

FIRST Forward™ Investment Insights

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June Commentary

America at 250: Innovation and the Case for U.S. Stocks

The celebration of the United States' 250th anniversary offers a timely reminder of defining strengths of the U.S. economy: its ability to innovate, attract capital, and scale new industries. From the Industrial Revolution to personal computers, the internet, cloud computing, commercial space flight, and artificial intelligence (AI), U.S. growth has been shaped by repeated waves of creativity that have translated invention into productivity gains and corporate profit. Over decades, this dynamic has helped make the U.S. stock market a durable long-term compounder. The depth of U.S. capital markets enables innovators to raise capital, expand rapidly, attract global talent, and create the next major platforms. For long-term investors, the payoff can include ownership of many high-quality businesses, including pioneers positioned at the cutting edge of the next technology revolution.

The recent SpaceX initial public offering is apropos. SpaceX is far more than a rocket company; it operates at the intersection of reusable launch systems, satellite broadband, defense technology, and communications infrastructure. Explore additional analysis and observations on the SpaceX IPO [here](#).

The transition of SpaceX from a private firm to the public market widens the opportunity set and demonstrates how U.S. markets can eventually absorb businesses built over many years in the private ecosystem. The successful public offering of SpaceX may also signal what's ahead for leading AI research and development firms OpenAI and Anthropic. The two are central to how many enterprises code, automate, and manage knowledge work. Given that each is currently valued near one trillion dollars, and both filed confidential S-1 drafts in June, investors expect they are on a path that may resemble the SpaceX IPO.

The United States of America marked its 250th anniversary on July 4, and we consider it worth noting that many principles embedded in the nation's founding, including individual liberty and economic freedom, helped foster an environment conducive to innovation, investment, and wealth creation. For decades, global investors have allocated capital to U.S. markets not out of patriotism, but because the country offers a rare combination of inventive companies, deep pools of capital, strong institutions, property rights, and reliable legal protections. These advantages helped fuel exceptional long-run returns and an enviable track record. The S&P 500 has averaged a 11.6% total return annually since 1945 and generated positive returns an incredible 79% of those calendar years. Such dynamism shines through in global market leadership as well, for among the world's 20 largest companies by market capitalization, California claims six, Texas and Washington two each, and five other U.S. states claim one each, compared with two for South Korea, and one each for Europe, Taiwan, and Saudi Arabia.

The Month in Review

The S&P 500 returned a loss of 0.95% in June, masking an eventful month that included several market records. Stocks opened the month on firm footing as a strong first-quarter earnings season wrapped up, with S&P 500 earnings growing 28% year over year, bolstered by continued strength in semiconductors and other AI infrastructure beneficiaries. Momentum faded after the stronger-than-expected May jobs report on June 5 raised expectations for a potential Federal Reserve interest rate hike later this year along with renewed concerns about the expected returns of the AI spending cycle. The result was a technology-led selloff in which the Nasdaq-100 Index dropped 4.77% in one day, its largest decline in 14 months, while the market rotation that began earlier in the year accelerated. For the full month, technology weakness pushed the Nasdaq-100 and S&P 500 returns to negative 0.12% and negative 0.95%, respectively, even as both indexes still delivered their strongest quarterly gains since 2020. Strength in industrials and financials helped lift the Dow Jones Industrial Average to a record high close on June 30, while the Philadelphia Semiconductor Index surged 88% in the second quarter for its best quarter on record. Sentiment improved late in the month after the U.S. and Iran reached an interim agreement to extend the ceasefire, establish a framework for ending the conflict, and reopen the Strait of Hormuz.

