

Investment Insights Monthly

From the Desk of Bill Hornbarger, Chief Investment Officer

May 2026



Wall of Worry

“Climbing the wall of worry” is a market saying that describes how stock prices tend to rise even when investors are subject to negative news, fear and heightened uncertainty. Investors have several developments to worry about currently with oil prices spiking, private credit concerns and inflation moving higher. Despite these developments, many domestic equity indices have recently reached record highs, begging the questions: why have equities been so strong, and is the move sustainable? We have recently seen several comparisons to the 1999–2001 period with the investment in fiber-optic cable and high-speed internet infrastructure (then) versus the massive investment by the hyperscalers to build artificial intelligence (AI) capabilities (now). A closer look, however, shows key differences in the two periods.

The U.S. economy continues to show its resilience despite retail gas prices that have increased more than 50% since March and the U.S. Federal Reserve (Fed) pausing its easing cycle in the wake of increased inflation concerns. Economic data continues to surprise on the upside (see chart), even though consumers have been hit hard by the surge in energy prices. First-quarter gross domestic product grew 2%, an acceleration from fourth-quarter 2025, and the latest GDPNow estimate from the Atlanta Fed for the second quarter is 4.0%. Employers added 115,000 new jobs in April (better than expected). The previous month was revised higher to 185,000 new jobs, and the unemployment rate remains steady at 4.3%. This type of job growth is consistent with levels that should keep the jobless rate steady.

Bloomberg Economics

U.S. Surprise Index*



*The Bloomberg ECO Surprise Index shows the degree to which economic analysts under- or over-estimate the trends in the business cycle. The surprise element is defined as the percentage (or percentage point) difference between analyst forecasts and the published value of economic data releases, with more weight given to recent releases.

As of April 30, 2026

Source: Bloomberg

Consumers and businesses continue to spend and invest. Retail sales and core retail sales were both up 0.5% in April, a slight deceleration from March, but both data series have shown growth in each month this year, and consumer spending remained solid across most categories. Business investment continued to rise, particularly as it relates to AI spending. In a recent note, Goldman Sachs pointed out that capital expenditures (capex) grew by 38% year over year during the first quarter, with AI-related investment being the largest driver. The consensus from analysts is that the mega-cap hyperscalers will invest approximately \$750 billion this year in capex, and the median S&P 500 company has grown capex by 8% so far this year.

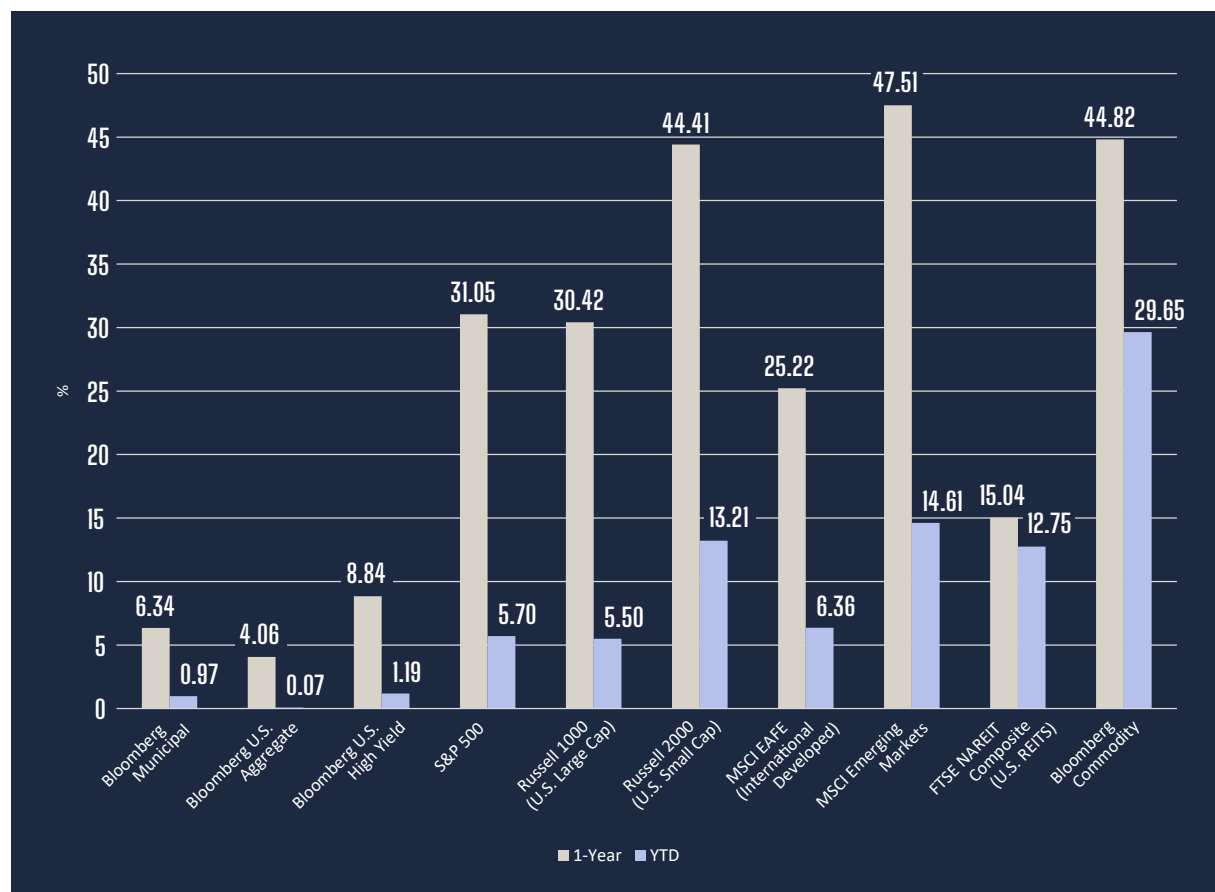
One of the best measures to see the difference between the 1999–2001 period and today is the Institute for Supply Management (ISM) Manufacturing Index. It historically has been a reliable leading indicator for earnings and monetary policy. The index peaked in late 1999 and fell throughout 2000, ultimately falling below 50 and signaling contraction before earnings collapsed and the dot-com bubble burst. Contrast that to today, when the ISM has been up and above 50 this year, a sign that economic activity is accelerating.

