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Market Update (May 2026)

Where do things stand?

As we approach the midpoint of 2026, it is fair to ask a simple, but loaded question: where do things stand? The first half of the year has delivered a dynamic sequence of market movements - a sharp geopolitical shock in late February followed by meaningful volatility in March, a tentative ceasefire in early April with an associated equity rally, and in late May, a market sitting at fresh highs even as meaningful uncertainties remain. The purpose of this update is to provide some perspective on the themes that we believe will define the investment landscape through year-end.

War in Iran: From acute shock to fragile ceasefire

The war between the United States and Iran is not entirely over, though active major combat operations have paused. A ceasefire brokered by Pakistan in early April brought active fighting to a stop, and while there have been violations on both sides, it has held well enough for peace negotiations to continue.

The focus has now shifted from the battlefield to the negotiating table. Iran has put forward a peace proposal that the U.S. has acknowledged as a starting point, and President Trump has kept the door open for talks while continuing to press Iran to fully reopen the Strait of Hormuz.

The key considerations as of today:

- **Ceasefire holding** - Active fighting has stopped. The worst-case scenario from Q1, an open-ended military conflict, is expected to be avoided.
- **Hormuz traffic recovering slowly** - The Strait has been declared open, but oil shipments through it remain well below normal levels. A full recovery will take time - likely months.
- **Diplomatic pathway exists** - Washington and Tehran are reportedly closing in on an agreement to turn the current ceasefire into a longer-lasting peace settlement.
- **Downside scenario** - If talks break down or fighting resumes, markets will face renewed pressure. We are watching this closely.

Inflation: The energy tax is showing up in the data

The impact of higher energy prices is now showing up in the inflation numbers. U.S. headline CPI rose to 3.8% in April - its highest level in nearly three years - driven primarily by the surge in oil and gas costs since the conflict began.

Forecasters expect inflation to move higher in Q2 before easing. It is worth noting that current inflation is largely an energy story - not the kind of broad, embedded price pressure that is harder to unwind. The Federal Reserve watches core inflation closely, and on that measure, things appear more contained.

If oil shipments through the Strait of Hormuz normalize over the coming months, inflation should come back down meaningfully by year-end. The risk is that sustained energy costs begin pushing up prices more broadly. While inflation is elevated and there is a risk case, current expectations are that longer-term impacts will be limited.

Federal Reserve: On hold, with rising uncertainty

The Federal Reserve entered 2026 with markets expecting a series of rate cuts. That outlook has been shelved. With headline inflation now running at 3.8% and professional forecasters projecting further increases in Q2, the Fed finds itself navigating energy-driven inflationary pressure on one side, and slowing economic growth on the other.

The appointment of Kevin Warsh as Fed Chair introduces an additional variable. While Warsh has expressed a preference for lower rates over the longer-term, he is unlikely to cut into a rising inflation environment.

Markets are currently pricing near-certainty that the Fed holds rates steady at its June meeting and through most of 2026. Rate hike odds, while still below 50%, are rising.

Higher-for-longer rates compress valuations on long-duration growth assets. However, with S&P 500 earnings growth running at approximately 28% year-over-year through Q1, the fundamental backdrop for equities has proven resilient.

Midterm Elections: A policy landscape beginning to take shape

The November 2026 midterm elections are six months away, and the economic backdrop has now become the defining variable. Historically, the president's party loses seats in 18 of every 20 midterm cycles. With headline inflation elevated, gas prices visible at every pump, and the economic dislocations of the Iran war still fresh, the current environment creates real political headwinds for Republicans. The probability of a divided government after November has increased meaningfully.

Historically, equity markets have exhibited a recognizable pattern around midterm election cycles. The period leading into the midterms is often characterized by heightened uncertainty and above-average volatility, as investors weigh potential shifts in the policy landscape. What follows, however, has historically been more encouraging: since 1950, the S&P 500 has posted positive returns in the 12 months following every midterm election - regardless of which party gained or lost ground. Markets tend to respond well not to any particular political outcome, but to the simple resolution of uncertainty. With that historical context in mind, near-term volatility tied to the election cycle is something we view as a feature of the environment to be managed, not a reason to alter strategy.

Where Markets Stand: A resilient recovery from the March lows

The trajectory of equity markets through the first five months of 2026 illustrates a dynamic that has repeated throughout market history: acute geopolitical shocks create dislocations, and disciplined investors who hold through the volatility capture the recovery.

Year-to-date through late May, the S&P 500 is up approximately 8.5% - in positive territory despite absorbing a major geopolitical shock. Q1 earnings for S&P 500 companies grew nearly 28% year-over-year, with approximately 78% of reporting companies beating consensus estimates. Forward valuations, at roughly 20.9x, are modestly above historical averages — reflecting continued earnings optimism balanced against the macro uncertainties outlined above.

The current market is one characterized by complexity - The ceasefire remains fragile, inflation is elevated, and the Federal Reserve's path is constrained. However, the fundamentals of the economy are stable and the corporate environment continues to produce positive results – with a strong tailwind from the value that might be unlocked from Artificial Intelligence. Market participants today are making a bet on a stable economy with growing earnings, prevailing over the uncertainties around potential risk cases.

History is consistent on this point: the investors who fare best through periods of uncertainty are those who resist the impulse to react. We believe the current environment warrants discipline and we are actively monitoring the developments that will shape the second half of the year.

Thank you for your continued trust and confidence in our team. We look forward to keeping you informed as the landscape continues to evolve.



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