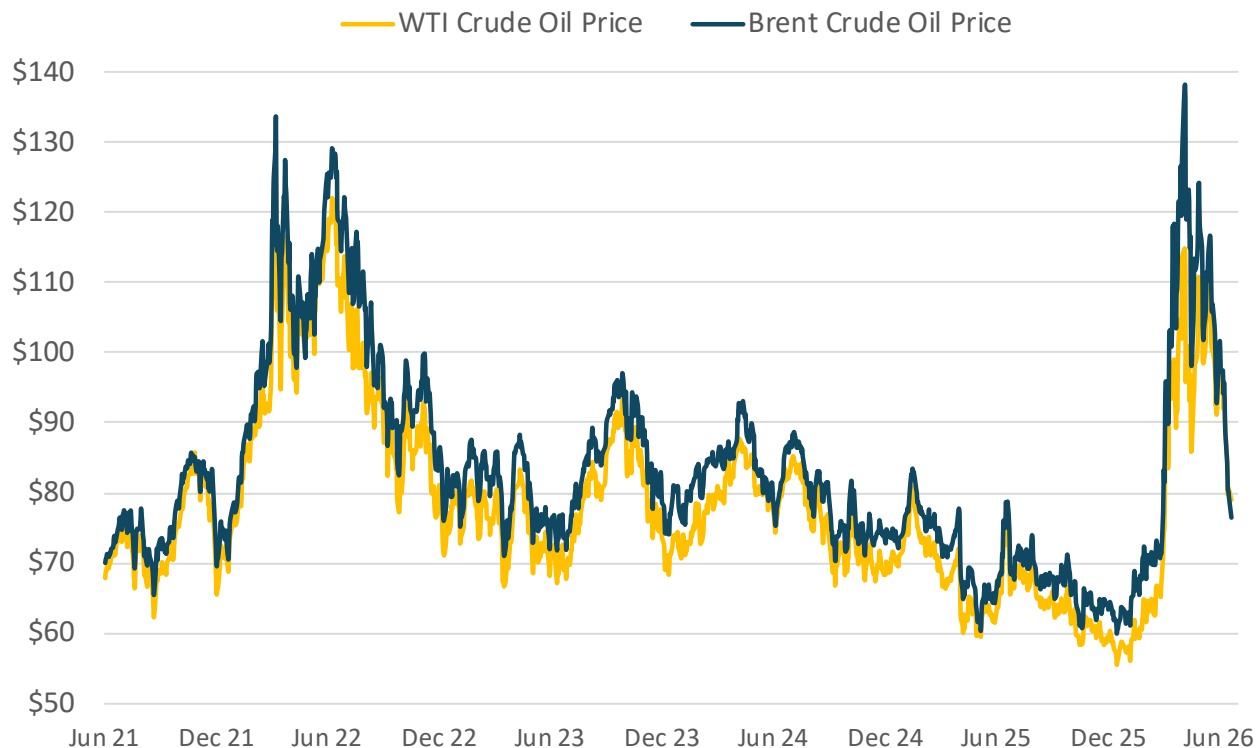
The Russell 2000 small-cap index returned 3.7%, extending its outperformance versus large-cap benchmarks in 2026 as investors rotated from mega-cap technology and AI-related stocks into more domestically oriented small-cap companies. Strong earnings momentum, a firmer dollar, and concerns about AI concentration risk in large-cap indexes supported the shift. The June gain capped the Russell 2000's strongest first-half relative performance versus the S&P 500 since 2001.

The 10-year Treasury yield opened the month at 4.44%, climbed to a monthly high of 4.56% in early June, then pulled back in the final week to a low of 4.37% before rebounding to close the month at 4.47%. Thus, yield was essentially flat month over month, despite significant intra-month volatility. A stronger-than-expected payrolls report and a hawkish first FOMC meeting under new Fed Chairman Kevin Warsh drove rates higher before the interim agreement with Iran came to fruition, the latter drove oil prices lower and helped decrease inflation expectations.

The De-Risking Event: A Framework to End the Iran War

The month's most consequential macro development came in its final stretch. The war, which began in late February, constrained passage through the Strait of Hormuz, the conduit for roughly one-fifth of the world's oil supply. This caused a spike in crude oil prices and a rally in energy equities while the broader indices fell. That overhang lifted partially when the U.S. and Iran reached a framework to end the fighting and reopen the Strait, formalized in a memorandum of understanding signed on June 17. Risk assets rallied, and WTI crude, which was sharply elevated during the conflict, fell back to \$69.50 per barrel by month-end. While bouts of fighting continued after the agreement, investors' perception of a reduction in the significant geopolitical risk premium hanging over markets was unambiguous.

