

From the US Market Desk Buyable pullbacks. Be prepared.



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Macro

- Our forecast for real gross domestic product (GDP) growth in 2026 is 2.5%, (based on Franklin Templeton Institute's [Global Investment Management Survey](#)) versus the Federal Reserve's (Fed's) forecast of 2.4% and the Wall Street consensus of around 2%. The main drivers of our GDP forecast are the continued capital expenditure (capex) by big technology firms to build out artificial intelligence (AI) infrastructure, the resilient consumer, and fiscal stimulus connected to the One Big Beautiful Bill Act. The duration of this US-Iran conflict is the primary risk to our forecast. Higher oil prices tax the consumer, and the negative impacts of higher oil/gas prices will likely broaden over time.
- We expect the Fed to stand pat as we work through this conflict. This view is also supported by the relationship of two-year Treasury yields relative to the fed funds (FF) rate. Two-year yields historically lead the Fed's interest-rate decisions, and right now the two-year yield is 4.13%, above the FF rate. Fed fund futures are pricing in one rate hike by December of this year. The last tick for core Personal Consumption Expenditures (PCE) data came in at 3.2%, the highest reading since November of 2023. Higher oil prices will bleed through to core PCE if oil prices stay elevated. The combination of higher oil prices and higher-than-expected inflation prints are serving to push rates up. As of this writing, 10-year yields are 4.52%. The US unemployment rate (U-3) is 4.3%, just off the recent high print in November of 4.5% and essentially flat for the trailing 12-month period. Jobs seem fine, but real wages are starting to come under pressure.
- Inflation expectations have round-tripped. One-year breakeven rates are currently at 2.53%, back to their level in early January of this year. Two-year breakeven rates are also close to their January lows, with the last tick at 2.51%. Finally, five-year breakeven rates are 2.43%, back to where they were in mid-February. The bond market seems less concerned about inflation becoming untethered relative to the headlines. These numbers represent the bond market's pricing of annualized inflation out one, two and five years.
- On the currency front, we are expecting the US dollar to be essentially flat for the year despite the recent volatility. The US Dollar Index (DXY) is trading at US\$100.24, at the highs of its 12-month range, defined as US\$96–US\$100. It has traded here a handful of times in the last 12 months.

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Equities

- We are constructive on US equities and have established a new target range of 7,400–7,800 for the S&P 500 driven by 15%+ year-on-year (y/y) earnings-per-share growth. First-quarter earnings exceeded consensus expectations, which served to drive the S&P 500's 2026 earnings estimate to US\$341, up from US\$310 at the start of the year. Would you believe that the tape is cheaper today than it was on January 1 despite being up 6%–7% year-to-date (YTD)? It is. Coming into the year, the tape was 22.5x 2026 estimates. Today the tape trades at 21.4x earnings. Read more about earnings in Franklin Templeton Institute's updated [Global Investment Management Survey](#).
- I have been expecting some consolidation of this move either in terms of price, time or both, and we are getting that now. The S&P 500 has pulled back about 5%, the Nasdaq 100 Index has declined about 7% and the Philadelphia Semiconductor Index has declined about 16%. As I see it, this move gets some of the froth out of this tape. I think prices are more attractive with this pullback, and it sets up a potential opportunity to dollar-cost average into the market on further weakness.
- We reiterate our “broadening” call on equities and emphasize our bullish call on small- and mid-cap names in the United States, and continue to favor emerging market equities and Japan. Additionally, risk/reward in the Magnificent 7 looks more appealing today versus the start of the year. Earnings estimates have steadily ticked up all year and over long periods, earnings drive stock prices—not geopolitics.
- Let's look at year-to-date performance in the United States: The Russell 2000 Value Index is leading the charge at +16.85%, the Russell 2000 Index is +14.92%, the S&P Midcap 400 Growth Index is +14.38%, the Russell 2000 Growth Index is +13.15%, the Russell 1000 Value Index is +12.35%, the S&P Midcap 400 Index is +11.82%, the S&P Midcap 400 Value Index is +8.91%, the S&P 500 Equal Weight Index is +8.34%, the S&P 500 is +6.71%, the Russell 1000 Index is +6.55%, the Russell 1000 Growth Index is +1.32%, and the Mag 7 is -2.02%.
- Small-cap stocks are leading YTD. No surprise as small-cap space carries the strongest y/y earnings growth of all the major indexes.
- Outside of the United States, the MSCI Emerging Markets (EM) Index YTD is +19.74%, the MSCI Japan Index is +12.36%, the MSCI Latin America Index is +6.55%, MSCI Europe Index is +5.17%, and MSCI India Index is -12.49%. The international total returns are in USD. EMs are leading globally YTD. This is no surprise, as EM has the strongest y/y earnings growth on the planet.
- Historically, midterm years have been volatile with sub-standard returns. Franklin Templeton Institute Strategist Lukasz Kalwak tells us that the average peak-to-trough decline in the S&P 500 in midterm years has been about 18%. What you might not know is that in the third year of prior presidential cycles, the market historically rips back. The average S&P 500 rally from the midterm lows was about 32%. The hit rate of positive returns was 100%. Ergo, we would favor buying any significant drawdowns—just like we augured for in March. Read our white paper, [“From US concentration to global opportunity.”](#)
- Our bottom line: We think it makes sense to have a diversified equity playbook that includes large-, mid-, and small-cap exposure in the United States with a balance of growth and value. The same can be said for ex-US equity exposure; we think EM and developed international markets should be a part of one's portfolio. It seems prudent to reduce concentration and spread your bets—and use any further consolidation to your advantage.

