Capitalwise

MARKET & ECONOMIC REVIEW

July

2026

MESSAGE FROM OUR TEAM

Our Mission: Provide our clients with the highest level of service and advice to help build their family's security and prosperity.

We love what we do. We are passionate about the industry and proactive in learning new strategies to deliver the best investments and solutions available in the market.

This monthly update reflects our passion and commitment to learn, share, and operate with authenticity and transparency. The commentary, data, and visuals provided are not intended to be investment advice. Please seek the advice of an independent financial advisor for your personal financial decisions.

"The stock market has predicted nine of the last five recessions."

Paul Samuelson

Nobel Prize-winning economist

Capitalwise

ECONOMIC UPDATES

ECONOMIC UPDATE: **Market Cycle**

Markets have climbed to fresh highs despite an energy shock, a hawkish new Fed chair, and persistent noise around tariffs and the deficit. The natural question is whether we're nearing the end of the cycle or simply living through another pause in a longer expansion, and we don't think that question has a single clean answer.

Growth, inflation, credit, labor, leadership, and policy each move on their own timeline, so rather than force everything into a slet's label let's score a handful of independent lenses on the economy and track where we might land in the market cycle. The dashboard on the next page shows where each lens stands today; the table below provides the full reasoning.

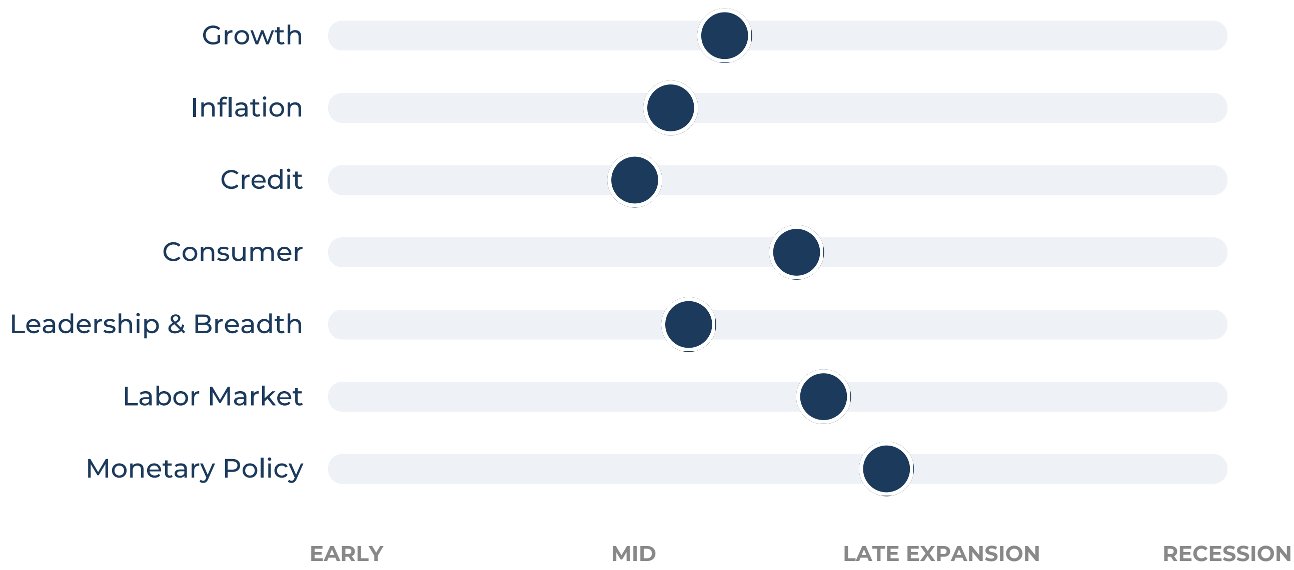
WHAT CHANGED SINCE LAST MONTH'S BASELINE

Three lenses moved in opposite directions this month, which is itself the point of tracking several separately:

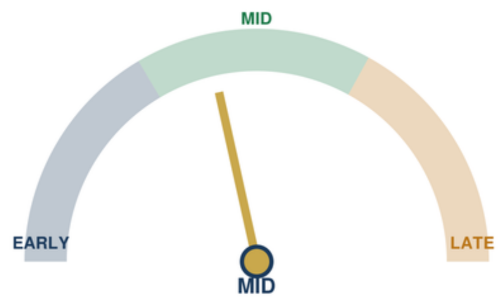
Labor: June's employment report threw cold water on last month's rebound, just +57k jobs, with a combined -74k downward revision to April and May.

Leadership & Breadth moved the other way; the re-narrowing that worried us last month has reversed.

Growth was mixed as it picked up a contested tag for the first time this cycle. GDPNow's Q2 estimate fell from ~2.5% to just 1.2%, and ISM Manufacturing eased from 54.0 to 53.3, even as the final Q1 print was revised up to 2.1%. However, positive earnings revisions and a return to $72 per barrel for crude oil may boost GDP numbers for the remainder of the year.



