


The
Corner

 **May 2026**

Rising Inflation and Elevated Oil Prices Welcome New Fed Chair

New Fed Chair Kevin Warsh Takes the Helm

Kevin Warsh was confirmed by the Senate as the Federal Reserve Chair. President Trump has publicly stated that he expects Warsh to lead the Federal Open Market Committee (FOMC) toward lower interest rates.

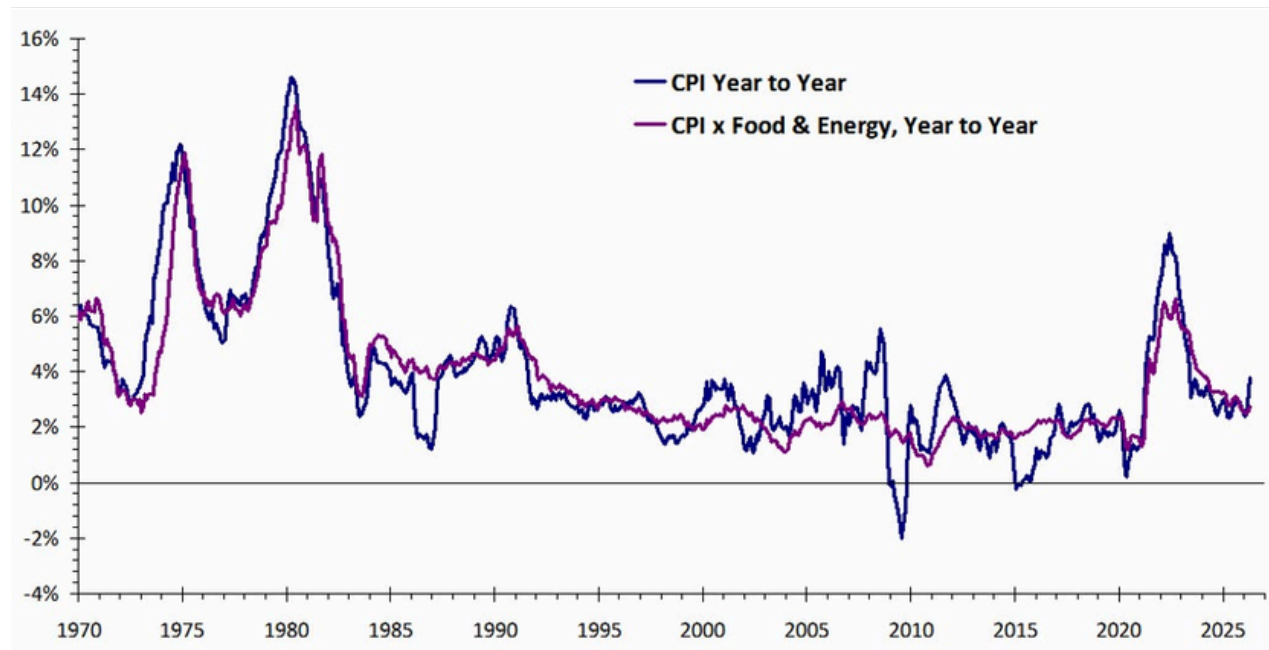
Warsh now faces a divided FOMC. The committee includes differing intellectual and policy views on the proper balance between supporting economic growth and keeping inflation anchored at the 2% target. Some members remain cautious about easing policy too soon, while others are more open to rate cuts. These divisions make forging consensus on the pace and timing of any future policy moves particularly challenging. Recent inflation data from the Consumer Price Index (CPI) and Producer Price Index (PPI) were higher than expected, with the market already pricing in higher inflation. This should put pressure on the Fed not to cut interest rates.

This month, we take a look at inflation and its effects on investments because we believe we have moved into an inflation cycle that could linger for some time.

