SMITH AFFILIATED CAPITAL

May Investment Review 2026

Resilience Amid Uncertainty

Overview

May reinforced a theme that has become increasingly evident throughout 2026: the U.S. economy continues to grow despite elevated inflation, restrictive monetary policy, and Treasury yields near the highest levels seen in more than a decade. At the same time, financial markets continue to adapt to a world where interest rates are no longer near zero and income once again plays a meaningful role in investment decisions.

Inflation remains above the Federal Reserve's long-term target, though the underlying picture remains mixed. Consumer Price Index (CPI) inflation rose 3.8% year-over-year in April while Producer Price Inflation (PPI) accelerated to 6.0%, reflecting ongoing pressures from energy costs and supply-chain disruptions. While shelter inflation has moderated and wage growth has stabilized, consumer sentiment remains subdued and delinquency rates on credit cards and automobile loans have moved higher from historically low levels. The benefits of economic growth are not being experienced evenly across all households and businesses.

Economic activity continues to be supported by relatively stable labor markets, strong corporate cash flows, and ongoing investment in artificial intelligence infrastructure, data centers, power generation, and domestic manufacturing. Financial markets continue to adjust to this environment. The 10-year Treasury yield spent much of May near 4.5%, while the 30-year Treasury remained close to 5%.

Importantly, the Treasury yield curve continued to normalize during the month. While the spread between 2-year and 10-year Treasury yields remains relatively narrow, the curve has shifted back to a modest upward slope after a prolonged inversion. Current yield levels are increasingly consistent with those experienced during the early 2000s and pre-financial crisis period rather than the exceptionally low-rate environment that followed 2008.

Macro View	MTD (%)	YTD (%)	1Y (%)	10Y (%)	10Y STD (±)
DJIA	2.93	6.86	22.71	13.42	15.07
S&P 500	5.26	11.25	29.74	15.60	15.02
NASDAQ	8.43	16.34	42.01	19.59	18.10
Equity EM Mkts.	9.71	25.73	55.14	11.11	16.74
EM Bond Mkt.	0.71	1.46	9.48	3.67	7.30
US High Yield	0.49	1.65	7.46	5.78	7.26
Commodity	(3.56)	25.03	40.47	7.19	13.73
COMEX Silver	2.38	5.92	118.90	14.60	30.83
COMEX Gold	(1.49)	3.36	32.44	12.01	14.39
BRENT OIL	(16.62)	113.62	123.43	18.49	40.75
Dollar Index	0.90	0.63	(0.39)	3.58	6.50

For fixed income investors, this normalization is significant. For much of the past decade, historically low interest rates forced investors to extend maturities, lower credit quality, or assume greater equity risk in pursuit of return. Today, Treasury securities, municipal bonds, and investment-grade corporate bonds once again provide meaningful income opportunities while maintaining a focus on quality and capital preservation.

Despite elevated borrowing costs, labor markets remain relatively stable and investment activity continues to expand. Some economists suggest this may indicate the economy's "neutral" rate of interest is higher than previously believed, supporting rates above post-financial crisis norms for longer than many anticipated. While markets have demonstrated resilience, the benefits of economic growth and asset appreciation have become increasingly concentrated, reinforcing the importance of diversification, income generation, and disciplined risk management.

Taxable Markets

Taxable fixed income markets generated positive returns during May despite continued volatility in Treasury markets. Economic data remained generally constructive, corporate earnings exceeded expectations, and investors grew increasingly comfortable assuming modest credit risk even as the outlook for Federal Reserve policy remained uncertain.

The Bloomberg U.S. Aggregate Bond Index returned 0.31% during the month, while Treasury securities gained 0.11%. Investment-grade corporate bonds were among the strongest performers within taxable fixed income as credit spreads tightened and investors focused on healthy balance sheets, stable cash flows, and attractive income opportunities. Corporate bonds returned 0.76% during May, with BBB-rated issues returning 0.88%.

US Fixed Income	Price	Cpn	Total Returns (%)		Dur	Yield
	(%) Rtn	(%) Rtn	Mo.	YTD	+/-	+/-
Agg. Bond	(0.03)	0.34	0.31	0.38	5.91	4.67
US Treasury	(0.19)	0.3	0.11	0.00	5.81	4.29
US Agency	(0.24)	0.33	0.09	0.47	3.37	4.33
Tax.Muni	(0.05)	0.39	0.34	0.53	7.55	5.07
Agency MBS	(0.08)	0.38	0.30	0.77	8.42	5.63
Gov/Credit	(0.02)	0.33	0.32	0.24	5.47	4.93
TIPs	0.10	0.12	0.21	1.64	6.10	4.58
Corporate	0.36	0.40	0.76	0.67	6.81	5.13
AAA Corp	0.61	0.36	0.97	0.13	10.59	4.99
AA Corp	0.30	0.37	0.67	0.30	7.95	4.96
A Corp	0.27	0.39	0.65	0.50	6.77	5.01
BBB Corp	0.46	0.42	0.88	0.92	6.54	5.29

Treasury markets remained influenced by inflation concerns, expanding fiscal borrowing needs, elevated issuance, and expectations that technology-driven productivity gains may support growth without a corresponding rise in inflation.

