

Market commentary notes

Monthly call notes
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Wealth
Management

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Summary

1. Chairman Warsh of the Federal Reserve and other governors have indicated that with the current heightened inflation rates, FOMC rate reductions aren't on the table. Mr. Warsh reiterated his commitment to "price stability".
2. The US Large Cap stock market was fairly flat in June while small caps in particular caught up. Investment grade bonds were also flat and have returned less than their yield (interest rates up) so far this year.
3. The Iran war propelled oil prices upward, and with them, inflation measures also rose. The cooling of the war—if sustained—could send oil prices and inflation measures the other way, but other forces could keep inflation in the 3's and well above the Fed target of 2%.
4. Global industrial production growth is positive in 29 of the 36 countries that we monitor. That is more countries than we've seen in the positive column at any point after the Covid-19 recovery. It suggests that recession isn't a major risk at the moment. Meanwhile, we've seen extremely strong earnings growth in US companies as well as earnings growth in Europe at about half the US level.

Key issues

Jobs — Here we go again. The latest nonfarm payroll report estimated 57,000 new jobs in June. That compares to the average monthly increase over the last 12 months of 36,000. April and May employment numbers were revised down by 74,000. Average earnings were up 3.5% over the last year, roughly keeping up with inflation. Within that, employees with bachelor degrees did best while those with high school diplomas and associate's degrees did less well. [<https://www.atlantafed.org/research-and-data/data/wage-growth-tracker>, July 3, 2026]. Dividing the data by earnings quartiles, the lowest quartile did the worst in terms of wage increases. [<https://en.macromicro.me/collections/4/us-employ-relative/51251/average-hourly-earning-quartile>, July 3, 2026]. Social assistance and family services employment increased by 25,000. Assuming that was demand-driven, that's maybe not the best signal. [<https://www.bls.gov/news.release/empsit.nr0.htm>, July 3, 2026].

Inflation — Heating up some more. The May 12-month CPI indicated 4.2% inflation, which is up from last month. Energy price increases accounted for 60% of the rising costs. Energy costs were up 23.5% over twelve months. [<https://www.bls.gov/news.release/pdf/cpi.pdf>, July 3, 2026]. It would be reasonable to assume that as energy prices come down—as they have over the last two weeks—some of this inflationary pressure will also ease off.

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GDP growth — The 1Q 2026 final estimate was +2.1% annualized real growth. [<https://www.bea.gov/news/2026/gdp-third-estimate-industries-corporate-profits-state-gdp-and-state-personal-income-1st>, July 5, 2026]. The Atlanta Fed's GDP Now estimate for 2Q real GDP growth is 1.2%—largely due to an expected decline in net exports (meaning exports minus imports). That can be due to either or both a rise in imports and a decline in exports. [<https://www.atlantafed.org/research-and-data/data/gdpnow>, July 3, 2026].

The Fed — At the first meeting of the FOMC with Kevin Warsh as Chairman, the Fed voted 12-0 to keep rates at the previous level. The statement they issued was terse, to say the least, and about half the length of prior post-meeting statements. In part is read, “Inflation remains elevated relative to the Committee’s 2-percent goal, in part reflecting supply shocks that have driven price increases in certain sectors, including energy. The Committee will deliver price stability.” Mr. Warsh has been clear that he is opposed to providing forward guidance on Fed thinking. [<https://www.federalreserve.gov/newsevents/pressreleases/monetary20260617a.htm>, July 3, 2026].