April CPI and PPI Came in Hot

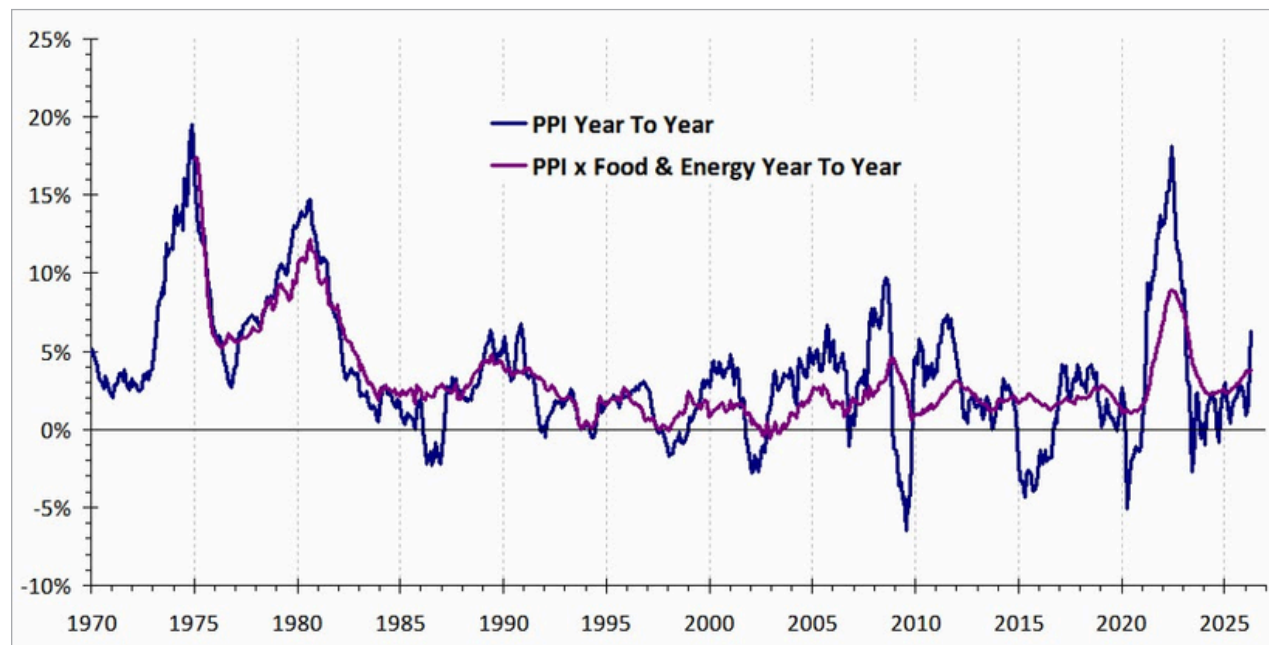
The Consumer Price Index (CPI) rose 0.6% in April and climbed to 3.8% year-over-year. Core CPI (excluding food and energy) rose 2.8% over the past year. The April Producer Price Index (PPI) also came in stronger than expected, with Final Demand prices rising to 6.0% year-over-year, up from 4.3% in March. Excluding energy, PPI was up 5.2%.

