Richard Rose Wealth Management June 29, 2026

WEEKLY COMMENTARY **Richard Rose AIF®**

Good morning,

What's in this week's Report:

- With Inflation and AI Spending, It's All About Sustainability
- Weekly Market Preview: Two of the "Big Three" Economic Reports Out This Week
- The Real Reason Behind the AI/Tech Selloff
- Micron Earnings: The Evolution of the AI Trade

Futures are modestly higher as easing tensions between the U.S. and Iran lift sentiment and support a rebound in tech stocks.

The U.S. and Iran reportedly agreed to halt strikes around the Strait of Hormuz and resume peace talks. Despite this weekend's headlines, markets remain focused on the reduced risk of further escalation.

There were no major market-moving economic reports overnight.

Today's focus will remain on geopolitics, and any headlines that reduce the chances of renewed escalation between the U.S. and Iran should be supportive for stocks. Conversely, any signs the ceasefire is breaking down would likely pressure markets.

Away from geopolitics, there are no economic reports or Fed speakers today. The Treasury will auction 3-Month and 6-Month Bills at 11:30 a.m. ET and stronger-than-expected demand should help support stocks as the week begins.

Market	Level	Change	% Change
S&P 500 Futures	7,464.50	62.75	0.85%
U.S. Dollar (DXY)	101.00	-0.12	-0.12%
Gold	4,057.80	-38.50	-0.94%
WTI	70.11	0.88	1.27%
10 Year	4.382%	0.013	0.30%

Stocks

Last Week (Needed Context as We Start a New Week)

Stocks endured another volatile stretch of trading last week as largely Goldilocks economic data and tame Treasury yields were offset by ongoing profit-taking in AI-related tech and semiconductor names globally. The major indexes ended mixed on the week, with the S&P 500 declining 1.94%.

Markets began last week with a tentative risk-on bid on Monday, as wary dip buyers nibbled at some beaten-down tech/semiconductor names amid continued progress in U.S.-Iran peace talks. A sudden spike in the yen driven by suspected Japanese government intervention triggered a risk-off unwind of the Carry Trade, which hit the top YTD performers the hardest, weighing again on tech and semiconductor shares. The market stabilized into the afternoon despite woes regarding SPCX's eagerness to announce the newly public company's first investment-grade bond sale, leaving the S&P 500 down 0.37%.

A global rout in the most overbought corners of the tech sector overshadowed Goldilocks Composite PMI data on Tuesday, as a ~10% drop in the South Korean KOSPI Index spilled over, dragging U.S. tech/semiconductor shares lower. Rotational money flows left seven of 11 sectors higher, but the S&P 500 still sank 1.44% (XLK fell 4%+).

Stocks rallied in early trade Wednesday amid a renewed sense of geopolitical optimism after the International Maritime Organization announced a strategy to facilitate oil tankers' immediate exit from the Persian Gulf through the Strait of Hormuz. The White House announcing 20 million barrels of crude had traversed the chokepoint over the last 24 hours saw the rest of the market continue to gain momentum, but tech remained heavy, leaving the S&P 500 down 0.10%.

The market gapped higher at the open on Thursday thanks to blowout MU earnings, which led to a rebound in beaten-down tech/semiconductor stocks in early trade, as well as no-worse-than-feared inflation data, which bolstered risk-on money flows. Deteriorating geopolitical headlines weighed heavily on sentiment as Iran contradicted Trump, noting "billions in fees would be collected" by ships navigating Hormuz before a projectile in the middle of the Strait reportedly struck a cargo ship. The S&P 500 churned as news flow was digested before ending down an incremental 0.01%.

The tech sell-off that gripped markets early in the week resumed Friday, with the KOSPI falling another 5.8% in Asian trade, while news that OpenAI is looking to delay its IPO added to investor angst surrounding the tech/semiconductor space. A Goldilocks Consumer Sentiment print rekindled a bid in the rest of the market before stocks ended the day little changed again, down 0.05%.

