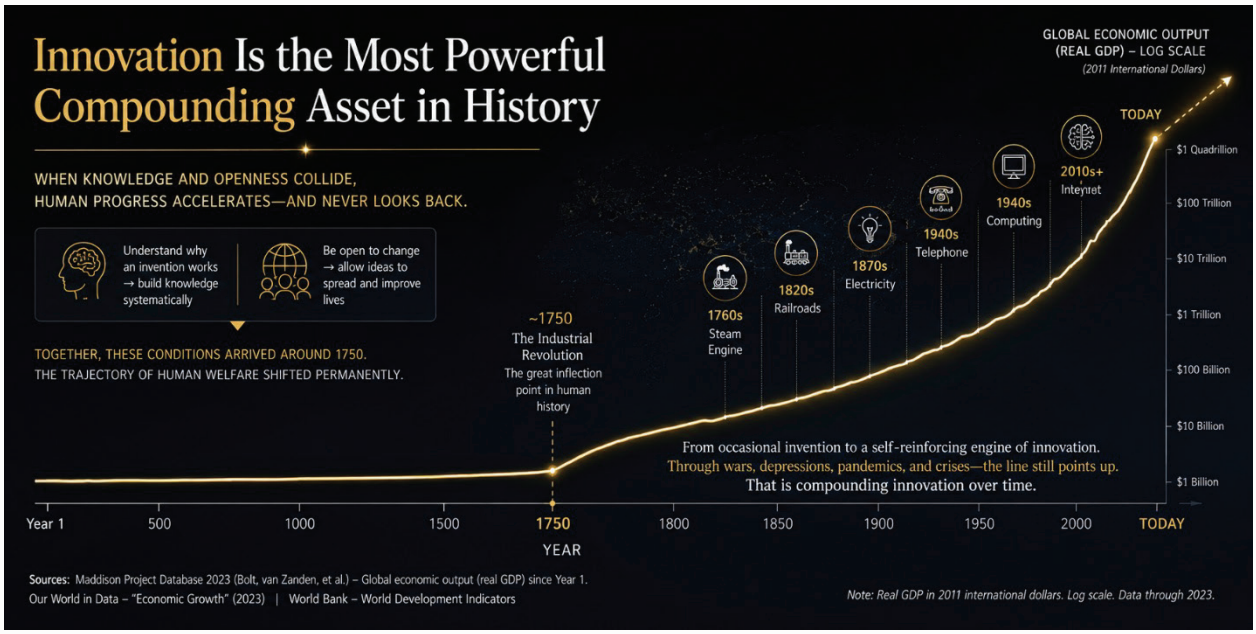
JUNE, 2026

Innovation, Exuberance, and . . . Valuations

Last October, the Nobel Prize in Economic Sciences was awarded for explaining exactly when and why the world changed. The laureates identified two prerequisites for sustained, compounding innovation: that societies understand why an invention works so knowledge can be built upon systematically; and that societies become genuinely open to change rather than hostile to it. Once those conditions arrived, roughly around the Industrial Revolution, the trajectory of human welfare shifted permanently.[1] The graph of global economic output from year one through roughly 1750 is nearly flat. From 1750 forward it is nearly vertical. That is not coincidence. It is what happens when innovation stops being an occasional accident and starts being a self-reinforcing engine — and it is the foundation of why we are long-term optimists on investing.



[2]

From the steam engine through the railroad era, through electrification, through computing and the internet, the long arc of human ingenuity bends consistently upward. Living standards rise. Economies expand. Markets follow. There have been wars, depressions, pandemics, political upheavals, and financial crises. The line still points up. That is not luck. It is compounding innovation over time.

But here is where it gets interesting. Zoom in and the picture changes considerably.

Human Behavior

Every major innovation cycle in history has produced roughly the same sequence of events. A genuine technological breakthrough emerges. Capital floods in. Enthusiasm becomes exuberance. Prices overshoot the underlying reality. A correction follows, sometimes a brutal one. And then, over years and decades,

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[1] Nobel Prize in Economic Sciences, 2025. Awarded to Joel Mokyr, Philippe Aghion, and Peter Howitt "for having explained innovation-driven economic growth." Mokyr was recognized for identifying the prerequisites for sustained growth through technological progress; Aghion and Howitt for the theory of sustained growth through creative destruction. See NobelPrize.org, October 2025. This was highlighted in our October 2025 commentary.

[2] Except for the Apollo graphic to follow, all graphics have been generated by AI.

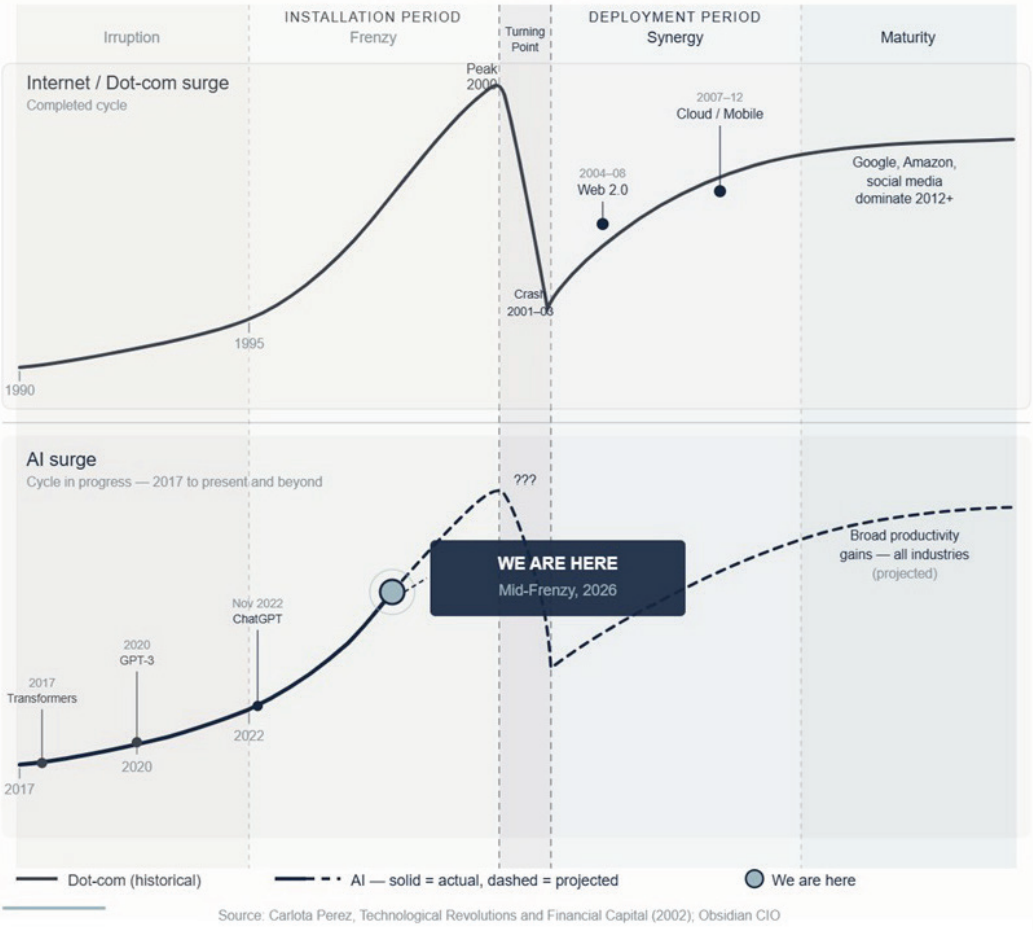
→ the technology gets deployed broadly, productivity gains accrue across the whole economy, and the long arc resumes.

The railroads are the clearest example. By the 1840s it was obvious that rail would transform commerce. It did. It also produced one of the most spectacular investment manias in history, followed by a collapse that wiped out most of the early investors. The infrastructure they built, however, underpinned American industrial growth for the next century. The technology was real. The timing and the price were not.

