artificial intelligence (AI). Just as important, equity market performance has begun to broaden. For several years, it was heavily concentrated among a relatively small group of large technology companies—known as the "Magnificent 7," or "Mag 7." More recently, stock gains have become more widespread, reflecting a healthier market environment and a broader expansion in economic activity.

Meanwhile, after decades of increasing globalization, the tide has turned and the deglobalization is underway. As part of this shift, governments and businesses are reassessing supply chains, critical resources and national security concerns. Resilience and reliability are now taking precedence over the former objectives of efficiency and low costs. As a result, the economic landscape is less streamlined than it was in the past but better positioned to withstand future disruptions.

Even so, the U.S.'s underlying growth story remains intact. Economic activity has proven more durable than many expected, and there are reasons to believe growth could continue to expand through the remainder of the year. At the same time, structural challenges remain. The growth in the labor force has slowed, geopolitical risks persist and policymakers continue to wrestle with the long-term consequences of higher federal debt levels. Against that backdrop, productivity gains, particularly those supported by AI and other technological advancements, may become increasingly important drivers of future economic growth.

In the pages that follow, we'll examine these trends in greater detail and explore what they may mean for the U.S. and global economy, financial markets and the energy sector through the rest of 2026. We'll include deeper dives into these topics with the following articles:

- "With the midterms, 'who won' is the smaller question"
- "Individual conflicts may fade but deglobalization won't"
- "Railroads and the internet may offer insight into the path ahead with AI"
- "Forecast for financial markets: cloudy skies, then potential sun"

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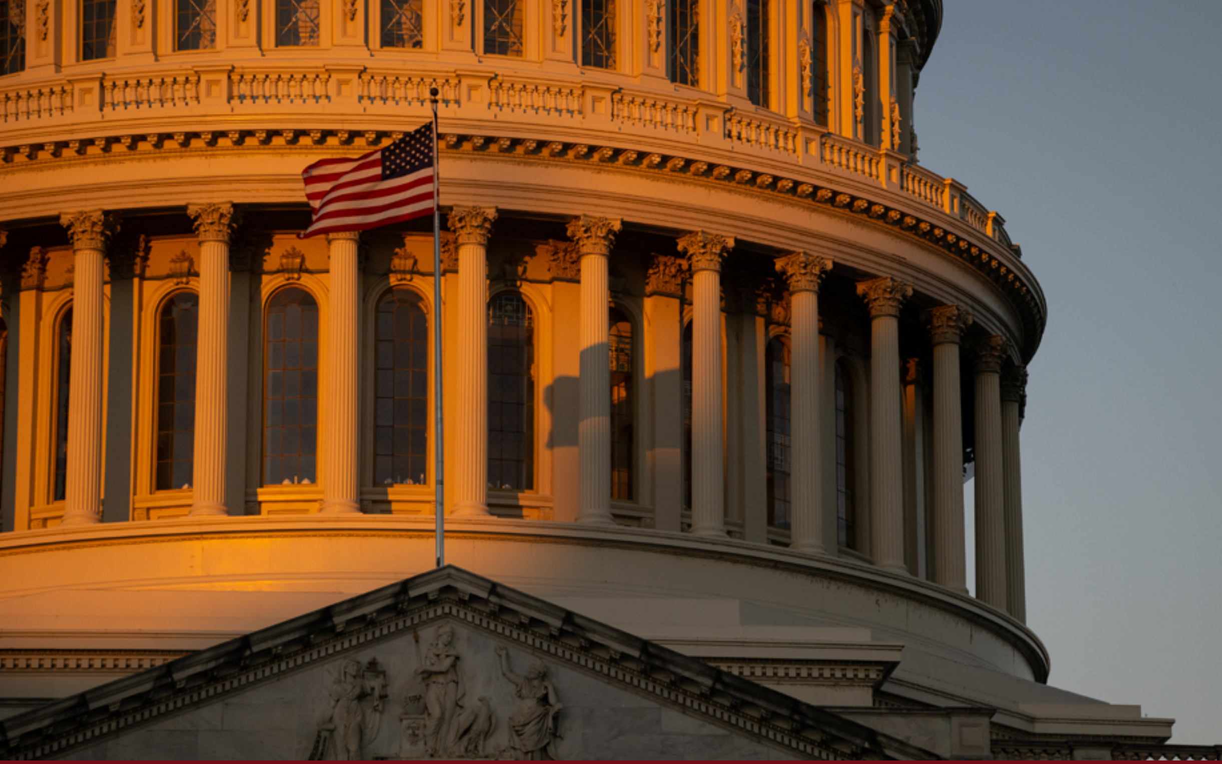


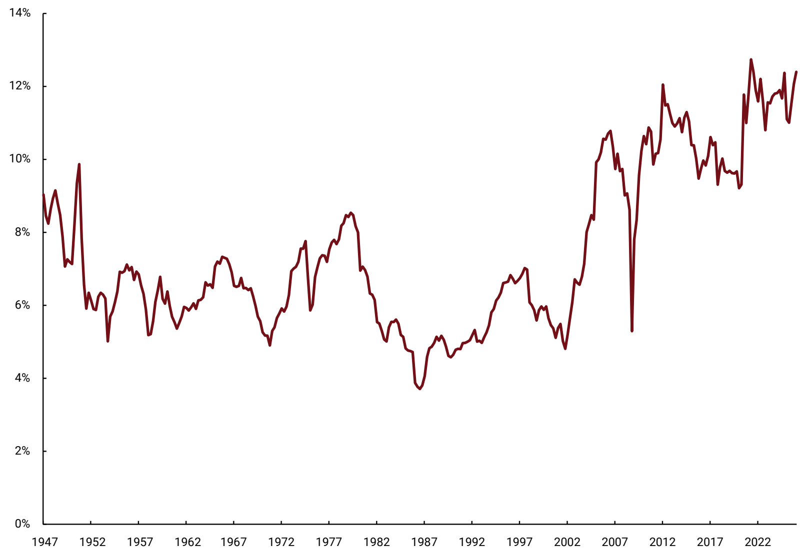
01

U.S. outlook

The biggest surprise of 2026 may be how well the U.S. economy has held up despite surprises such as the U.S. conflict with Iran.

