

# Making Sense

Market Update | June 2026



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# What are we going to cover?

## 1. Economic update:

Mid-year outlook | Inflation | Federal Reserve policy | Household spending

## 2. Market update:

Equity markets | Corporate earnings | Valuations | Fixed income



# Halfway through 2026, the economy held up, and markets are hotter

## 2026 Mid-Year Outlook

### Full-Year Economic Forecasts

	<i>Forecast on Jan. 1</i>	<b>Latest forecast</b>		
<b>GDP growth</b>	2.0%	2.1%	→	The economy withstood shocks, buttressed by powerful AI spending.
<b>Unemployment rate</b>	4.5%	4.4%	→	The labor market remained in a low-hire, low-fire setting.
<b>Monthly job growth</b>	68k	61k	→	Job growth remained subdued and concentrated in some sectors.
<b>CPI inflation</b>	2.8%	3.5%	↑	Higher energy prices kicked off a round of higher inflation.

### Year-End Market Projections

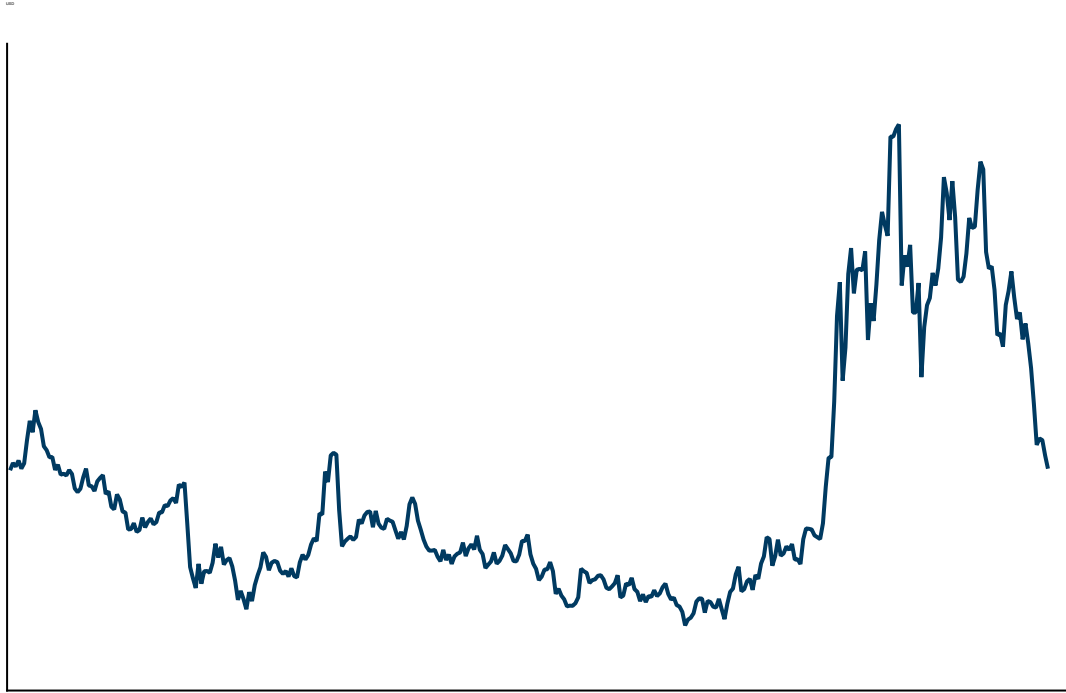
	<i>Forecast on Jan. 1</i>	<b>Latest forecast</b>		
<b>S&amp;P 500 Index</b>	7500	7700	↑	Earnings growth surprised massively to the upside.
<b>Federal funds rate</b>	3.03%	4.06%	↑	With higher inflation, markets see rate hikes, not cuts, as likely.
<b>10-year Treasury</b>	4.10%	4.34%	↑	Higher inflation and more uncertainty are keeping yields elevated.
<b>Crude oil price</b>	\$57	\$71	↑	Markets see oil retreating substantially but not entirely to pre-war levels.

Source: Bloomberg

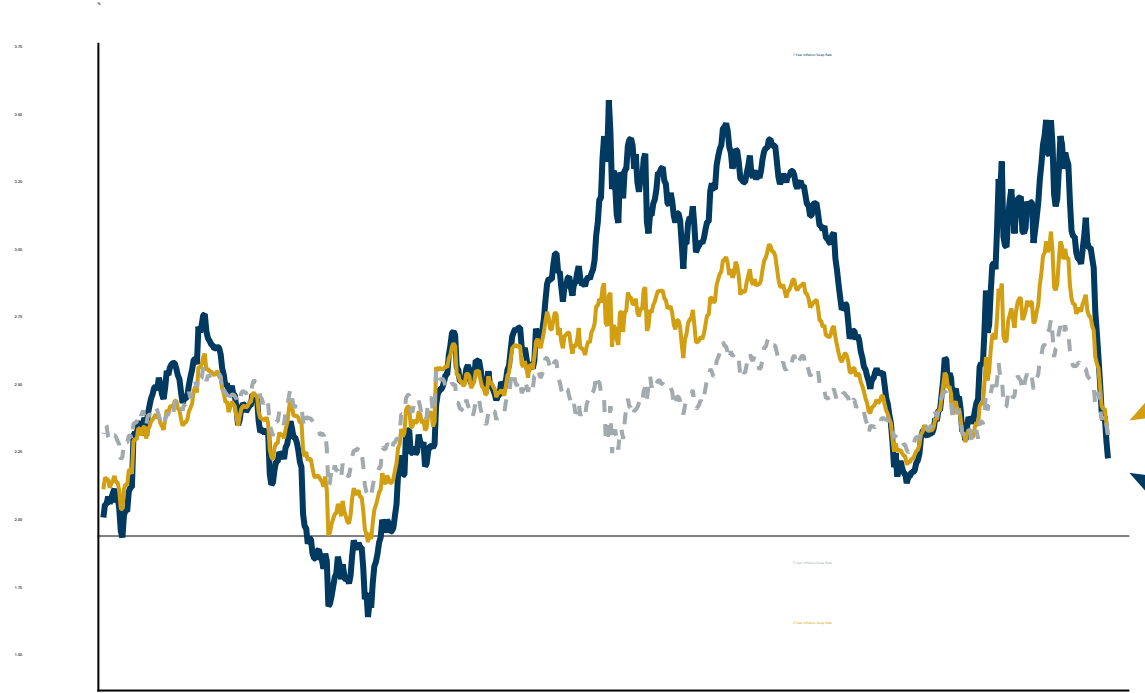
Note: Economic forecasts, S&P 500, and 10-year Treasury are median professional forecast. Federal funds rate and crude oil price are implied by futures prices.

# Financial markets are expecting disinflation back into the range of 2%

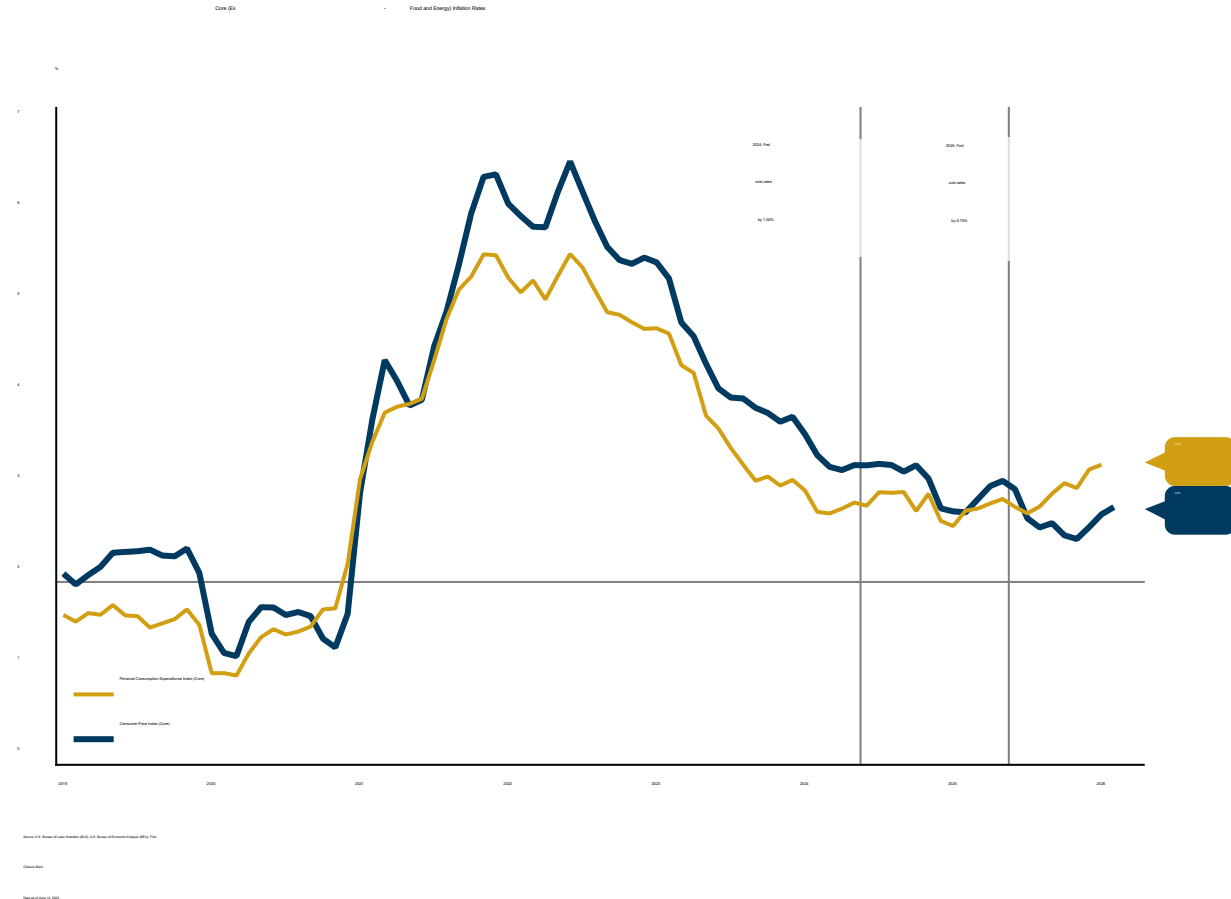
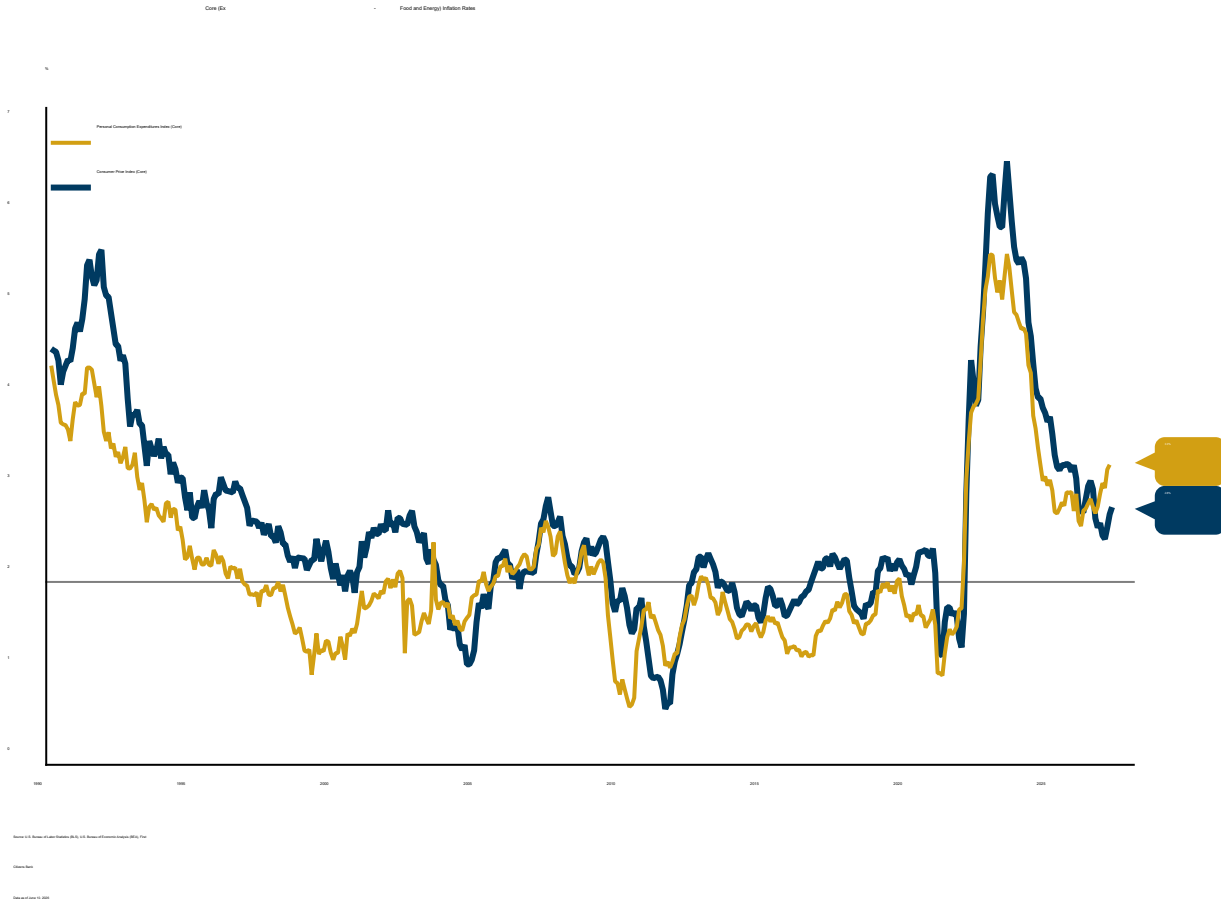
WTI Futures (Crude Oil)



