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ASSET MANAGEMENT

John's Market Outlook – June 24, 2026

The fighting in Iran largely ended in April. The US was unwilling to continue and Iran was fine with that, so investors moved on from the war, I made portfolios less defensive, and markets recovered. Based on the just-signed US-Iran MOU, the Straits of Hormuz will reopen under Iran's control, the US will end its blockade and withdraw its forces, all sanctions will be lifted, and Iran will get its frozen funds plus potentially $300BN in reconstruction funds and may reduce its nuclear program but not its missiles or terrorist proxies.[1]/

Oil and gas prices have declined to near pre-war levels. Inflation has risen with May headline CPI +4.2% YOY and PPI +6.5%. The Federal Reserve will not cut rates this summer, even with fuel prices falling. Too-high inflation has become persistent and the new Fed chair sounds hawkish. Treasury yields moved higher but are below prior "danger levels".[2]/

In the last few months, economic data has strengthened, especially on a "nominal" basis (including inflation) which is what companies report and most investors watch. Job growth has improved despite increasing hints of AI disruption. Services and manufacturing indicators are positive, partly from inflation. Consumer spending is flat in "real" terms (excluding inflation) but growing in nominal dollars. The tech industry is spending a trillion dollars/year to build AI datacenters, and the federal government is adding $2 trillion of annual stimulus via deficit spending, with defense budgets rising[3]/ and tariff revenue in doubt[4]/. While not cutting rates, the Federal Reserve has added liquidity by buying Treasury bonds[5]/. Most large companies are successfully passing inflation on to customers; S&P 500 profit margins are at record highs and earnings estimates are rising. Market performance supports higher-income household spending. Small companies, lower-income households, and risky debtors are under increasing strain. The housing market and housing construction are weak.

Broadly speaking, the economic and market outlook has become more positive in the short term.

In 2026, the tech industry will need to raise large sums to fund AI spending. The Space X (SPCX) IPO and insider sales, OpenAI and Anthropic's planned IPOs, and equity and debt sales by Google (GOOG) and others will compete with the US Treasury's increasing borrowing needs. Equity markets have already run up, and investors must remain "optimistic" to provide this much capital. Most portfolios have been less defensive than usual, but I am prepared to shift to more defensive later this year.

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[1] / Subject to further negotiations - the MOU is not a "final deal" and there may never be one.

[2]/ When the 10 year Treasury yield has approached 5%, market have tended to react negatively.

[3]/ The war severely depleted US missile stocks. China is stepping up military activity around Taiwan. The Pentagon may seek $1.7 trillion for 2027, a +20% increase.

[4]/ $150BN+ of IEEPA tariff refunds are being sought. The replacement tariffs are being challenged.

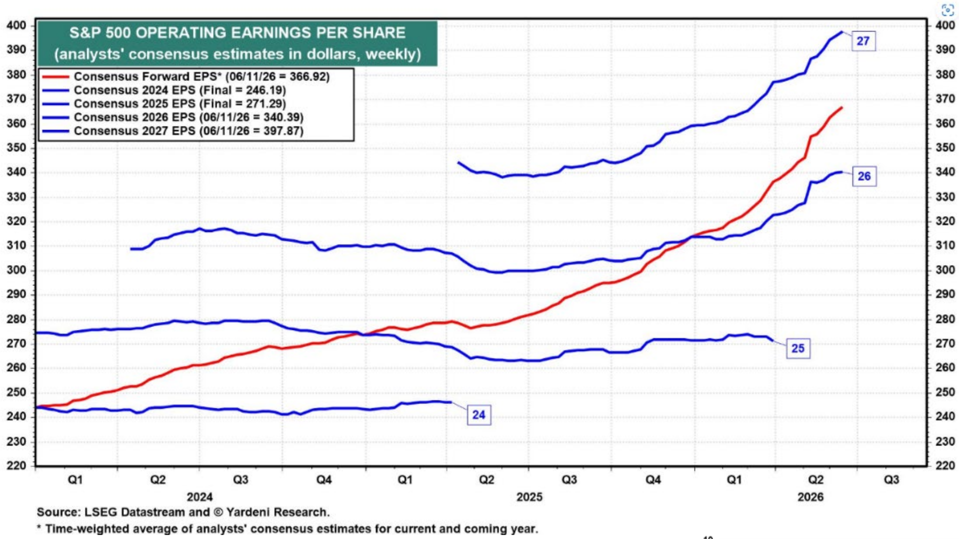
[5]/ The Federal Reserve's "reserve management purchases" have an effect similar to "quantitative easing".