COMPOSITE READ



Cycle Indicator Scorecard: Full Reasoning

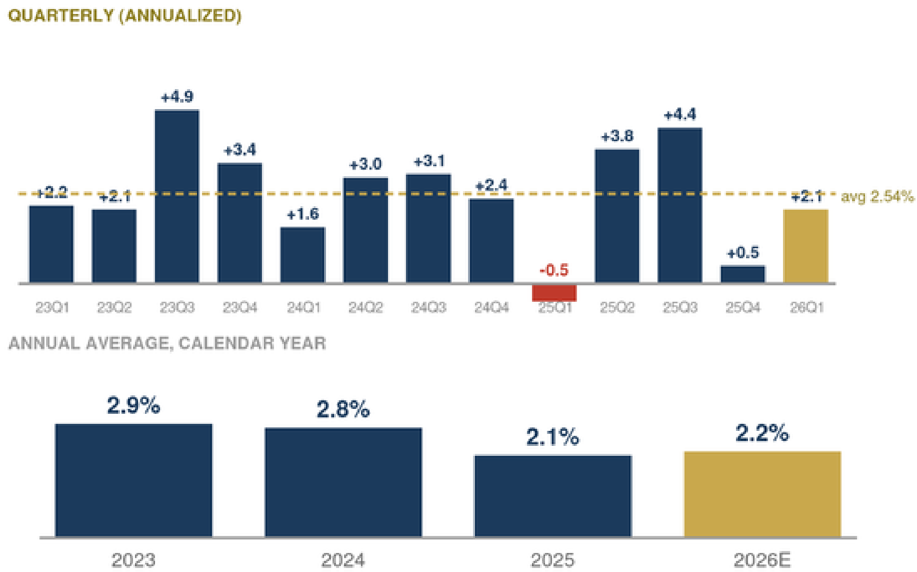
Sources: BLS, BEA, ISM, Federal Reserve, ICE BofA/FRED, Atlanta & Dallas Fed

LENS	POSITION	TREND	VS. LAST MO.	CURRENT READING & READ-THROUGH
Growth	Mid	⇄ Contested	More cautious	The economy grew 2.1% in Q1, a solid and final number. But the two best real-time trackers both cooled in June: the Atlanta Fed's running estimate of Q2 growth fell from about 2.5% to 1.2%, and the ISM factory survey slipped from 54.0 to 53.3. In plain terms, the rearview mirror looks fine, but the windshield got cloudier. It's not a reversal; it's just the first month of the year. Growth wasn't a clear positive signal. See the Growth page for the full picture, including the Fed trimming its own 2026 forecast to 2.2%.
Inflation	Mid	→ Stable	No change	Headline inflation jumped past 4% this year, but almost all of it is due to the oil spike. The Dallas Fed's trimmed-mean, which strips out the most extreme price moves each month, has held steady at 2.3–2.4% for six straight months. One thing we're watching: producer-level goods prices have been creeping higher for several quarters, and that has nothing to do with oil. The Mid call holds; the goods-price undercurrent is the open question. See the Inflation page.
Credit	Mid	↘ Earlier	Reaffirmed	Credit is the market's early-warning system → lenders usually pull back before the economy turns. Right now they're doing the opposite. The extra yield investors demand to hold riskier corporate bonds sits near multi-decade lows, and both S&P and Moody's expect default rates to keep falling through year-end. Late-cycle trouble starts with those spreads widening. They aren't.
Consumer	Mid/Late	⇄ Contested	New divergence	What consumers do and what they say are pointing in opposite directions. The doing: income and spending both rose 0.7% in May, and retail sales are up 6.9% over the past year. The saying: confidence surveys sit at their weakest June levels in over a decade. History says watch the wallet, not the survey, but we're flagging the split rather than pretending it isn't there.
Leadership & Breadth	Mid	↘ Earlier	Improved	Last month's most worrying lens got better. The average stock is now beating the megacaps for the year, the ten biggest companies' share of the index has eased to about 35.6% from a peak above 40%, and Tech, Energy, Industrials, and Materials are all participating in the rally. Healthy bull markets get broader, not narrower, and this one broadened in June.
Labor Market	Mid/Late	↗ Later	More cautious	June's jobs report settled last month's open question, and the answer was soft. Payrolls grew just 57,000 versus roughly 110,000 expected; April and May were revised down by a combined 74,000; and the unemployment rate "fell" to 4.2% only because fewer people were looking for work. This is a job market cooling, not cracking, hiring is still positive, unemployment is still historically low, and there's no sign of broad layoffs. The trend arrow moves toward later. See the Employment page.
Monetary Policy	Mid/Late	↗ Later	Reaffirmed, more so	The Fed held rates at 3.50–3.75%, but the message got more hawkish: half the committee now expects rates to finish 2026 above today's level, and the new chair has made clear inflation-fighting comes before cuts. Adjusted for inflation, policy is only mildly tight, which means the Fed can afford to wait. This remains the lens leaning most clearly late.
Composite	Mid	Watching	Unchanged	The overall picture matches last month: most lenses in Mid or Mid/Late, but the pieces moved in both directions at once. Growth got cloudier, labor got softer, and market breadth got healthier. That mixed movement is exactly why we score each lens separately: a single label would hide it. Net: still Mid Expansion, with Monetary Policy and Labor the two lenses drifting late.

ECONOMIC UPDATE: **Growth**

GDP: The Post-2022 Trend

BEA, real GDP % change · 2021-2022 excluded as reopening/hiking-cycle outliers · quarterly (top) and annual (bottom)



Stripping out 2021's reopening boom and 2022's hiking-cycle slowdown leaves a cleaner three-year story: growth has held a tight **2.1-2.9% annual band** since 2023, with a 13-quarter average of **+2.54%**. The one real outlier inside this window is Q1 2025's tariff-front-running contraction (red bar), which reversed the very next quarter.

Q1 2026's +2.1% (revised up in the final estimate) sits almost exactly on that 3-year average; this is a stable-trend economy, not one accelerating or decelerating meaningfully once the noise is removed. The Fed's own 2.2% full-year 2026 estimate is consistent with a continuation of this same band, not a forecast of a regime change either direction.

One nowcast footnote: the Atlanta Fed's Q2 GDPNow tracker fell to +1.2% on July 1 (from ~2.5% a week earlier), driven by May's wider trade deficit ($105.8B) and a slower private-investment nowcast. That's a current-quarter signal only, and the first official Q2 GDP estimate doesn't arrive until July 30 to confirm or deny this forecast.