Oil Prices Spiked with Escalated Action in Iran; Decreased Several Months Later



Sources: EIA, First American Bank

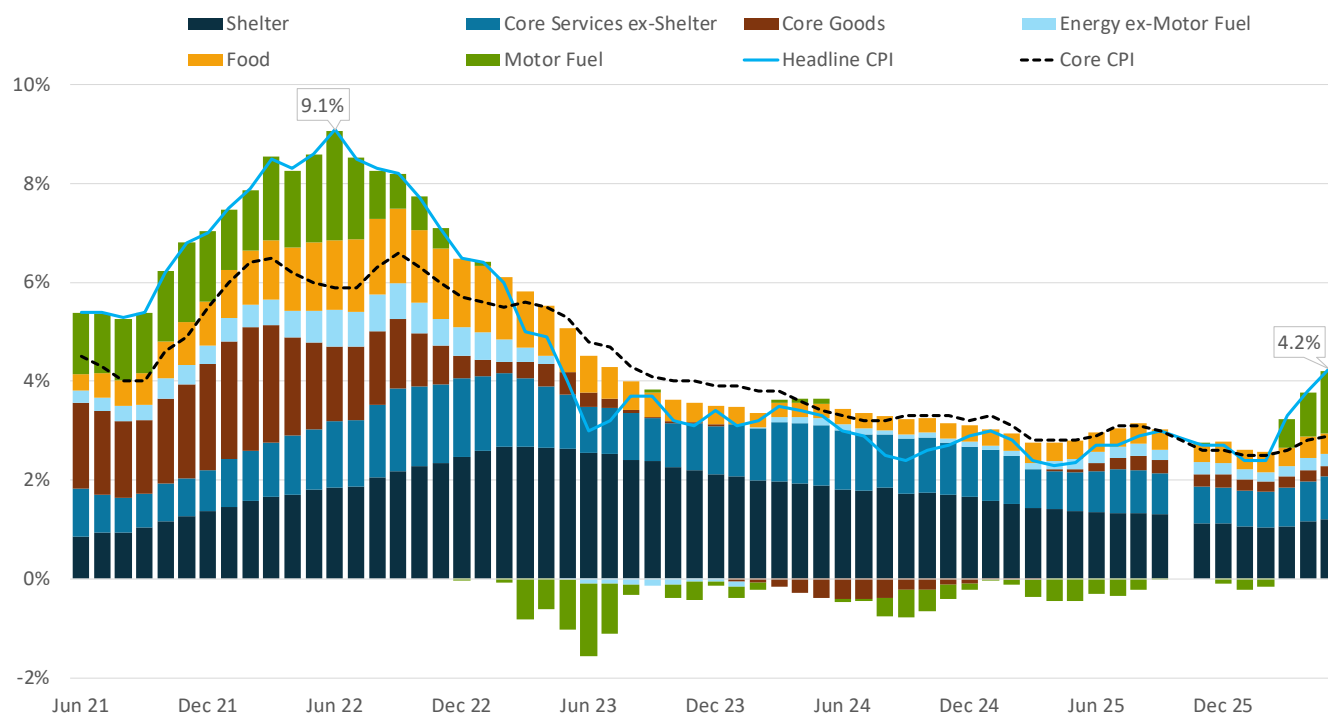
A New Fed, a New Posture

On June 17, Kevin Warsh chaired his first FOMC meeting after being sworn in as the 17th Fed chair on May 22. The committee left rates unchanged and removed the easing bias that had been in place for more than two years. This marked a meaningful shift in policy stance. The committee also signaled higher median rate expectations for 2026 and 2027. More importantly, the Fed signaled a move away from explicit forward guidance. This increases policy uncertainty and places greater emphasis on each incoming data point. In our view, the key takeaway was not the June rate pause itself, but rather, the regime shifts to issuing less guidance, a higher bar for rate cuts, and greater sensitivity to economic data. Those shifts pushed the 2-year Treasury yield up 13 basis points (bp) on June 17, its largest one-day move since April 2025. By late June, Fed funds traders were pricing in roughly a 36% probability of a July hike, up from near zero before Warsh took over. That evolving policy stance was shaped in large part by inflation data that continued to signal lingering price pressures.

