

Record Highs, Inflation Pressures and a Fed Leadership Change

Despite headwinds in the bond market stemming from inflation concerns, equities continued their upward march to new all-time highs.

JUNE 2026

May 2026 proved to be a rewarding month for investors, as major market indices climbed to new all-time highs despite headwinds in the bond market stemming from inflation concerns. The S&P 500 crossed above 7,500 for the first time, buoyed by persistent strength in technology stocks. Meanwhile, long-term interest rates surged to their highest levels in nearly two decades before pulling back later in the month as oil prices eased. Hopes surrounding a potential peace deal in Iran also provided some market support, though the geopolitical situation continues to evolve.

May also brought the first Federal Reserve leadership change since 2018, with Kevin Warsh being sworn in as the new Fed Chair. While this transition naturally prompts questions about the future direction of monetary policy, the markets and the broader economy have historically performed well under a wide variety of Fed leaders. For long-term investors, the recent equity market strength is encouraging, though maintaining a well-balanced portfolio remains important to navigating different phases of the market cycle.

Key Market and Economic Drivers in May



The S&P 500, Nasdaq, and Dow Jones Industrial Average posted gains of 5.1%, 8.4%, and 2.8%, respectively, for the month. All three major U.S. indices finished May at new all-time highs.



Market volatility, as measured by the CBOE VIX index, declined over the course of the month, finishing May at 15.32.



International developed markets returned 2.6% based on the MSCI EAFE Index in U.S. dollar terms, while emerging markets returned 9.5% based on the MSCI EM Index.



The 30-year Treasury yield reached 5.18%, its highest point in nearly two decades, before ending the month below 5%. The 10-year Treasury yield rose to 4.4%. The Bloomberg U.S. Aggregate Bond Index returned 0.3% for the month.



Oil prices declined, with Brent crude closing at approximately \$92 per barrel and WTI at \$88.



Gold finished the month slightly lower at \$4,539 per ounce. The U.S. Dollar Index stood at 98.94, also down only slightly.



First quarter real GDP was revised lower from 2.0% quarter-over-quarter to 1.6%. April inflation showed headline CPI at 3.8% year-over-year and core CPI at 2.8%.

1. Long-term interest rates climbed sharply before pulling back

HISTORICAL INTEREST RATES
10-year and 2-year yields since 1960



Past Performance is no guarantee of future results. Sources: Clearnomics, Federal Reserve. ©Clearnomics. 1/4/1960 – 5/29/2026

One of the most consequential developments in May was the significant swing in interest rates. The 30-year U.S. Treasury yield touched its highest level in nearly two decades during the month before retreating below 5%.¹ Both the 10-year and 2-year yields also moved higher, as expectations grew that interest rates would remain elevated for an extended period. Markets are now pricing in at least one rate hike by the Fed by mid-2027 in response to ongoing inflation concerns.

This rate volatility was driven in part by Consumer Price Index and Producer Price Index readings that came in above expectations, largely due to energy prices. When inflation rises, interest rates tend to follow, as investors demand greater compensation to offset the declining purchasing power of each dollar. Some economists are concerned that if fuel prices remain elevated, inflation could spread more broadly across goods and services. Average gasoline prices have dipped slightly to around \$4.30 per gallon nationally, but that is still approximately \$1.50 higher than before the conflict in Iran.²

Higher interest rates have wide-ranging effects on both the economy and financial markets, particularly when they are tied to inflation. For consumers, rising rates translate directly into higher borrowing costs, including on personal loans and mortgages. Businesses face similar pressures, as financing operations and funding growth become more expensive.

It is important to keep these developments in context. Market expectations have shifted multiple times this year in response to changing signals around a potential peace deal, and the situation remains fluid. Interest rates have also proven notoriously difficult to forecast over the past several years. While rates remain high today, they are still well below the levels many had feared when inflation was running at its hottest and the Fed was in the midst of its rate-hiking cycle.

2. Equity markets continue to push to record levels

STOCK MARKET PRICE-TO-EARNINGS RATIO

S&P 500 forward P/E ratio using earnings estimates over the next twelve months



Past Performance is no guarantee of future results. Sources: Clearnomics, LSEG. ©Clearnomics. 1/22/1985 – 5/26/2026

Despite the headwinds from higher interest rates and bond market pressures, equities have continued their upward march to new all-time highs. The S&P 500 surpassed 7,500 in May for the first time, bringing the total number of all-time highs this year to 22 through month-end.³ The Magnificent 7 and other large-cap technology stocks have remained important contributors, but the rally has shown broader participation than in some previous years.