The Full-Year Picture: Where Consensus Sits, and Why It May Be Stale

2.2%	~1.9-2.6%	24.0%
FED SEP MEDIAN, FULL-YEAR 2026 (down from 2.4% in March; range 1.8-2.6%)	WALL ST. CONSENSUS RANGE (Bloomberg, Blue Chip, predates June oil move)	S&P 500 2026 EPS GROWTH CONSENSUS (FactSet, up from 15.0% in Dec 2025)

The Bullish Case the Consensus Hasn't Caught Up To

The Fed's 2.2% median and the Street's 1.9-2.6% range were both set **before** the full magnitude of the mid-June oil collapse was visible. Brent fell from an April peak monthly average of $117 to a July 1 spot near $72, a move that postdates most published forecasts. Cheaper energy is a real, mechanical tailwind to consumer purchasing power and corporate input costs.

Meanwhile, S&P 500 2026 earnings estimates have been revised upward repeatedly since December, from 15.0% to 24.0%, a pace of upward revision that historically hasn't occurred alongside a GDP growth slowdown. We can't yet prove the consensus is stale; no major forecaster has re-published since the oil move, but falling input costs, accelerating retail sales (below), and rising earnings estimates argue the risk to that 2.2% figure is to the upside, not the downside.

ISM Manufacturing: What's Under the June Headline

Released July 1, 2026 · headline and subindexes, ISM Report on Business

ISM Manufacturing came in at **53.3 for June**, down from May's 54.0 but still a 6th straight month of expansion. The components matter more than the headline: New Orders (56.0) and Production (52.2) are growing but slower, Employment remains in contraction at 49.7 (33rd month below 50, though improved), and Inventories and New Export Orders both flipped direction.

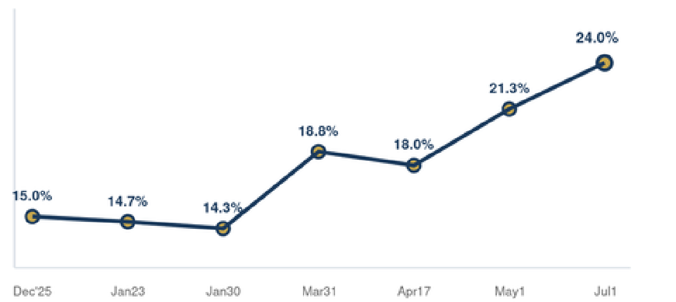
The real story is that **Prices Paid fell sharply from 82.1 to 73.0**. Our read on the oil question: the spike above the pre-war ~63 floor was mostly oil; Brent has collapsed roughly 38% from April's peak to ~$72, and Prices Paid has tracked it in lockstep all year, so July's report should show a further decline.

But the ~63 floor itself is structural and rising, built on Section 232 steel/aluminum/copper tariffs that doubled to 50% in 2025 and quietly broadened again in June 2026; cold-rolled steel PPI hit 423.8 in May, its highest since the 2022-23 spike unwound. From here, that tariff floor is the number to watch, not the fading energy spike.

Two Confirming Signals: Earnings Estimates and Consumer Spending

FactSet Earnings Insight CY2026 EPS revisions · Census retail sales (RSAFS) YoY, 3-year monthly series

S&P 500 2026 EPS GROWTH ESTIMATE: REVISION PATH



Six upward revisions since a brief dip in late January are not typical, and the magnitude (+9 points) is large enough to treat as a genuine, broad-based acceleration, though still concentrated in Tech/AI-adjacent names.

RETAIL SALES GROWTH, YOY: MONTHLY, 3 YEARS

Retail sales bottomed near +1.9% in early 2024, oscillated in a 2-4% band through 2024-2025, then accelerated sharply since March 2026 to +6.9% by May, nearly double the 3-year average. This echoes Q1 2026 GDP, where consumer spending's contribution was unusually small (+0.37pp); if May's acceleration holds, Q2's consumption contribution should look considerably stronger.

NET READ FOR THE GROWTH LENS

Growth remains genuinely mixed at the quarter level; GDPNow's Q2 tracker and ISM Manufacturing both cooled since our last read, but the full-year picture looks more constructive than the Fed's own 2.2% estimate implies, given that figure predates the full magnitude of the oil collapse.

Retail sales are accelerating, S&P earnings estimates keep getting revised up (now 24% for 2026), and the tariff cost floor (~63 on Prices Paid) is now the number to watch as the energy spike unwinds. We're not calling this a clean upgrade, but the risk to consensus full-year GDP looks tilted up, not down.

ECONOMIC UPDATE: **Employment**

Today's headline reads like a contradiction: hiring slowed sharply in June, yet the unemployment rate fell. It isn't a contradiction; fewer people were looking for work at all, not more people finding it. That distinction, plus a combined 74,000-job downward revision to April and May, is the real labor story this month, not the 4.2% headline.

+57k	4.2%	61.5%	+3.5%
NONFARM PAYROLLS, JUNE (VS. ~110-115K CONSENSUS)	UNEMPLOYMENT RATE (FROM 4.3% IN MAY)	LABOR FORCE PARTICIPATION (-0.3PP; DRIVING THE RATE "FALL")	AVG. HOURLY EARNINGS, Y/Y (+0.3% M/M)

The Real Story is the Revisions, Not the Headline

April was revised down by 31,000 (to +148k from +179k), and May was revised down by 43,000 (to +129k from +172k), for a combined **-74,000** across two months.

May's original +172,000 print beat every consensus estimate (most called for 80-85k) and was treated as a clear strength signal at the time; a month later, more than a third of that headline number is gone.

That pattern, an initial beat that erodes substantially on revision, is worth remembering the next time a single month's print looks unambiguously strong.

Payrolls Have Been Decelerating All Year, Not Just This Month

BLS nonfarm payroll change, most-recently revised figures · trailing 12 months

MONTHLY CHANGE IN NON-FARM PAYROLLS: Jul 2025 - Jun 2026 · red = negative · gold = latest (initial print)

Oct 2025's -173k reflects the 43-day federal shutdown (Oct 1-Nov 12, 2025), which delayed and distorted collection for the Sep-Nov reports — a data disruption, not a clean read on underlying demand. Figures shown are the most recently revised vintage; June is the initial print and will be revised twice more.