- Semiconductor stocks were very strong, as investors chased this AI beneficiary group, and portfolios had sizable exposure. I trimmed Intel (INTC), AMD (AMD), Marvell (MRVL), ON Semi (ON), and Infineon (IFNNY) into strength, but not Broadcom (AVGO) or Microchip (MCHP).
- Software stocks continue underperforming on fears of AI-coded competition. The small positions I added in SP Global (SPGI) and Factset Data Systems (FDS) have done nothing. Our main software exposure is in cybersecurity via Palo Alto Investors (PANW) and Fortinet (FTNT) which benefit from rising AI security threats.
- We retain exposure to higher inflation with Vanguard Short-Term Inflation-Protected Securities ETF (VTIP) and to higher rates with iShares Floating Rate Bond ETF (FLOT).
- The US trucking industry upcycle is driven by federal action against foreign-domiciled commercial drivers, with legislation pending[6]/ and now a Supreme Court decision[7]/. Driver and tractor supply will keep contracting while firmer industrial activity supports demand. Truckload stocks like Knight-Swift (KNX) and Landstar (LSTR) reacted first. I expect the upcycle to reach less-than-truckload (LTL) and added LTL names Saia (SAIA) and FedEx Freight (FDXF; recently spun from FedEx).
- The US-China tariff contest is stabilizing, as Chinese companies shift manufacturing to other Asian countries and the US faces China's "rare earth" leverage. I added two growing Chinese exporters, Midea Group (MGCLY; appliances, air conditioners, robotics) and Techtronic (TTNDY; major power tool brands)[8]/. Midea benefits from a hotter climate, and Techtronic from heavy construction (data centers, energy).
- The Space Exploration (SPCX) IPO created another Megatech with $2.3TR market cap in space launch, satellite, AI, and social media. While SPCX stock is very expensive and will be volatile, near-term growth will be very high which may support investor demand given the still-small supply of traded shares.
- The Federal Reserve sees the economy growing "at a solid pace" with inflation "elevated", ended its easing bias, and may buy fewer Treasury bonds. Investors no longer expect lower rates this year, a headwind to real estate and other rate-sensitive industries. Building materials names like Owens Corning (OC), REITs like Essex Property Trust (ESS), and brokers like Marcus & Millichap (MMI) have been mediocre performers.
- US defense stocks performed poorly despite rising defense budgets. Investors may see the Pentagon's $1.7TR request as infeasible, or a new entrant threat to existing defense contractors. I added to Kongsberg Gruppe (KBGGY), who has US contracts for "affordable missiles", and to Korean defense stocks through the KDEF ETF.
- Energy stocks are down on the war's end; I think that is an overreaction. It will take months for Gulf oil exports to fully recover and Gulf LNG exports will be lower for years[9]/. Missile-hit refineries have to be repaired. With Iran controlling the Straits of Hormuz, Gulf states will build more bypass pipelines. I added to Venture Global (VG), a US LNG exporter, and Baker-Hughes (BKR), an oil/gas equipment company. With secure energy no longer assured for Asian countries, I expect more global oil exploration and renewable energy investment (ex-US).
- I sold Dominion Energy (D) after its acquisition by Next Era Energy (NEE). I expect to add more defensive/dividend names like Dominion to existing positions such as Verizon (VZ), Vale (VALE), Danone (DANOY), and JPM Equity Premium Income ETF (JEPI).

I would be happy to go deeper into this outlook and other investment topics than was possible in this brief summary. Please email johnliu@laurelhurstasset.com or call 510 847 0070. Thank you!