This robust market environment has intensified interest in a pipeline of highly anticipated IPOs, including companies such as SpaceX, Anthropic, OpenAI, and others. These firms have grown largely through private capital, reflecting a broader trend over the past two decades of companies staying private for longer before going public.

It is worth noting that major indices reaching new all-time highs is not an unusual occurrence during a bull market. Over long periods, markets have historically trended upward, which means indices frequently trade at or near record levels. What matters more than the absolute level of any index is whether the underlying fundamentals remain sound. Corporate earnings have continued to grow at a healthy pace, and consensus estimates point to further growth in the year ahead.⁴

Strong earnings growth has helped keep valuations relatively stable even as the market has set new records. The S&P 500 price-to-earnings ratio is currently hovering around 20.9x, within the range seen over the past several years. At the same time, these valuations remain well above long-term historical averages. While elevated valuations do not reliably predict near-term market direction, they are an important factor in long-term portfolio construction. Maintaining diversification across sectors, market capitalizations, and investment styles can help investors manage risk while still participating in ongoing market gains.

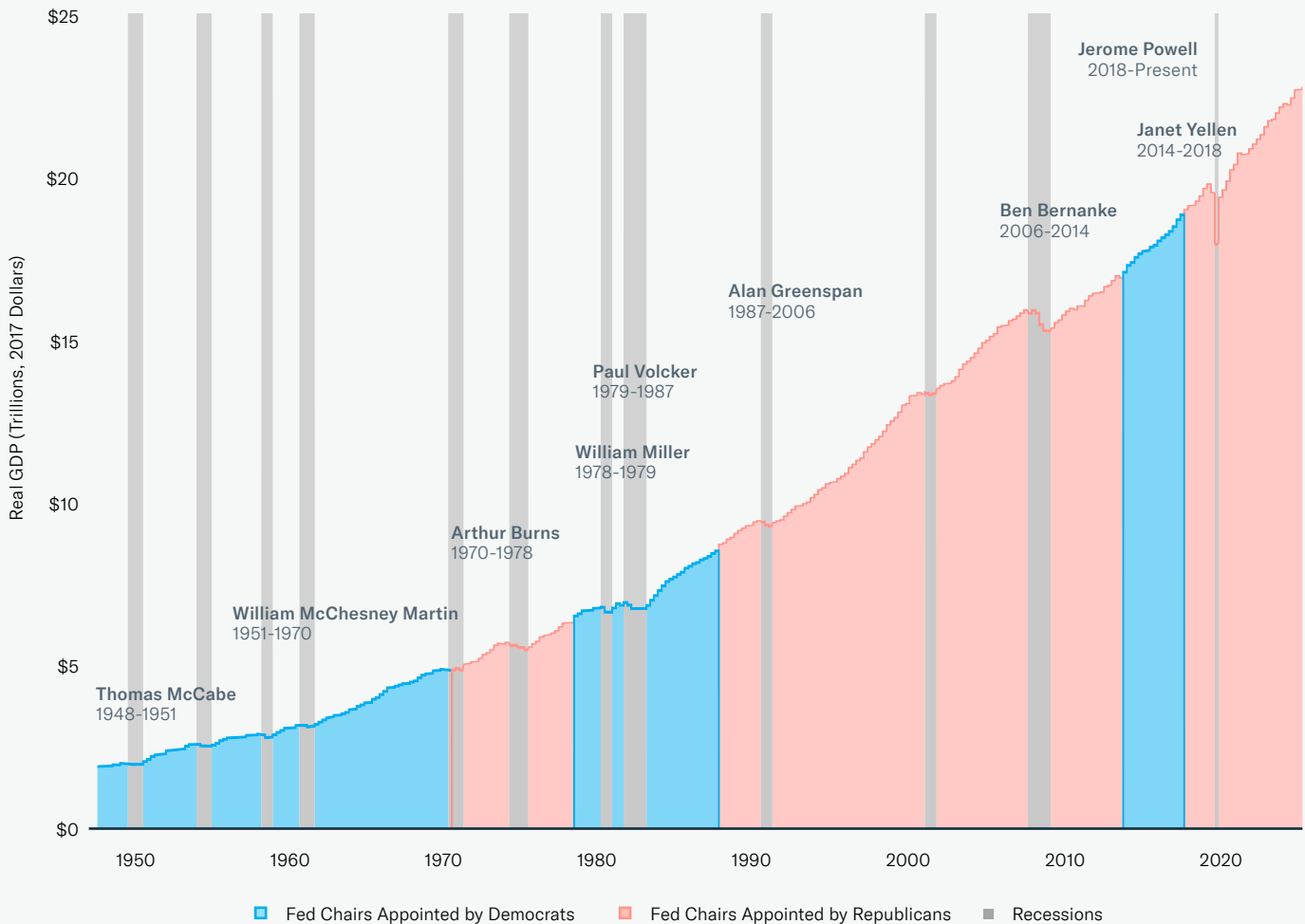


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3. Kevin Warsh takes the helm at the Federal Reserve

THE ECONOMY AND FED CHAIRS

Real GDP and Fed chairs with the nominating president's party highlighted



Sources: Cleartnomics, Bureau of Economic Analysis, NBER. ©Cleartnomics. 4/15/1948 – 3/31/2026

Kevin Warsh was sworn in as Chair of the Federal Reserve in May, succeeding Jerome Powell. Warsh brings relevant experience to the role, having previously served on the Fed's Board of Governors during the 2008 global financial crisis. Markets have generally regarded him as a familiar figure with a solid grounding in monetary policy and financial markets.

Fed leadership transitions are intentionally infrequent, and each one naturally prompts questions about the future course of policy. Warsh is widely seen as a reformer, which introduces some additional uncertainty around how monetary policy will be conducted under his leadership. In his recent Senate testimony, he emphasized that monetary policy independence is essential and that policymakers must act in the nation's interest. He has also signaled a preference for a more focused central bank, with views that have historically leaned toward managing inflation risks.

