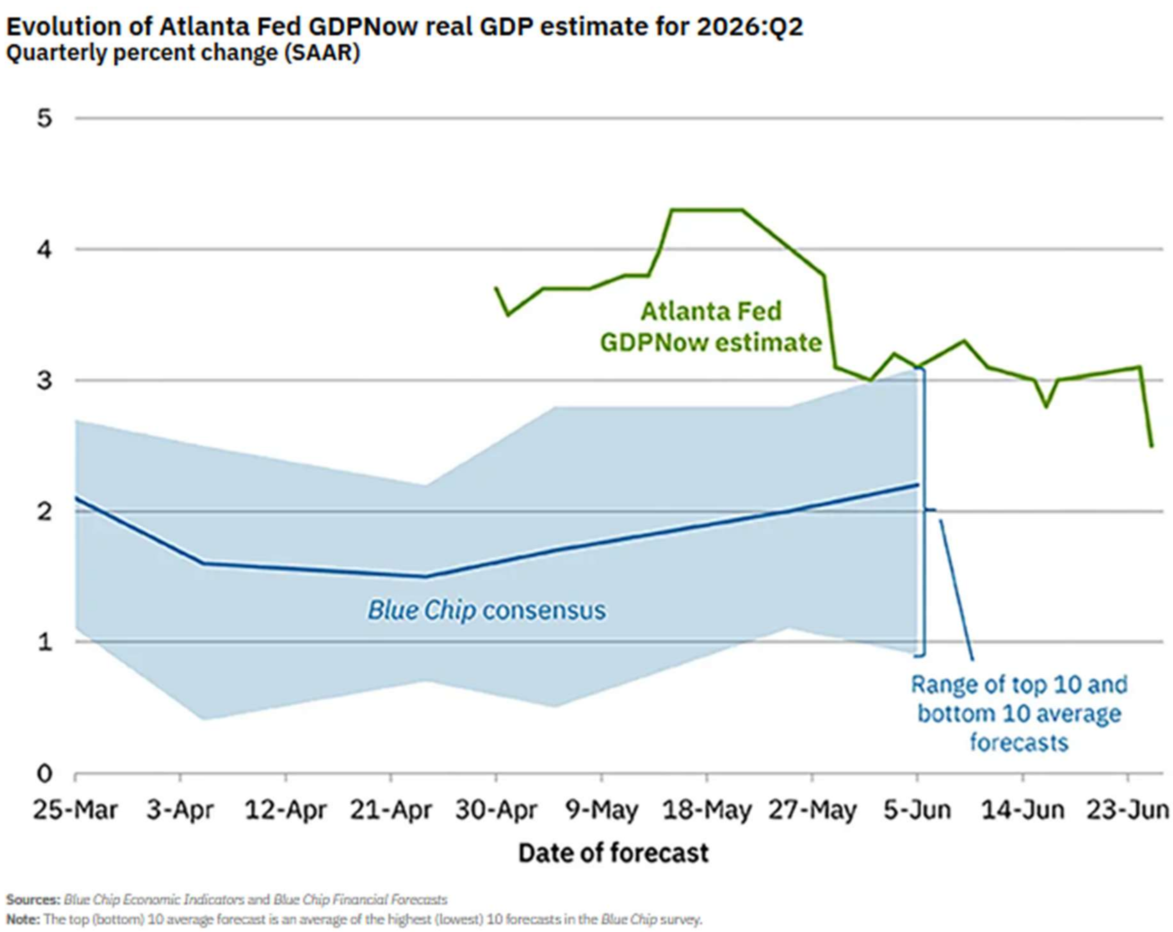
MARKET REVIEW & OUTLOOK **JUNE 2026**

KEY TAKEAWAYS

- **Equities:** The markets started off strong and then exhibited wild volatility. Ending the month with a sharp 3-day rally, though ending lower on the month, as measured by the S&P 500.
- **Fixed Income:** The U.S. 10-year Treasury Yield had a lot of volatility, but by the end of the month yields were little changed from the beginning.
- **Crude oil** prices continued to fall as the 39th ceasefire announcement of the Iran conflict/war seems to be "holding" while supplies remain healthy.

