

Monthly Investment Insights

JUNE 2026

TOPIC 1:

A change in leadership at the Federal Reserve

Kevin Warsh has been confirmed as the new Chair of the Federal Reserve (Fed), succeeding Jerome Powell. While the implication of this leadership transition remains unclear, investors should continue to harness income.



What you can do

Quality investment grade bonds remain favoured given the backdrop of continued economic expansion. The generation of stable cash flows remains crucial, as we expect fixed income returns in 2026 will be driven primarily by income rather than price appreciation.

- Kevin Warsh has taken over as Chair of the Fed for a four-year term. He is no stranger to the central bank, having previously served on the Board of Governors from 2006 to 2011, where he was generally regarded as an official who prioritised restrictive monetary policy to keep inflation low. More recently, however, his views have evolved to support policy rate cuts and a reduction in the Fed's balance sheet.
- In this context, we continue to believe that monetary policy decisions will remain anchored on economic fundamentals and guided by a data-dependent approach. The United States (US) economy is currently facing the risk of higher inflation stemming from the Middle East situation, while overall economic activity remains resilient. Inflationary pressures may increase further if higher input costs are passed through to consumers. Importantly, elevated oil and gas prices appear to be driven more by supply-side constraints rather than higher demand, unlike the post-pandemic inflation surge.
- Economic activity remains supported, partly due to income tax refunds that are boosting consumption and businesses accelerating activity ahead of potential price increases. As a result, policy interest rates are likely to remain steady in the short term, with Fed rate cuts only expected next year.
- With long-term bond yields rising recently, as reflected in the increase in 10-year US Treasury yields since the start of the year, investors should prioritise income generation. Stable cash flows are likely to remain the primary driver of bond returns, while the scope for capital appreciation may be more limited (Figure 1A and 1B).

Figure 1A:
US investment grade¹ decomposition

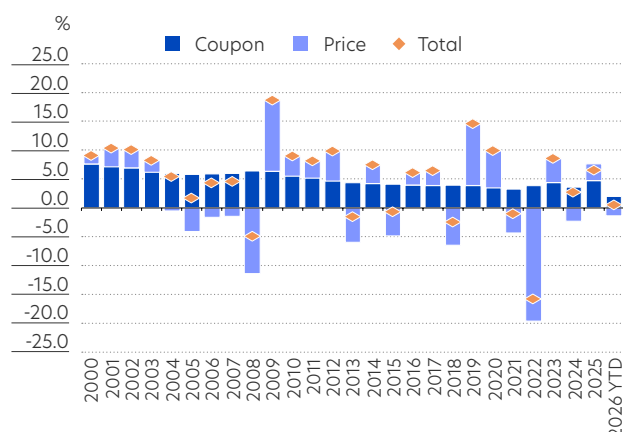
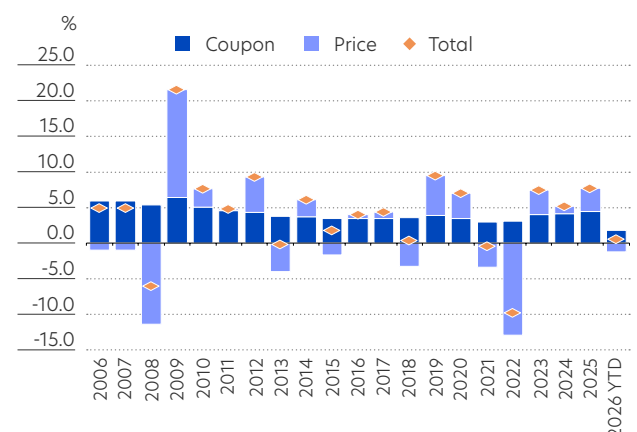


Figure 1B:
Asia² credit decomposition



Source: FactSet, J.P. Morgan Asset Management.
¹ Investment grade is Bloomberg US Aggregate Credit-Corporate Investment Grade Index.
² J.P. Morgan Asia Investment Grade Corporate Credit Index.

An upbeat US earnings season in the first quarter

US corporate earnings for the first quarter of 2026 was exceptionally strong, driven by the ongoing buildout of artificial intelligence (AI) infrastructure that is benefitting companies along the supply chain.



