osaic Research

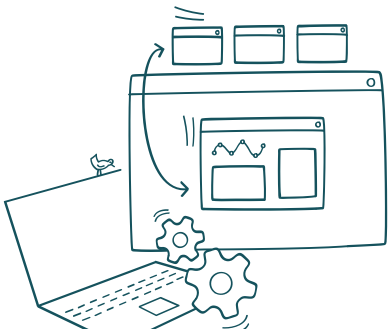
Market View Monthly

May 2026

Contrary to the old adage, "Sell in May and Go Away," markets delivered strong gains in May as investors focused on resilient economic growth, solid corporate earnings, and easing concerns surrounding the Middle East conflict. Stocks rallied, bonds posted positive returns, and enthusiasm around artificial intelligence continued to support market momentum. While inflation and policy risks remain, the month showed that strong fundamentals can still drive markets higher.

Economic review[1]

- The US economy added 115,000 jobs in April, marking the strongest two-month stretch for payroll growth since 2024, while the unemployment rate held steady at 4.3%. Wage growth weakened as real average hourly earnings fell 0.3%.
- Job openings declined slightly to 6.87 million from 6.92 million, while the hiring rate rebounded to 3.5%. The job quits rate also ticked higher to 2.0%.
- The ISM Manufacturing PMI remained in expansion territory for a fourth consecutive month, holding steady at 52.7.
    - The prices paid index surged to a four-year high of 84.6 on higher energy and transportation costs.
- The ISM Non-Manufacturing (Services) Index ticked down to 53.6 from 54.0 in March, roughly in line with consensus, and remaining firmly in expansion territory for the 22nd consecutive month.
- Headline Consumer Price Index (CPI) rose 0.6% month over month (MoM), and accelerated to 3.8% year over year (YoY), the highest reading since 2023, driven by a sharp surge in gasoline prices, which climbed nearly 28% over the last two months, alongside higher grocery, transportation, and shelter costs.
- Core CPI, which excludes food and energy, rose 0.4% in April and is up 2.8% over the last year.
    - The increase was driven primarily by stickier services categories, including rents, hotels, and airfares.
- The U.S. Producer Price Index (PPI) rose 1.4% MoM in April, the largest monthly increase since 2022, and is up 6.0% over the trailing year.
    - Core PPI, which excludes the volatile food and energy categories, rose 1.0% in April and 5.2% over the last year, while trucking freight costs increased 8.1%, the largest gain since 2009.
- U.S. Retail Sales rose 0.5% in April following a revised 1.6% increase in March, extending a three-month streak of gains despite elevated fuel prices and broader affordability concerns.
    - Excluding gasoline stations, sales rose 0.3%, while the control group increased 0.5%. Gas station sales climbed 2.8% in April as fuel prices reached their highest level since 2022.
- The University of Michigan Consumer Sentiment Index fell to a record low of 44.8 in May from 49.8 in April as elevated gasoline prices and broader cost of living pressures continued to weigh on consumers.
    - One-year inflation expectations rose to 4.8%, while 57% of consumers cited high prices as directly hurting their personal finances.
- Minutes from the April Federal Open Market Committee meeting showed a growing number of policymakers warned additional policy tightening may become necessary if inflation remains persistently above the Federal Reserve's 2% target.
- The Personal Consumption Expenditures Price Index (PCE) increased 0.4% in April, lifting the annual inflation rate to 3.8%, its highest level since 2023.
    - Core PCE, which removes the volatile food and energy categories, increased 0.2% in April and remained elevated at 3.3% over the past year.
- Real Gross Domestic Product (GDP) growth was revised lower again to a 1.6% annualized rate in the final estimate for Q1, down from the 2.0% previously reported.



Monthly insight:

May's slate of economic data painted a picture of an economy that remains resilient but is increasingly facing headwinds from rising inflation and higher input costs. While business activity, hiring, and consumer spending continued to expand, inflation measures moved higher across both consumer and producer prices, reinforcing concerns that energy-driven price pressures are spreading more broadly through the economy. At the same time, first-quarter GDP was revised lower to a 1.6% annualized pace, though stronger consumer spending and solid core domestic demand suggest underlying economic activity remains healthier than the headline growth figure implies. Taken together, the data support the Federal Reserve's increasingly cautious stance as policymakers weigh a still-expanding economy against the risk that inflation will remain elevated longer than expected.

