

# 2026 Mid-Year Capital Markets Sentiment



# Executive Summary

When we published Syntrinsic's **2026 Capital Markets Forecast** in January, the markets anticipated that the Federal Reserve would cut interest rates this year and that Artificial Intelligence would remain synonymous with spectacular equity growth. The war with Iran that started February 28 has been and remains a huge question mark for geopolitical stability and energy prices. Rather than an extension of 2025 market conditions, the first quarter of 2026 ended with US equity markets down, Treasury yields up, and inflation higher due to a spike in energy prices.

The second quarter provided additional challenges but a more resilient market. Equities rose steadily, globally, and more broadly than in recent years. Chairmanship of the US Federal Reserve changed hands smoothly and the new Chair has demonstrated political independence.

As we review the economy at mid-year, we have no changes in sentiment, but two portfolio adjustments that we are recommending for many clients.<sup>1</sup> We also have one change we had thought we would make that is on hold.

1. For the past decade, we have maintained an overweight to US equity versus its weight in the global equity market. Having moved to Neutral sentiment across regions, our best thinking points to a market weight allocation to US, non-US Developed, and emerging market equities.
2. Since 2018, our allocations to private debt have largely centered on direct lending. Going forward, we are more broadly weaving asset-backed lending (i.e., specialty finance) and opportunistic strategies into many portfolios.

And fittingly, given this year of unexpected events, we are not lengthening the duration of fixed income portfolios as we would have in a falling interest rate environment. Maybe, hopefully, some day.

---

<sup>1</sup> Portfolio recommendations herein are general in nature and do not reflect the specific risk characteristics or limitations imposed by any clients. As a result, these recommendations may not be suitable for all clients.

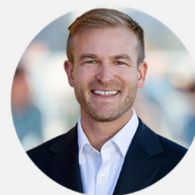
## Contributors



**Jas Chen, CFA**  
Senior Research  
Analyst



**Matt Kukla**  
Senior Research  
Analyst



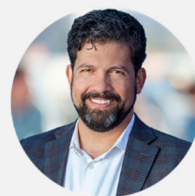
**Robin Meyer, CFA**  
Director



**Eli Davidoff**  
Research Analyst



**Aaron Thammathi**  
Associate



**Ben Valore-Caplan**  
Co-President



## Mid-Year Themes

Three themes have dominated our internal meetings and discussions with clients in 2026. Syntrinsic’s senior analysts speak to these themes here, recognizing that each theme is in flux and will demand considerably more analysis in the months and years to come.

**Jas Chen, CFA**, kicks off our reflections with **“Artificial Intelligence Scales Beyond Equity Markets.”** Rather than just revisiting how a handful of Artificial Intelligence (AI)-related companies recently have dominated the global equity market, Jas considers how those companies, private market investors, and governments are transforming AI into a multi-asset class and multi-regional investment opportunity. She also speaks to the risks associated with having so much of the economy, and so many investments centered around a single factor—albeit a large factor—such as the advent, adoption, and integration of Artificial Intelligence.

While some investors and prognosticators expect that AI will boost productivity and improve standards of living, **Matt Kukla** discusses how **“Inflation and the Expansion of the US K-Shaped Economy”** is creating a materially bifurcated experience for consumers in the US. Even if energy prices were to stabilize in a sustainable manner, the stickiness of core inflation speaks to structural forces beyond the war with Iran such as the price of housing that create policy headaches for the Federal Reserve and diminish the quality of life for many Americans.

Apparently, there was a time when the US Federal Reserve was boring, and few monitored their policies, let alone their pronouncements. **Robin Meyer, CFA**, recognizes how significant the Fed has become in the direction of the economy and the markets. In **“Evolving Leadership and Policy at the Federal Reserve,”** he focuses on the important leadership transition between Chairman Powell and Chairman Warsh, and the challenges that Warsh and the Federal Open Market Committee (FOMC) face at this time of AI transformation and inflationary pressures.

The world is changing quickly due to rapidly evolving technology, challenging economic conditions, and a fraught political environment. And yet, the world continues to offer many people opportunities to invest in and profit from services and technologies that can improve health care, education, environmental stewardship, and economic opportunity. We look forward to thinking through these issues with you. Thank you for your confidence.

