



Capital Markets Commentary – June 2026

There is an old saying on Wall Street: the trend is your friend. March tested that friendship, April restored it with “interest”, and May quietly kept the streak alive. If someone had handed you March’s headlines at the start of April and asked you to guess where markets would be by the end of May, there is a reasonable chance you would’ve guessed wrong. An active war in the middle east, a new Federal Reserve chair navigating the most divisive confirmation in the institution’s history, and inflation reaccelerating on a monthly basis, are a few obstacles markets have had to overcome. Meanwhile, in Las Vegas, the inaugural Enhanced Games, a sporting competition billed as the Olympics without drug testing where athletes competed with full pharmacological assistance and a \$1 million prize on the table for any world record broken, managed to produce only one world record out of dozens of attempts. Markets, it turns out, needed no such incentive.

The S&P 500 gained approximately 5.3% for the month, the Nasdaq continued to lead U.S. benchmarks with an advance of 8.4%, and the Dow added a more modest 2.9%. The S&P 500 also crossed another major milestone this past month, closing above 7,500 for the first time in its history. In general, the strength was not confined in the United States. The Eurozone STOXX 50 added 3.4% and the Nikkei posted a standout 10.0% gain. The Hang Seng was the exception, slipping 1.8%. On the fixed income side, the 10-yr Treasury yield closed the month at 4.44% and continued to experience volatility as it briefly hit 4.69% mid-month with inflation data unsettling the bond market before retreating. The bond markets message, as it has been for much of the year, is that the path back to lower rates remains anything but straight. With that, let’s take a deeper look into the institution tasked with making sense of the data.ⁱ

May marked the end of an era at the Federal Reserve. Kevin Warsh was confirmed by the Senate on May 13th in a 54-45 vote, the most divisive confirmation in the institution's history, and was sworn in on May 22nd as the 17th Chair of the Federal Reserve.ⁱⁱ The role of the Fed Chair can

come with great political scrutiny and Jerome Powell was certainly not the exception to this scenario during his eight-year tenure. Powell will remain at the Fed as a governor, the first departing chair to make that move in nearly 80 years. As a governor, Powell joins the seven-member Board of Governors that, along with the president of the Federal Reserve Bank of New York, and four of the remaining eleven other regional presidents, who rotate onto the Federal Open Market Committee (FOMC), make up the body responsible for setting interest rate policy. The Chair runs the meetings and shapes the narrative, but it is worth remembering that monetary policy in this country is not made by one person; it is made by committee, with each member casting a vote. That structure is a deliberate design choice, built on the premise that decisions of this magnitude benefit from more than one set of eyes and that no single individual, regardless of who appointed them, should have unchecked authority over the cost of money in the world's largest economy.

The April CPI report, released on May 12th, showed consumer prices rising 0.6% for the month, putting the year-over-year rate at 3.8%. Core CPI, which strips out food and energy and is the number the Fed watches most closely, rose 0.4% for the month and 2.8% annually. To put that in context, headline inflation has now moved from 2.4% in February to 3.3% in March to 3.8% in April.ⁱⁱⁱ Three consecutive months of acceleration, with energy accounting for a major portion of the gain. Real average hourly wages slipped 0.5% for the month, meaning workers are earning more in nominal terms but losing ground in purchasing power.^{iv} That is not a comfortable combination for a new Fed chair walking through the door.

Chair Warsh's first FOMC meeting is June 16-17. He will inherit a federal funds rate of 3.50% to 3.75%, a yield curve that has flattened considerably, and an inflation print that gives him little room to maneuver in either direction. His first press conference will be closely watched, not for what he does, which will almost certainly be nothing, but for how he describes the landscape and what it reveals about how he intends to run the institution. Tone, in central banking, is policy.

