Benjamin F. Edwards®

Investment Insights Monthly

From the Desk of Jack Kraft, CFA, Investment Strategist — June 2026

It’ll All Come Out in the Warsh

June has not been your typical summer lull for the equity markets as investors spent the month unpacking easing geopolitical risks, economic data and a new U.S. Federal Reserve (Fed) Chairman. Less war is a good thing, not just for the countries involved but also for the financial markets. After a choppy, on-again, off-again ceasefire, a tentative peace framework was announced in early June, and a deal between the United States and Iranian presidents was signed on June 18. All three major indices—the Dow, Nasdaq and S&P 500—have gained roughly 3% off of June 10 lows as a peace deal began to be priced into the markets. Meanwhile, West Texas Intermediate crude oil has slipped 13% amid optimism that the Strait of Hormuz will return to a normalized level of traffic.

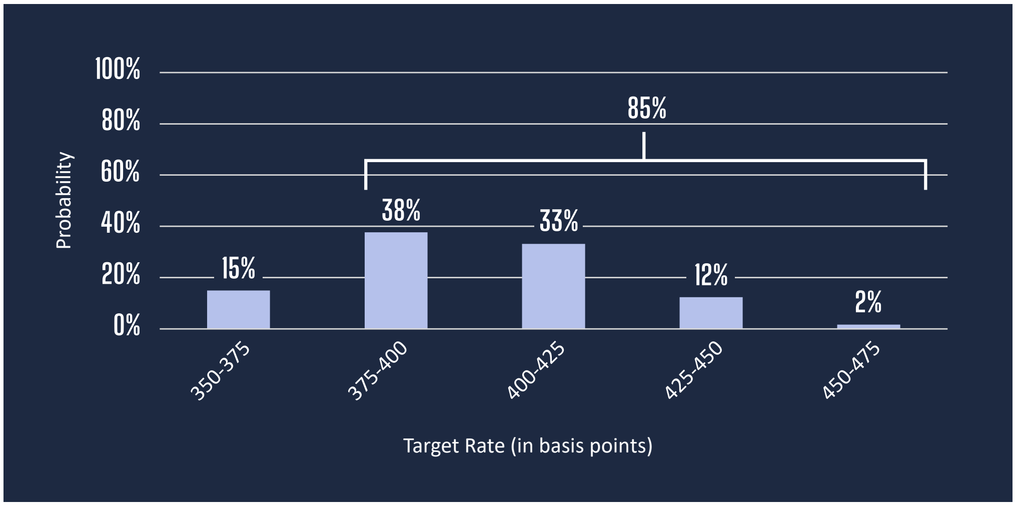
One thing worth reminding investors of is this time was indeed not different when it came to how the economy and market navigated a breakout in war. There was no shortage of fearmongering in the financial press with calls for $200/barrel oil followed by breathless warnings for an imminent recession. Instead, financial markets followed the same playbook as other large geopolitical shocks. The S&P 500, on average, has slipped about 5% before rebounding to higher highs during the past seven major conflicts since 1950. Domestic equities followed an eerily similar script during this recent U.S./Israel-Iran conflict with the S&P 500 drawing down a quick 7% before notching new record highs. The main difference was how quickly markets rebounded despite the lingering uncertainty. The S&P 500 bottomed on March 30, 2026, and regained an all-time high on April 14. In the past, investors took a much longer time to digest information from conflict with rebounds taking roughly three months from the start of the event.

The other headline in June was Kevin Warsh’s first Fed meeting as chairman after replacing Jerome Powell. The Federal Open Market Committee (FOMC) held the federal funds rate steady at 3.5–3.75% with no dissents, a widely anticipated outcome. What wasn't ordinary was everything else around it. Warsh dramatically shortened the post-meeting statement to just 130 words, stripping it of forward guidance and just issuing the facts. Notable takeaways included inflation "remains elevated," the economy is expanding at a solid pace and the committee will "deliver price stability." Any language hinting at future cuts was gone. Warsh also declined to submit his own projections in the dot plot, a tool he has long criticized as an unnecessary constraint. He closed by announcing task forces to overhaul how the Fed communicates. Ultimately, less information means more uncertainty as the Warsh era looks considerably different from its predecessor's.

