Monthly Market Commentary from Chief Investment Officer, Andrea Ciaccio
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Market Review

On June 12th, SpaceX went public at US$135 per share, raising US$75 billion in the largest IPO in history and eclipsing the previous record set by Saudi Aramco, which drew US$29.4 billion in December 2019. The company debuted with a market capitalisation of approximately US$1.8 trillion, implying a valuation close to 100x trailing sales. Based on its reported 2025 financials, SpaceX generated approximately US$18.7 billion in revenues while posting a net loss of US$4.9 billion. The latter was driven primarily by the all-stock acquisition of xAI completed in Q1 2026, as the newly acquired subsidiary invested heavily in AI infrastructure and frontier model development. Hardly any company has captured investors' imagination more than SpaceX. In the weeks leading up to its listing, investors were willing to pay mid-teens entry fees simply to gain exposure through investment vehicles holding the firm's then private shares, hoping to participate in what many expected would be a landmark offering. The enthusiasm was not without reason. SpaceX's valuation had risen at an extraordinary pace, from US$400 billion in July 2025 to US$800 billion by December of the same year, before reaching US$1.25 trillion in February 2026.

Demand remained exceptionally strong ahead of the market entry, with the firm attracting orders exceeding three times the number of shares on offer as major asset managers, sovereign wealth funds, hedge funds and retail investors clamoured for an allocation. On its first day of trading, SpaceX jumped +19.22%, followed by a further +25.38% gain over the next two sessions. On June 16th, the stock briefly reached a market capitalisation of US$2.97 trillion, becoming one of the world's five most valuable public companies and topping Amazon in the process, a technology behemoth whose revenues in 2025 surpassed US$700 billion, nearly 40 times larger than SpaceX. The listing and the subsequent market rally created an unprecedented wealth creation event for Elon Musk, temporarily making him the world's first trillionaire on paper. According to the New York Times, about 4,400 current and former employees became equity millionaires, while around 400 held stakes valued at more than US$100 million. This was the result of the company's extensive use of equity compensation across its workforce, with ownership extending beyond senior executives and early engineers to include technicians and other operational staff. The transition from private to public company also opened the shareholding to a much broader investor base as it triggered the inclusion in major benchmarks.

Not all index providers follow the same approach to newly listed companies. Some have fast-entry rules that allow large IPOs to enter their averages shortly after listing, while others require companies to wait until a scheduled review or satisfy additional eligibility criteria. The Center for Research in Security Prices (CRSP) family of indices incorporates large listings relatively quickly, meaning SpaceX became part of the CRSP US Total Market Index tracked by a popular Vanguard ETF (VTI) commanding a mammoth US$663 billion in AUM at the end of June. However, because VTI provides exposure to virtually the entire US market, its holdings are distributed across roughly 3,500 stocks, meaning SpaceX represented only slightly more than 10 basis points of the portfolio despite its enormous market capitalisation. A similar dynamic unfolded across global benchmarks maintained by MSCI and FTSE Russell. MSCI's Global Standard Indices, including the MSCI All Country World Index (ACWI), allow exceptionally large newly listed companies to enter outside of regular review cycles. As a result, global ETFs tracking those benchmarks gained exposure to the rocket manufacturer. FTSE Russell likewise added SpaceX to its global equity averages, prompting a series of mechanical purchases from both active and passive managers.

Among the earliest adopters were the Nasdaq indices. As SpaceX listed on the exchange, it became a constituent of the Nasdaq Composite Index with a weight of 2.76% as of the end of June. The benchmark is tracked by a Fidelity ETF (ONEQ) that manages more than US$10 billion in AUM. In addition, the company is scheduled to officially join the more widely followed Nasdaq 100 Index on July 7th with an initial weighting of 1.3%. The relatively modest representation reflects SpaceX's limited float, with publicly traded shares accounting for only 4.24% of the company's equity valuation. The Nasdaq 100 is tracked by two giant Invesco ETFs (QQQ and QQQM) which manage more than US$550 billion in AUM cumulatively. The notable exception among the major benchmark providers is the S&P Dow Jones Indices. Unlike several of its peers, S&P generally does not grant immediate entry to newly listed firms, regardless of their size or market profile. Companies must satisfy a combination of profitability, liquidity, public float and seasoning requirements before becoming eligible for inclusion in the S&P 500. As a result, SpaceX is not currently represented in the major S&P 500 ETFs promoted by Vanguard (VOO) and State Street Investment Management (SPY).

