



## MONTHLY MARKET PULSE – JUNE 2026

### HIGHLIGHTS

- ▶ **AI Momentum Continues:** U.S. equities extended April's rally, with the S&P 500, Nasdaq, and Dow ending May at fresh record highs, supported by continued strength in Technology and AI-linked shares.
- ▶ **Iran Off-Ramp?** The U.S.–Iran conflict remains unresolved, but signs of a potential memorandum of understanding (MoU) helped push oil prices lower and eased concerns about a sustained energy shock.
- ▶ **Rates Remain in Focus:** Treasury yields have risen sharply in recent months as markets reassess growth, inflation, and Federal Reserve (Fed) policy, a topic we examine in this month's *Spotlight*.

**MONTHLY SPOTLIGHT:**  
**The Story Behind Higher Rates**  
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### MACRO INSIGHTS

#### Records, Rates, and Resilience

U.S. equities advanced again in May, extending April's sharp rally and lifting the major indices to new record highs. The S&P 500 gained 5.3%, while the Nasdaq rose 8.4% behind continued strength in large-cap Technology and AI-related shares. The Dow added 2.8%, and the Russell 2000 gained 4.4%, reflecting positive but more measured participation outside the market's largest growth companies. While risk appetite remained firm, performance was shaped by a relatively narrow set of companies tied to compute demand, semiconductor supply, and the broader AI capital spending cycle.

Technology remained the clear standout. Semiconductor and memory stocks continued their strong year-to-date run, while Software shares built on their recent recovery as investors reassessed the potential for AI to support productivity gains and future revenue growth. Hardware, Networking, and Communications-related companies also performed well, benefiting from demand tied to infrastructure buildouts. The earnings backdrop provided additional support, with first-quarter results coming in well ahead of expectations. S&P 500 earnings growth was the strongest since late 2021, though the gap between the largest Technology companies and the rest of the market remained meaningful.

Geopolitical risk remained an important but less disruptive market factor. The U.S.–Iran conflict persisted through the month, though several flare-ups failed to meaningfully unsettle equities. By month-end, reports of a potential memorandum of understanding and an extended ceasefire helped reinforce expectations that a negotiated path may be emerging. Oil prices declined as a result, with WTI moving back below \$90 per barrel, easing fears that energy costs would become a more significant drag on growth or corporate margins.

The macro picture continued to present crosscurrents, with higher interest rates again a central market focus. Treasury yields have risen sharply in recent months, reflecting both an earlier move higher in inflation expectations—which has since moderated—and growing conviction that the Fed will be unable to lower rates over the foreseeable horizon. We explore the dynamics driving the move in rates further in this month's *Spotlight*.

In May, yields moved modestly higher, particularly at the front end, as investors weighed firmer inflation data and a Fed that appears reluctant to pivot toward easing. Consumer spending remained broadly resilient, but affordability pressures and signs of greater

caution among lower-income households became more visible. The leadership transition at the Fed also moved into focus as Kevin Warsh replaced Jerome Powell as Chair.

Looking ahead, the market remains supported by solid earnings, strong AI-related investment, and some moderation in geopolitical and energy risks. These factors continue to underpin our moderate overweight risk positioning. At the same time, the recent rise in rates bears watching, as persistent inflation and limited scope for policy easing could pressure valuations and rate-sensitive segments of the market. Following two strong months of gains, markets may be more vulnerable to shifts in sentiment, particularly if AI enthusiasm or expectations for a diplomatic resolution to the Iran conflict are challenged. Still, strong earnings growth has been the primary driver of returns this year, providing important fundamental support for risk assets.

#### Tech Outperforming, Valuation Premium Narrowing

Technology has seen its valuation premium to the market narrow despite outperforming, thanks to very strong earnings growth.

**Forward PE Ratio of S&P 500 IT Sector Relative to S&P 500 Index**



Sources: Bloomberg and Macrobond.

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## WHAT TO WATCH

Developments surrounding the conflict with Iran will remain a focus due to their impact on energy prices and overall inflation. Assuming the labor market remains stable, investors will be watching all aspects of inflation, including direct impacts on consumer energy prices as well as second-round effects. Consumer spending will also be in focus as tax refunds support household spending, partially offset by rising energy prices. The AI/compute buildout will remain a key theme supporting growth.

- ▶ The next Federal Open Market Committee (FOMC) meeting—and Warsh’s first as Chair—will be held on June 17. Markets will be looking for changes to the statement, given expectations that the policy rate will remain unchanged.
- ▶ The next consumer inflation reading will come from the Consumer Price Index (CPI) release on June 10, followed by Personal Consumption Expenditures (PCE) data on June 25.
- ▶ Retail sales data, to be released on June 17, will provide a read on consumer spending. We will be watching for signs that higher gas prices are affecting spending in other areas.

