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Monthly Market Commentary

May 2026

US Economy

In May 2026, the U.S. economy remained steady but showed signs of slowing, as growth continued at a moderate pace while inflation stayed a concern. Economic data released during the month confirmed that the economy continued growing in the first quarter, supported mainly by strong business investment—particularly in technology and AI (artificial intelligence). At the same time, consumer spending softened slightly, as higher prices for energy and everyday goods put pressure on household budgets. For most investors, this meant the economy was still expanding, but not as strongly as in previous years, with growth becoming more uneven across different sectors.

Inflation remained one of the biggest challenges in May. Rising energy costs tied to global tensions pushed prices higher, and overall inflation stayed above the Federal Reserve's target, which kept interest rates elevated and made borrowing more expensive. The labor market, however, stayed relatively stable, with modest job growth, showing that companies were slowing hiring but not cutting jobs significantly. However, consumer confidence dropped sharply, reflecting concerns about the rising cost of living and future inflation. May painted a picture of an economy that is still healthy overall but facing headwinds from inflation and higher costs — suggesting continued growth, but at a slower and more cautious pace.

US Markets

In May 2026, U.S. stock markets continued the strong momentum they built in April. By the end of the month, all three major indexes (the S&P 500, the Nasdaq, and the Dow Jones) were higher. Investors saw a steady stream of positive news, including strong corporate earnings and easing concerns around energy prices, which helped boost confidence. The S&P 500 and Nasdaq reached multiple all-time highs throughout the month, and the Dow even surpassed the 51,000 level for the first time.

May's story was largely about continued leadership from big technology companies, especially those tied to AI. Strong earnings growth and heavy investment in AI infrastructure kept driving stock prices higher, even as inflation and interest rate concerns lingered. At the same time, improving geopolitical sentiment—particularly hopes for reduced tensions in the Middle East—and a pullback in oil prices helped support the rally. Overall, May reinforced a familiar theme: markets can keep rising when corporate profits are strong, but much of the gains were concentrated in a narrower group of leading stocks, meaning not every part of the market performed equally well.

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Fixed Income

We look for the Federal Reserve (Fed) to proceed cautiously, calibrating as needed but with a bias to keep the federal funds target rate on hold. We are anticipating no rate cuts or hikes between now and the end of 2026. However, federal funds futures markets are now implying potential rate hikes in 2027 (as of this writing), especially if the Iran war extends for longer.

We anticipate the bond market to remain sensitive to geopolitical events, Fed policy announcements, and economic developments, especially around the trajectory of inflation and how the Fed adjusts policy. Also, the "term premium" (the extra yield investors demand for holding long-term debt in lieu of short-term debt) has also been rising. We anticipate upward pressure to remain in term premium given increasing deficits, further Treasury issuance and the potential for Fed balance sheet trimming. That said, we still believe the income component of fixed income should remain a key driver of total return for investors in 2026.

International Markets

Europe's greater exposure than the US to Middle East disruptions was apparent from recent data showing an increasingly noticeable economic deterioration that left purchasing-manager surveys signaling a decline in overall activity. Factory output was inflated by the same precautionary stock-building supporting US factory output but nonetheless signaled more balanced regional growth between Europe's industrial north and the more services, tourist-oriented south. Growth headwinds have intensified recently, with inflation accelerating. This likely contributed to a recent decline in consumer confidence and prompted a more hawkish policy outlook from business and consumer surveys.

Over in Asia, Middle East-related disruptions have had a more uneven impact across the continent. Support to China and the rest of north Asia is coming from an AI-led boom in tech exports, contributing to improvement in already solid growth since the start of the Iran conflict. Southeast Asia has been more vulnerable to Middle East-related turbulence because of its trade dependence, weak domestic demand, and the lack of a large technology sector. Pressure is building on central banks there to stabilize local exchange rates with interest rate hikes to control imported inflation but at the risk of aggravating the regional economic slowdown. Japan's AI-driven investment, tourism, and stable domestic demand have limited its growth slowdown. India's economy recovered from a recent dip, with balanced growth driven by investment and resilient consumption.

Commodities

Within commodities, energy and precious metals often get most of the headlines given their larger weightings in most major indices, especially during geopolitical turbulence like the Iran war. However, base metals, like copper, have quietly been hitting new highs in the background. The core driver of this positive performance has been a structural shortage between demand and supply growth.

Using copper as an example, demand is coming from a variety of industrial, electrical, and construction-related companies involved in everything from housing to the AI-related buildout of data centers. While mined production continues at a modest rate, demand has been outstripping mining production. Scrap metal and recycling can help to alleviate some of the shortfall, but it is structural in nature, especially as AI demands further increase the need for data centers and power. Also, while copper producers might want to take advantage of this upswing in demand and produce more, it can take years to increase production at an existing mine and decades to bring a new one online. These structural supply-demand imbalances are not isolated to copper and extend to other base metals, along with impacts from recently enacted tariffs. These reasons make us optimistic on the potential outlook for base metals.

What Does This Mean to Me?

We believe that energy-driven volatility is not a call to abandon discipline or chase short-term performance. We anticipate the current supply/demand imbalance to persist for several months, potentially creating opportunities to rebalance rather than react. Ultimately, today's energy driven conflicts reflect a temporary disruption layered on top of a secular demand story. We recommend navigating this uncertainty and avoiding headline-driven decisions by remaining diversified and rebalancing portfolios. Despite the recent uncertainty, we continue to advise clients to use any equity pullbacks as an opportunity to deploy sidelined cash.

If you have any questions or concerns, please do not hesitate to reach out to us at any time.

Sincerely,

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