CPI Was Stronger Than Expected In April, Led By Energy Costs



Source: Bureau of Labor Statistics, Sanctuary Wealth, May 12, 2026

PPI Was Also Stronger Because Of Energy Prices

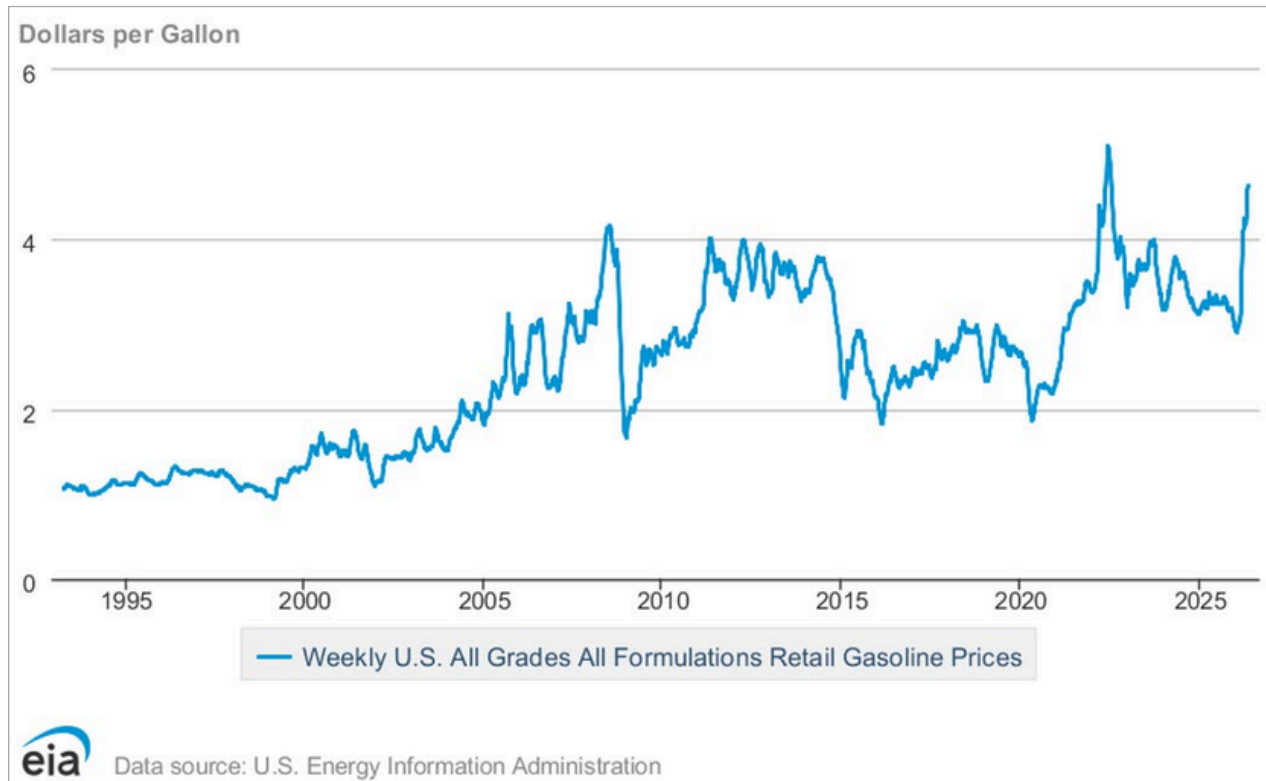


Source: Bureau of Labor Statistics, Sanctuary Wealth, May 13, 2026

Energy Putting Pressure On Inflation

Gasoline surged 5.4% in April, with the broader Energy index jumping 3.8%. This single category accounted for more than 40% of the monthly headline gain in CPI and more than 40% of PPI, according to the Bureau of Labor Statistics (BLS). Ongoing disruptions from the U.S.-Iran conflict and restricted shipping through the Strait of Hormuz have kept oil and gasoline prices elevated.

Weekly U.S. All Grades All Formulations Retail Gasoline Prices



Source: Department of Labor, U.S. Energy Information Agency, May 12, 2026, last update May 4, 2026

Hope For Relief Ahead

Most analysts view current elevated oil prices as a temporary supply shock rather than broad-based sustained price pressure. If the fragile ceasefire with Iran holds and oil shipping normalizes, energy prices should ease in the coming months, pulling headline inflation numbers lower. Core inflation remains relatively contained, and shelter and food trends are not accelerating dramatically.

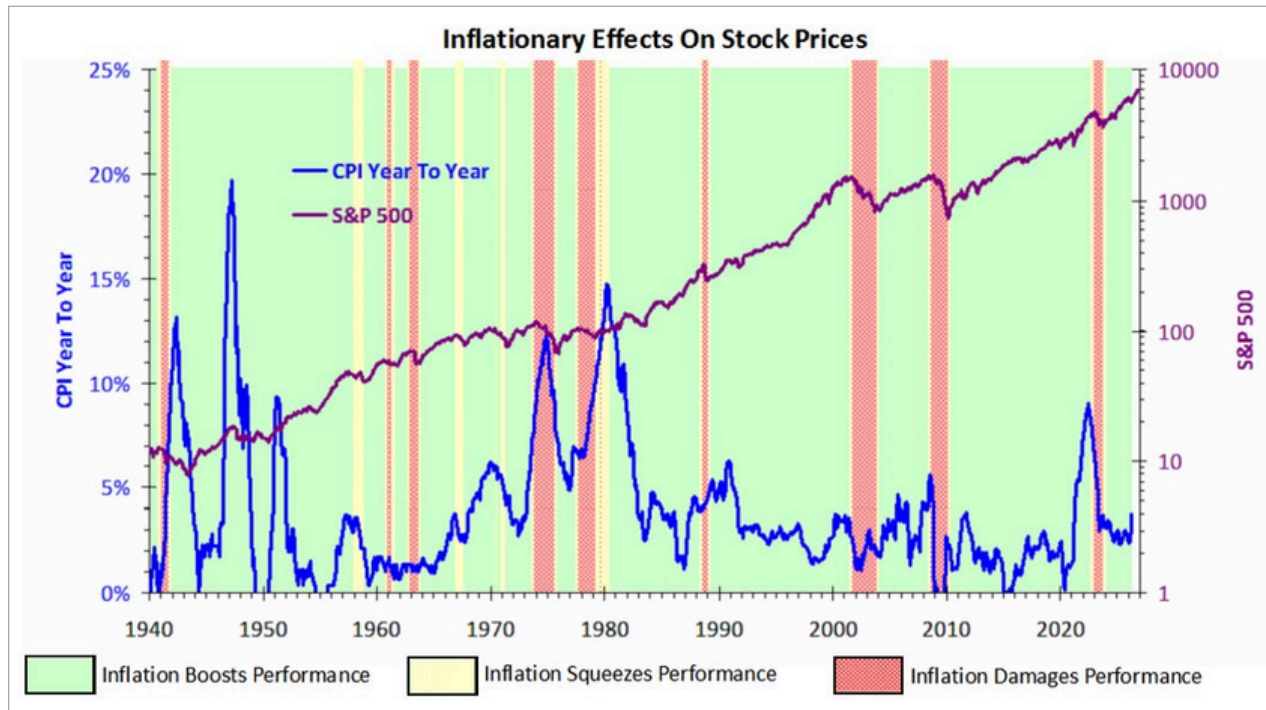
But there are a number of risks to this perspective, two of which are noted here:

- Renewed geopolitical flare-ups could keep energy prices volatile.
- Any second-round effects (wage or broader cost pass-through) could make inflation stickier.