With Inflation and AI Spending, It's All About Sustainability

Two of the biggest influences on the markets right now are 1) AI-related spending/investment and 2) Inflation, and there were a lot of conflicting headlines on both last week, so I wanted to take a moment and make sure we know the issue that will determine if they continue to fuel a rally or end it: Sustainability.

Starting with inflation, many financial media headlines last week focused on the Core PCE Price Index, noting that it rose to its highest level since 2023. That is accurate, but it really isn't what's important regarding last week's Core PCE Price Index.

I say that because everyone knows that, given the spike in oil prices, the headline PCE Price Index and even the Core PCE Price Index would rise relative to pre-war levels. Yes, the Core PCE Price Index excludes food and energy, but higher oil prices do feed through to other goods and services (think fuel surcharges). However, with oil falling to pre-war levels, analysts expect inflation metrics to recede towards pre-war levels (3.0% y/y for the Core PCE Price Index).

So, it's not that the Core PCE rose to early 2023 levels; everyone expected that given the rise in oil prices. What matters is whether that rise is sustainable, meaning whether important inflation metrics remain elevated despite the drop in oil prices. If they do, that's a major negative for the market because the Fed will have to hike rates aggressively. After all, inflation will have become "sticky" again in the economy.

Conversely, if the rise in inflation is not sustainable and we see inflation metrics recede alongside oil prices over the summer months, then rate hikes will be off the table, providing a new tailwind for stocks (as potential rate cuts are again discussed).

Bottom line, the key with inflation isn't how far it's risen; it's how sustainable the rise is—and that's what will determine if we get rate hikes in 2026 or not.

Looking at AI, sustainability is also a key issue, and Micron (MU) provides a key example. Micron's earnings results were jaw-dropping, with earnings blowing past expectations. But the most important part of the entire release was Micron management announcing 16 "strategic customer agreements" (or SCAs) that, depending on the contract language, imply that demand for memory will be sustainably higher (for years), not just a temporary spike and then a crash. And it's not just memory; it's all the data center/AI components.

Yes, demand and margins are off the charts now for memory, semiconductors, processors, cloud space, etc. But that demand is also playing "catch-up" as the hyperscalers race to secure capacity. The key factor to watch is whether this type of demand can be sustained, and whether the spending by hyperscalers and AI companies is sustainable (because their spending is truly driving all this earnings growth). This is why capex is so important, as is the commentary from the hyperscalers, who need to continue reiterating that all this spending is sustainable so that earnings growth doesn't reverse.

Positively, there has been no wavering on their part about the spending being sustainable. Near-term, Micron reminded investors that the "fire hose" of money from the hyperscalers on the economy isn't slowing anytime soon, and that's a positive for all sectors, not just tech.

Economic Data (What You Need to Know in Plain English)

Last Week

Economic data last week continued the Goldilocks trend we've seen over the past several months, helping support stocks despite tech weakness. The key report last week was the Core PCE Price Index, which largely met expectations, with Core PCE rising 0.3% month-over-month and 3.4% year-over-year. That 3.4% level is the highest since early 2023, but that's not the point. The point is that it wasn't as bad as feared, and with oil prices falling quickly, the belief is that inflationary pressures will ease. It is reasonable to expect that this month or next month we'll see a peak in inflation indicators, and last week's Core PCE price index reinforced that expectation.

Turning to growth data, it was solid, with no indication that the US economy was losing momentum. The flash composite PMIs, the first major data point for June, were better than expected on the headline and in both the manufacturing and services PMIs. All three of them moved further above 50, reinforcing that growth and activity across the economy were stable.

The other two notable economic reports were jobless claims, which again fell back to 215K, down from the recent uptick to 225K and reiterating that the labor market is strong. Finally, durable goods were strong, indicating that business spending and investment were not losing momentum. The non-defense capital goods X aircraft, the best metric we have for business investment, surged in May, reinforcing that the Iran war did not cool business spending.

The economy continues to show solid growth, and while inflation pressures are elevated, things are not getting materially worse, creating a Goldilocks environment. That won't make the Fed more hawkish than it already is. The economic data absolutely helped the rest of the market rally last week, even as tech was weak.