Coming into the year, most expected inflation to continue easing and interest rates to move lower. Instead, the economy has absorbed rising geopolitical tensions, higher energy prices and the lingering effects of tariffs and supply-chain realignment while continuing to expand.

Corprate Profit Margins as % of GDP



SOURCE: FEDERAL RESERVE ECONOMIC DATA, FEDERAL RESERVE BANK OF ST. LOUIS

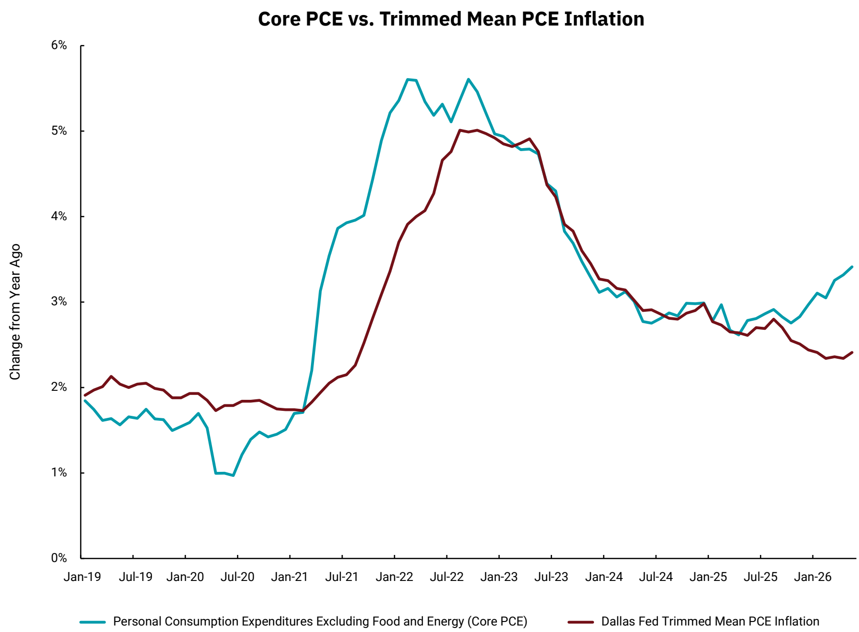
That said, what's driving this economic resilience is changing. For much of the post-pandemic expansion, consumer spending did much of the heavy lifting—and it still does—but now capital investment is picking up more of the load than it did in the past. That's as businesses have been pouring money into artificial intelligence (AI), data centers, manufacturing facilities and other productivity-enhancing projects. This may mean that, in the future, the U.S. economy will become less consumer-driven and more investment-driven than it was even just a few years ago.

This investment is ultimately a bet on future productivity. Companies build factories, automate processes and expand technology infrastructure because they believe those expenditures will allow them to produce more with fewer resources. With labor-force growth slowing due to tighter immigration policies and an aging demographic, these productivity gains may increasingly determine how fast the economy can grow in the years ahead.

At the same time, many of the forces supporting economic growth are also keeping prices high. Inflation remains above the Federal Reserve's 2% target, and the path towards lower inflation has been far less straightforward than many expected. The conflict involving Iran pushed oil prices higher, increasing transportation and shipping costs throughout the economy. Since virtually every product must be transported at some point, higher energy costs rarely stay confined to the energy sector for long. They eventually work their way through supply chains and into broader inflation measures.

Suffice to say, new Fed Chair Kevin Warsh is navigating a difficult environment. The conversation entering 2026 centered on when rate cuts might begin. However, midway through the year, inflation remains high enough to warrant caution. Bond investors are likely to react negatively to any sign that the Fed is becoming less committed to its inflation mandate and succumbing to political pressure to lower interest rates. In this sense, the bond market continues to act as an important guardrail for monetary policy.

At the same time, Warsh is considering whether the Fed's traditionally preferred measure of inflation—the core Personal Consumption Expenditures (PCE) price index, which is PCE minus food and energy prices—still makes sense. He has highlighted the Dallas Fed's "trimmed mean" measure of inflation as potentially superior to core PCE. Nevertheless, both measures show inflation still exceeding the Fed's 2% target.



SOURCE: FEDERAL RESERVE ECONOMIC DATA, FEDERAL RESERVE BANK OF ST. LOUIS

In sum, the outlook for the second half of the year reflects both the U.S. economy's strengths and its challenges. Growth remains positive and could surprise to the upside, supported by capital investment spending and improving productivity. At the same time, inflation is likely to remain volatile as energy markets, geopolitical developments and supply-chain adjustments continue to shape the economic landscape. Investors will also have to contend with a midterm election cycle that is beginning to move into focus. As campaigns ramp up, issues such as affordability, immigration, energy policy and the rapid buildout of AI infrastructure are likely to generate plenty of headlines—and potentially some market volatility. Yet history suggests that political uncertainty often matters more to markets before an election than after one. We explore the major issues heading into midterms and the potential effects of the election further in the article starting on the next page.

A DEEPER LOOK AT MIDTERMS

With the midterms, 'who won' is the smaller question

Consumers want affordability; for corporations, the concern is consistency

With U.S. midterm elections on the horizon, the question isn't just which party wins. It's also whether consumers and businesses feel confident enough that the current affordability issues will subside and whether policies remain consistent enough for businesses to make long-term decisions.

That distinction is becoming increasingly important in today's economic environment. While elections can shift priorities quickly, many of the forces shaping growth—capital investment, supply chain realignment and the development of artificial intelligence (AI)—are unfolding over years, not election cycles. That disconnect between short-term political change and long-term economic strategy is beginning to influence how businesses and investors think about risk, while for many consumers, price concerns are paramount.

