

Miller Value Partners Market Commentary

June 2026

There's a New Sheriff in Town - Miller Value Partners

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Market Commentary There's a New Sheriff in Town By: Bill Miller IV, CFA, CMT July 16, 2026

The second quarter saw the S&P 500 advance 15.2% after its first-quarter pullback, leaving the index up 10.2% year-to-date. More than 80% of the S&P 500's return this year has come from ten AI beneficiaries, representing exceptionally thin market leadership within the index and helping propel it to new highs through the second quarter. There is at least one asset class that has not hit a new high in almost six years: bonds. The Bloomberg US Aggregate index, sometimes called "The Agg," includes investment-grade bonds in the United States across Treasuries, government-related and corporate securities, as well as mortgages and other debt. Perusing a graph of the index, which dates back to 1976, reveals that bonds' current drawdown, which began after the market high on August 6, 2020, has never been this prolonged. Most of the damage occurred between the end of 2021 and early 2023 as demand re-emerged on the heels of COVID shutdowns only to meet reduced production capabilities, resulting in seventeen consecutive months when the consumer price index printed annual increases at least three times the Federal Reserve's stated target increase of 2%. Perhaps it is this type of quickly changing environment that prompted Kevin Warsh to rethink the Fed's approach to monetary policy. Most new Fed chairs launch some type of policy review upon arrival; Jay Powell in 2019 launched a review of the monetary policy framework, culminating in a more "broad-based and inclusive" employment goal along with a flexible average inflation targeting framework designed to make up for a decade of persistent shortfalls. Now, Warsh is taking a blank-slate approach from a supply-side perspective, meaning that his primary focus is maximizing the economy's productive capacity; this is in contrast to so-called "demand siders," who focus more on changing consumer appetite for goods and services to balance the Fed's dual mandate of maximum employment and price stability. He is incorporating a wide range of views from leaders in their fields, ranging from business to academics and politics. As a longtime practitioner with deep experience operating in markets, he appears inclined to reduce precise forward communication in favor of more general and flexible operating principles, and he is likely to rely more on real-time data. So far, he is "talking the talk" with his first rate-setting statement being the shortest in six years; at just 130 words, it is also the second shortest in almost two and a half decades. Markets appear inclined to trust Warsh, sending some interesting smoke signals out since January 30, the day the White House announced his nomination to serve as Chairman of the Board of Governors of the Federal Reserve System. While it is important to remember an intervening energy price spike, it is still instructive to consider what changes in forward-looking indicators may be telling us about the potential results from new policy direction. Maybe most noticeably, the bond market believes that Warsh will get inflation in check quickly. Its expectation of inflation over the coming two years has

gone from 2.8% annualized at the time of Warsh's nomination to under 2% just five and a half months later. Meanwhile, people who feared he would kowtow to the president with a quick rate cut need not worry - the market has gone from pricing in multiple cuts at the time of Warsh's nomination to now expecting a rate hike by the end of this year. The energy price spike combined with potential changes in policy have economists and bond investors alike expecting a bit of a reset: the yield curve's steepness, as measured by the difference in 2- and 10-year bond yields, reversed course to flatten out after hitting a 4-year high within a few days of the nomination. The curve remains positively sloped and expectations for present-quarter growth have slowed, primarily on reduced expectations for net exports, but there is a more important and likely enduring dynamic continuing to gain steam - the real yield available on US ten-year inflation-protected securities is now north of 2%, or more than four times the median level observed between 2010 and 2020. This suggests strong investor optimism for our economy's productive capacity and an ability for capital to generate real returns again after a decade of overhang from misallocated capital leading into the great financial crisis. While many fret about stock market valuations that appear high relative to history, the aforementioned dynamics could imply continued strong returns for equities, especially stocks that generate excess capital and return it to owners, along with a better outlook for bonds over the coming decade. As always, we remain the largest investors in our strategies and appreciate your partnership. Bill Miller IV, CFA, CMT July 15, 2026

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