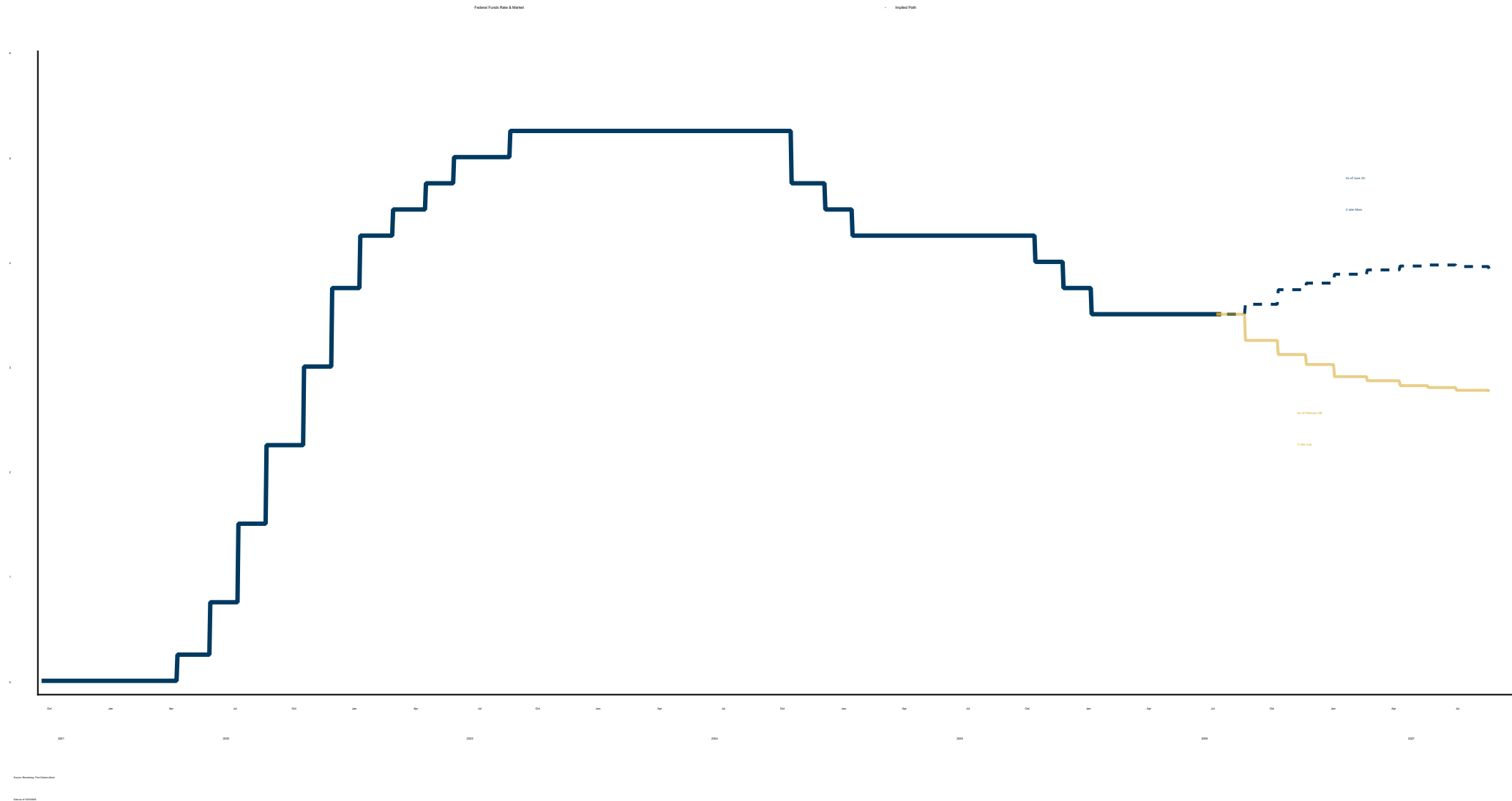
Market Inflation Expectations



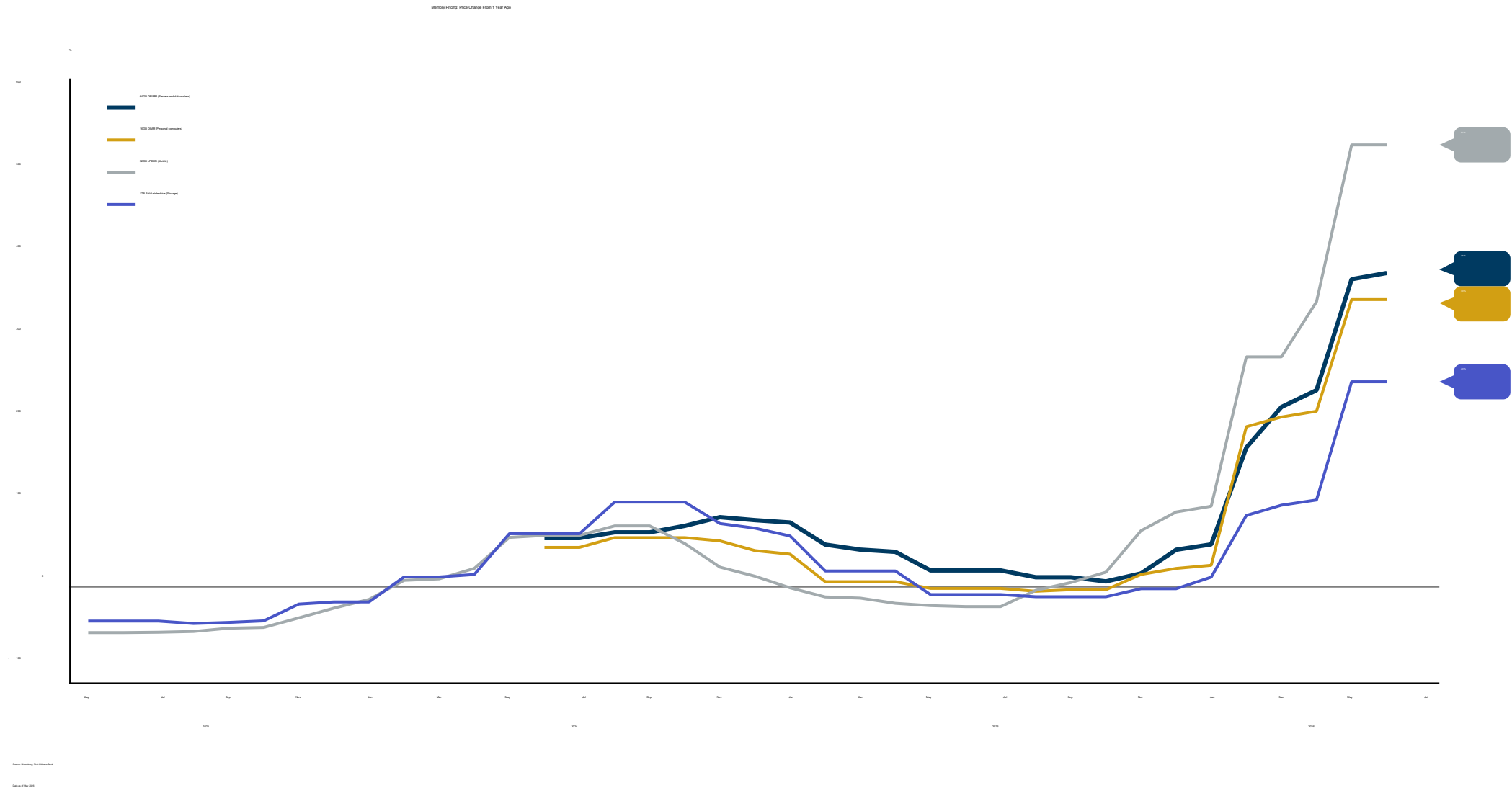
# Inflation has moved higher, but it also hasn't been at target for 5 years



