

May 2026 Market Recap

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Markets delivered a strong risk-on month in May, led by U.S. equities as investor sentiment improved on resilient corporate earnings, continued enthusiasm surrounding artificial intelligence and hopes that geopolitical tensions could stabilize.

U.S. Equities

The S&P 500 advanced meaningfully during the month and reached new highs, while Nasdaq outperformed as mega-cap technology and AI-related companies continued to drive market leadership. The Dow Jones Industrial Average also posted gains, though more modest relative to growth-oriented benchmarks. Market breadth improved somewhat, but leadership remained concentrated among technology, semiconductors, cloud computing and AI infrastructure beneficiaries.

U.S. Fixed Income

Domestic fixed income markets experienced greater volatility. Treasury yields moved higher through much of May as inflation concerns resurfaced, driven in part by elevated energy prices and ongoing geopolitical uncertainty in the Middle East. The 10-year Treasury yield briefly pushed toward the mid-4% range, while longer-duration bonds remained under pressure from concerns surrounding inflation, federal deficits and rising term premiums. Core bond returns were challenged by higher rates, while credit-sensitive sectors such as investment-grade and high-yield corporate bonds held up relatively well as economic growth remained resilient and corporate fundamentals remained broadly healthy. Credit spreads remained contained despite rising Treasury yields, reflecting continued investor confidence in corporate balance sheets and earnings prospects.

International Equities

International equities also participated in the global rally. Developed international markets, particularly in Europe, posted positive returns as earnings remained resilient and investors continued seeking diversification

Our Current Market Perspective

Markets enter 2026 with supportive macro fundamentals, including moderating inflation, resilient earnings growth and a gradual shift in monetary policy toward accommodation. Elevated valuations following several years of strong returns warrant increased selectivity and disciplined risk management.

Periodic consolidation and market volatility are likely as investors digest prior gains, navigate policy uncertainty and expected continued government funding challenges. While potentially disruptive in the near term, we view such volatility as pauses within an ongoing expansion rather than signals of a sustained downturn.

Ongoing productivity gains — driven by artificial intelligence, automation and technology investment — continue to support corporate margins and earnings growth across a widening set of industries.

While inflation risks persist, material inflationary pressure has yet to fully materialize. The Federal Reserve remains data-dependent, balancing economic strength with the need to avoid reigniting inflation.

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This report is incomplete without the important disclosures at the end.

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outside the United States. However, economic growth across much of Europe remained subdued, and higher energy prices posed a potential headwind for the region.

Emerging markets delivered mixed results, with performance varying significantly by country and sector exposure. Commodity-exporting nations generally benefited from higher resource prices, while import-dependent economies faced renewed inflationary pressures.

International Fixed Income

International fixed income markets also experienced volatility as sovereign bond yields moved higher across many developed markets in response to inflation concerns and shifting expectations for central bank policy.

Currencies

Currency markets reflected the competing forces of inflation, monetary policy and safe-haven demand. The U.S. dollar remained relatively firm as rising Treasury yields and diminished expectations for near-term rate cuts supported demand for dollar-denominated assets. The euro faced periodic pressure from weaker economic growth and energy-related concerns, while the Japanese yen remained under scrutiny as policymakers continued monitoring currency weakness. The British pound remained relatively stable as markets reassessed the path of U.K. monetary policy. More broadly, the U.S. dollar continues to maintain its dominant role as the world's primary reserve currency, though discussions surrounding reserve diversification, digital currencies and dollar-backed stablecoins continue to attract attention among global policymakers and investors.

Federal Reserve & Policy

Federal Reserve policy remained a key driver of markets throughout May. While the Federal Reserve maintained the federal funds target range at 3.50%–3.75%, the month was marked by a significant leadership transition as former Federal Reserve Governor Kevin Warsh was confirmed and sworn in as the new Chair of the Federal Reserve, succeeding Jerome

Our Longer-Term View

- The U.S. economy remains in a post-COVID, productivity-led expansion supporting a secular bull market in equities. While initially concentrated in technology, productivity gains are increasingly broadening across other sectors of the economy.
- Despite ongoing policy uncertainty, corporate earnings growth and productivity improvements remain the primary drivers of long-term equity performance.
- Signs of moderation in the labor market are viewed as a normalization rather than a precursor to recession, with productivity gains helping offset slower employment growth.
- With the yield curve no longer deeply inverted, fixed income markets have moved closer to historical norms, reinforcing their role as income generators and portfolio diversifiers within balanced allocations.

Powell. Investors closely monitored the transition for clues regarding the future direction of monetary policy, particularly as inflation remained stubbornly above the Federal Reserve's long-term target.