Why Did the Unemployment Rate Fall on a Weak Jobs Report?

The unemployment rate is a ratio of unemployed people to the labor force, and the labor force shrank. Participation fell 0.3 point to 61.5%, and the employment-population ratio fell 0.2 point to 59.0%. Fewer people working and fewer people counted as looking for work is a materially different, weaker story than the same unemployment rate produced by strong hiring. Long-term unemployment (27+ weeks) held at 1.9 million but is up 286,000 over the past year, now 27.3% of all unemployed people, a slow-building, not yet alarming, erosion in how quickly people get rehired once out of work.

Where the Jobs Were (and Weren't)

BLS Table B-1, June 2026 · industries with a confirmed monthly change

Openings vs. Unemployed persons is the cleanest tightness gauge in the labor data. In mid-2023, openings outnumbered unemployed people by a comfortable 3.2M cushion (9.18M vs. 5.99M).

That cushion eroded steadily through 2024, then **crossed for the first time in March 2025;** unemployed persons exceeded openings, a genuine regime change most unemployment-rate coverage missed. The gap hit its worst point in **November-December 2025** (a ~950k deficit) before reversing sharply: April and May 2026 both show openings back above unemployed persons (7.59M vs. 7.31M in May), the first sustained crossing-back since the reversal began.

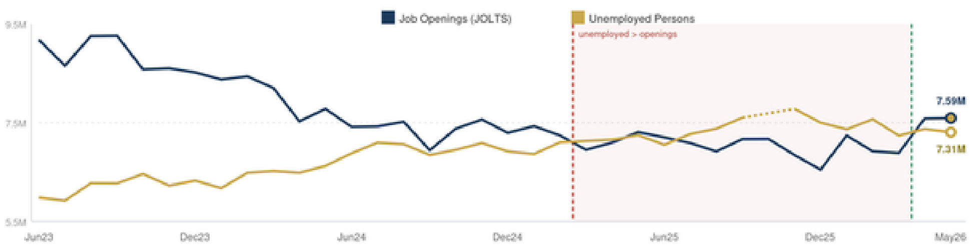
Genuinely better than six months ago, but still a much thinner cushion than investors got used to in 2023-2024.

INDUSTRY	JUN CHG.	CONTEXT
Professional & business services	**+36k**	+172k since Oct'25 low; the most consistent growth engine this cycle
Social assistance	**+25k**	Above its own 12-mo average of +16k/mo
Health care	**+22k**	Slower than its 12-mo average of +38k/mo — a real deceleration in the most reliable job engine of the last three years
Leisure & hospitality	**-61k**	Weak seasonal hiring; little net change in the sector all of 2026
Mining, construction, manufacturing, trade, transportation, information, financial activities, other services, government	**~0**	Little or no change across the board; a genuinely quiet month outside the four sectors above

The Real Tightness Gauge: Job Openings vs. People Looking for Work

JOLTS job openings vs. unemployed persons, monthly · full 3-year view, Jun 2023 – May 2026

JOB OPENINGS VS. UNEMPLOYED PERSONS (MILLIONS) — gold dot = latest (May 2026)



Net Read for the Labor Lens: Updating Last Month's "Pending" Call

Last month we flagged Labor as Mid/Late and pending, torn between a strong JOLTS openings report and a softening narrative. Today's report resolves some of that tension but not all of it: this reads as **genuine softening, not breaking;** payrolls are still positive, the unemployment rate remains historically low at 4.2%, and there's no sign of the sharp, broad-based job losses that would signal recession.

But the trend is unambiguously decelerating (12-month average now +36k, down from over +150k/mo two years ago), and the -74,000 combined revision to April/May is the most concerning single data point this month; it means the labor market has been weaker in real time than the headlines suggested for two consecutive months. We're keeping Labor at Mid/Late with a trend arrow toward Later, not moving it to a recessionary read.

ECONOMIC UPDATE: **Inflation**

The Headline Picture

May 2026 releases · June CPI/PCE not out until mid/late July

4.2%	2.9%	4.1%	3.4%	2.4%
CPI Y/Y	CORE CPI Y/Y	PCE Y/Y	CORE PCE Y/Y	TRIMMED-MEAN PCE Y/Y
3-yr avg: 3.0%	3-yr avg: 3.3%	3-yr avg: 2.8%	3-yr avg: 3.1%	3-yr avg: 2.9%

Trimmed-Mean PCE: the Fed's Quiet Favorite

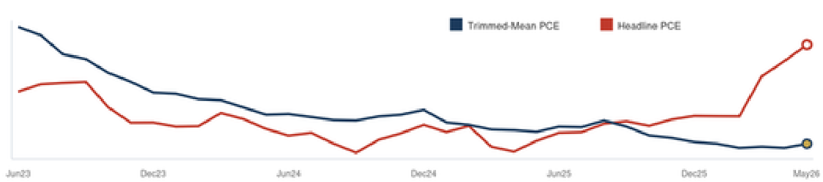
Dallas Fed · full 3-year trend vs. headline PCE

WHAT IS IT?

Each month, the Dallas Fed ranks the roughly 177 categories in official PCE by price change and throws out the extremes → the top quarter and bottom quarter leaving the middle 50%. Unlike standard core, it excludes whatever is actually volatile that month, not just food and energy.

It's a credible, Fed-cited diagnostic, but a supplementary one, not the FOMC's official 2% target gauge (that's headline PCE). One caveat from the Dallas Fed's own research: when price changes skew unusually positive, as tariffs can cause, the trim can discard genuine upside outliers and understate emerging pressure.