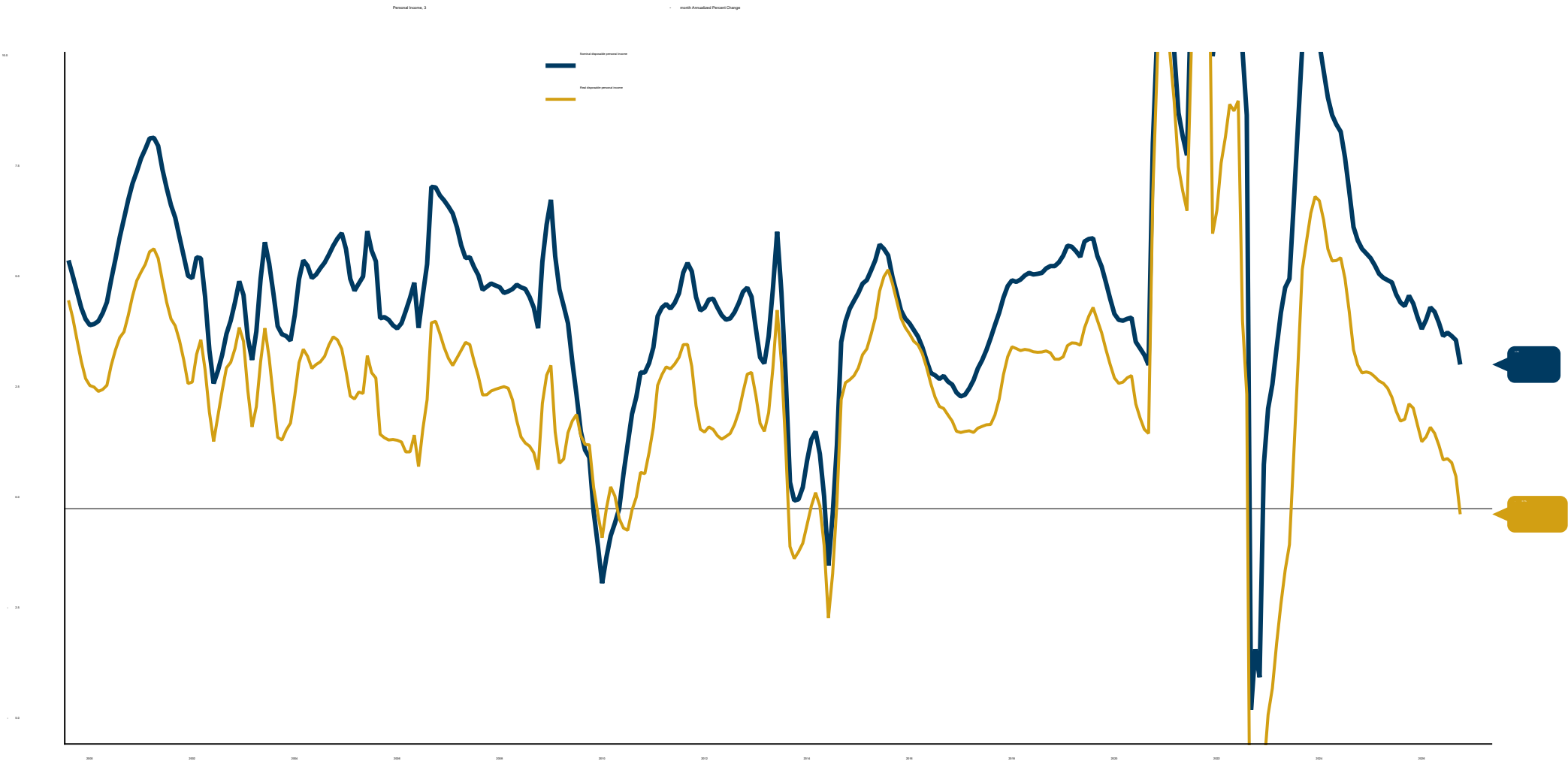
# Markets now see the Fed raising interest rates to achieve price stability



# Prices for memory chips have risen by 3-5x in the past year alone

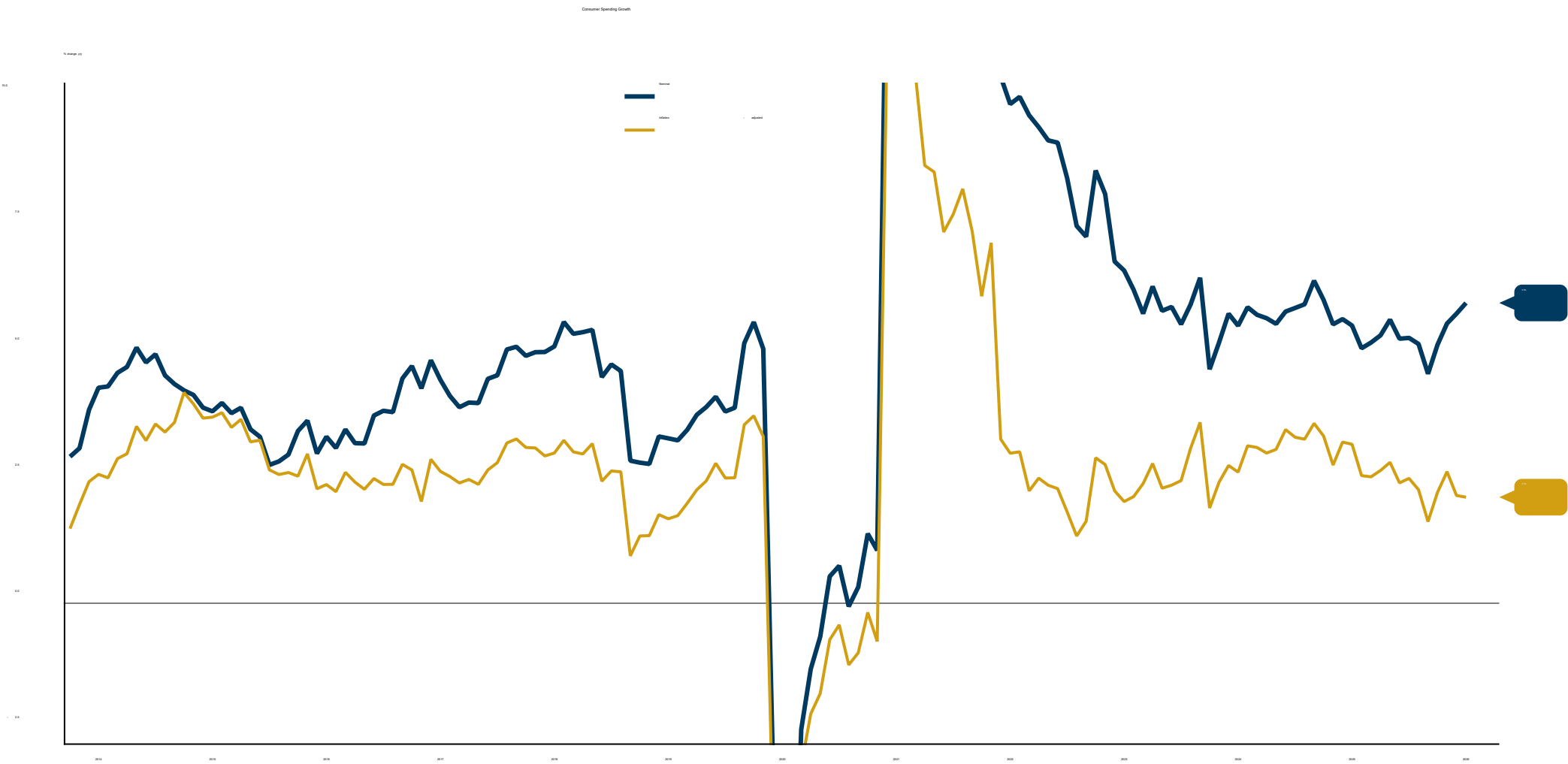


# Real incomes have taken a hit from higher inflation

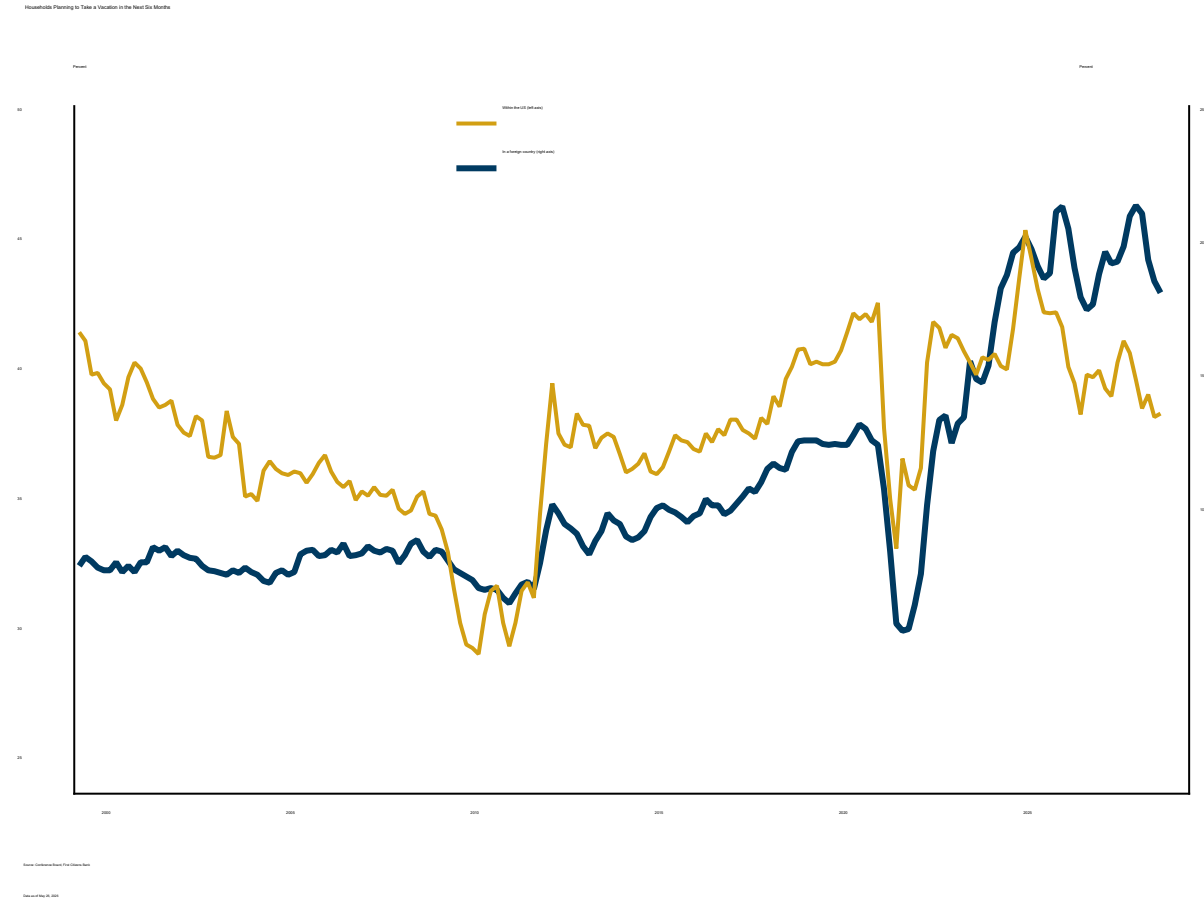
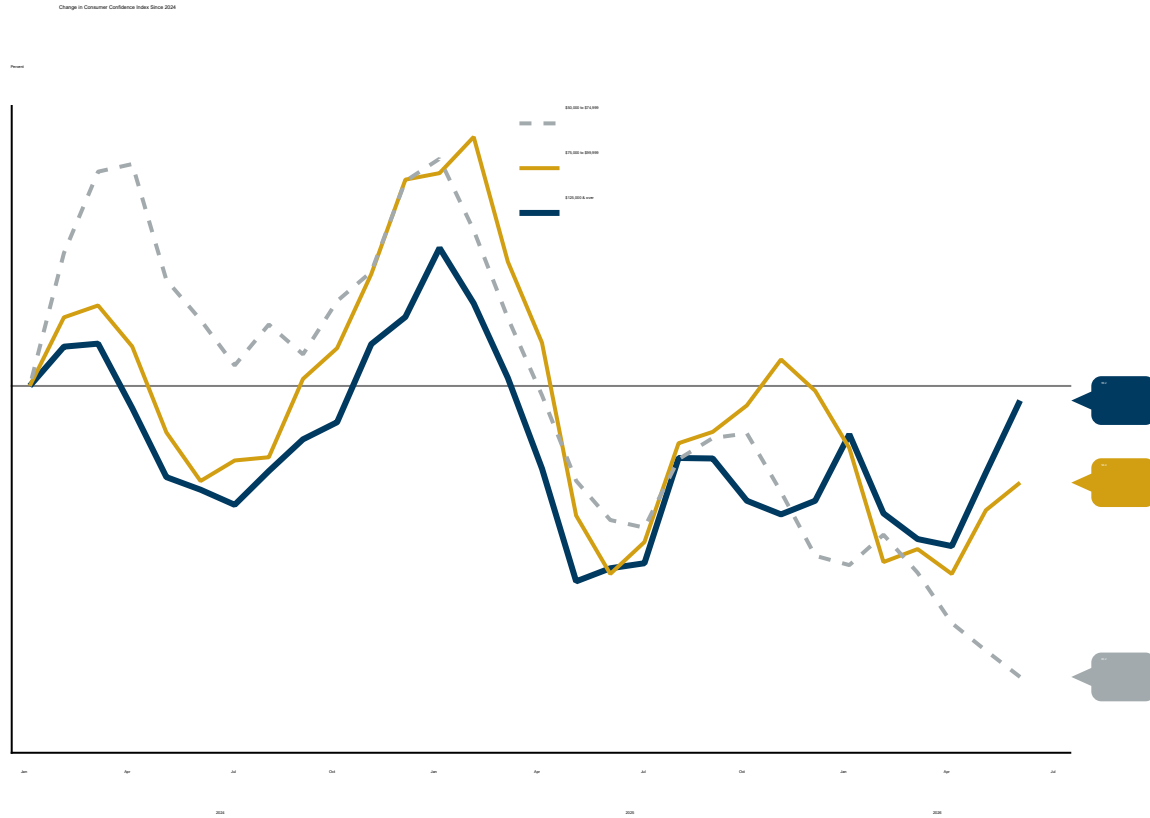