Wage push inflation is the biggest risk, in our view. That's what drove inflation in the late 1970s to unsustainable levels. But we are not there yet!

Inflation and Stocks: A Clear Three-Stage Pattern

History shows that inflation affects stocks in three distinct phases that we have identified as: Inflation Boost; Inflation Squeeze; Inflation Damage. Using total return data and Gold as a stable measure of real value, we see a repeating cycle that has held for decades.



Source: Department of Labor, Standard & Poor's, Sanctuary Wealth, May 9, 2026, last update April 2026

Inflation Boost: Moderate Inflation Boosts Equity Returns

When inflation runs at moderate levels, usually between 2% and 5%, companies can often raise prices to match or exceed rising costs. This supports stronger revenue and nominal earnings growth. Stock prices tend to climb along with the higher earnings. *The Inflation Boost cycle is the good part or positive part of the inflation cycle.*

Historically, stocks performed well during the 1940s through the mid-1960s and again during the long disinflationary period beginning in the 1980s, delivering strong nominal returns and outperforming gold. We believe today's environment shares important similarities with those periods.

Inflation Squeeze: Rising Pressure on Returns

As inflation begins to rise, the picture changes. Input costs can increase faster than many companies are able to pass them through, putting pressure on revenues and earnings. Interest rates also tend to move higher, slowing economic growth and compressing price-to-earnings multiples, which can weigh on stock prices. Nominal returns may still appear respectable (thanks to stocks!), but real purchasing power, as measured against Gold, a stable store of value, begins to erode.

Even when headline returns look solid, equities often weaken relative to Gold, allowing the metal to outperform. This squeeze phase appeared in the late 1960s, parts of the 2000s, and again in 2020-2021 and 2025.

Inflation Damage: High Inflation Delivers Real Damage To Returns

At high inflation rates above 7%, stocks usually suffer clear destruction in real terms. Rising costs can squeeze corporate margins, slowing revenue growth and reducing earnings. Higher inflation also tends to pressure valuations and weigh on stock prices. Even if nominal gains are high, they often fail to keep pace with the erosion of purchasing power.

The late 1970s and 2022 stand out as painful examples where portfolios lost heavily when measured against Gold. Bonds and cash fared even worse. *This is the period when Real Hard Assets hold up well in pricing relative to inflation.*

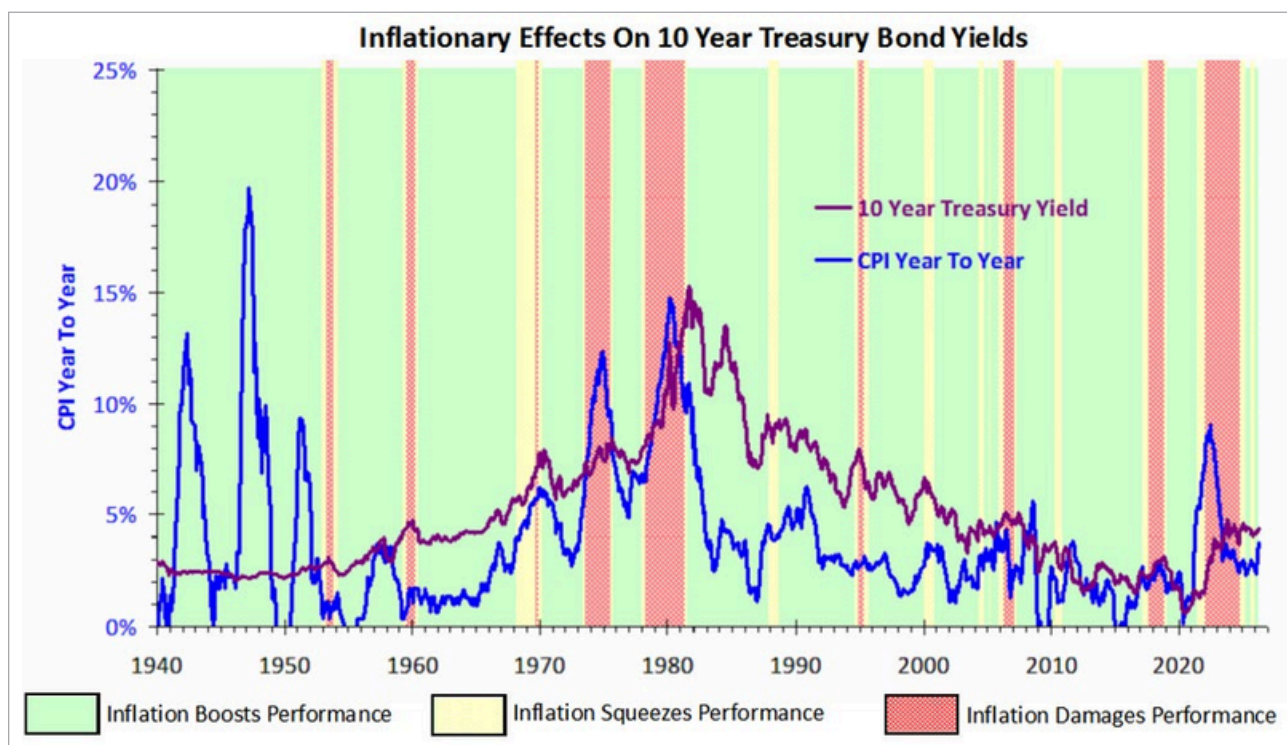
Latest CPI Figures Still Point to Nominal Boost for Stocks