International Equities

US equities were mixed in June. The Dow Jones Industrial (+2.52% in USD terms) and the Russell 2000 (+3.60%) broke to new all-time highs, while the S&P 500 (-1.09%) and the Nasdaq 100 (-0.19%) declined. Weakness in the technology-heavy averages was driven by the "Magnificent Seven" group of stocks, which recorded their second worst month ever of relative returns vis-à-vis the rest of US large caps. They only performed more poorly in October 2022, near the bottom of the previous bear market. Microsoft continued to languish, underperforming the rest of the group, followed by Meta and Tesla. Alphabet and Amazon retreated from their recent highs, while Nvidia fell to its lowest relative level since February 2024 vis-à-vis the Philadelphia Stock Exchange Semiconductor Index, which rallied a further +11.05% over the month. Finally, Apple also came under pressure after announcing global price increases, effective June 25th, across its Mac, iPad, home device and Vision Pro product lines to mitigate the impact of memory and storage shortages. While iPhone, Apple Watch and AirPods were excluded from this round of adjustments, the company indicated that additional price hikes could follow. In a statement, Apple attributed the increases to surging demand for hardware driven by the rapid expansion of AI data centres, noting that it had "never seen a component price increase this much, this quickly". After a stellar May, software stocks gave back almost half of their gains. Conversely, firms with strong growth prospects in emerging tech and niche markets continued to attract inflows, with the Nasdaq Next Generation 100, which tracks the performance of the largest 100 Nasdaq-listed companies outside of the Nasdaq 100, beating the latter for the ninth time in the last twelve months. The so-called "RAMageddon" trade pushed Micron (+18.88%) and Sandisk (+34.14%) to new highs.

Six sectors bucked the broader negative trend, ending June in positive territory. Industrials, healthcare and financials led the gains, followed by utilities, while advances for consumer staples and real estate were more muted. Biotech was a standout performer within the medical sector, with the group breaking to new all-time highs on the back of renewed optimism around innovation. In contrast, communication services was the worst performing sector, followed by energy, which dropped for the third consecutive month.

US equities modestly trailed the rest of the world (as exemplified by the MSCI AC World Index ex USA TR Index), interrupting a three-month winning streak. Europe was the best performing region, followed by Japan. In the Land of the Rising Sun, Kioxia Holdings, a manufacturer of semiconductor memory products, became the largest company by market capitalisation, surpassing Toyota Motor, after a +670% rally since the beginning of the year and just 18 months after its stock market debut. Emerging markets lagged as momentum fizzled out in South Korea, while malaise continued to grip China. However, the powerful rally in semiconductors persisted in Taiwan. At the end of the month, the latter country made up 27.32% of the MSCI Net Emerging Markets TR Index, followed by South Korea at 23.70% and China at 19.03%. Technology accounted for 45.25% of the index. Within the MSCI AC World Daily TR Index, semiconductors had risen to 14%, despite the sector accounting for only 6% of earnings and 2% of sales. All in all, the global benchmark was down -0.80% in USD terms but up +3.17% in AUD terms.

Australian Equities

Australian equities experienced a volatile month, with the S&P/ASX 300 TR Index rising +0.6%. The MSCI Australia Net TR Index lagged the MSCI AC World Daily TR Index by more than 200 basis points for the fourth month in a row. Sector performance largely reflected a reversal of the dominant themes of 2026, as investors rotated away from cyclicals and into defensive sectors. Consumer staples and healthcare posted double-digit gains, led by Woolworths, Coles and CSL, while consumer discretionary advanced by the same magnitude, supported by strong performance from Wesfarmers. Conversely, materials and energy tracked commodity prices lower, as oil crashed more than 20% and gold slid 11.84%. Copper, aluminium and iron ore were also sharply down. Banks ended the month in the red and were topped by insurance for the fourth consecutive month, pushing returns for financials firmly in the black. Finally, mid-caps outperformed the Top 20, while smaller companies were weighed down by resources stocks.

