US Capital Markets Perspectives

May 2026

AMERISERV WEALTH ADVISORS

Contents

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in collaboration with

Federated Hermes

Summary: Q2 2026 Outlook

- **Geopolitical risk:** The US-Israel-Iran war, which began on February 28, 2026, has sent shockwaves through the global economy with rising oil prices impacting growth expectations. A short-term conflict should bring lower inflation and allow for the Fed rate cutting cycle to continue, but a prolonged conflict may lead to higher inflation and lower economic growth.
- **Inflation:** Energy inflation rose 17.9% year-over-year in April primarily from higher fuel costs. WTI Crude and Brent (Europe) oil have both surged over $100 per barrel. Volatile oil prices highlight the significant risks to global energy infrastructure and supply.
- **Employment:** Nonfarm payrolls have been volatile in the last three months, but the unemployment rate has been relatively stable, currently at 4.3% (April 2026). The present environment is best described as a "low-hire, low-fire" stagnant labor market.
- **US GDP:** On April 30, 2026, Q1 GDP was released, showing a healthy 2% growth rate for the quarter. However, growth may be lower in 2026 due to higher energy prices due to geopolitical risks, a slight cooling in consumer spending, and the impact of trade policies and tariff regulations.
- **The Consumer:** Consumer spending has been resilient in light of the challenging global environment, but will inflation upend the status quo.
- **The Federal Reserve:** The central bank is still expecting to lower interest rates in 2026. However, it must balance its dual mandate of inflation and employment with neither offering a clear path at present. Q2 will bring a new Fed chair with the markets looking for reassurance of continued independence.
- **Portfolio diversification:** Against a backdrop of geopolitical risks, diversification remains key.
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Federated Hermes: 2026-2027 US forecasts

As of April 15, 2026

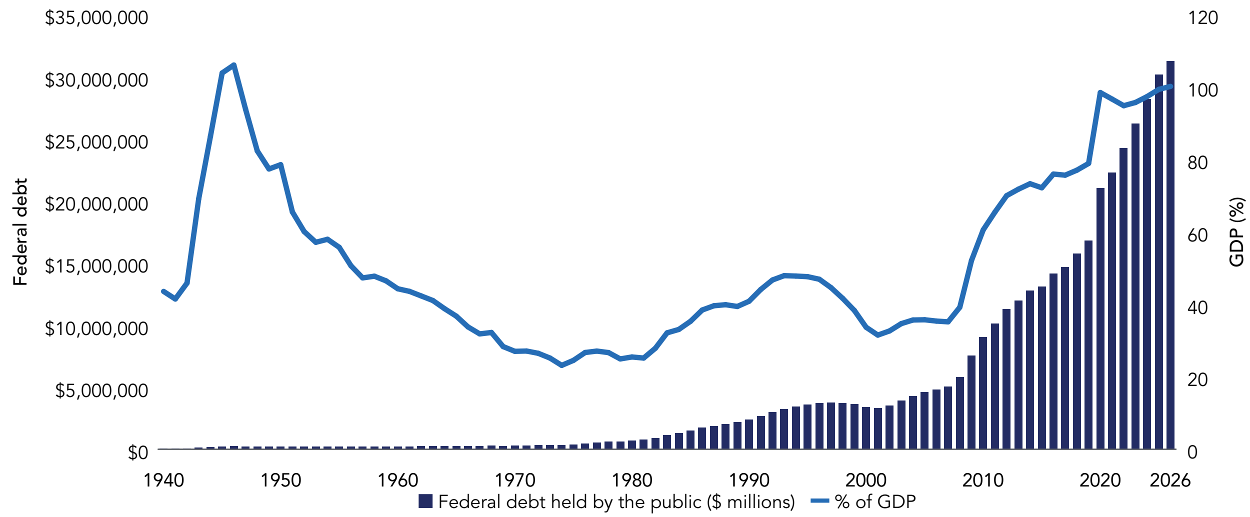
Economic Measure	2026E	2027E
Real GDP	2.6%	3.0%
Core CPI	2.7%	2.4%
Core PCE	2.8%	2.4%
10 Year Treasury Yield	4.00%	4.30%
Fed Funds Rate (Upper Limit)	3.25%	3.00%
S&P 500 EPS	$325	$370
Target Forward P/E	20.3x	20.0x
S&P 500 Target Price	7,500	8,200

Source: Federated Hermes, 4/15/26

Views are as of the date indicated and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

Federal debt held by the public surpasses GDP

- America's national debt is now larger than the entire economy
- As of early May 2026, federal debt held by the public has reached approximately $31.27 trillion to $31.41 trillion, surpassing the total US annual Gross Domestic Product (GDP) for the first time since World War II.
- This debt represents securities held by investors outside the federal government, including foreign governments, domestic investors, and the Federal Reserve.



