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FINANCIAL ADVISORS

May 2026

Market Commentary: Monthly Roundup

Executive Summary

April's markets told a story of relief rather than resolution. Diplomatic breakthroughs fueled a concentrated rally that erased all the first quarter's losses, with the S&P 500, Nasdaq, and Russell 2000 all reaching new all-time highs. Growth stocks and semiconductors powered the advance, reversing the rotation that defined the first quarter. Credit markets confirmed the shift in tone, with spreads tightening sharply and volatility falling. On the economic front, first quarter GDP rebounded, manufacturing held in expansion territory, and earnings season started strong with record profit margins. Risk appetite moved decisively toward optimism, though the breadth of the rally remained narrow and concentrated in a handful of sectors. The central question heading into May is whether the diplomatic progress that fueled the rally will translate into a resolution of the physical oil supply disruption that remains unresolved.

1. Ceasefire Headlines Drove the Rally, But the Supply Disruption Remains

Stocks surged in April as a series of diplomatic developments lowered the probability of further military escalation. The U.S.-Iran ceasefire was extended, the Israel-Lebanon ceasefire held, and de-escalation rhetoric reduced the risk of a ground war. Markets responded by unwinding the geopolitical risk premium that had weighed on equities throughout the first quarter. Credit spreads tightened, volatility dropped, and equities rebounded to new highs. However, the market recovery overlooks an important distinction: the diplomatic track and the physical supply situation are moving in opposite directions. The U.S. naval blockade of Iranian ports remains in effect, and the Strait of Hormuz, which carried roughly 20 million barrels per day before the conflict, remains functionally closed. Daily tanker crossings have fallen from hundreds to single digits, mine-clearing operations could take months, and the disruption has been characterized as the largest energy supply shock in recorded history. Whether April's rally holds could depend on whether the Strait reopens.

2. Market Performance Recap

April was a broad rebound month, though market leadership was narrow. The S&P 500 gained +10%, the Nasdaq surged +15%, and the Russell 2000 rallied +10%, with most of the advance concentrated around ceasefire announcements on April 8 and April 17. The average stock across the S&P 500 underperformed the index by nearly -4.5%, as Growth outpaced Value by +8%, reversing the first quarter's rotation. Technology led the rally as semiconductor stocks gained +40% on a 17-day winning streak. All ten remaining sectors underperformed the index, with energy and defensive sectors lagging the most. International markets trailed the U.S. due to their lower exposure to the growth and AI trade, with emerging markets gaining +12% and developed markets returning +5%. In fixed income, Treasury bonds produced modest losses as yields rose, while corporate credit traded higher as credit spreads fell. High-yield spreads, the extra yield corporate bonds pay over comparable Treasuries, tightened nearly -0.50%, reversing almost all the first quarter's spread widening. Oil whipsawed on geopolitical headlines, with WTI crude rising +7% for the month but trading in a range from \$80 to \$115.

3. Fed Policy & Interest Rate Outlook

April saw a meaningful shift in how markets are thinking about Fed policy. At each remaining 2026 meeting, expectations shifted from pricing in the possibility of a rate hike to pricing in the possibility of a rate cut. The most likely outcome is still no change, and the probability of a cut remains below 15%, but the market is slightly less worried about rate hikes. The repricing was driven by oil's pullback reducing near-term inflation fears, though the continued supply disruption means inflation risk has not fully faded. The Fed is also preparing for a leadership transition, with Kevin Warsh set to succeed Jerome Powell when his term expires in May. Warsh inherits a complicated environment: the base case for 2026 is zero rate cuts, the administration has expressed a preference for lower rates, inflation remains above the 2% target, and the oil shock has introduced new inflation risk. Markets will need to adjust to a new communication style at a time when the Fed's independence is already under scrutiny.

