



## MONTHLY MARKET PULSE – MAY 2026

### HIGHLIGHTS

- ▶ **Iran Conflict:** Oil prices have risen to their highest levels of the year as the conflict in the Middle East enters its third month, with no clear end in sight. The national average price at the pump is around \$4.45 per gallon, according to AAA.
- ▶ **Best Month Since 2020:** The S&P 500 ended at all-time highs, as April's 10.5% return was the strongest since 2020.
- ▶ **New Federal Reserve (Fed) Chair:** The Senate is expected to confirm Kevin Warsh soon, setting the stage for him to assume his new role as Chair in May. With a new Fed Chair incoming, we examine how his views may shape the direction of the Fed in this month's *Spotlight*.

**MONTHLY SPOTLIGHT:**  
**New Fed Chair Finally Set to  
 Take Control**

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See page 2

### MACRO INSIGHTS

#### Equities Surge to Record Despite Unresolved Risks

U.S. equities rebounded sharply in April, reversing March's drawdown and pushing major indices to fresh record highs. The S&P 500 rose 10.5%, its strongest monthly gain since late 2020, while the Nasdaq jumped 15.3% for its best performance since the pandemic-era rally. Small caps participated meaningfully, with the Russell 2000 advancing 12.2%. In contrast to the prior month's broad-based weakness, April's advance was leadership-driven, with mega-cap Technology and AI-linked names accounting for a significant share of the upside, while improving sentiment lifted most segments of the market.

Leadership was once again concentrated in the AI ecosystem. Mega-cap platforms, semiconductor companies, and infrastructure plays drove returns, supported by strong earnings, rising capital expenditures, and a steady cadence of partnership and investment announcements. The largest Technology companies all finished higher, with particularly strong gains among those tied to cloud and compute demand, while semiconductors delivered one of their strongest months on record. More speculative areas of the market also outperformed, reflecting a sharp improvement in risk appetite. The earnings backdrop remained supportive, with strong growth and positive revisions reinforcing confidence in forward demand, while corporate commentary pointed to continued strength in both enterprise spending and a resilient U.S. consumer, with spending holding up despite softer sentiment and some like pressure on discretionary demand from higher gasoline prices.

Geopolitical developments continued to generate headlines but had a more limited direct impact on equities. The conflict with Iran persisted through the month, marked by stalled negotiations and periodic escalation, including a U.S. blockade of the Strait of Hormuz. Despite the lack of resolution, equity markets largely looked through the uncertainty, supported in part by confidence that an eventual off-ramp will be found. While oil prices ended the month near four-year highs, markets appear to be discounting a path toward moderation that would limit the risk of a material slowdown in economic activity. This divergence—resilient equities alongside more reactive commodity and rates markets—remains a key dynamic.

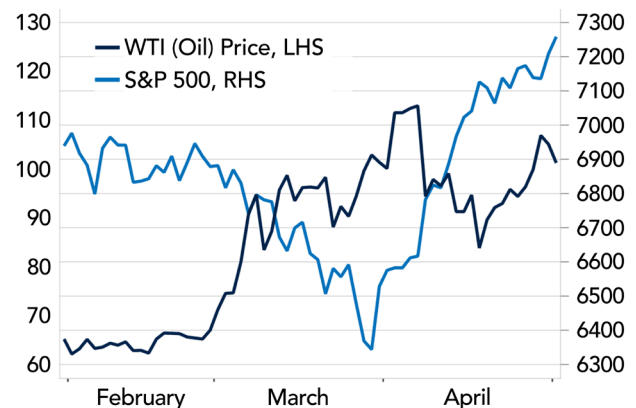
The macro backdrop offered mixed but still constructive signals. Treasury yields moved modestly higher, reflecting resilient economic data and persistent inflation pressures, while markets repriced expectations for Fed policy toward no rate cuts this year. Consumer

spending accelerated during the quarter, and earnings growth remained firm, reinforcing the view of an economy that continues to expand despite higher input costs. The April Federal Open Market Committee (FOMC) meeting reinforced this shift, with a more divided committee and limited signaling of near-term easing. Importantly, the transition to new Fed leadership is now in focus, with Chair nominee Kevin Warsh expected to take the helm in May. While policy continuity is the base case, the combination of elevated inflation, firm growth, and a leadership transition introduces an additional layer of uncertainty—one we explore further in this month's *Spotlight*.