Source: U.S. Bureau of Economic Analysis, BEA, Personal Income  
Source: FRED, BEA

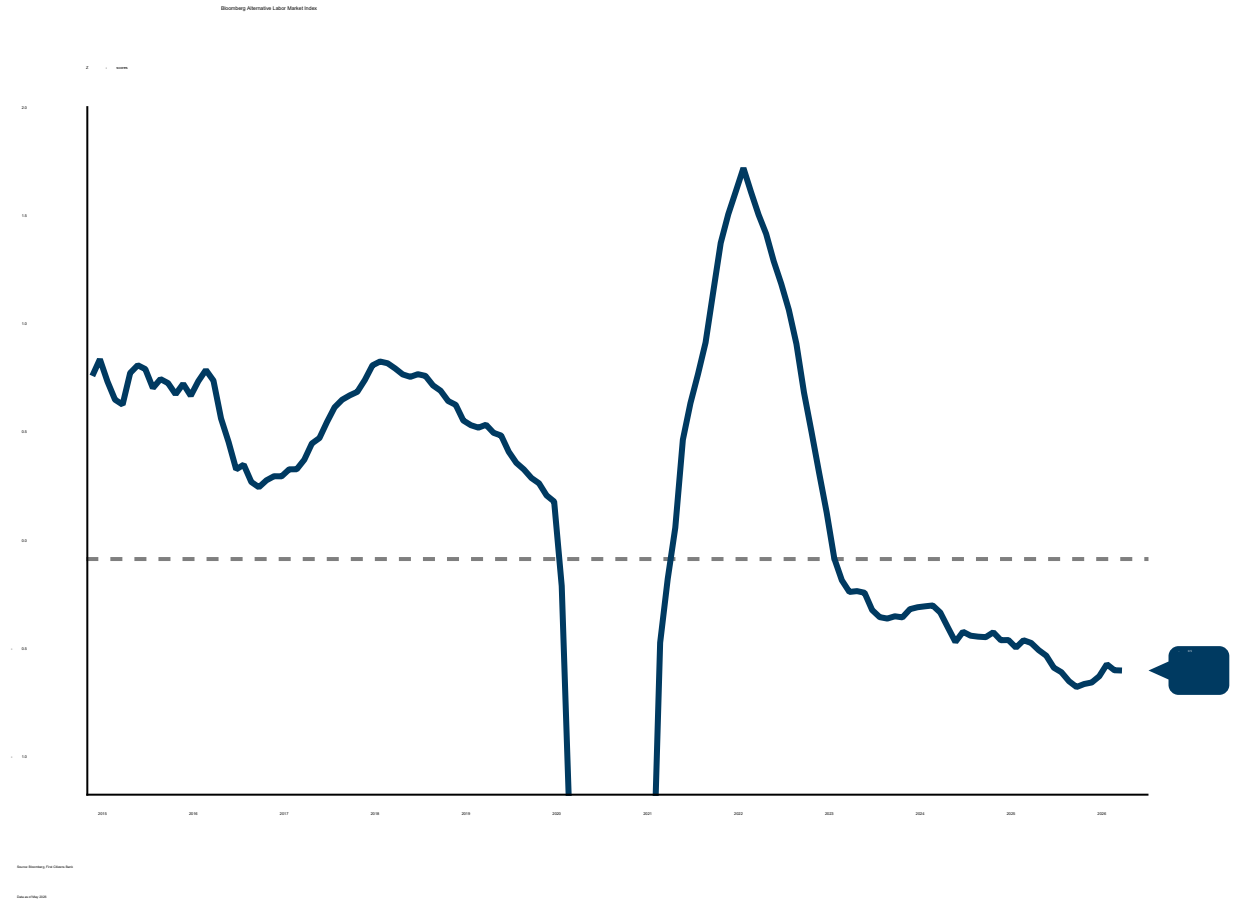
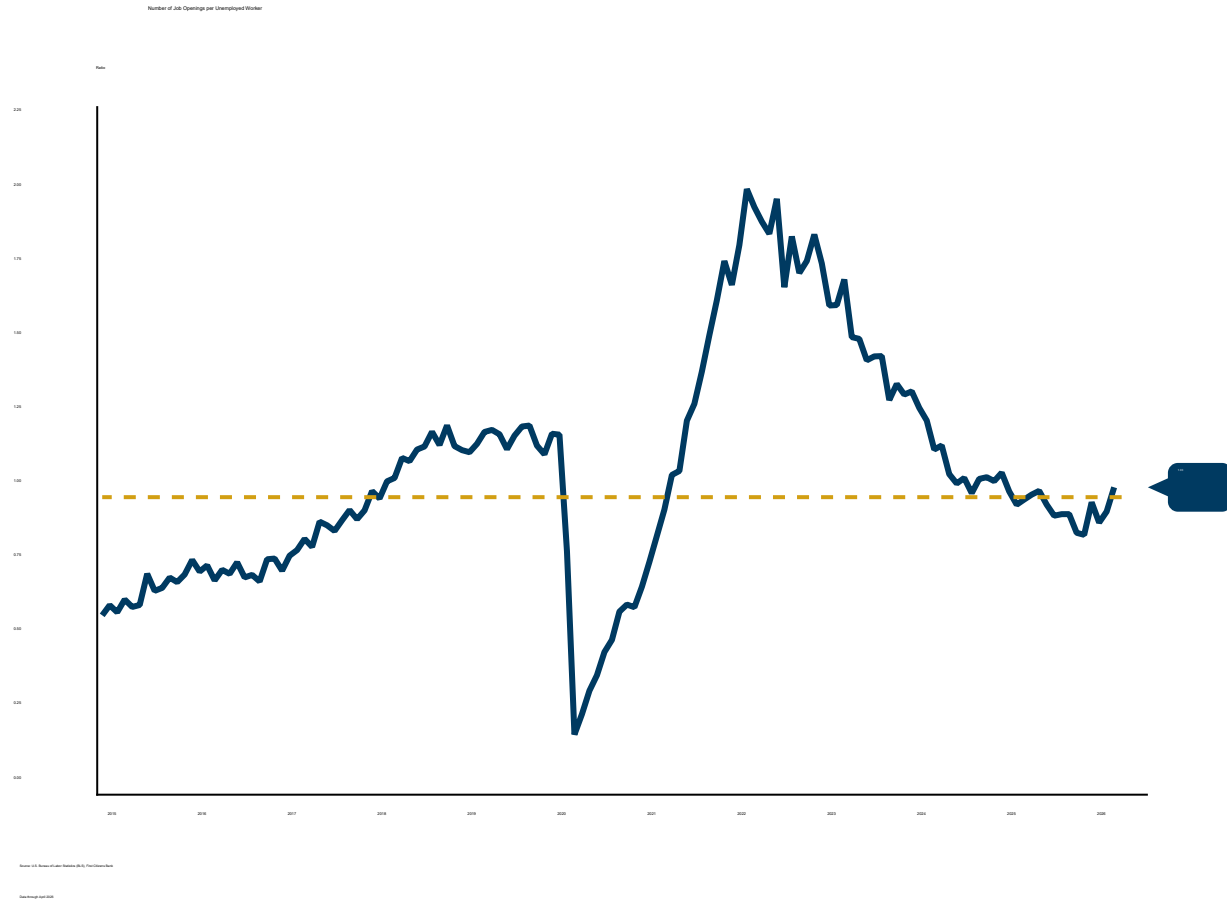
# Household spending has held up – even after adjusting for inflation