TRIMMED-MEAN PCE VS. HEADLINE PCE, YOY — 3-YEAR SERIES (Jun 2023 – May 2026)

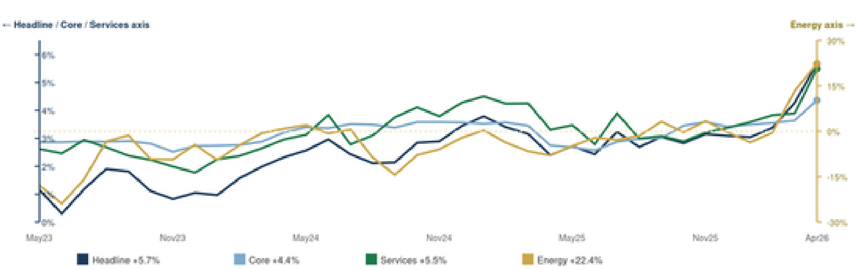


The overlay makes the divergence obvious: trimmed-mean fell steadily from 4.4% (mid-2023) to a **2.3-2.4% band** that's held for six straight months, never dipping back to the pre-pandemic 2.0% norm even at its low, while headline PCE tracked it closely for two years before decoupling sharply in 2026, spiking from 2.9% to 4.1% in five months as the oil shock hit. This is why some dovish analysts point to oil and tariffs as exogenous (dare I say transitory) shocks rather than structural inflation.

Producer Prices: Three Years, Monthly

BLS PPI, year-over-year, computed monthly from FRED index series · May 2023 – April 2026 (36 months)

PPI COMPONENTS, YOY, MONTHLY — DUAL AXIS (right axis = energy, own wider scale)



The monthly detail answers what annual snapshots couldn't: headline PPI broke sharply higher in March, with energy alone swinging from -0.4% to +22.4% as the Iran conflict hit crude. That leg is heavily energy-timed and should fade from the YoY math within a couple of reports. The more important tell: **core (4.4%) and services (5.5%) (neither directly oil-exposed) broke higher in the same window**, and finished consumer-facing goods PPI (+3.7%) is rising more slowly than core goods (+5.1%), suggesting businesses are absorbing part of the squeeze rather than passing it through (plausible, not yet proven). History says the final pass-through into consumer prices is a slow, multi-quarter tail, so we're watching core and services closely even after energy rolls off.

What's Changing at the Fed: Kevin Warsh's First Month

The new Fed Chair's early inflation stance, and what the Fed's own June projections say

Kevin Warsh was confirmed as the 17th Fed Chair on May 13, 2026, and sworn in on May 22.

His first FOMC meeting (June 17) held rates at 3.50-3.75% but **stripped the "easing bias" language from the statement**, and the June projections tell a consistent story about how the Fed now sees inflation: the committee **raised its inflation forecast even as it cut its 2026 GDP projection to 2.2%** (a modestly stagflationary-leaning shift) and the dot plot moved hawkish, with 9 of 18 officials seeing 2026 finishing above the current range and the median dot at 3.75-4.00%, up from 3.4% in March.

Notably, the real policy rate, measured against the trimmed-mean PCE, remains only mildly restrictive (~+1.2-1.3%) by the Fed's preferred cleaner gauges; it has room to stay put without over-tightening. On July 1, Warsh made his global debut at the ECB's Sintra forum, addressing inflation directly:

> *"We've all looked around, and we've seen that prices are too high... We're going to deliver price stability in the US."*
>
> — KEVIN WARSH, FED CHAIR, ECB FORUM ON CENTRAL BANKING, SINTRA, PORTUGAL, JULY 1, 2026

Synthesis: Warsh is governing more hawkishly than the market priced when he was nominated; many expected a reliable rate-cut vote for the administration, and instead he's consistently prioritized inflation-fighting over near-term cuts. He's also launched five internal task forces, notably reviews of the $6.7 trillion balance sheet and the inflation-targeting framework itself, with preliminary results due in the fall.

The tension for us as allocators: a chair many assumed would be dovish is instead asserting independence and hawkishness, which is good for long-run Fed credibility and the long end of the curve, but a source of short-term equity volatility, and one more reason real policy rates may stay restrictive for longer than the market had hoped.

NET READ FOR THE INFLATION LENS

We're not walking back the "energy shock, not demand" story in the headline; trimmed-mean stability at 2.3-2.4% still supports that, and it has never returned to the ~2.0% pre-pandemic norm, even at its low.

However, the qualifier from last month is now stronger: core, services, and the narrower core-ex-trade-services PPI measures all ticked up together in 2026, independent of oil, the clearest evidence yet of a real, separate goods-and-services pricing thread.

A newly hawkish Fed chair focused on inflation over cuts is a second reason not to declare this problem solved. Mid read holds; the goods-price undercurrent remains this month's genuine open question, not a resolved footnote.

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MARKET UPDATES

MARKET UPDATE: **Equity**

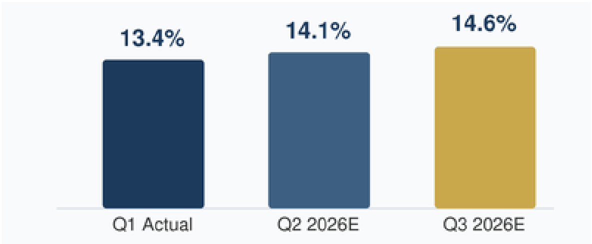
Earnings & Margins — The Real Story This Quarter

FactSet Earnings Insight · data as of 6/30/26

Q1 2026 was, in plain terms, a historic quarter for corporate profitability. Blended S&P 500 EPS growth came in at **27.7% y/y** - the fastest pace since Q4 2021 - with 84% of companies beating estimates, well above the ~76- 78% historical norm. Analysts aren't fading that strength either: Q2 2026 estimated growth has been revised up to roughly 23%, an unusually large upward move for this point in a quarter.