Electrification followed a similar path. So did the automobile. So did the internet. In 1999 you could have been completely right about the transformative power of the web and still lost a decade of savings. Cisco Systems was one of the most valuable companies in the world at the peak of the dot-com bubble. It did not see its 2000 high again for over twenty years.[3]

CARLOTA PEREZ SURGE CYCLE – TWO PARALLEL EXAMPLES

TECHNOLOGICAL REVOLUTIONS AND FINANCIAL CAPITAL



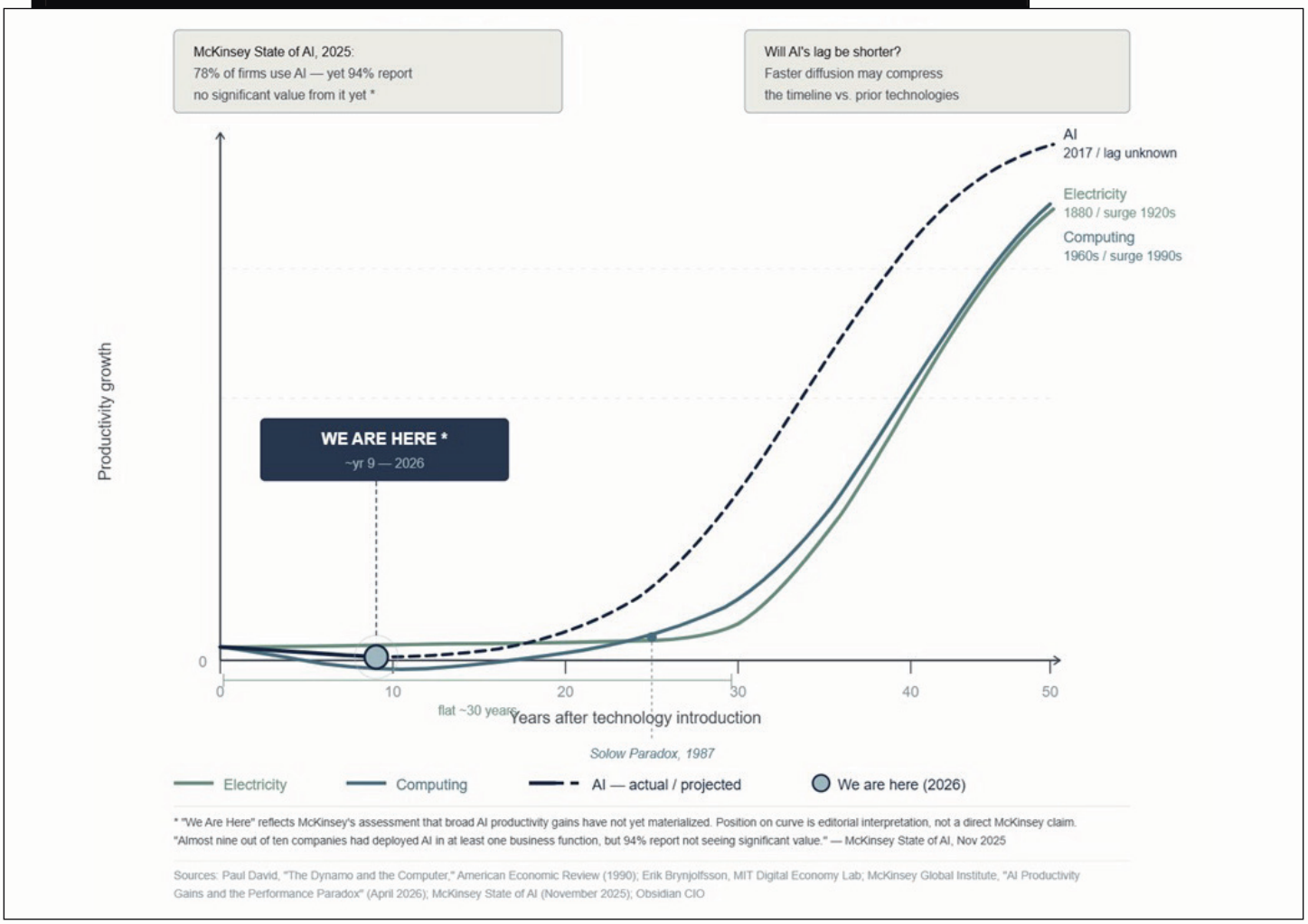
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[3] Cisco Systems (CSCO) historical price data. Cisco reached approximately $82/share in March 2000. The stock did not sustainably recover to that level for over two decades. Source: Bloomberg, FactSet.

→ There are frameworks that capture this dynamic well. Carlota Perez, an economist who spent decades studying technological revolutions, describes the longer arc: a Frenzy phase where financial capital floods the new technology, followed by a Deployment phase where the gains diffuse across the broader economy, not just to the infrastructure builders, but to every industry that learns to use the new tools.[4] McKinsey's research on general purpose technologies adds a complementary lens. They document a consistent J-curve across electricity, computing, and now AI: productivity initially flatlines or dips as firms adopt the technology without yet reorganizing around it, then surges once the deeper business model changes take hold. Their most recent data is striking: as of late 2025, nearly nine in ten companies had deployed AI in at least one function, yet 94% reported no significant bottom-line impact.[5] The pattern and the data are really saying the same thing. The technology is real. The gains are coming. The question is whether you are buying it at the right moment and the right price.

GENERAL PURPOSE TECHNOLOGIES – FROM INDTRODUCTION TO BROAD PRODUCTIVITY GAIN

THE PRODUCTIVITY CURVE



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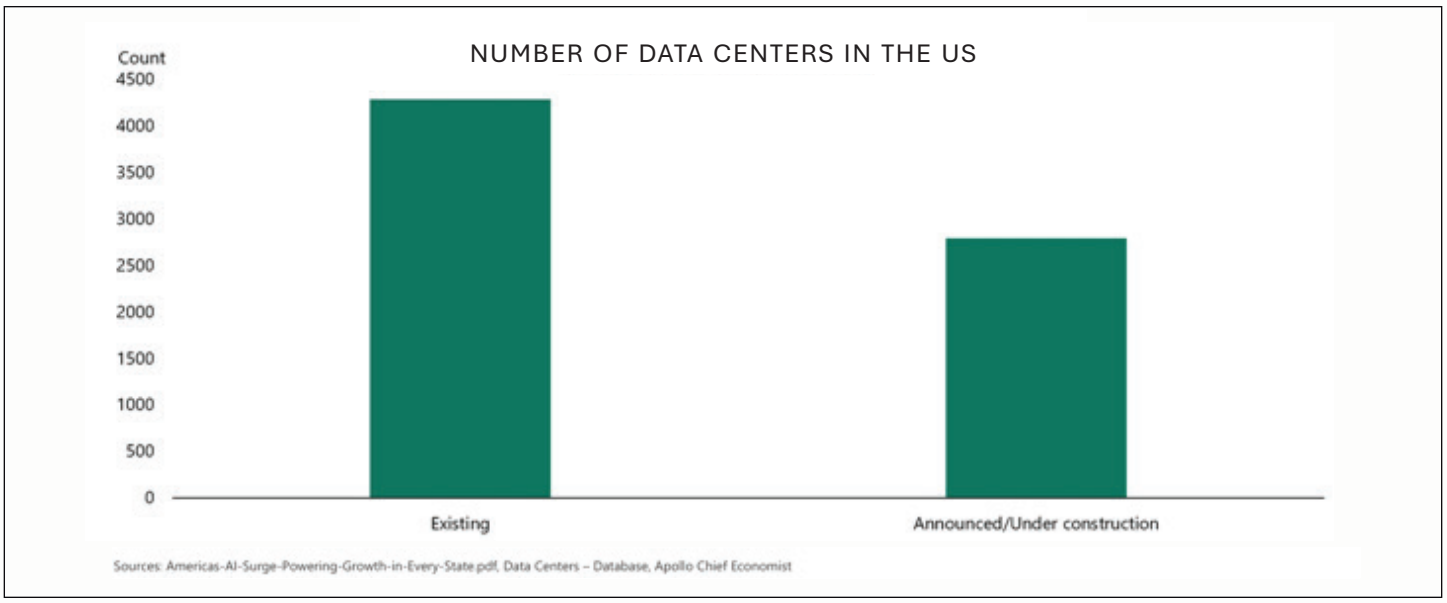
[4] Carlota Perez, *Technological Revolutions and Financial Capital: The Dynamics of Bubbles and Golden Ages* (Edward Elgar, 2002)
[5] McKinsey Global Institute, State of AI 2025 (November 2025); McKinsey, "AI Productivity Gains and the Performance Paradox" (April 2026).