The U.S. Economy

The final read on 1st quarter GDP came in stronger than previously reported at 2.1% vs. 1.6%. PCE, the embedded GDP inflation, bumped up modestly to 4.6%. The 2nd quarter looks slightly better, the GDPNow estimate at +2.5% while the Blue-Chip consensus forecast is around to 2.1%, as shown in the chart below. Not great, but consistent growth.



Source : https://www.frbatlanta.org/cqer/research/gdpnow

Stocks and Bonds

The U.S. 10-year Treasury yield moved higher to start the month, testing resistance at 4.55%. After bumping its' head for a few days, yields generally moved back down the balance of the month. Inflation reports held expectations and oil prices continued to fall, fueling hopes that the worst of the inflation spike is behind us. The 10-year Treasury Treasuries took comfort in the "hawkish" stance from Fed Head Warsh's first meeting with the removal of forward guidance. My take, the Fed is buying time to see how the inflation spike progresses. The Fed can't print oil or electricity, the two big drivers of inflation, the removal of forward guidance is an attempt to let the economy/market drive Fed decisions rather than the Fed trying to drive the economy/market. Forward guidance was effective during the Financial Crisis and helped the Fed avoid taking rates into negative territory, as many other Central Banks did. However, that crisis has passed and retiring Forward Guidance is probably long overdue. Interestingly, I don't even think former Fed Head Powell's name came up in the press conference, so much for Fed fireworks. 🤣 The slight decline in yields was a tailwind for High Quality fixed income, which as measured by the iShares US Aggregate Bond ETF increased +0.25% for the month. The U.S. 10-year Treasury bond yield ended the month at 4.42%, down modestly from May's close of 4.45%.

The Dow Jones Industrial Average rose +2.52%, the S&P 500 slid -1.06%, and the small cap iShares Russell 2000 ETF jumped +3.71%. The International markets traded similarly to the U.S. markets. The MSCI EAFE iShares Core International Developed Markets ETF Index increased +0.05%, and the MSCI Emerging Markets iShares Core ETF Index edged up +0.21%.

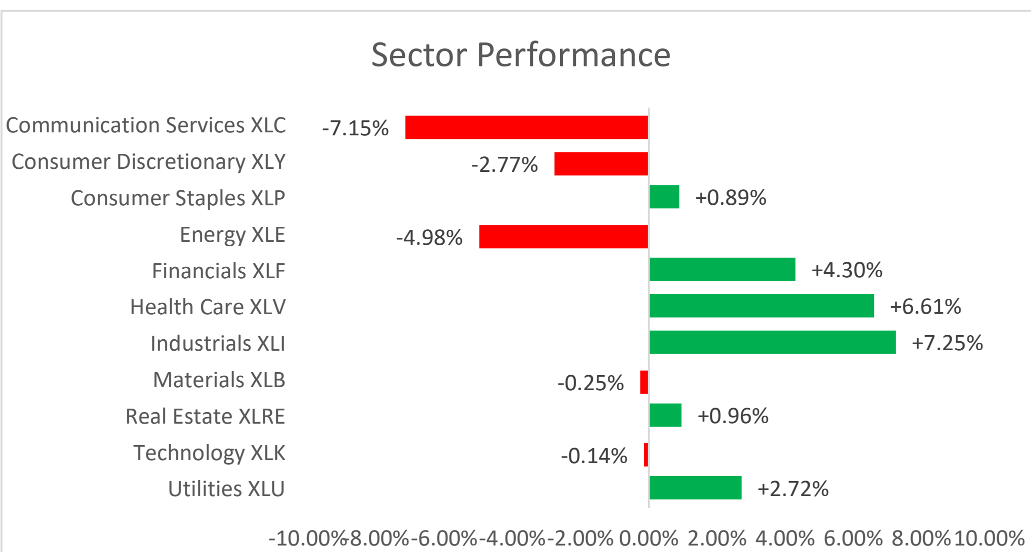
June's sector performance was bifurcated but with a green tilt.