The Consumer Price Index (CPI) for April rose to 3.8% year-over-year, and this remains firmly in the moderate range historically.

Stocks have continued to deliver positive nominal total returns so far in 2026, with the S&P 500 up roughly 9.0% year-to-date, as revenue and especially earnings are expanding sharply. Earnings for the year are estimated to grow 21%. As long as inflation stays contained, the data suggests companies can still generate the revenue and earnings growth that supports higher equity prices.

Inflation And Bonds: A Clear Three-Stage Pattern

Bonds (measured by 10-year Treasury total returns) show an even more consistent pattern across inflation cycles than stocks.



Source: Department of Labor, Bloomberg, Sanctuary Wealth, May 9, 2026, last update April 2026

Why Moderate Inflation Usually Hurts Bonds

Even at moderate inflation levels (2%–5%), increasing pricing pressures often push interest rates higher. This reduces the real value of the fixed coupon payments (yield) and often lowers bond prices. Gold-adjusted returns frequently turn negative, meaning that real purchasing power, measured against Gold as a stable store of value, starts to erode.

The Squeeze Phase: Mounting Pressure

As inflation climbs, the damage accelerates. Higher yields crush existing bond prices while newly issued bonds still fail to fully offset inflation. This squeeze showed up for bonds strongly in the late 1960s, 2004 and 2005 (bonds suffered damage in 2006), 2017, and 2021–2025.