Sincerely,

Ben Valore-Caplan  
Co-President, Syntrinsic

# Themes + Implications

Theme	Syntrinsic Perspective	Allocation Effects
<b>Artificial Intelligence Scales Beyond Equity Markets</b>	<p>Artificial Intelligence (AI) demands and is receiving significant capital investments, changing high-margin companies like Alphabet and Meta into capital intensive companies overnight. In the process, companies are raising capital through public debt markets rather than relying solely on cash from earnings. And private market actors are investing through private equity, debt, and infrastructure markets. While these shifts create tremendous opportunity, they also require a more intentional approach to portfolio diversification.</p>	<ul style="list-style-type: none"> <li>+ As the US equity market continues to lean heavily on AI-related companies, we think it makes sense to improve equity diversification by striving for a neutral weight to global equity markets.</li> <li>+ Diversification also is critical in private debt markets. While direct lending is broad, some managers focus too heavily on software, and some could start to lean too much into AI. Broader exposure to private debt can reduce risk while maintaining or enhancing potential return.</li> <li>+ We continue to recommend building a private infrastructure allocation to investors who can afford the illiquidity.</li> </ul>
<b>Inflation and Expansion of the US K-Shaped Economy</b>	<p>The US continues to face structural inflationary pressures outside of the war with Iran that increase the cost of living, especially for the large number of people that rely on moderate income rather than assets for wealth creation and spending. This dynamic also causes the economy to rely too heavily on a smaller number of the wealthiest consumers.</p>	<ul style="list-style-type: none"> <li>+ Maintain meaningful allocations to equities and private assets for investors that seek a return materially above the rate of inflation.</li> <li>+ To the degree that the K-shaped dynamic is increasingly pronounced in the US and distinct among developed economies, be careful about relying too much on the US consumer for equity market returns.</li> </ul>
<b>Evolving Leadership and Policy at the Federal Reserve</b>	<p>The Federal Reserve is moving through not just a change in Chairmanship, but also through changes in how it sets policy and how it communicates with market participants. These changes come at a time when the Fed is confronted with sticky inflationary pressures, making any changes more challenging to predict.</p>	<ul style="list-style-type: none"> <li>+ Continue to pursue below investment grade bonds opportunistically through core-plus active portfolios</li> <li>+ Hold off from moving out of dedicated short-term fixed income positions until such time as potential rate cuts appear more likely.</li> </ul>



## Theme: Artificial Intelligence Scales Beyond Equity Markets

JAS CHEN, CFA

Portfolios that appear diversified across asset classes may, in practice, be increasingly dependent on a single driver centered on the monetization of Artificial Intelligence (AI). Halfway through 2026, AI-related spending has continued to expand well beyond publicly listed US companies and into other asset classes globally. Record corporate expenditures and government-related investments are reshaping equity, credit, and private markets, with capital increasingly coalescing around AI in a manner similar to previous large-scale buildouts such as telecom and railroads. We believe this matters for portfolios because AI remains a powerful growth theme, and because its influence extends through more parts of the capital structure and across more regions.

### State of AI Spending Across Regions

Although AI spending is a global initiative, regions are not following the same approach. In the US, corporate spending remains the primary mechanism for investment, driven largely through private capital funded buildouts. Business spending by US companies increased 10.4% annualized in the first quarter, with AI investments estimated to account for half of overall US GDP growth.<sup>2</sup> Emerging markets are approaching the AI cycle through supply chain positioning and domestic capability building. For example, Taiwan and Korea continue to lead the world in chip manufacturing, with exports benefiting from global AI infrastructure spending. China, on the other hand, is developing its own domestic stack.

---

<sup>2</sup> [AI Investment Boosted Economic Growth, While Consumers Tapped the Brakes - WSJ](#)

Meanwhile, non-US developed markets are relying more on government-funded initiatives rather than private capital to build AI capabilities. The European Union (EU)'s InvestAI will spend €200 billion to support AI development, including €20 billion to catalyze private investment in gigafactories and expand regional capacity.<sup>3</sup> There is also a structural capacity limitation for chip manufacturing in this region. Taken together, the lack of corporate investment in AI, including chip manufacturing, has caused non-US developed markets to lag in AI investment and integration relative to the US and emerging markets. Narrowing this gap will require sustained and significantly higher levels of capital over several years. In the meantime, this region is likely to follow an adoption-oriented approach, relying on US designed models and emerging market chips as self-imposed fiscal constraints on deficit and debt levels limit the buildout of domestic capabilities.<sup>4</sup>

