Market Commentary

May 2026

Equity and Bond Market Update

(as of May 13, 2026)

Index	YTD	1-Year
Dow Jones Industrial Average TR	+3.9%	+19.9%
S&P 500 Total Return Index	+9.2%	+28.0%
Russell 2000 Total Return Index	+15.0%	+37.0%
MSCI EAFE Index (net)	+8.0%	+24.2%
MSCI Emerging Markets Index (net)	+22.2%	+51.2%
Bloomberg US Aggregate Bond TR	-0.1%	+5.4%

Recent Economic Indicators

	Statistic	Data as of
Unemployment Rate	4.3%	Apr 2026
Gross Domestic Product (GDP)	+2.0%	Q1 2026
Consumer Price Index (CPI) – Y/Y	+3.8%	Apr 2026
Consumer Confidence (1985=100)	92.8	Apr 2026
30-year fixed mortgage rate	6.46%	Wk of May 13
Housing Starts (single family)	1,032,000	Mar 2025
10-Year Treasury Yield	4.48%	5/13/2026

Equity markets this year have been resilient throughout the Iran conflict, increasing fuel prices and related inflation jumps. First quarter earnings season in the U.S. has confirmed that companies are still growing their operations, revenues and income at a rate eclipsing even some of the most optimistic forecasts earlier this year. Technology stocks, which had been lagging almost all U.S. sectors just six weeks ago, have mounted a major comeback, only being overcome by the energy sector this year. Small-cap equities and emerging markets are leading broad-based indices, and the aggregate bond market is still looking for direction as inflation, expected Fed policy and the labor market have recently been pulling longer-term yields up to the highest levels for the year.

Inflation has re-emerged as the dominant macroeconomic concern after showing meaningful signs of moderation earlier in the year. Headline CPI had been trending toward the Federal Reserve's long-term target before the escalation of the Iran conflict disrupted global energy markets and reignited price pressures across the economy. Recent inflation readings have moved materially higher, driven primarily by energy costs, transportation expenses, and broader supply-chain disruptions tied to instability in the Middle East.

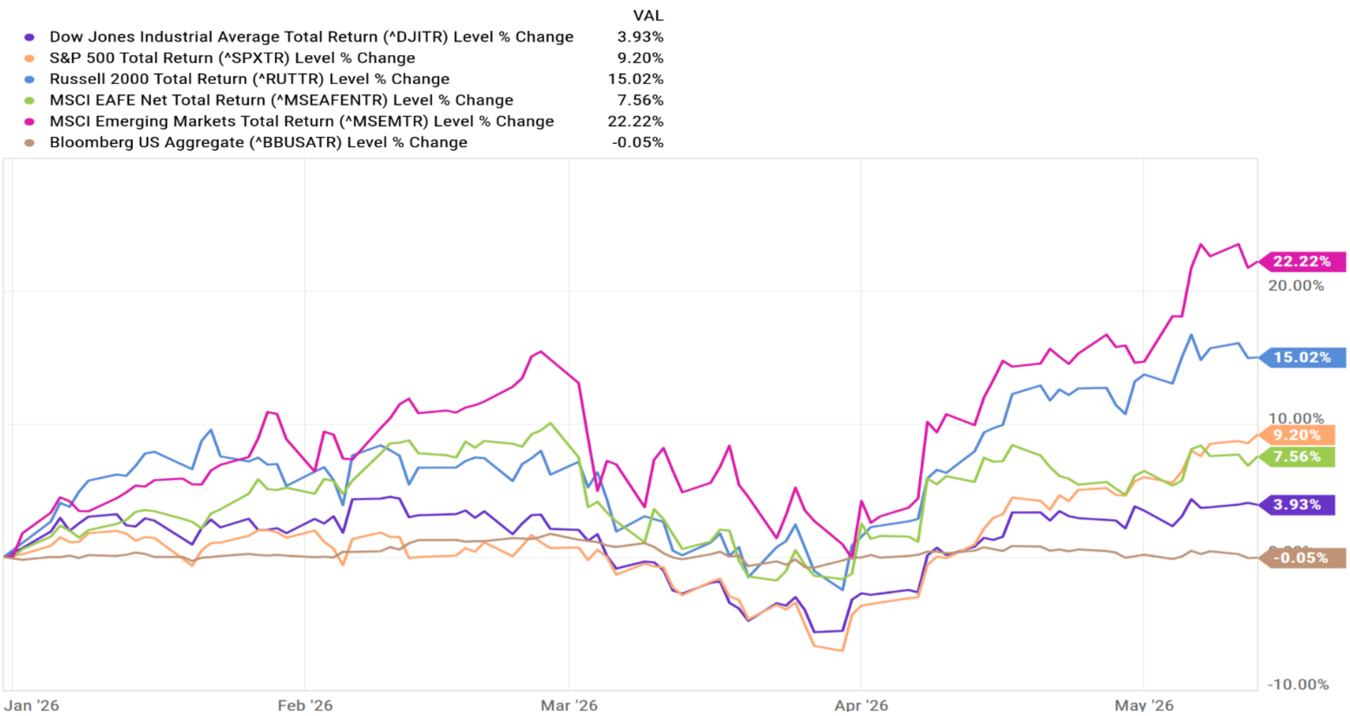
Gasoline prices have become one of the clearest transmission mechanisms affecting consumers. Crude oil prices surged following disruptions tied to the Strait of Hormuz and fears of prolonged supply constraints. Brent crude recently moved above $110 per barrel, placing upward pressure on gasoline, diesel, shipping, and airline costs. Retail gasoline prices have risen sharply since February, directly impacting household budgets while also feeding into higher costs for freight, manufacturing, and food distribution.

