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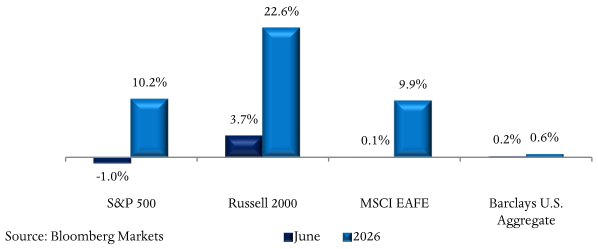
June - July 2026 Issue # 278

Markets

Equities capped one of the strongest quarters of the century. As the Middle East conflict moved toward resolution and investors refocused on the structural tailwinds of artificial intelligence, both the S&P 500 and the Nasdaq 100 indexes rose to record highs. The S&P 500 did however slip -1.0% in June (+15.2% for the quarter; +10.2% ytd), as profit-taking in mega-cap technology was absorbed by a rotation into cyclical and defensive sectors such as financials, healthcare and industrials (which stealthily became a top-performing sector year-to-date, +20.1%). Indeed, the advance broadened meaningfully as small-caps in the Russell 2000 index charged back, after a weak first quarter, rising more than +26% from their early-April lows (+3.7% in June; +22.6% ytd). The quarter's most extraordinary returns came from the Philadelphia Semiconductor Index which posted double-digit gains in all three months for its best quarter since inception in 1994 (+87.8% in Q2; +101% ytd), driven by AI-related capital spending and a surge in memory pricing.

Overseas stocks, as measured by the MSCI EAFE index (+0.1% in June; +11.1% for the quarter; +9.9% ytd), also participated, though late-period dollar strength muted returns. The Euro Stoxx 600 advanced (+2.7% in June; +11.9% in Q2; +11.0% ytd). In Asia, the Nikkei 225 posted another powerful month (+5.7% in June; +37.4% in Q2; +40.4% ytd) on the back of a weaker yen and steeper yield curve. Emerging equity markets continued to lead the pack, surging +24% in Q2, their best quarter since 2009, driven by AI beneficiaries in Korea (+88%) and Taiwan (+49%). Conversely, China lagged (Shanghai Composite +1.2% in June; +6.0% in Q2; +4.1% ytd) on retail and auto-sector weakness.

Fixed income markets navigated conflicting signals. The Federal Reserve held rates at 3.50-3.75%, but Chairman



Warsh struck a decidedly hawkish tone at his first FOMC press conference, as core PCE rose for a third consecutive month to 3.4%. Markets now price roughly 33 basis points of interest rate hikes by year-end, and the 2s/10s Treasury spread flattened to its narrowest since March 2025. The Bloomberg US Aggregate index nonetheless closed higher (+0.2% in June; +0.7% in Q2; +0.6% ytd), while corporate credit spreads tightened. The hawkish pivot also propelled a bullish breakout in the US dollar following a year-long trading range.

Commodities bore the brunt of normalization losing -8.1% for the quarter (+14.1% ytd). WTI crude fully reversed its war-driven rally, closing the quarter at $69.50 per barrel, down -31.4% for the quarter, as a US-Iran memorandum of understanding raised the prospect of the Strait of Hormuz reopening. Precious metals extended their correction from February highs, with gold falling -14.2% in Q2 (-7.1% ytd) to close at $4,007/oz, as the debasement trade lost momentum and the new Fed leadership reaffirmed its commitment to price stability.

Geopolitics

Washington and Tehran signed a memorandum of understanding, marking tangible progress toward resolution of the conflict in the Middle East. It is widely expected to lead to a reopening of the Strait of Hormuz. Yet transit through the chokepoint is still well below pre-war levels, and shipowners have signaled they are unlikely to resume passage at scale until a tangible, durable framework is confirmed. Moreover, even under a favor-

able path, the mechanics of normalization take time. Energy, fertilizer and metals supply chains must physically re-route before prices fully reflect the peace. As a result, the conflict's inflationary consequences will continue to filter through the global economy well after the headlines fade.

US

Concerns over the inflationary impact of the energy shock continued to dominate the US macroeconomic picture, even as growth held up. Consumer prices rose +0.5% in May, lifting the annual rate to 4.2%, with much of the gain attributable to a +7.0% jump in gasoline prices. Similarly, the Fed's favored measure of inflation, the core PCE, rose for a third consecutive month to 3.4%. The labor market remained resilient, with healthy private payroll growth driving unemployment down to 4.2%. However, wage pressures decelerated as average hourly earnings rose just +3.5%, one of the smallest gains in five years. Consumer confidence softened to a relatively low level of 91.2 from 93.1 and the manufacturing PMI slipped to 53.3% from 54.0%, hinting that the resilience of hard economic data may be starting to fray at the edges.

In his first meeting as chairman, Kevin Warsh struck a decidedly hawkish tone. The FOMC left its policy rate unchanged at 3.50%-3.75%, but both the central bank's statement and the press conference hinted at tighter monetary policy. Markets, which had entered the year pricing interest rate cuts before the energy shock upended those expectations, now discount 33 basis points of hikes by year-end.