Inflation remained elevated in May, with the Consumer Price Index (CPI), the measure most visible to consumers, rising 0.5% month over month on a seasonally adjusted basis and 4.2% from a year earlier. This was the greatest annual increase since April 2023. Energy was the primary driver of inflation. The 3.9% increase in the energy index was led by a 6.8% month-over-month increase in motor fuel. Although the electricity price index slowed from April, it still rose 0.6% in May, pushing the three-month annualized pace to 15%, the largest increase since 2022. Core CPI was softer than expected, as a 0.1% monthly decline in goods prices offset a firm 0.29% increase in services inflation, with rent and shelter costs still elevated. Spillover costs from the Iran war continue to put pressure on energy, fertilizer, transportation, and other resource prices. In addition, higher memory prices tied to the AI build-out are weighing on electronics, although we expect this pressure will ease as spot price increases decelerate. While inflation remains above the Federal Reserve's

comfort level, we expect policymakers to remain patient as lower oil prices filter through the broader economy, though new tariffs could increase goods prices.

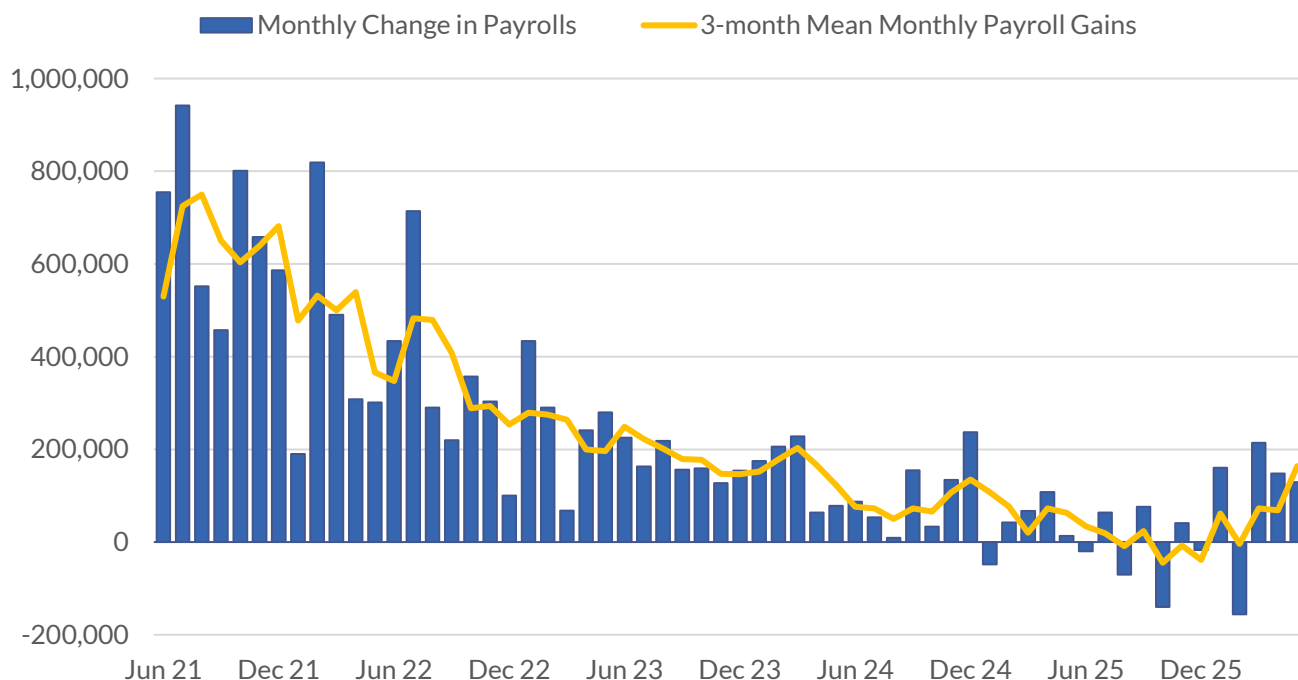
Motor Fuel Increased Inflation Following U.S. Action in Iran, We Expect It Will Normalize