The number that matters most in the valuation debate below is margins: S&P 500 net margin hit 13.4% in Q1 - the highest level FactSet has recorded since it began tracking the metric in 2009 - and estimates call for that to keep climbing rather than plateau. Company revenues and profitability are surprisingly strong across a broad swath of the index, not just at a handful of mega-caps.

S&P 500 NET MARGIN: A RECORD, STILL RISING



Highest net margin FactSet has recorded since it began tracking the series in 2009; consensus expects further expansion through Q3.

The Equity Risk Premium

Earnings yield vs. 10-yr Treasury (Fed-model spread) and Damodaran implied ERP · see June research note for full methodology

The equity risk premium (ERP) measures the additional return investors expect for owning stocks instead of risk-free Treasury bonds, but the answer depends on how it's calculated. The simple "earnings yield minus Treasury yield" approach has recently turned slightly negative because higher bond yields now rival the market's current earnings yield. A more comprehensive measure, such as Aswath Damodaran's implied ERP, incorporates expected future earnings growth and cash flows and remains near its long-term average, suggesting stocks are reasonably valued rather than exceptionally expensive. The takeaway is that higher interest rates have reduced the valuation cushion for equities, making future returns more dependent on earnings growth than expanding valuation multiples.

The Broadening Is Real — and It's Not Just Sectors

H1 2026 total return by style box · U.S. equity, iShares Russell ETFs · YCharts comp table as of 7/3/26

U.S. EQUITY STYLE BOX (RUSSELL)

	VALUE	BLEND	GROWTH
LARGE	+16.1%	+10.1%	+5.1%
MID	+17.4%	+15.2%	+7.1%
SMALL	+22.9%	+22.6%	+22.1%

If you take a step back and analyze the first half of 2026 with a Morningstar Equity Style Box you will find broadening in its purest form: **value beat growth in every size band** (Russell 1000 Value +16.1% vs. Growth +5.1%), and **small beat large in every style**, with the Russell 2000 cells clustered at +22-23% regardless of style, the best small-cap first half since 1991. The cap-weighted headline is still driven by mega-cap growth, but underneath it, year-to-date returns are being led by exactly the cells that lagged in 2023-2025. Alongside equal-weight beating cap-weight (+9.67% vs. +8.38% YTD) and top-10 concentration easing to ~35.6% from 22025's record 40.7%, that's three independent confirmations of the same broadening.

However, just because breadth has re-entered the picture doesn't mean the narrative has changed. Leadership consistency and expansion might be pointing to confirmation of the bull market rather than a shift. Technology (+32.7%) continues to lead the market year to date, on pace for its 4th consecutive year of 20%+ returns. Energy (+20.4%), industrials (+20%), and materials (+13%) are among the sector leaders, pointing to mid- to late-expansion.

Where Sector Leadership Usually Sits in the Cycle — and Why This Cycle Won't Map

Classic playbook by phase · VFG sector workbook (YCharts): H1 2026, full-year 2025, and June 2026 monthly

EARLY EXPANSION

- Small & mid-caps
- Financials
- Consumer Discretionary
- Industrials

MID EXPANSION

- Technology
- Industrials
- Broad, diversified participation

LATE EXPANSION

- Energy
- Materials
- Health Care
- Staples creep higher

RECESSION

- Utilities
- Consumer Staples
- Health Care
- Long Treasuries

Our read: the same case we made last month, now with more evidence. We think this is a truly historic technology revolution, and we just came out of a stretch of rolling sector recessions into an aggressive bull market. When a technology genuinely reshapes how business is done, the traditional 11-sector map no longer cleanly explains the cycle; the sectors themselves change character. Utilities is the cleanest example: a textbook defensive that outperformed in 2025 not because investors were hiding, but because data-center power demand has turned it into **AI infrastructure.**

The defensive utilities sector sold off the hardest in June, when the AI-capex trade wobbled, behaving more like a growth derivative than a shelter. Treasuries are firm not as a recession signal, but because policy rates remain restrictive and have room to fall. When the defensives are growth plays, and bonds are a rates-normalization play, "which inning are we in" may simply be the wrong scoreboard. We'll keep running the sector clock as a cross-check, but in this cycle, sector leadership isn't the primary tell, and we'd rather acknowledge that than force the data into a phase label it doesn't fit.

NET READ — STOCKS IN THE CYCLE

Valuations are modestly rich and the simple ERP has gone negative for the first time in two decades, but it's happening alongside 27.7% earnings growth, record 13.4% margins, estimates still being revised up, and breadth broadening rather than narrowing. That's the "high valuation, earnings aren't deteriorating" case, not the bearish one. The thing to watch isn't a sector-rotation tell that this cycle refuses to give cleanly, it's margins and revisions which is the load-bearing wall under a market with no rate cushion left.

MARKET UPDATE: **Equity**

Equity Breakdown

2022	2023	2024	2025	YTD	June
XLE 64.4%	XLK 56.0%	XLC 34.7%	XLK 24.6%	XLK 32.7%	XLI 7.3%
XLU 1.4%	XLC 52.8%	XLF 30.5%	XLC 23.1%	XLE 20.4%	XLV 6.6%
XLP -0.8%	XLY 39.6%	XLY 26.5%	XLI 19.3%	XLI 20.0%	XLF 4.3%
XLV -2.1%	SPY 26.2%	SPY 24.9%	SPY 17.7%	XLB 13.0%	XLU 2.7%
XLI -5.6%	XLI 18.1%	XLU 23.3%	XLU 16.0%	XLRE 10.8%	XLRE 1.0%
XLF -10.6%	XLB 12.5%	XLK 21.6%	XLF 14.9%	SPY 10.1%	XLP 0.9%
XLB -12.3%	XLRE 12.4%	XLI 17.3%	XLV 14.5%	XLP 8.3%	XLK -0.1%
SPY -18.2%	XLF 12.0%	XLP 12.2%	XLB 9.9%	XLU 7.6%	XLB -0.3%
XLRE -26.3%	XLV 2.1%	XLE 5.5%	XLE 7.9%	XLV 3.4%	SPY -1.0%
XLK -27.8%	XLE -0.6%	XLRE 5.1%	XLY 7.4%	XLF -1.3%	XLY -2.8%
XLY -36.4%	XLP -0.8%	XLV 2.5%	XLRE 2.6%	XLY -1.4%	XLE -5.0%
XLC -37.7%	XLU -7.2%	XLB 0.1%	XLP 1.5%	XLC -8.5%	XLC -7.2%