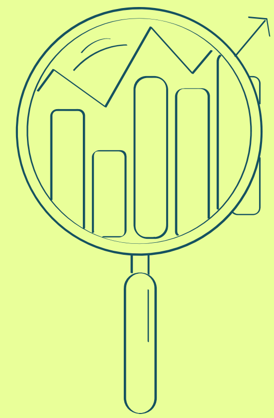
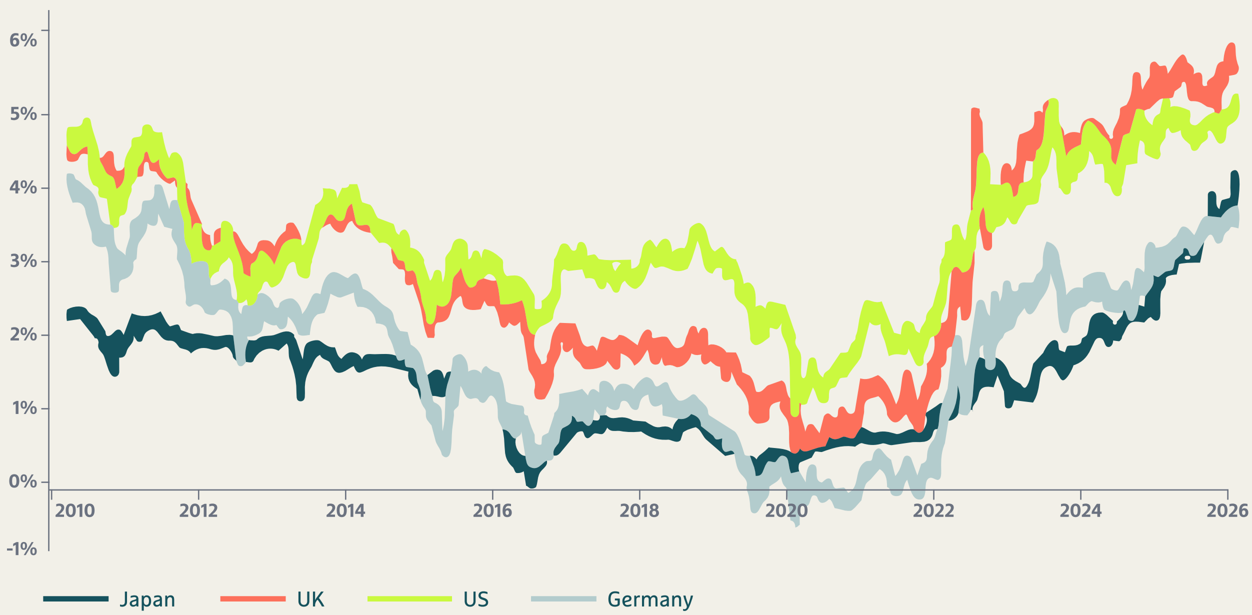


Chart of the month[1, 2]

Long bond yields are rising across much of the world as investors adjust to the idea that inflation and interest rates could remain elevated for longer than previously expected. The chart shows that resilient economic growth, continued government borrowing, and persistent inflation pressures are reducing demand for long-term bonds at lower yields. Higher oil prices and geopolitical uncertainty have also added to concerns that inflation could remain sticky, keeping pressure on central banks to stay cautious on rate cuts. At the same time, large amounts of government debt issuance are increasing the supply of bonds coming to market, requiring higher yields to attract buyers. Rising long-term yields are tightening financial conditions globally by increasing borrowing costs and putting pressure on most interest rate-sensitive areas of the market.