The committee is genuinely divided on the path forward with nine of the 18 FOMC members penciling in at least one rate hike before year-end, eight projecting no change and one projecting a cut. Meanwhile, the Updated Summary of Economic Projections (SEP) told a more hawkish story beneath the surface with meaningful revisions to the economic outlook. The median forecasts for 2026 showed headline personal consumption expenditure (PCE) inflation up 0.9 percentage points to 3.6%, core PCE up 0.6 percentage points to 3.3%, GDP growth was trimmed 0.2 percentage points to 2.2%, and unemployment slightly lower at 4.3%. The Fed has a dual mandate to manage the labor market and price stability measured via inflation. The labor market continues to show strength with an increase in job growth, pushing down the unemployment rate. Additionally, companies are showing strong earnings growth, while GDP growth is running above average, painting a picture of a committee navigating persistent inflation with limited room for easing.

Currently, the Fed is messaging one thing and the market is pricing in another. If you look at current expectations via CME Group's FedWatch tool, investors are pricing an 85% chance for a 25-basis-point hike by the end of the year. More surprising is that these odds have increased since the resolution of the U.S./Iran conflict as oil has normalized in the $70-80/barrel range. These odds for tighter financial conditions should be monitored closely as a key risk to derail the current bull market rally as higher borrowing costs weigh on future growth expectations.

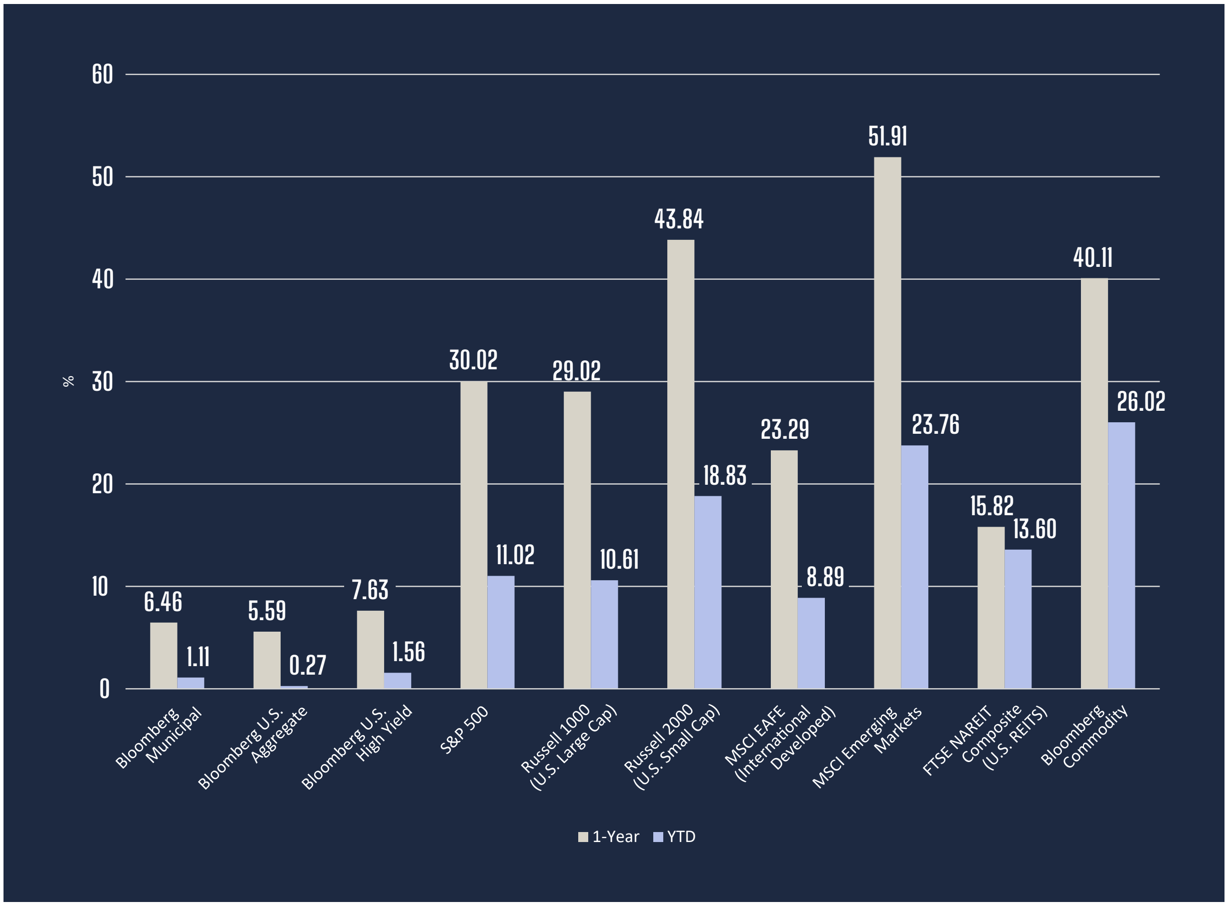
Target Rate Probabilities for Dec. 9, 2026 Fed Meeting