While energy remains the largest contributor to current inflation pressures, there are growing concerns that inflation could broaden into more persistent categories. Core inflation measures, which exclude food and energy, remain above the Federal Reserve's comfort zone and suggest that pricing pressures are no longer isolated. Wage growth, insurance costs, shelter inflation, and service-sector pricing continue to run at elevated levels. This raises the risk that inflation expectations could become more entrenched if energy prices remain elevated for an extended period.

The labor market, however, continues to provide an important source of economic stability. Employment conditions have softened modestly from the exceptionally tight levels seen over the past two years, but overall labor demand remains resilient. The unemployment rate remains relatively low near historically normal levels, and wage growth continues to support consumer spending. At the same time, there are emerging signs that businesses are becoming more cautious. Hiring intentions have moderated in several sectors as companies navigate rising input costs, elevated interest rates, and increased geopolitical uncertainty.

This combination of slowing but still-positive economic growth alongside renewed inflation pressure places the Federal Reserve in a difficult position. Prior expectations for multiple rate cuts this year have faded considerably as inflation data has moved in the wrong direction. Federal Reserve officials have increasingly emphasized a "higher-for-longer" interest rate environment, reflecting concerns that premature easing could allow inflation to become more deeply embedded within the economy.

Major Market Indices Total Return (YTD through May 13, 2026)



Source: YCharts

Financial markets have responded accordingly. Treasury yields have moved higher as investors price in the possibility that interest rates may remain elevated well into 2027. Equity markets have become more volatile as investors weigh the competing forces of resilient corporate earnings against higher financing costs and geopolitical risks. Rate-sensitive sectors such as housing and small-cap equities have faced renewed pressure, while energy and defense-related industries have generally benefited from the changing macro backdrop.

Looking ahead, the path of inflation and monetary policy will depend heavily on developments in the Iran conflict and global energy markets. If tensions ease and oil prices stabilize, inflation pressures could moderate later in the year, allowing the Federal Reserve greater flexibility. However, if geopolitical instability persists and energy costs remain elevated, policymakers may be forced to maintain restrictive monetary policy longer than markets currently expect.

The economy has demonstrated resilience through multiple shocks over the past several years, but the current environment reinforces an important reality: inflation remains highly sensitive to geopolitical events, particularly when energy markets are involved. We will continue monitoring inflation trends, labor market conditions, Federal Reserve policy signals, and developments in the Middle East as key drivers of market direction during the remainder of the year.

Always keep in mind that fear, panic, and optimism are not investment strategies, but rather emotions that drive short-term markets.

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Sources:
S&P Dow Jones Indices website (us.spindices.com)
MSCI Barra website (http://www.mscibarra.com)
The Conference Board (www.conference-board.org)
Bureau of Economic Analysis (www.bea.gov)
JP Morgan Guide to the Markets
CME FedWatch Tool (www.cmegroup.com)
FTSE Russell (www.ftserussell.com)
Bankrate.com (www.bankrate.com)
Bureau of Labor Statistics (www.bls.gov)
United States Census Bureau website (www.census.gov)
Federal Reserve Bank of Atlanta (https://www.atlantafed.org/cqer/research/gdpnow)
OpenAI, ChatGPT

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The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The S&P 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities. The index is meant to reflect the risk/return characteristics of the large capitalization U.S. universe.

The S&P 500® Equal Weight Index is the equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

The Russell 2000 is an index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of the 3,000 largest stocks in the United States. The Russell 2000 serves as a benchmark for small-cap stocks in the U.S. and is meant to reflect the risk/return characteristics of the small capitalization U.S. universe.

The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. It is maintained by MSCI Barra, a provider of investment decision support tools; the EAFE acronym stands for Europe, Australasia and Far East.

The MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International (MSCI) designed to measure equity market performance in global emerging markets.

The Barclays US Aggregate Bond Index is a broad-based benchmark index that measures the investment-grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

The Dow Jones Equity All REIT Index is designed to measure all publicly traded real estate investment trusts in the Dow Jones U.S. stock universe classified as equity REITs according to the S&P Dow Jones Indices REIT Industry Classification Hierarchy. These companies are REITs that primarily own and operate income-producing real estate.

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