The best performers were…

- Industrials: +7.25%
- Health Care: +6.61%
- Financials: +4.30%

The worst performers were…

- Communication Services: -7.15%
- Energy: -4.98%
- Consumer Discretionary: -2.77%



Source: https://www.morningstar.com

Oil Report

Crude Oil continued its' hasty retreat from the highs of the Iran conflict/war as the latest ceasefire agreement is, more or less, holding and the world is still well supplied. The devil is in the details of finalizing the deal along with posturing and puffing on both sides. I think the biggest takeaway isn't what ends up being in the agreement between the U.S. and Iran, but rather the shakeup of the exit mechanisms for Middle East Oil. Several Middle East countries are already building out alternative methods of getting oil out of the Middle East. Saudi Arabia is piping more oil to the Red Sea and expanding future capabilities. The UAE left OPEC and is planning to ramp up production and sits outside of the Strait of Hormuz. Lastly, Oman is working to expand port capacity outside of the Strait of Hormuz to increase oil shipments. All that is to say, if the plans are completed, the stranglehold that Iran has exerted on the Strait of Hormuz will be mitigated to Iran's detriment. The other geopolitical hotspots, Cuba, and the Ukraine/Russia were quiet this month, though Ukraine has been busy droning Russia's oil infrastructure which hasn't helped oil prices. The current NYMEX WTI Crude Oil futures settled at $69.94, dropping almost 20% from the prior month's close of $87.36 a barrel. RBOB gasoline was like Crude, also dropping almost 20% for the month, vs. May's close. The drop in pump prices is welcome news as we are in the heart of the busy driving season, and the long 4th of July weekend is upon us.

The Rest of the Data

The May ISM Manufacturing Index increased to 54.0 up from April's reading of 52.7, remaining above the 50 level. The ISM Services Index increased to 54.5 in May, from April's print of 53.6, remaining above the 50 level. Any reading above 50 generally indicates improving conditions. The prices paid component for Manufacturing eased modestly at very elevated levels, and Services' prices remained firm at elevated levels. Consumer confidence decreased to 91.2 in June, which compares to 93.8, as reported in May. The unemployment rate in May again remained at 4.3%, while the number of jobs again jumped, up 170,000, far better than expectations of +88,000. While the number looks great, likely 70,000 of those jobs are temporary because of the World Cup Soccer matches occurring in the U.S. The Consumer Price Index for All Urban Consumers (CPI-U) for May increased only 0.5% versus 0.6% for the month of April, on a seasonally adjusted basis. Over the last 12 months, the All-Items Index rate popped to +4.2% on a non-seasonally adjusted basis. The CPI ex Food and Energy increased +2.9% over the last year. Economic growth reports continue to be surprisingly good, though inflation is holding higher from the supply shocks caused by the Iran conflict/war. We will continue to monitor economic activity, policy announcements, and inflation reports for potential shifts.

Summary

The Iran conflict/war is hopefully nearing a conclusion. The equity and oil markets certainly seem priced for that outcome and bonds even seem to be inching in that direction. If the fighting is truly stopped, that should help alleviate inflationary pressures, which in turn should help reduce interest rates. Lower inflation and interest rates would likely be supportive of better economic growth. Equity markets like economic growth, so things seem to be lining up for additional growth as long as the geopolitical environment doesn't rock the apple cart. We will continue to take it one day at a time and stay focused on our process.

More than ever, the markets can be emotional, so we retain our focus on what we can control, which is the amount of equity risk that is taken in a clients' portfolio in concert with the clients' risk tolerance and long-term goals. The markets will always face different "worries", today it is inflation/war vs. growth and interest rates, tomorrow it will be something else. We have built our asset allocation models with dynamic features and quarterly rebalancing, both in fixed income and equities.

If you have specific questions about your portfolio or financial situation, we are here to help. Long-term financial planning is designed to deal with uncertainty like those we discussed above. Our portfolio management process is to design a prudent allocation across many asset classes. Equities are for long-term growth and several vehicles that we utilize offer defensive mechanisms to mitigate equity market declines.

Kevin Churchill, CFA®, CFP®
Chief Investment Officer
WaterRock Global Asset
Management

Institutional Asset Management adapted for Private Wealth™

WaterRock Global Asset Management, LLC
Kailua-Kona, HI 96740 & Scottsdale, AZ 85260
(808) 896 – 4957