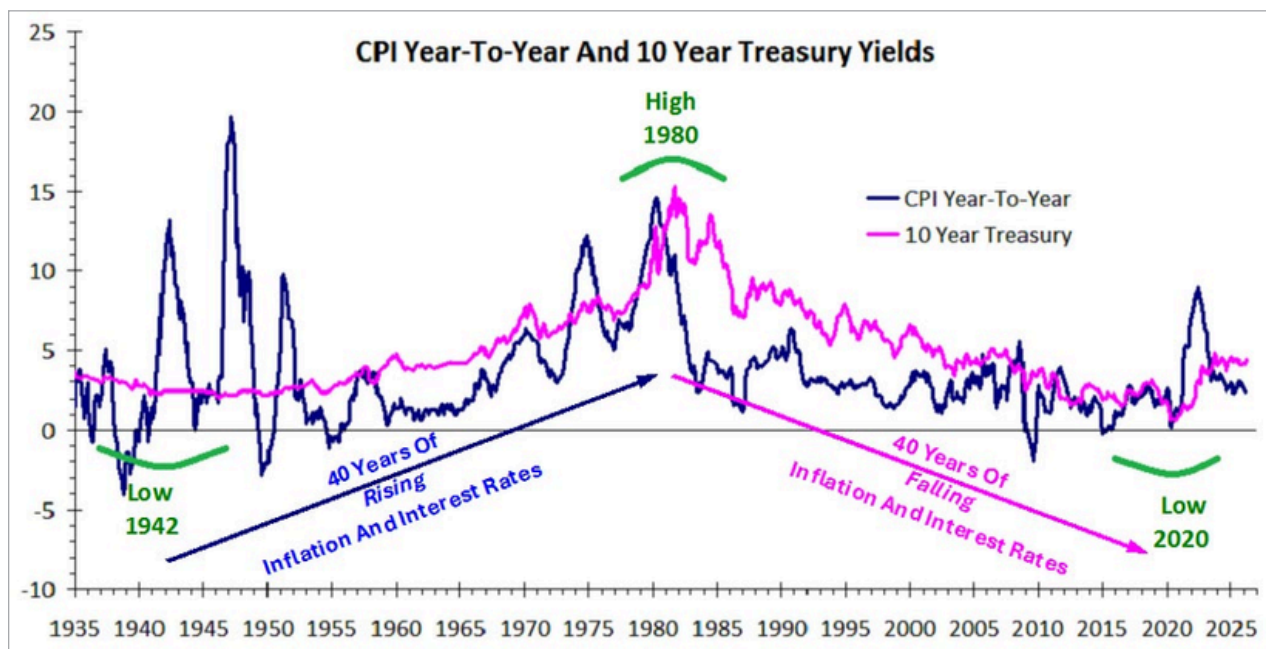
High Inflation Delivers Severe Damage

Inflation rates above 7% have a significant negative impact on bond prices. Bonds suffer clear destruction in real terms, and yields fall behind the inflation rate. The 1970s and 2022 stand out when nominal returns turned negative or barely positive, while Gold-adjusted losses were also heavy. In the 1970s, discounted bond funds proliferated because the face value of the bonds collapsed. They were bundled together such that you purchased the bonds not for yield but for price appreciation.

Latest CPI Figures Still Imply Pressure on Bonds

With CPI at around 3.8% year-over-year as of April 2026, bonds appear to be entering a squeeze phase. Yields near 4.5%–4.6% provide some income cushion, but total returns have been only modestly positive to flat so far in 2026 and negative versus Gold.

Historical Path Of Inflation And Interest Rates



Source: Department of Labor, Standard & Poor's, Sanctuary Wealth, April 2026

Why Gold Is Our Measuring Stick

A *numeraire* is a stable measuring stick. We use Gold as that stick because it historically has held its purchasing power better than the U.S. dollar over time.

By comparing Gold to S&P 500 total returns (price change plus reinvested dividends) and to 10-year Treasury total returns (price change plus interest), we strip away inflation's distorting effect. This shows the true change in real wealth: whether stocks or bonds are genuinely growing purchasing power – or quietly losing it – even when nominal U.S. dollar returns look good.

So why do this? For stocks, it reveals when moderate inflation boosts real gains versus when higher inflation only creates an illusion of increasing purchasing power and wealth. For bonds, it quickly exposes the steady destruction of fixed payments in rising inflation environments. This Gold-adjusted view gives the clearest read on real performance across inflation cycles.

AI Compute Shortage: What It Means For Investors

Now let's look at how inflation is impacting the Technology sector. We need to start by setting the background on where we are now.

Frontier AI Companies Are Still Short On Compute.

As of May 2026, the biggest artificial intelligence (AI) labs cannot get all the powerful graphics chips (GPUs) they need in order to train and run their most advanced models. Demand is simply outrunning supply. The market gives us three clear indications that companies cannot get the computing power they need:

