Market Update: June 2026

Over the As we hit the halfway point of 2026, the big takeaway is that the economy and the stock market are proving to be incredibly tough. If you look at the major stock market indexes, they’ve been remarkably steady, even with ongoing tensions overseas and prices that are still refusing to come down as fast as we’d like.

But if you look under the hood, the game is changing a bit. The early part of the year was a bit of a "rising tide lifts all boats" situation, mostly driven by excitement around Artificial Intelligence. Now, the market is becoming a lot more selective. Investors are starting to ask tougher questions about what things are actually worth, and they're looking more closely at sectors outside of the U.S. to see where the best opportunities are.

The Fed and Interest Rates: Getting Used to the "New Normal"

The Federal Reserve is still calling the shots when it comes to market mood. Kevin Warsh has settled into his role as the new Fed Chair, and his message has been loud and clear: don't expect interest rates to drop anytime soon.

At the start of the year, almost everyone thought we’d see a steady string of rate cuts by now. But because the economy is actually holding up quite well and inflation is being stubborn, the Fed is keeping rates right where they are. The good news? The market has actually taken this in stride. Instead of panicking about high interest rates, investors are looking at it as a sign that the economy is strong enough to handle them. For our strategy, it just means we are focusing on companies with plenty of cash who don't need to borrow money at these higher rates.

The AI Divide Shifts into Everyday Sectors

Last month, we talked about the "AI Divide"—the widening gap between companies winning the AI race and those losing it. In June, we saw this trend move out of just tech stocks and into everyday sectors:

- **The Winners:** All the money being spent on AI infrastructure is starting to boost industries like Industrials (the companies building the physical data centers) and Utilities (the power companies that need to supply the massive amount of electricity these data centers burn through).

- **The Disrupted:** On the flip side, the market is starting to punish sectors that rely on older ways of doing business—like traditional customer service setups or basic data entry—where AI can do the job faster and cheaper.

This means it's no longer enough to just buy a broad index fund and hope for the best. Picking the right industries to be in is going to be the most important factor for the rest of the year.

Looking Beyond the U.S.

We've also been spending a lot of time looking at international markets, specifically in Europe and Japan. Right now, international stocks look like a bit of a bargain compared to expensive U.S. stocks, and many of them pay great dividends.

The catch? They come with a bit more baggage. Being closer to global hotspots means international companies are more exposed to geopolitical risks and energy supply shocks. Because of that, we are being very picky, sticking to large, global companies overseas that have the muscle to handle any local turbulence.

What We’re Watching Next

As we head into July, companies will start releasing their second-quarter financial reports. We are going to be looking closely at three things:

1. Who Can Handle High Costs?: We want to see which companies can successfully pass higher prices onto their customers without losing business.

2. The American Consumer: We’ll be listening to updates from retail and grocery companies to see if regular families are finally starting to cut back on spending due to higher prices.

3. Smart Spending: We want to make sure companies are spending money wisely on new tech, rather than just throwing cash at AI because it’s a popular buzzword.

Our Bottom Line

The first half of the year was a wild, profitable ride, but blindly chasing the hottest trends right now is getting risky. We are entering a phase where fundamentals matter, and the market is going to start separating the real winners from the hype. Our game plan hasn't changed: we believe in staying balanced, diversified, and disciplined. We are focusing on steady companies with real earnings and good dividends, while keeping a careful eye on growth.

Shearwater Creek Investment Matters

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