## MONTHLY SPOTLIGHT



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### The Story Behind Higher Rates

The recent rise in Treasury yields is often described—and may appear on the surface—as inflation driven. That reaction is understandable given the conflict in Iran and investor anxiety around inflation since 2022. Energy prices have risen sharply, and investors continue to reassess the path of near-term price pressures. But inflation alone does not explain the recent move. Increasingly, the backup in nominal rates reflects a broader repricing of growth, monetary policy, and market structure.

The largest driver has been stronger real growth expectations, as real yields have moved higher across the curve. The consumer is the largest component of U.S. growth, and spending has held up better than many expected, supported by higher-income households and accommodative

fiscal policy. At the same time, corporate profitability remains near record levels, and business surveys have improved, with PMIs pointing to a U.S. economy that continues to expand. AI-related capital spending also remains an important source of investment, while many investors continue to anticipate eventual productivity gains from the technology. Together, these forces have created meaningful tailwinds for the U.S. economy and helped push long-dated real yields to levels rarely seen over the past two decades.

A second driver of higher nominal yields is the expectation that sticky inflation will keep the Fed from cutting policy rates in the near term. Inflation had been moderating coming into the year, but the rise in energy prices has forced investors to recalibrate their near-term forecasts. Core inflation remains well above the Fed’s 2% target, creating a difficult environment for rate cuts while the labor market remains stable and growth continues at a reasonable pace.

Another key driver has been changing market dynamics, or technicals, including a rising term premium. Fiscal deficits and elevated Treasury supply increase the compensation investors demand to hold longer-maturity

bonds. At the same time, investor positioning and hedging demand related to near-term oil and inflation risks may be putting pressure on the front end of the curve. Global bond markets are also interconnected, and higher yields abroad have pulled U.S. rates higher. These dynamics, along with sizable Investment Grade issuance—particularly from companies funding AI infrastructure—have added upward pressure to different parts of the Treasury curve.

Implications for investors are more nuanced. Rising interest rates driven by strong economic fundamentals elicit a different reaction than rates rising for “bad” reasons, such as unanchored inflation expectations, concerns about fiscal sustainability, or the Fed cutting rates before inflation is contained. The key question is not just whether rates are higher, but why they are higher—and whether the economy can continue to absorb them. The evidence so far suggests that higher rates remain manageable, particularly while growth expectations are firm and risk assets continue to perform. Still, the reason rates are rising matters. A growth-driven increase in yields can be absorbed; a confidence-driven increase is much harder to digest. Investors should focus less on the level of yields alone and more on the message embedded in the move.

**5-Year Real Yields**



Chart sources: Bloomberg and Macrobond.