Against this backdrop, earnings for the S&P 500 continue to come in well ahead of expectations. With 90% of the companies in the S&P 500 having reported first-quarter earnings, they continue to be marked higher. Analysts expected 13% year-over-year earnings growth in the first quarter but (per FactSet) companies have reported growth of 27.7%, marking the strongest earnings growth rate reported by the index since the fourth quarter of 2021. Earnings estimates for the full calendar year are up 13.7% since the start of the year and up over 7% since the start of the war with Iran.

Through mid-May, the S&P 500 is up 7.7%, meaning that the E (earnings) has grown faster than the P (prices) in the market's P/E ratio, resulting in a slightly better valuation. At the end of December, the S&P 500 traded at a forward P/E ratio of 23 times versus 21.6 times currently. This strong earnings backdrop has been the fuel to push the market to new highs, and as long as the earnings outlook remains bright, it provides a tailwind for stocks. Broader valuations do remain extended relative to history, and the recent increase globally in bond yields bears watching, but as long as the earnings outlook for equities remains positive, we would suggest remaining near one's target allocations.

Asset Class Returns

Comparing Recent 1-Year and Year-to-Date Total Returns



As of April 30, 2026

Source: Conway Investment Research

Fixed Income

- Yields on the 10-year Treasury and other global sovereign debt fell in April, providing a nice boost to core fixed income and municipal bonds.
- After some minor spread widening during the March selloff, credit spreads tightened in April, driving another month of clipping coupons.
- Bonds outside the United States posted modest gains last month on the heels of some spread compression and modest U.S. dollar weakness.

Equities

- U.S. equities posted an exceptional month with broad-based gains up and down the market-cap spectrum.
- Tech/AI stocks led the rebound.
- Growth beat value in April and small caps outpaced large caps.
- The March selloff brought tech valuations more in line with the broader market, which was compelling for investors.
- Stocks outside the United States generated solid gains in April in local terms but received an added boost from U.S. dollar weakness.
- Similar to what occurred in the United States, small caps beat large caps within Europe, Australasia and Far East (EAFE) markets, and growth outperformed value. Within emerging markets (EMs), small caps lagged large caps.
- U.S. dollar weakness boosted EAFE returns by 237 basis points (bps) in April, and EM returns by 145 bps.