April Personal Consumption Expenditures (PCE) inflation rose to 3.8% year-over-year, while Core PCE increased to 3.3%, reinforcing concerns that inflationary pressures may prove more persistent than previously anticipated. While Warsh has historically been viewed as inflation-conscious, markets remain uncertain regarding how his leadership style and relationship with the administration may influence future policy decisions. As a result, expectations for additional rate cuts were pushed further into the future, contributing to upward pressure on Treasury yields throughout the month.

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Commodities

Commodity markets were heavily influenced by geopolitical developments throughout May. Oil prices experienced significant volatility as investors weighed concerns about global demand against rising geopolitical risks. Prices initially softened amid concerns surrounding economic growth before rebounding sharply as tensions involving Iran, Israel and U.S. military interests escalated. Concerns surrounding potential disruptions to global energy supplies, particularly near key shipping routes such as the Strait of Hormuz, contributed to increased volatility in crude oil markets.

Gold also experienced a volatile month. While safe-haven demand, central bank purchases and geopolitical uncertainty continued to provide long-term support, stronger Treasury yields and a firmer U.S. dollar created periodic headwinds for precious metals.

Geopolitics

Geopolitical developments remained a significant influence on investor sentiment. Escalating tensions involving Iran and

Israel, ongoing instability across the Middle East and concerns surrounding global energy security contributed to heightened market volatility. Investors also continued monitoring developments in Ukraine and broader global security concerns.

In addition, U.S.-China relations remained a critical theme for global markets throughout May. While direct military tensions remained subdued, economic competition between the world's two largest economies continued to intensify. Trade policy, advanced semiconductor restrictions, artificial intelligence development, rare-earth mineral supply chains and strategic manufacturing initiatives remained central areas of focus. Investors continued evaluating the potential impact of tariffs, export controls and industrial policies designed to reduce reliance on Chinese manufacturing and technology. Meanwhile, China continued efforts to stimulate domestic growth through targeted fiscal and monetary measures as policymakers attempted to offset ongoing property market weakness and slower consumer demand. The evolving relationship between the United States and China remains one of the most significant long-term drivers of global capital flows, supply chain realignment, inflation trends and geopolitical risk.

Looking Ahead

Overall, May was a strong month for risk assets but a more challenging environment for high-quality duration. Equities benefited from earnings resilience, AI-driven momentum and continued economic strength, while fixed income markets contended with rising inflation concerns, higher Treasury yields and a less accommodative outlook from the Federal Reserve. Looking ahead, investors will remain focused on inflation trends, Federal Reserve policy under its new leadership, geopolitical developments, energy prices and whether the AI-driven investment cycle can continue supporting economic growth and corporate earnings.

From a portfolio perspective, the evolving market environment reinforces the importance of maintaining diversification across asset classes, regions and investment styles, while remaining attentive to opportunities created by shifts in market leadership and changing macroeconomic conditions.

Important Disclosures

These views are as of June 3, 2026 and are subject to change based on subsequent developments. The material presented is provided for informational purposes only. Information is based on sources believed to be reliable; however, their accuracy or completeness cannot be guaranteed. Nothing contained herein should be construed as a recommendation to buy or sell any securities. As with all investments, past performance is no guarantee of future results. No person or system can predict the market. All investments are subject to risk, including the risk of principal loss.

Diversification does not guarantee a profit or protect against a loss. International investing involves special risks, including, but not limited to, currency fluctuations, economic instability, and social and political uncertainties, not typically present with domestic investments. Emerging market environments can increase these risks. A high-yield bond (non-investment-grade bond, speculative-grade bond, or junk bond) is a bond that is rated below investment grade. These bonds have a higher risk of default or other adverse credit events, but typically pay higher yields than better quality bonds to make them attractive to investors. The S&P 500 index is an index of 500 of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. Large-cap (sometimes called "big cap") refers to a company with a market capitalization value of more than \$10 billion. Large-cap securities represent a significant portion of the U.S. equity market and are often used as core portfolio holdings. Small-cap companies typically have a market capitalization in the range of \$300 million-\$2 billion. They have greater growth potential, risks, and volatility than both large- and mid-cap companies. Treasury securities are guaranteed by the U.S. Government and, if held to maturity, offer a fixed rate of return and fixed principal amount. If not held to maturity, principal will fluctuate and may be worth more or less. Guarantee only applies to the timely payment of principal and interest and does not pertain to the portfolio, mutual fund, or variable annuity holding such securities. The Federal Reserve is the central banking system of the United States composed of 12 regional Reserve banks which supervise state member banks and controls the Federal Funds Rate, an important benchmark in financial markets used to influence the supply of money in the U.S. economy.