Chart 1

Global 30-year government bond yields



Source: Datastream, Goldman Sachs Research

Market Update[3]

Chart 2

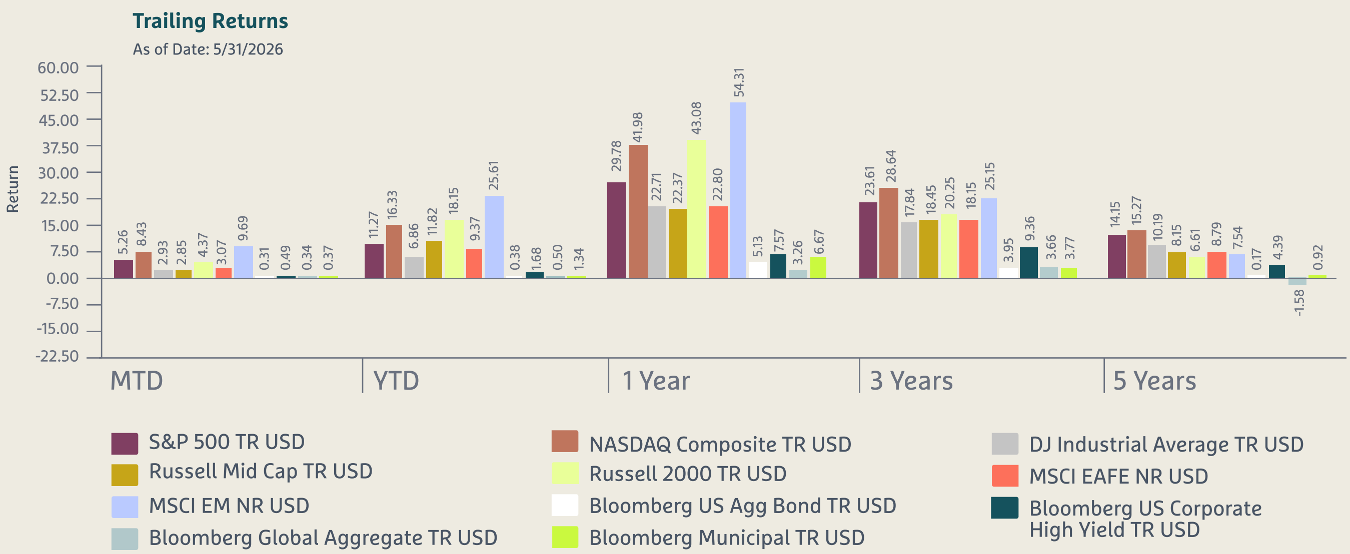


Table 1

Investments (as of 5/31/2026)	Trailing Returns MTD	YTD	1 YR	3 YR	5 YR	Equity Evaluations P/E Ratio	P/B Ratio
S&P 500	5.26%	11.27%	29.78%	23.61%	14.15%	26.98	5.19
NASDAQ	8.43%	16.33%	41.98%	28.64%	15.27%	30.86	7.24
Dow Jones Industrial Average	2.93%	6.86%	22.71%	17.84%	10.19%	23.71	5.14
Russell Mid-Cap	2.85%	11.82%	22.37%	18.45%	8.15%	22.39	3.05
Russell 2000 (Small Cap)	4.37%	18.15%	43.08%	20.25%	6.61%	19.12	2.33
MSCI EAFE (International)	3.07%	9.37%	22.80%	18.15%	8.79%	18.31	2.16
MSCI Emerging Markets	9.69%	25.61%	54.31%	25.15%	7.54%	17.36	2.32
Bloomberg US Agg Bond	0.31%	0.38%	5.13%	3.95%	0.17%	—	—
Bloomberg High Yield Corp.	0.49%	1.68%	7.57%	9.36%	4.39%	—	—
Bloomberg Global Agg	0.34%	0.50%	3.26%	3.66%	-1.58%	—	—
Bloomberg Municipal	0.37%	1.34%	6.67%	3.77%	0.92%	—	—

Market Review[1]

Equities

May marked another strong month for equities as investors built on April's sharp rebound rather than giving it back. The S&P gained 5.26%, the NASDAQ surged 8.43%, and the Russell 2000 advanced 4.37%. The S&P 500 also recorded its longest winning streak since 2023, with 9 consecutive weekly gains. Technology and AI-related companies continue to lead the market higher, supported by stronger earnings results and ongoing investment in AI infrastructure, while investors remain encouraged by a resilient economy and improving risk sentiment. International markets also participated, with emerging markets surging 9.69%, and developed international equities gaining just over 3%, highlighting improving global equity breadth. Despite ongoing concerns surrounding inflation, tariffs, and interest rates, strong corporate earnings and continued economic growth helped push major equity benchmarks higher and kept U.S. stocks near record highs.