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## CURRENT OUTLOOK

Topic	View	MoM Change	Commentary
<b>Macroeconomic Views</b>			
Economic Growth		↑	<ul style="list-style-type: none"> <li>▶ Growth expectations for 2026 are largely centered on trend growth (~2%), as tariff headwinds dissipate, capital expenditures rise, and accommodative fiscal conditions contribute to <b>economic expansion</b>. However, a prolonged conflict in the Middle East that continues to disrupt supply chains presents downside risks to growth.</li> <li>▶ Job growth remains subdued, but layoffs have been relatively stable, keeping the unemployment rate range bound.</li> <li>▶ <b>Uncertainty remains</b> due to geopolitical tensions, rising energy prices, and shifting U.S. trade policy.</li> </ul>
Inflation		–	<ul style="list-style-type: none"> <li>▶ Market expectations are that <b>inflation will remain above 3% for the remainder of this year</b>. The conflict in Iran has pushed energy prices higher and is expected to keep headline inflation elevated. Additionally, second-round effects—such as increases in food prices and airfares—are placing upward pressure on core inflation, albeit to a lesser extent.</li> <li>▶ Core PCE inflation is running at 3.8% (annualized) over the past 3- and 6-month periods, driven by higher goods inflation. Conversely, Services inflation has remained relatively stable.</li> <li>▶ Following the Supreme Court decision to strike down International Emergency Economic Powers Act (IEEPA) tariffs, the Administration is using other authorities to re-establish many of these tariffs. This is likely to result in a lower average tariff rate on imports compared to expectations that included IEEPA tariffs.</li> </ul>
Monetary Policy		–	<ul style="list-style-type: none"> <li>▶ <b>Warsh is the new Chair of the Fed</b>, and his first FOMC meeting and press conference will be held on June 17. Former Chair Powell is remaining on as a Governor due to issues surrounding Fed independence.</li> <li>▶ The Fed is likely to remain on pause for the remainder of the year, citing <b>uncertainty around inflation</b> due to the conflict in the Middle East, while the labor market appears stable. Divisions exist within the FOMC, as some members have voiced a desire to remove their easing bias.</li> <li>▶ Energy and tariff concerns have resulted in shifting expectations for the path of monetary policy. <b>Market pricing has been volatile but currently implies roughly a 50% chance of a rate hike by the end of 2026.</b></li> </ul>
Fiscal Policy		–	<ul style="list-style-type: none"> <li>▶ Accommodative tax policy is providing <b>support to households</b>, as <b>tax refunds</b> deliver a one-time income boost, while <b>lower withholding taxes</b> should help sustain consumer spending. Additionally, capital expenditure plans continue to underpin growth, aided by accelerated depreciation.</li> <li>▶ Flexibility within fiscal policy remains low, as federal debt levels continue to increase and <b>higher interest costs</b> consume a larger portion of government outlays.</li> </ul>
<b>Market Valuations</b>			
Rates		–	<ul style="list-style-type: none"> <li>▶ Rates continued to fluctuate with headlines surrounding the Iran conflict and oil prices but ended May higher. While inflation remained a concern, the rise in nominal rates was driven by an increase in real rates (growth expectations). The 10-year Treasury yield rose about 7 bps, ending at 4.44%.</li> <li>▶ We anticipate that the <b>path of policy rates will continue to shift</b>, driven by headlines related to the Iran conflict as well as new data on the labor market and inflation.</li> <li>▶ Longer-term rates are toward the higher end of our fair-value range, resulting in a modest duration bias at current levels.</li> </ul>
Credit		–	<ul style="list-style-type: none"> <li>▶ Credit spreads continued to tighten as investors anticipated a resolution to the conflict with Iran in relatively short order, resulting in valuations that are <b>elevated relative to historical averages</b>.</li> <li>▶ We believe the <b>risk-reward is skewed to the downside</b>, although strong corporate fundamentals should help support spreads.</li> <li>▶ Investment Grade spreads (10-year BBB industrials) tightened modestly and ended the month at their 7th percentile. High Yield spreads (single-B corporates) also tightened, ending at their 6th percentile since the 1990s.</li> </ul>
Equity		–	<ul style="list-style-type: none"> <li>▶ The <b>S&amp;P 500 continued to move higher as investors anticipated a resolution to the Iran conflict</b>. In addition, renewed interest in companies contributing to the AI buildout, along with strong earnings to start the year, helped drive markets higher. The index ended May at all-time highs, up more than 5% for the month and 11.3% year to date.</li> <li>▶ First-quarter earnings season far exceeded expectations, as S&amp;P 500 earnings grew more than 20% year over year. 2026 earnings forecasts call for earnings growth of 22% by year-end.</li> <li>▶ <b>Equity valuations for the S&amp;P 500 remain moderately above historical averages at 21x forward earnings</b>. Market fundamentals remain healthy, and we expect returns in 2026 to be driven by continued earnings growth.</li> </ul>

## MARKET DATA & PERFORMANCE | AS OF 05/31/2026

U.S. Snapshot	Current	6 Months Prior	1 Year Prior
Core Inflation (YoY)	3.3	2.8	2.8
Unemployment Rate	4.3	4.5	4.3
Real GDP (YoY)	2.6	2.3	2.0
Retail Sales (YoY)	4.9	3.2	3.4
30-Year Mortgage Rate	6.5	6.2	6.9
10-Year Treasury Yield	4.4	4.0	4.4
US Corporate IG Yield	5.1	4.8	5.2
US Corporate HY Yield	7.0	6.6	7.5

### TOTAL RETURNS

Asset Class	MTD	QTD	YTD	1 Year	3 Years*	5 Years*
<b>Equity</b>						
Russell 3000 Index	5.1%	15.8%	11.2%	29.4%	23.2%	12.9%
S&P 500 Index	5.3%	16.3%	11.3%	29.8%	23.6%	14.1%
S&P MidCap 400 Index	2.5%	10.5%	13.3%	25.9%	17.4%	8.1%
Russell 2000 Index	4.4%	17.1%	18.2%	43.1%	20.3%	6.6%
MSCI World Index	4.6%	14.7%	10.7%	28.0%	22.4%	12.5%
MSCI World ex USA Index	2.9%	10.6%	9.7%	24.6%	19.4%	9.7%
<b>Fixed Income</b>						
Bloomberg US Aggregate Index	0.3%	0.4%	0.4%	5.1%	3.9%	0.2%
US Corporate Investment Grade	0.7%	1.1%	0.6%	6.0%	5.2%	0.6%
US Corporate High Yield	0.5%	2.2%	1.7%	7.6%	9.4%	4.4%
Emerging Market Debt	0.9%	3.4%	1.5%	11.3%	10.4%	2.4%
US Treasury (7–10 Year)	-0.1%	-0.3%	-0.6%	4.0%	2.4%	-0.7%
Cash	0.3%	0.6%	1.5%	4.0%	4.8%	3.5%

Source: Fort Washington and Bloomberg. \*Returns longer than 1 year are annualized. Past performance is not indicative of future results.

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