Important Economic Data This Week

This is a short week due to the Fourth of July holiday (markets are closed on Friday). However, we still get two of the three "big three" economic reports, and investors will want to see more of the same this week, i.e., solid economic growth but not so hot that it makes interest rate hikes more likely.

The key economic report this week is Thursday's jobs report, and the key here is moderate growth and tame wages. Given the Fed's more hawkish tone, there is a real chance that if job gains are too strong, it will result in a spike in Treasury yields, as the Fed views the economy as needing a rate hike. Investors will want to see solid jobs growth, but only solid growth (i.e., nothing so hot that it boosts expectations for one or more rate cuts this year).

The other major economic report this week comes on Wednesday via the ISM Manufacturing PMI. Manufacturing activity has been slowly accelerating throughout 2026. Still, while headline readings modestly above 50 will be welcomed, the price index will be as important as the headline, if not more so. The price indices in the ISM Manufacturing and Service sector PMIs act as a quasi-leading indicator of CPI/Core PCE Price Index, so markets will want to see the manufacturing price index decline in Wednesday's reading to confirm that inflation pressures have peaked and are easing. What investors don't want to see is a further acceleration of the price index, which would imply inflation pressures are still rising (and make rate hikes more likely).

Finally, there are other labor market indicators this week (it's really more "jobs week" than just one report), including JOLTS on Thursday, Challenger on Wednesday and jobless claims on Thursday, so by the time we get to the long weekend, we will have a very good idea of the state of the labor market. And for this market, solid-but-not-spectacular growth is the key to further supporting stocks (especially with current tech pressure).

Special Reports and Editorial

The Real Reason Behind the AI/Tech Selloff

Tech stocks, and especially AI-linked stocks, fell hard last Tuesday despite the absence of a single event to trigger the selling. But if we cut through the noise and opinions, the reality is there was a cause for the sell-off: it's been bubbling up for weeks, and it is that people are getting worried that all this AI buildout is simply costing too much money amid uncertain customer demand.

We've touched on numerous concerns related to the AI melt-up over the past few weeks (Tokenmaxxing, AI share oversupply, concerns about extreme capex, etc.). Still, while those seem different, they share one common trait: The skyrocketing cost of the AI buildout.

Components/Materials. The cost of the components and materials needed to build a data center has surged. Memory, semiconductors, computing power, networking, power, as well as basic commodities needed in construction (copper), etc. AI companies and hyperscalers are driving this cost surge as they compete for these limited resources, relentlessly driving prices up.

Personnel/Talent. The amount of money being paid to AI scientists and programmers has grown exponentially, with reports of high-profile AI professionals receiving pay packages worth $100 million or more. This was highlighted on Monday, as Alphabet, a pretty high-paying organization, lost two top AI people to OpenAI and Anthropic, respectively.

Capital. The impact of all these ballooning costs for AI buildout is a quasi-insatiable need for more capital to stay in the arms race and pay extremely elevated prices for 1) Materials such as memory, semiconductors, and cloud storage, 2) Top AI professionals who can make big advances in the models, and 3) surging data center real estate prices and building material costs.

The surging costs of everything AI related, in an environment of still-paltry AI-linked revenues, is resulting in 1) The destruction of free cash flow amidst some of the largest, previously most profitable tech companies in the world, and 2) Forcing them to issue stock and debt to have the capital to continue to pay exorbitant prices to build out data centers that hopefully one day will produce tons of revenue!

Think about it this way: SpaceX, Anthropic and OpenAI don't *want* to go public. They *have* to go public to secure the capital to keep spending. Between SpaceX, Anthropic, and OpenAI, we will see the three largest IPOs ever, and by a factor of 2X to 3X larger than the previous largest!

To put things simply, the "reason" AI stocks got hit hard is cost. The cost of AI buildout is surging, and, as with any business where costs are rising sharply, that can make investors nervous at times. And while these concerns are legitimate, I do not think what we witnessed over the past few days signals a trend change in AI names, and here is why.