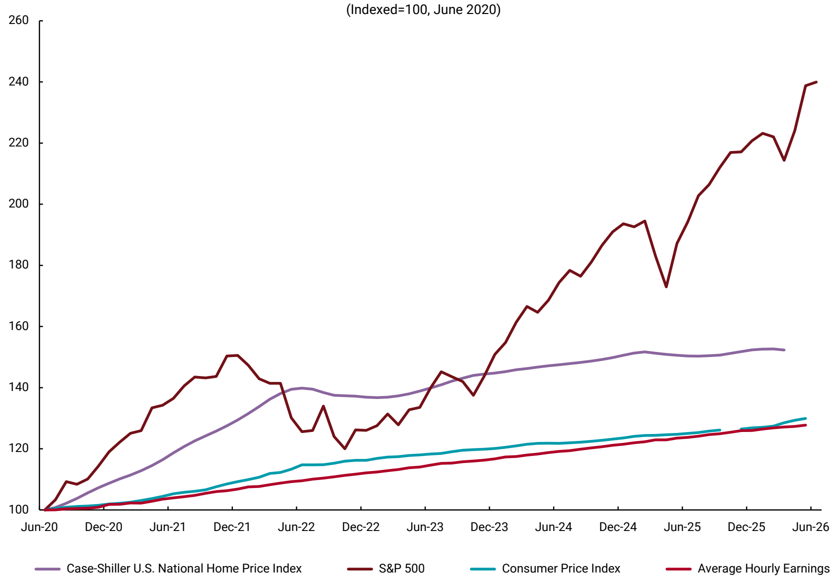
As BOK Financial® Chief Investment Officer Brian Henderson noted, economic conditions, not just politics, are already shaping the conversation—and high prices are at the top of many people's minds.

“Affordability is still an issue for the average American,” he said, pointing to the ongoing cost-of-living pressures that continue to weigh on households. These pressures tend to weigh on lower-income households the most, due to aggregate inflation exceeding aggregate wage gains since 2020, according to Bureau of Labor Statistics data.

Higher-income individuals have been less stressed by aggregate inflation and those with financial assets actually have benefitted during the period, resulting in what some are calling a “K-shaped” economic recovery.

Inflation and Average Hourly Earnings

(Indexed=100, June 2020)



SOURCE: FEDERAL RESERVE ECONOMIC DATA, FEDERAL RESERVE BANK OF ST. LOUIS

Since the top 10% of income earners in the U.S. are responsible for roughly half of all consumer spending, U.S. gross domestic product (GDP) is still growing, despite the affordability issues many Americans are feeling.

However, while GDP might not reflect this strain, the midterm results just might, resulting in a potential shift in Congressional control, Henderson said.

Policy consistency is key to capex

Behind the election cycle, the U.S. economy is undergoing a significant shift, driven by rising levels of capital investment. As BOK Financial Chief Investment Strategist Steve Wyett explained, "We're in a capital expenditure [capex] cycle that's being driven by major structural forces—artificial intelligence [AI], manufacturing and infrastructure. It's the biggest capital expenditure environment for businesses since the railroads."

Recent tax policy changes have reinforced this trend by allowing companies to more quickly recover the cost of investments in equipment, facilities and research. That effectively lowers the cost of capital and improves cash flow, giving businesses an added incentive to move forward with large-scale projects. In many cases, these incentives are front-loaded, encouraging companies to invest sooner rather than later.

These investments are designed to span years, not election cycles, which means that policy consistency is a major question for the corporations making those capex decisions.

"The whole purpose of making a capital investment is so that a business can get a productivity benefit out of making this investment," explained Matt Stephani, president of Cavanal Hill Investment Management, Inc.

However, that productivity benefit depends on a stable policy environment, he noted. If the policies that support investment—such as tax incentives, trade structures and regulatory frameworks—are vulnerable to reversal every two years, companies may delay decisions, scale back investment or redirect capital to areas with greater certainty, he explained.

Deglobalization raises the stakes

This policy uncertainty is unfolding at the same time as a broader structural shift in the global economy—deglobalization, which is causing countries and corporations to rethink supply chains, prioritizing reliability and security over cost. "Companies can't just rely anymore on where production and labor are the cheapest," Stephani said.

As part of that shift, some U.S. corporations are choosing to manufacture domestically and some non-U.S. companies are developing production in the U.S., Stephani said. This investment in production can help the companies avoid tariffs or supply disruptions, and in some cases, be "almost deflationary" by reducing reliance on imports, he explained.

The challenge is that these benefits take time—and depend on consistent policy support, which can vary in the U.S. election cycle.

Investment depends on follow-through

At the same time, the U.S. economy is being increasingly driven by capital investment rather than consumer spending, which means that long-term planning is key for politicians and business leaders alike.

In practical terms, this means that today's policy decisions are setting the foundation for economic outcomes down the road. Projects like manufacturing facilities, energy infrastructure and data centers require significant upfront capital and long development timelines, making consistency a critical factor in whether those investments move forward.

And so, while midterm elections are inherently short-term events, the economic shifts underway—deglobalization, supply-chain restructuring and capex investment in productivity—are playing out over much longer timelines. This means that the real risk isn't a single election outcome, it's whether there is confidence in policy consistency, experts agreed.

02

International outlook

The global economy has entered the second half of 2026 with more momentum than many expected—and less uniformity than investors have grown accustomed to.

For much of the past several decades, major economies often moved in the same direction. Growth accelerated or slowed together, inflation trends were broadly similar and global trade helped different countries' economies tie more closely together. Globalization was also a net positive for corporate margins, and that benefit accelerated after China was admitted to the World Trade Organization (WTO) in 2001.

SOURCE: U.S. BUREAU OF ECONOMIC ANALYSIS VIA FRED®. DATA AS OF AUG. 28, 2025

Now, as deglobalization progresses, this synchroneity is fading. Governments and global businesses are reassessing supply chains, trading relationships and strategic priorities in ways that are creating a more fragmented global landscape—a phenomenon discussed in article “Individual conflicts may fade but deglobalization won't,” starting on page 17.

That fragmentation is unlikely to derail global growth, but it is changing where growth comes from and how it develops. The United States is seeing strong investment in AI infrastructure, manufacturing and automation. Meanwhile, parts of Southeast Asia and Mexico are attracting manufacturing activity as companies diversify supply chains and seek alternatives to China. By contrast, some European countries have become more vulnerable to higher energy costs, caused by the increased geopolitical conflict, while countries facing aging populations and slower workforce growth may find it more difficult to generate sustained expansion. The result is a world economy that appears increasingly likely to move at different speeds rather than following a single global cycle.

One of the most important themes to watch in the second half of the year is investment. Around the world, governments and businesses continue to commit vast amounts of money to AI, automation, digital infrastructure and advanced manufacturing. While these investments require substantial capital today, they are being made with the longer-term goal of improving productivity in mind. In countries like the U.S., productivity gains are becoming increasingly important as population growth slows.