The new Fed chair was not the only thing commanding attention in May, as the Initial Public Offering (IPO) market, which spent much of the past three years in a state of near hibernation, is waking up in dramatic fashion. A cluster of the most closely watched private companies in a generation, are moving toward public listings, collectively representing what many consider the most consequential IPO pipeline in years. The valuations being discussed are, by any traditional measure, extraordinary. We are talking about companies potentially being priced at 50 to nearly 100 times annual revenue. To put that in context, the average S&P 500 company currently trades around 3 to 4 times annual revenue. That alone does not make them bad investments, but it does make them a different kind of investment; one where the margin for error is thin and the patience required could be long. We have seen this before, in the late 1990s, when the companies that survived and scaled ultimately justified their valuations and then some. We have also seen what happened to those that did not.

What makes this moment particularly consequential for everyday investors is what happens after these companies go public. The S&P 500 is not simply a list of the 500 largest U.S. companies; it is a curated index selected by a committee that weighs both hard numbers and softer judgment calls. Typically, to be considered, a company needs at least \$22.7 billion in market capitalization, four consecutive quarters of combined positive GAAP earnings, and enough shares trading publicly to keep the stock liquid, among other requirements.^v There has also historically been a mandatory seasoning period. A minimum of twelve months must pass after a company's initial public offering before it can be considered for inclusion. However, a proposal to modify this rule has been made to better accommodate massive private companies going public and could potentially be shorted to six months. In addition, they have also proposed removing other standard requirements like cumulative profitability.^{vi}

Here is why it matters: trillions of dollars in index funds track the S&P 500 directly, which means the moment a company is added to the index, it triggers an automatic and immediate wave of buying from passive investors who have no choice in the matter. If and when these companies earn their way into the index, every investor who owns an S&P 500 index fund could find themselves owning them, automatically, and at whatever price they are trading at the time of inclusion. That is not a reason to avoid index funds, we mention it so you can better understand what you own.

The potential risk we are speaking of is concentration. The S&P 500 is already more concentrated in its top holdings than at virtually any point in its history, with the ten largest companies accounting for a disproportionate share of both the index's weight and its recent returns. The addition of several companies with multi trillion dollar valuations, should they earn inclusion, would deepen that concentration further. A benchmark that was designed to represent the breadth of the American economy could, over time, come to reflect an increasingly narrow slice of it. We are not predicting that outcome, and we are not suggesting clients abandon the index funds and passive strategies that have historically served long-term investors well. We are simply noting that moments of historic market activity deserve historic levels of attention.

Historic moments in capital markets have a way of accelerating regulatory conversations. In May, one of those conversations moved meaningfully forward, offering the digital asset industry something it has been waiting years on... a rulebook. For much of its history, albeit a relatively short one, the digital asset industry has operated in a regulatory gray zone (i.e. it was tolerated by some, targeted by others, and understood by relatively few in positions of authority). The month of May marked a meaningful step toward changing that as the Senate Banking Committee advanced the Digital Asset Market Clarity Act in a 15-9 bipartisan vote.^{vii} Thus, moving one of the most highly anticipated pieces of crypto legislation in the asset class's history one step closer to becoming law. The bill formally divides oversight of digital assets between the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC). The CFTC would have authority over decentralized "digital commodities" like Bitcoin, while the SEC would have authority over digital securities. After being merged with a previous version that passed the Senate

Agriculture Committee, it will move to the Senate floor, where it will require a supermajority in order to advance.

This matters whether you own digital assets or not. The GENIUS Act, signed into law last year, established the first federal framework for stablecoins.^{viii} Stablecoins are digital assets designed to maintain a steady, predictable value by “pegging” it to a reference asset, such as the U.S dollar. The Clarity Act is designed to address essentially everything else. When viewed together, they represent the first time Washington has attempted to build a durable, comprehensive regulatory framework for an asset class that has been operating without one since its inception. The practical implications could be significant as institutional investors who have been unwilling or unable to allocate to digital assets due to regulatory uncertainty, may now have a framework they can underwrite as custody rules, disclosure requirements, and jurisdiction clarity are finally being established.^{ix} We will be candid, the path to final passage is not without obstacles. There are still several key areas that are unresolved, such as an ethics provision that could restrict government officials from holding or profiting from digital assets.^x The outcome of this provision could attract the additional support it needs on the senate floor.