I also came across an excellent Brookings article explaining how Federal Reserve appointments work: [Who has to leave the Federal Reserve next? | Brookings](#)

Tariffs — There are indications of a few changes. The U.S. has opted for non-renewal of the USMCA's North American trade agreement. That starts a 10-year phase-out that future administrations could reverse. As one trade official put it, “Our trade deficits with both Mexico and Canada shot up during the Biden Administration ... We’ve started to get it under control, thankfully, but we believe that the USMCA does not operate to control the deficit like the President intended.” To which I would say, well of course not because the trade deficit depends on the sale of U.S. securities, notably Treasuries and not on tariffs. [Langdana, F.K. (2009). Budget Deficits, Trade Deficits, and Global Capital Flows: The National Savings Identity. In: Macroeconomic Policy. Springer, Boston, MA. https://doi.org/10.1007/978-0-387-77666-8_3], [<https://time.com/article/2026/07/02/us-declines-renewal-trade-pact-mexico-canada-impact/>, July 4, 2026]. There was also a threat from Trump to impose a 100% tariff on countries that imposed digital services taxes. However, SCOTUS has already struck down reciprocal tariffs so it is unclear how that would be implemented. [<https://www.cnn.com/2026/06/26/trump-tariff-trade-tech-tax.html>, July 4, 2026]. [<https://www.tradecomplianceresourcehub.com/2026/02/24/trump-2-0-tariff-tracker/>, July 2, 2026]. Here’s a link to a good explainer on tariffs: [Fiscal and Economic Effects of Tariffs | Econofact](#), May 28, 2026.

June — Smid caps surge. The S&P 500 was down less than a percent in June, but small caps were up more than 7%. Midcaps were in the middle at +3.6%. International stocks were close to flat. Small caps are significantly outperforming the S&P 500, possibly making up for prior

weakness or perhaps reflecting their far lower exposure to technologies and AI in particular. Intermediate investment grade bonds were up slightly (yields were down slightly). On a YTD basis, bonds have returned significantly less than their average yields, meaning interest rates have gone up.

Global stock indexes

Total Index	June %	YTD %	1 yr. %	Estimated PE Trailing/Projected
S&P 500	-0.95	10.21	22.32	28.45/21.03
S&P Mid Cap	3.59	17.34	25.89	26.19/16.91
S&P Small Cap	7.29	23.90	37.50	55.55/15.67
FTSE All REIT	1.49	14.90	15.43	
MSCI All Country xUS	-0.59	13.68	27.66	
MSCI Emerg Mkt	-1.41	23.85	43.51	

Source: Morningstar as of June 30, 2026. Estimated PEs are 12-month values from <https://www.spglobal.com/spdji/en/index-family/equity/us-equity/#overview>. Trailing PEs are as of December 31, 2025. Projected PEs are as of April 30, 2026. Figures are provided for comparisons over time.

Fixed income and alternatives

Total Return Index	June %	YTD %	1 yr %
Bloom Agg Intermed	0.14	0.59	3.76
ICE BofA U.S. Convertibles	0.49	24.10	37.95
S&P GSCI	-9.86	24.09	30.39
Bloom U.S. Corp HY	0.27	1.96	5.91

Source: Morningstar as of June 30, 2026.

Sector performance — In June, the three best performing sectors were Industrials, Healthcare and Financials. Of these, only Healthcare made the list in May, meaning we seem to have pretty clear sector rotation in real time. The three worst were Communications, Energy and Consumer Discretionary. None of these were among the worst in May although Consumer Discretionary was among May’s best. [<https://www.spglobal.com/spdji/en/documents/performance-reports/dashboard-us.pdf>, July 2, 2026]. [<https://digital.fidelity.com/prgw/digital/research/sector>, July 2, 2026].

Commodities

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Commodity and food price changes, current month and YoY

Commodity	June %	YoY %
Copper	-5.3	23.0
Lumber	4.4	1.9
Cotton	-1.8	15.2
Sugar	3.8	-9.5
Coffee	22.3	8.4
Wheat	0.6	5.0
Corn	-1.5	-1.6
Oil	-26.1	3.4
Natural Gas	-2.8	-4.2

Source: <https://tradingeconomics.com/commodities>, July 5, 2026

In June, four of the nine major commodities we track experienced price increases. On a 12-month basis, six experienced price increases. Apart from oil and gas, the average annual increase in commodities prices was about +6.0%, which tracks with the generally higher recent inflation rates that we've seen.