That dynamic may also help shape the inflation outlook. The forces pushing prices higher—including geopolitical tensions, supply-chain adjustments and commodity costs—remain very much in place. However, productivity-increasing technologies have the potential to offset some of those pressures over time. In that respect, the global economy is navigating two competing trends simultaneously: one that tends to increase costs and another that seeks to improve efficiency.

The challenge is that those forces will not affect every region equally. Regions that rely heavily on imported energy are likely to remain more sensitive to commodity-price fluctuations, while economies with stronger productivity growth may be better positioned to absorb inflation pressures. Likewise, central banks are increasingly confronting different economic realities, suggesting that monetary policy may continue to diverge rather than move in lockstep.

Altogether, the question is becoming less about whether the global economy can continue growing and more about where that growth will emerge. Opportunities are likely to be increasingly tied to regional advantages, productivity gains and capital investment rather than broad-based global expansion. In a world that is becoming less synchronized, understanding those differences may matter more than ever.

A DEEPER LOOK AT DEGLOBALIZATION

Individual conflicts may fade but deglobalization won't

The Iran conflict was just one example of a broader shift that's reshaping costs, trade and global priorities

For much of the first half of 2026, one of the central questions shaping everything from gas prices to global tension was when the U.S. conflict with Iran would end.

On one hand, this focus was understandable. The economic fallout from the Iran conflict, particularly higher energy prices, underscored how deeply geopolitics is now tied to everyday affordability, noted BOK Financial® Chief Investment Officer Brian Henderson. Rising gasoline costs added pressure to household budgets at a time when many consumers were—and still are—struggling to make progress on the cost of living.

On the other hand, focusing too narrowly on any single conflict risks overlooking the bigger picture, Henderson and other BOK Financial experts cautioned. One conflict ending—or, at least, tensions subsiding—doesn't mean a reversal of the ongoing increased geopolitical tension that's characteristic of deglobalization.

As BOK Financial Chief Investment Strategist Steve Wyett explained, "There are things that accelerate it or slow it, but overall deglobalization is continuing. It's not just the war in Iran. It's all the tariff policies and the continuing divide between the Eastern Hemisphere and the Western Hemisphere."

A reversal of a 30-year trend

Deglobalization is the gradual unraveling of globalization, the movement towards greater cooperation and trust between countries that persisted for 30 years after the fall of the Berlin Wall in 1989. This cooperation and trust created a more efficient global economy, resulting in lower prices on goods, lower U.S. interest rates and higher stock multiples—in sum, creating a "peace dividend," said Matt Stephani, president of Cavanal Hill Investment Management, Inc., a subsidiary of BOK Financial Corporation.

Cracks in that system didn't emerge overnight—and they won't resolve quickly either, experts cautioned. Instead, a combination of geopolitical tensions, supply-chain disruptions and policy shifts has exposed vulnerabilities in it. Events like the Covid pandemic, the war in Ukraine and the Iran conflict have demonstrated how easily access to critical goods—such as energy, semiconductors and pharmaceuticals—can be disrupted. When those disruptions occur, as they did during the pandemic, the economic consequences ripple quickly across industries and households alike.

From efficiency to security

As a result, countries and corporations are rethinking what they prioritize in supply chains. In the more cooperative global economy of the past, lower cost was the focus; now, it's reliability and security. This new focus is encouraging countries and corporations to onshore or friend-shore critical materials such as semiconductors, pharmaceuticals, rare-earth minerals and other commodities, Stephani noted.

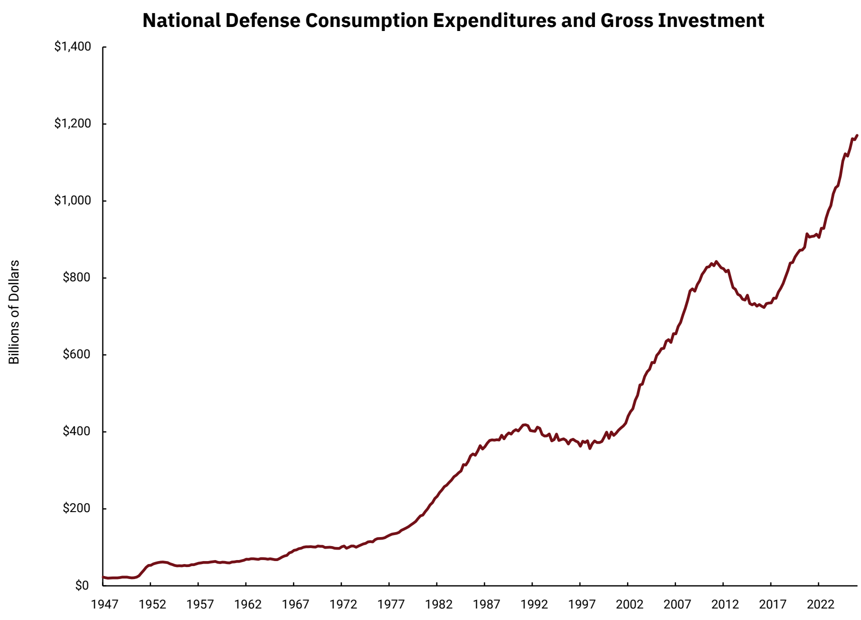
"Every single country that relies on another country for important products is reevaluating who their partners are," he said.

The cost of resilience

For consumers, the most visible impact of this reevaluation will be in prices. Globalization was a “huge disinflationary force” because it allowed companies to seek out the lowest-cost labor and production globally, Wyett said.

Now, some of those disinflationary benefits are fading, which is playing out directly in consumer prices. Higher costs tied to supply-chain restructuring, combined with geopolitical disruptions like the Iran conflict, can push prices higher—especially for energy and goods that rely on global transportation networks, Henderson said.

While this restructuring can help prevent shortages, it also means that prices may remain more volatile and persistent than in the past, which could continue to present problems for the Federal Reserve’s goal of achieving 2% inflation, Wyett said. In his words: “Resilience might come at a little bit of a price.”