→ There is also a harder question embedded in every innovation cycle: who actually wins? This is almost impossible to answer in real time. In 1995, which internet company would dominate? Not AOL, which seemed like the obvious answer. Not Alta Vista. Eventually Google, a company that did not yet exist. The technology created enormous wealth. Most of the companies that attracted the most capital in the early years did not survive.

AI: Real, Enormous, and Still Grasping

Artificial intelligence (AI) is real. The productivity gains are beginning to show up in earnings. The efficiency improvements in software development, customer service, data analysis, and a dozen other areas are not hypothetical. We actively use these tools every day.

What is also real is the scale of the capital commitment. The four largest US technology companies plan to spend approximately $650 billion in capital expenditures in 2026 alone.[6] That is a roughly 60% increase from the already historic spending levels of 2025. As a share of GDP, this buildout already exceeds the broadband and telecom investment boom of the early 2000s and is estimated to trail only the railroad era of the 1880s.[7] These are not small numbers. They are civilization-scale bets.



Most people think of SpaceX as a space company. Look closer. xAI, Elon Musk's artificial intelligence venture, is deploying some of the largest GPU clusters in the world.[8] Starlink is increasingly discussed as a backbone for AI inference at the edge, putting compute power in orbit[9] — and perhaps challenging all those terrestrial data centers being built (note chart above). The valuation story that is today driving

CONTINUED →

[6] Bloomberg, "Big Tech to Spend $650 Billion This Year as AI Race Intensifies," February 2026; Yahoo Finance, "Big Tech Set to Spend $650 Billion in 2026," February 2026.

[7] AI data center infrastructure capital expenditure is estimated at approximately 1.2% of US GDP in 2025, exceeding the dot-com era telecom buildout (approximately 1.0% of GDP) and trailing only the railroad boom of the 1880s, which peaked at roughly 6% of GDP. Sources: Paul Kedrosky analysis cited in multiple outlets, 2025; "The AI Spending Boom Is Massive But Not Unprecedented," Advisor Perspectives, October 2025; Investment Research Partners, August 2025.

[8] xAI has publicly announced one of the largest GPU supercomputer clusters in the world at its Memphis facility. Starlink's potential role in distributed AI inference has been discussed in multiple technical and financial analyses. Source: Bloomberg, The Information, 2025–2026.

[9] **Author Note:** One possible long-term implication of AI's growing energy demands is whether portions of compute infrastructure eventually migrate off-planet, where solar energy is abundant and heat dissipation challenges differ materially from terrestrial data centers. Significant engineering and latency challenges remain, making this speculative rather than a near-term expectation.

→ SpaceX's capital raises is as much about AI infrastructure as it is about rockets. The point is broader than SpaceX. AI capital is moving under a lot of different labels. The $650 billion figure is likely an undercount of the actual bet the market is placing on this technology.

And yet, nobody really knows what it becomes. Will the dominant model be Claude, Gemini, GPT, or something that has not been built yet? Will the value accrue to the model builders, the application layer, the chip manufacturers, or the industries that quietly absorb AI efficiency and expand their margins? History suggests the answer will surprise us. The railroad investors did not predict that the steel industry and Chicago meatpackers would be among the biggest beneficiaries. The early internet investors did not predict that advertising would be the dominant business model. We are still in the Frenzy phase of this cycle. The Deployment phase, and who benefits from it most broadly, is still being written.

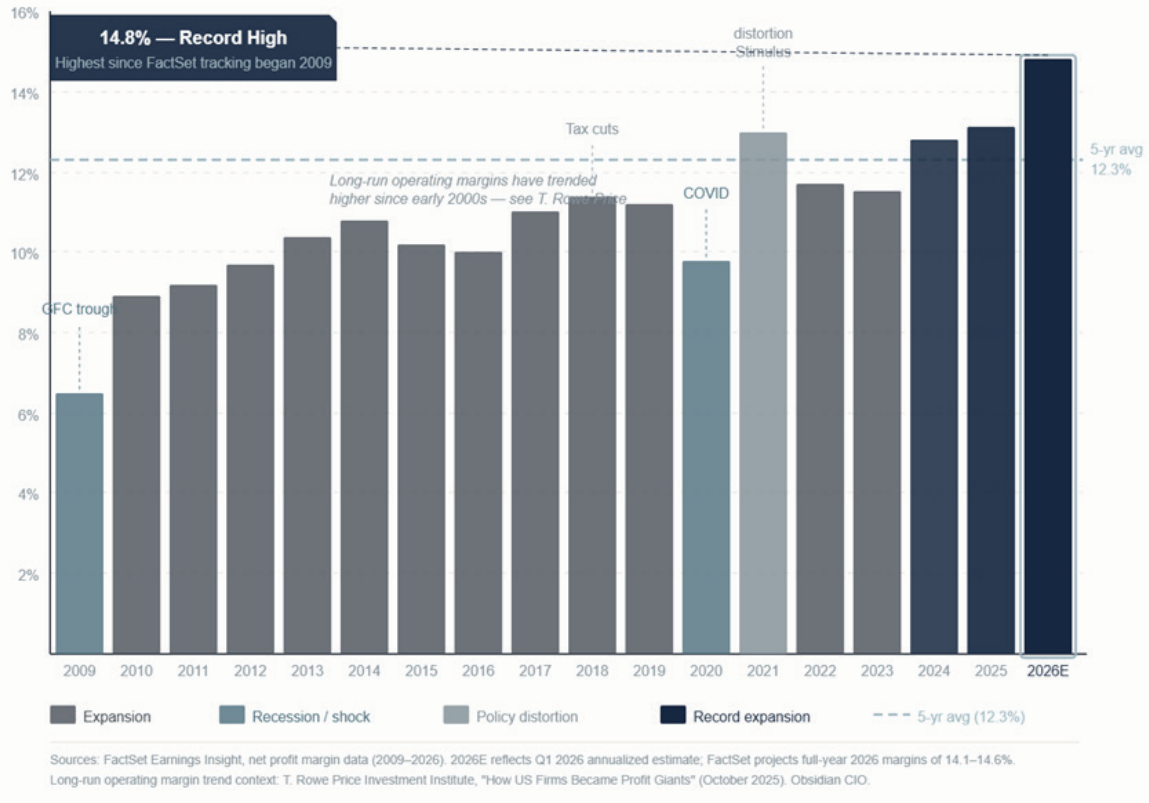
This is a genuinely exciting moment. It is also a moment where the market may be pricing a great deal of certainty into a genuinely uncertain outcome.

What the Market Is Actually Charging You

Layer the market characteristics on top of that picture and something interesting emerges. The story is more complicated than a simple bull or bear case.

ANNUAL, 2009–2026 | REFLECTS Q1 ANNUALIZED ESTIMATE

S&P 500 NET PROFIT MARGIN



Sources: FactSet Earnings Insight, net profit margin data (2009–2026). 2026E reflects Q1 2026 annualized estimate; FactSet projects full-year 2026 margins of 14.1–14.6%.
Long-run operating margin trend context: T. Rowe Price Investment Institute, "How US Firms Became Profit Giants" (October 2025). Obsidian CIO.

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→ Corporate earnings have been real. S&P 500 net profit margins hit 14.8% in Q1 2026, the highest level since FactSet began tracking this metric in 2009, well above the five-year average of 12.3%.[10] The companies at the center of the AI buildout have delivered genuine growth, not just narrative. In 2025, 79% of the S&P 500's return was driven by earnings growth rather than multiple expansion.[11] The market did not get to where it is entirely on hope. Companies grew into a meaningful portion of their valuations.

