

The Data

- Equity indices moved mostly lower, led by a strong Friday selloff.
 - S&P 500 +0.13% Dow -0.17% Russell 2000 -2.31%, Nasdaq -0.08%.¹
 - The All-Country World Index declined -0.88%.¹
 - S&P 500 sub-sectors were mixed last week.
 - Energy led to the upside.¹
 - Consumer Discretionary, Materials, & Real Estate led to the downside.¹
 - The CBOE Volatility Index (VIX) rose 7% to end at 18.42.¹
- US Treasury bond yields exploded higher as the bond market selloff intensified.
 - US 2yr +0.19% at 4.08%, 10yr +0.22% to 4.59%, 30yr +0.17% to 5.12%.¹
 - Yields reached yearly highs on the back of reheating inflation data.
- Commodities as an aggregate asset class were lower last week.
 - WTI Crude gained +10.62%.¹
 - Gold lost -3.79%.¹
 - The US Dollar index rose +1.40%.¹
- In our opinion, U.S. economic data was mixed last week.
 - Existing home sales ticked higher last month but remain near historic low levels.¹
 - Small business optimism was unchanged from its previous reading.¹
 - Measures of inflation from the Consumer & Producer price indices rose more than expected signaling inflation is reheating as price increases spread beyond the energy complex.¹
- An index of equities outside the US (FTSE All-World ex-US) declined -2.76%.¹

¹ Source: Bloomberg – 5/15/2026

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Conclusion

- Equities finished last week on weakness as bond yields spiked to levels last seen a year ago.
 - The S&P 500 closed slightly higher while all major indices ended lower.¹
 - The small-cap tracking Russell 2000 led to the downside with a loss of -2.31%.¹
 - Small-caps are more sensitive to moves in interest rates as they rely more heavily on debt financing than large caps.
- While the S&P 500 closed higher for the 7th consecutive week, this winning streak has masked weakness underneath.
 - 8 of the 11 S&P 500 sub-sectors have fallen this month as most of the gains have come from the technology sector.¹
 - The return of AI as a key investment thesis and powerful earnings growth have fueled the frenzy, with investors setting aside worries about companies overspending.
 - For all the exuberance, causes for concern aren't hard to find as a look beneath the index-level moves shows the rally is extremely concentrated and displays signs of overheating.
 - Just four stocks are responsible for more than half of the S&P 500's gains so far this year.¹
- US Treasury yields saw big moves higher as investors continued to sell gov't bonds.
 - Back-to-back higher than expected inflation reports, both at the consumer & producer levels, showed mounting price pressures that extended beyond the energy complex.
 - Yields hit levels last seen a year ago as the 30yr exceeded 5% which is a structural and psychological level of importance.
 - For several months, bond investors have been waiting for signs that the growth risks from elevated oil prices would start to dominate the outlook.
 - Higher yields on long-term Treasuries, a benchmark for mortgage rates and loans to companies, are likely to reignite that talk.
 - The primary worry, for now at least, is that expectations for hotter inflation are taking hold.
 - Add on top of this the bulging US deficit and signs the economy/labor market remains resilient despite the war's headwinds.
- Commodities as a broad asset class rose last week.
 - Oil gained on renewed oil concerns, precious metals declined, & copper fell after hitting an all-time high level for the 2nd time.
 - Copper hitting this level a 2nd time and falling like a rock from it could be sending a strong message relating to global economic growth stalling out.
- Despite the volatility and war concerns, corporate credit spreads have stayed very tight.
 - Helped by strong earnings and robust demand, the difference between investment grade bonds and lower credit quality yields have remained close.
 - This year's rally in equities and bonds has been despite higher borrowing & energy prices.
 - The question now is whether Friday is another wobble, or the start of a broader repricing markets have repeatedly postponed.

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