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Markets extended their rebound in May following April's strong rally. Equities were supported by better-than-expected corporate earnings, resilient labor data and renewed enthusiasm around AI-related capital spending. Stocks looked through several headwinds, including elevated oil prices, geopolitical tensions and persistent inflation concerns.

Market leadership shifted back toward growth in May. Technology was the clear standout, with the sector advancing nearly 20%, while most other sectors were flat to negative. Small-cap and international stocks also posted gains, but U.S. large-cap growth and AI beneficiaries led the month.

Inflation pressures reaccelerated as higher energy prices flowed through the data. The Fed held the target range for the federal funds rate steady at 3.50% - 3.75%, and the 10-year Treasury yield ended May near 4.45%. Markets continued to expect the Fed to remain patient until inflation shows clearer progress toward its 2% objective.

### Key themes shaping markets

- **AI and corporate capital spending:** AI remains a powerful secular tailwind, and May's market leadership was concentrated in companies tied to AI infrastructure, semiconductors and software. Investors continue to reward firms translating investment into earnings growth.
- **Leadership concentration:** While major indices rose, May's gains were heavily driven by technology. That concentration highlights the need to balance participation in growth themes with diversified exposures.
- **Geopolitics and energy-driven volatility:** Oil prices remained elevated in May, keeping inflation expectations and consumer sentiment in focus. Energy-driven volatility remains an important variable for both monetary policy and investor confidence.

### Risks on the horizon

- Valuations remain elevated, leaving markets vulnerable to shifts in Fed communication, inflation expectations, or earnings guidance.
- A reacceleration in inflation or unexpected economic weakness could disrupt the timing of future Fed policy adjustments.
- Geopolitical and trade uncertainties continue to add background risk, particularly through energy markets, supply chains, and business confidence.

### Key takeaways

- Review risk exposures - portfolios may have drifted to a higher risk profile after the recent rebound in equities.
- Fixed income, money markets, buffer ETFs and premium income funds can help mitigate volatility.
- Diversification remains prudent, especially when leadership is concentrated in a narrow set of growth themes.

As always, if you'd like a deeper dive into your personal portfolio's alignment or a review of income-planning for the years ahead, we'd be happy to assist.

Key Statistics		
Consumer Price Index (April)		3.8%
Core PCE Deflator (April)		3.3%
Unemployment Rate (April)		4.3%
10-Year US Treasury Yield (5/29)		4.45%
Fed Funds Rate (5/29)		3.50%-3.75%
Index Returns		
	May	YTD
S&P 500	5.26%	11.27%
MSCI EAFE	3.07%	9.37%
Russell 2000	4.37%	18.15%
US Agg Bond	0.31%	0.38%