Looking ahead, the outlook continues to be supported by healthy underlying economic fundamentals. Solid earnings growth, an accelerating consumer, and ongoing AI-driven investment remain constructive for risk assets and underpin our modest overweight positioning. However, the ongoing conflict in Iran represents a notable threat to those fundamentals should the situation remain unresolved and commodity prices push higher still. At the same time, the sharp improvement in sentiment and positioning suggests the AI trade may be prone to bouts of volatility following its recent strength.

#### Stocks Rebound Despite Oil Remaining Elevated

The S&P 500 hit all-time highs despite WTI over \$100 per barrel.



Sources: Bloomberg and Macrobond.

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## WHAT TO WATCH

While the market has lowered its expectations for severe downside outcomes related to the Iran conflict, the focus will continue to center on the impact on inflation. Investors will monitor direct impacts on consumer energy prices, as well as second-round effects. Consumer spending and sentiment data will be important to watch as tax refunds support household spending, partially offset by rising energy prices. The continued AI/compute buildout will remain a key theme.

- ▶ The next consumer inflation reading will come from the Consumer Price Index (CPI) release on May 12, followed by Personal Consumption Expenditures (PCE) data on May 28. A look at corporate price inflation will be available in the Institute for Supply Management (ISM) services report, released on May 5 (the ISM manufacturing report was released on May 1).
- ▶ Retail sales, which provide a read on consumer spending, will be released on May 14, while consumer sentiment from the Conference Board will be released on May 26.

## MONTHLY SPOTLIGHT



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### New Fed Chair Finally Set to Take Control

Jerome Powell's term as Chair of the Fed ends in May 2026, with Kevin Warsh set to take over following his nomination earlier this year. While there was initial uncertainty surrounding his confirmation due to the probe into Powell related to Fed construction costs, that overhang cleared in April, paving the way for a leadership transition. Given the Fed's broad influence across the U.S. economy, it is worth evaluating how Warsh may shape its direction. We examine his approach and potential impact across three key levers: policy rates, the balance sheet, and forward guidance. It is also important to note that the Chair does not act unilaterally. Monetary policy decisions are made by a 19-member committee (12 voting members), meaning Warsh will need to build consensus around any shift in direction.

On policy rates, Warsh has recently leaned more dovish, signaling openness to lower rates. His argument appears grounded in the view that the Fed has been overly backward-looking, particularly in its assessment of inflation. He has pointed to artificial intelligence as a potential driver of productivity gains, which could allow for stronger growth without corresponding inflationary pressure. If realized, that would create room for rate cuts. However, this view faces a near-term challenge: the recent rise in inflation driven by higher energy prices. This adds complexity to the case for easing and would make it difficult to secure majority support for a cut.

Beyond rates, the balance sheet represents a second key lever. Warsh has suggested that the Fed has become too reliant on unconventional tools and may have overstepped aspects of its mandate in recent years. This points to a preference for a smaller balance sheet over time. Any meaningful reduction, however, would likely be gradual, a view Warsh himself has acknowledged. Even so, a shift in this direction could have important market implications, particularly by putting upward pressure on longer-term interest rates as the Fed steps back from being a large buyer of Treasuries and mortgage-backed securities.

Finally, on forward guidance, Warsh has been critical of the Fed's heavy use of signaling around the future path of policy. He appears to favor a more restrained approach, potentially reducing the emphasis on detailed communication about where policy may be headed. While changes to rates or the balance sheet would likely take time, adjustments to forward guidance could occur more quickly, given that the Chair holds a press conference after each FOMC decision to discuss the decision and answer questions.

Taken together, these views suggest that a transition from Powell to Warsh is not likely to materially alter the near-term path of monetary policy—particularly given current inflation dynamics and the committee-based structure of the Fed—but differences could emerge over time. One unique dynamic to watch in this transition is that Jerome Powell will remain on the Board of Governors after stepping down as Chair. While uncommon, recent legal challenges to the Fed's independence prompted this decision, and we believe he will remain on the Board through the Inspector General's report, which could take a few months.