Source: Bloomberg, First American Bank

The labor market gave the Fed little reason to ease. May payrolls rose 172,000, more than double the consensus estimate of roughly 80,000. Upward revisions to the March and April reports lifted the three-month moving average to 188,000. The unemployment rate held steady at 4.3%, and the participation rate held at 61.8%, after five months of declines. Wage growth continued to be stable at 3.4% year-over-year, suggesting no pressure to inflation but also reinforcing the notion that the U.S. economy is resilient. While the headline number was a big surprise, pushing market expectations for a Fed rate hike higher, we still expect the hurdle for a rate hike to be higher than current market pricing.

Recent Increases in Nonfarm Payrolls Appear Healthy



Source: BLS, First American Bank

Business activity and consumer spending both remained resilient. The ISM Manufacturing and Services indexes both held above the 50-expansion threshold for the sixth consecutive month, signaling continued growth in the industrial and services economies. Reports on personal consumption and spending showed a resilient consumer supported by a steady labor market, elevated tax refunds, and wealth effects. We anticipate declining energy prices will support additional discretionary spending going forward.

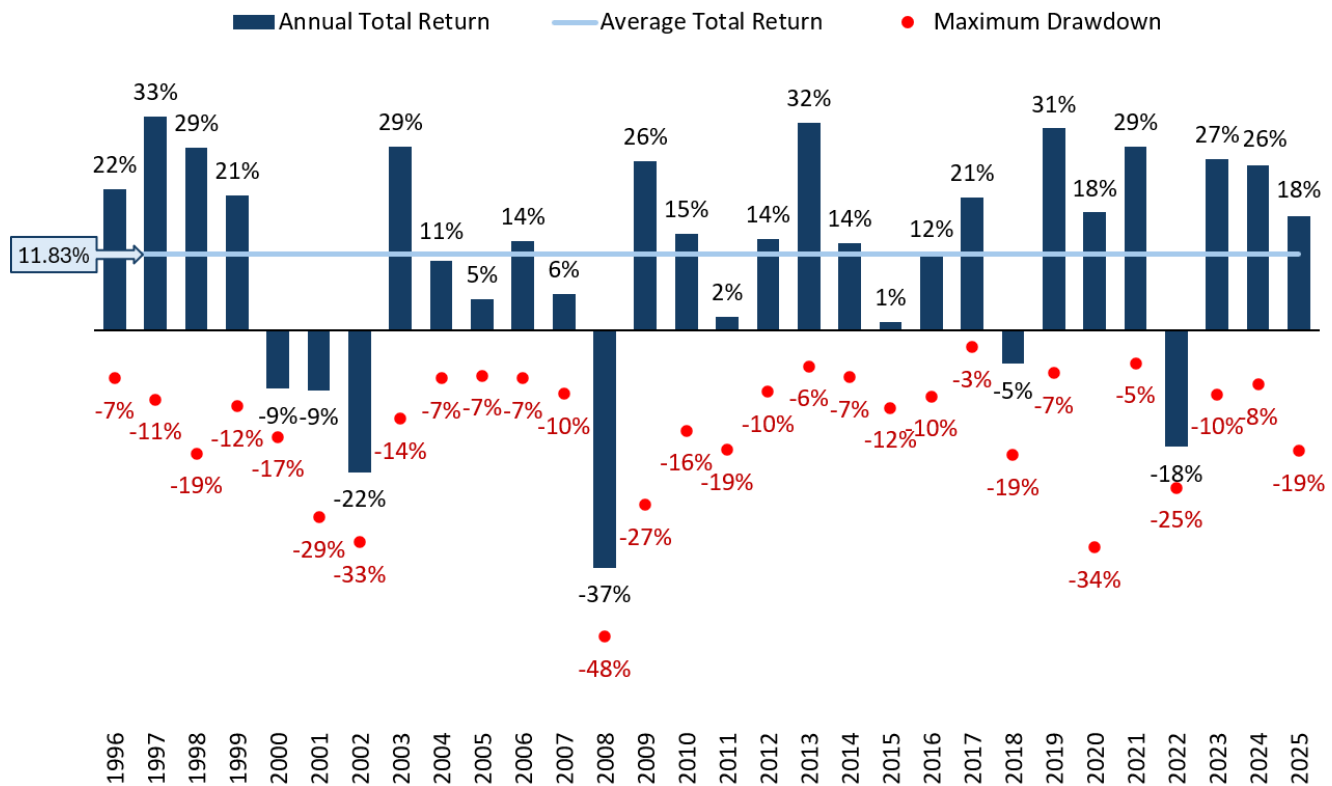
Market Outlook

Our equity outlook remains constructive, supported by resilient consumer spending, an AI capital spending cycle that continues to exceed expectations, improving productivity, and ongoing operating leverage. We expect valuation multiples to remain broadly unchanged, with earnings growth driving the market's upside. Multiples could expand if inflation slows faster than expected and investors begin to price in Federal Reserve rate cuts, but that is not our base case. First-quarter earnings growth was exceptionally strong at 28% year over year, or 18% excluding certain one-time benefits, and calendar 2026 and 2027 EPS estimates have been revised sharply higher. Current S&P 500 expectations call for earnings growth of 28% in 2026 and 15% in 2027. Although valuations remain elevated by historical standards, the S&P 500 is up 10% year to date while forward EPS estimates have risen 15%, compressing the market's P/E multiple from about 23x to about 21x.