But look closer and two things complicate that picture considerably.

The first is what those margins are not yet reflecting. Capital expenditure flows through the balance sheet, not the income statement. When Alphabet announces it is raising $80 billion in debt to fund AI infrastructure, that does not show up as a current expense crushing today's margins.[12] It gets capitalized and depreciated over three to five years. The income statement looks clean. The cash flow statement tells a different story — free cash flow is being consumed by the AI buildout at a scale the numbers do not yet fully reveal. The depreciation wave on hundreds of billions in computing infrastructure is coming. It is already locked in. It simply has not hit the income statement yet. If the AI investment delivers the returns it promises, margins hold or expand further. If the deployment takes longer than expected or the productivity gains accrue more narrowly than hoped, companies will be carrying elevated depreciation on assets that have not yet paid off. That is not a prediction. It is arithmetic.

The second is the Equity Risk Premium. The ERP is the extra return investors expect for tolerating the uncertainty of owning stocks rather than lending to the government. It is one of the most honest measures of what the market is actually charging you for the risk you are taking. The 10-year Treasury yields approximately 4.5%. The S&P 500 earnings yield — the inverse of the price-to-earnings ratio — sits at approximately 3.7%. The gap has not just narrowed. It has inverted. Investors are currently accepting a lower expected return from stocks than from a risk-free government bond. The last time this happened with any persistence was the early 2000s. That was not a comfortable period for equity investors.

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[10] S&P 500 blended net profit margin for Q1 2026: 14.8%, above the prior quarter's 13.2%, above the year-ago margin of 12.8%, and above the five-year average of 12.3%. Source: FactSet Earnings Insight, "S&P 500 Reporting Highest Net Profit Margin in More Than 15 Years," April 27, 2026. FactSet Senior Earnings Analyst John Butters, insight.factset.com.

[11] In 2025, 79% of the S&P 500's 16% full-year return was attributable to earnings growth, compared to just 27% and 55% in 2023 and 2024 respectively. Source: J.P. Morgan Asset Management, "What's Driving Stock Market Returns?", December 17, 2025. am.jpmorgan.com.

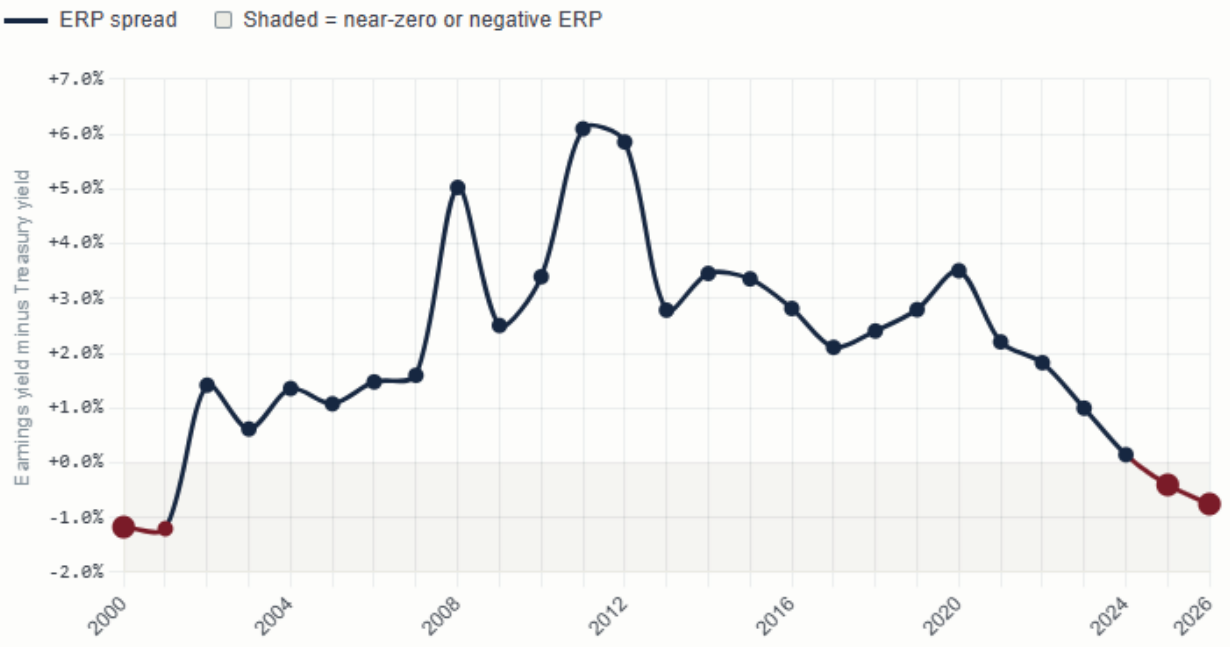
[12] Alphabet Inc., debt issuance filings and investor communications, 2026. The $80 billion figure reflects reported capital raise plans for AI infrastructure investment. Source: Bloomberg, Wall Street Journal, 2026.

[13] ERP data: Damodaran NYU Stern Historical Implied ERP, January 2026; US Treasury yield data; FactSet 2026 estimated earnings yield. 2026E ERP approximately negative 0.7%.

EQUITY RISK PREMIUM

S&P 500 EARNINGS YIELD MINUS 10-YEAR TREASURY YIELD

ANNUAL, 2000–2026E | PERCENTAGE POINTS



2026E ERP	2012 PEAK ERP	HISTORICAL AVG
−0.7%	+5.6%	+2.5%
Near dot-com low	Stocks most attractive	Since 2000

Sources: Aswath Damodaran, NYU Stern School of Business — Historical Implied Equity Risk Premiums (January 2026); U.S. Treasury, Daily Yield Curve Rates; FactSet (2026E earnings yield). 2026E uses trailing 10-year Treasury yield ~4.5% and S&P 500 earnings yield ~3.7–3.8% as of May 2026.

To be clear, the earnings yield is not the ceiling on stock returns. Companies grow, reinvest profits, buy back shares, and may even expand margins further – that is, if AI delivers. Historically that has added another four to five percentage points annually on top of the earnings yield. But the floor is lower than it has been in decades, which means growth has to carry considerably more weight than it did when the earnings yield sat closer to 7%. There is less cushion. The record margins that look so reassuring today may face a quiet headwind over the next three to five years that most investors are not yet pricing. And the thin ERP means the market is offering almost no compensation for absorbing that uncertainty.

The combination of genuine earnings growth, record margins with an asterisk, and the thinnest equity risk premium in over two decades is precisely the environment the Perez framework describes as most susceptible to a correction. Not necessarily imminent. Not necessarily severe. But a moment where the margin for error has been priced away.

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→ What To Do About It

Valuations are a poor timing tool. We have said this before and mean it. In November 2025 we flagged stretched valuations in the S&P 500 — the market had already delivered 16% that year and multiples were near the top of their 20-year historical range. We noted that high valuations can persist when earnings growth is genuine, and that is exactly what happened. Companies grew into their valuations in 2025, delivering another year of strong returns driven overwhelmingly by real earnings expansion,[14] not multiple expansion. Being right about valuation and being right about the near-term direction of prices are two entirely different things. The market has a long and humbling history of staying expensive longer than careful people expect.

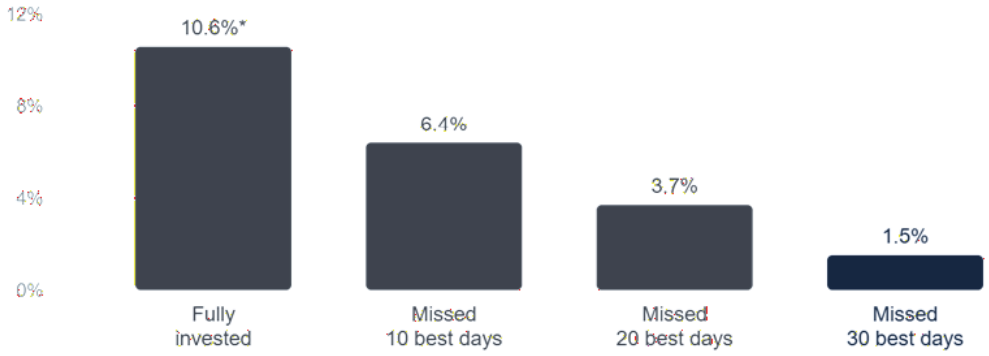
That track record is not an argument for complacency. It is an argument against doing anything rash.