Looking more broadly at commodities, when we look at 22 categories of agricultural commodities and 26 categories of industrial commodities, only 16 of the 48 saw price increases in June, which is low. On the other hand, 32 out of the 48 saw YoY inflation, which is about typical for the last couple of years. My inference from these numbers is that inflationary pressure is probably easing. We may see inflation statistics moderate over the rest of this year.

U.S. economy

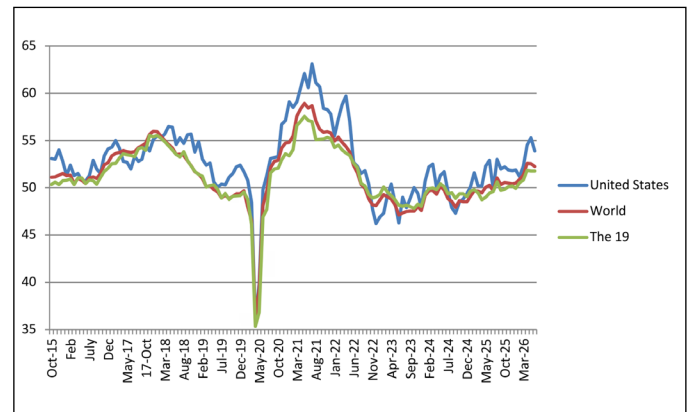
U.S. PMI statistics — The U.S. Manufacturing PMI dipped a little to a still-strong 53.9 from the prior 55.3. The services PMI—most of our economy—rose a little to 51.3, indicating moderate expansion. Between the two, it looks like U.S. production is growing modestly to moderately despite the obvious headwinds, especially in energy prices. It's something of a question how we reconcile this growth with the very weak new jobs experience of the last year. [<https://tradingeconomics.com/country-list/services-pmi>, June 4, 2026]. [<https://tradingeconomics.com/country-list/manufacturing-pmi>, June 4, 2026].

International

Manufacturing PMI — Every month we look at global Purchasing Managers Index (PMI) statistics for 36 countries. In June, 29 of them reported PMIs of 50 or more. That's up two from the last two months and one of the highest ratios we've had in years. [Author's calculations based on published PMI statistics as of July 1, 2026] The average reading of 52.2 is little changed but suggests that the global economy is doing okay—not showing signs of recession at this point. China dipped slightly to 51.4 while the Euro area stayed at 51.4. That's up from the 40's a year ago. Germany and France dipped a little but Spain, Sweden and Italy are all in the positive column.

On the services side, the Euro area perked up some at 49.4. China also rose to 54.1. Switzerland and Sweden had strong services growth numbers but France, German and U.K. were all slightly under 50. [<https://tradingeconomics.com/country-list/services-pmi>, July 4, 2026].

Compared to a year ago, all of our tracking numbers were up for the U.S., China, the 19 major economies and the 36 economies that we monitor.

Here's our updated graph of Manufacturing PMIs

Source: Author's calculations based on published PMI statistics as of July 4, 2026.

Table summary

Region	Manu PMI	Last Month	12 mo. Ago
U.S.	53.9	55.3	52.9
19 majors	51.8	51.8	49.4
38 world	52.2	52.5	50.3
EU	51.4	51.4	49.5
China	51.7	52.2	50.4

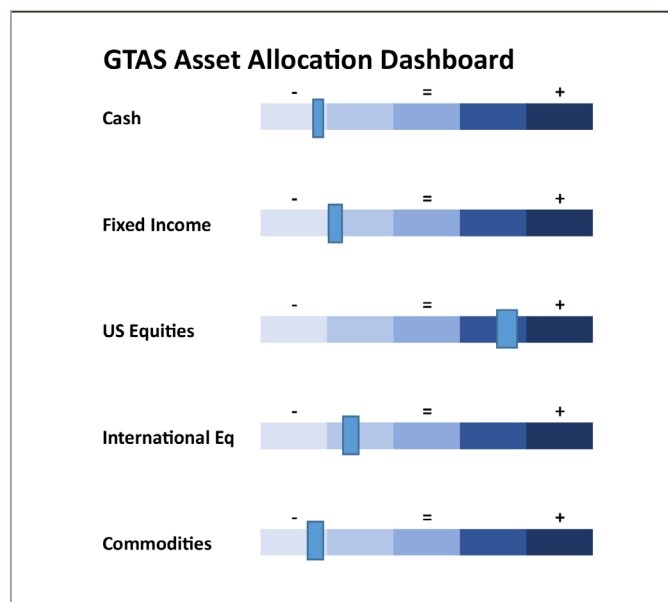
Source: Author's calculations based on published PMI statistics May 30, 2026.