**Implied Fed Policy Rate for December 2026**



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 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 elevated</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>core inflation will decline gradually toward the mid-2%</b> range over the next year. However, the conflict in Iran has created elevated uncertainty around global energy supply, pushing oil and gas prices higher and presenting an upside risk to headline inflation. 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>▶ Services inflation continues to cool, and we expect that trend to remain intact over the coming quarters. Goods and energy inflation remain the primary sources of concern for any upside to inflation.</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>▶ Following Banking Committee approval, <b>Kevin Warsh's nomination</b> moves to the Senate, where he is expected to be confirmed. He would then take the helm in mid-May; however, Powell will remain on as a Governor due to issues surrounding Fed independence.</li> <li>▶ The Fed <b>remained on pause</b> at its April meeting, citing <b>uncertainty around inflation</b> due to the conflict in the Middle East, while the labor market appears to remain stable. Divisions exist among FOMC members, as three members dissented to remove their easing bias, although it does not appear that rate hikes are on the table.</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 assumes no change in the policy rate through the end of 2026.</b></li> </ul>
Fiscal Policy		-	<ul style="list-style-type: none"> <li>▶ The Big, Beautiful Bill (BBB) is providing <b>support to households</b>, as <b>tax refunds</b>—up 16% from 2025—deliver a one-time income boost, while <b>lower withholding taxes</b> should help sustain spending through the rest of the year. 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 were volatile but rose over the month of April amid continued disruptions to energy prices, which impacted inflation and rate cut expectations. The 10-year Treasury yield rose about 5 bps, ending at 4.37%.</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>▶ Both short- and long-term rates are at the higher end of our expected fair-value range, resulting in a longer duration bias at current levels.</li> </ul>
Credit		-	<ul style="list-style-type: none"> <li>▶ Credit spreads tightened during April as investors shrugged off higher energy prices, 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 11th percentile. High Yield spreads (single-B corporates) also tightened, ending at their 11th percentile since the 1990s.</li> </ul>
Equity		-	<ul style="list-style-type: none"> <li>▶ The <b>S&amp;P 500 recovered quickly from the drawdown driven by the Iran conflict, rising more than 12% from the trough</b>. Investors lowered expectations that the worst outcomes from the Iran conflict would materialize, and renewed interest in AI helped drive markets higher. The index ended April at all-time highs, up 10.5% over the month and 5.7% year to date.</li> <li>▶ With about 70% of S&amp;P 500 companies reporting, first-quarter earnings season exceeded expectations, as S&amp;P 500 earnings grew roughly 14% year over year. 2026 earnings forecasts are up 11% since the start of the year.</li> <li>▶ <b>Equity valuations for the S&amp;P 500 are moderately above historical averages</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 04/30/2026

U.S. Snapshot	Current	6 Months Prior	1 Year Prior
Core Inflation (YoY)	3.2	2.8	2.6
Unemployment Rate	4.3	4.4	4.2
Real GDP (YoY)	2.7	2.3	2.0
Retail Sales (YoY)	4.0	3.2	5.0
30-Year Mortgage Rate	6.3	6.2	6.8
10-Year Treasury Yield	4.4	4.1	4.2
US Corporate IG Yield	5.1	4.8	5.1
US Corporate HY Yield	7.0	6.8	7.9

### TOTAL RETURNS

Asset Class	MTD	QTD	YTD	1 Year	3 Years*	5 Years*
<b>Equity</b>						
Russell 3000 Index	10.2%	10.2%	5.8%	31.0%	21.3%	11.9%
S&P 500 Index	10.5%	10.5%	5.7%	31.1%	21.7%	13.1%
S&P MidCap 400 Index	7.9%	7.9%	10.6%	29.5%	15.3%	7.6%
Russell 2000 Index	12.2%	12.2%	13.2%	44.4%	18.2%	5.7%
MSCI World Index	9.6%	9.6%	5.8%	29.7%	20.2%	11.8%
MSCI World ex USA Index	7.5%	7.5%	6.6%	27.0%	16.6%	9.9%
<b>Fixed Income</b>						
Bloomberg US Aggregate Index	0.1%	0.1%	0.1%	4.1%	3.5%	0.2%
US Corporate Investment Grade	0.5%	0.5%	0.0%	5.3%	4.5%	0.7%
US Corporate High Yield	1.7%	1.7%	1.2%	8.8%	8.9%	4.4%
Emerging Market Debt	2.5%	2.5%	0.6%	11.3%	9.7%	2.5%
US Treasury (7–10 Year)	-0.2%	-0.2%	-0.5%	2.7%	2.0%	-0.6%
Cash	0.3%	0.3%	1.2%	4.1%	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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