SOURCE: U.S. BUREAU OF ECONOMIC ANALYSIS VIA FRED®

Rising defense spending and fiscal pressure

World leaders are also adapting to this new environment, and that adaptation is coming with its own costs. Wyett noted that countries like Saudi Arabia are looking at different ways of transporting oil that don't include going through the Strait of Hormuz. "That will take some time and increase some costs," he said. However, these alternate routes also could help avoid the price pressures on oil that occurred during the U.S.-Iran conflict this year, when the closure of the strait put an estimated 20 million barrels per day of oil at risk.

Meanwhile, the increased geopolitical activity, both in the Middle East and beyond, is already driving higher defense spending, Henderson noted. In the U.S., defense spending has risen to around $1.17 trillion annually, as of the first quarter of 2026, compared to $626 billion 10 years ago, according to figures from the Federal Reserve Bank of St. Louis.

That trend has important fiscal implications because it could widen the federal deficit or force tradeoffs in other areas of government spending. Moreover, because the underlying geopolitical tensions likely will persist—at least in the foreseeable future—so will these pressures on government spending.

At the same time, governments and corporations are also investing in domestic production—especially in areas like manufacturing, energy and technology—to reduce reliance on foreign supply chains. For example, the current U.S. tariff policies are encouraging global manufacturers to build factories in the United States rather than exporting goods into it, Wyett said. He pointed to automakers and pharmaceutical companies expanding U.S.-based production to avoid tariffs, reflecting a broader push to reduce reliance on overseas manufacturing.

A longer timeline than many expect

While individual conflicts can capture headlines, the larger shift toward a more fragmented global economy is likely to unfold over decades. During this time, these hallmarks of deglobalization, like choosing secure supply chains over less expensive ones, are likely to continue.

However, eventually, the world economy may move back towards globalization again. In Stephani's words: "It's a pendulum. You swing it one way and it carries momentum until it reaches an apex, and then it starts coming back."

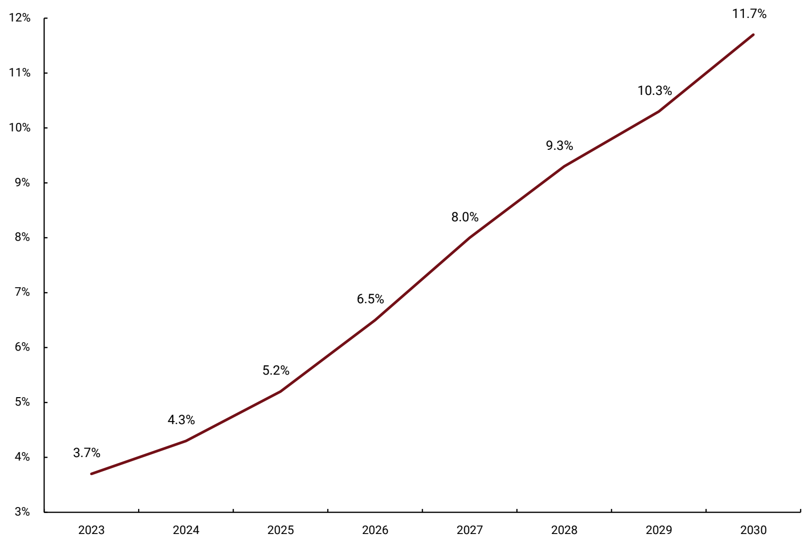
03

Outlook for energy and AI

As investment in AI continues to accelerate, the ability to secure reliable, affordable electricity is becoming just as important as the technology itself. In this sense, AI and energy are not separate themes, but rather deeply interrelated topics. Advancements in AI depend not just on computing power, software development and semiconductor capacity, but also on power generation, transmission infrastructure and access to the resources needed to support both.

That connection may become even more apparent during the second half of 2026. Capital remains readily available for AI-related projects, but expanding the infrastructure that supports them is a far more complex undertaking. Data centers require enormous amounts of electricity, while utilities, regulators and infrastructure providers face the challenge of adding capacity quickly enough to meet rapidly growing demand. As a result, the conversation is beginning to shift from technological capability to physical capacity. The question is no longer simply how powerful AI models can become, but whether the infrastructure supporting them can keep pace.

Estimated Data Center Share of Total U.S. Power Demand



SOURCE: MCKINSEY, GLOBAL ENERGY PERSPECTIVE 2023

The infrastructure challenge

For years, electricity demand in the United States was relatively stable, but that's increasingly no longer the case. As companies invest in larger data centers and increasingly sophisticated computing systems, projections for future power demand continue to move higher. Meeting those needs will require significant investment not only in the facilities themselves, but also in generation capacity, transmission networks and grid modernization efforts.

And yet the challenge extends well beyond electricity. Demand is rising for many of the materials that make both digital and energy infrastructure possible. Copper, rare earth minerals and other critical inputs are becoming increasingly strategic as governments and businesses seek to strengthen supply chains, reduce vulnerabilities and secure the resources needed for future growth. At the same time, a more fragmented geopolitical environment is reinforcing the value of reliable supply chains for these needed supplies, a topic discussed in more detail in the article “Individual conflicts may fade but deglobalization won't,” starting on page 17.

Taken together, these trends suggest the next phase of the AI buildout may look different from the last. The pace of investment shows little sign of slowing, but the future trajectory of AI may depend as much on the ability to generate and deliver power as it does on advancements in the technology itself. That trajectory is important not just for AI developers, but also for future economic growth in the U.S., a topic we explore more fully in the article starting on the next page.

A DEEPER LOOK AT ENERGY AND AI

Railroads and the internet may offer insight into the path ahead with AI

Productivity gains, labor shifts and investment opportunities are unfolding in real time

Although much is still unknown about the long-term implications of the mass investment in AI that's underway, its impact already is undeniable.

AI is driving one of the largest capital investment cycles in decades, fueling spending on data centers, semiconductors and infrastructure and raising questions about productivity, jobs and long-term returns. In this environment, focusing too narrowly on short-term risks, like whether companies may be overinvesting, can obscure the broader transformation underway, BOK Financial® experts said.

The bigger picture is that AI is driving a broad capital expenditure cycle that extends beyond technology into manufacturing, infrastructure and energy—positioning AI and automation together as a key engine of economic growth over the next 10 years, said Matt Stephani, president of Cavanal Hill Investment Management, Inc., a subsidiary of BOK Financial Corporation.

"These technologies ultimately are deflationary," he explained. "You can have lower labor costs per unit of production as you automate and use AI. I think there's this bet that AI is going to lead to a big productivity gain—and I share that view."