What you can do

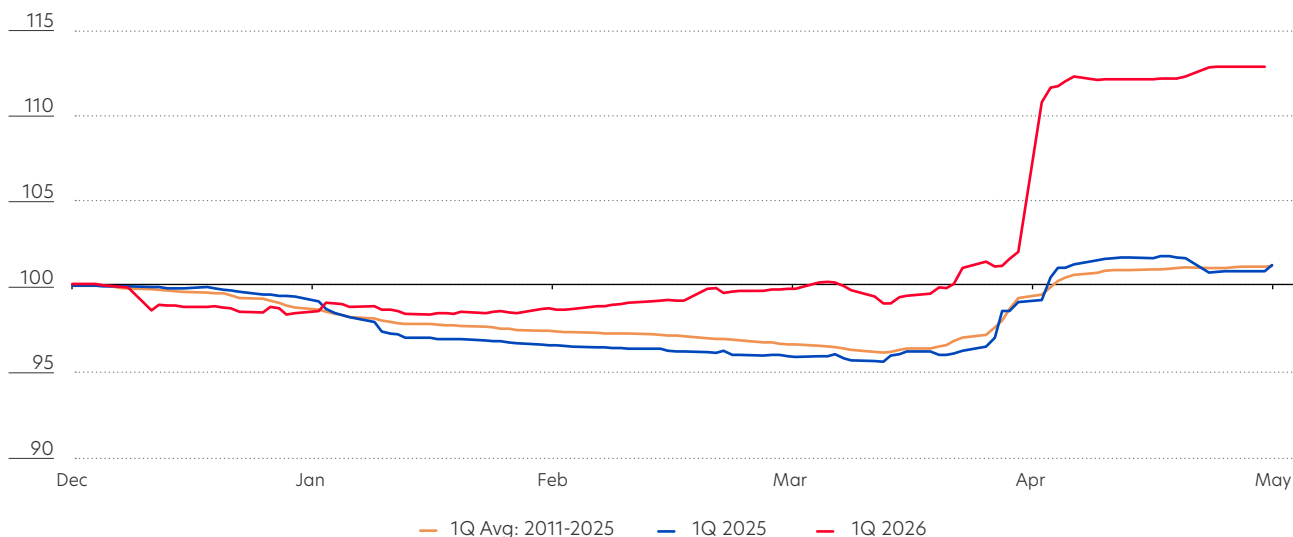
Look beyond a narrow focus on high-profile US technology stocks. Investors can find compelling global opportunities in hardware supply-chain bottlenecks in AI chips, high-bandwidth memory chips, and power infrastructure.

- The first quarter earnings season for the S&P 500 typically sees analysts revising down full-year earnings-per-share (EPS) estimates. However, this year marked a clear departure from that trend. Following a strong set of results, full-year S&P 500 EPS growth expectations have been revised up to 22%, from 15% at the start of the year (Figure 2).
- Despite geopolitical headwinds, the S&P 500 has returned to all-time highs after experiencing a 9% decline during the peak of the Middle East conflict. Market performance has been heavily influenced by AI, with AI-related sectors accounting for nearly half of total S&P 500 gains in the first quarter. Importantly, market leadership is beginning to broaden, with companies further down the AI supply chain increasingly delivering better performance.
- As hyperscalers continue to raise their expectation of capital expenditure, this may place pressure on profit margins. But at the same time, it is driving earnings growth and creating investment opportunities across the broader AI ecosystem. For now, profit margins of hyperscalers remain stable as these companies focus on improving efficiency, although this may become more challenging as rising capital expenditure feeds through into higher depreciation costs over time.
- For investors concerned about concentration risks, it is important to diversify exposure across the AI value chain. Opportunities are increasingly evident in the semiconductor sector and related industries. Year-to-date, semiconductor stocks have risen 24%, significantly outperforming hyperscalers, which have gained only 5% over the same period. Investors should also look beyond the US to Asia which is a key part of the semiconductor supply chain.

Figure 2:

S&P 500 annual EPS estimates

Indexed to 100 on 12/31 of the previous year



Source: FactSet, J.P. Morgan Asset Management.