Past performance is no guarantee of future results.

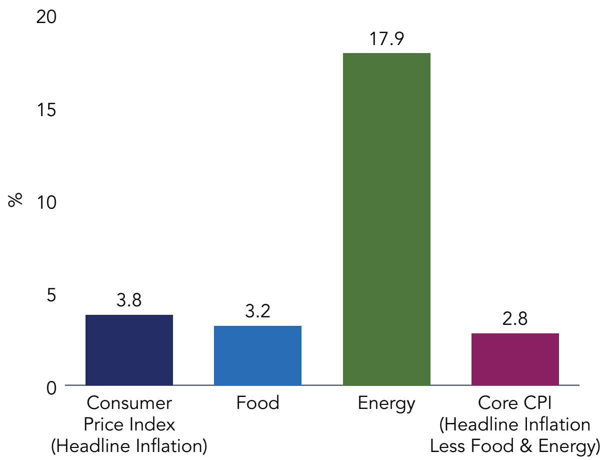
Source: The White House and Congressional Budget Office, 5/8/26

Featured charts

Inflation rises to three-year high of 3.8% in April 2026

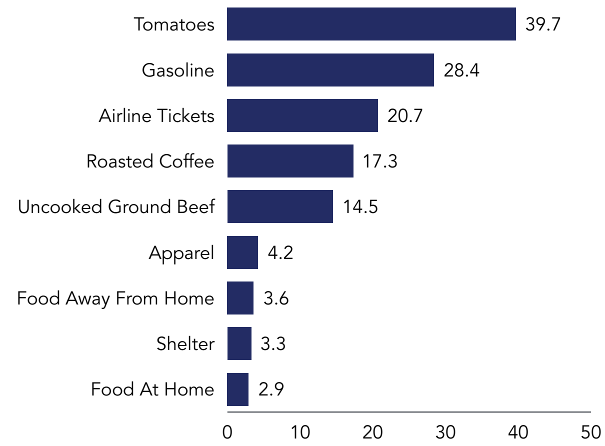
- Gas, rent, and food prices climb.
- Inflationary pressures heated up in April, as elevated crude oil prices continued to push gas prices higher and lead to some spillover price effects across other categories like food and airfares.
- Primary shelter contributed 0.2 percentage points to April's increase – double its normal monthly contribution – which looks to be related to an unwinding of a government-shutdown survey quirk that occurred in the CPI data late last year. This effect should fall out next month, allowing the shelter component to resume its downward trend.

US inflation (y/y%) – April 2026



Source: Bureau of Labor Statistics, 5/13/26

US inflation by category (y/y%) – April 2026

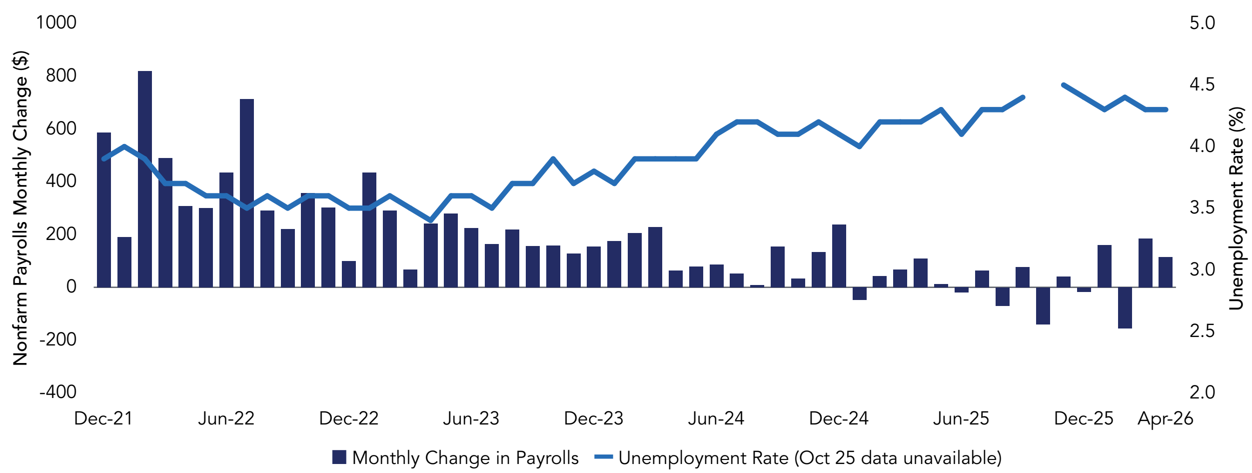


Source: Bureau of Labor Statistics, 5/13/26

Employment remains firm in April 2026

- Unemployment holds steady at 4.3%.
- Nonfarm payrolls rose by 115k in April, down from March's gain of 185k but ahead of the consensus forecast calling for a smaller print of 65k.
- Despite the growth, the labor force participation rate dropped to 61.8%, the lowest since October 2021, amid signs of a slowing, yet resilient, labor market.