What valuations are excellent at is calibrating risk. Record margins with a depreciation wave still coming. An equity risk premium that has inverted. A Frenzy phase where capital is flowing faster than proven returns. None of that means the market falls tomorrow. It means the margin for error is thin and the cost of being wrong has gone up.

THE COST OF SITTING OUT THE MARKET

S&P 500 TOTAL RETURN – IMPACT OF MISSING THE BEST TRADING DAYS

FULLY INVESTED	MISSED 10 DAYS	MISSED 20 DAYS	MISSED 30 DAYS
10.6%*	6.4%	3.7%	1.5%
annualized return	return cut by 40%	return cut by 65%	return cut by 86%



7 of the 10 best days occurred within 15 days of the 10 worst days. The investor who exits to avoid the downturn almost always misses the recovery too.

* 10.6% reflects the annualized total return of the S&P 500 over the 20-year period January 1, 2004 – December 31, 2023, with dividends reinvested. Missing days refers to the single best trading days by daily total return during that period.

Source: J.P. Morgan Asset Management, *Guide to the Markets*, Q1 2025. S&P 500 is the Standard & Poor's 500 Index, a market-capitalization-weighted index of 500 leading publicly traded US companies. Past performance is not indicative of future results.

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[14] In November 2025, Obsidian CIO noted that S&P 500 valuations were near the top of their 20-year historical range. The S&P 500 delivered approximately 16% in full-year 2025, driven by genuine earnings growth rather than multiple expansion. Source: Obsidian CIO Market Commentary, November 2025; J.P. Morgan Asset Management, "What's Driving Stock Market Returns," December 2025.

→ That does not argue for abandoning equity markets. It argues for thinking carefully about where risk is concentrated and whether your portfolio reflects your actual tolerance for a correction, not just your enthusiasm for the long-term story. History is clear that great innovations ultimately generate great wealth, and that wealth accrues broadly across the economy during the Deployment phase — not just to the infrastructure builders. The dot-com crash wiped out most of the early internet investors. Companies that quietly used cheap broadband to reach customers more efficiently over the following decade created far more durable value.

Given we do not know whether Claude or Gemini or something not yet built will be the dominant AI platform — and nobody does — then owning the broad economy, including the industries that will quietly absorb AI efficiency gains across their cost structures, is a more defensible position than concentrating in the infrastructure layer alone. Higher risk tolerance allows for more targeted exposure to potential winners. Lower tolerance argues for breadth. Both are legitimate positions. What is not legitimate is owning a portfolio shaped by last year's returns rather than your own risk profile.

Conclusion

The long arc of innovation is intact. From the industrial revolution through today, human ingenuity has consistently driven productivity growth, economic expansion, and rising living standards. Markets have followed. We have no reason to believe this cycle is different. AI may represent one of the more significant inflection points in that arc.

What we also know is that we are in a Frenzy phase, the market is pricing extraordinary outcomes with seemingly little margin for error, and the productivity gains that will ultimately justify that optimism have not yet shown up broadly in the data. Valuations do not tell you when to sell. They tell you how much cushion you have if growth disappoints. Right now that cushion is thin.

INVESTMENT WARS PODCAST

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Deep Thought: The Jones Act – A 105-Year-Old Cautionary Tale

We spend considerable time in these pages examining the tension between free markets and strategic protectionism, with semiconductors being the clearest example of where the latter is arguably justified. But there is an older, lesser-known story worth telling, one that predates today's tariff debates by over a century and illustrates what happens when protectionism is applied carelessly and left to calcify.

The Jones Act, formally the Merchant Marine Act of 1920, requires that any goods shipped between two American ports travel on vessels that are American-built, American-owned, American-flagged, and predominantly American-crewed. The stated rationale, then and now, is national security and a strong domestic fleet. The actual result has been the opposite. By making these ships not only American-flagged but American-built, owned, and manned, the Act has made operating them so prohibitively expensive that the American fleet has shrunk dramatically, orders of magnitude compared to rivals, over the century the Act has been in place.[15]

> Globally, waterborne shipping is among the cheapest and most efficient ways to move freight. The U.S., with its extraordinary network of navigable rivers, coastlines, and harbors, should be a natural beneficiary.

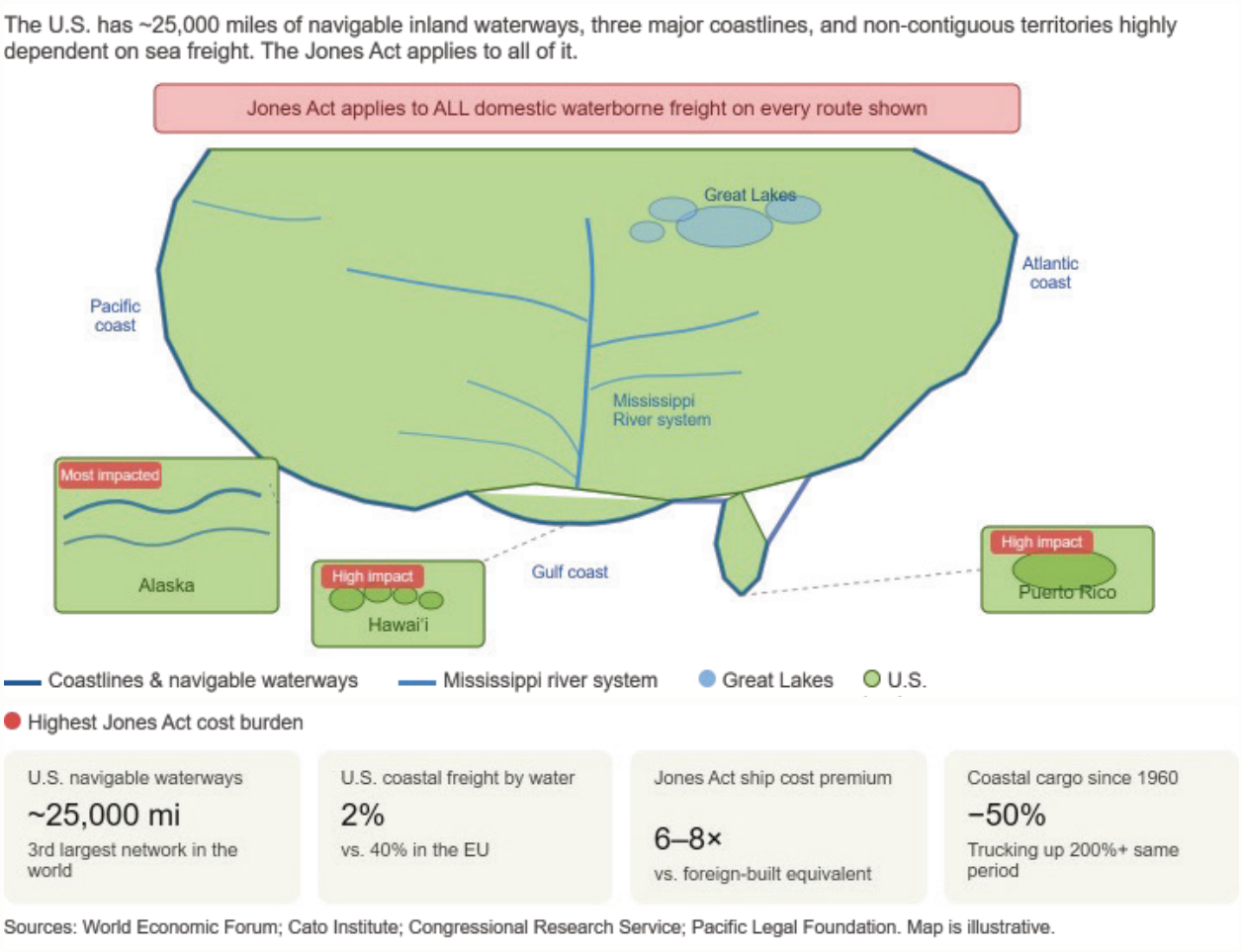
Here is where the economics become particularly striking. Globally, waterborne shipping is among the cheapest and most efficient ways to move freight. The U.S., with its extraordinary network of navigable rivers, coastlines, and harbors, should be a natural beneficiary. Instead, the volume of cargo shipped along U.S. coasts today is roughly half what it was in 1960, despite enormous economic growth, while rail has increased freight volume by 50 percent and trucks by over 200 percent over the same period.[16] The Jones Act did not protect an industry; it made shipping so expensive that businesses and consumers were forced into costlier alternatives, raising costs across the entire economy . . . . A domestic coastal ship built under Jones Act requirements costs between $190 and $250 million, compared to $25 to $30 million for a foreign-built equivalent.[17]