As of June 18, 2026
Source: CME Group FedWatch Tool

At the time of this writing, the S&P 500 has returned 9% year-to-date and trades at a 21x price-to-earnings multiple. That is the same multiple the index traded at a year ago, which tells us that returns this year have been driven by profit growth, not multiple expansion. Going forward, above-average earnings growth is expected to continue, which should drive further index returns so long as the multiple holds. The market's ability to absorb a rate hike, should one come, will depend largely on the speed at which inflation heads back toward the Fed's 2% target. The good news is that the one-time price impacts from tariffs and the energy shock tied to the Iran conflict are expected to roll off as we move into 2027. This sets the stage for a more normalized inflation and an easier path for the Fed to navigate.

Asset Class Returns
Comparing Recent 1-Year and Year-to-Date Total Returns



As of May 31, 2026
Source: Conway Investment Research

Fixed Income

- Core fixed income and municipal bonds got a boost from lower Treasury and other sovereign debt yields in May.
- Credit spreads modestly tightened last month, leading to another positive month of clipping coupons.
- Bonds outside the United States posted modest gains in May but were held back a bit by the stronger U.S. dollar.

Equities

- U.S. equities posted strong gains in May, driven by strength in growth/tech stocks and the broader artificial intelligence theme.
- Large caps outperformed small caps last month, and value stocks underperformed growth stocks across all market capitalizations.
- The tech-heavy Nasdaq was the best-performing U.S. index last month. Earnings remain supportive of current U.S. equity valuations.
- European, Australasia and Far East (EAFE) equities performed well in May, but lagged U.S. equities.
- Emerging market (EM) equities posted an exceptional gain of 9.7%.
- Within non-U.S. equities, growth outpaced value, but unlike what occurred in the United States, small caps beat large caps.
- U.S. dollar (USD) strength hurt EAFE returns by 62 bps in May. EM currencies held up better versus the USD, creating little dispersion between local and USD returns.