Fixed income

- We expect the 10-year US Treasury bond yield in the range of 4.25%–4.75% for the year, above our prior range of 4.25%–4.50% ([See our latest survey](#)). Last week the 10-year yield traded to 4.53%. We would look to add to duration risk toward 4.75%.
- The US yield curve has flattened recently, with 2-year-to-10-year yield spread at 39 basis points (bps). This is a function of the move higher in two-year yields. We expect bull steepening in 2026, but this call is against the market at the moment.
- We expect short duration fixed income mandates and corporate credit to outperform cash again this year. Considering our views on US 10-year Treasury yields, we do not expect duration to be a significant driver of total return this year. Rather, all-in yield capture seems to be the play, although recent spread widening might create an opportunity for additional total return. Clip coupons.
- Credit spreads have made big moves (tightening) in the last two months. Investment-grade spreads are now only 46 bps over Treasuries, and high-yield spreads, as proxied by the Bloomberg US Corporate High Yield Index option-adjusted spreads, are now 275 bps over Treasuries.
- We are bullish munis and find taxable equivalent yields to be attractive, along with robust fundamentals. Importantly, municipal bonds offer potential diversification benefits relative to most taxable fixed income mandates. Some investors might consider using some cash to add muni exposure in taxable accounts. Read our latest research on this asset class: [“Municipal bonds are back.”](#)

Sentiment

- The percentage of bullish investors in the latest American Association of Individual Investors (AAII) survey is 30%. The percentage of bearish investors in the AAI survey is 48%. I see no signal in these numbers, but a swing back to the wall of worry.
- Bull markets usually peak on euphoria. I think we are a long way from market euphoria.

From the US Market Desk will return with insights again next week.

Source of data (except where noted) is Bloomberg and Franklin Templeton Institute, as of June 12, 2026. Important data provider notices and terms available at www.franklintempletondatasources.com.

The Franklin Templeton Institute Global Investment Management Survey is a biannual outlook survey designed to give a view across our investment teams. The Franklin Templeton Institute identifies the median across the survey answers and develops the outlook. The survey received responses from around 200 portfolio managers, directors of research and chief investment officers, representing participation across equity, private equity, fixed income, private debt, real estate, digital assets, hedge funds and secondary private markets. Each of our investment teams is independent and has its own views.

Glossary of terms

The AAI (American Association of Individual Investors) Sentiment Survey: This survey offers insight into the opinions of individual investors by asking them their thoughts on where the market is heading in the next six months.

Breakeven rates: The difference between yields of Treasury bonds and TIPS for issues of the same tenor/maturity, calculated by subtracting TIPS yields from Treasuries; a measure of inflation.

Capital expenditure (capex): Funds that companies spend to acquire, upgrade or maintain physical assets, such as buildings, technology or equipment, with the purpose of maintaining or growing future operations.

Duration: A measure of how much a bond's price changes relative to changes in interest rates.

Federal funds (FF) rate: The interest rate that depository institutions such as banks charge other institutions for holding overnight reserves.