Transportation expert Andrew Miller, an upcoming guest on our podcast, has spoken about the profound underutilization of America's waterways as a hidden constraint on economic growth and urban mobility. His lens reinforces what writer and policy thinker Zvi Mowshowitz, a prior podcast guest and founder of Balsa Research, a nonprofit dedicated in part to Jones Act repeal, has stated plainly: the Act represents pure rent seeking, existing solely to protect incumbent industries from the competition that would otherwise force innovation and efficiency.[18]

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[15] Zvi Mowshowitz, "Repeal the Jones Act of 1920," *Don't Worry About the Vase*, November 27, 2024; 80,000 Hours Podcast, "Zvi Mowshowitz on Sleeper Agents and AI Updates," October 14, 2025.
[16] Cato Institute, "The Jones Act: A Burden America Can No Longer Bear," Policy Analysis, November 2022.
[17] Congressional Research Service, cited in CBRE, "Antiquated Law Holding Back U.S. Supply Chain," January 2024.
[18] Mowshowitz, *op. cit.*; Balsa Research, balsa.org.

AMERICA'S WATERWAY ADVANTAGE — AND THE LAW THAT QUANDERS IT



The inconsistency is also worth noting. Domestic airlines must be American-owned and operated, but they fly Airbus jets. No one mandates that United purchase Boeing exclusively. The Jones Act imposes that precise constraint on shipping, with predictably anticompetitive results. According to the World Economic Forum, it is the world's most restrictive example of cabotage law.[19]

We are not categorically opposed to strategic protectionism. The case for semiconductors may be sound. But that logic requires honesty about what is truly strategic and whether the policy is actually working. The Jones Act is a useful reminder that protectionism without accountability becomes permanent, and that the industries most loudly defended are often the ones most in need of competition.

IMPORTANT DISCLOSURE: The information contained in this report is informational and intended solely to provide educational content that we find relevant and interesting to clients of Obsidian. All shared thoughts represent our opinions and is based on sources we believe to be reliable, including AI-generated content that we then review and refine. Therefore, nothing in this letter should be construed as investment advice; we provide advice on an individualized basis only after understanding your circumstances and needs.

[19] World Economic Forum, Enabling Trade: Valuing Growth Opportunities (Geneva: World Economic Forum, 2013), pp. 48–49. Cabotage law is the regulation of domestic transport routes.

Talking Points – May 2026

Monthly Market Recap

After a stellar April, equity markets continued to perform well throughout May. All three major US indices posted solid gains. The rally in equities was supported by renewed enthusiasm around AI and growing hopes that the US/Iran conflict is progressing towards a resolution. At the same time, treasury yields remained elevated (particularly across intermediate and longer maturities), as investors become increasingly concerned that higher energy prices are beginning to show up in inflation data and weigh on the broader economic backdrop. Overall, markets looked past these macro concerns, choosing instead to focus on the strong AI-related headlines and signs of diplomatic progress in the Middle East.

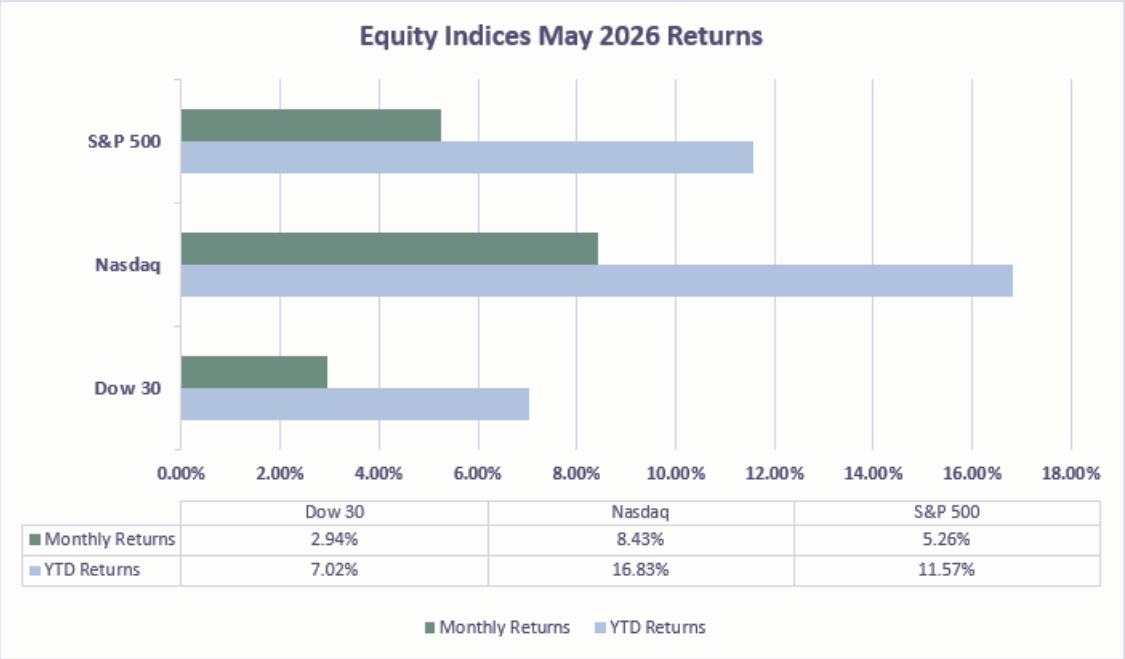
AI remained one of the strongest drivers of market sentiment and performance throughout the month. It started out with AI/chip stocks rallying after strong earnings results from AMD, SMCI, and Intel. Momentum continued as Cerebras Systems completed a highly anticipated IPO that was met with strong demand (shares up over 70% on its IPO). SpaceX then officially filed for its own long-anticipated IPO which will likely end up being the largest IPO ever. Several other prominent private AI/tech companies are expected to file at some point this year including OpenAI and Anthropic. With this recent rally, expect markets to shift their focus back onto valuations in the coming weeks. The "AI trade" has followed a similar trend – rapid excitement and surging prices followed by periods of caution when valuations seem stretched.

The strong performance in equity markets was also supported by signs that the US and Iran are seeking ways to end its conflict. It is important to note that both sides are still far apart on several key issues, notably control of the Strait and Iran's ability to have a nuclear program. Early in the month, tensions did briefly escalate when Iran launched a fresh wave of attacks on the UAE and shipping vessels navigating the Strait. Markets were relieved and reassured when the Trump administration stated that Iran's actions did not warrant breaking the existing cease-fire agreement, signaling that their preference was to let diplomacy play out rather than escalating tensions any further. Sentiment improved further as reports indicated that the U.S. and Iran were working with mediators on a "one-page memorandum" to guide negotiations. Later in the month the U.S. sent Iran a draft framework for future talks and there were unconfirmed reports that the two sides had reached an agreement to "wind down the war."