International Fixed Income

Four of the six major global central banks that met during the month left interest rates unchanged. On June 10th, the Bank of Canada (BOC) kept its benchmark overnight rate steady at 2.25%, maintaining a cautious stance. Similarly, on June 17th, the Norges Bank, Norway's central bank, the Riksbank, Sweden's central bank, and the Bank of England (BOE) held their policy rates at 4.25%, 1.75% and 3.75% respectively. On the same day, Kevin Warsh presided over his first FOMC meeting as the Chairman. The FED paused for the fourth time in a row, leaving its target rate at 3.50%-3.75%. This time, the decision was unanimous. However, the updated Dot Plot revealed a more divided outlook, with policymakers split 9-9 between those expecting rates to remain unchanged or fall further and those anticipating at least one hike later this year. Warsh did not submit his own projection and described such disagreements as "good family fights". In the end, the median dot pointed to a 25-basis point increase, suggesting a modest hawkish bias. In addition, during his press conference, the Chairman referenced "price stability" on roughly a dozen occasions and reiterated the committee's commitment to bringing inflation under control.

On June 11th, the European Central Bank (ECB) raised its policy interest rate from 2% to 2.25% and upgraded its headline inflation projections for 2026 and 2027 to +3% and +2.3% respectively. On June 16th, the Bank of Japan (BOJ) lifted its benchmark rate to 1% with the Policy Board voting 7-1 in favour of the move. The number of voting members was reduced from nine to eight as Governor Ueda was unable to attend after being hospitalised. He is expected to return for the July meeting. The decision reflected rising concerns that underlying inflation could exceed the 2% target, partly due to government energy subsidies easing the impact of higher prices on households. The Japanese Yen (BOJ) tumbled to its lowest level since December 1986 against the US Dollar (USD) as the move was largely anticipated, while the persistent interest-rate gap with other major economies continued to support carry trades.

Yields around the world responded positively to the US-Iran ceasefire. However, US Treasuries continued to move in the opposite direction as investors brought forward expectations for hikes, pricing in one increase in 2026 with a 100% probability and assigning a 50% probability to a second one. Despite the US 2-, 5- and 10- year yields adding 17, 9 and 3 basis points to 4.17%, 4.23% and 4.47% respectively, the Bloomberg Barclays Global Aggregate Index hedged back to AUD rose +0.43% in June.

Australian Fixed Income

On June 16th, the RBA left the cash rate at 4.35% following three consecutive increases earlier in the year. The pause was supported unanimously by the Board. During her press conference, noting that inflation had failed to moderate sufficiently, Governor Bullock stated that "if we need to increase again, we will". She also downplayed worries over the unemployment rate rising to 4.5%, describing the labour market as still "a bit tight" and stating that the central bank did not expect the economy to contract. Later in the month, the Australian Bureau of Statistics (ABS) monthly indicator of consumer prices (CPI) moderated to +4.0% YoY in May 2026 (from +4.2%), but the CPI Trimmed Mean accelerated to 3.6% YoY (from +3.4%). In addition, employment rebounded strongly in May, although part-time positions accounted for the bulk of the increase. The marginal decline in the unemployment rate to 4.4% appeared to validate previous comments by Bullock. At the end of the month, cash rate futures were pricing in only one further hike in 2026 with less than 50% probability and potential cuts starting from Q2 2027. As a result, the yield curve transposed lower, with the 2-, 5- and 10- year yields shedding 10, 12 and 11 basis points to 4.42%, 4.40% and 4.72% respectively. The Bloomberg AusBond Composite 0+ Yr Index returned +0.96% for the month, outperforming global fixed income for the third time in the last 4 months. The Australian Dollar softened across the board, ending the month just above 69 cents vis-à-vis the greenback.

Real Assets

Global property rose +0.72% in USD terms and +4.75% in AUD terms in June. The UK was the best performing region, although gains were insufficient to offset losses across continental Europe. The US extended its winning streak to five months, while Australia's two-month run came to an end. Hong Kong was the worst performing region, weighed down by liquidity pressures stemming from potential capital outflow controls in China.

