

Monthly Download

June 2026

Summary

- ◆ **Markets delivered** mixed performance in June as Technology and Mag7 companies saw investors rotate capital towards the end of the month. Value-oriented sectors like Financials, Industrials, and Health Care outperformed and small caps outpaced large caps. The U.S.–Iran ceasefire removed a key geopolitical overhang, pushing oil prices back toward pre-conflict levels and easing near-term inflation concerns. The Federal Reserve left rates unchanged but struck a hawkish tone, emphasizing price stability. Even so, resilient economic data and improving earnings expectations helped support a broadening of market leadership sending equal-weight and small cap indexes to new highs.

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Market Overview

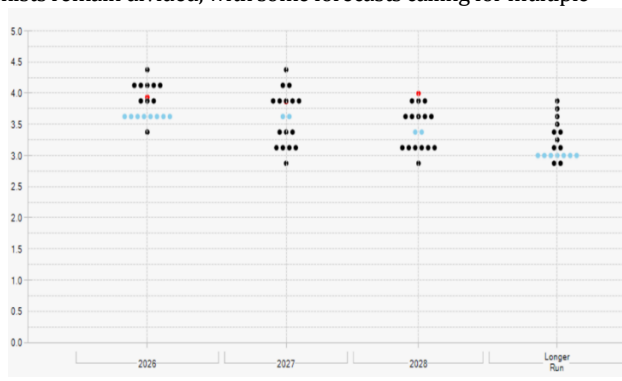
- ◆ **Equity markets** posted mixed results given the drag from Mag7 names. Developed markets fared modestly better than emerging markets, as prior leaders South Korea and Taiwan (and their chip stocks) took a breather. Market leadership also broadened toward AI infrastructure suppliers and AI beneficiaries.
 - U.S. Large Cap stocks (S&P 500) declined 1.0%, driven primarily by weakness in Communication Services, Energy, and Technology. The average Mag7 stock was down almost 10% in June. Industrials, Healthcare, and Financials led performance. Year-to-date gains now stand at 10.2%.
 - U.S. Small Cap stocks (Russell 2000) gained 3.7%, outperforming large caps. Healthcare delivered the strongest returns within small caps, rising 14.6%. Small Cap stocks are now up 22.6% year to date.
 - Non-U.S. stocks (MSCI EAFE Net) added 0.1% for the month, benefiting from a higher weighting to Financials and finishing slightly ahead of U.S. markets. Year-to-date returns are now 9.8%.
 - Emerging Markets (MSCI Emerging Markets Net) fell 1.4%, dragged down by weakness in China, while modest gains from Korea and Taiwan were not enough to offset losses. Year-to-date gains now stand at 24.0%.
- ◆ **Interest rates** were mixed, with the short end of the yield curve moving higher while longer-dated yields were little changed. Markets interpreted Federal Reserve communications as more hawkish and pushed the 2-Year Treasury yield up 16 bps, while the 10-Year Treasury yield was flat at 4.46%.
 - High Grade Taxable bonds (Bloomberg U.S. Aggregate) returned 0.2% in June, with spreads largely unchanged. Year-to-date returns are 0.6%.
 - Municipal bonds (Bloomberg 1-10 Year Muni Bond) added 0.5%, supported by robust demand during the month. Municipal bonds continue to outperform taxable bonds in 2026, with returns standing at 1.1%.
 - Investment Grade bonds (Bloomberg U.S. Corporate Investment Grade) and High Yield bonds (Bloomberg U.S. Corporate High Yield) returned 0.2% and 0.3%, respectively, as credit spreads narrowed modestly in June. Year to date, Investment Grade bonds are positive at 0.9%, while High Yield bonds have returned 2.0%.
- ◆ **Commodities** (Bloomberg Commodity Index) fell 8.6%, driven by drawdowns in energy and precious metals. Gold and silver declined 11.8% and 20.3%, respectively, as safe-haven demand faded. Crude oil (WTI) ended down 18%, returning to pre-conflict levels after a ceasefire agreement was reached between the U.S. and Iran. Commodities are now up 14.4% in 2026.

