SMITH AFFILIATED CAPITAL

June Investment Review 2026

The Return of Active Fixed Income

Overview

June was defined by three developments that shaped every asset class: the tenuous but consequential reopening of the Strait of Hormuz, a Federal Reserve that grew more hawkish under its new Chairman, and an economy that continued to grow despite persistent inflation and elevated interest rates. Oil prices fell sharply, longer-duration bonds delivered positive returns, equity leadership broadened, and precious metals extended their correction.

The Iran ceasefire and reopening of the Strait of Hormuz were the dominant macro events of the month. With roughly a third of the world's seaborne oil transiting the Strait, its reopening drove a meaningful reversal in energy prices — Brent crude ended June near pre-war levels while gasoline fell more than 15% from its late-May highs. That decline mattered for inflation: headline PCE rose 4.1% year-over-year in May, largely energy-driven, and with oil prices now falling, headline inflation likely peaked in May. The PCE supercore measure, however, accelerated to 3.88% — its fastest pace in over two years — a reminder that second-round inflation pressures have not fully resolved. The ISM prices-paid index fell from 82 to 73 in June, a step in the right direction, though a reading of 73 still means three-quarters of surveyed firms are experiencing rising costs.

The labor market remained resilient, though June's employment report was softer than expected. Nonfarm payrolls rose just 57,000 for the month, with downward revisions to April and May pulling the three-month average to 111,000. Despite the weak headline, the unemployment rate fell to 4.19%, a one-year low. Job openings held steady at 7.59 million and the quits and layoff rates were both unchanged, pointing to a labor market cooling gradually rather than deteriorating.

Macro View	MTD (%)	YTD (%)	1Y (%)	10Y (%)	10Y STD (±)
DJIA	2.71	9.76	20.65	13.67	15.21
S&P 500	(0.95)	10.19	22.29	15.48	15.36
NASDAQ	(2.75)	13.14	29.51	19.48	18.70
Equity EM Mkts.	(1.37)	24.00	44.15	10.52	17.47
EM Bond Mkt.	0.56	2.03	8.03	3.44	7.31
US High Yield	0.22	1.87	5.75	5.69	7.19
Commodity	(8.54)	14.36	25.46	5.82	13.61
COMEX Silver	(21.61)	(17.31)	55.92	9.78	30.33
COMEX Gold	(12.22)	(9.47)	15.71	9.34	14.22
BRENT OIL	(19.97)	85.24	81.39	17.67	40.75
Dollar Index	2.27	2.91	4.45	5.25	6.45

The Federal Reserve held rates unchanged at its June meeting, but the tone shifted materially under Chairman Kevin Warsh, who chaired his first FOMC meeting having been sworn in on May 22nd. The June statement was just 130 words — down from 341 at the prior meeting — signaling a deliberate retreat from forward guidance. The dot plot moved decidedly higher: the 2026 median is now split between no change and one or more rate hikes, and fed funds futures ended June pricing approximately 33 basis points of additional tightening by year-end. The oil-driven decline in yields during the month looks more like a relief rally than a durable pivot; yields will stay elevated as long as growth remains solid and the FOMC remains focused on restoring price stability.

Taxable Markets

Treasury markets were volatile in June, with the 10-year yield ending the month at 4.44% and the 30-year at 4.93%. The yield curve has flattened meaningfully over the past year — the 2-year/10-year spread stands at approximately 29 basis points today versus roughly 50 basis points in June 2025 — as short-end yields (+28bpts YoY) have risen more than long-end yields (+22bpts YoY). The performance contrast is equally striking: in June 2025, the 7-year and 10-year sectors were each delivering over 5% year-to-date; in 2026 that same part of the curve is slightly negative year-to-date. Within June, however, longer bonds benefited from the oil-driven yield decline in the second half of the month: the 10-year returned 0.34% and the 30-year returned 1.18%, while the 2-year returned just 0.03% and the 5-year 0.04% — the elevated coupon on longer maturities providing meaningful cushion.

Investment-grade corporate bonds returned 0.19% in June as coupon income offset modest price declines. Longer-duration bonds and Single-A rated credits were the strongest performers, consistent with our preference for high-quality duration over incremental credit risk. Utilities led all sectors with a return of 0.39%, benefiting from their longer duration profile and the oil-driven decline in yields during the second half of the month. Financials returned 0.26% and Industrials 0.11%, while Communications and Technology lagged on concerns about AI-related bond supply. Gross issuance reached approximately $210 billion, a new monthly record, yet demand remained robust with new deals averaging nearly four times oversubscribed as all-in yields above 5% continued to attract broad demand. We remain overweight investment-grade credit, emphasizing high-quality issuers and longer-duration positions where the income advantage is most apparent.