However, as in any transformation, there might be some pain along the way.

As BOK Financial Chief Investment Officer Brian Henderson explained, "Because of the buildout of AI infrastructure and the demand for semiconductors and electricity, it's actually boosting inflation in the short term."

Over the longer term, however, those same investments are expected to lower costs by improving efficiency, which has major implications for individuals, businesses, financial markets and the overall U.S. economy. "It has the potential to increase productivity, allow the economy to grow faster and make jobs more efficient," he said.

Similarly, as companies implement AI and automation, there is the understandable fear that people are going to lose their jobs if their roles become obsolete, said BOK Financial Chief Investment Strategist Steve Wyett.

Historically, similar technological shifts—from railroads to the internet—have displaced workers in the short term while creating new opportunities over time, he explained, noting that AI appears likely to follow a similar path. Consequently, workers may need to learn different skills or adapt as certain roles evolve or disappear. In other words: "There still are going to be jobs out there; they just may be different."

AI, automation already changing the face of work

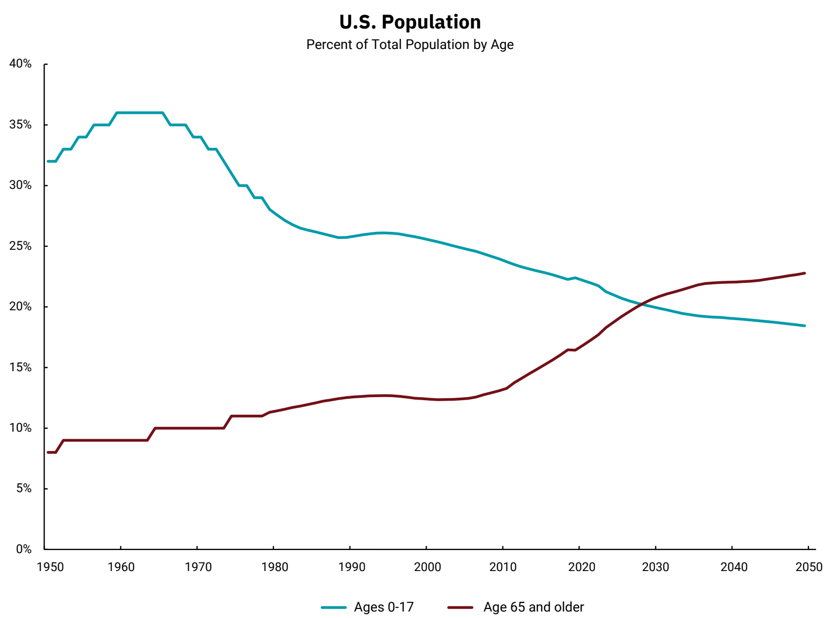
Already, companies of all sizes are dedicating resources to AI, with the hope that this investment will give them an edge not just now but also in the future—and many companies are already seeing this impact.

As it is now, only 37% of the companies included in Deloitte's 2026 report, *The State of AI in the Enterprise*, say that their organization's use of AI is surface level. Instead, most enterprises are using AI on a deeper level, with 30% reporting that it's "redesigning key processes" and 34% saying that it's "deeply transforming" their business. Meanwhile, employees, too, are experiencing the effects of enterprise AI adoption, as workers' access to AI grew by 50% in 2025, the Deloitte report found.

As with any adoption of new technology, there is the potential for overinvestment and other mistakes. For instance, a company may exhaust their annual AI budget in just a few months, and not all companies will survive this transformation, but this is all to be expected, experts said.

As the labor pool shrinks, AI may be the answer

Looking forward, one of the biggest beneficiaries of AI and automation may be the U.S. economy itself, experts agreed. The potential boost to productivity from these technologies may be crucial as the U.S. faces slowing labor force growth due to demographics and immigration trends. By 2030, the number of Americans aged 65 and older is expected to surpass those aged 0-17, reversing a generations-long trend, according to the U.S. Census Bureau's national population projections.



SOURCE: CHILDSTATS.GOV, U.S. CENSUS BUREAU. THE DATA FOR 2020 TO 2023 ARE BASED ON THE POPULATION ESTIMATES RELEASED FOR JULY 1, 2023. DATA BEYOND 2023 ARE DERIVED FROM THE NATIONAL POPULATION PROJECTIONS RELEASED IN NOVEMBER 2023.

This means that productivity gains are essential to sustaining U.S. economic expansion. As Wyett said, "We may need every bit of AI's productivity because our labor force is going to be shrinking over time."

Stephani reinforced this view, noting, "As you automate and use AI, you lower the cost—and that productivity is what supports growth over time."

Change is happening both fast and slow

On one hand, changes from AI are already around us. As Henderson said, “AI has become a huge factor in the financial markets, particularly the performance of the stock market, and it has been a huge contributor to overall economic growth.”

On the other hand, it will take time for AI’s impact to fully unfold, he noted. The current phase of AI development and implementation—marked by heavy investment, rapid innovation and some degree of uncertainty—is just the beginning.

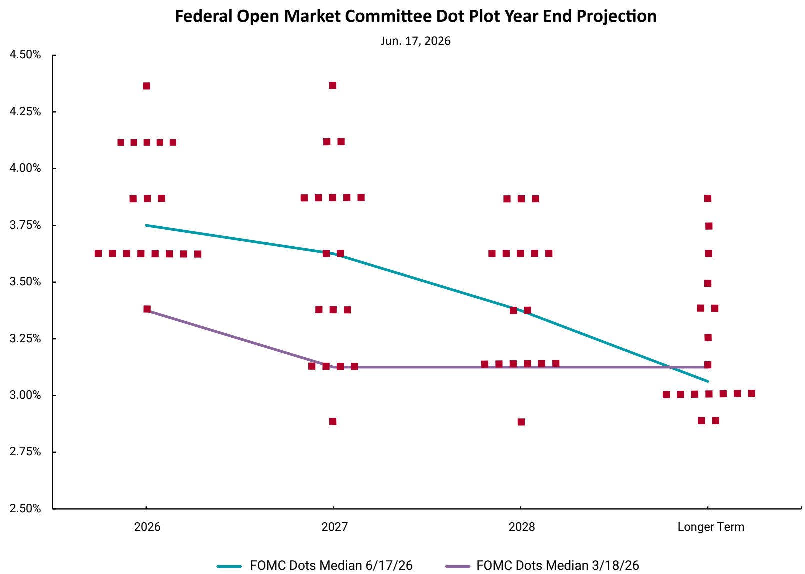
History can again provide some insight into what to expect. As Wyett said, transformative technologies such as railroads, the internet and now AI often involve “big losses” early on but ultimately reshape how the economy operates.