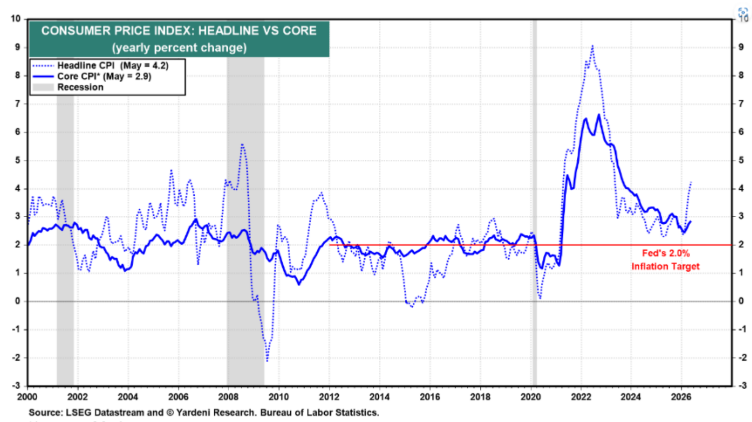
[6]/ The "Dalilah Law", HR 7793 (2026) has passed the Senate, is pending in the House, and has the Administration's support.
[7]/ *Montgomery vs Caribe* exposes brokers to liability for the trucking companies they use. Brokers will now use only companies with safety ratings and insurance costs will close smaller brokers, reducing supply and favoring large brokers like C.H. Robinson (CHRW).
[8]/ Midea sells the "Midea" and "Toshiba" brands, Techtronic the "Milwaukee", "Ryobi", and "Rigid" brands.
[9]/ 17% of Qatar's LNG export capacity was destroyed. US LNG suppliers have gained long-term contracts at Qatar's expense.

APPENDIX TO JUNE 2026 OUTLOOK – SELECTED CHARTS AND TABLES

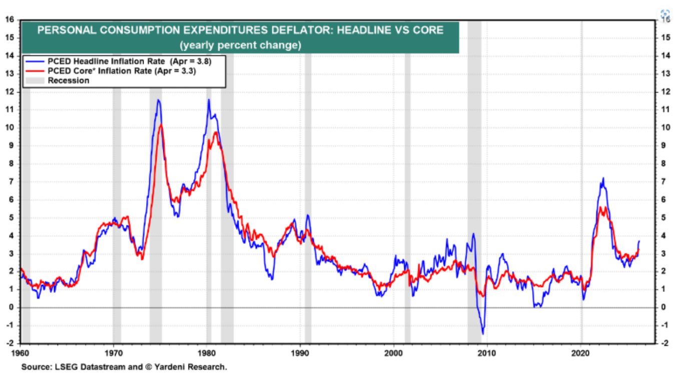


S&P 500 EPS estimates for 2026 and 2027 are still rising, even accelerating, in 2Q.

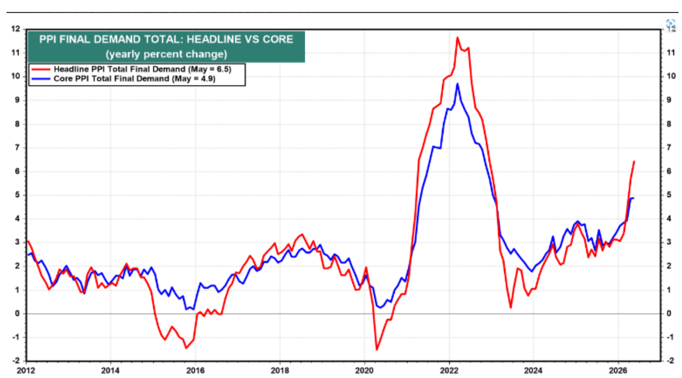
"Headline" Consumer Price Inflation (CPI, dotted line below) jumped to over 4%. "Core" ex-food/energy CPI (solid line) is near 3.0%. Fuel prices will decline but food planted and goods made when energy prices are high will remain inflationary this year. The understatement of shelter inflation has ended. [10]/



Personal Consumption Expenditures (PCE), the inflation metric used by the Federal Reserve[11]/, is also rising. Core (3.3%, red line below) and headline (3.8%, blue line) are well above the 2% target.



Producer Price Inflation (PPI), the cost of goods/services to their sellers, has jumped, both headline (blue, on right) and core (red). Businesses must pass these increases to consumers, suffer lower sales and margins, or cut costs elsewhere e.g. their workforce.