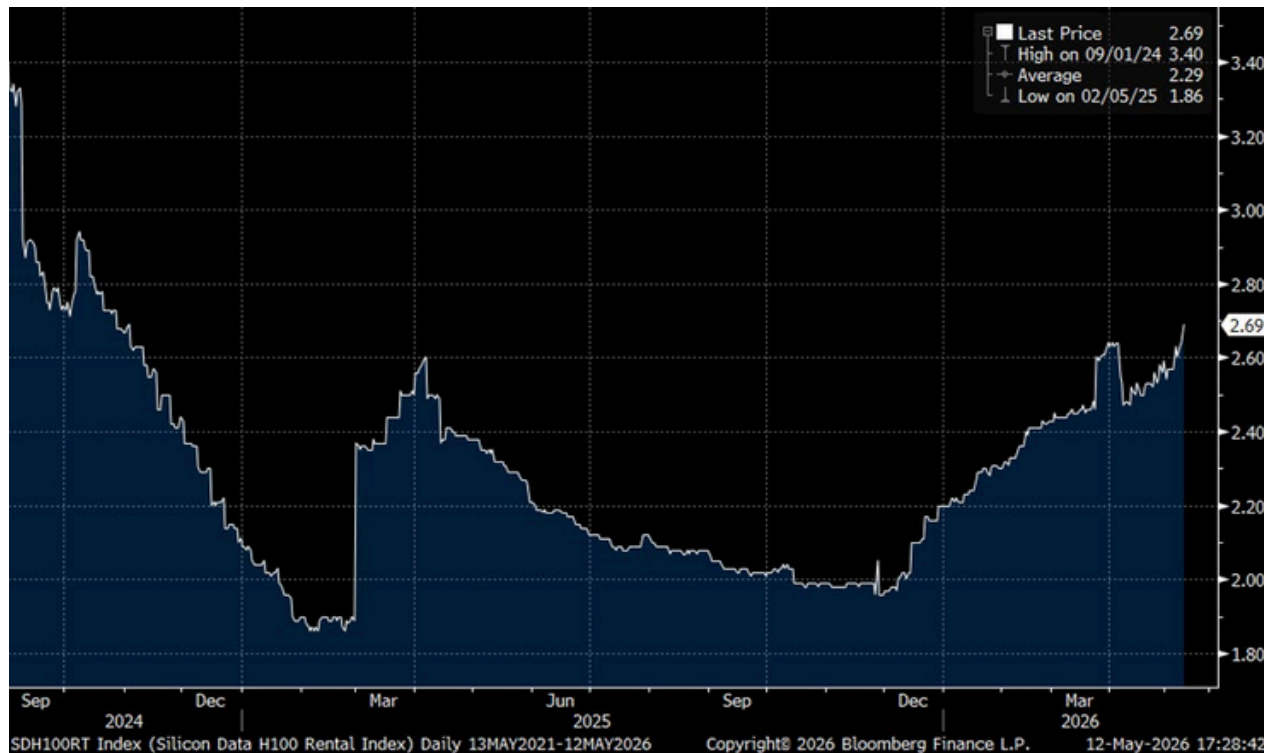
- Wait time for the latest Nvidia chips is still 9–12 months.
- Rental prices for these chips have jumped sharply – by over 35%.
- Even cryptocurrency miners are shutting down some of their Bitcoin operations and leasing their power and computing capacity to AI firms because AI offers higher returns.

I-Connect007
The Global Electronics Resource

Rubin Faces Delays; Blackwell to Drive 70%+ of NVIDIA High-End GPU Shipments in 2026

April 8, 2026 | TrendForce

Silicon Data H100 Rental Index (Price Of Renting An AI Chip, Per Hour)



Source: Silicon Data, Bloomberg, May 12, 2026



Hut 8 signs about \$10 billion AI data center lease in Texas, shares jump

By Akash Sriram

May 6, 2026 5:37 AM CDT · Updated May 6, 2026

Pure AI labs like OpenAI and Anthropic are the most stretched for compute. But the major hyperscalers, Google, Microsoft, Meta, and xAI, are better positioned because they own or control the majority of the world's top-tier AI chips.

Easy Number To Watch

The standard measuring unit for AI computing power is the “H100-equivalent,” the same total computing power as one Nvidia H100 chip, which was released in the autumn of 2022. Global AI computing power is now over 15 million H100-equivalents. It’s growing fast, roughly doubling every seven months, but it’s still not enough to meet demand.

One-Year Rental Prices For H100 Equivalent Chips Are Rising



Source: SemiAnalysis, April 2026

On Demand - ROI (Years) at Full Price				On Demand - ROI (Years) at 50% Blended Price			
H100 rental / hour	Electricity & Cooling Cost / kwh			H100 rental / hour	Electricity & Cooling Cost / kwh		
	\$0.10	\$0.03	\$0.01		\$0.10	\$0.03	\$0.01
\$4.50	1.30 years	1.28 years	1.27 years	\$4.50	1.74 years	1.71 years	1.70 years
\$2.85	2.08 years	2.02 years	2.01 years	\$2.85	2.91 years	2.86 years	2.85 years
\$2.00	3.01 years	2.90 years	2.87 years	\$2.00	4.12 years	4.03 years	4.00 years
\$1.65	3.68 years	3.52 years	3.48 years	\$1.65	4.92 years	4.79 years	4.75 years
\$1.50	4.08 years	3.88 years	3.83 years	\$1.50	5.35 years	5.20 years	5.15 years
\$1.00	6.35 years	5.88 years	5.77 years	\$1.00	8.15 years	7.79 years	7.70 years

On Demand - (USD) 5 Year Revenue at Blended Price				On Demand - (%/year) 5 Year Blended IRR			
H100 rental / hour	Electricity & Cooling Cost / kwh			H100 rental / hour	Electricity & Cooling Cost / kwh		
	\$0.10	\$0.03	\$0.01		\$0.10	\$0.03	\$0.01
\$4.50	\$93,409.96	\$96,511.00	\$97,387.00	\$4.50	23.46%	23.99%	24.14%
\$2.85	\$35,915.73	\$37,356.26	\$37,763.51	\$2.85	11.43%	11.81%	11.91%
\$2.00	\$10,608.32	\$12,064.88	\$12,476.58	\$2.00	3.92%	4.42%	4.56%
\$1.65	\$806.37	\$2,231.65	\$2,634.74	\$1.65	0.32%	0.88%	1.03%
\$1.50	-\$3,289.99	-\$1,882.17	-\$1,483.86	\$1.50	-1.35%	-0.76%	-0.60%
\$1.00	-\$19,324.57	-\$17,925.84	-\$17,530.02	\$1.00	-9.31%	-8.50%	-8.27%