US Fixed Income	Price	Cpn	Total Returns (%)		Dur	Yield
	(%) Rtn	(%) Rtn	Mo.	YTD	+/-	+/-
Agg. Bond	(0.10)	0.35	0.24	0.62	5.88	4.73
US Treasury	(0.01)	0.29	0.28	0.28	5.81	4.37
US Agency	(0.19)	0.33	0.14	0.61	3.40	4.44
Tax.Muni	0.26	0.38	0.64	1.17	7.53	5.08
Agency MBS	(0.17)	0.39	0.22	0.99	5.40	4.97
Gov/Credit	(0.08)	0.33	0.25	0.49	6.09	4.66
TIPs	(0.59)	0.11	(0.47)	1.15	4.75	4.42
Corporate	(0.21)	0.40	0.19	0.86	6.78	5.20
AAA Corp	(0.44)	0.36	(0.09)	0.04	10.57	5.05
AA Corp	(0.39)	0.38	(0.02)	0.28	7.84	5.04
A Corp	(0.17)	0.39	0.22	0.72	6.73	5.07
BBB Corp	(0.22)	0.41	0.20	1.12	6.52	5.36

Tax-Exempt Markets

Municipal bonds had their strongest month of the year, with the Bloomberg Municipal Bond Index returning 0.96% in June and 2.32% year-to-date. Longer maturities led: the 30-year sector returned 1.67% for the month and the 15-year returned 1.35%, benefiting from both elevated coupon income and the tailwind from falling oil prices and moderating inflation expectations in the back half of June. Revenue bonds outperformed general obligation bonds, a trend that has persisted throughout the year, with essential-service sectors — healthcare, utilities, and transportation — among the strongest performers.

Tax-equivalent yields remain compelling. The broad municipal market closed June at a yield of approximately 3.58%, which translates to a taxable-equivalent yield of roughly 6.05% at a combined federal rate of 40.8%. The 30-year sector, yielding 4.42%, offers a taxable-equivalent yield approaching 7.47% — exceptional for an asset class with a historically near-zero default rate and high credit quality. Supply stayed elevated throughout June but was consistently absorbed, with positive fund flows and oversubscribed new issue calendars. A seasonal slowdown in issuance around the Independence Day holiday, combined with significant reinvestment payments in July, should provide a constructive technical backdrop heading into the second half of the year.

Municipal Market	Price	Cpn	Total Returns (%)		Dur	Yield
	(%) Rtn	(%) Rtn	Mo.	YTD	+/-	+/-
Muni Agg	0.60	0.37	0.96	2.32	6.48	3.58
1Y (1-2)	0.01	0.37	0.38	1.40	1.22	2.63
3Y (2-4)	0.02	0.37	0.39	1.15	2.28	2.61
5Y (4-6)	0.04	0.36	0.40	0.80	3.58	2.77
7Y (6-8)	0.16	0.36	0.52	0.83	4.88	3.15
10Y (8-12)	0.29	0.36	0.65	1.09	5.99	3.39
15Y (12-17)	0.54	0.36	0.90	2.33	7.08	3.68
30Y (22+)	1.37	0.39	1.76	4.01	10.56	4.40
AAA	0.65	0.36	1.01	2.15	6.70	3.43
AA	0.55	0.37	0.92	2.19	6.38	3.46
A	0.59	0.37	0.96	2.53	6.43	3.81
Gen. Oblig.	0.57	0.36	0.93	2.02	6.20	3.36
Revenue	0.61	0.37	0.98	2.44	6.61	3.67

Equity Markets

While fixed income remains our core discipline, we bring the same emphasis on quality, valuation, and risk management to our equity allocations. U.S. equities delivered mixed results in June. The S&P 500 declined 0.95% and the Nasdaq fell 2.75% as large-cap technology stocks sold off on concerns about AI infrastructure spending intensity and competitive dynamics among hyperscalers. The Russell 2000 gained 3.74% and the equal-weighted S&P 500 rose approximately 2.4% — the clearest evidence of a broadening that had been compressed during the Iran-related volatility earlier in the year. Quality, dividend-growth, and low-volatility factors outperformed significantly during the month.

Precious Metals

Precious metals faced significant headwinds in June. Gold declined 12.22% to close at approximately $4,008 per ounce, while silver fell 21.61%, pressured by a stronger dollar, rising real yields following the Warsh Fed's hawkish turn, and reduced safe-haven demand as the Iran peace process advanced. The fading of the debasement trade — driven by Warsh's commitment to price stability and a dollar strengthened by U.S. energy and productivity advantages — was a meaningful headwind. Gold has now fallen more than 24% from its January all-time high near $5,600. The structural case — fiscal deficits, central bank accumulation, and reserve diversification — remains intact, and we continue to hold our precious metals allocation as a long-term strategic diversifier.

Outlook

Looking into July, Chair Warsh's inaugural Humphrey-Hawkins testimony before Congress on July 14th will be closely watched for signals on the conditions for additional tightening and the Fed's evolving framework. The June FOMC minutes, due in early July, are expected to show a significant reduction in forward-looking language, consistent with Warsh's preference for data dependency over pre-commitment.

Against that backdrop, today's yield levels provide a strong foundation for future returns. Investment-grade corporate bonds above 5.20%, 30-year Treasuries at 4.93%, and tax-exempt municipals at taxable-equivalent yields approaching 7.50% represent income levels largely unavailable for most of the post-2008 era. Across fixed income, equities, and precious metals, we bring the same discipline to every allocation — emphasizing quality, managing risk, and constructing portfolios so that clients are well compensated whether rates remain elevated or eventually decline.

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