That said, the path higher is likely to incur some bumps. Following two strong earnings seasons, expectations are elevated heading into the next round of results, making upside surprises harder to deliver. Fiscal support will likely diminish as the year progresses, while the Federal Reserve appears likely to stay patient. Seasonality and the midterm elections could create periodic volatility, potentially opening new investment opportunities. We continue to favor companies with positive earnings revisions, durable pricing power, and clear exposure to the AI build-out.

We encourage investors to stay invested in the U.S. stock market, even though drawdowns are inevitable and cause significant discomfort. We believe staying on the path for the long run will be rewarded as compounding remains a powerful ally to investors.

During the Past 30 Years, the S&P 500 Mean Annual Return is 11.8% Despite a 15.2% Mean Maximum Drawdown



Source: Bloomberg, First American Bank.

MAJOR MARKET INDICES

Index	Total Return (*annualized)						
	1M	3M	YTD	1Y	3Y*	5Y*	10Y*
S&P 500 Index	-0.95%	18.57%	10.19%	22.29%	20.57%	13.38%	15.48%
S&P 500 Equal Weight	2.37%	13.67%	12.11%	19.16%	14.48%	9.11%	12.33%
Nasdaq 100	-0.12%	32.12%	20.30%	34.38%	26.81%	16.67%	22.31%
Dow Jones Industrial Average	2.71%	16.20%	9.76%	20.65%	17.09%	10.77%	13.67%
S&P 400 Midcap	3.59%	17.76%	17.33%	25.87%	15.37%	9.02%	11.61%
Russell 2000 Smallcap	3.74%	25.77%	22.69%	40.91%	18.60%	6.97%	11.60%
MSCI EAFE International Developed	0.09%	11.55%	9.90%	20.94%	17.14%	9.75%	10.35%
MSCI Emerging Markets	-1.37%	22.84%	24.01%	44.18%	23.59%	7.68%	10.54%
MSCI All Country Ex-U.S. Index	-0.55%	14.83%	14.04%	28.35%	19.49%	9.43%	10.56%
Bloomberg Barclays U.S. Aggregate Bond	0.24%	0.87%	0.62%	3.79%	4.15%	0.08%	1.54%
Bloomberg Barclays U.S. Treasury Bond	0.28%	0.40%	0.28%	2.72%	3.17%	-0.42%	0.86%
Bloomberg Barclays Municipal Bond	0.96%	2.72%	2.32%	7.03%	3.75%	1.05%	2.14%
Bloomberg U.S. Corporate High Yield Bond	0.27%	3.09%	1.96%	5.91%	8.85%	4.17%	5.81%
Bloomberg U.S. Corporate Bond	0.19%	1.75%	0.86%	4.34%	5.28%	0.34%	2.59%