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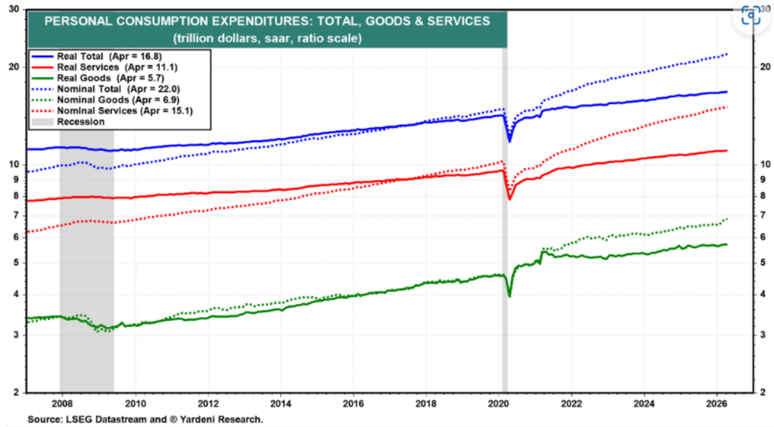
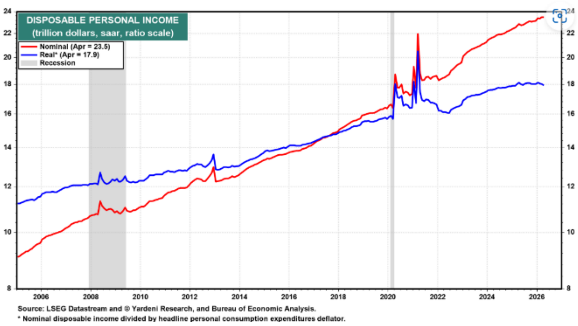
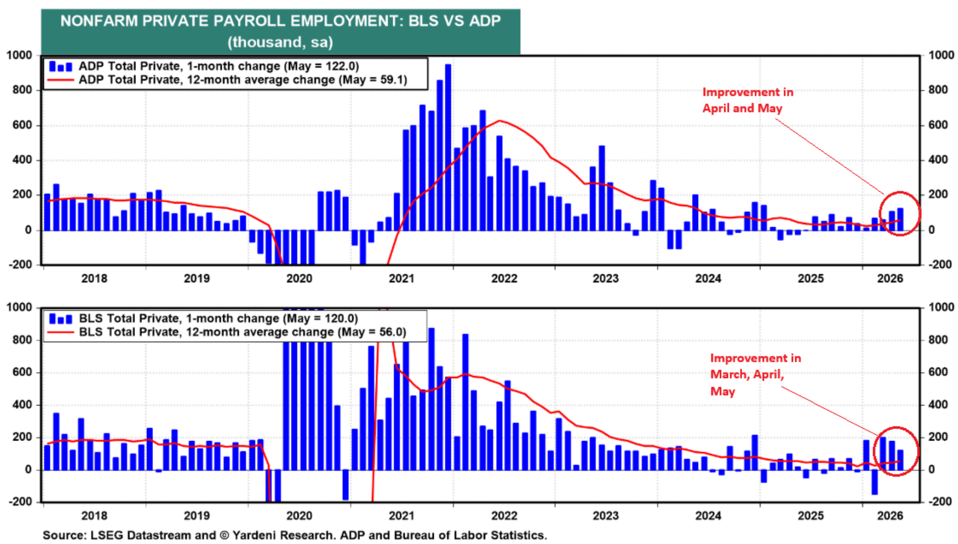
[10]/ Due to missing data from the late 2025 government shutdown, the Bureau of Labor Statistics treated October 2025 housing prices as "unchanged" from April 2025, which artificially understated CPI through April 2026.

[11]/ The new Federal Reserve chair wants to change the metric to "trimmed mean inflation", which excludes categories with highest and lowest inflation. If done, this will (artificially) bring inflation closer to the Fed's target range.

Consumer spending on services and goods is fairly flat on a "real" basis (excluding inflation; solid lines, right) but "nominal" growth (including inflation; dotted lines, right) looks better. This mirrors disposable income, where growth is almost all due to inflation (below, blue is real, red is nominal).