First, these companies have the money. ORCL is by far the canary in the coal mine for cash-flow stress in the AI space, as it's spending more than its peers on a per-share basis, yet it still has no problem accessing the capital markets. Similarly, while SpaceX was a huge IPO, there's likely to be plenty of demand for Anthropic and OpenAI later this year.

Second, there's no indication that any of these companies are about to curtail spending. Quite the contrary, the AI companies and hyperscalers (AMZN/META/MSFT/GOOGL, etc.) are doubling down on their spending plans, and they have not wavered for a minute.

Bottom line: the cost issue is a concern, especially given the lack of revenue clarity for all this spending. But it's going to take one of the major AI players (OpenAI, Anthropic, AMZN, MSFT, GOOGL, META) to essentially blink on the spending before investors will believe the economics of the AI buildout are turning bad. If that happens, it's a major negative not just for the markets, but also for the economy. However, that's not happening now, and we were reminded of that by MU earnings; that is the true negative to keep watch on (and we are).

From an indicator standpoint, recently, we identified the KOSPI as the leading indicator of this latest wave of AI mania, and its breakdown overnight preceded Tuesday's ugly day. We continue to think it is the leading indicator for the AI names, so it will need to stabilize first. Until it does, we should expect more tech weakness.

However, while it may get more painful in the short term, the reality is that as long as companies keep spending and reiterate their commitment, there is money to keep this trade and trend going.

Micron Earnings: The Evolution of the AI Trade

The AI industry has been a primary market theme since OpenAI first launched ChatGPT in late 2022. The idea that sophisticated innovation in large language models (LLMs) would prove to be a game-changer for the economy, impacting all industries, was initially met with skepticism. However, halfway through 2026, AI is rapidly being incorporated across just about all aspects of everyday life, from the way traditional online search engines operate to how real estate listings are prepared and posted to the MLS, and now has even become a growing component in medicine.

To recap the evolution of the AI trade thus far, there have been three main phases regarding investing in AI.

1. *AI Excitement (2023-2024)* - Markets rewarded any company related to AI as money poured into the new and fast-moving corner of the tech space, almost blindly.

2. *AI CapEx (2025)* - Markets rewarded hyperscalers and the conventional mega-cap tech names such as the Mag 7 as massive AI-focused capital expenditure announcements attracted money chasing the most growth-prone corners of the tech sector.

3. *AI Validation (2026-?)* - Markets are rewarding the companies that are showing the highest realized revenue and earnings growth due to the AI boom.

Over the last few years, the progression from the initial AI Excitement phase to the AI Validation phase has come full circle, as investors who were initially just eager to get exposure to the new technology are now demanding fundamental justification for AI industry stock prices. MU's earnings release on Wednesday underscores that shift in investor approach to AI investing.

Case in point, MU reported record quarterly revenue of $41.5 billion, up 346% year-over-year, while adjusted EPS of $25.11 topped consensus estimates by roughly 20%. Even more importantly, management guided next quarter's revenue to approximately $50 billion with adjusted EPS of roughly $31/share, both well ahead of Wall Street expectations. The company's Core Data Center business, which sits closest to AI infrastructure demand, generated $11.5 billion of revenue, up more than 650% year over year, while management also disclosed $22 billion in multi-year strategic customer commitments, reinforcing that hyperscaler AI spending remains robust rather than rolling over.

To boot, the May Durable Goods Report even signaled just how much impact AI is having on the economy, as over 53% of New Orders last month came from just two of the eight categories: Core Business Machinery and Computers & Electronic Products. Now, not all of that 53% was solely driven by AI-industry growth; however, semiconductors fall under the former, and cloud data servers and advanced memory chips fall under the latter.

Bottom line, to say the AI trade is "ending" due to sluggish price action in Mag 7 names and other high-valuation tech sector names in 2026 would be a hard argument to pitch. The idea that the AI investment cycle is maturing to a stage increasingly sensitive to traditional equity market fundamentals would be much more accurate, as underscored by MU's 15.74% gain Thursday on measurable earnings metrics and strong guidance. Going forward, this means that digging into AI stock balance sheets, earnings and revenue trends, and order logs will be much more important than simply investing in a company promising growth from AI.