

Monthly Equity & Debt Market Report

Month Ending June 30, 2026



"Remind me again why we sold the small caps?"

Executive Summary

June 2026 closed the books on one of the most dramatic quarters in recent memory. The U.S.-Iran conflict that defined the spring de-escalated sharply mid-month: a 14-point memorandum of understanding signed on June 17 paused hostilities and began the reopening of the Strait of Hormuz. Oil prices collapsed, the inflation scare that had gripped markets since February started to ease, and equities capped their strongest quarter since 2020. Yet beneath a placid index-level surface, June was defined by a powerful rotation - away from mega-cap technology and toward small caps, value, and cyclicals - rather than the broad, correlated selloff that characterized March.

S&P 500 (June Return)

-1.0%

Snapped two-month streak

10-Yr Treasury Yield

4.46%

+2 bps; curve flattens

Brent Crude (June)

-22%

Largest drop since 2020

For the first time this year, market leadership broadened decisively. The small-cap Russell 2000 gained 3.7% and the Dow advanced 2.5%, while the technology-heavy Nasdaq fell 2.8% amid renewed scrutiny of AI valuations. Diversification - which offered little protection in March - did its job in June. The S&P 500 lost 1% coming off a high of 7,609 on June 2. The month's other defining development was institutional: Kevin Warsh chaired his first FOMC meeting on June 17, and the Committee's updated projections flipped from an expected rate cut to a potential hike, reframing the central policy question from "when will the Fed cut?" to "will the Fed hike?".



Equity Market Performance

U.S. Equities

June marked a decisive shift in market character. After a strong pullback in March defined by macro de-risking, and a second-quarter rebound powered by mega-cap technology, June saw leadership rotate beneath the surface. Headline benchmarks masked wide dispersion: while the S&P 500 slipped a modest 1.0% and the Nasdaq fell 2.8%, the small-cap Russell 2000 and the blue-chip Dow both advanced. The move reflected a rotation out of expensive, concentrated AI and semiconductor names and into more domestically oriented, value-oriented, and interest-rate-sensitive areas of the market.

Index	June Return	YTD Return
S&P 500	-1.0%	+10.2%
Nasdaq Composite	-2.8%	+11.9%
Russell 2000 (Small Cap)	+3.7%	+19.2%
Dow Jones Industrial Average	+2.5%	+9.5%

For the second quarter as a whole, the S&P 500 returned roughly 15% and the Nasdaq surged more than 21% - the best quarterly performance for both since 2020 - leaving the major indexes higher for the year despite June's pause. The Russell 2000 capped its best first half since 1991.

Sector Performance

Sector performance was split almost evenly, with six of eleven sectors advancing - a marked contrast to March, when Energy was the sole gainer. Industrials led with a gain of roughly 7.3%, followed by Health Care at approximately 6.6%, as capital rotated toward cyclicals and defensives. Financials also benefited from elevated yields and firmer net interest margins. At the other end, Communication Services was the weakest group, down about 7.2%, weighed down by mega-cap declines, while Technology fell around 3.3% on AI-valuation concerns. Energy declined roughly 5.0% - its third straight monthly loss - as crude prices retreated. The breadth of gains and the leadership of value over growth confirmed a rotation rather than a broad risk-off event.

Fixed Income & Interest Rates

Treasury markets sent a nuanced signal in June: the front end of the curve rose while the long end fell, producing a notable flattening. Short-dated yields climbed as the Fed's hawkish pivot led markets to price the possibility of rate hikes, while longer maturities rallied as collapsing oil prices eased the inflation outlook. The result was a curve caught between two forces - near-term policy risk and receding energy-driven inflation.



U.S. Treasury Yields — June Snapshot

Maturity	June Month-End	Change vs. May End
2-Year Treasury	~4.20%	+15 bps
10-Year Treasury	~4.46%	+2 bps
30-Year Treasury	~4.90%	-8 bps

The 2-year yield rose the most, up roughly 15 basis points, as investors repriced the near-term path following the June FOMC meeting. The 10-year finished the month little changed near 4.46%, while the 30-year eased about 8 basis points as long-run inflation expectations moderated on lower crude.

Bond total returns were modestly positive for the month, with longer-duration Treasuries benefiting from the decline in long-end yields. Credit markets remained orderly:

- Investment-grade and high-yield spreads widened modestly as volatility rose, but both remain historically tight
- High yield outperformed within fixed income, supported by resilient corporate fundamentals and a broadly risk-on tone in cyclical

Commodities

Energy markets reversed the spring's shock in dramatic fashion. Following the June 17 U.S. – Iran memorandum of understanding and the agreed reopening of the Strait of Hormuz, Brent crude tumbled roughly 22% over the month - its largest monthly decline since March 2020 - closing near \$72 per barrel, some 48% below its early-April peak above \$120. West Texas Intermediate fell more than 20%, dropping below \$70 for the first time since late February, prior to the outbreak of the conflict. Precious metals also retreated as the risk premium unwound, with gold down approximately 11.7% and silver off roughly 21.8% on the month.

Monetary Policy Outlook

The FOMC held the federal funds rate steady at 3.50%–3.75% at its June 17, 2026 meeting - the first chaired by Kevin Warsh, who was sworn in as Fed Chair on May 22 following the end of Jerome Powell's term. The vote to hold was unanimous, but the accompanying Summary of Economic Projections marked a decisive hawkish turn. The median projection for the year-end federal funds rate rose to 3.8% from 3.4% in March, implying a quarter-point hike rather than the cut previously penciled in. Nine of eighteen participants projected at least one increase in 2026, and seventeen of eighteen judged the risks to their inflation forecast to be weighted to the upside.