H100 - On Demand - Profits & IRR (assuming 100% usage, and 5 year lifespan) | @piccreator

Source: Latent Space, March 28, 2026

Bottom Line On Compute

The AI compute shortage is real and likely to continue through the rest of 2026 and into 2027. This is one of the key bottlenecks limiting how quickly the biggest AI breakthroughs can arrive.

Companies that control or can secure large amounts of compute have a clear competitive edge.

The long-term opportunity remains enormous, which is why the Technology sector, and Semiconductors within it, remain the leadership of the market. We expect continued volatility as the industry races to build more capacity.

Inflation's Impact on Tech Stocks and Semiconductors

Leaders Feel Near-Term Cost Pressure

Rising labor, materials, and construction costs for data centers and fabs (semiconductor fabrication facilities) are real headwinds. Data-center build expenses have climbed roughly 6% in 2026, with AI-optimized facilities often exceeding \$20 million per megawatt. Semiconductors face “chipflation” in upstream inputs, squeezing margins for companies with heavy capital spending.

Debt Costs Add a Layer of Friction

Higher yields raise borrowing expenses for new capex and working capital. The sector's massive capex plans are projected at \$750 billion globally in 2026 and up to \$1.0 trillion next year. This means companies that rely on the debt markets to fund growth will face higher interest costs.

Interest Coverage Stays Strong for the Leaders

Most semiconductor giants, especially Nvidia and TSMC, maintain fortress balance sheets and strong interest coverage ratios (Nvidia's exceeds 500x). They fund much of their growth through cash flow, so higher debt costs have only a modest impact here.

Pricing Power Offsets Much of the Pain

AI-driven demand gives the sector strong ability to pass on higher costs. Memory prices alone are surging, driving record industry revenue forecasts near \$1.0 trillion in 2026 with another \$1.0 trillion forecast for 2027. Semiconductors have led the market precisely because revenue growth and margins have more than offset inflation so far, leading to superior earnings growth.

VanEck Semiconductor ETF (SMH) (Top) With Stochastics (Bottom)



Source: Bloomberg, Annotations by Sanctuary Wealth, May 12, 2026

Net Effect: Near-Term Chop, Long-Term Tailwinds Intact

Inflation and yields create volatility and modest margin pressure in 2026, especially if rates stay elevated. However, the AI secular boom continues to dominate. The leaders remain net beneficiaries.

Risks To AI From Inflation

Tech stocks do face some down side risks from inflation. These include:

- Faster-than-expected cost inflation without full pricing offset
- Prolonged high yields crimping smaller or leveraged players
- Any slowdown in hyperscaler capex hitting demand

The AI Boom In Historic Perspective

The boom in artificial intelligence has no exact historic parallel. On one hand, it strongly resembles the railroad boom of the 19th century because of its insatiable demand for capital and its fierce competitive atmosphere. On the other hand, it also resembles the development of electricity from the end of the 19th century until well into the 20th century because it is ubiquitous: today, nearly all modern technology relies upon electricity in one way or another, and we suspect that before many more years pass, nearly all technology will begin to rely upon AI.

Last Words

The S&P 500 remains in a secular bull market powered by strong economic growth, resilient consumers, and transformative technologies such as AI, Blockchain, Web 3.0, VR, and Robotics. Corporate earnings are rising, profit margins are healthy, and \$7.7 trillion sits in money-market funds on the sidelines.

Our forecast: S&P 500 at 7,500 by year-end and 10,000-13,000 by the end of the decade. Although we favor growth stocks longer term, select value sectors offer opportunities. We see a structural shift toward international markets. While this mid-term election year has been quite volatile so far, conditions exist for a stronger than-average return once the situation in Iran settles.

Corrections are opportunities — not reversals — but we must stay patient and cautious through this period of volatility and higher energy costs. **Be Fearless!**

Risks To Our Outlook

- Sustained hostilities in the Middle East that push oil above \$130 a barrel
- Inflation rising to a level that forces the Federal Reserve to raise interest rates
- 10-year Treasury yields rising above 5.0%
- Unexpected tariff escalation or trade disruption
- A sharp rise in unemployment or slowdown in consumer spending

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