US employment (monthly)



Source: Bloomberg, 5/12/26

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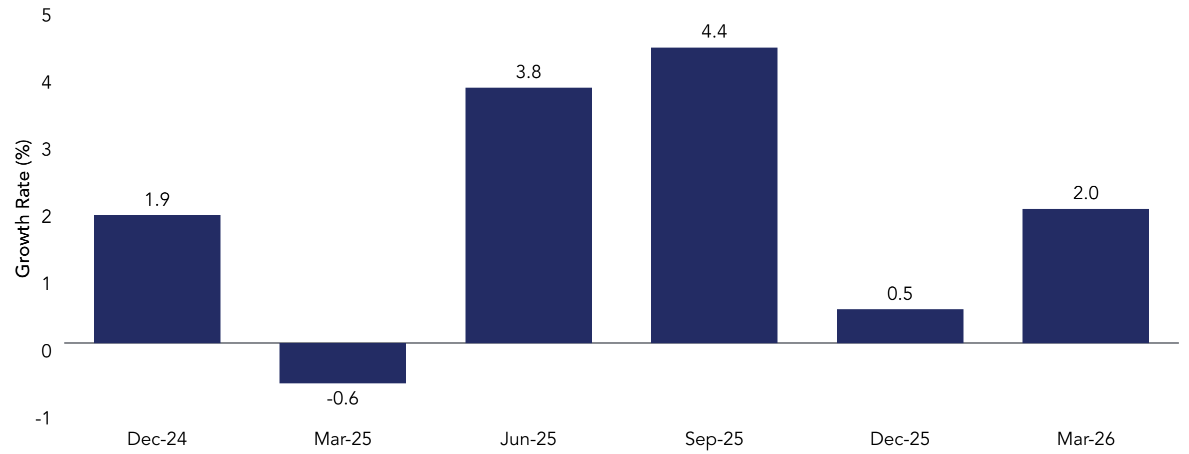
Featured charts

US economy expands by a healthy 2% in Q1 2026

- Business investment surpassed consumer spending in Q1 2026.
- The US economy remained resilient through the first three months of the year, with growth rebounding after a sluggish end to 2025.
- The US economy expanded by 2.0% quarter-on-quarter (q/q, annualized) in the first quarter – a touch weaker than the consensus forecast of 2.3% – and an acceleration from Q4 2025's 0.5%.
- Major contributors to last quarter's growth included investment, exports, consumer spending, and government outlays. Imports were a meaningful drag.