Fixed Income

Fixed income delivered modest but positive returns in May, though it continued to lag the strength seen in equities. The Bloomberg US Aggregate Bond Index gained 0.31% for the month, while high-yield bonds advanced 0.49% and municipal bonds rose 0.37%, reflecting steady demand for income-producing assets. Bond performance remained constrained by elevated Treasury yields and persistent inflation pressures, which kept investors questioning how quickly the Federal Reserve can ease monetary policy. Despite ongoing geopolitical uncertainty and tariff-related concerns, fixed income markets remained resilient, providing stability and income rather than significant capital appreciation. The month reinforced the idea that bonds can still play an important role in diversification, but with inflation remaining elevated, duration exposure continues to face headwinds relative to risk assets.

Conclusion

May reinforced the notion that markets can continue to advance even when the economic backdrop is far from perfect. Strong corporate earnings, improving market participation, and a still-resilient consumer helped support investor confidence, while fixed-income markets delivered positive returns despite elevated interest rates. At the same time, economic data suggested growth is moderating rather than stalling, and underlying demand remains firm even as inflation pressures persist. This leaves the Federal Reserve balancing two competing realities: an economy that has yet to meaningfully weaken, and inflation that remains above its long-term target. As a result, investors are entering the summer months with cautious optimism, supported by solid fundamentals, but mindful that policy and inflation risks have not fully disappeared.

Economic Definitions

CPI (headline and core): Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States of America.

ISM Manufacturing Index: PMI Surveys track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc.

ISM Services Index: PMI Surveys track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc. Target Audience: supply management professionals Sample Size: 300 individuals Date of Survey: through the month The Services Index is a composite index of four indicators with equal weights: Business Activity, New Orders, Employment and Supplier Deliveries. An index reading above 50% indicates an expansion and below 50% indicates a decline in the non-manufacturing economy. Whereas per Supplier Deliveries Index, above 50% indicates slower deliveries and below 50% indicates faster deliveries.

Job Openings – JOLTS: This concept tracks the number of specific job openings in an economy. Job vacancies generally include either newly created or unoccupied positions (or those that are about to become vacant) where an employer is taking specific actions to fill these positions.

Nonfarm Payrolls: This indicator measures the number of employees on business payrolls. It is also sometimes referred to as establishment survey employment to distinguish it from the household survey measure of employment.

Unemployment Rate: The unemployment rate tracks the number of unemployed persons as a percentage of the labor force (the total number of employed plus unemployed). These figures generally come from a household labor force survey.

Producer Prices – PPI (headline and core): Producer prices (output) are a measure of the change in the price of goods as they leave their place of production (i.e., prices received by domestic producers for their outputs either on the domestic or foreign market).

PCE (headline and core): PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.

Retail Sales: Retail sales (also referred to as retail trade) tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold.

GDP: Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

University of Michigan Consumer Sentiment Index: Consumer confidence tracks sentiment among households or consumers. The results are based on surveys conducted among a random sample of households. Target Audience: representative sample of US households (excluding Alaska and Hawaii). Surveys of Consumers collects data on consumer attitudes and expectations summarized in the Consumer Sentiment, in order to determine the changes in consumers' willingness to buy and to predict their subsequent discretionary expenditures. This Index is comprised of measures of attitudes toward personal finances, general business conditions, and market conditions or prices. Components of the Index of Consumer Sentiment are included in the Leading Indicator Composite Index. Unit: Index (Q1 1966=100)

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represents approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg US Agg Bond: The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg High Yield Corp: The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg's EM country definition, are excluded.

Bloomberg Global Agg: The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Municipal Bond Index: The Bloomberg U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

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1 Obtained from Bloomberg as of 5/31/2026

2 Stock Markets Are Increasingly Vulnerable to Rising Bond Yields | Goldman Sachs

3 Returns obtained from Morningstar as of 5/31/2026