Global listed infrastructure gained +0.98% in USD terms and +5.03% in AUD terms for the month. Transportation stocks performed best, with airports and toll roads shining as easing tensions in the Middle East supported expectations for a recovery in global travel. Communication infrastructure lagged due to stagnant leasing growth and concerns over higher-for-longer interest rates. Renewables experienced some profit-taking.

Alternatives

Alternatives (+1.22%) ended the first half of the year on a high note. Long/Short equities and event driven topped the list, while trend following and macro mandates struggled to navigate heightened volatility across the commodity complex.

Market Outlook

Something is not adding up. Despite softer-than-expected inflation data and a significant repricing of FED expectations, risk assets failed to respond in the manner typically associated with a more accommodative policy outlook. Instead, markets experienced broad weakness, led by a reversal in several of the year's most crowded momentum trades.

The first good news came on July 14th, when the Bureau of Labor Statistics (BLS) released the June US CPI report. Headline inflation fell 0.4% MoM, missing the projected -0.1% and reflecting a sharp decline in energy prices. Gasoline dropped 9.7% and fuel oil, which includes diesel and kerosene, was down 9.2% from May to June. On a YoY basis, CPI cooled off to +3.5% (from +4.2%), below the consensus forecast of +3.8%. Moreover, the US CPI Core, which excludes the more volatile food and energy components, was unchanged MoM, decelerating to +2.6% YoY (from +2.9%). Even the so-called "Super Core CPI", which is designed to provide a better representation of service inflation by stripping away the shelter component, was down 0.21% for the month, its lowest print since May 2020, at the time of the COVID lockdowns. In short, the report was unambiguously supportive of the disinflation narrative. One day later, this trend was reinforced by the publication of the Producer Price Index (PPI), which moderated to +5.5% YoY (from a revised +6%) following a -0.3% MoM reading, its largest monthly decline since April 2025 during the "Liberation Day" tariff turmoil. The reaction from fixed income traders was textbook, with cash futures pushing back the first hike of 2026 from September to December and lowering the probability of a second increase in 2027 from near certainty to roughly 40%. Surprisingly, the usual beneficiaries of a more lenient monetary outlook went the other way. Technology stocks fell, semiconductors cratered, gold and silver ended the week in the red and even SpaceX, the poster child of investors' ebullience, fell below its IPO price. The greenback remained well bid, even rising against the Euro (EUR).

We posit that investors may be beginning to differentiate between a more benign inflation backdrop and a genuinely dovish FED, as the former may not necessarily translate into the latter. In fact, while we may well be past "peak" inflation, and prices may no longer be quickening, they remain elevated, leaving the economy in a "sticky" inflation environment. In this context, the central bank's challenge is no longer simply preventing further accelerations but restoring confidence that its 2% target can be achieved. Over the past several years, consumers and businesses have experienced multiple episodes of price pressure, from supply chain disruptions and energy surges to tariffs and geopolitical uncertainty. Even if each individual shock eventually fades, the repeated experience of declining purchasing power and the accumulation of successive "temporary" increases can alter inflation psychology. When households and businesses experience unrelated but recurring episodes of rising prices, they may begin to question whether inflation is truly "transitory", or whether it has become structural. This distinction is critical because inflation expectations influence wage demands, pricing decisions and ultimately the persistence of inflation itself. Workers may tolerate a one-off loss of real income before adjusting their behaviour, but sooner or later they may seek a higher compensation to make up for it. Likewise, businesses may become more willing to pass through higher costs. This is why, in our opinion, the incentive structure facing incoming Chairman Warsh is clear. He has little to gain from immediately adopting a dovish stance, even if he really believes that the US economy is on the verge of a productivity boom that in the end will take care of the (so far) intractable inflation problem. On the contrary, the politically and institutionally rational approach is to demonstrate commitment to price stability. The FED does not necessarily need to act hawkishly immediately, but it does need to sound hawkish. Only by maintaining a firm message that inflation remains unfinished business and that policy cannot be eased prematurely Warsh can begin rebuilding the credibility that has been tarnished by years of missteps and blunders.