S&P 500 SECTORS

Sector	Total Return (* annualized)						
	1M	3M	YTD	1Y	3Y*	5Y*	10Y*
S&P 500 Index	-0.95%	18.57%	10.19%	22.29%	20.57%	13.38%	15.48%
Communication Services	-7.78%	13.10%	0.80%	21.14%	29.21%	12.42%	11.65%
Consumer Discretionary	-4.69%	12.85%	-0.77%	9.46%	13.58%	6.72%	13.01%
Consumer Staples	0.50%	0.37%	8.03%	5.49%	8.56%	7.78%	7.91%
Energy	-5.06%	-14.41%	19.66%	29.04%	12.78%	18.90%	8.60%
Financials	4.37%	11.34%	-1.31%	3.91%	18.59%	9.77%	13.32%
Health Care	6.62%	10.90%	3.47%	19.90%	8.00%	6.53%	10.23%
Industrials	7.29%	18.59%	20.15%	27.13%	21.65%	14.30%	14.33%
Information Technology	-3.28%	37.37%	19.76%	37.48%	30.88%	22.14%	26.59%
Materials	0.02%	3.95%	11.97%	16.73%	8.92%	6.30%	10.36%
Real Estate	0.84%	10.29%	11.52%	11.13%	9.42%	3.56%	6.45%
Utilities	2.71%	-0.61%	7.69%	14.22%	14.95%	10.83%	9.11%

COMMODITIES

Commodity	Total Return (* annualized)						
	1M	3M	YTD	1Y	3Y*	5Y*	10Y*
Bloomberg Commodity Total Return Index	-8.54%	-7.91%	14.36%	25.46%	11.68%	9.37%	5.82%
Bloomberg Industrial Metals Total Return Subindex	-7.63%	3.35%	6.60%	19.66%	11.56%	5.65%	8.28%
Gold Total Return Subindex	-11.80%	-11.26%	-7.42%	20.90%	26.65%	16.64%	10.47%
Silver Total Return Subindex	-21.35%	-15.57%	-15.53%	64.00%	36.19%	16.78%	10.82%
Copper Total Return Subindex	-2.75%	12.48%	8.77%	20.72%	18.24%	8.19%	10.55%
Bloomberg Energy Total Return Subindex	-11.76%	-15.04%	38.67%	25.69%	7.15%	7.13%	1.52%
WTI Crude Oil Total Return Subindex	-16.82%	-20.29%	45.43%	38.26%	18.29%	14.62%	5.46%
Brent Crude Total Return Subindex	-17.88%	-21.00%	44.80%	40.90%	16.82%	17.82%	12.30%
RBOB Unleaded Gasoline Total Return Subindex	-5.65%	-6.41%	58.53%	57.16%	18.17%	24.42%	14.30%
Natural Gas Total Return Subindex	-3.29%	-5.06%	-8.97%	-32.18%	-29.57%	-27.60%	-23.77%
Bloomberg Agriculture Total Return Subindex	-3.70%	-2.22%	4.72%	4.50%	-1.73%	2.68%	1.52%

Notes on Commodities Indices

1. Bloomberg Commodity Index Total Return weighs up to 25 components across energy, grains, metals, softs, and livestock.
2. Bloomberg Industrial Metals Index components are fully collateralized long-dated futures contracts on aluminum, copper, nickel, and zinc.
3. Bloomberg Energy Index components are fully collateralized futures contracts on crude oil, heating oil, unleaded gasoline, and natural gas.
4. Bloomberg Agriculture Index components: Coffee, corn, cotton, soybeans, soybean oil, soybean meal, sugar, and wheat.

Source: Bloomberg