# THE SHORT AND LONG

**Weekly Bulletin**

# Inflation pressures, wider profit margins, and the coming IPO wave

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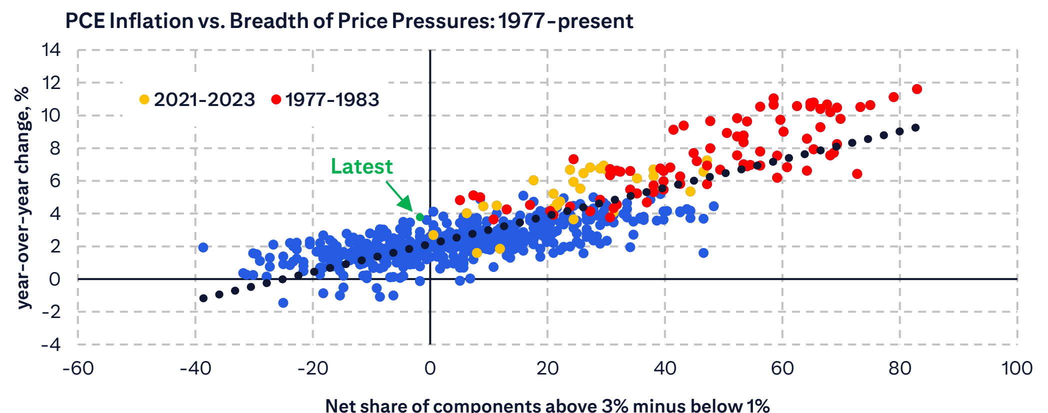
## TAKEAWAYS

- Inflation is rising but thus far lacks the breadth and momentum that marked the 2021-23 and 1970's inflationary episodes. Wider profit margins across 10 of 11 S&P 500 sectors[1] (led by Tech) supports our constructive stance on high-quality, large-cap U.S. equities.
- The coming wave of mega-Initial Public Offerings (IPOs) looks large by historical standards, yet we believe the market can absorb it. Initial index weights are likely to be modest and then scale up only gradually.
- Historically, profitability has mattered for post-listing returns, and the largest IPOs have tended to lag smaller ones. We see the principal risks in valuation and profitability rather than market disruption, which is why we believe selectivity matters.

## This week in charts

**FIGURE 1: Today's high inflation readings lack breadth levels of historical inflation regimes.**




Source: Haver Analytics as of May 28, 2026. Note that the blue dots on the left-hand chart signify the PCE Inflation of every year backdating to 1977. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees, or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

## Looking closer

Each dot represents a single month going back to 1977. How high a dot sits shows how fast prices were rising that month, and how far to the right it sits shows how widespread those increases were across the economy. The stagflation period of the 70s and the post-pandemic surge between 2021-2023 both cluster in the upper right, where high inflation met broad price pressure.

[1] The S&P 500 is divided into 11 sectors according to the Global Industry Classification Standard (GICS), each representing a distinct segment of the U.S. economy. The 11 sectors of the S&P 500 are: Information Technology, Financials, Communication Services, Consumer Discretionary, Health Care, Industrials, Consumer Staples, Energy, Utilities, Materials, Real Estate.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**High inflation but profits light the path**

The April Personal Consumption Expenditure (PCE) prices report showed still-elevated inflation, with headline inflation readings came in at 3.8% and core readings at 3.3% year-over-year[2]. We take a broader view of price growth, looking at the breadth of underlying measures experiencing rapid price gains and momentum.

Even if today's inflation is high, its breadth remains lower than the 1970s and 1980s[3] and the COVID inflation surge[4] (Figure 1).

Today's reading tells a different story. Inflation is elevated, but it sits well to the left of those danger zones, which means the increases stay concentrated in a few areas rather than spreading through the whole economy. We find this view compelling because breadth, not the headline number alone, is what has historically separated a passing bout of inflation from one that digs in and proves hard to reverse.

On momentum, we flag periods when one-month inflation outpaces three-month, three-month outpaces 12-month, and yearly inflation growth tops 3%. That signal triggered in the summer of 2021, when many still described high inflation as transitory. It is not triggering now.

High inflation does weigh on household income, and real disposable income growth has dipped negative. While cautionary, we do not view this as a signal to change our outlook. Tax refunds offer temporary support, and we see the labor market as the key, with weekly job growth averaging 36,000 the past month and jobless claims staying low[5].

