

Bonds and Equities are Sending Different Signals

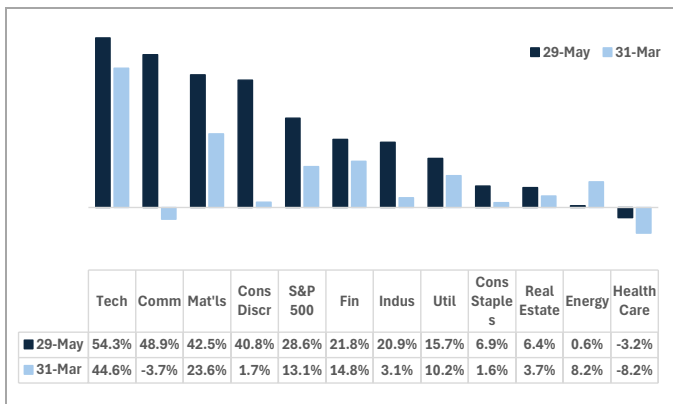
Aline Sun, Director, Endowment Management
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The first five months of 2026 have been anything but quiet. A war in Iran, a closed Strait of Hormuz, an oil supply shock, and mounting fiscal concerns have kept investors on edge — yet markets have told two very different stories. Equities have surged to record highs while bond yields have climbed to levels not seen in years. Understanding what each market is signaling, and why they are conflicting, is helpful for navigating what lies ahead.

Equity Markets Optimism

After a difficult March, the US equity markets climbed a wall of worries in Q2 to reach all-time highs. The S&P 500 gained 10.7% year-to-date (as of May 29) and an impressive 19.5% since its March 30 lows. Many may be asking how stocks have managed to climb steadily in the face of war, an oil supply shock, and growth forecasts clouded by a prolonged conflict. Two factors stand out.

Chart 1: S&P 500 Earnings Growth for Q1 2026



Source: Factset Insights, as of 5/29/26

First, markets appear to be pricing in a relatively short-lived war in Iran, viewing the Strait of Hormuz closure as temporary and expecting oil prices to drift back toward pre-war levels over time. WTI crude oil prices were \$87 on May 29, after hitting a high of \$113 on April 7. And futures pricing expects a further decline to \$78 by year-end and \$72 by end of 2027.

Secondly, corporate earnings have not merely held up — they have genuinely exceeded expectations. Heading into 2026, Q1 earnings growth for the S&P 500 companies was projected at roughly 12.8% (FactSet Insights)

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Endowment Tip

Do you know if your endowment is a quasi or true endowment — or whether it's restricted or unrestricted? Understanding these fundamentals can inform your spending decisions and help you create more effective giving campaigns.

True vs Quasi Endowment?

A true endowment is created when a donor specifies their gift is for the long term — using language like "income only" or "in perpetuity" — legally binding the organization to honor those terms and spend only a prudent portion each year. A quasi endowment, by contrast, is created when a Vestry or Board voluntarily sets aside funds they could spend, meaning they retain the flexibility to change the guidelines or spend down the funds at any time.

Are there restrictions?

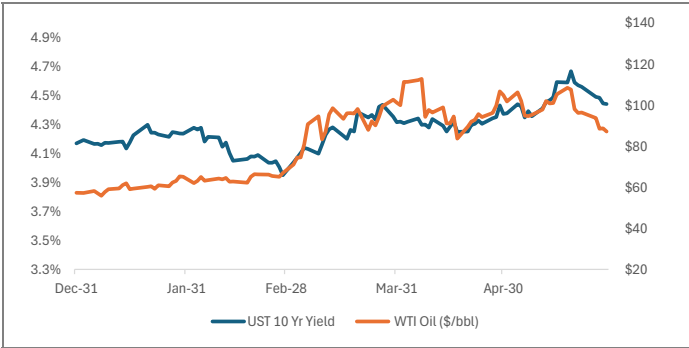
Endowment funds can be restricted by a donor or by the Vestry. These may restrict the fund to specific purpose — such as music or outreach, or cemetery maintenance — or leave the funds unrestricted and available for any organizational need. When a donor specifies how their gift must be used, the organization is legally obligated to honor that designation. Similarly, if a Vestry or Board creates funds for specific purposes and donors contribute to them, those gifts are also considered restricted. Carefully tracking the source and restrictions of each fund is essential for proper oversight and management.