Regardless of any institutional changes Warsh may pursue, policymakers clearly face a complex economic backdrop. The overall economy remains healthy, but inflation has picked up in recent months while labor market signals have been mixed. Conditions that would normally support lower rates to encourage hiring are running in direct tension with the need to address rising inflation. This creates a genuine policy dilemma, and markets have shifted from expecting further rate cuts to anticipating at least one rate hike.

For investors, history offers reassurance that the economy has expanded across the tenures of many different Fed chairs, regardless of the political environment or the policy approach in place at the time. Earnings growth, productivity, demographics, and innovation are ultimately the primary drivers of long-run investment returns. Leadership changes at the Fed can introduce short-term uncertainty, but they rarely alter these fundamental long-term dynamics.

The bottom line?

May delivered new milestones for equity markets, extending a strong stretch for investors. While ongoing headlines around inflation, the new Fed Chair, and geopolitical developments will likely continue to generate uncertainty, maintaining a focus on long-term financial goals remains key.

¹ <https://home.treasury.gov/policy-issues/financing-the-government/interest-rate-statistics>

² <https://gasprices.aaa.com/>

³ Clearnomics research based on Standard & Poor's index data

⁴ Clearnomics research based on LSEG earnings data

⁵ <https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>

Indexes are unmanaged and it's not possible to invest directly in an index. The S&P 500 Total Return Index is a market-capitalization weighted index of the 500 largest U.S. publicly traded companies. CBOE Volatility Index (VIX) is a measure of implied volatility, based on the prices of a basket of S&P 500 Index options with 30 days to expiration. Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors. MSCI EAFE Index is designed to measure the equity market performance of developed markets outside the U.S. and Canada. MSCI Emerging Markets (EM) Index is designed to measure large- and mid-cap representation across emerging market countries. Bloomberg U.S. Aggregate Bond Index is designed to measure the performance of the U.S. investment grade bond market. U.S. Dollar Index is a measure of the value of the U.S. dollar relative to a basket of foreign currencies. 10-year Treasury is represented by the Bloomberg US Treasury Bellwethers 10 Year Index that measures

the on-the-run (most recently auctioned) U.S. Treasury bond with 10 years' maturity. The Magnificent 7 ("Mag 7") is a group of seven major, high performing mega-cap technology companies.

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MEU-COM-0626