The digital asset space has been asking Washington to establish clear rules of the road, and the answer appears to be taking shape. The details are still being debated, the timeline could slip, and no matter what, the final bill may not satisfy everyone. Regardless of where one stands on digital assets, this regulatory progress is worth acknowledging.

To wrap up this month’s letter, let’s take a step back from the individual headlines of May and examine the big picture. Markets have done something remarkable over the past two months; they have looked past an active war, a change in Fed leadership, reaccelerating inflation, the most anticipated IPO pipeline in a generation, and suggested that the future may look better than the present feels. However, the situation that started all of this remains unresolved in ways that matter. The war in the Middle East continues, the Strait of Hormuz remains a point of contention, and the path to a lasting agreement has proven considerably more complicated than early optimism suggested. We would also be remiss not to remind you that this is a midterm election year, which as history shows, has a tendency to bring volatility for a ride. We will never tell you who to vote for as that is entirely your business, and we’d prefer to keep it that way. There is an old saying that you cannot steer a ship you refuse to board. We encourage everyone to “board the ship” this November and do their part to help navigate what comes next. Democracy, just like investing, tends to reward participation.

We share all of this not to dampen the optimism that April and May’s market performance reasonably inspires, but because we believe our clients are best served by a complete picture rather than a convenient one. The bull case is real: strong earnings, regulatory progress, a new Fed chair who has pledged his independence, and a market that has demonstrated remarkable resilience. The risks, however, are equally real: a war that has not ended, an inflation trajectory moving in the

wrong direction, and a valuation environment in some corners of the market that leaves little room for disappointment. Our conviction has not changed. Balance sheet strength, earnings resilience, and sound credit remain as important considerations today as they were when the year began, and if anything, the events of the past few months have reinforced that view. The trend, as we noted at the outset of this letter, has been your friend. Maintaining discipline may help it continue.

The summer months have a way of sneaking up on all of us and between school letting out, family trips, and the general pace of the season, we want you to know that we are here through all of it. As always, should you have specific questions or concerns, please never hesitate to reach out.

We look forward to hearing from you and wish you and your families an amazing summer full of trips, relaxation, and the kind of memories that make the rest of the year worth it.

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ⁱ Source: Morgan Stanley Wealth Management GIO, Bloomberg, FactSet

ⁱⁱ Source: Board of Governors of the Federal Reserve System, “Kevin Warsh takes oath of office as chairman and a member of the Board of Governors of the Federal Reserve System, and the Federal Open Market Committee unanimously selects Warsh as its chairman,” Press Release, May 22, 2026

ⁱⁱⁱ Source: U.S. Bureau of Labor Statistics, “Consumer Price Index – April 2026,” News Release USDL-26-0721, May 12, 2026.

^{iv} Source: U.S. Bureau of Labor Statistics, “Real Earnings News Release – April 2026,” Economic News Release USDL-26-0722

^v Source: S&P Dow Jones Indices, “S&P 500 Fact Sheet,” as of May 29, 2026

^{vi} Source: S&P Dow Jones Indices, “S&P Dow Jones Indices Consultation on Treatment of MegaCap Companies,” Consultation Document, April 30, 2026

^{vii} Source: U.S. Senate Banking Committee, “Chairman Scott, Senate Banking Committee Advance Clarity Act in Historic Bipartisan Vote,” Majority Press Release, May 14, 2026

^{viii} Source: U.S. Congress, S.1582 – GENIUS Act, 119th Congress, Pub. L. 119-27. Signed into law July 18, 2025

^{ix} Source: U.S. Senate Committee on Banking, Housing, and Urban Affairs, “Digital Asset Market Clarity Act – Section by Section Summary,” May 12, 2026

^x Source: U.S. Senator Chris Van Hollen, “Van Hollen Statement on Opposition to Digital Assets Legislation,” Press Release, May 14, 2026

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