

Market Sense – June Monthly Top Takes

July 2, 2026

Economy Steady, but as Peace Deal Emerges, Inflation Remains Top of Mind

Growth indicators remained steady in June, with both the ISM Manufacturing and Services PMIs continuing to beat economists' estimates, but inflation readings continued to come in well above the Fed's comfort level. As we pointed out back in May in our Market Sense note [here](#), hyperscalers' dramatic capex plans are already driving notable demand-side inflation, making it unlikely that recent oil price relief does much to cool the hot core PCE numbers that worry the Fed. Likewise, the labor market concerns that prompted the 2025 round of cuts, look to have abated with the unemployment rate stabilizing around 4.3%.

New Fed Chair to Take Fresh Look At Central Bank Policymaking

Kevin Warsh held his first press conference as the new Chair of the Federal Reserve following this month's FOMC meeting and didn't pull any punches on how he'd like to reshape the central bank. The typical statement after the meeting was the shortest since the Greenspan Fed while the chair refused to add his projection for long term interest rates to the DOTS plot. In a hawkish tone shift, Warsh reiterated his commitment to the Fed's mandate for price stability – a welcome development given the rising risk of elevated consumer and business inflation expectations becoming embedded (see our Market Sense [here](#)). The new chair likewise announced the formation of five task forces with the goal of re-evaluating Fed communications, balance sheet management, and the inflation framework as well as exploring new private sector data sources and studying the impacts of AI on employment.

Small Caps and Value Sizzle to Kick off Summer

The mid-month global AI cool-off sunk large cap stocks in June, but the bigger story is the continued rally in small cap and value stocks. For the month, the Russell 2000 was the only major US index to post gains and the gauge is now up 21.9% for the year – more than 2x the S&P 500's 9.6% rise. Large cap stocks slipped for the month on concerns that the AI trade is getting overheated. Still, both the S&P 500 and Russell 2000 posted some of their strongest quarterly gains since the Great Financial Crisis, only surpassed by the 2020 recovery. Value likewise outperformed across capitalizations, extending its year-to-date lead over growth to nearly 10 percentage points. Health care, financials, industrials and utilities led across the Russell 3000 for the month while energy, tech and telecom struggled. June's trading did little to derail the broadening trade that we outlined in our Market Sense [here](#).

SpaceX Kicks off Possible Mega-IPO Surge and Fast Tracks Its Way Into Major Indices

SpaceX officially went public on June 12th (landing in the communications sector) as the largest IPO on record, at almost three times the size of Saudi Aramco's \$25.6 billion offering. Shares surged through the first few days of trading but have since hit a rough patch, falling about 15% from the high despite making several major indices under newly adopted fast-track rules. The stock is now included in the Nasdaq Composite and the Russell benchmarks, and it will enter the Nasdaq 100 on July 7th. Its effect on the various indices should be somewhat limited given its low float – the number of shares available to the public – as we outlined in our Market Sense on IPOs [here](#). Anthropic and OpenAI IPOs (dates still TBD) are also expected to command a market cap near \$1 trillion and if both were to go public this year, it would push 2026 to the best year on record for IPOs by value.

Russell Reconstitution Takes Hold, Possibly Blunting Small Cap Momentum

Russell is changing the way they reconstitute their various gauges, switching to a semiannual frequency for the first time since 1988. The typical June reconstitution took hold with the open on June 29th with 43 companies graduating from the Russell 2000 to 1000 – many of which were some of the small cap gauge's best performers – and 37 stocks getting demoted from the Russell 1000 to the 2000. Typically, small caps lose a bit of momentum around reconstitution, most of which can't be chalked up to weak summer seasonality. This time, tech and industrials – which have been the small cap gauge's top performing sectors this year – lost the largest number of stocks to the Russell 1000. As we detail in our Market Sense [here](#), this doesn't change our longer-term view on small caps which remain supported by low relative valuations, improving economic trends and strengthening consensus fundamental forecasts. We continue to watch the Fed, however, as a renewed rate hike cycle runs the risk of derailing some of those trends in the event of a policy misstep.

Historically Quiet Bond Market

Bonds' nerves quickly calmed again after some tumult emerged in May. The bond market largely shrugged at Warsh's first meeting as chair, as he focused on messaging rather than actual policy during his first post-FOMC press conference. In total, spreads were little changed, and the MOVE index drifted back down towards the January low, which was also a level last seen just before the onset of the most recent hiking cycle. Some idiosyncratic opportunities in less trafficked areas of structured credit may offer the best risk/reward at this juncture.

Is Oil Price Relief Here to Stay?

Oil prices have fallen significantly from this year's highs but continued relief may depend on a lasting peace with Iran. West Texas Intermediate (WTI) crude has fallen to about \$70/bbl, down from nearly \$113/bbl in April as the US and Iran agreed to a 60-day ceasefire to negotiate a broader accord on Iran's nuclear program. Still, oil is about 27% higher than its December low and price relief came so late in the

quarter that there may be lingering earnings volatility in the coming quarters. If the peace doesn't last, the government's ability to combat higher prices at the pump may be limited – the US' strategic petroleum reserve (SPR) had already been drawn down to the lowest level since the 1980s (as we note in our Market Sense [here](#)).

Oil Relief Does Not Faze the Fed

Despite oil falling nearly 30% over the past month and pulling inflation breakevens lower alongside it, Fed Funds futures have been largely unmoved, and the reason comes down to which inflation gauge actually matters. Breakeven inflation is derived from TIPS, which track headline CPI and carry meaningful energy weighting. The Fed, however, targets core PCE, which strips energy out entirely. A sharp oil drop is a price-level event, not a demand signal, and the Fed has consistently said it looks through that kind of swing. The breakeven curve itself confirms this is a near-term story: one-year breakevens fell roughly 113 basis points while ten-year breakevens dropped only about 21. With futures already leaning hawkish on sticky core inflation and a resilient labor market, cheaper oil on its own doesn't help the Fed. The real variables to watch remain shelter disinflation, tariff pass-through into core goods, and wage pressure in services, the components that actually drive core PCE, as detailed in our Market Sense [here](#).

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