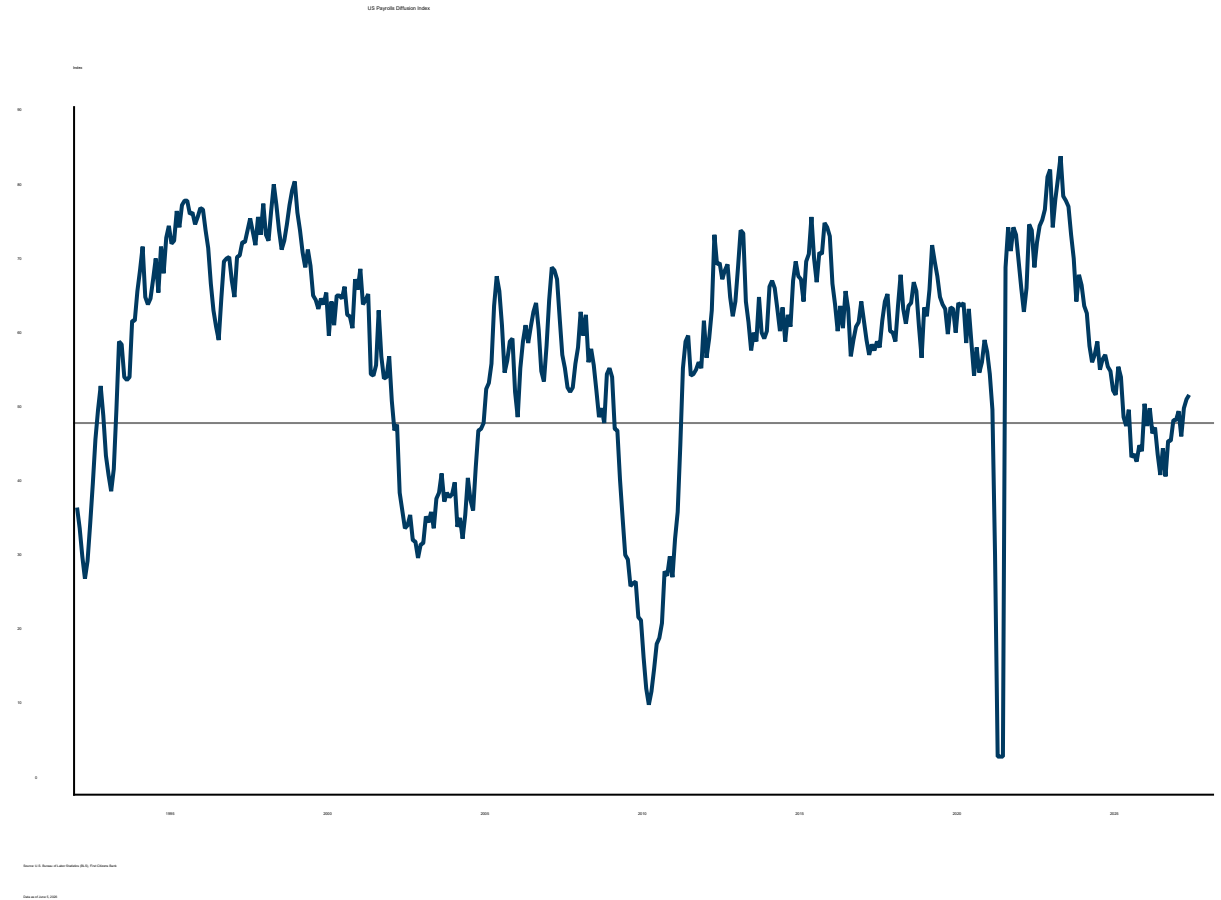
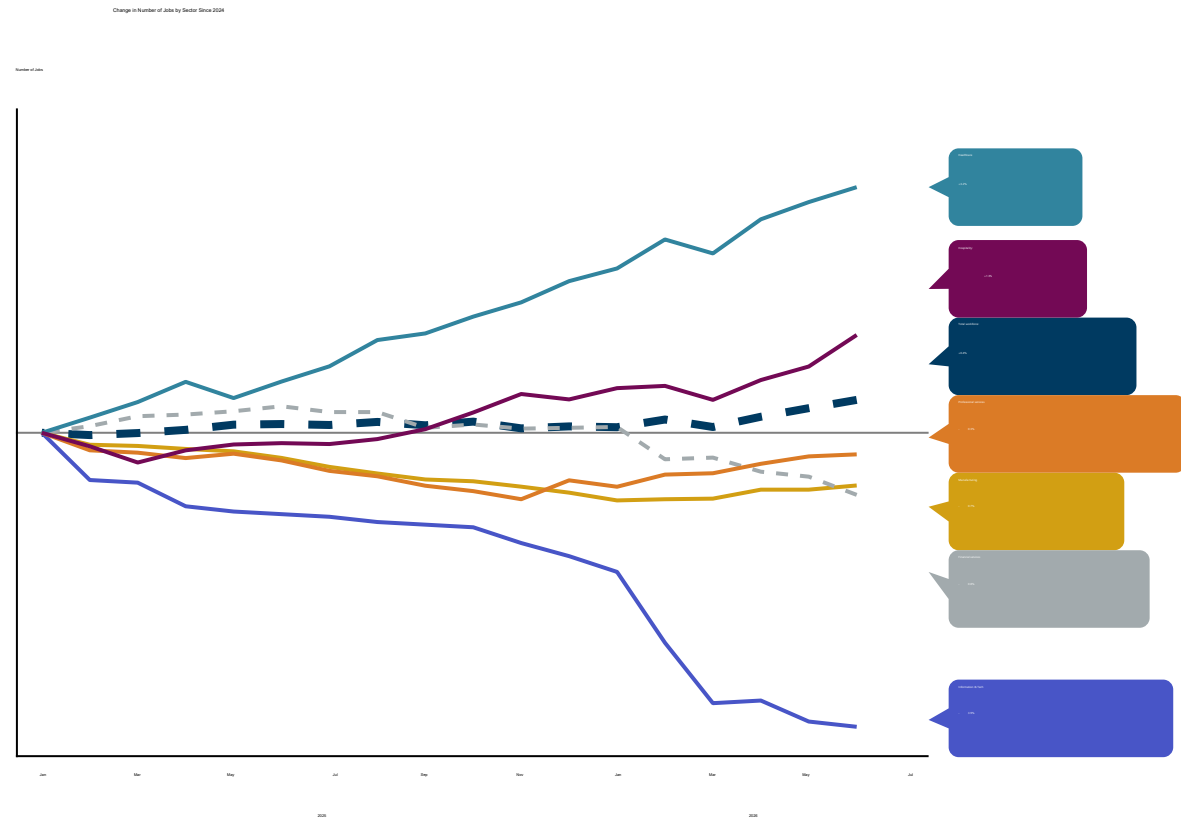
# Higher-income households maintain more confidence in the economy



# The labor market has steadily been losing momentum



# The economy is adding jobs on net, but some sectors are losing jobs

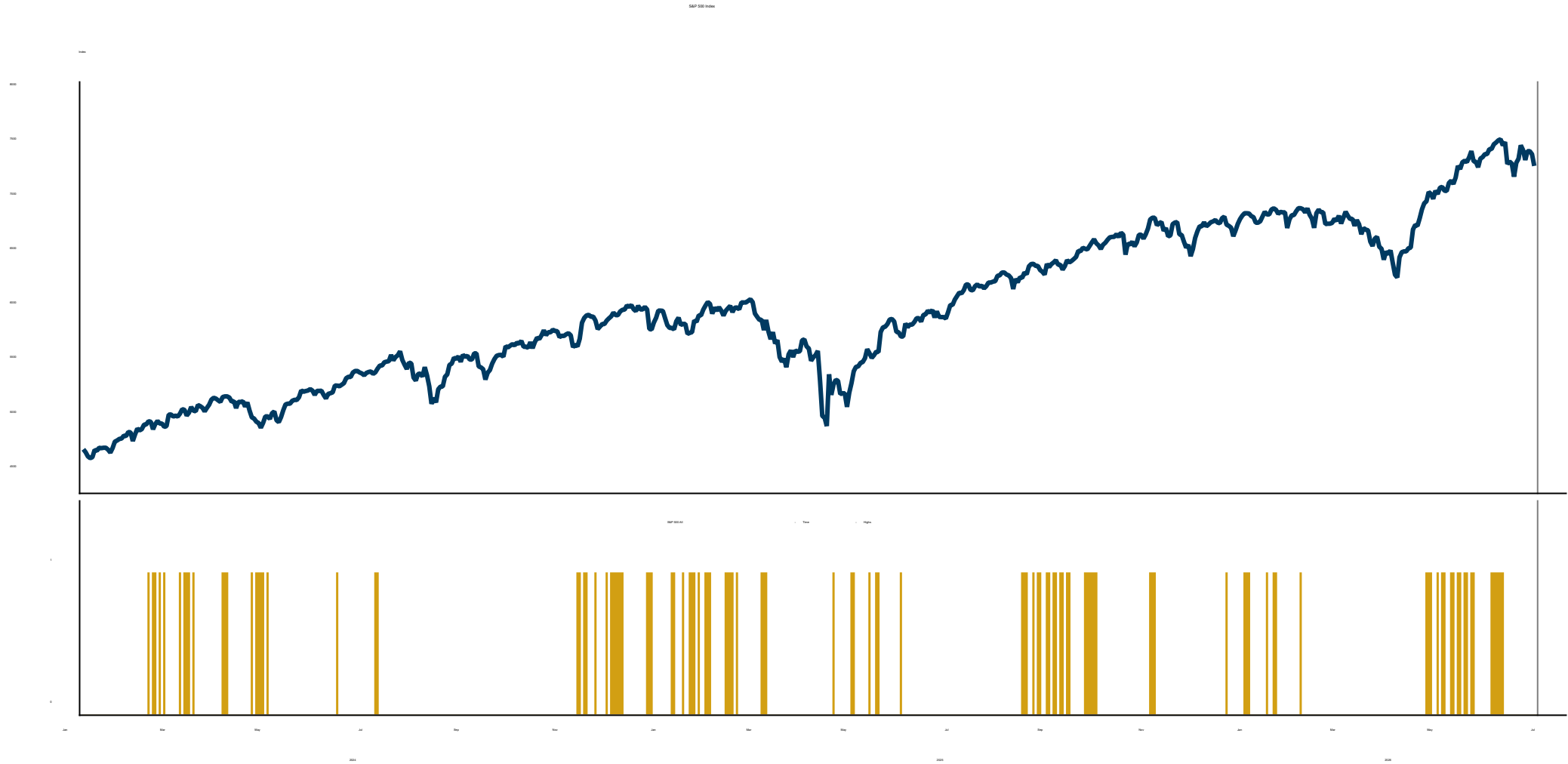


# Market update



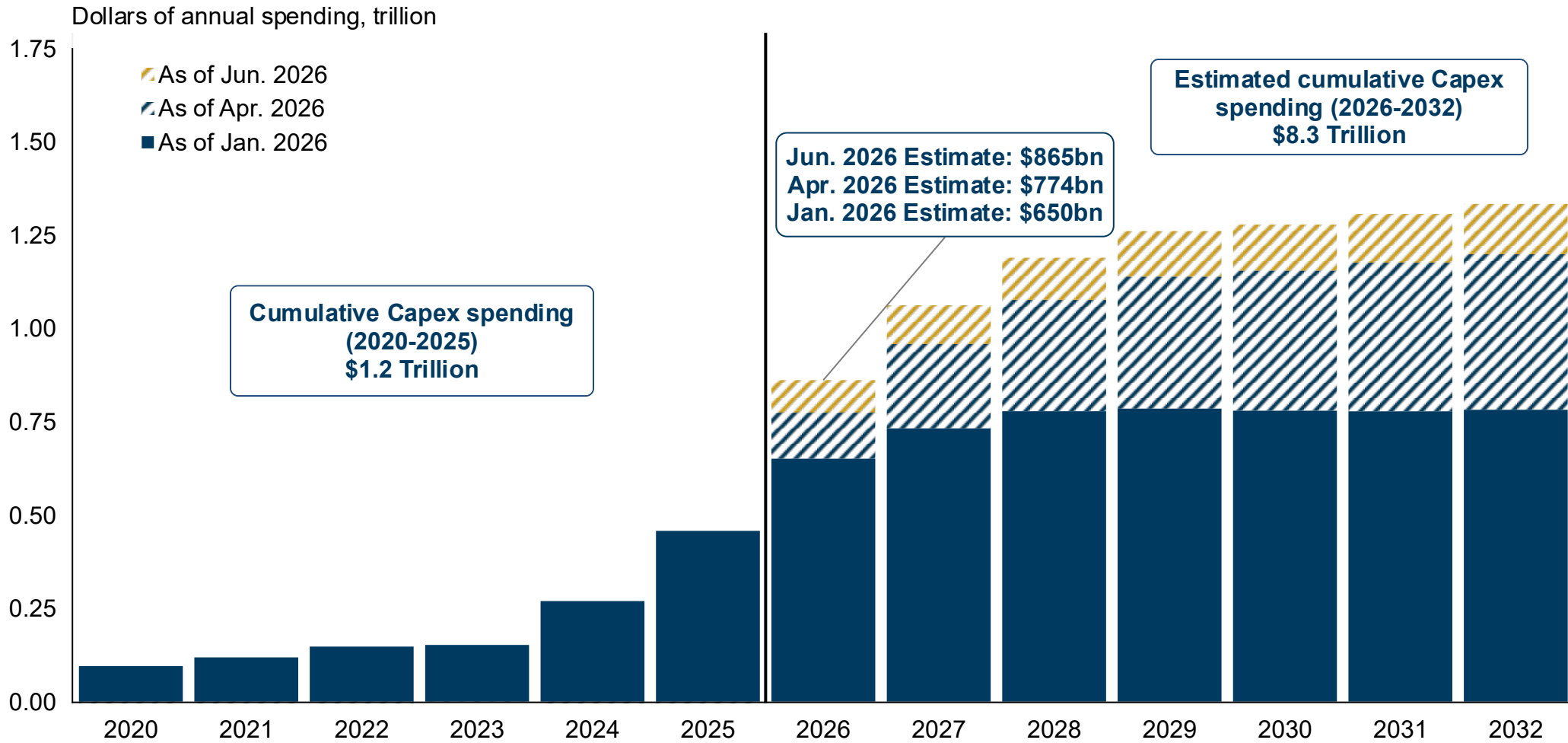
# Stocks are crossing new all-time highs very frequently