## US Hyperscalers: A Powerful Force Behind the AI Cycle

At the center of the AI cycle is capital expenditure, particularly from US hyperscalers, including Alphabet, Amazon, Meta, Microsoft, and Oracle. Since we published our **2026 Capital Markets Forecast** in January, expected AI-related capital expenditure has increased even more. Bloomberg estimates 2026 capital expenditure for the 14 largest operators near \$750 billion, with more than 23 gigawatts of data centers under construction globally.<sup>5</sup> This level of spending has been a meaningful contributor to US economic growth and is likely to remain a key driver in the near term, with potential productivity benefits over longer term.

As capital expenditure has reached or exceeded operating cash flow, companies are drawing on broader funding sources. Year to date, hyperscalers have issued \$159 billion of global bonds,<sup>6</sup> already surpassing the pace in 2025. Reuters notes that AI-related debt in the US is approaching 15% of total investment-grade bond issuances this year and could rise further if AI spending continues to ramp up.<sup>7</sup> In parallel, private markets are becoming another significant source of capital. Blackstone, one of the largest alternative asset managers, holds more than \$150 billion of data centers globally, with an additional \$160 billion in the development pipeline.<sup>8</sup> Alongside firms such as Apollo, KKR, and Blue Owl, Blackstone plays a key role in the hyperscaler ecosystem by providing private capital, including data center sale-leasebacks, and financing the buildout of power generation and infrastructure.

At the same time, the scale of capital flowing into AI is creating imbalances in the supply of key inputs, particularly in hardware and energy. These constraints are contributing to rising input costs, which are beginning to extend beyond the AI ecosystem. Businesses and consumers are facing higher costs for technology and electricity as capacity is strained and infrastructure expands. Taken together, these pressures may weigh on consumers, the backbone of US economic growth, particularly as consumers continue to face broader inflationary challenges (see **Theme: Inflation and Expansion of the US K-Shaped Economy**). The potential for higher inflation could partially offset some of the economic benefits from the AI cycle.

---

<sup>3</sup> [AI continent - European Commission](#)

<sup>4</sup> [What drives the divide in transatlantic AI strategy? - Atlantic Council](#)

<sup>5</sup> [AI Data Center Build Advances at Full Speed: Five Things to Know | Bloomberg NEF](#)

<sup>6</sup> [Wall Street Is Rushing to Fund the AI Bonanza in Every Conceivable Way - WSJ](#)

<sup>7</sup> [Banks get creative and look further afield as AI-fueled debt soars | Reuters](#)

<sup>8</sup> Pitchbook: Q1 2026 Public PE and GP Deal Roundup

## **Asset Light Tech Companies Turned Capital Intensive**

The operating models for many of the US hyperscalers have evolved, with companies that were once relatively asset-light and high margin becoming more capital-intensive enterprises with larger physical footprints and greater exposure to energy, utilities, and regulation. For example, Meta's capital spending is estimated to be near \$135 billion for the year, up from \$27 billion in 2023. This increase in investment is outpacing revenue, with the capital expenditure-to-revenue ratio rising to 53% from 20% over the same period, based on Bloomberg consensus estimates. The shift is also reflected in balance sheet growth, with net property, plant, and equipment increasing to \$218 billion in the first quarter of 2026 from \$110 billion three years earlier.<sup>9</sup>

This structural shift changes both the funding profile of these companies and the nature of the risks embedded in the global AI buildout, which are increasingly tied to physical constraints. The amount of capital flowing into the AI cycle does not offset capacity limitations in power generation and grid interconnection, as increasing capacity in these factors requires extended development times. Bottlenecks in AI-related hardware, such as advanced semiconductors or memory chips, may also drive overinvestment as companies compete to purchase limited supply and race to secure future capacity. Rising costs and unexpected delays or resistance could extend timelines for new capacity and delay monetization, potentially representing a headwind for the next phase of the cycle.

## **Broad Market Implications from AI Companies**

Beyond hyperscalers, the AI cycle is represented by a concentrated ecosystem of global companies.<sup>10</sup> As capital continues to flow through this group, these companies are taking on larger representation in major stock market indexes. To illustrate, AI-related companies collectively represent nearly a third of global equities by market capitalization, at 29% of the MSCI ACWI Index, a proxy for global equities, as of May 31, 2026. In 2022, when the AI cycle took off, these companies were 14% of the index. This level of representation can move entire indices and may elevate broad market downside risk if expectations are unmet. The expansion of AI into credit and private markets also appears to be increasing correlation tied to the same capital cycle, which we think suggests that the diversification benefits of investing across asset classes may have quietly thinned.