“Think of the internet coming in the mid-90s,” he continued. “There was this huge bubble with big losses. However, as we sit here today, the internet is ubiquitous. We can’t operate without it.”

04

Outlook for financial markets

As the second half of 2026 begins, investors find themselves in a somewhat unusual position. On one hand, there is no shortage of reasons to be cautious: Inflation remains above the Federal Reserve’s 2% target. Interest rates are higher than many expected at the start of the year. Geopolitical tensions continue to flare up. On the other hand, markets have continued to push higher, largely because the underlying economy has remained more resilient than many anticipated.



SOURCE: BLOOMBERG, FOMC DOTS MEDIAN DATA AS OF JUN. 17, 2026.

That contrast between a backdrop that appears challenging and an economy that continues to grow may be one of the defining features of the months ahead. The biggest question facing markets may no longer be whether the Fed will begin cutting rates aggressively, as that move has become increasingly difficult to justify. The labor market remains firm, growth is still positive and inflation has proven more persistent than many policymakers had hoped. While rate cuts remain possible at some point, investors are learning to adapt to the possibility that interest rates could remain elevated for longer than expected.

Just as important is the transition that recently took place in the Fed itself. New leadership always brings questions, but this change arrives at a particularly delicate moment. Markets are trying to determine not only where rates are headed, but also how Warsh will approach the central bank's broader role in the economy. As always, maintaining credibility with bond investors may prove just as important as any individual policy decision.

Why inflation has been so sticky

One reason why interest-rate expectations continue to shift is that some of the forces pushing prices higher look less temporary than they once did. For decades, globalization helped businesses lower costs by sourcing labor, commodities and production wherever they were cheapest. Today, many countries and businesses are reconfiguring supply chains and placing a greater emphasis on reliability over low cost. Those decisions may create a more resilient economic system over time, but it also may mean higher inflation.

That does not mean that a second wave of inflation is inevitable, but rather that it may be a more difficult road to get inflation back to the exceptionally low levels that defined much of the decade before the pandemic. As a result, investors may need to adjust to a world where both inflation and interest rates remain somewhat higher than they became accustomed to.

Markets have been surprisingly resilient

Meanwhile, perhaps the most notable development this year has been the market's ability to absorb bad news. Higher energy prices, geopolitical conflict and uncertainty surrounding monetary policy have all created headwinds. Under different circumstances, any one of those developments might have triggered a more significant pullback. Instead, investors have largely focused on continued economic growth, healthy corporate activity and ongoing business investment.

That does not mean risks have disappeared. A renewed spike in oil prices, a reacceleration in inflation or a policy mistake from the Fed could quickly change the outlook. Still, the more interesting question may be why markets have remained so resilient despite these risks.

The answer may be that the economy continues to generate enough growth to offset many of the concerns dominating headlines. Until that changes, investors may continue doing what they have done for much of the year: acknowledge the risks, worry about them and then keep moving forward anyway.

For a more granular look at what's ahead for financial markets, see the article starting on the next page.

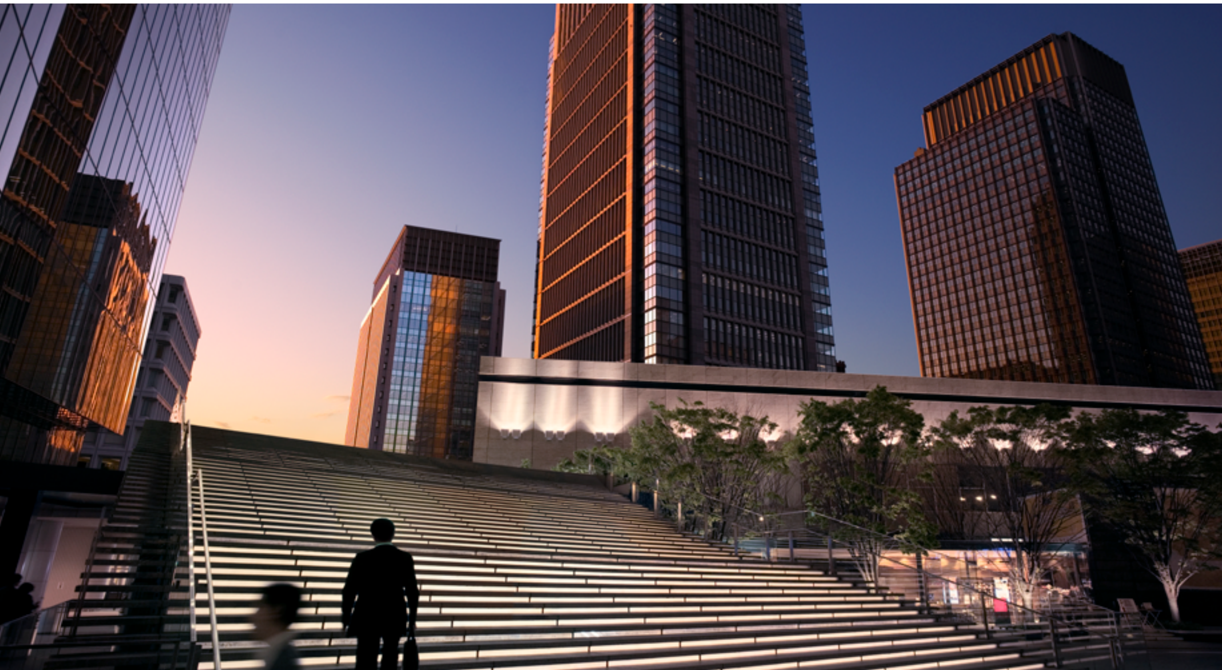
A DEEPER LOOK AT FINANCIAL MARKETS

Forecast for financial markets: cloudy skies, then potential sun

With midterms approaching, near-term uncertainty is rising but a more stable stretch could follow