His predecessor, Powell, was able to rely for an extended period of time on a degree of plausible deniability, as inflation was "uncomfortably high" but still moving in the right direction. Thus, he and the other FOMC members could maintain the argument that a return to target was only a matter of time. However, that line has become increasingly difficult to sustain. Warsh's hawkish language is, to a large extent, performative at this stage, but the risk is that rhetoric alone may prove insufficient. While an increase in July was never and is not the base case, the possibility of a few hikes over the broader cycle cannot be dismissed if the labour market continues to recover and inflation proves more persistent than anticipated. Hiring and firing dynamics have become the most important variables for policymakers. With those no longer displaying clear signs of deterioration, the central bank cannot justify an easier stance by emphasising the "full employment" side of its dual mandate. As inflation takes priority over economic strength once again, the policy setting becomes increasingly asymmetric. A combination of sticky inflation and an improving job market limit the case for rate cuts, while the need to restore credibility increases the possibility that the monetary stance remains restrictive for longer than markets currently expect. In summary, the most likely outcome in the near term is a period of policy stability rather than an immediate shift in either direction, although the balance of probabilities implies that the next move will be a hike. The central bank currently appears to be in a "no man's land" and may remain on hold at least until the back end of the year, continuing to communicate a hawkish bias and keeping open the possibility of further tightening if the data requires it. However, it may eventually be forced to "walk the talk" and back its messaging with actual policy action. Recent flare-ups in the Gulf further complicate its predicament.

Our view has been that the ceasefire between the US and Iran was unlikely to prove durable. While we did not expect an immediate resumption of hostilities, the agreement was politically fragile from the outset. From a domestic perspective, initiating military action was already a contentious decision ahead of the US midterm elections. However, ending the conflict under terms that effectively relaxed sanctions on the Islamic Republic, allowing it to increase oil exports and regain broader access to the US Dollar payment system, appeared even more unpalatable to the electorate. In our view, the deal was primarily a stopgap measure rather than a lasting geopolitical settlement. Such a pause may have been aimed at creating a window for the US and Japan to replenish their Strategic Petroleum Reserves (SPR), while allowing China, which during the Hormuz crisis has de-facto emerged as the swing consumer, to come back to the market after months of restrained purchases. Our base case is not that of an explosive move higher in crude prices. We do not anticipate oil to surge to US$100-150 per barrel. Rather, we believe the more credible outcome is a structurally higher trading range. Much like inflation, oil prices may not experience another sharp acceleration, but they are also unlikely to return to the low levels that prevailed before the recent sequence of geopolitical tensions, let alone the US$40-50 range sought by President Trump. Instead, they are likely to remain anchored around current levels, roughly US$70-75 per barrel, while exhibiting bouts of volatility. For these reasons, although we continue to view the current pricing of nearly two additional FED hikes as somewhat excessive, it is understandable considering the current circumstances and the institution's reaction function. Hence, despite improved valuations in fixed income, it is difficult to see an imminent decline in yields, while more choppiness may lie ahead. At this stage bonds provide a sufficiently attractive carry to warrant exposure, but no optionality in terms of capital appreciation. Not yet, at least.

This new reality has weighed disproportionately on the most speculative segments of the equity market. The AI complex, particularly semiconductors and memory stocks, had reached increasingly stretched valuations following extraordinary gains over recent quarters. The launch of leveraged single-stock ETFs, together with heavy retail participation, pointed to speculative excesses rather than healthier fundamentals. The subsequent correction therefore appears less like the beginning of a broader bear market than an unwinding of crowded positioning. Interestingly, the increase in volatility has remained highly concentrated. While index-level volatility has stayed relatively subdued, reflecting the stability of the broader equity market, the dispersion of returns across individual stocks has surged to exceptionally elevated levels. A narrow group of AI-related names has experienced extreme price swings, whereas large parts of the market have remained largely neglected. Rather than signalling systemic stress, this pattern is more consistent with a rotation away from the most crowded trades and towards a broader market leadership. This dynamic appears to be at play even within the technology complex, as capital moves back toward the hyperscalers, signalling that investors are not abandoning the AI narrative altogether. From an asset allocation perspective, we continue to view this development as constructive. We do not believe this undermines the medium-term investment case for growth assets, particularly equities, and do not view recent turbulence as indicative of a cyclical peak in risk assets.