Investment strategy:

- 1. Gold** — We lightened up where we could on gold last month. The reason is that we expect gold to do best in the presence of political and economic stresses. That hasn't been as much the case recently. That and apparently easing Middle East tensions motivated us to pare back.
- 2. Bonds** — We had a significant sell off and then partial rally. It created some opportunities especially in longer dated Munis.
- 3. Equities** — Given the earnings growth in the U.S., sticking to equities—and especially U.S. equities—seems to make sense. We remain overweight aerospace and defense as well as info tech. Corporate earnings growth in Europe has been good by European standards (+10-18%) but has been overshadowed by the U.S. [<https://www.reuters.com/business/european-corporate-outlook-continues-improve-earnings-season-gathers-steam-2026-07-23/>, July 30, 2026]

In general, our strategy is to look past the current uncertainties and invest with an eye to a year or more out.

GTAS allocation chart



(+/-) represents our group's views over a 6 to 18 month time horizon concerning tilts relative to our strategic positions.

+ implies an overweight in that asset class.

= implies a weighting similar to our strategic weight.

- implies an underweight.

Index definitions:

Past performance is no guarantee of future results. You cannot invest directly in an index.

Bar Agg Intermed — Bloomberg Barclays U.S. Aggregate Intermediate Total Return index is composed of the BarCap Government/Credit Index, the Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. The returns for the index are total returns, which includes the daily reinvestment of dividends.

Bar U.S. Corp HY — Bloomberg Barclays U.S. Corporate High-Yield Total Return index includes all fixed income securities having a maximum quality rating from Moody's Investor Service of Baa1, a minimum amount outstanding of \$100 million and at least one year to maturity.

FTSE All REIT — FTSE Nareit All Equity REITs Total Return index is an index of publicly traded Real Estate Investment Trusts (REITs) that own commercial property. All tax-qualified REITs with common shares traded on the NYSE, AMSE or NASDAQ National Market List are eligible. Additionally, each company must be valued at more than \$100MM USD at the date of the annual review.

ICE BofA U.S. Convertibles — ICE BofA U.S. Convertible Bonds Total Return index tracks the returns of US-traded convertible debt issued by companies with a significant presence in the United States. The index is composed of various combinations of convertible structure and credit quality, e.g. it includes investment-grade, speculative-grade, and non-rated issues. The returns for the index are total returns, which include reinvestment of dividends.

MSCI All Country xUS — MSCI All Country World Index Ex USA NR is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. The index consists of 48 developed and emerging market country indices. The returns for the index are total returns, which include reinvestment of dividends.

MSCI Emerg Mkt — MSCI Emerging Markets NR index consists of 26 developing economies including Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates.

S&P 500 — S&P 500 Total Return index is a market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenues are based in the U.S.; it's often used as a proxy for the U.S. stock market. Total Return (TR) indexes include daily reinvestment of dividends.

S&P GSCI — S&P GSCI Total Return index is a composite index of the commodity futures. It represents unleveraged, long only investments in commodity futures that are broadly diversified.

S&P Mid Cap — S&P MidCap 400 Total Return index is comprised of stocks in the middle-capitalization range and includes approximately 10% of the capitalization of U.S. equity securities. Total Return (TR) indexes include daily reinvestment of dividends.

S&P Small Cap — S&P SmallCap 600 Total Return index consists of 600 domestic stocks chosen for market size, liquidity and industry group representation. Total Return (TR) indexes include daily reinvestment of dividends.



**Wealth
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