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# Expected spending on the AI buildout continues to rise

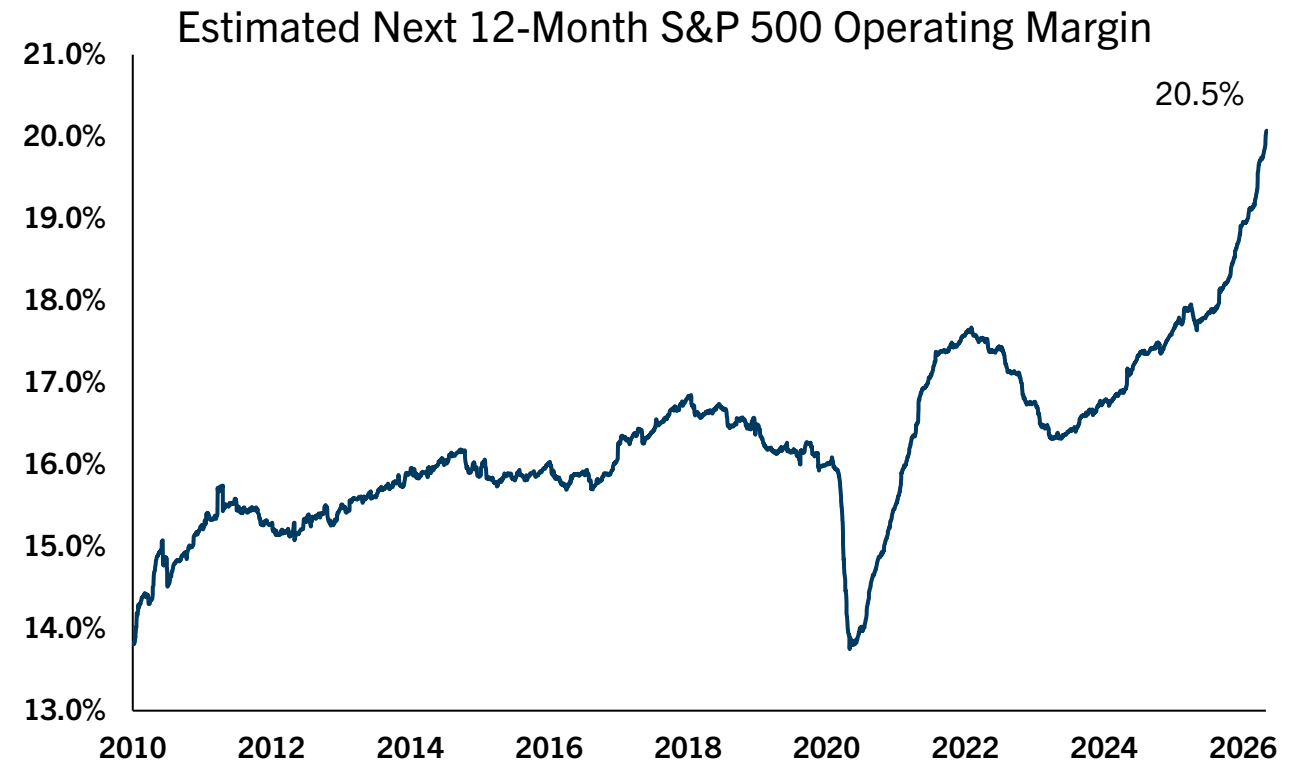
## Capex Spending on Generative AI



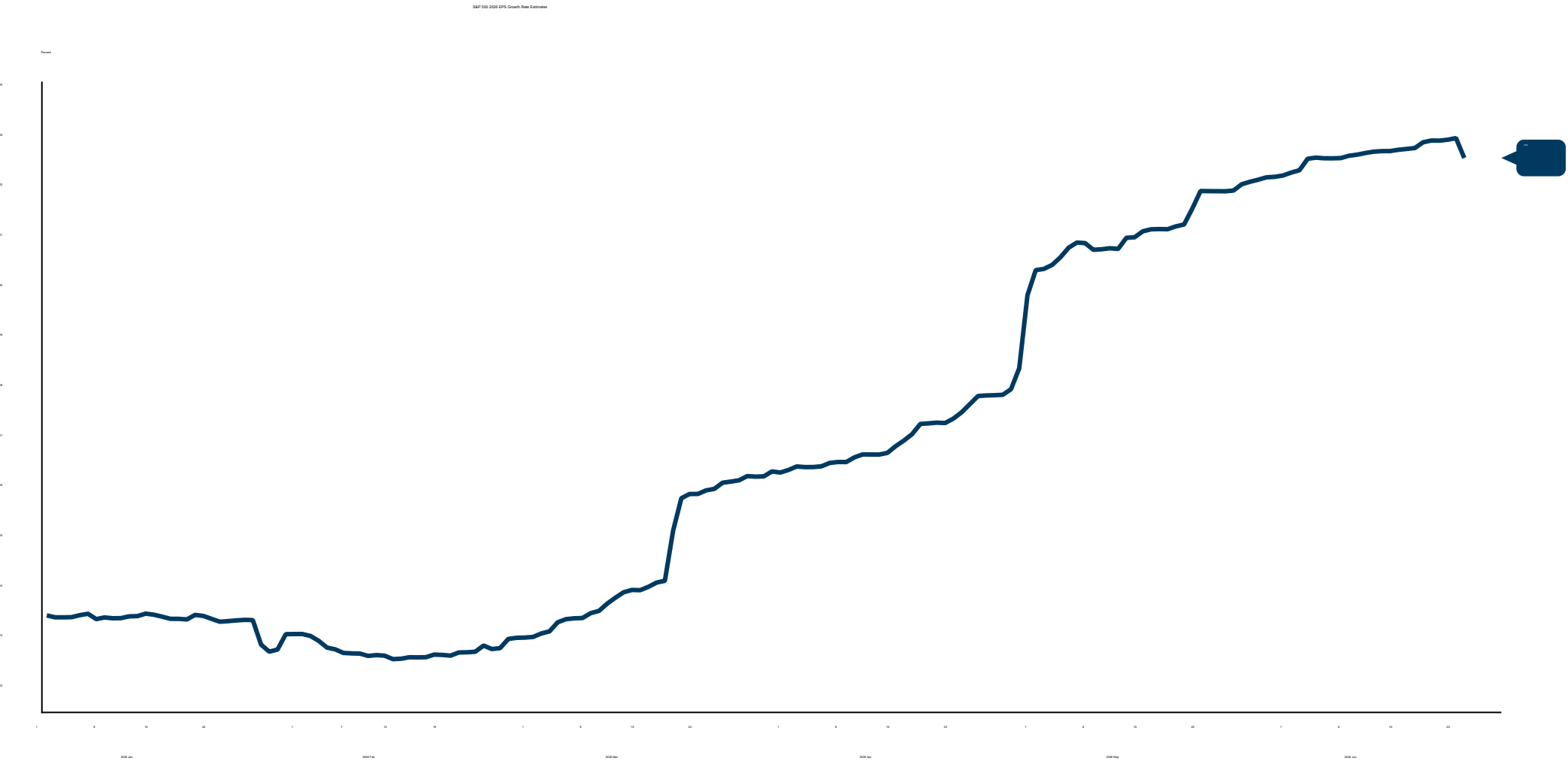
Source: Bloomberg  
Data as of: 6/15/2026

# Estimates point to robust corporate earnings and margin growth for 2026

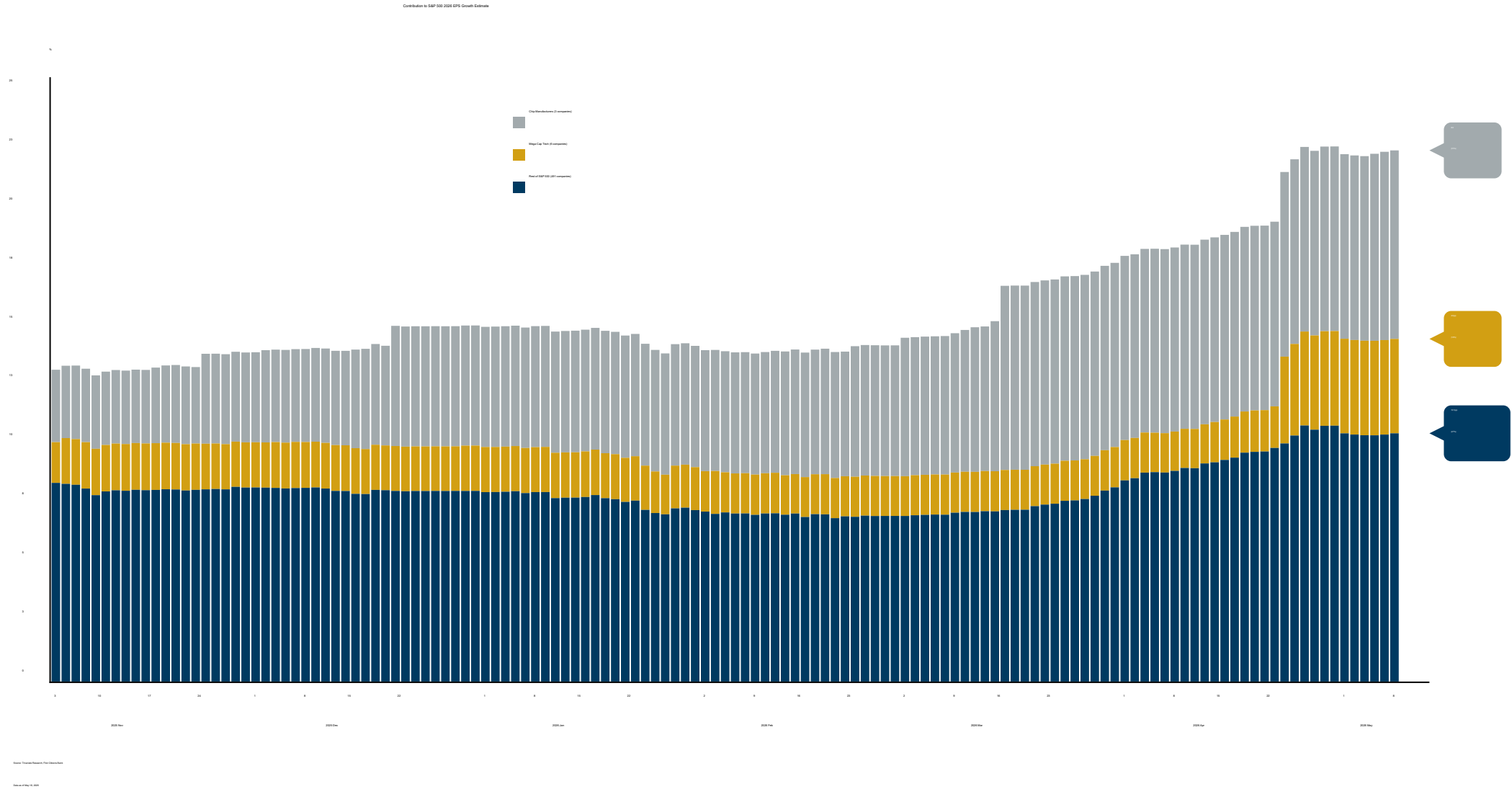
- Q2 2026 estimated earnings growth is **22%**
  - Q2 2026 est. revenue growth is **12%**
- CY 2026 estimated earnings growth is **23%**
  - CY 2026 est. revenue growth is **11%**
- Average earnings growth since 1950 is **7.6%**



