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INVESTMENT MANAGERS

ECONOMIC UPDATE MAY 2026

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Markets regained momentum in April following March's pullback. Equities were supported by better-than-feared earnings, resilient economic data, and renewed enthusiasm around AI-related growth. Stocks looked through several headwinds including geopolitical volatility, renewed inflation concerns and GDP growth of 2.0% in the first quarter which came in slightly below expectations.

Market leadership continues to broaden. High oil prices have catapulted Energy to be the top performer year-to-date followed by Communication Services, Real Estate, Consumer Staples and Materials. International and small-cap stocks have also been outperforming U.S. mega-cap stocks, a notable shift from the narrower leadership seen in prior years.

Higher energy prices are adding renewed pressure to inflation. The Fed has held the target range for the federal funds rate steady at 3.50% – 3.75%, but longer-term yields moved higher in April. The 10-year Treasury yield ending the month at 4.4% up from 4.1% at the beginning of the Iran conflict. The move reflects renewed inflation sensitivity and uncertainty around the timing of additional Fed cuts.

Key themes shaping markets

- **AI and corporate capital spending:** Earnings and guidance have reinforced that AI remains a powerful secular tailwind, but markets are becoming more selective. Investors are rewarding companies with clear monetization paths and disciplined capital spending, while penalizing "spend-first" narratives.
- **Broadening leadership:** Although technology remains a leader in earnings growth, its market performance has trailed six of the eleven S&P 500 sectors year-to-date. This suggests investors are increasingly looking beyond mega-cap technology for opportunities.
- **Geopolitics and energy-driven volatility:** Geopolitical tensions have increased market volatility through oil-price shocks and rising inflation expectations. Energy prices remain an important variable for both consumer inflation and investor sentiment.

Risks on the horizon

- Valuations remain elevated, leaving markets vulnerable to even modest shifts in Fed communication, inflation expectations, or earnings guidance.
- A reacceleration in inflation or unexpected economic weakness could disrupt Fed policy.
- 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 a strong year for equities.
- Fixed income, money markets, buffer ETFs and premium income funds can help mitigate volatility.
- Diversification is prudent.

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 (March)	3.3%
Core PCE Deflator (March)	3.2%
Unemployment Rate (January)	4.3%
10-Year US Treasury Yield (4/30)	4.39%
Fed Funds Rate (4/30)	3.50% – 3.75%

Index Returns

	April	YTD
S&P 500	10.49%	5.70%
MSCI EAFE	7.45%	6.12%
Russell 2000	12.21%	13.21%
US Agg Bond	0.11%	0.07%