All market performance data are sourced from FactSet or Bloomberg.

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Economic Commentary

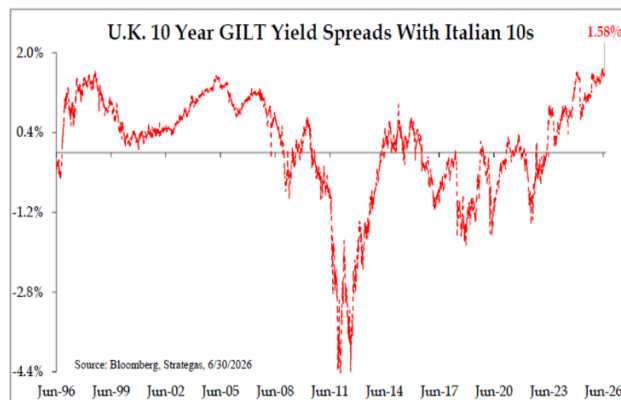
Kevin Warsh chaired his first FOMC (“Federal Open Market Committee”) meeting in June after assuming leadership of the Federal Reserve, an event markets had been watching closely given the political pressure surrounding his nomination. In a notable shift from the more expansive communication style that characterized the post-GFC era, Chair Warsh delivered a shorter statement and placed clear emphasis on restoring inflation to the Fed’s 2% target, which has remained elusive. The message was interpreted as hawkish, particularly alongside the updated dot plot, which showed that half of FOMC participants expected at least one rate increase before year-end. In response, the 2-Year Treasury yield, which is highly sensitive to changes in policy expectations, rose from 4.02% to 4.20% following the meeting, moving above the upper bound of the current 3.75% policy range. Futures of Fed Funds rates now imply one rate hike by year-end, while Wall Street economists remain divided, with some forecasts calling for multiple increases in 2026. At the same time, the case for a more patient approach remains intact. The fragile ceasefire agreement with Iran quickly pushed crude oil prices back toward pre-conflict levels, while housing costs, the largest component of the PCE (“Personal Consumption Expenditures”) index, have remained relatively anchored. These factors provide dovish policymakers with a rationale for avoiding additional tightening this year. One source of reassurance from the June meeting was that the Federal Reserve’s independence appeared intact. The current administration has made clear its preference for lower rates, and investors were looking for signs of how the newly appointed Chair would respond to political pressure. The Supreme Court’s decision that President Trump could not remove Fed Governor Lisa Cook added another layer of confidence in the institution’s independence. While the front end of the yield curve moved sharply higher after the meeting, longer-term rates remained better anchored, supported in part by that relief.



FOMC Participants' Assessment of Appropriate Monetary Policy: DOT-PLOT

Source: CME FedWatch

United Kingdom politics, long associated with stability, has become notably unsettled since the Brexit referendum in 2016, with the country cycling through six prime ministers over that period. Keir Starmer, the latest prime minister, resigned in June as pressure intensified following local elections in May, when his Labour Party lost ground. Unlike the U.S., the U.K. prime minister is the elected leader of the governing party. If Members of Parliament lose confidence in that leader, they can trigger a no-confidence process that may remove the prime minister without a general election. Andy Burnham, the Mayor of Greater Manchester, is viewed as one of the strongest potential candidates to lead Labour and challenge Reform UK, the party led by Nigel Farage, who was widely credited with helping drive the Brexit movement in 2016. Although each recent prime minister departed under varying circumstances, the underlying challenges have remained consistent: a stagnant post-Brexit economy, persistent



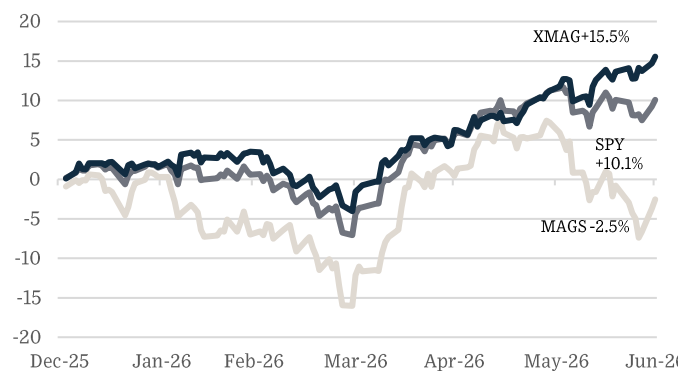
U.K. 10 Year Government Bond Yield Spreads with Italian 10 Year