## **Syntrinsic Conclusion**

We continue to see AI as a driver of economic growth and a force of long-term structural change to global economies. However, the current environment suggests that the near-term situation leaves even less margin for error than before. AI is increasingly expressed beyond equities and into credit and private market channels. Despite appearing diversified by asset class, portfolios may face greater and unintended dependency on AI monetization, leaving them exposed to a narrower set of outcomes to generate financial returns. We think the AI cycle has room to run, but its growing influence across asset classes makes the breadth of exposure and its impact on diversification and risk management an increasingly important consideration for portfolios.

---

<sup>9</sup> Bloomberg Terminal

<sup>10</sup> Defined as: Advanced Micro Devices, Alphabet, Amazon, Broadcom, CoreWeave, Meta, Microsoft, Micron Technologies, NVIDIA, Oracle in the US; ASML in non-US developed; and Alibaba, MediaTek, Samsung Electronics, SK Hynix, Taiwan Semiconductors Manufacturing Co, and Tencent in emerging markets

# Theme: Inflation and Expansion of the US K-Shaped Economy

MATT KUKLA

Inflation in the US has remained a central theme for investors since reaching a peak of over 9% in 2022. The surge was initially driven by pandemic-related disruptions, including supply chain bottlenecks, production shutdowns, shifts in consumer spending patterns, and unprecedented fiscal stimulus. Since then, inflation moderated considerably as supply chains normalized, labor market conditions softened, inflation expectations remained well anchored, and the Federal Reserve implemented one of the most aggressive monetary tightening cycles in decades. The Federal Funds Target Rate ultimately reached 5.25%-5.50% in July 2023, its highest level in more than twenty years.<sup>11</sup>

## Inflation Remains Elevated in 2026

While inflation declined significantly from its peak, recent data suggest renewed upward pressure on prices. The Consumer Price Index (CPI) increased 4.2% year-over-year as of May 2026, marking the highest annual inflation reading since April 2023.<sup>12</sup> However, Core CPI – which excludes food and energy – rose a more moderate 2.9%,<sup>13</sup> indicating that much of the recent acceleration is concentrated in more volatile categories rather than reflecting a broad-based increase in underlying inflation. This distinction is important because inflation driven by temporary or volatile factors is generally less concerning than inflation embedded throughout the economy. Nevertheless, headline inflation remains well above the Federal Reserve’s long-term target of 2%, continuing to pressure household budgets and complicating monetary policy decisions (see *Theme: Evolving Leadership and Policy at the Federal Reserve*).

Energy prices have been the primary contributor to the recent increase in inflation. The energy index rose 23.5% year over year in May, accounting for more than 60% of the monthly increase in CPI.<sup>14</sup> Gasoline prices alone increased more than 40%, reflecting supply disruptions and geopolitical risk in global oil markets from the US and Iran conflict. Although energy represents only a modest portion of the overall CPI basket, changes in gasoline and utility prices have an outsized impact on consumer sentiment and disposable income. This effect is particularly pronounced among lower-income households, which devote a larger share of their income to transportation and other essentials. A stabilization in global energy markets could therefore provide meaningful relief to consumers and help moderate future inflation readings.

Beyond energy, several structural forces continue to support inflation. Housing remains the largest contributor to overall price growth, accounting for roughly 40% of total inflation due to elevated rents and ongoing supply constraints.<sup>15</sup> In addition, demand for goods and services continues to exceed available supply in several segments of the economy, including housing, healthcare, food, and select consumer services. At the same time, businesses continue to face elevated labor, materials, and energy costs.

