MONTHLY
MARKET REVIEW

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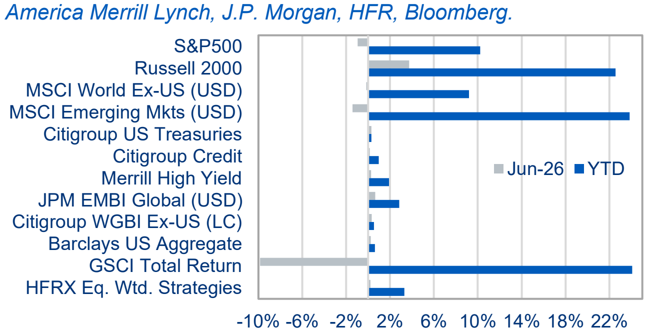
Strategic Investment Group®

Global Market Review

Global equity markets gave up a modicum of their previous strong gains in June. The U.S. market's modest June decline reflected a retrenchment in mega cap tech stocks and mild concern over the prospect of a more hawkish Fed. Non-U.S. advanced economy equity markets were little changed, while emerging equities lost ground. Both have recorded strong returns in the first half of 2026. AI-generated demand for computer chips has sent chip manufacturers' share prices soaring so far this year, boosting global equity markets. After its blockbuster IPO, SpaceX shares closed the month 26% higher than their IPO price, making it the sixth largest company in the U.S. with a market capitalization of about $2 trillion. The Fed left rates unchanged in June, as expected. The U.S. Treasury yield curve flattened slightly. With hopes rising for an end to the Iran war, Brent crude prices returned to pre-war levels and U.S. gasoline prices fell. The U.S. dollar index rose. The Japanese yen fell to 40-year lows against the dollar.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



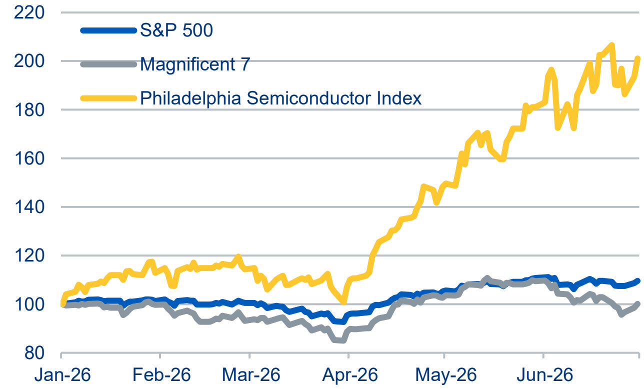
Global equities fell slightly in June. Oil prices plunged.

U.S. Equities Take a Breather in June

The U.S. equity market fell about 1% in June. The Magnificent 7 led June's decline, falling 8.6%. In contrast, the Philadelphia Semiconductor Index of chip producers rose in June and is up over 100% in the first half of the year (Exhibit 1). Increased demand and higher prices for chips to supply the AI investment boom were the main drivers of the index gains. Across market segments, growth and large cap stocks fell in June while value and small cap stocks rose.

Exhibit 1. Chip Stocks Soar as the Magnificent 7 Falls

Source: Bloomberg. Index January 1, 2026 = 100. The Magnificent 7 grouping of mega cap tech stocks comprises Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla.



Despite June's decline, the S&P 500 gained 10.2% in the first half of the year. Value stocks (+16.6%) handily outperformed growth (+5.9%) over this period. Small cap stocks performed especially well, gaining 22.6% so far in 2026.

In addition to the AI mania, strong corporate earnings have contributed to rising share prices. Actual corporate earnings were up 28% in Q1 and are expected to increase by 24% for the year as a whole. They are projected to rise a further 13% in 2027. AI related firms are estimated to account for up to half of the earnings growth so far this year.

AI IPO Surge

Near record high equity valuations and the need to finance ambitious capital expenditures have contributed to a surge in IPO activity and secondary issuance by AI firms. SpaceX led

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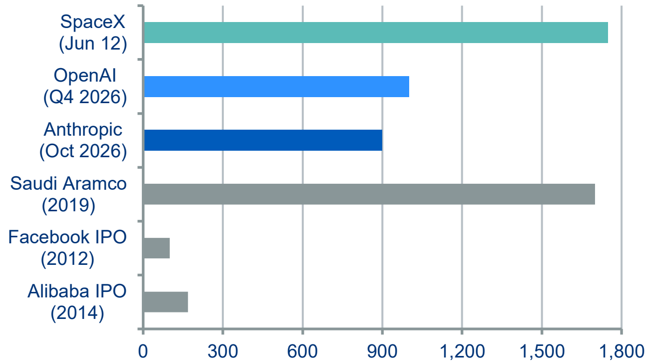
the charge in June, setting the record for the amount of funds raised and the IPO's valuation. SpaceX expanded its planned issuance of $75 billion to $86 billion to take advantage of strong investor interest. SpaceX was able to price its IPO at 94 times 2025 revenue for an initial valuation of $1.75 trillion, notwithstanding negative earnings (Exhibit 2). SpaceX closed the month 26% above its IPO price, raising its market capitalization to $2 trillion, making it the sixth largest U.S. company. It soon followed its IPO with the issuance of $25 billion in bonds that, like its equity issuance, was also heavily oversubscribed. Anthropic and OpenAI are planning IPOs for later this year with target valuations of $900 billion (40 times trailing revenue) and $1 trillion (30 times trailing revenue), respectively (Exhibit 2). Neither has positive earnings. The only previous comparably sized new issue was Saudi Aramco's 2019 IPO which raised $25.6 billion at a valuation of $1.7 trillion, reflecting a trailing P/E ratio of about 18 times. Besides being highly profitable, Aramco was and remains the largest holder of oil reserves among global energy companies.