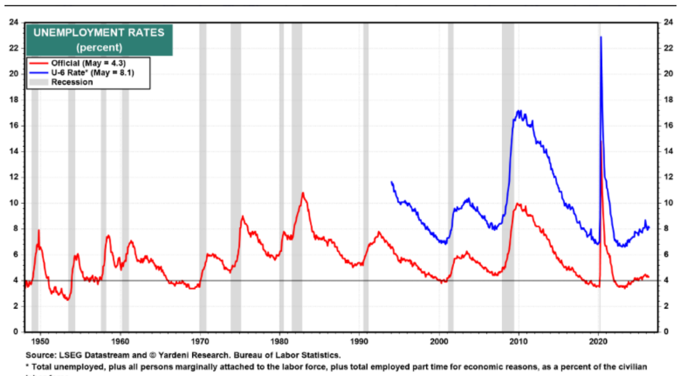


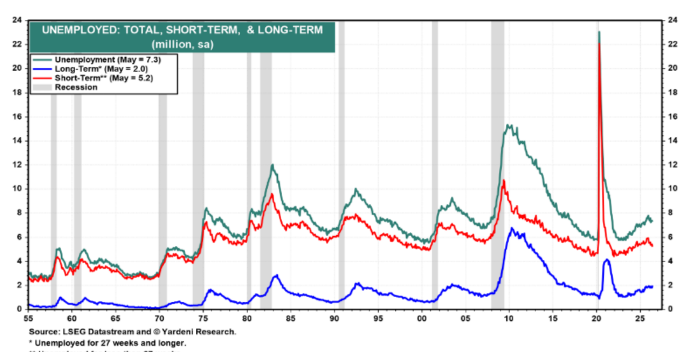




Job growth improved notably in 2Q, with better government data (BLS, left lower) supported by better private payroll data (ADP, left upper).

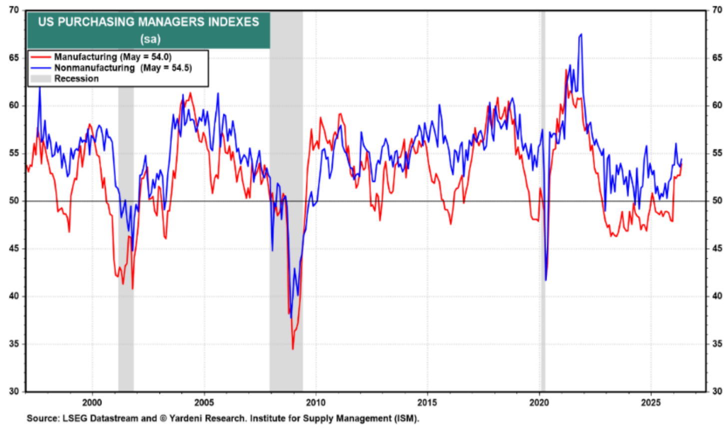
It is too early to know if the the unemployment rate or U-6 under-employment (left, below) or the long-term and short-term unemployment rates (right, below), will start declining. From the latest data . . . "maybe"?

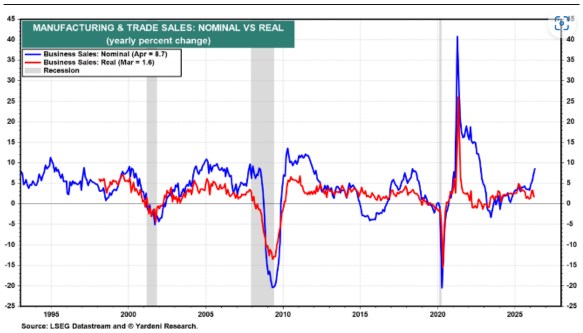




Digging deeper, job growth is <u>un</u>even. Employment is growing strongly in heavy construction and utilities (datacenters), steadily in healthcare/nursing, social assistance, and state/local government; roughly flattish in manufacturing, professional services, federal government, residential construction (homebuilding), leisure and hospitality; declining in administrative, financial services, broad transportation; and declining notably in "information" (broadly, technology), trucking, and temporary help services. Some AI disruption of the labor market is emerging.

Services *and* manufacturing PMIs are now above 50 (right), indicating expansion. Manufacturing jobs are flattish and much expansion is just inflation ("real" sales are barely growing, red line below), but other data does show underlying activity improving.





Finally, the S&P 500's valuation (20X forward P/E) remains high, while mid-cap and small-cap valuations are still reasonable at 16X.