What is its purpose?

When setting up an endowment fund, establish a clear purpose by answering the most basic questions of: 1) What will the endowment enable? 2) Who will it serve? While it is important to be specific about how the money will be used, it is also important to have enough flexibility to allow future Vestries/Boards to respond to the needs of their time. Of course, for any donor-restricted funds, the purpose will be designated by donor.

year over year. By March 31, that estimate had ticked up to 13.1%. Then, as of May 29, with 97% of S&P 500 companies having reported, actual Q1 earnings came in at 28.6% year-over-year growth (see Chart 1) — a remarkable 15.8% upward revision from where

Chart 2: US Treasury Yields Follow Oil Prices



Source: Morningstar, as of 5/29/26

expectations stood at the end of 2025. Tech and Communications companies were the biggest contributors. Tech had the most companies beating earnings estimates (97%), while Communications Services saw the largest overall earnings surprise (53% above estimates), driven by a few standout companies. Markets responded with the S&P 500 posting a 10.7% gain YTD through May 29.

Bond Markets Pessimism

While equities continue to signal optimism about the future, the bond market is telling a more cautious story. It has been approximately 90 days since the conflict with Iran began. After an initial selloff, equities rebounded to set record highs. Bonds, however, never fully recovered. The US 10-year Treasury sold off — as the price of a bond goes down, its yield goes up, and vice versa. Yields spiked to 4.6% on May 19 - the highest since January 2025—before pulling back to 4.4% by month-end. The 30-year Treasury yield hit a 19-year high of 5.18% and ended May at 4.97%.

Why have yields risen so far so quickly?

1. Inflation from Higher Oil Prices

The conflict with Iran created a major global energy shock. With the Strait of Hormuz still effectively closed, oil and gas prices have climbed to a four year high. And the effects are beginning to spread throughout the broader economy. Higher energy

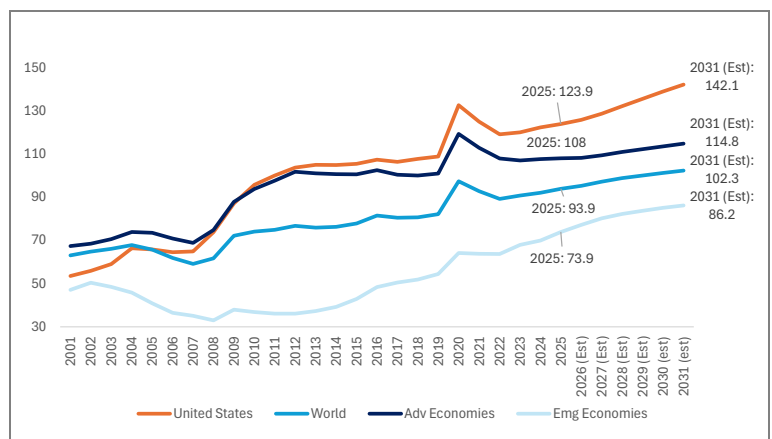
costs are starting to pressure everything from transportation to production to food prices. In April, the Consumer Price Index (CPI) rose 3.8% year over year. This is up from 2.4% in February, before the war began.

Rising oil prices fueled inflation fears, triggering a sell-off in US Treasuries that pushed bond prices lower and yields higher. As Chart 2 shows, 10-year Treasury yields have largely tracked oil prices since the end of February.

2. US Government Debt – While oil prices and inflation may be the primary drivers of rising yields, fiscal concerns remain an underlying source of pressure. The chronic deficits continue to weigh on bond markets, with investors increasingly demanding higher yields as compensation for holding long-term US debt. The numbers behind that anxiety are difficult to ignore. According to the IMF, US debt stood at 123.9% of GDP at the end of 2025 — well above the global average of 93.9% — and is projected to climb further to 142.1% by 2031. Global debt levels, by comparison, are forecasted to rise to 102.3% over the same period, underscoring just how outsized America's fiscal trajectory appears relative to the rest of the world. (See Chart 3)

3. Global Yields Also Rising – And finally, the rise in US Treasury yields is not occurring in isolation — it is being amplified by the broader global trend. As yields climb in the UK, Europe, and Japan, US Treasuries must compete for the same pool of international capital. When German bunds or Japanese government bonds begin offering more attractive returns, the relative appeal of US debt diminishes, prompting investors to demand higher yields before committing to US Treasuries.