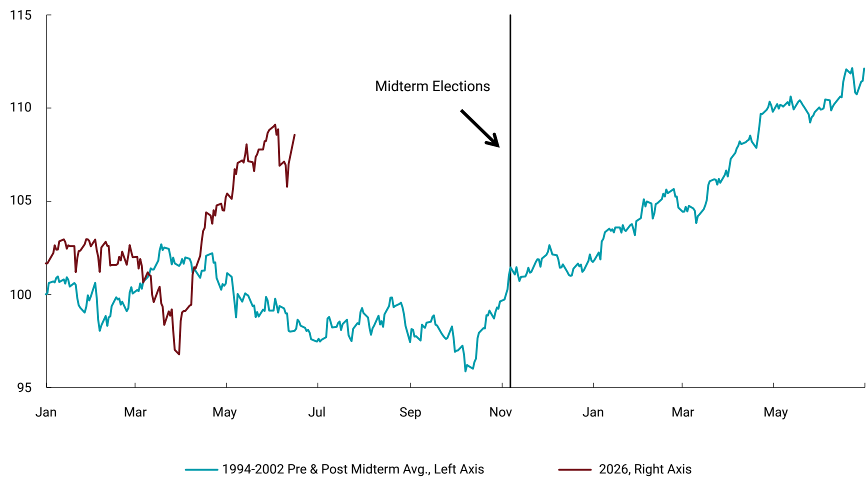
As financial markets look ahead to the midterm elections, the pattern looks familiar but with a different hue.

“There’s usually more uncertainty leading up to midterms,” said Brian Henderson, chief investment officer at BOK Financial®. This uncertainty comes from investors trying to weigh different policy outcomes and what they could mean for markets. However, that sentiment doesn’t tend to last, according to Henderson. “After the midterms, markets almost always do well,” he said.



Average S&P 500 Performance Before & Following Midterm Elections

(1994, 1998, 2002, 2006, 2010, 2014, 2018, 2022)



SOURCE: STRATEGAS

As Strategas data shows, performance leading up to the midterms is uneven and volatile, but once the election passes, the trend turns more decisively higher, with gains becoming more consistent over time.

However, that's not to say that different election results don't have varying effects on markets. These effects tend to play out in sector performance.

"If you think about different outcomes, you tend to see different areas respond," Henderson said. "For example, more defense spending tends to benefit aerospace and defense names, while energy can look very different depending on how supportive the policy environment is for production."

Healthcare is another area that can move quickly, he added. "You can see the healthcare sector react depending on how much focus there is on pricing or regulation," Henderson explained, noting that even modest policy shifts can change how healthcare-related stocks are traded.

Yet even with those differences, the broader pattern tends to hold. "It's usually more about which sectors lead than whether the market itself does well," Henderson said.

And so, for financial markets, midterms may be the backdrop, while ongoing trends may be at center stage.

Stock performance is broadening

For instance, equities are no longer being carried by a single group of companies. Earnings estimates for 2026 remain strong and are broadening beyond the largest technology companies. This could mean that even "average" stocks in the S&P 500, as well as mid- and small-cap companies, could post positive relative performance.

"It's been a pretty narrow market, and the next step is seeing that broaden out," said Steve Wyett, BOK Financial's chief investment strategist.

Some of that rotation is cyclical. Some of it is structural. Finally, some of it, as Henderson pointed out, reflects the uncertainty around the election cycle—shifts in spending priorities, regulation and policy direction that can tilt the playing field across sectors.

At the same time, earnings expectations are rising across the board, which may mean that performance starts to diverge. That's because, as earnings expectations move higher, it becomes more difficult for companies to meet them, which tends to widen the gap between companies that deliver and those that fall short. "As expectations rise, you're going to see a much wider range of outcomes across companies," said Matt Stephani, president of Cavanal Hill Investment Management, Inc., a subsidiary of BOK Financial Corporation.

AI is still the driver but no longer enough on its own

Meanwhile, artificial intelligence (AI) remains the central force behind much of the market's momentum. "This is one of the largest capital-expenditure cycles we've seen," Wyett said, pointing to the scale of investment still flowing through infrastructure, data centers and related technologies.

However, the way that theme shows up in markets is changing. "The question now is who turns that investment into actual returns," Stephani said, and that's where the next phase of the market likely will be decided.

Earlier, broad exposure to AI was often rewarded. Now, results matter. Companies that can translate spending into earnings are starting to separate themselves from those that cannot. In that sense, AI is reinforcing a broader shift already underway—toward a market defined more by dispersion than by a single rising tide, a dynamic Stephani sees playing out across sectors.

What's ahead for bonds and the credit market

While equities are rotating, fixed income has already repriced. As Henderson said, "The bond market has had to reprice pretty quickly—and that's created both risk and opportunity."

The most immediate effect is straightforward: bonds are generating income again. In Wyett's words: "For the first time in a long time, fixed income can actually contribute meaningfully to returns."

Meanwhile, at a high level, credit markets are "holding up well," Henderson said. Credit spreads have widened but not to levels signaling trouble, and corporate fundamentals continue to support the market. However, that stability is not uniform—and it may not hold as cleanly if conditions tighten.

"There's been a lot of growth in credit markets, especially on the private side," Henderson said, noting that capital has flowed quickly into areas that historically were more limited and less visible. "That doesn't always come with the same level of liquidity or transparency."

That matters more in a market where conditions are evolving. As a result, some areas of credit, such as less liquid areas where it's harder to exit, are more vulnerable than others. As Stephani said, "You're starting to see more differentiation across credit."

And so, instead of a single stress point, the risk is more fragmented. "It's not that credit looks broken," Henderson said. "It's that some areas are going to matter more than others."

As always, we will continue to monitor the topics in this outlook and their impact to markets—and your money—closely. Subscribe for regular updates.

Meet our experts

Brian Henderson is chief investment officer for BOK Financial, a position in which he leads the Alternative Investments Group, Strategic Investment Advisors and Cavanal Hill Investment Management, Inc.

Steve Wyett is chief investment strategist for BOK Financial, a role in which he communicates the organization's investment management message and serves on a variety of investment-related committees.

Matt Stephani is president of Cavanal Hill Investment Managements, Inc., a position in which he is responsible for the fixed income, cash and equity management teams of Cavanal Hill.