Hit rate: The percentage of positive positions or returns over a specific period.

Magnificent Seven: Refers to shares of Apple, Microsoft, Amazon, Alphabet, Meta Platforms, Nvidia, and Tesla.

Option-adjusted spread (OAS): Measures the spread between a bond's interest rate and the risk-free rate, while adjusting for any embedded options like callables or mortgage-backed securities.

Personal Consumption Expenditures (PCE) and core PCE: Measures the price changes in goods and services purchased by US households; core PCE excludes food and energy prices. Both are measures of inflation.

Tape: A reference to broad market performance, based on the ticker tape that transmitted stock prices during the 19th and 20th centuries.

Taxable-equivalent yield: The yield of a municipal bond investment calculated to reflect the benefits of income tax exemption and to be comparable to the yield of a taxable bond.

U-3 unemployment rate: The official measure used by the US Bureau of Labor Statistics (BLS) to report the percentage of the labor force that is unemployed and actively seeking work.

Yield spreads/tights: Spreads are the difference between yields on differing debt instruments of varying maturities, credit ratings, issuers or risk levels. "Tight" in reference to spreads indicates small differences in yields.

Indexes

Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. Past performance is not an indicator of future results.

Bloomberg US Corporate High Yield Index: Tracks the performance of the USD-denominated, high yield, fixed-rate corporate bond market.

MSCI Emerging Markets Index: A free float-adjusted, market capitalization-weighted index designed to measure the equity market performance of global emerging markets.

MSCI Europe Index: A free float-adjusted, market capitalization index that is designed to measure developed market equity performance in Europe: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

MSCI India Index: This index is designed to measure the performance of the large- and mid-cap segments of the Indian market. With 64 constituents, the index covers approximately 85% of the Indian equity universe.

MSCI Latin America Index: This index captures large- and mid-cap representation across five emerging markets countries in Latin America.

Russell 1000® Index: A market capitalization-weighted that measures the performance of the 1,000 largest companies in the Russell 3000® Index, which represents the majority of total US market capitalization.

Russell 1000® Growth Index: A market capitalization-weighted index that measures the performance of Russell 1000® Index companies with relatively higher price-to-book ratios and higher forecasted growth rates.

Russell 1000® Value Index: A market capitalization-weighted index that measures the performance of Russell 1000® Index companies with relatively lower price-to-book ratios and lower forecasted growth rates.

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Russell 2000® Value Index: A market capitalization-weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000 Index with relatively lower price-to-book ratios and lower forecasted growth rates.

S&P 500® Index (SPX): A market capitalization-weighted index of 500 stocks, a measure of broad US equity market performance.

S&P 500 Equal Weight Index (EWI): The equal-weight version of the S&P 500 Index. The index includes the same constituents as the capitalization weighted S&P 500, but each company is allocated a fixed weight, or 0.2% of the index total, at each quarterly rebalance.

S&P MidCap 400® Index: A market capitalization-weighted index of 400 stocks of mid-size companies, distinct from the large-cap S&P 500.

The S&P MidCap® 400 Growth Index: An unmanaged, float-adjusted market capitalization-weighted index comprised of stocks from the S&P MidCap 400 that are classified as growth stocks based on three factors: sales growth, the ratio of earnings change to price, and momentum.

The S&P MidCap® 400 Value Index: An unmanaged, float-adjusted market capitalization-weighted index comprised of stocks from the S&P MidCap 400 that are classified as value stocks based on three factors: the ratios of book value, earnings and sales to price.

US Dollar Index: A basket of six foreign currencies (euro, Japanese yen, UK pound sterling, Canadian dollar, Swedish krona, and Swiss franc) used to track the relative strength of the US dollar, with a higher index value representing US dollar strength.

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal.

The allocation of assets **among different strategies, asset classes and investments** may not prove beneficial or produce desired results. Diversification does not guarantee a profit or protect against a loss.

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Equity securities are subject to price fluctuation and possible loss of principal.

Fixed income securities involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default.

International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**.

The **investment style** may become out of favor, which may have a negative impact on performance.

Large-capitalization companies may fall out of favor with investors based on market and economic conditions.

Small- and mid-cap stocks involve greater risks and volatility than large-cap stocks.

Commodity-related investments are subject to additional risks such as commodity index volatility, investor speculation, interest rates, weather, tax and regulatory developments.

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