



## Monthly Market Update for May 2026

By Peter Madlem, CFA | Chief Investment Officer

**Bottom Line: You wouldn't know it from the headlines, but stocks continued marching higher in May. Why? Because the underlying drivers of long-term returns remained intact. A reminder for investors that the most important lesson of all is to remain focused on building wealth over years and decades, not days and weeks.**

### May Reminded Investors of an Important Truth

The market doesn't need perfect conditions to reach new highs.

It just needs conditions that are better than feared.

That was the story of May.

The **S&P 500** crossed 7,500 for the first time, the **Nasdaq Composite** surged to fresh records, and volatility drifted lower. Meanwhile, the bond market spent much of the month reminding everyone that inflation hasn't entirely left the building.

If that sounds contradictory, welcome to investing.

Stocks celebrated growth. Bonds worried about inflation. Both had a point.

### Interest Rates Took Investors on a Roller Coaster

One of the biggest stories of the month wasn't what the Fed did.

It was what the bond market did.

Long-term Treasury yields climbed to levels not seen in nearly two decades before retreating later in the month. The move reflected growing concern that inflation may remain stubbornly above the Fed's target, particularly as higher energy prices filtered through the economy.

Higher rates matter because they touch everything. They influence mortgage costs, business investment decisions, corporate borrowing, and asset valuations.

But there's another side to the story.

For the first time in many years, investors can earn meaningful income from high-quality fixed income without taking excessive risk. That's not a problem. That's a feature.

The bond market may be volatile, but it is finally paying investors for their patience.

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### Historical Interest Rates

10-year and 2-year yields since 1960



Latest data point is May 25, 2026

Sources: Clearomics, Federal Reserve  
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### Stocks Continue to Follow Earnings

The stock market's strength has frustrated many skeptics.

It shouldn't.

Markets ultimately follow earnings, and earnings continue to surprise to the upside.

The rally is no longer confined to a handful of mega-cap technology companies. While artificial intelligence remains a powerful tailwind, participation has broadened across sectors and industries. Corporate profits continue to grow, helping justify higher index levels even as valuations remain elevated by historical standards.

This is an important distinction.

A market driven solely by expanding valuations is fragile.

A market supported by growing earnings is much harder to break.

That doesn't eliminate risk. It simply means the foundation is stronger than many investors appreciate.



## The Fed Changed Chairs. The Economy Didn't

May also marked the arrival of **Kevin Warsh** as the new leader of the **Federal Reserve**.

Leadership transitions naturally generate headlines. Investors immediately begin searching for clues about policy changes, rate decisions, and what the future might hold.

History suggests a simpler approach.

Fed chairs matter.

The economy matters more.

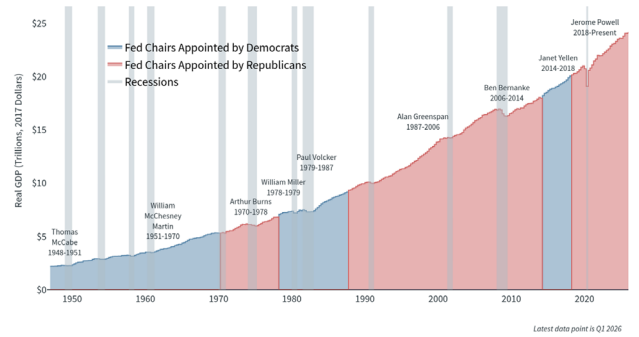
Over long periods, investment returns are driven by productivity, innovation, demographics, earnings growth, and capital formation, not the personality occupying the chair at the Federal Reserve. Warsh may bring a different communication style and a fresh perspective, but the fundamental challenges remain the same: balancing inflation risks against economic growth.

The market understands this.

That's why investors quickly move past personalities and back toward fundamentals.

## The Economy and Fed Chairs

Real GDP and Fed chairs with the nominating president's party highlighted



Sources: Clearnomics, Bureau of Economic Analysis, NBER  
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## The Bottom Line

May offered a useful reminder that markets rarely move in straight lines.

Interest rates rose. Then eased.

Oil surged. Then cooled.

Geopolitical tensions intensified. Then stabilized.

Through it all, stocks continued marching higher because the underlying drivers of long-term returns remained intact.

The headlines will continue to change.

The long-term investment principles won't.

And for investors focused on building wealth over years and decades, not days and weeks, that remains the most important lesson of all.

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