Cyclical

XLB	Materials
XLY	Consumer Cyclical
XLF	Financials
XLRE	Real Estate

Defensive

XLP	Consumer Staples
XLV	Health Care
XLU	Utilities

SPY	S&P 500

Sensitive

XLC	Comm. Services
XLE	Energy
XLI	Industrials
XLK	Information Tech.

June Winners

- The AI trade continued its move down the stack, now to the toolmakers. Samsung and SK Hynix's newly announced ~$1.3 trillion, 10-year fab buildout put a decade of equipment orders behind the group. Applied Materials (+60.7%), KLA (+57.0%), and Lam Research (+36.3%) were the month's standouts, with AMAT the single largest contributor to the index.
- Memory extended its run: SanDisk (+29.1%) and Micron (+11.5%), the latter jumping 15% in one session on blockbuster fiscal Q3 earnings. Intel (+21.8%) and AMD (+12.6%) rounded out a month where the biggest index contributors were all chipmakers or the companies that equip them, plus Caterpillar (+21.6%), powering and building the data centers.

June Losers

- Microsoft (-17.2%) shed roughly $600 billion in market value. its worst month in decades. Not a fundamentals story: eight straight quarters of earnings beats and 16-18% revenue growth.
- The Magnificent 7 posted their worst month on record as a group, dragging the Nasdaq (-2.8%) and the cap-weighted S&P 500 (-1.0%) negative. The S&P 500 Growth index (-1.8%) was the only factor index to lose ground in June.
- Nike (-10.6%) fell to an 11-year low as its turnaround struggled to find traction, a reminder that not every stock's problems this year are AI-related.

Summary

June's headline return hides the real story. The S&P 500 slipped roughly 1%, but the average stock went up. The equal-weight index hit record highs, and value, quality, and dividend names all posted solid gains. This wasn't a retreat from AI; it was a repricing of who profits from it. The market punished the companies writing the capex checks and rewarded the companies cashing them.

Last month we said the rally's durability depends on whether the AI capex cycle sustains. June began answering that question, just not the way most expected. The capex is sustaining; what changed is the market's patience with the spenders. Microsoft grew revenue in the double digits and beat estimates, yet still had its worst month in decades because investors stopped giving hyperscalers the benefit of the doubt and started demanding proof of return. Meanwhile, that same spending drove blowout results for the memory and storage companies that received it.

That's the healthier version of a down month. A market where the index falls because its largest constituents reprice while 400-plus other stocks, small caps, and the equal-weight index push higher is broadening, not breaking. The question for summer flips: it's no longer whether the rally can widen beyond the megacaps, but whether the index can grind higher while its biggest names repair.

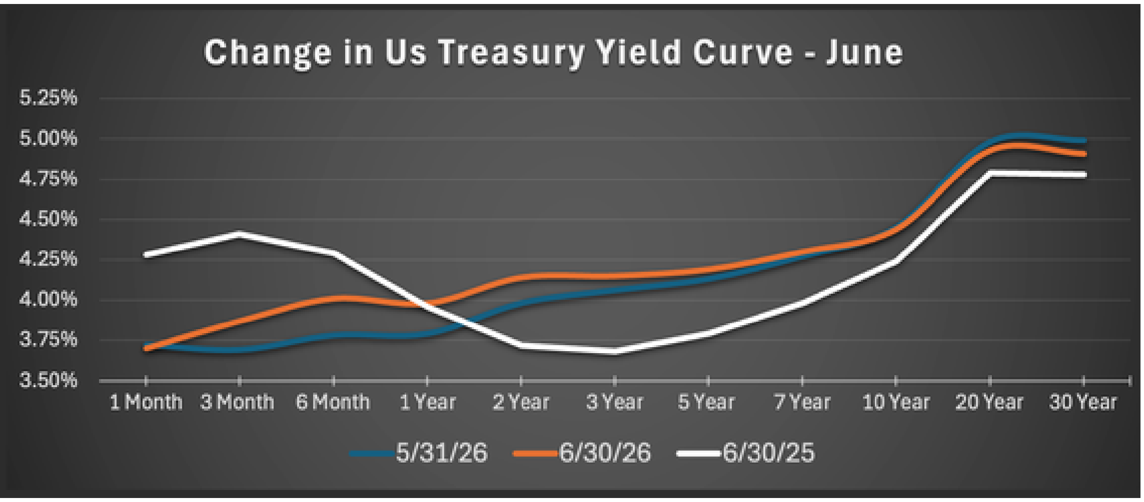
S&P 500		
June	YTD	1 Year
-1.0%	10.2%	22.3%
Dow Jones		
June	YTD	1 Year
2.7%	9.8%	20.6%
Nasdaq Composite		
June	YTD	1 Year
-2.8%	13.1%	29.5%

All graphs generated internally with data from YCharts, see footnotes for data disclosure.