Quarterly US GDP growth rates

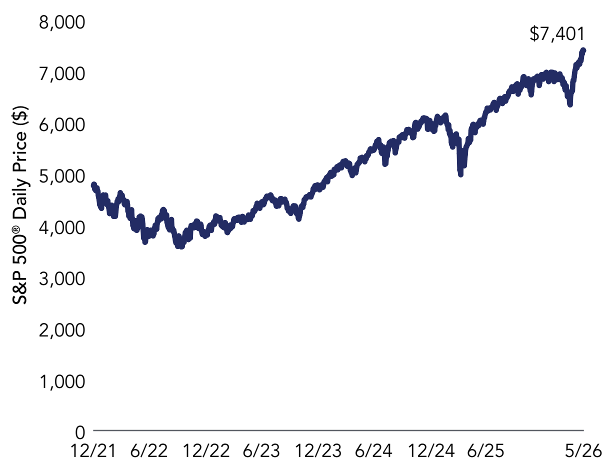


Source: Bureau of Economic Analysis, 5/13/26

S&P 500® achieves historic highs

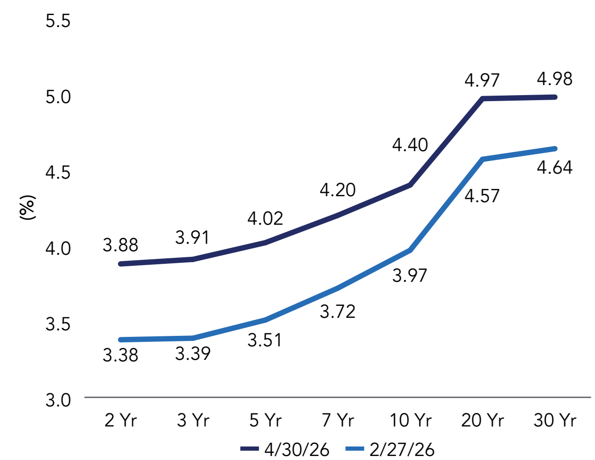
- The S&P 500® has officially risen by over 100% from the October 2022 low, marking it as one of the strongest bull markets since 1949.
- The 10-Year US Treasury yield reached 4.40% at the end of April 2026.
- Inflationary concerns over geopolitical risks and the US debt continue to weigh on the long-end of the yield curve.

S&P 500®



Source: Bloomberg, 5/12/26

US Treasury yield curve



Source: Bloomberg, 5/12/26

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Scenario-specific investments

Investors with differing views on the direction of the economy may consider entry points for new investments or seek to re-allocate across existing portfolios based on their particular economic outlooks. The asset categories below have shown the potential to add to portfolio performance under these respective scenarios.

Growth stabilization with broader leadership (soft landing plus):

Inflation moderates gradually, growth remains positive, and markets broaden beyond mega-caps.

- Equity US all capitalizations
- International developed large-cap equity
- International small-mid cap
- Intermediate-term bonds
- Corporate bonds
- Municipal bonds

Prolonged inflation volatility (higher for longer):

Inflation remains sticky, energy prices stay elevated, and policy easing is delayed.

- Dividend investing
- Value equity
- Asset allocation
- Short-term bonds < 1-year durations
- Short-term bonds
- Floating rate bonds
- Inflation-protected bonds

Risk-on re-acceleration:

Geopolitical tensions ease quickly, inflation expectations fall, and markets price aggressive rate cuts.

- Large growth
- Mid-cap growth
- Small-cap growth
- International developed growth
- Emerging markets equity
- High yield
- Emerging markets bond

Downside shock/hard landing (tail risk) (economic recession):

Growth deteriorates and financial conditions tighten.

- Alternatives
- Money market instruments
- Short-term bonds <1-year durations
- Government bonds

As of March 31, 2026.

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Past performance is no guarantee of future results.

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Although the information provided in this document has been obtained from sources which Federated Hermes believes to be reliable, it does not guarantee accuracy of such information, and such information may be incomplete or condensed.

Duration is a measure of a security's price sensitivity to changes in interest rates. Securities with longer durations are more sensitive to changes in interest rates than securities of shorter durations.

Yield Curve: Graph showing the comparative yields of securities in a particular class according to maturity. Securities on the long end of the yield curve have longer maturities.

Investments are subject to risk and fluctuate in value.

Certain information contained herein may constitute "forward-looking statements". Due to various risks and uncertainties, actual events, results or performance may differ materially from those reflected or contemplated in these statements. Nothing contained herein may be relied upon as a guarantee or representation as to the future.

Price-to-earnings ratio (P/E): A ratio comparing the company's current share price, as compared to its earnings-per-share, for the last twelve months (LTM), or estimated for the next 12 months (NTM), current fiscal year (FY1), or next (forward) fiscal year.

Earnings per shares (EPS) measures a company's profitability per share of common stock. It is the company's net income divided by the number of shares outstanding.

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Prices of emerging markets securities can be significantly more volatile than the prices of securities in developed countries and currency risk and political risks are accentuated in emerging markets.

Alternative investments may engage in short sales and other strategies that involve additional risks, such as increased volatility.

Value stocks may lag growth stocks in performance, particularly in late stages of a market advance.

Due to their relatively high valuations, growth stocks are typically more volatile than value stocks.

Small company stocks may be less liquid and subject to greater price volatility than large company stocks.

International investing involves special risks including currency risk, increased volatility, political risks, and differences in auditing and other financial standards.

Bond prices are sensitive to changes in interest rates and a rise in interest rates can cause a decline in their prices.

There are no guarantees that dividend paying stocks will continue to pay dividends. In addition, dividend paying stocks may not experience the same capital appreciation potential as non-dividend paying stocks.

Index and other financial benchmark data is for illustrative purposes only. Indexes are unmanaged and cannot be invested in directly.

Price Consumption Index (PCE): is the primary measure of consumer spending on goods and services in the US economy. It accounts for about two-thirds of domestic final spending, and thus it is the primary engine that drives future economic growth. PCE shows how much of the income earned by households is being spent on current consumption as opposed to how much is being saved for future consumption.

S&P 500®: Is an unmanaged capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Consumer Price Index (CPI): A measure of inflation at the retail level.

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