May 29, 2026	MTD	QTD	YTD	1-Year	3-Year	5-Year	10-Year
FIXED INCOME INDICES							
Bloomberg U.S. Treasury Bill 1-3 Month	0.31%	0.61%	1.50%	4.01%	4.78%	3.54%	2.32%
Bloomberg Municipal	0.37%	1.52%	1.34%	6.67%	3.77%	0.92%	2.21%
Bloomberg U.S. Aggregate	0.31%	0.42%	0.38%	5.13%	3.95%	0.17%	1.70%
Bloomberg U.S. High Yield	0.49%	2.19%	1.68%	7.57%	9.36%	4.39%	5.88%
Bloomberg Global Aggregate	0.34%	1.59%	0.50%	3.26%	3.66%	-1.58%	0.74%
U.S. EQUITY INDICES							
DJ Industrial Average	2.94%	10.38%	6.86%	22.71%	17.84%	10.19%	13.48%
S&P 500	5.26%	16.31%	11.27%	29.78%	23.61%	14.15%	15.65%
NASDAQ Composite (Price)	8.36%	24.93%	16.05%	41.12%	27.76%	14.43%	18.48%
Russell 1000	5.10%	15.72%	10.88%	28.85%	23.33%	13.33%	15.38%
Russell 1000 Growth	7.20%	19.95%	8.23%	28.66%	26.45%	15.73%	18.86%
Russell 1000 Value	2.95%	11.34%	13.68%	28.55%	19.44%	10.42%	11.37%
Russell Mid Cap	2.85%	10.40%	11.82%	22.37%	18.45%	8.15%	11.71%
Russell 2500	4.36%	16.00%	18.36%	37.96%	20.22%	7.77%	11.84%
Russell 2000	4.37%	17.11%	18.15%	43.08%	20.25%	6.61%	11.21%
Russell 2000 Growth	5.84%	21.39%	17.98%	41.87%	20.22%	5.80%	11.53%
Russell 2000 Value	2.79%	12.72%	18.30%	44.36%	20.22%	7.27%	10.50%
NON-U.S. EQUITY INDICES							
MSCI World	4.61%	14.69%	10.70%	27.99%	22.42%	12.47%	13.65%
MSCI ACWI	5.21%	15.96%	12.35%	30.80%	22.84%	11.96%	13.35%
MSCI ACWI Ex-U.S.	5.11%	15.33%	14.65%	33.43%	21.43%	9.33%	10.36%
MSCI EAFE	3.18%	10.98%	9.74%	23.37%	18.74%	9.34%	9.82%
MSCI EAFE Growth	4.25%	13.74%	8.49%	16.07%	12.80%	5.05%	8.70%
MSCI EAFE Value	2.21%	8.56%	10.89%	30.87%	24.88%	13.57%	10.67%
MSCI Europe	2.79%	10.26%	7.30%	20.65%	18.37%	9.68%	9.98%
MSCI Japan	4.98%	14.59%	16.33%	32.19%	20.63%	9.90%	9.99%
MSCI AC Asia	9.23%	24.40%	24.09%	48.56%	24.64%	8.82%	11.01%
MSCI EAFE Small Cap	4.04%	13.41%	12.12%	27.82%	18.88%	6.30%	8.92%
MSCI ACWI Ex-U.S. Small Cap	3.84%	14.15%	13.71%	31.31%	19.85%	7.52%	9.67%
MSCI Emerging Markets	9.71%	25.87%	25.74%	55.15%	25.77%	8.03%	11.12%
MSCI EM Asia	12.09%	31.71%	29.79%	60.73%	27.51%	8.38%	12.26%
MSCI China	-3.01%	0.51%	-8.46%	6.26%	12.09%	-5.06%	5.40%
MSCI EM Eastern Europe	5.98%	17.28%	17.95%	47.36%	40.03%	-10.78%	1.08%
MSCI EM Latin America	-4.16%	-1.10%	13.40%	43.87%	18.02%	10.67%	9.32%
MSCI EM Small Cap	3.38%	17.27%	16.49%	32.23%	19.73%	8.82%	10.54%
MSCI Frontier Markets	0.63%	10.90%	9.95%	42.31%	24.67%	9.62%	8.97%
HEDGE FUND INDICES							
IQ Hedge Multi-Strategy	2.03%	6.78%	8.91%	16.97%	11.26%	5.30%	4.66%
REAL ASSETS INDICES							
FTSE NAREIT Composite	-0.12%	8.84%	12.62%	13.68%	11.47%	3.76%	6.31%
Alerian MLP	-2.88%	1.43%	18.53%	24.63%	24.82%	21.74%	9.75%
Bloomberg Commodity	-3.56%	0.49%	25.03%	40.47%	16.59%	11.75%	7.21%
S&P Global Infrastructure	-2.41%	0.33%	8.64%	17.60%	17.56%	11.26%	9.22%
OTHER							
Oil Price Brent Crude	-19.26%	-22.22%	51.27%	44.05%	8.20%	5.84%	6.36%
CBOE Market Volitility (VIX)	-9.30%	-39.33%	2.47%	-17.50%	-5.13%	-1.78%	0.77%

Source: Morningstar

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