4. Technicals, Investor Sentiment, & Positioning

The technical picture improved in April. The S&P 500 rallied back above key trend levels and closed near an all-time high, fully erasing March's -9% drawdown. However, the rally's breadth tells a more cautious story, with the advance concentrated in semiconductors and mega-cap stocks rather than broad-based participation. Sustained rallies historically require broadening participation, and the current concentration leaves the index vulnerable if sentiment around the AI and growth trade shifts. Risk appetite surged as credit spreads tightened, volatility fell, and institutional equity futures positioning moved to its highest level since late 2024. Despite the magnitude of the rebound, some measures of investor sentiment remained noticeably subdued, suggesting not all investors are fully convinced.

5. Corporate Earnings & Valuations

Stock market valuations rose in April but remain below pre-conflict levels. The market's valuation based on expected earnings climbed to 21x from 19.7x at the end of the first quarter, with a significant portion of the rebound tied to rising earnings estimates rather than pure multiple expansion. The backdrop for sustaining valuations is mixed: strong EPS revisions, record profit margins, and improving manufacturing activity are supportive, while the volatile geopolitical environment could limit further expansion. At current levels, earnings growth is the primary path to further upside.

Q1 earnings season is off to a strong start. With half of S&P 500 companies reported, the first quarter is on pace for a sixth consecutive quarter of double-digit growth. The share of companies beating expectations is above the five-year average, the size of the beats is well above average, and profit margins reached 13.4%, the highest on record. Analysts are forecasting +18% earnings growth over the next 12 months, and upward revisions have outpaced negative revisions. The early results are encouraging, but the rising bar means the market will need continued earnings delivery to sustain current valuations.

6. Economic Trends

The U.S. economy rebounded in early 2026, growing +2% in the first quarter after near-stall growth of +0.5% in the fourth quarter as the government shutdown effect reversed. Manufacturing activity has held above the expansion threshold for three consecutive months, closing the gap with the services economy, and consumers continued to spend in March despite surging gasoline prices and historically low consumer sentiment readings. The labor market continues to soften without showing signs of acute stress. Unemployment edged lower to 4.3% in March after rising to 4.5% in the fourth quarter, and while job growth has been volatile and job openings have declined, weekly jobless claims data continues to signal a labor market that is bending, not breaking.

On inflation, headline consumer prices surged +0.9% in March, the highest since June 2022, driven by soaring gasoline prices. Year-over-year, consumer prices rose +3.3%, though core prices held at a more moderate +2.6%, highlighting how much of the headline pressure is coming from energy. The broader inflation picture remains uncertain. The Fed's preferred measure of core inflation remains elevated at +3.2% year-over-year, well above the 2% target and trending higher. Producer prices are also rising at +4.0% year-over-year. Gasoline remains above \$4 per gallon, and the ongoing oil disruption is keeping the inflation outlook unsettled.

7. Bullish Talking Points

- Corporate earnings have grown at a double-digit pace for six consecutive quarters, with profit margins reaching record highs and analysts forecasting continued strong growth over the next year.
- Credit spreads are only slightly above all-time lows, signaling broad confidence in the corporate outlook and a healthy credit environment.
- Manufacturing activity was improving before the conflict and oil price spike.
- The labor market is slowing but not deteriorating, with unemployment edging lower and no signs of widespread job losses.
- AI is a technological transformation that will provide lasting productivity and earnings benefits.
- While rate cuts remain unlikely, the risk of rate hikes has diminished, removing a source of market anxiety.

8. Bearish Talking Points

- The Strait of Hormuz remains functionally closed, the U.S. naval blockade persists, and the physical oil supply disruption that triggered the first quarter's selloff is still unresolved.
- Valuations remain elevated across equities, housing, and credit, and earnings estimates continue to raise the bar.
- AI spending is strong, but profit visibility and return on investment remain uncertain, and the AI disruption narrative has introduced a new source of volatility.
- The Fed isn't in a hurry to cut rates, and the timeline for the first cut keeps getting pushed back.
- Consumer sentiment is softening, housing remains sluggish, and policy uncertainty from geopolitics to tariffs continues to weigh on confidence.
- April's rally priced in a best-case outcome before the conditions supporting it have materialized.

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