We view profits as the North Star guiding our economic outlook. We now have a fuller picture, compared to the 40% of total profits represented by S&P 500 companies, and whole-economy profits for the quarter are picking up. Companies appear to be hiring and investing as profit margins widen, and this is not just a Tech story: 10 of 11 S&P 500 sectors expanded profit margins in the first quarter from a year ago.

**Bottom line**: Though inflation is high and rising, this is occurring without the breadth or momentum that defined past episodes. Nonetheless, elevated inflation risk supports our preference to remain underweight duration. Meanwhile, strong profit growth that is broad based but led by Tech argues for maintaining exposure to high-quality, large-cap U.S. equities.

**Mega-IPOs arrive, but mechanics may stage the impact**

This year looks poised to feature some of the largest IPOs in history, with the biggest expected listings running an estimated two-to-three times larger than any prior deal. The two largest, one in aerospace and defense and the other in transformative AI, carry anticipated proceeds of roughly $75 billion and $50 billion, respectively. Those figures dwarf prior records set by Alibaba, near $25 billion, and Saudi Aramco, near $29 billion.

We view index inclusion as a two-speed process. The Nasdaq 100 has fast-tracked eligible listings for index inclusion roughly 15 days after IPO, following recent methodology changes, and has no profitability or free float requirements. On the other hand, the S&P 500 requires a 12-month seasoning period and a full-year of profitability. Those rules would delay inclusion meaningfully, especially for an AI listing with an unclear timeline to profitability.

Despite their enormous valuations, we expect initial index weightings to be small. Index providers weight inclusion on free floats (publicly tradable shares), rather than total market cap, and we expect these listings to debut with very low initial free floats, likely under 10%.

We also see the risk of significant, market-disrupting selling of existing large-cap index constituents by passive investors as contained. Because initial free float is low, the passive buying that inclusion requires should be manageable, and our analysis suggests the resulting selling pressure on existing constituents would represent a small fraction of their total market capitalization.

[2] Bureau of Economic Analysis as of May 28, 2026.
[3] The period known as the "Great Inflation" stretched from 1965 to 1982 and was characterized by rising prices and economic turmoil.
[4] Supply chain bottlenecks, labor shortages, fiscal stimulus and consumer demand shifts from COVID-19 all contributed to the rise in inflation between 2021-23.
[5] ADP National Employment Report and U.S. Department of Labor as of May 28, 2026.

In our view, index compositional changes unfold gradually over several years rather than in a single event. The risk materializes through a series of rebalancing events tied to milestones such as lock-up expirations, typically around 180 days post-IPO, and subsequent secondary offerings. Each event concentrates buying and selling on a specific rebalance day, which can create periodic episodes of market pressure rather than one disruptive moment.

**Bottom line**: These IPOs loom large in headlines, but the mechanics of index composition appear likely to limit risk of market-disruptive passive selling from inclusion alone.

**Profitability and incentives, not headlines, have driven IPO returns**

History shows a distinct pattern, and profitability has driven how IPOs perform after listing. We see this as a critical consideration when evaluating the current wave of mega-IPOs.

In the short term, IPOs often post a positive return on their first day of trading. The average first-day return for 2026 listings has been 15%[6]. Over a longer horizon of roughly one to three years, IPOs have historically underperformed their industry peers. The early pop has not reliably carried through.

We see profitability as paramount. Companies with negative net income have historically seen their shares lag their industry group peers significantly for years after listing. The largest listings now in focus report large revenues, yet their net income remains negative as they come to market, which we view as a key risk factor.

Incentives to sell are another factor determining performance for the 12 months following the IPO. The largest IPOs (by market cap at time of listing) historically underperform the smaller companies that list. These mega-listings are driven by founders and early investors looking to cash out and capitalize on huge valuations. This is yet another angle to monitor.

Investing in IPOs entails higher risk than established companies, as limited operating history and financial data can increase volatility. We see additional risks in valuation, profitability, and insider incentives. The timing of these listings warrants particular attention, since it raises the question about whether the moment companies choose to come to market is also the best moment to purchase their shares. We weigh these considerations alongside the index mechanics rather than in place of them.

**Bottom line**: We see the principal risks in valuation, profitability, and insider incentives rather than in market mechanics. In our view, staying selective on fundamentals is more prudent than chasing headlines.