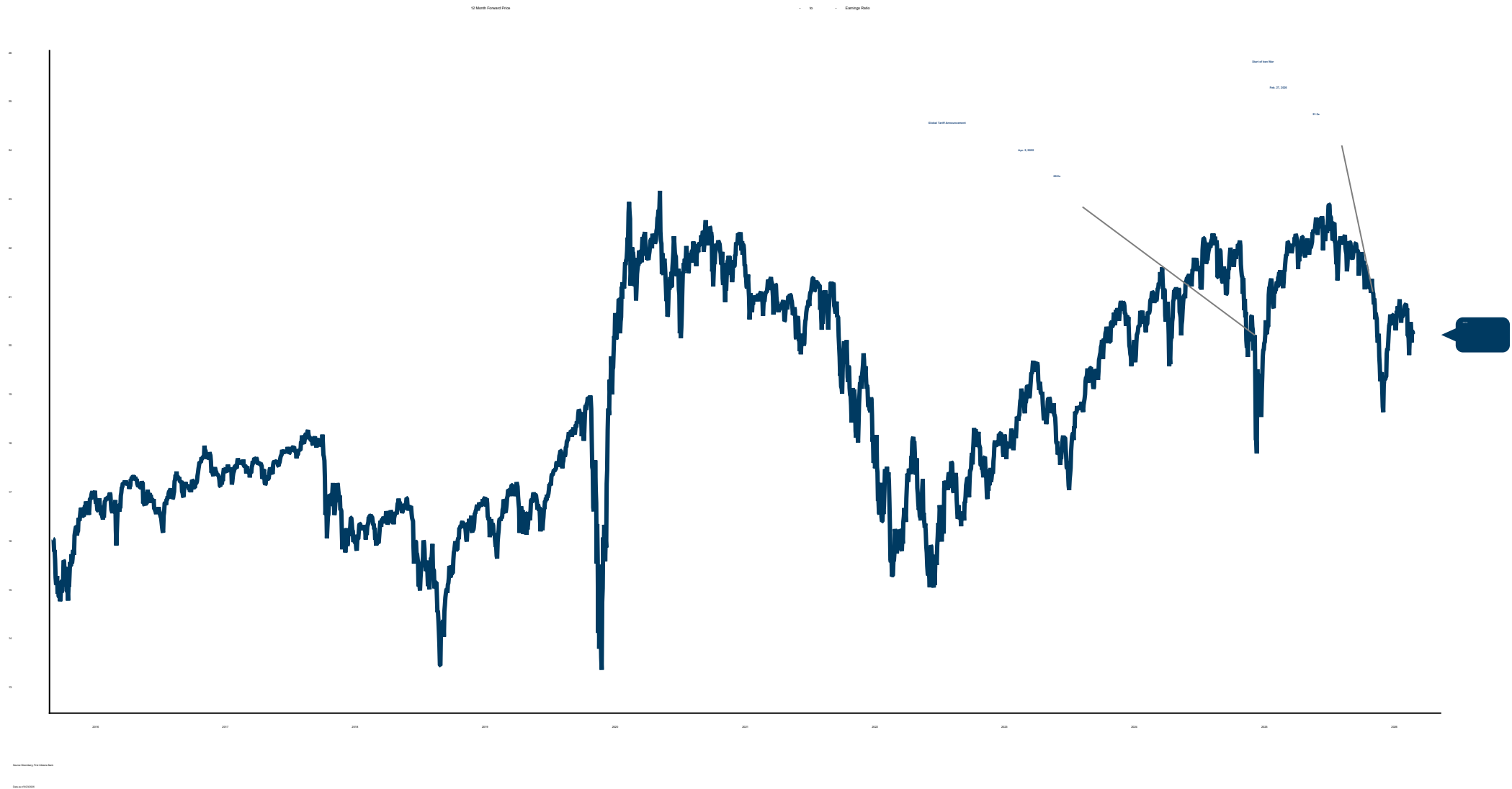
# Earnings growth has been revised significantly higher



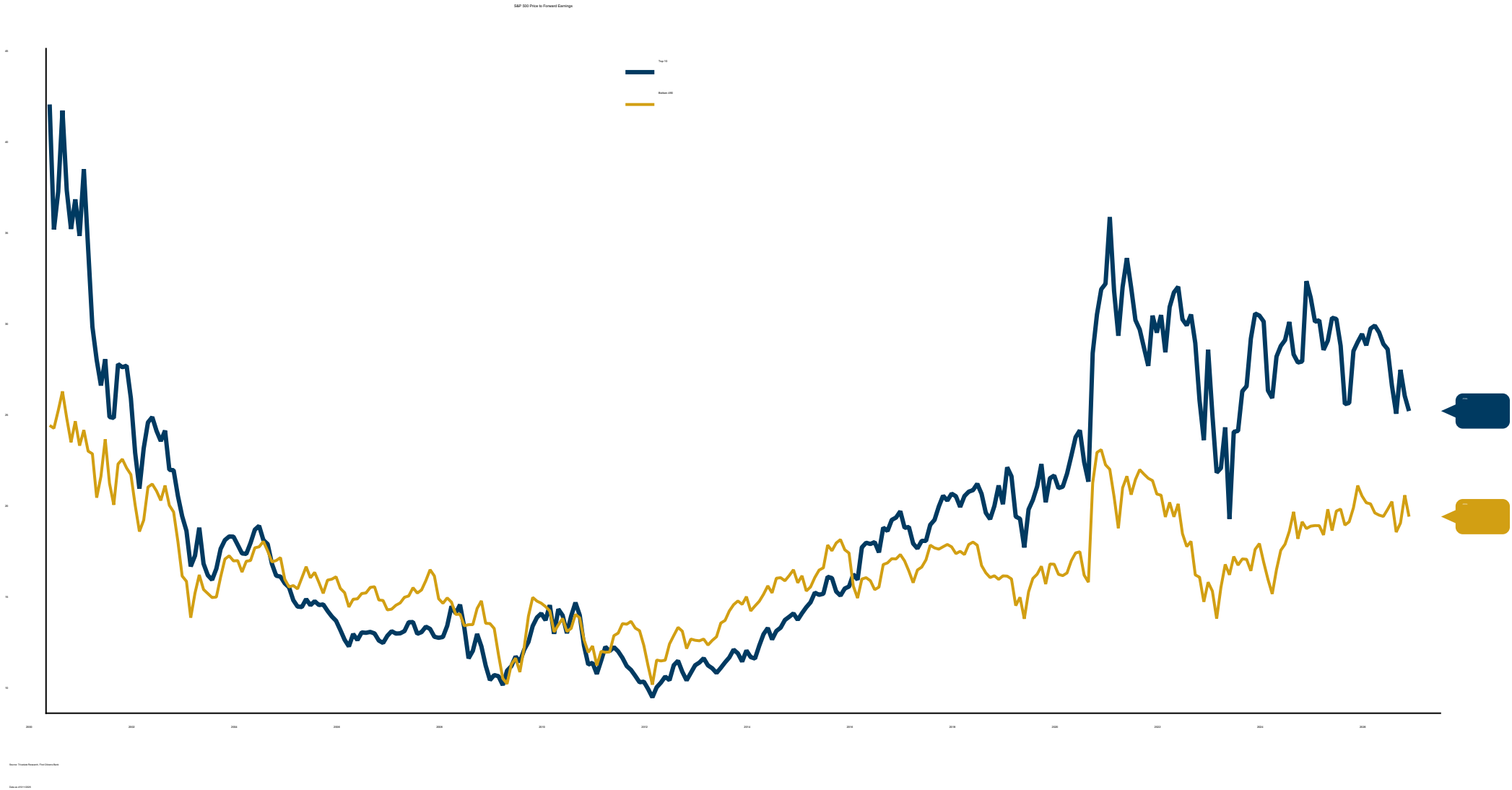
# The lion's share of earnings growth is from a handful of large tech firms