Source: Strategas

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deficits, and mounting affordability pressures. Pressures that were exacerbated by the Russia-Ukraine conflict in 2022 and, more recently, by the Iran conflict. Since July 2016, U.K. GDP growth has averaged roughly 1% per year, placing it below the G7 average. The U.K. is also more vulnerable to inflation than many peers. Brexit increased import costs and reduced labor supply, while the country's heavy reliance on energy imports has made shocks from the Russia-Ukraine conflict and the Iran war harder to absorb. Approximately 25% of outstanding U.K. government bonds are indexed to inflation, the highest share among major sovereign issuers.¹ Housing, including mortgage interest payments, accounts for approximately 26.5% of the inflation basket, and most U.K. mortgages reset every two to five years. As the Bank of England raises rates to combat inflation, higher borrowing costs feed into mortgage payments, the inflation index, and inflation-linked government borrowing costs. Political instability has pushed U.K. government bond yields to some of their widest levels relative to peers, as the spread to Italy, a more leveraged European peer, hit 30-year highs in June. A new prime minister could be elected as soon as early July, but the same economic challenges are likely to persist. At best, the next leader may be granted a brief period of patience to address problems that have no quick fix.

Magnificent 7 stocks, after leading the market over the past two years, have lagged the other 493 companies in the S&P 500 year-to-date. This rotation reflects a shift in investor focus from rewarding AI growth at any cost to demanding greater capital discipline. The market is becoming increasingly focused on the unprecedented scale of AI infrastructure spending. While the hyperscalers continue to deliver strong earnings growth, record capital expenditures are compressing free cash flow and raising the hurdle for future returns on invested capital. Investors are asking not only whether AI demand will remain strong, but also whether the enormous investments required to support it will ultimately generate attractive economic returns. Perhaps the clearest indication of this shift is that even some of the world's largest cash-generative companies have begun supplementing internal cash flow with external financing. Five of the world's largest technology



Year to Date Total Returns of Mag 7, Large Cap ex-Mag 7 and S&P 500

Source: Factset

companies including Alphabet, Microsoft, Amazon, Meta and Oracle collectively raised \$159 billion in corporate bonds through June 2026. The same group issued \$121 billion for the entire year of 2025, a 47% increase in just the first five months compared to the prior year total. Alphabet's additional \$80 billion equity raise in June underscores that AI investment has become sufficiently capital intensive to warrant greater use of capital markets, even among companies with exceptionally strong balance sheets. Mag7's capital expenditure is another company's revenue. The hyperscalers' AI spending is flowing directly to the semiconductor and infrastructure ecosystem, where suppliers are enjoying unprecedented pricing power and profitability. Rather than questioning AI demand, investors are increasingly recognizing that a meaningful portion of the economic value created by the AI buildout is accruing to the companies supplying the critical components. Micron's latest earnings illustrate this dynamic. The company reported record quarterly results and guided to approximately 86% gross margins for the next quarter, an extraordinary level for a semiconductor manufacturer, driven by surging AI memory demand and constrained supply. Semiconductor companies are known to be highly cyclical and Micron survived repeated industry busts tied to memory pricing. Micron's management team highlighted roughly \$100 billion of long-term customer commitments, providing unusual visibility into future demand, setting the base to lessen the vulnerability to the cyclical nature of demand. The first phase of the AI trade rewarded the builders of AI infrastructure, the hyperscalers. The current phase is increasingly

¹United Kingdom: An Investor's Perspective by Chepstow Lane Capital

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rewarding the suppliers to those builders: memory manufacturers, semiconductor companies, networking vendors, and the broader AI hardware ecosystem. The AI investment cycle is alive and well in markets, but investors are distinguishing between the companies funding the AI revolution and those monetizing it.

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