The projections also revised the inflation outlook meaningfully higher, with core PCE now seen ending 2026 near 3.6%, up from 2.7% in March, alongside an unemployment rate of 4.3% and slightly slower real GDP growth of 2.2%. Chair Warsh declined to submit his own rate projection, shortened the post-meeting statement substantially, removed prior easing-bias language, and announced the formation of task forces to review the Fed's operations and communications.



Key dynamics:

- The central policy question has shifted from the timing of cuts to the possibility of a hike
- Resurgent, energy-driven inflation is the dominant near-term concern, though the Committee views much of it as a supply shock
- A resilient labor market and firm growth have reduced the urgency for any near-term easing

Recent developments shaping the outlook:

1. The retreat in oil prices, which could relieve headline inflation pressure in the coming months
2. Sticky core services inflation, which continues to run above the 2% target
3. A hawkish new Fed chair whose communications will be closely parsed for policy signals

Fiscal Policy Considerations

Fiscal policy remains expansionary relative to historical norms.

Key themes:

- Continued elevated federal deficits
- Heavy Treasury issuance sustaining upward pressure on long-term yields
- Ongoing defense and geopolitical spending commitments

High levels of government borrowing continue to contribute to a structural upward bias in long-term interest rates and an elevated term premium, even as energy-driven inflation pressures begin to ease.

Economic Indicators & Macro Environment

The U.S. macroeconomic backdrop at midyear is resilient but complicated by inflation. First-quarter GDP was revised up to 2.1%; consumer spending and the labor market remained firm - May payrolls rose 172,000 with unemployment at 4.3% - and both manufacturing and services surveys held in expansion territory. At the same time, inflation re-accelerated on the spring energy shock: headline CPI reached 4.2% year-over-year in May, its highest since 2023, and headline PCE stood at 4.1%. Whether the subsequent collapse in oil prices allows inflation to cool without a growth scare is the defining question entering the second half.

Potential Market Considerations

Equities

- Broadening market leadership may favor small caps, value, and cyclicals after years of narrow mega-cap dominance
- Elevated AI and semiconductor valuations warrant scrutiny given June's sharp reversal in those names
- Corporate earnings growth remains robust and supportive of equities over the longer term



Fixed Income

- Front-end yields are sensitive to the Fed's hawkish shift; duration positioning should account for policy uncertainty
- Longer maturities may benefit if lower oil prices translate into softer inflation
- Investment-grade and high-yield credit remain fundamentally stable, though spreads are historically tight

Macro Themes to Watch

1. The durability of the U.S.–Iran ceasefire and the pace of Strait of Hormuz normalization
2. Q2 2026 earnings season, with particular focus on AI-related capital-spending discipline
3. Incoming CPI and PCE inflation data and whether energy relief filters through to core prices
4. Federal Reserve communication under Chair Warsh and the odds of a 2026 rate hike
5. Labor-market trends and any signs of slowing economic momentum

Market Outlook

Despite June's rotation and the ongoing policy debate, the broader environment entering the second half is defined by:

- Elevated but potentially peaking inflation as the energy shock fades
- Resilient growth alongside a firm labor market
- A Federal Reserve biased toward vigilance rather than easing

Markets may remain sensitive to inflation data, Federal Reserve communication, and geopolitical developments in the months ahead, with leadership rotation and AI-valuation risk key swing factors.

Sources: All information included in this report obtained from public sources including the Bureau of Economic Analysis, the Bureau of Labor Statistics, and other sources, unless otherwise noted.

Disclaimer

HK Funds, LLC is a state-registered investment adviser located in Jacksonville, Florida. Registration does not imply a certain level of skill or training.

This material is intended for a general audience and is provided for informational and educational purposes only. It is not intended to provide specific investment advice or recommendations or to serve as an offer to buy or sell any security or investment strategy. Any views expressed are general in nature, are subject to change without notice, and may not be appropriate for all investors.

The views and commentary contained herein reflect the opinions of the author as of the date of publication and are not intended to predict or guarantee future market behavior. There can be no assurance that any forecasts, expectations, or investment outcomes will be achieved. This report is



intended to provide general market commentary and should not be interpreted as a recommendation to buy, sell, or hold any particular security, sector, or investment strategy.

Information contained in this report has been obtained from sources believed to be reliable; however, its accuracy, completeness, or reliability cannot be guaranteed. Any market data, economic forecasts, projections, or forward-looking statements are based upon assumptions that may not prove to be accurate.

Past performance is not indicative of future results. All investments involve risk, including the potential loss of principal. Market conditions may change and may affect the performance of investments differently over time.

This material does not consider the specific investment objectives, financial situation, tax considerations, or particular needs of any individual investor. Investors should consult with their financial, legal, and tax advisors before making any investment decisions.

HK Funds, LLC may serve as a sub-advisor to investment strategies offered through third-party platforms. The views expressed herein may not be reflected in the investment decisions, portfolio holdings, or positioning of any client account or strategy. Investment decisions for client accounts are made based on each client's individual objectives, guidelines, and restrictions.

This material may not be reproduced or distributed without the prior written consent of HK Funds, LLC.