[6] Bloomberg as of June 2, 2026 (last IPO in this data was April 29).

| | What happened | What's ahead |
|---|---|---|
| ECONOMIC DATA | **U.S.**<br>April PCE price index came in at 3.8%, with annual core PCE at 3.3%.<br>Q1 economy-wide corporate profits were strong.<br>Conference Board consumer confidence was not as weak as University of Michigan sentiment. | **U.S.**<br>Nonfarm payrolls and unemployment rate for May.<br>Services Institute for Supply Management (ISM) for May.<br>Challenger, Gray, & Christmas layoffs for May. |
| | **Global**<br>Tokyo May core CPI slowed to 1.3% vs. 1.5% in April.<br>Germany CPI eased by more than expected, to 2.6% in May from 2.9% in April. | **Global**<br>May PMIs for the UK, France, Spain, and Brazil<br>Japan wage data<br>Canada unemployment |
| POLICY | **U.S.**<br>April Federal Open Market Committee (FOMC) minutes cited Middle East conflict and elevated inflation as key risks, supporting the hold.<br>Kevin Warsh succeeded Jerome Powell to become 17th Fed Chair, markets watching for shifts in policy tone ahead of June FOMC. | **U.S.**<br>Fed Beige Book<br>U.S. Trade Representative tariff developments<br>Final week of Fed commentary before FOMC blackout |
| | **Global**<br>U.S.-Iran agreed on 60-day memorandum of understanding (MoU), where Iran pledges no nuclear weapons, negotiates uranium enrichment suspension; pending Trump's approval.<br>European Central Bank (ECB) signaled it will likely raise its inflation projections in June, with persistent second-round energy shock effects. | **Global**<br>G7 summit preparation<br>U.S.-imposed Russia/Ukraine peace deal approaches end-of-June deadline<br>U.S.-China trade framework implementation |
| MARKETS | **U.S.**<br>60-day ceasefire deal sent equities higher while oil and yields fell. | **U.S.**<br>Notable Tech, Communication, Manufacturing, and Consumer Discretionary earnings set to report this week. |
| | **Global**<br>Oil drops to lowest level in over a month, but breakeven yields haven't budged. | **Global**<br>Longer-term bond auctions in France and Japan |

Source: Bloomberg as of June 2, 2026. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

## RELATED READING

**May 27, 2026 | Growth Holds, Inflation, Builds, Market Recalibrate**

In last week's Bulletin, we looked at how the global economy is still expanding, and recession is not our base case. We also analyzed why bond market volatility is running hotter than equity volatility, and the direction of the global rate repricing points toward tighter conditions.

**April 20, 2026 | The Short and Long Podcast**

Hosted by Kate Moore, Chief Investment Officer of Citi Wealth, the inaugural episode "AI Through an Investor's Lens: Looking Beyond the Hype" addresses AI – the most transformative technology of our lifetime. Watch on **YouTube**, **Apple**, or **Spotify**, and subscribe for future episodes.

**April 8, 2026 | The Short and Long: Q2 Macro Investment View**

Citi Wealth's quarterly report is designed to offer global, data-driven guidance to help investors navigate increasingly complex markets with confidence and clarity. The latest report states global shocks to markets are driving higher volatility and rapid risk repricing, while the U.S. economy remains relatively resilient.

**April 2, 2026 | Global Investment Council**

The Citi Wealth Global Investment Council met April 2, 2026, and reallocated equity exposure from Europe to the U.S. The move maintains equity allocation while shifting risk toward more resilient markets. European fundamentals were already weakening prior to the Middle East conflict, and the U.S. offers more durable earnings with less geopolitical vulnerability.

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|---|---|---|---|
| **Credit risk** | **Moody's [1]** | **Standard and Poor's [2]** | **Fitch Rating [2]** |
| **Investment Grade** | | | |
| Highest quality | Aaa | AAA | AAA |
| High quality (very strong) | Aa | AA | AA |
| Upper medium grade (Strong) | A | A | A |
| Medium grade | Baa | BBB | BBB |
| **Not Investment Grade** | | | |
| Lower medium grade (somewhat speculative) | Ba | BB | BB |
| Low grade (speculative) | B | B | B |
| Poor quality (may default) | Caa | CCC | CCC |
| Most speculative | Ca | CC | CC |
| No interest being paid or bankruptcy petition filed | C | D | C |
| In default | C | D | D |

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- restrictions on transferring interests in the Fund;
- potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized;
- absence of information regarding valuations and pricing;
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Weekly Bulletin