April 30, 2026	MTD	QTD	YTD	1-Year	3-Year	5-Year	10-Year
FIXED INCOME INDICES							
Bloomberg U.S. Treasury Bill 1-3 Month	0.30%	0.30%	1.19%	4.07%	4.81%	3.48%	2.29%
Bloomberg Municipal	1.15%	1.15%	0.97%	6.34%	3.34%	0.90%	2.20%
Bloomberg US Govt/Credit Intermediate	0.24%	0.24%	0.52%	3.42%	4.31%	2.07%	2.03%
Bloomberg U.S. Aggregate	0.11%	0.11%	0.07%	4.06%	3.46%	0.18%	1.67%
Bloomberg U.S. High Yield	1.69%	1.69%	1.19%	8.84%	8.85%	4.35%	5.90%
Bloomberg Global Aggregate	1.25%	1.25%	0.16%	2.54%	2.86%	-1.47%	0.57%
U.S. EQUITY INDICES							
DJ Industrial Average	7.24%	7.24%	3.81%	24.17%	15.47%	10.03%	13.21%
S&P 500	10.49%	10.49%	5.70%	31.05%	21.69%	13.14%	15.26%
NASDAQ Composite (Price)	15.29%	15.29%	7.10%	42.68%	26.74%	12.26%	17.95%
Russell 1000	10.11%	10.11%	5.50%	30.42%	21.49%	12.32%	15.01%
Russell 1000 Growth	11.90%	11.90%	0.96%	30.63%	25.40%	13.82%	18.26%
Russell 1000 Value	8.16%	8.16%	10.43%	29.25%	16.75%	10.29%	11.22%
Russell Mid Cap	7.33%	7.33%	8.72%	25.78%	16.25%	7.72%	11.58%
Russell 2500	11.15%	11.15%	13.41%	40.10%	17.82%	6.90%	11.60%
Russell 2000	12.21%	12.21%	13.21%	44.41%	18.19%	5.75%	10.98%
Russell 2000 Growth	14.69%	14.69%	11.47%	42.64%	17.97%	4.00%	11.19%
Russell 2000 Value	9.66%	9.66%	15.09%	46.34%	18.34%	7.33%	10.39%
Russell 3000	10.20%	10.20%	5.84%	31.01%	21.30%	11.91%	14.75%
NON-U.S. EQUITY INDICES							
MSCI World	9.64%	9.64%	5.83%	29.68%	20.22%	11.80%	13.22%
MSCI ACWI	10.21%	10.21%	6.79%	31.55%	20.37%	11.18%	12.80%
MSCI ACWI Ex-U.S.	9.73%	9.73%	9.07%	32.89%	18.00%	8.93%	9.63%
MSCI EAFE	7.56%	7.56%	6.36%	25.22%	15.88%	9.38%	9.39%
MSCI EAFE Growth	9.10%	9.10%	4.07%	17.20%	10.11%	4.82%	8.23%
MSCI EAFE Value	6.21%	6.21%	8.50%	33.45%	21.80%	13.88%	10.27%
MSCI Europe	7.26%	7.26%	4.38%	22.98%	15.02%	10.01%	9.64%
MSCI Japan	9.15%	9.15%	10.81%	31.02%	19.43%	9.17%	9.34%
MSCI AC Asia	13.89%	13.89%	13.61%	42.60%	20.84%	7.20%	9.90%
MSCI EAFE Small Cap	9.01%	9.01%	7.76%	29.89%	15.70%	5.90%	8.55%
MSCI ACWI Ex-U.S. Small Cap	9.93%	9.93%	9.51%	34.76%	17.29%	7.21%	9.19%
MSCI Emerging Markets	14.73%	14.73%	14.61%	47.51%	21.28%	6.54%	9.68%
MSCI EM Asia	17.50%	17.50%	15.80%	50.61%	22.32%	6.19%	10.85%
MSCI China	3.64%	3.64%	-5.62%	12.59%	9.97%	-4.33%	5.64%
MSCI EM Eastern Europe	10.67%	10.67%	11.30%	44.79%	35.36%	-9.98%	-0.14%
MSCI EM Latin America	3.19%	3.19%	18.32%	52.61%	19.41%	13.35%	8.54%
MSCI EM Small Cap	13.44%	13.44%	12.68%	38.06%	18.86%	8.64%	9.78%
MSCI Frontier Markets	10.20%	10.20%	9.26%	50.91%	24.19%	10.35%	9.02%
HEDGE FUND INDICES							
IQ Hedge Multi-Strategy	4.65%	4.65%	6.74%	16.87%	10.32%	4.98%	4.44%
REAL ASSETS INDICES							
FTSE NAREIT Composite	8.97%	8.97%	12.75%	15.04%	9.93%	3.95%	6.58%
Alerian MLP	4.44%	4.44%	22.04%	30.52%	25.82%	24.25%	10.35%
Bloomberg Commodity	4.21%	4.21%	29.65%	44.82%	15.75%	13.17%	7.58%
S&P Global Infrastructure	2.80%	2.80%	11.32%	25.78%	16.29%	11.92%	9.44%
OTHER							
Oil Price Brent Crude	-3.67%	-3.67%	87.36%	80.62%	12.75%	11.13%	9.01%
CBOE Market Volatility (VIX)	-33.11%	-33.11%	12.98%	-31.62%	2.29%	-1.92%	0.73%

Source: Morningstar

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