

June 2026

May was another good month for the markets despite continued geopolitical conflict and mixed economic data. The average stock in the S&P 500 Index is up 8.6% since the S&P low on 3/30 (source: MFS). However, it is worth also noting that the 84 consumer discretionary and consumer staple stocks in the index have fallen an average of 9.6% from the end of February (source: MFS).

The Commerce Department reported on May 28th, that the personal consumption expenditures price index increased a seasonally adjusted 0.4% for the month, putting the 12-month inflation rate at 3.8%, in line with what economists had forecasted. This puts inflation well above the Federal Reserve's 2% goal and most likely takes rate cuts off the table. A good deal of inflationary pressure has come from non-core areas, like energy (source: CNBC). As we have seen costs get more expensive, the Bureau of Economic Analysis showed that for the month of April, the personal savings rate hit 2.6%, which is down from 3.2% in March and 5.8% a year prior. This is on top of wage growth beginning to lag inflation as the same report showed average hourly earnings rising 3.6% from 2025. We have talked about a K-shaped economy in past newsletters and these further shines light on how lower income households are struggling while those who make more and have investments in the market continue to drive the economy.

On the employment front, non-farm payrolls rose by a seasonally adjusted 115,000 in April, down from the 185,000 created in an unusually strong March, but better than the 55,000 forecast. The unemployment rate held at 4.3%, further proof that the labor market has reached a point where only modest job creation is needed to keep the jobless level steady (source: CNBC).

Now that earning season is almost over, companies in the S&P 500 Index have now delivered double-digit earnings growth for six consecutive quarters and more importantly, the strength has been broad-based, with nine of 11 sectors exceeding expectations in the most recent reporting period (source: Invesco). Morgan Stanley continues to believe that we are in a rolling recover and that growth should stay "steady but not spectacular". We should see US GDP growth of about 2.3% in 2026 and 2.6% in 2027. However, as the Iran war continues to drag on and we get ready to enter the midterm elections in November, we could see some sideways movement in the markets for the summer.

The markets continue to "climb the wall of worry". Concerns to keep an eye on are consumer spending, jobs and personal income growth, and interest rates. Interest rates have increased since the start of the war and almost touched 4.7% earlier in the month and now sit around 4.4%.- 4.5%. This could have an impact on consumer and corporate lending, as we have seen mortgage rates climb to 6.53%, the highest since last August (source: WSJ)

Enjoy the nice weather. If you need anything, please let us know.

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CRC 5533661 5/2026