---

<sup>11</sup> [Federal Funds Effective Rate \(DFF\) | FRED | St. Louis Fed](#)

<sup>12</sup> [Federal Reserve CPI for All Urban Consumers: All Items US City Average | St. Louis Fed](#)

<sup>13</sup> [CPI Home : U.S. Bureau of Labor Statistics](#)

<sup>14</sup> [Consumer Price Index News Release - 2026 M05 Results](#)

<sup>15</sup> [Design : U.S. Bureau of Labor Statistics](#)

Together, these conditions reflect a combination of “demand-driven” and “cost-push” inflationary pressures that may take longer to normalize. Demand-driven inflation occurs when aggregate demand for goods and services grows faster than the ability to produce them. This creates upward pressure on prices and typically occurs when the economy is at or near full employment. Cost-push inflation, on the other hand, results from higher costs of production, such as wages, raw materials, energy, or other essential inputs which are then passed on to consumers.

## **Differentiated Impact of Inflation on Consumers**

Fiscal policy, labor market dynamics, tariffs, and evolving inflation expectations have also contributed to persistent pricing pressure even as monetary policy remains restrictive. The higher interest rates are designed to reduce inflation by slowing consumer spending and business investment, but the transmission of monetary policy into changes in the real economy often occurs gradually. As a result, inflation may continue to move toward the Federal Reserve’s target more slowly than consumers and markets would prefer, causing interest rates to remain higher for longer than many investors expected just a few months ago.

Inflation tends to widen the divide between higher-income households and lower- or middle-income households. Affluent consumers are often better insulated because they are more likely to own financial assets and homes, both of which can benefit from rising markets and long-term asset appreciation. They also have more savings and flexibility to absorb higher prices without sharply cutting discretionary spending. By contrast, lower-income households spend a larger share of income on necessities such as gasoline, groceries, rent, utilities, and insurance, leaving less room to adjust when prices rise. As a result, inflation acts like a regressive tax: it reduces real purchasing power most severely for households with the least financial cushion.

The result of this disparate inflationary impact is a more polarized consumer economy. Higher-income households may continue to support growth in travel, premium services, luxury goods, and asset-linked spending, while lower- and middle-income households become more value-conscious, trade down to discount channels, reduce discretionary purchases, and rely more heavily on credit. This bifurcation can create a “two-speed” or “K-shaped” economy in which aggregate consumer spending appears resilient, but that resilience is increasingly concentrated among wealthier households. For businesses and investors, the key implication is that headline consumption data may mask financial stress beneath the surface, especially among consumers most exposed to food, fuel, rent, and borrowing costs.

## **Anticipating Artificial Intelligence and Inflation Dynamics**

While Artificial Intelligence creates many opportunities for investment (see: ***Artificial Intelligence Scales Beyond Equity Markets***), we would be remiss not to mention the potential impacts of AI on the K-shaped economy. AI may further reinforce this trend over the coming decade. While AI has the potential to increase productivity, corporate profitability, and overall economic growth, its benefits are likely to accrue disproportionately to capital owners and highly skilled workers during the early stages of adoption. Conversely, routine administrative, clerical, and certain entry-level positions may face greater displacement risk. This dynamic creates the possibility that economic growth, corporate earnings, and financial markets remain strong even as portions of the workforce experience weaker wage growth or an increase in job uncertainty. The extent

to which AI ultimately widens or narrows economic inequality will depend largely on the pace of workforce adaptation and the distribution of productivity gains throughout society.

Looking ahead, the inflation outlook depends heavily on whether energy prices stabilize and whether tariff-related cost increases continue to pass through to consumers. If energy prices ease, headline inflation could moderate even if core inflation remains sticky. However, persistent price pressure in essentials would likely continue to reinforce the K-shaped pattern: wealthier households maintain spending momentum, while lower-income households face tighter budgets, weaker real purchasing power, and more limited participation in the broader economic expansion. Notably, a deterioration in consumer confidence, financial market conditions, or wealth effects among higher-income households could have a disproportionate impact on aggregate spending and economic growth.

## Syntrinsic Conclusion

Despite high inflation and rising borrowing costs from higher interest rates weighing on consumer and business activity, consensus forecasts still see real gross domestic product (GDP) growth in 2026 at or slightly above 2.0%.<sup>16</sup> The conditions in 2026 have not changed our long-term outlook on inflation or real GDP growth in the US. Our forecast for long-term real GDP growth of 2.0% remains above consensus forecasts of 1.8%,<sup>17</sup> while our 2.45% long-term inflation forecast (see: *2026 Capital Markets Forecast*) indicates there are still structural factors in place that will cause inflation to remain above the Federal Reserve's target. This scenario likely would result in a more normalized interest rate environment going forward, compared to the near-zero interest rate conditions that prevailed over the past decade.