MARKET UPDATE: **Bonds**

Fixed Income Breakdown

US Treasury Yield			
	30-Jun	Change in Yield	
	Yield	MoM	YoY
SWVXX	3.48%	2 bps	-69 bps
1 Month	3.70%	-2 bps	-58 bps
3 Month	3.87%	18 bps	-54 bps
6 Month	4.01%	23 bps	-28 bps
1 year	3.98%	19 bps	2 bps
2 Year	4.14%	16 bps	42 bps
3 Year	4.15%	9 bps	47 bps
5 Year	4.19%	6 bps	40 bps
7 Year	4.30%	3 bps	32 bps
10 Year	4.44%	-1 bps	20 bps
30 Year	4.91%	-8 bps	13 bps



Fixed Income Total Return

June 2026

Credit Quality	Duration: Short	Interm.	Long
High	0.05%	0.27%	1.09%
Med	0.17%	0.25%	0.23%
Low	0.16%	0.08%	0.20%

1 Year

Credit Quality	Duration: Short	Interm.	Long
High	2.98%	3.69%	2.83%
Med	3.89%	3.79%	4.71%
Low	5.36%	5.64%	5.81%

Fixed Income Sector Total Returns

Sector	June	1 Year
Treasury Bond	0.3%	2.7%
TIPS	-0.5%	3.2%
Corporate Bond	0.2%	4.3%
Corporate High Yield	0.3%	5.9%
Floating Rate	0.4%	4.7%
MBS	0.1%	5.0%
CMBS	0.0%	3.5%
CLO AAA	0.2%	5.1%
Municipal Bond	1.0%	7.0%
Emerging Market Bond	0.6%	8.0%

All graphs generated by FRED or generated internally with data from YCharts, see footnotes for data disclosure.

State of the Bond Market

June was a genuine bear-flattening move, and the pattern is specific: the front-to-belly of the curve rose while the very long end actually fell slightly. That's consistent with a hawkish repricing around the new Fed chair rather than a broad "rates up" move; the market pushed out near-term relief without losing confidence at the long end. Over a full year, the shape has normalized further: front-end yields are down sharply while the belly and long end are up; the curve has stayed uninverted for 18+ months now, which is worth stating plainly as evidence the inversion didn't presage a recession.

In June, every duration and quality bucket was positive; high-quality long duration led at +1.09% on the long-end rally, while low-quality stayed positive but smaller, and over the trailing year low-quality has outperformed high-quality across the board (5.36%–5.81% vs. 2.83%–3.69%), confirming the carry trade is working. At the sector level, June was calm and broadly positive (Corporate High Yield +0.3%, Floating Rate +0.4%, TIPS the lone laggard at -0.5%), while the trailing year is led by Emerging Market Bond (+8.0%) and Municipal Bond (+7.0%), a full-year story of credit and carry, not rate direction.

Municipal Bonds were the best-performing sector in the June table specifically (+1.0%, ahead of every taxable sector shown), and it's the second-best trailing-year performer (+7.0%, behind only EM at +8.0%), a genuine standout, not a marginal one. That's consistent with the muni-specific tailwinds already on file: tax-season and after-tax-yield-driven demand, a muni curve that's steep enough (10–20yr) to offer a real pickup over comparable Treasuries, and issuance tracking toward a potential record year ($600B) that so far hasn't overwhelmed demand.

In summary, June delivered a real message: the curve bear-flattened amid a hawkish repricing (not a growth scare), and it's held uninverted long enough now that the inversion-to-recession fear from 2022–2023 appears not to have played out. Credit is doing exactly what it's supposed to; every quality tier was positive in June, and low-quality has outperformed high-quality all year, which supports the tight-spread picture without contradicting it. Municipal bonds are quietly one of the best-performing sectors on the board, both for the month and the trailing year, and that's worth noting after the rocky muni landscape of years past. Starting yields in bond land are very strong, and credit is acting as credit should. The ZIRP era is over, and fixed income provides real returns.

SUMMARY

Key Takeaways from our Centralized Investment Committee

01

What Inning Are We In?

Every cycle is hard to call in real time. This one, reshaped by AI, refuses to follow the usual playbook.

02

The Rally is Broadening

Value beat growth in every size band, and small caps posted their best first half since 1991.

03

Bonds are Earning Their Keep

Every quality and duration bucket was positive in June, municipals quietly led the board, and today's yields provide real income without needing rate cuts.

DISCLOSURES

Commentary in this update reflects the opinions of Capitalwise & Victory Financial Group based on our observations of economic data. Charts listed are provided for informational purposes only. The information provided is subject to change and is not intended to be solicitation to buy or sell any securities. Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy. Capitalwise & Victory Financial Group hold five core convictions to investment management that help guide how portfolios are constructed. The performance results shown are a subset of investments extracted from Victory Financial Group portfolios. All returns are calculated net of fees.
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Investment advisory services offered through Victory Financial Group LLC.

Footnotes:
(1) Credit to the Bureau of Economic Analysis at bea.gov for all data provided in this row
(2) Credit to the Bureau of Labor Statistics at bls.gov for all data provided in this row
(3) Credit to the St Louis Federal Reserve at fred.stlouisfed.org for all data in this row
(4) All data used in charts and graphs on a publicly traded security was collected from public sources such as Google Finance – google.com/finance, Yahoo Finance – finance.yahoo, Morningstar.com, Bureau of Economic Analysis (1), Bureau of Labor Statistics (2).
(5) The securities listed in this chart are securities used to create Victory Financial Group portfolio strategies. Securities in blue are equities. Securities in yellow and orange are fixed income.
(6) Ycharts owns all of its data for the purpose of investment research not investment advice, please see further disclosure at ycharts.com/disclosure
(7) Chart and Data credit to Trading Economics and their data compilation from National Statistics and the World Bank

Benchmarks: All portfolio performance returns are collected via composite analytics of actual client accounts provided by yCharts. Associated benchmarks are built on a combination of the Russell 3000, MCSI ACWI ex US, Bloomberg Aggregate Bond, and Bloomberg Muni Bond. The international to equity weight is tiered off an 80% domestic weight and a 20% international weight. Asset allocation starts with 100% equity and reduces by 20% with each subsequent risk model.

Investment advisory services offered through Victory Financial Group, LLC ("VFG"), an SEC Registered Investment Adviser.

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