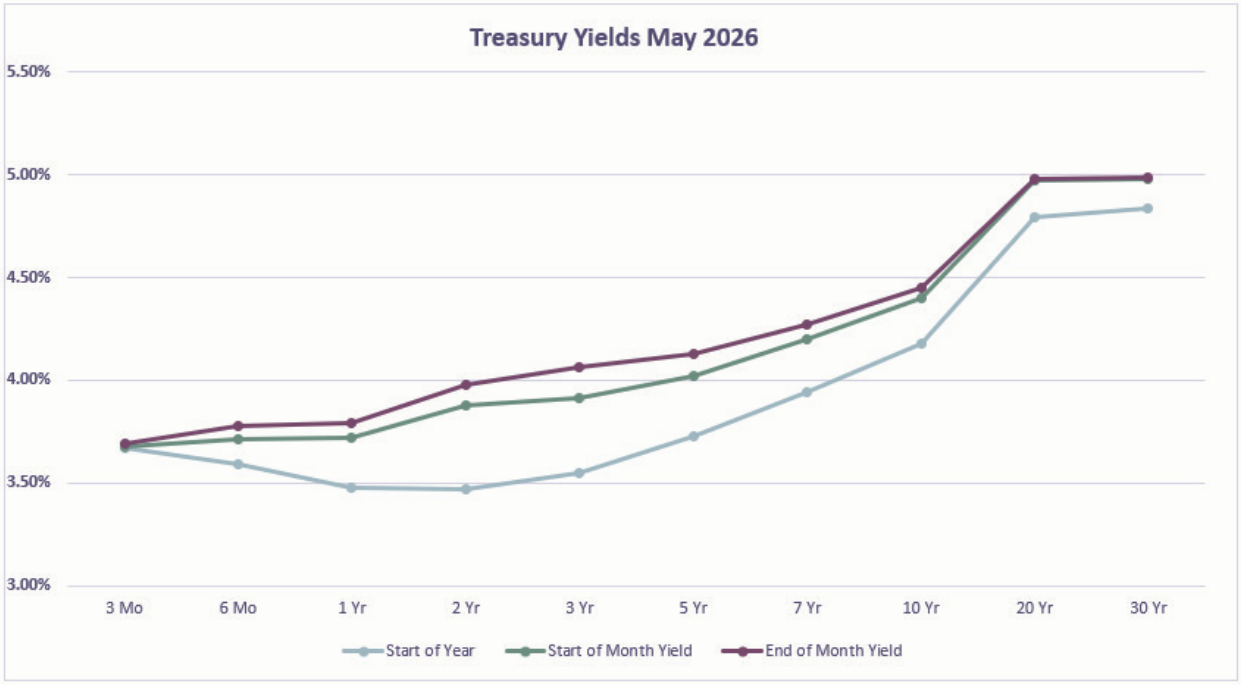
Despite the strength in equities, concerns over inflation and the economic backdrop continued to build throughout the month. April CPI and Core CPI came in higher than expected and above the prior month, with headline CPI showing a second consecutive material increase due to elevated energy prices. April PPI also surprised to the upside, while PCE and Core PCE came in higher than the prior month, even though both were in line with expectations. As inflation picks up, overall growth is starting to slow – an updated estimate of Q1 GDP was revised down from 2% to 1.6%. At the same time, retail sales growth slowed by more than expected as higher prices began to pressure consumer demand. This was further evidenced by the University of Michigan's Consumer Sentiment Survey which continued to hit all-time lows. Against this backdrop, treasury yields, which rose materially last month, remained elevated especially for intermediate and longer maturities. As of month end, futures are pricing in a 55% likelihood that the Fed keeps rates at current levels for the rest of 2026 and a 44% chance of a rate hike.

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Graphs/Visuals

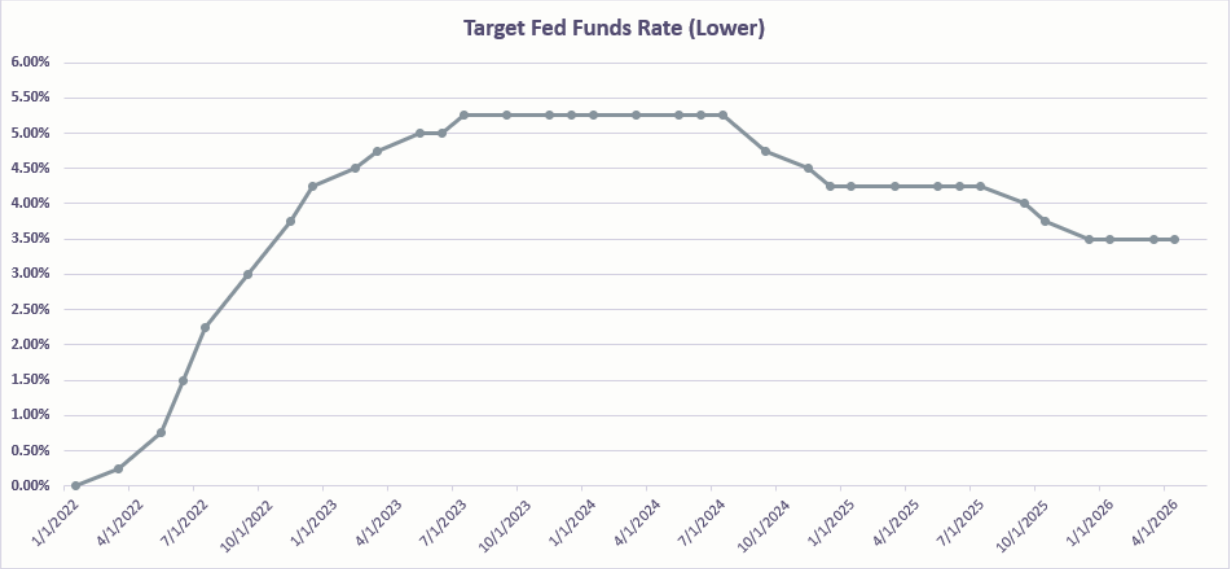


	Dow 30	Nasdaq	S&P 500
Monthly Returns	2.94%	8.43%	5.26%
YTD Returns	7.02%	16.83%	11.57%



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Fed Interest Rate Decisions Since Start of Hiking Cycle			
FOMC Meeting Date	Hike/Cut	Target Fed Funds Rate (Lower)	Target Fed Funds Rate (Upper)
Start of 2022	-	*0.00%*	*0.25%*
3/16/2022	0.25%	0.25%	0.50%
5/4/2022	0.50%	0.75%	1.00%
6/15/2022	0.75%	1.50%	1.75%
7/27/2022	0.75%	2.25%	2.50%
9/21/2022	0.75%	3.00%	3.25%
11/2/2022	0.75%	3.75%	4.00%
12/14/2022	0.50%	4.25%	4.50%
2/1/2023	0.25%	4.50%	4.75%
3/22/2023	0.25%	4.75%	5.00%
5/3/2023	0.25%	5.00%	5.25%
6/14/2023	0.00%	5.00%	5.25%
7/26/2023	0.25%	5.25%	5.50%
9/20/2023	0.00%	5.25%	5.50%
11/1/2023	0.00%	5.25%	5.50%
12/13/2023	0.00%	5.25%	5.50%
1/31/2024	0.00%	5.25%	5.50%
3/20/2024	0.00%	5.25%	5.50%
5/1/2024	0.00%	5.25%	5.50%
6/12/2024	0.00%	5.25%	5.50%
7/31/2024	0.00%	5.25%	5.50%
9/18/2024	-0.50%	4.75%	5.00%
11/7/2024	-0.25%	4.50%	4.75%
12/18/2024	-0.25%	4.25%	4.50%
1/29/2025	0.00%	4.25%	4.50%
3/19/2025	0.00%	4.25%	4.50%
5/7/2025	0.00%	4.25%	4.50%
6/18/2025	0.00%	4.25%	4.50%
7/30/2025	0.00%	4.25%	4.50%
9/18/2025	-0.25%	4.00%	4.25%
10/29/2025	-0.25%	3.75%	4.00%
12/10/2025	-0.25%	3.50%	3.75%
1/28/2026	0.00%	3.50%	3.75%
3/18/2026	0.00%	3.50%	3.75%
4/29/2026	0.00%	3.50%	3.75%