## Theme: Evolving Leadership and Policy at the Federal Reserve

ROBIN MEYER, CFA

Our mid-year sentiment finds us at the onset of a new chapter for US monetary policy with the formal end to the roughly eight-year Federal Reserve Chairmanship under Jerome Powell. Powell was nominated in 2016 by President Trump, appointed to Chair in 2018 and retained during former President Biden's administration. Notably, Powell steered US policy through COVID and the global economy's first real taste of synchronized inflationary pressure since the 1970s. In time, history will determine how Powell's tenure at the Fed will be remembered within the chronicles of US monetary policy. In the meantime, new Chair of the Federal Reserve, Kevin Warsh, began his own leadership chapter this summer with a distinct tone, agenda and opinion of the US Federal Reserve's role in the US economy.

---

<sup>16</sup> [Second Quarter 2026 Survey of Professional Forecasters](#)

<sup>17</sup> [Additional Information About the Economic Outlook: 2025 to 2035 | Congressional Budget Office](#)

## Current State of US Monetary Policy

During the Fed's June 2026 meeting, the Federal Open Market Committee (FOMC) elected to keep the Federal Funds target range at 3.50% to 3.75%,<sup>18</sup> but the message around that unchanged policy decision shifted notably. Warsh reinforced the committee's commitment to achieving the Fed's 2% inflation goal and that the center of gravity has moved distinctly away from any near-term labor market concerns. The June meeting's policy statement was shorter, simpler, and stripped of language that had previously suggested a bias toward future rate cuts.

This was a subtle but important change indicating the Fed is not necessarily promising more tightening, but it is deliberately removing the market's comfort that rate cuts are the default next step. Warsh also declined to submit his own projection to the FOMC's dot plot, reinforcing his skepticism toward the Fed providing forward guidance and signaling that markets should focus less on trying to infer the Fed's future path and more on incoming economic data.

US monetary policy is currently best categorized as restrictive, meaning the level of US interest rates is more burdensome to economic growth overall relative to a loose monetary policy posture. Markets are now being asked to price in the effects of central bank policy without the same degree of explicit forward guidance that defined much of the prior era. While the no-action rate decision itself was expected by the markets, the updated projections and tone were not. Inflation forecasts moved higher, with headline Personal Consumption Expenditures (PCE) index of inflation expected to remain well above the Fed's 2% objective through 2026. Importantly, the FOMC's Summary of Economic Projections<sup>19</sup> reflected nine FOMC participants believing at least one rate hike to be appropriate for policy before year-end. That does not make a hike the base case, but it does eliminate the assumption that the next move must be lower. For markets that had been leaning toward eventual easing, this was enough to push front-end Treasury yields higher and flatten the yield curve.

## Policy Operating Review

During the June press conference, Chair Warsh introduced five new Task Forces<sup>20</sup> that will be formed and begin work immediately. These task forces will be made up of experts and professionals within and outside of the Federal Reserve, and resolutions to the work including any recommendations from each task force are expected by year-end 2026. Task forces will focus on the following five areas:

- + The Fed's communications
- + The Fed's balance sheet
- + Use & reliance on existing data sources
- + Productivity & jobs in an era of transformation
- + The Fed's existing inflation framework(s)

The five task forces suggest the Fed is reconsidering several operating assumptions that shaped policy over the past decade. Changes to communications could reduce reliance on the dot plot, press conferences, or explicit

---

<sup>18</sup> [Federal Reserve Board - Implementation Note issued June 17, 2026](#)

<sup>19</sup> [Summary of Economic Projections, June 17, 2026](#)

<sup>20</sup> [Transcript of Chairman Warsh's Press Conference -- June 17, 2026](#)

policy signaling. A balance sheet review could eventually influence reserve management, Treasury market liquidity, and term premia (i.e., the additional yield investors expect for extending maturity). A review of data and productivity could change how policymakers interpret AI-driven investment (see: [Artificial Intelligence Scales Beyond Equity Markets](#)), labor market shifts, and measured growth. An inflation-framework review could affect how tolerant the Fed is of above-target inflation in future cycles.

