

---

---

# Marco Investment Management

---

Investment Newsletter

May 2026

---

## Market Review

### *Introduction*

Although many market indexes are near all-time highs, it has not been a smooth ride so far in 2026. Volatility has increased, and large intra-day swings are not uncommon. However, the uptrend for stocks appears intact. Fixed-income securities have had more difficulty in 2026 as interest rates have been rising in response to higher oil prices and solid economic growth. In the following sections we will discuss what might be in store over the balance of the year and cover other topics in this edition of our Investment Newsletter.

### *Equity Markets*

So far this year the S&P 500 Index has been on a roller coaster ride. Year to date through April 30 the Index was up 5.7%, but year to date through March 30 the Index was down 7.1%. April was the big turnaround month, up 10.5%. Many companies reported quarterly earnings in April, and results were generally very favorable, especially for large-cap technology, which may have been a catalyst for the strong rally in April.

Through early May 445 companies in the Index had reported, and 84% of those had a positive earnings surprise. The average earnings beat has been 18.2% over consensus. Ten of the 11 S&P sectors have reported year-over-year earnings growth, with Technology reporting the strongest positive change in earnings. Year-over-year earnings growth is projected to remain strong over the next several quarters.

Despite the recent rally in technology stocks, that sector is not the best year to date through April. That honor goes to Energy, which has benefited from the spike in oil prices as a result of the conflict in Iran. Energy is up almost three times the next best sector, which is Industrials. Through April, only two sectors have posted negative performance: Financials and Healthcare.

Because many large-cap stocks have surged in April and early May, the capitalization-weighted S&P 500 is again outpacing the equal-weighted version of the Index. Through May 14<sup>th</sup> the cap-

weighted index is up 10% compared to the equal-weighted index at 6.9%. The takeaway is that many stocks in the Index are not matching the overall performance of the cap-weighted index. This concentration of performance is somewhat troubling, but both earnings growth and index earnings contribution have been particularly strong for many mega-caps. The market is rewarding that situation.

Although mega-cap stocks are generally contributing a large percentage of overall index earnings, the weighting of the top ten market-cap stocks relative to the full index is near an all-time high, which makes it critical that they don't stumble. As of April 30, the top ten market cap stocks' aggregate weighting was 40.5% compared to a 54.2 year average of 23.7% (please see chart).

The market is excited about the prospects for artificial intelligence, including enhanced productivity and the possibility for medical breakthroughs, etc. We share this enthusiasm but also acknowledge that widespread implementation of AI technologies could be disruptive, leading to dislocation in many industries. Some companies have already announced layoffs, and it is unclear how many of those affected are candidates for retraining into other roles.

Because of the strong earnings growth that we have witnessed so far this year, the price-earnings ratio of the S&P 500 Index is actually somewhat lower now than at the beginning of the year, despite the run-up in stock prices.

S&P 500 earnings growth is expected to rise by 21.4% this year compared to 2025 (24.8% before extraordinary items), which implies a strong environment for the stock market, barring unexpected shocks to the system. High oil prices could crimp consumer discretionary spending, and interest rates may not decline as the market had previously expected. Both of these factors could weigh on stock valuations.

As mentioned, during the month of April the S&P 500 Index was up 10.5%. Going back to 1933 there have been 14 other Aprils that had a 5% or more up move. In all but two instances the market moved higher over the balance of the year, with an average

return of 17.5%. It was not a smooth ride though. Maximum mean correction after April was 11%.

## ***Fixed Income Markets***

**F**ixed-income securities have struggled somewhat in 2026 as interest rates have moved higher. The price decline that has occurred in bonds due to the increase in rates has basically offset the interest earned on those bonds. For example, intermediate-term government/corporate bond indexes are generally up less than 1% this year on a total return basis.

Bond prices and yields are responding to macro factors such as higher energy prices (inflationary) and demand outstripping supply in some areas such as semiconductor/memory chips, which is also leading to higher prices.

The month of May marks the end of Federal Reserve Chairman Jerome Powell's term, and he is being replaced by Kevin Warsh. Mr. Warsh is a respected figure in finance circles, and he was a member of the Federal Reserve Board of Governors. He has indicated that he believes interest rates are too high, but given the current situation with energy prices, he may not have the backing of the other voting members to cut short-term rates soon. In fact, the market has gone from expecting several rate cuts over the next year to now projecting at least one rate hike over the next year.

Corporate bond spreads remain tight, indicating confidence in the U.S. economy and strong investor demand. However, these tight spreads reduce the attractiveness of corporate bonds relative to Treasury notes.

Compared to a few years ago when many bonds yielded 1 to 2%, today's yields of around 4% to 5% seem like adequate compensation for near-term inflation risks. The expectation for 2026 is inflation to average 3.3% before declining in 2027. Longer term, the market expects inflation to average around 2.5%. Adding a 2 to 2.5 percentage point inflation premium to that expectation gets a 10-year bond yield of 4.5-5%. That's close to where we are at present.

## ***Economic Outlook***

**T**he U.S. economy has been doing relatively well. GDP growth has moderated from a few quarters ago but remains positive at 2% in the most recent quarter. While the consensus expects GDP growth to stay around that level, some

prognosticators are expecting a surge in GDP over the next several quarters as benefits from AI and tax law changes kick in.

Employment growth remains positive, and average hourly earnings are growing at a 3.6% annualized rate, which is keeping pace with inflation. The unemployment rate is 4.3%. While that is off the lows, it is still considered close to a "full employment" situation.

The Institute for Supply Management indexes for Services and Manufacturing still indicate expansionary conditions. The Manufacturing Index was most recently reported at 52.7. Readings above 50 indicate expansion. The Services Index was reported at 53.6.

The recent Supreme Court ruling that invalidated some of the Trump administration tariffs creates some uncertainty. The administration believes they have alternative tariff-collecting mechanisms, and they intend to pursue these. On the other hand, the administration is preparing to issue tariff refunds for those improperly collected, which could be economically stimulating but could also have a negative impact on the U.S. deficit.

One area of the economy that is struggling a bit is home sales. Mortgage interest rates hovering around 6.5% are negatively affecting demand. Overall home sales declined in the most recently reported year-over-year data.

## ***Summary***

**T**he stock market has generally shrugged off concerns about an uptick in inflation, focusing instead on strong earnings growth and the promise of artificial intelligence. Bonds, on the other hand, are struggling with building inflationary pressures and the prospect that interest rate policy will not be easing soon. Overall, we believe the uptrend in stock prices will likely persist but with meaningful corrections along the way. If the current conflict with Iran is concluded successfully in the near future, we may see energy prices pull back, which could be a catalyst for both stocks and bonds to improve from current levels.

*Disclosures: The S&P 500 Index is a capitalization-weighted index designed to measure changes in the aggregate value of 500 stocks representing all major industries. An investor cannot invest directly in any index. Index performance does not reflect the deduction of advisory fees, transaction charges and other expenses. Potential for profit is accompanied by possibility of loss, including loss of principal.*