Europe

European economies benefitted from an improving geopolitical backdrop and firmer sentiment. EU consumer confidence recovered from its April lows, while the eurozone manufacturing PMI held in expansionary territory above 50. As headline inflation rose to 3.2% in May (core 2.5%), the European Central Bank delivered its first rate hike after an eleven-month pause, bringing the deposit rate to 2.25%,

June 2026 Economic Statistics

	Jun-26	Dec-24	Dec-23
Federal Funds Target Rate	*3.50 - 3.75%*	*4.25 - 4.50%*	*5.25 - 5.50%*
Consumer Confidence Index	*91.2*	*104.7*	*110.7*
Manufacturing PMI Index	*53.3%*	*49.3%*	*47.4%*
Unemployment Rate	*4.2%*	*4.2%*	*3.7%*
JPY / USD	*162.54*	*157.18*	*141.06*
USD / EUR	*1.1421*	*1.0353*	*1.1036*
Gold / oz.	*$4,007.23*	*$2,623.81*	*$2,062.59*
Oil (WTI) / bbl	*$69.50*	*$71.72*	*$71.65*

Sources: see disclosure *

In the United Kingdom, inflation again surprised to the downside at 2.8% (core 2.6%), while the composite PMI contracted to 49.7% and house prices showed renewed weakness, reducing the probability of near-term Bank of England tightening. Meanwhile, markets took Prime Minister Starmer's resignation largely in stride, with Andy Burnham his likely successor in July.

Asia

Japan's economic recovery continued to heat-up. Strong wage growth, with monthly earnings up 3.6% year-over-year, and a 6.3% jump in producer prices kept the Bank of Japan's bias hawkish. Concurrently, a cheap currency and steeper yield curve provided a powerful tailwind for exporters and financials. As a result, the central bank delivered a widely expected interest rate hike to 1.0% in June. Domestically, the government plans to assist with ¥370 trillion ($2.3 trillion) of public-private growth investments across seventeen strategic areas by 2040, concentrated in economic-security priorities from semiconductors and "physical AI" to cybersecurity and energy resilience. Korea, likewise unveiled a sweeping $3.1 trillion plan anchored on promoting semiconductors, AI robotics and data center investments.

China's economy featured retail and auto-related weakness even as Beijing advanced its "security-first" 15th Five-Year Plan, featuring technological growth and self-reliance, including a reported RMB 2 trillion ($295 billion) state-led AI datacenter buildout. Notably, the aforementioned investments underscore a broader

regional race to secure supremacy in strategic technologies.

Outlook

The US-Iran memorandum and the prospective reopening of the Strait of Hormuz materially improve the geopolitical backdrop. We anticipate limited lasting economic damage from the conflict, with the global economy's growth engines set to accelerate into 2027. That said, equities have remained conspicuously optimistic throughout the crisis, discounting a favorable resolution from early-on. Whereas bonds stand to benefit more directly from any further easing in inflation expectations.

Corporate earnings, the most important anchor for equities, continue to deliver. Second-quarter S&P 500 earnings growth expectations have risen to 23.1% from 18.8% earlier. Associated revenue growth of 12.3% is projected to be the fastest since 2022, implying further margin expansion. At 20.1x forward earnings, the index now trades modestly above its five-year (19.9x) and ten-year (19.0x) averages.

The AI build-out is now visibly supporting earnings across sectors as hyperscaler capex guidance approaches $700 billion for 2026. That said, we believe the present moment calls for heightened discrimination, and would highlight several risks beneath the strong headline results. First, a meaningful portion of current technology demand is being pulled forward, with future sustainability warranting scrutiny. Second, the hyperscalers have increasingly turned to debt markets to fund their capital spending, and recent moves by several to market excess compute capacity raises the question of whether the datacenter buildout is running ahead of monetizable demand. This is particularly important as low-cost open-source models, many originating in China, compress the economics of proprietary AI. Third, from an investor sentiment perspective, signs of speculative excess have accumulated: margin debt has risen 54% year-over-year to a record 4.5% of GDP, exceeding dot-com era levels, while leveraged ETF assets have grown nearly six-fold in three years. Finally, at a macroeconomic level, the consumer remains bifurcated, with personal savings at their lowest since 2022 and credit card delinquencies rising even as upper-income spending stays firm. None of this argues against participation in the AI theme but it does counsel against complacency, and reinforces our preference for quality and breadth over concentration.

In fixed income, with one or more Fed interest rate hikes now expected, and the yield curve flattening, our bias remains toward short-duration positioning, where income can do the heavy lifting while price risk stays contained. That said, the rate path is genuinely two-sided, while Chairman Warsh's hawkish debut has markets pricing hikes, the full retracement of energy prices should meaningfully soften headline inflation in the second half, and wage growth at its smallest gain in five years, we see little evidence of a spiral. A Fed that talks tough but ultimately stays on hold may prove the path of least resistance.

Given the still-uncertain interplay of inflation, growth and policy, we reiterate the case for diversification across geographies and asset classes. The accelerating global commitment to industrial policy, from Japan, Korea, Europe and China alike, reinforces our conviction in security and resilience themes, via international investing. Additionally, we continue to advise investors to consider alternative asset diversification, with our favored hedge funds well-positioned to add value during periods of volatility. For private market investors, unique investments in cybersecurity, water infrastructure, and battery storage offer compelling opportunities aligned with these priorities. We would also highlight that precious metals, having corrected nearly 30% from their highs amid washed-out sentiment, retain durable support from central bank demand and merit a continued strategic allocation. Our recommended natural resource investment specialist is taking advantage of the current buying opportunity in gold mining equities as well as producers of a variety of commodities including agriculture and base metals as well as their shippers. Lastly, our proprietary efforts to source direct investments continue to gain traction, with several interesting small and middle-market prospects.

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*Sources: Reuters, Bloomberg, Bureau of Labor Statistics, Conference Board, Federal Reserve, Institute for Supply Management, MSCI, Russell, Standard & Poor's, Financial Times and the Wall Street Journal.