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Asian tech earnings lead the way

Technology earnings in Asia continue to play a key role in supporting regional stock market performance, and this trend is likely to persist.



What you can do

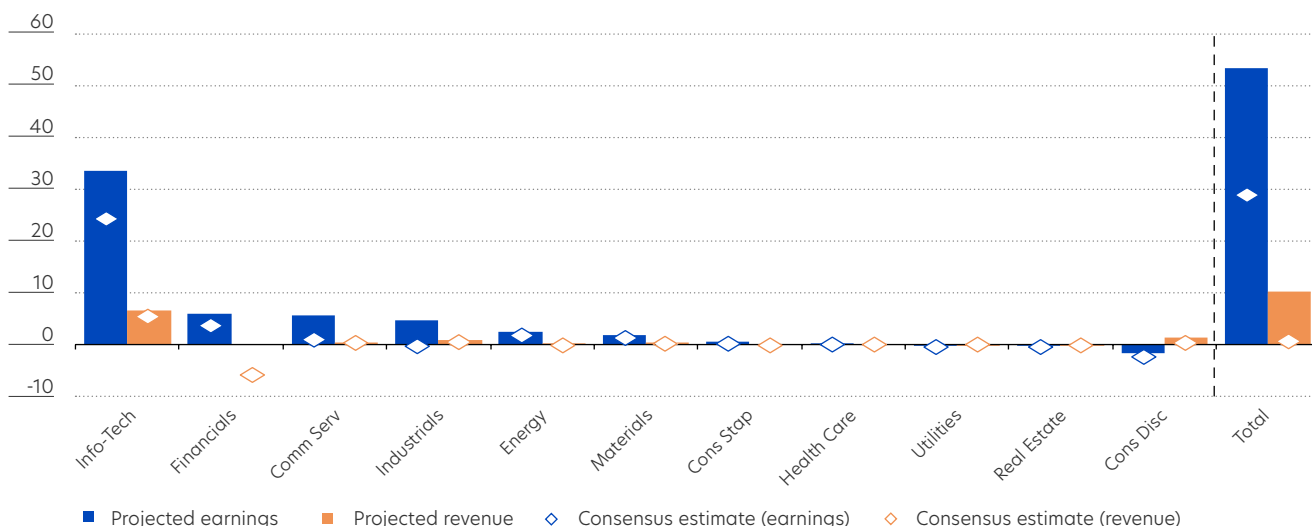
Focus on Chinese companies that benefit from the country's policy-driven AI strategy, as well as Asian semiconductor names that are integrated into the global AI supply chain.

- Asian technology earnings have been more resilient than many investors expected, supported by a still-robust memory chip cycle and sustained demand for semiconductors and computing. However, performance across the region has been uneven.
- Several challenges may potentially weigh on the earnings outlook ahead. In China, competition has intensified, particularly with ongoing price wars in e-commerce, making it harder for companies to maintain margins. Looking at Asia's technology sector, investors are also placing greater scrutiny on capital expenditure relative to earnings, as the balance between investment and monetisation has become more difficult in a challenging environment.
- China's technology sector remains a relative bright spot in 2026. The AI theme has supported investment, driven by strong demand for computing infrastructure and hardware. The broader IT sector in China has recorded double-digit growth in both capital expenditure and inventories, alongside solid earnings growth.
- At the regional level, the breakdown of earnings and revenue growth within the MSCI Asia Pacific Index highlights the importance of the technology sector. It has consistently contributed a significant share of overall growth and has been a key driver of broader market performance (Figure 3).
- Despite near-term pressures, the longer-term outlook remains constructive. Technology innovation continues to be a priority under China's Fifteenth Five-Year Plan, while a strong pipeline of AI-related initial public offerings (IPOs) is supporting market sentiment. From an investment perspective, the growth potential of AI is clear, but investors should focus on higher-quality companies with the ability to translate innovation into sustainable profits.
- To capture this trend, investors should focus on Chinese companies that benefit from the country's policy-driven AI strategy, as well as Asian semiconductor names that are integrated into the global AI supply chain.

Figure 3:

Sector contribution to projected earnings and revenue growth to MSCI Asia Pacific Index

Year-over-year change (%)-pts, USD



Source: FactSet, J.P. Morgan Asset Management.



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