Chart 3: Debt as a Percentage of GDP (%)



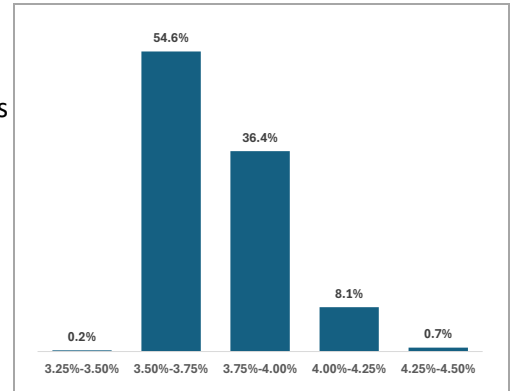
Source: IMF

Help From the Fed is in Question

Since December 2025, the Federal Reserve has held its benchmark interest rate between 3.50% and 3.75%. While rate cuts would boost the economy and financial markets, a recent uptick in inflation combined with uncertainty surrounding a new and potentially more dovish Fed chair, raises the risk that inflation could persist. This could complicate the Fed's future interest rate moves.

At the start of 2026, markets expected 2-3 rate cuts this year. That outlook has shifted dramatically. According to CME FedWatch, there is currently little chance of a rate cut in 2026 — and the probability of a rate hike has actually risen, with current odds showing a 54.6% probability that rates will hold steady and a 45.2% chance of an increase (See Chart 4).

Chart 4: Probabilities of Federal Reserve Interest Moves by Dec 9 Meeting



Source: CME Market Watch, as of May 29
 Note: dark blue = probability of staying at current rate, light blue = probabilities of higher rates

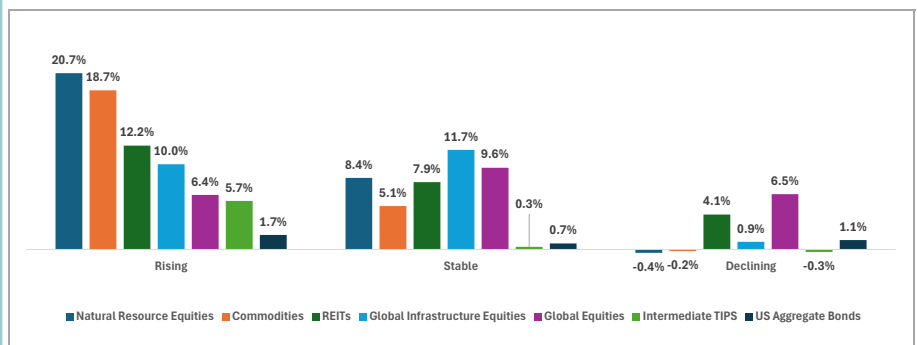
Diversify When Walking a Tight Rope

Even if the Strait of Hormuz reopens soon, a full recovery in oil supply and distribution is unlikely to be immediate. Some inflation may ease quickly, but other pressures could linger. Markets may continue balancing the risks of higher inflation against the outlook for growth. A diversified portfolio is well-suited to navigate various scenarios.

Chart 5 shows real asset class returns across three inflationary environments — rising, stable, and declining — from 2002 to 2025. No single asset class leads in every environment. During periods of rising inflation, Natural Resource Equities and Commodities posted the strongest returns, at 20.7% and 18.7% respectively. In stable inflation environments, Global Infrastructure Equities and Global Equities moved to the front. When inflation declined, intermediate TIPS and US Aggregate Bonds held up best on a relative basis.

Leadership rotates depending on the inflation backdrop. Rather than trying to predict which environment lies ahead, a portfolio diversified across real assets, global equities, infrastructure, and fixed income ensures that some portion is always aligned with prevailing conditions — reducing volatility and building resilience across the full economic cycle.

Chart 5: Real Returns During Different Inflationary Periods (2002-2025)



Source: State Street Investment Management

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Michael Strauss
 (212) 870-2862 | mstrauss@ecf.org

Susan McDowell
 (212) 870-2852 | smcdowell@ecf.org

Aline Sun
 (646) 544-4694 | asun@ecf.org

Juliette Acker
 (510) 788-0082 | jacker@ecf.org

Josh Anderson
 (212) 870-2841 | janderson@ecf.org

Christine Eagan
 (212) 870-2850 | ceagan@ecf.org