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Probability of Upcoming Fed Interest Rate Decisions							
	Hike	Hold	Cut	Hike 50bps	Hike 25bps	Cut 25bps	Cut 50bps
5/1/2026 Next: June 17th	0.00%	92.80%	7.20%	0.00%	0.00%	7.20%	0.00%
5/8/2026 Next: June 17th	0.00%	93.90%	6.10%	0.00%	0.00%	6.10%	0.00%
5/15/2026 Next: June 17th	0.00%	99.20%	0.80%	0.00%	0.00%	0.80%	0.00%
5/22/2026 Next: June 17th	3.30%	96.70%	0.00%	0.00%	3.30%	0.00%	0.00%
5/29/2026 Next: June 17th	0.00%	99.10%	0.90%	0.00%	0.00%	0.90%	0.00%

2026 Interest Rate Forecast	
More than 2 Hikes	0.7%
2 Hikes	7.8%
1 Hike	35.8%
At Least 1 Hike	44.3%
Hold	55.1%
At Least 1 Cut	0.5%
1 Cut	0.5%
2 Cuts	0.0%
More than 2 Cuts	0.0%

2026 Interest Rate Forecast	
At Least 1 Hike	44.3%
Hold	55.1%
At Least 1 Cut	0.5%

April CPI and Core CPI (yoy)	April	vs. Expected	vs. March
CPI	3.8%	3.7%	3.3%
Core CPI	2.8%	2.7%	2.6%

April PCE and Core PCE (yoy)	April	vs. Expected	vs. March
PCE	3.8%	3.8%	3.5%
Core PCE	3.3%	3.3%	3.2%

Highlights/Notes

Highlight: Equities continued to rally throughout the month on renewed enthusiasm around AI and growing hopes that the US/Iran conflict is progressing towards a resolution.

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Obsidian Sentiment Summary 2026:

2026	January	February	March	April	May
Fed	**Mildly Bearish**	**Neutral**	**Neutral**	**Neutral**	**Neutral**
Interest Rate Decisions	*Neutral*	*Neutral*	*Neutral*	*Neutral*	*Neutral*
Commentary	*Mildly Bearish*	*Neutral*	*Mildly Bearish*	*Mildly Bearish*	*Neutral*
Fed Independence	*Mildly Bearish*	*Neutral*	*Neutral*	*Neutral*	*Neutral*
Economic Data	**Mildly Bullish**	**Mildly Bullish**	**Mildly Bearish**	**Mildly Bearish**	**Mildly Bearish**
Inflation	*Bullish*	*Mildly Bullish*	*Neutral*	*Mildly Bearish*	*Bearish*
Employment/Labor Market	*Neutral*	*Mildly Bullish*	*Bearish*	*Neutral*	*Bullish*
GDP	*Neutral*	*Neutral*	*Neutral*	*Neutral*	*Mildly Bearish*
Consumer Spending	*Neutral*	*Mildly Bearish*	*Neutral*	*Neutral*	*Mildly Bearish*
Consumer Sentiment	*Neutral*	*Neutral*	*Mildly Bearish*	*Bearish*	*Bearish*
Housing/Real Estate	*Neutral*	*Mildly Bullish*	*Mildly Bullish*	*Neutral*	*Neutral*
Global Events/News	**Mildly Bearish**	**Mildly Bearish**	**Bearish**	**Bullish**	**Mildly Bullish**
China	*Neutral*	*Neutral*	*Mildly Bearish*	*Neutral*	*Mildly Bullish*
Middle East	*Bearish*	*Bearish*	*Bearish*	*Bullish*	*Bullish*
Russia	*Neutral*	*Neutral*	*Mildly Bearish*	*Neutral*	*Neutral*
South America	*Mildly Bullish*	*Neutral*	*Neutral*	*Neutral*	*Neutral*
Europe	*Mildly Bearish*	*Neutral*	*Neutral*	*Neutral*	*Neutral*
Japan	*Neutral*	*Neutral*	*Neutral*	*Neutral*	*Neutral*
US Politics/Government	**Mildly Bearish**	**Mildly Bullish**	**Neutral**	**Neutral**	**Neutral**
Tariffs	*Mildly Bearish*	*Bullish*	*Mildly Bearish*	*Neutral*	*Mildly Bearish*
Economic Policy	*Mildly Bearish*	*Neutral*	*Neutral*	*Neutral*	*Neutral*
Market Trends	**Mildly Bearish**	**Bearish**	**Mildly Bearish**	**Neutral**	**Mildly Bullish**
Earnings	*Mildly Bearish*	*Neutral*	*Neutral*	*Mildly Bullish*	*Bullish*
AI/Chips	*Mildly Bearish*	*Bearish*	*Neutral*	*Mildly Bullish*	*Bullish*
Private Credit	*Bearish*	*Bearish*	*Bearish*	*Mildly Bearish*	*Neutral*
Energy Prices	*Mildly Bearish*	*Bearish*	*Bearish*	*Mildly Bearish*	*Mildly Bearish*
Metals/Critical Minerals	*Mildly Bullish*	*Neutral*	*Neutral*	*Neutral*	*Neutral*
Crypto	*Mildly Bearish*	*Neutral*	*Mildly Bearish*	*Neutral*	*Neutral*

Key Topics/Items from Below:

- ***BEARISH***
  - Iran launching a fresh wave of attacks on the UAE after the US announced plans to help assist commercial vessels through the Strait of Hormuz
  - April CPI and Core CPI coming in higher than expected and higher than the month prior (with CPI showing another material jump for the second month in a row due to elevated energy prices)
  - PPI for the month of April coming in higher than expected
  - Intermediate and longer-term treasury yields remaining elevated due to concerns over inflation
- ***MILDLY BEARISH***
  - The University of Michigan's Consumer Sentiment Survey continuing to hit all-time lows
  - Retail sales for the month of April showing that sales growth had slowed by more than expected as elevated prices are starting to impact demand

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- Appeals court ruling that the new 10% global tariffs would remain in effect for now – the courts are expected to continue evaluating the legality of these tariffs in coming weeks
- Q1 GDP estimate getting revised down to 1.6% (from 2%)

NEUTRAL

- The Senate officially confirming Kevin Warsh as the next Chairman of the Fed
- The Japanese Yen weakening materially versus the US dollar
- April PCE and Core PCE coming in higher than the month prior (but in line with expectations)
- The ECB releasing a report on private credit in which it described the current risks facing the asset class as "manageable"

MILDLY BULLISH

- Several prominent tech CEOs joining President Trump on his trip to China
- China stating that it agreed with the US that the Strait of Hormuz should be opened and that Iran should not be allowed to control it
- China also agreeing that Iran should never be allowed to possess a nuclear weapon

BULLISH

- The Trump administration stating that Iran's attacks on the UAE and shipping vessels did not warrant breaking the existing cease-fire agreement (US keen on getting a deal done, scraping the cease-fire would have extended that timeline materially)
- Reporting that suggesting the US and Iran were working with mediators to draft a "one-page memorandum" that would serve as a general guide to negotiations
- Intel and Apple announcing plans to make a deal on chips while AMD and SMCI reported better than expected earnings results
- April's jobs report showing that the US added twice as many jobs as expected while the overall unemployment level remained steady at 4.3%
- Highly anticipated Cerebras Systems (AI company) IPO being met with strong demand (up 70% on its IPO) – Cerebras was the first of several expected high profile tech IPOs in 2026
- Nvidia reporting better than expected earnings which highlighted record sales and income
- Reports circulating mid-month that OpenAI was taking steps towards filing for an IPO at some point in 2026
- SpaceX officially filing for its long-anticipated IPO which will likely be the largest IPO ever
- The US officially sending Iran a "draft framework" that, if agreed upon, will guide negotiations between the two countries in the coming weeks
- Unvalidated reports that the US and Iran had reached an agreement to "wind down the war" (it is unclear as to whether this is actually true and what the details are)