## Market Implications

For bond markets, the implications of these shifts are already visible in the movement of the US Treasury yield curve. The US Treasury curve flattened during the second quarter—with higher front-end yields and little movement or even modestly lower yields across longer maturities—as markets priced in the evaporating likelihood of a Fed Funds Rate reduction occurring in 2026.<sup>21</sup> The 10-year US Treasury yield increased an additional 0.14% during the second quarter to reach 4.44% as of June 30.<sup>22</sup> Meanwhile, the shorter end of the US Treasury curve as represented by the 2-year Treasury yield, increased 0.35% during the second quarter to reach 4.14% as of June 30. The 30-year US Treasury yield ended the quarter unchanged at 4.91%, despite moving above 5% for a few days early in June. The post-meeting yield-curve reaction reflects a market that sees the Fed as more committed to restraining inflation. If investors believe the Fed's renewed credibility will anchor long-term inflation expectations, that could help stabilize the long end of the yield curve. However, persistent fiscal concerns, energy volatility, and uncertainty over balance sheet policy may keep term premia elevated. In other words, a more credible Fed can moderate the long end of the yield curve, but it does not remove all upward pressure on long rates.

The policy backdrop also reinforces the K-shaped economic theme discussed separately in our mid-year sentiment (see: [Inflation and Expansion of the US K-Shaped Economy](#)). Inflation in essentials—energy, shelter, food, insurance, and borrowing costs—falls hardest on lower- and middle-income households, while higher-income consumers remain better insulated by savings, asset ownership, and stronger balance sheets. This matters for monetary policy when the Fed's policy tools are limited to start, and the favored policy lever (the Fed Funds Rate) is widely considered a blunt tool and less reliable for achieving results of a narrow scope.

The practical investment takeaway is that the bar for meaningful rate relief has moved higher. Unless inflation cools back toward the 2.0% stated Fed target—especially in energy-sensitive headline measures and sticky service categories—the Fed is likely to remain patient, restrictive, and potentially open to additional tightening. That environment supports a continued emphasis on carry (i.e., anticipated return for owning a bond), quality, liquidity, and selective credit exposure rather than duration extension. High yield has been more resilient because of shorter structural duration, while core fixed income remains more exposed to rate volatility. Agency MBS and other securitized assets require careful handling because their performance is tightly connected to rate volatility, household balance sheets, prepayment behavior, and the functioning of monetary policy itself.

---

<sup>21</sup> Per CME Group FedWatch as of July 7, 2026

<sup>22</sup> U.S. Department of Treasury: [Daily Treasury Rates | U.S. Department of the Treasury](#)

## **Syntrinsic Conclusion**

Overall, US monetary policy is best characterized as restrictive, increasingly inflation-focused, and institutionally unsettled. The Fed has paused, but it has not pivoted. The most recent developments point to a central bank trying to rebuild inflation credibility while also reshaping how it communicates and conducts policy. The most consequential question for the remainder of 2026 is whether inflation decelerates enough to validate patience, or whether persistent price pressure forces the Fed to consider another hike. Either way, the Warsh era appears likely to involve less guidance, more market sensitivity to data, and greater uncertainty around the tools and frameworks that investors have become accustomed to using when interpreting the Fed.

## Disclaimers

Investment advisory services provided by IMA Advisory Services, Inc. (CRD#112091), a federally registered investment adviser, doing business as Syntrinsic. Registration as an investment adviser does not imply a certain level of skill or training. For additional information about our business, please review our Form ADV by visiting: <https://adviserinfo.sec.gov> and search for our firm name. Additional disclosures regarding Syntrinsic's business can be found by visiting: [syntrinsic.com/disclaimer](https://syntrinsic.com/disclaimer) Neither the information nor any opinion expressed herein is to be construed as solicitation to buy or sell a security or as personalized investment, tax, or legal advice.

Information in this presentation regarding Syntrinsic's clients and assets under advisement is solely for the Syntrinsic business unit of IMAAS. For complete information regarding IMAAS, please see our Form ADV Part 1 and Brochures.

Assets under advisement ("AUA") refers to Syntrinsic's regulatory assets under management ("AUM") in addition to assets for which Syntrinsic provides consultative advice in a non-discretionary capacity. These non-discretionary assets are calculated separately from, and not included in, the regulatory AUM disclosed on our Form ADV.

Syntrinsic calculates the retention rate based on the number of private client households that have voluntarily left Syntrinsic's care to work with another advisor. It does not account for family members who may have passed away or departed, nor does it include Private Client Households that Syntrinsic has counselled out as clients.

