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Monthly Market Commentary

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US Economy

The U.S. economy continued to grow in June, but at a moderate pace as consumers and businesses dealt with higher prices and ongoing uncertainty. Business investment remained a bright spot, particularly spending related to artificial intelligence (AI), data centers, and technology infrastructure. Consumer spending was still positive overall, but many households felt pressure from elevated costs for gasoline, food, and other necessities.

Inflation remained the economy's biggest challenge in June. Federal Reserve officials raised their outlook for inflation and indicated that price pressures were likely to remain above their long-term target for some time, leading investors to anticipate interest rates staying relatively high (see our discussion below). Despite these concerns, the labor market remained resilient, with unemployment holding steady and job growth continuing, although at a slower pace than in prior years. For the average investor, June's economy could best be described as stable but slowing: businesses were still investing, workers were still finding jobs, and growth continued, but higher inflation and borrowing costs remained important headwinds that could limit future economic momentum.

US Markets

During the month of June, US equities experienced a volatile but ultimately positive month. Investors navigated concerns about inflation, interest rates, technology stock valuations, and geopolitical tensions in the Middle East, particularly involving Iran. Despite these challenges, the major US market indices finished the month near or at record highs. Technology and semiconductor companies were again key drivers of performance, with strong demand related to AI helping support investor confidence.

June demonstrated that the stock market can advance even when headlines appear concerning. Early in the month, rising oil prices and inflation worries created uncertainty, and a late-June selloff in technology stocks briefly raised concerns that the AI-driven market rally might be losing momentum. However, strong corporate earnings, continued enthusiasm for artificial intelligence, and easing geopolitical tensions helped stocks recover. By the end of June, investors were rewarded for staying invested, as the market completed a very strong second quarter.

Fixed Income

In Kevin Warsh's first Federal Open Market Committee (FOMC) meeting as Chair, the Fed held the federal funds rate steady at 3.50% - 3.75%. The FOMC noted that recent economic activity is expanding at a solid pace despite elevated uncertainty. Productivity growth and capital investment are strong. Job gains have kept pace with the workforce, and the unemployment rate has changed little. Inflation remains somewhat elevated reflecting supply shocks and energy constraints.

The Fed's official statement has an increased focus on economic uncertainty and a greater focus on the threat posed by price instability from the April statement. In our opinion, the uncertain geopolitical environment may inject more uncertainty into the ultimate path of the federal funds rate. The statement from the Fed shows that a growing number of members favor a more neutral or hawkish bias. Ultimately, the economic data could impact the timing of any move higher or lower in policy rates.

International Markets

In our view, Europe may be the least well-positioned among the major economic blocs for crosscurrents from the boom in AI investment and fallout from the Mideast conflict. Heavy dependence on oil imports and manufactured goods trade leaves it highly exposed to supply-chain disruptions, while a relatively small technology sector limits exposure to the AI investment boom. Recent purchasing manager indices signaled recession-like conditions, as modest growth in manufacturing was outweighed by a decline in services. Those indices showed southern European manufacturing and services activity more resilient to Mideast-related disruptions than economies in the north. European economic activity has been weakened by pressure on real incomes and interest rates from a recent rise in inflation, due to supply disruptions tied to the Iran war. This set the stage for a European Central Bank interest rate hike in June, the first hike since 2023.

Much like Europe, Asia's recent economic performance has been defined by crosscurrents from Mideast supply-chain disruptions and the AI investment boom centered in China, South Korea, and Taiwan. Southeast Asian economies have faced the brunt of supply bottlenecks without the offsetting benefit of AI-driven strength. Weakening consumer spending throughout the region has been a counterpoint to the AI boom and to a more general burst of exports from China through April. Domestic spending has been hurt by supply-chain disruptions compounded by weakening exchange rates adding to import-price pressures. Local central banks moving to stabilize local exchange rates have added to growth headwinds by halting interest rate cuts or by tightening policy, reversing the monetary easing supporting growth before disruptions created by the Iran war.

Commodities

Gold prices began the year with a strong uptrend for the month of January. This rally was driven by retail investors continuing to chase the positive momentum established in 2025, alongside steady buying by central banks increasing their long-term gold reserves as part of diversification strategies in a highly uncertain world. Since late January, however, the trend has reversed, with gold declining. A significant portion of this pullback followed the US attack on Iran on February 28, which introduced broader market uncertainty and volatility. Notable, central banks likely contributed to the downward pressure by trimming their gold holdings to meet fiscal demands, including funding energy subsidies linked to higher conflict-induced oil prices.

Despite near-term uncertainty, we believe the longer-term outlook remains positive. We believe central banks could continue accumulating gold amid persistent geopolitical uncertainty, elevated inflation, and higher interest rates. As such, we remain constructive on the outlook for gold and precious metals as we look toward year end.

What Does This Mean to Me?

As market dynamics unfold and conjecture is sifted from durable market trends, we believe investors should remain adaptable to changing economic realities. At the start of the year, emerging markets (EMs) and developed markets (DMs) were catching up following years of subdued growth. While DMs have struggled with the current geopolitical energy dynamics, the US and EMs have performed well (as of this writing), supported by the AI technology boom and their roles as energy exporters or mineral suppliers. As we look to the end of 2026 and into 2027, AI is largely anticipated to contribute to greater business productivity. However, the politics and stability in the Middle East conflict is fragile, and the uncertainty of US midterm elections often add volatility to investment markets. As we hit midyear 2026, we urge investors to remain focused on fundamentals rather than short-term market noise. As such, we continue to advise clients to use any equity pullbacks as an opportunity to deploy sidelined cash.

If you have any questions or concerns, please do not hesitate to reach out to us at any time.

Sincerely,

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