Income, sector positioning, and security selection contributed more meaningfully to returns than duration exposure alone. With yields remaining attractive across much of the investment-grade universe, fixed income continues to provide investors with a compelling source of income and diversification.

Tax-Exempt Markets

Municipal bonds delivered another positive month despite volatility in Treasury markets and ongoing uncertainty surrounding inflation, Federal Reserve policy, and geopolitical developments. Strong reinvestment demand, favorable tax-equivalent yields, and stable credit conditions continued to support the asset class.

The broad municipal market returned 0.37% during May and has gained 1.34% year-to-date. Revenue bonds modestly outperformed general obligation bonds during May. Essential-service sectors, including healthcare, transportation, utilities, and housing-related credits, remained among the stronger-performing areas of the market.

Municipal Market	Price	Cpn	Total Returns (%)		Dur	Yield
	(%) Rtn	(%) Rtn	Mo.	YTD	+/-	+/-
Muni Agg	0.01	0.37	0.37	1.34	6.63	3.67
1Y (1-2)	(0.07)	0.37	0.41	0.97	1.26	2.26
3Y (2-4)	(0.10)	0.36	0.62	1.40	2.32	2.34
5Y (4-6)	(0.16)	0.36	0.82	1.81	3.61	2.47
7Y (6-8)	(0.14)	0.35	1.02	2.11	4.76	2.66
10Y (8-12)	(0.12)	0.35	1.19	2.37	5.76	2.9
15Y (12-17)	(0.06)	0.35	1.35	2.66	7.09	3.37
30Y (22+)	0.20	0.39	1.67	2.18	11.31	4.42
AAA	(0.08)	0.36	1.30	2.21	6.94	3.14
AA	(0.02)	0.36	1.19	2.13	6.52	3.15
A	0.06	0.37	1.32	2.31	6.62	3.54
Gen. Oblig.	(0.04)	0.36	0.31	1.08	6.35	3.46
Revenue	0.02	0.37	0.39	1.45	6.78	3.76

Market technicals also remained supportive. New issue supply was readily absorbed as investors continued to seek tax-efficient income opportunities. Intermediate and longer maturities attracted strong demand as tax-equivalent yields remained attractive relative to many taxable alternatives.

Credit fundamentals across the municipal market remain stable. While lower-rated investment-grade and high-yield municipals continued to outperform higher-quality sectors, spreads remain relatively tight by historical standards. Municipal bonds continue to offer attractive after-tax income supported by favorable technicals and healthy issuer fundamentals.

Equity Markets

U.S. equities posted strong gains during May as investors focused on solid corporate earnings, continued investment in artificial intelligence infrastructure, and resilient economic activity. The S&P 500 advanced 5.3% during the month while the Nasdaq Composite gained 8.4%.

Market leadership broadened beyond the narrow mega-cap technology trade as investors increasingly rewarded companies demonstrating durable free cash flow generation, disciplined capital allocation, and exposure to long-term infrastructure and productivity themes. Ongoing spending on semiconductors, data centers, and artificial intelligence continues to support earnings expectations despite higher interest rates.

At the same time, questions remain regarding the ultimate return on these investments. While businesses continue to pursue productivity gains and automation, it remains unclear whether AI-related spending will generate the cost efficiencies currently anticipated by markets. In addition, cybersecurity and operational risks associated with increasingly complex digital systems continue to grow alongside technological innovation.

Precious Metals

Precious metals paused during May following a strong advance earlier in the year. Gold declined 1.5% during the month but remains higher year-to-date and substantially above its year-end 2025 level. Silver outperformed gold during May, benefiting from both investment demand and its growing role in industrial and technology-related applications.

The modest pullback in gold occurred alongside a broad rally in risk assets and easing concerns surrounding geopolitical risks. Nevertheless, many of the longer-term factors supporting precious metals remain in place, including elevated fiscal deficits, inflation uncertainty, geopolitical tensions, and continued central bank demand.

Gold mining companies remain a notable bright spot. Higher gold prices have supported record profitability, strong free cash flow generation, expanding margins, and increased shareholder returns. Growing cash balances and improved balance sheets continue to strengthen the fundamental outlook for the sector.

Outlook

As investors move into the second half of 2026, uncertainty remains elevated. The Federal Reserve continues to balance inflation risks against signs of slowing economic activity, while markets debate whether policy has become sufficiently restrictive to return inflation to target.

The outlook is further complicated by geopolitical tensions, expanding fiscal deficits, rising Treasury issuance, state-level budget pressures, and the approaching midterm election cycle. In addition, while artificial intelligence investment continues to support economic activity and corporate earnings, the long-term return on this spending remains uncertain.

Despite these challenges, Treasury securities, municipal bonds, and investment-grade corporate bonds offer attractive yields while maintaining a focus on quality and capital preservation. The normalization of interest rates has restored many of the traditional benefits of fixed income investing and meaningful income generation.

As always, our focus remains on quality, diversification, and active management. While markets continue to navigate an evolving economic and geopolitical landscape, we believe investors are best served by maintaining disciplined portfolios designed to participate in opportunities while remaining resilient during periods of uncertainty.

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