# Forward valuations have recovered but remain below recent highs



# The rest of the S&P 500 Index is less expensive than the top 10 stocks



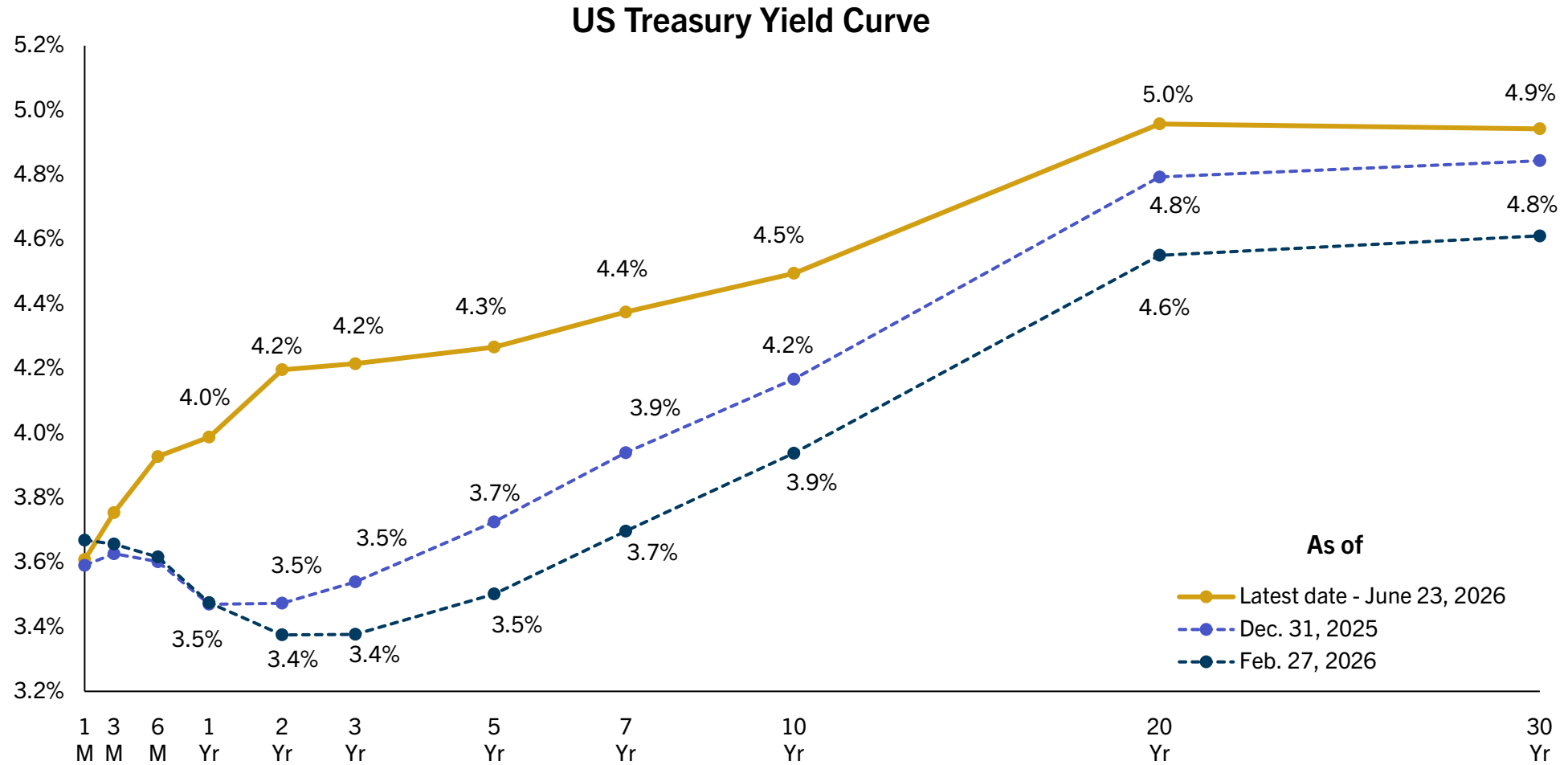
# Upward earnings revisions have pushed our price target higher

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## Next Twelve-Month S&P 500 Price Target

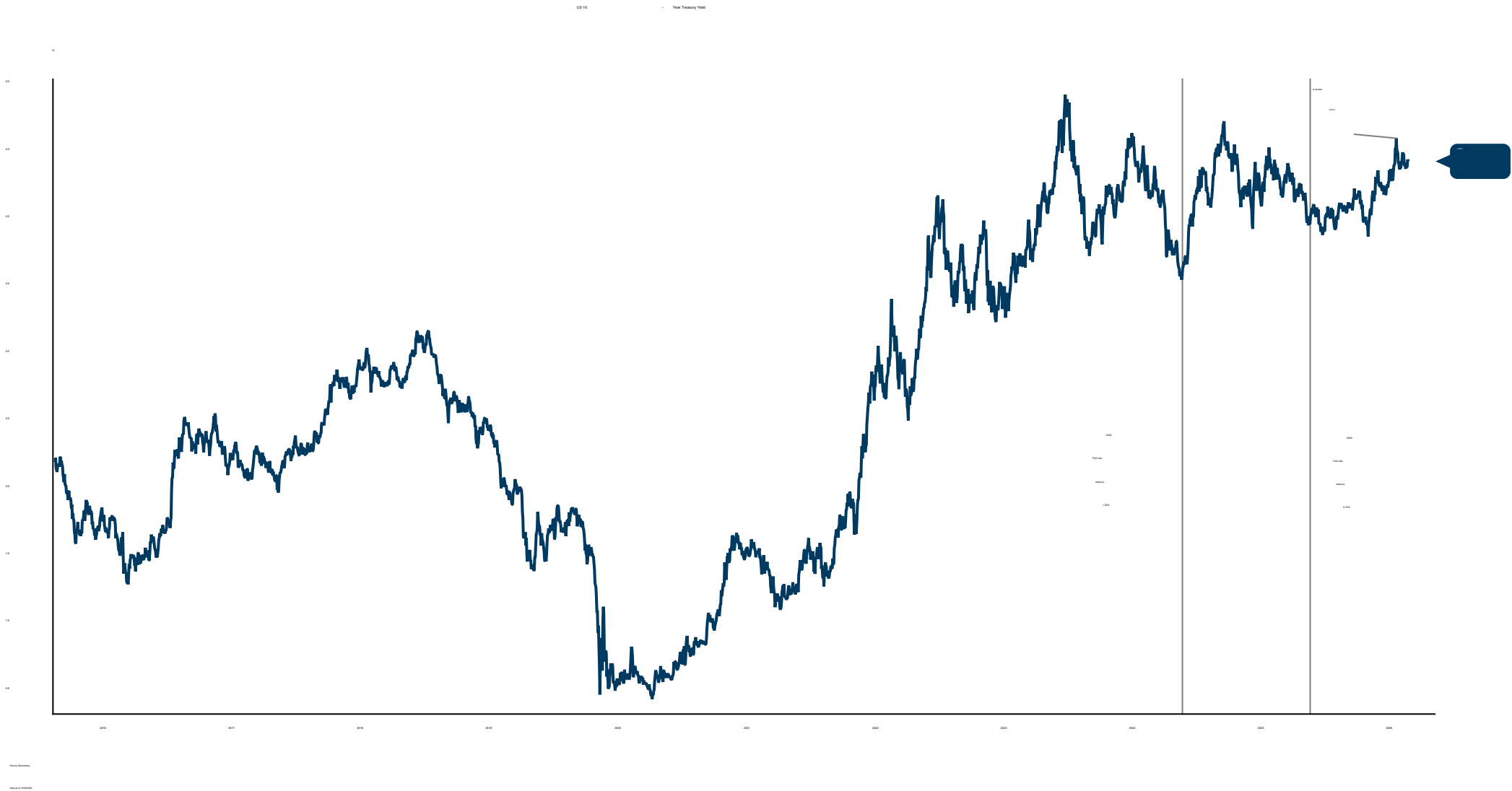
	Next Twelve Months Price Level	Percent Change from 6/23/2026
Bear	5,900	-19.9%
Base	8,000	8.6%
Bull	8,700	18.1%

# Treasury yields have risen at the short end and across the curve



# The 10-year Treasury yield has remained elevated despite Fed rate cuts

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# Stock markets typically recover – often quickly – after geopolitical disruption

Stock Market Performance around Geopolitical Events

Event	Event date	Time to recover							
		Time to bottom (trading days)	Time to recover prior level (trading Days)	Size of selloff (%)	1-week from bottom	1-month from bottom	3-months from bottom	6-months from bottom	12-months from bottom
WW-II Germany annexes Czechoslovakia	3/15/1939	22	108	-20.5	2.3	8.3	8.5	23.2	18.9
WW-II Germany attacks France	5/9/1940	22	745	-25.8	11	10.9	17.1	18	9.2
WW-II Pearl Harbor	12/7/1941	17	201	-10.8	11	6.5	-3.8	-1.1	15.3
N. Korea invades S. Korea	6/24/1950	17	43	-12.9	4.8	11.2	19.2	29.2	31.4
Suez Crisis	10/29/1956	17	131	-6.8	5.5	4.9	-1.4	6.2	-6
Berlin Wall Built	8/13/1961	25	18	-3.9	1.4	4.1	8	6.2	-14.6
Cuban missile crisis	10/14/1962	7	9	-6.6	5.7	15	22.7	30	36.5
Assassination of President Kennedy	11/22/1963	2	1	-2.8	5.2	6.7	11.5	16	23.9
Authorization of military in Vietnam	8/7/1964	15	36	-3.2	1.3	1.7	4.8	7.3	5.8
Six Day Israel Arab war	6/5/1967	20	40	-6.5	4.1	3.3	6.5	7.7	13
Assassination of Martin Luther King Jr	4/4/1968	2	2	-0.6	3.5	5.8	8.2	11.2	7.9
Israel Arab war/oil embargo	10/16/1973	27	1475	-17.1	1.5	7.3	5.6	-2	-28.2
President Nixon impeachment proceedings	2/6/1974	9	16	-6.6	1.8	9.1	0.9	-10.8	-13.3
Shah of Iran exiled	1/16/1979	9	34	-4.6	1.8	1.3	1.9	8.7	19.7
Iranian hostage crisis	11/4/1979	24	51	-10.2	3.5	7.7	16.4	7.3	29.3
Soviet invasion of Afghanistan	12/24/1979	12	6	-3.8	4.4	9.4	-2.9	11.6	29.6
Invasion of Grenada	10/25/1983	22	304	-6.3	2.2	2.1	-3.7	-0.8	4.3
Bombing of Libya	4/15/1986	20	7	-4.9	3.7	5.7	6.2	5	23.5
First Gulf War	10/2/1990	50	87	-15.9	3.5	6.2	6.7	27.8	29.1
President Clinton impeachment proceedings	12/19/1998	6	5	-3.9	5.4	6.2	13.4	13.4	23
Kosovo bombing	3/24/1999	4	9	-4.1	3.1	7.5	5.6	1.4	21
9/11 Attacks	9/11/2001	6	15	-11.6	7.8	11.1	18.5	19.4	-12.5
Iraq war	3/20/2003	7	16	-5.3	3.7	8	15.8	20	32.8
Arab spring (Egypt)	1/25/2011	2	3	-1.8	2.7	4	6.6	1.9	3.1
Intervention in Libya	3/19/2011	18	29	-6.4	3.2	5	0.9	-3.3	11.7
Ukraine conflict	3/1/2014	6	13	-2	1.4	-0.6	5.2	7.8	11.5
Intervention in Syria	9/22/2014	21	12	-7.4	4.7	9.5	8.4	13	9.1
Brexit Vote	6/23/2016	14	9	-5.6	5.1	8.3	8	13.4	20.9
Airstrike on Syrian Airbase	4/7/2017	32	16	-2.8	1.2	2.7	5.1	9.6	14.1
Russia-Ukraine War	2/24/2022	9	14	-1.3	2.3	7.8	-0.9	-3.2	-2.7
"Liberation Day" tariffs	4/2/2025	5	23	-12.1	8.3	13.7	20.8	36.0	37.8
2026 Iran War	2/28/2026	25	31	-7.8	7.6	16.8			
<b>Median</b>		<b>15.0</b>	<b>16.0</b>	<b>-6.3</b>	<b>3.5</b>	<b>6.7</b>	<b>6.6</b>	<b>8.7</b>	<b>13.6</b>
<b>Average</b>		<b>15.1</b>	<b>112.2</b>	<b>-7.6</b>	<b>4.1</b>	<b>6.8</b>	<b>7.7</b>	<b>10.6</b>	<b>12.2</b>

\*Gray denotes recession

# Making Sense

**In Brief** | A look at the week ahead in under two minutes every Monday morning

**Q&As** | Monthly conversations covering 2-3 of the top questions we're hearing from clients

**Market updates** | Monthly interactive discussions with in-depth analysis of markets and the economy

**Written commentary** | Often coinciding with market or economic events



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