Exhibit 2. AI IPOs Set Valuation Records

Sources: CNBC and PitchBook. Valuations in billions of US dollars.



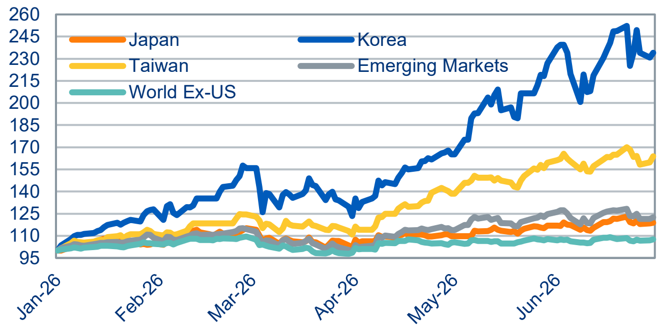
AI Demand for Chips Boosts Emerging Equity Prices

The MSCI World ex-US index of advanced non-U.S. equities fell slightly in June but remains up 9.2% so far this year. In the first half of the year, European and Japanese equity markets have gained 7.8% and 15.8%, respectively. In addition to AI enthusiasm, the Japanese market has benefited from structural support from its exit from deflation, corporate governance reforms, and favorable valuations. The stock market's strong gains in both local currency and U.S. dollar terms stand in stark contrast to the depreciation of the yen, which fell to near 40-year lows in June. The combination of yields held artificially low by massive central bank bond purchases and a gross government debt ratio of 240% of GDP has contributed to yen weakness while also boosting the stock market.

Emerging equity markets declined 1.4% in June but nevertheless remain up 23.8% so far this year. Asian emerging markets have outperformed other regions, rising 28.2% in the first half of the year. Among emerging markets, Korean and Taiwanese markets have performed especially strongly, rising 133% and 63%, respectively in U.S. dollar terms so far this year thanks to the soaring stock price of chip manufacturers (Exhibit 3).

Exhibit 3. AI Drives Emerging Equity Strong Returns

Source: Bloomberg. Index January 2026 = 100.

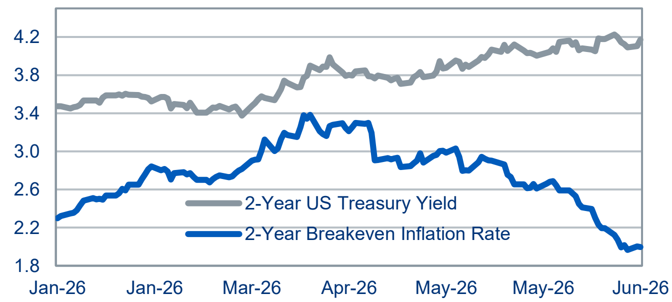


New Fed Chair Takes the Helm

In its first meeting with Kevin Warsh as Chair, the FOMC left rates unchanged in June as widely expected. Futures markets continue to expect two rate hikes by the end of the year. Two-year U.S. Treasury yields are up despite falling short-term inflation expectations (Exhibit 4).

Exhibit 4. ST Yields Rise as Inflation Expectations Fall

Source: U.S. Treasury. Yields and inflation expectations in percent.



Warsh promised a renewed focus on price stability, less use of forward guidance as a tool of monetary policy, and a smaller Fed balance sheet. Of these initiatives, perhaps the most significant is the push to reduce the size of the Fed's balance sheet, which has grown to nearly $7 trillion (21% of GDP) today from $865 billion (6% of GDP) in 2007 prior to the Great Financial Crisis. Reduced central bank holdings of U.S. Treasuries means that other market participants must absorb rising government debt. Some of these have been highly leveraged hedge funds pursuing arbitrage strategies, a factor that has introduced a source of potential market instability.

Performance of Major Market Indices through 06-30-2026

Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	-1.0%	15.2%	10.2%	22.3%	20.6%	13.4%
Russell 2000	3.7%	21.5%	22.6%	40.8%	18.6%	7.0%
MSCI World Ex-US (USD)	-0.2%	10.2%	9.2%	21.0%	16.9%	9.3%
MSCI Emerging Mkts (USD)	-1.4%	24.1%	23.8%	43.5%	23.0%	7.2%
Citigroup US Treasuries	0.3%	0.3%	0.3%	2.7%	3.2%	-0.4%
Citigroup Credit	0.2%	1.6%	1.0%	4.6%	5.4%	0.4%
Merrill High Yield	0.3%	2.5%	1.9%	5.7%	8.8%	4.1%
JPM EMBI Global (USD)	0.6%	4.0%	2.8%	10.6%	9.5%	2.5%
Citigroup WGBI Ex-US (LC)	0.3%	1.2%	0.5%	0.1%	1.4%	-1.9%
Barclays US Aggregate	0.2%	0.7%	0.6%	3.8%	4.2%	0.1%
GSCI Total Return	-9.9%	-11.4%	24.1%	30.4%	14.6%	13.3%
HFRX Eq. Wtd. Strategies	0.2%	4.2%	3.3%	8.2%	6.4%	3.0%