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Wealth Advisory Market Update

May 5, 2026

Market Commentary

Equities

April delivered the strongest monthly market performance since the rollout of the COVID-19 vaccine in November 2020. The S&P 500 rose nearly 10.5%, advancing despite a highly volatile geopolitical environment and a hawkish Federal Open Market Committee (FOMC). The artificial intelligence (AI) theme continues to dominate headlines, as it has in recent years, particularly during the height of earnings season.

The swiftness of this rally has been remarkable. It took just 11 days for the market to move from oversold to overbought territory based on technical indicators—making it the second-fastest rally on record. While sharp market moves are not unprecedented, it is unusual to see this occur at such elevated valuations, with the market trading at 28.5x earnings. Rapid recoveries of this nature are typically observed following corrections or during bear markets, not at all-time highs.

Market breadth remains a concern. When the market reached a new high on April 15, only 12 stocks were also at 52-week highs. Since 1999, this has occurred just six times—four of which were during the dot-com bubble. AI-related stocks now represent a record 45% of total market capitalization. This concentration introduces risk, as any disruption to the AI narrative could trigger significant volatility. For example, reports indicated that OpenAI missed both revenue and user growth targets, and its CFO expressed concerns about the company's ability to fulfill up to $1.5 trillion in future computing contracts if growth does not accelerate. Given the broader ecosystem's reliance on such firms, this could present a meaningful risk.

In our view, AI-related valuations remain extremely elevated. One major concern is the level of spending hyperscalers are committing to AI infrastructure. Several mega-cap technology companies are moving toward negative free cash flow to fund these ambitions, while the timing and scale of the future revenue stream remain uncertain. This could become a cause for concern if growth disappoints or deployment timelines slip.

The market appears to be overestimating the speed at which this technology can be deployed, a dynamic reminiscent of the fiber-optic overbuild during the dot-com era. Additionally, the already strained U.S. electrical infrastructure may struggle to support these ambitious timelines. Reports suggest that up to half of planned data-center projects slated for 2026 may face delays. As a result, we remain cautious about pursuing investments in companies trading well above our estimate of intrinsic value. The market's heavy reliance on a single theme reinforces the importance of diversification in mitigating downside risk.

The Fed and Geopolitics

In what is expected to be Chairman Jerome Powell's final FOMC meeting, the Federal Reserve held interest rates steady, in line with expectations. Notably, the decision included four dissents—the highest number since 1992. Powell's remarks were interpreted as hawkish and largely consistent with prior guidance. The Fed continues to monitor global developments closely, particularly ongoing geopolitical tensions that have contributed to rising energy prices. Regarding tariffs, policymakers are assessing whether their impact will result in a one-time price adjustment or sustained inflationary pressure.

Tensions involving Iran remain unresolved, with no clear path to a near-term resolution. Although a ceasefire is currently in place, it appears fragile, and the risk of renewed escalation remains high. The U.S. Navy has established a blockade around the Strait of Hormuz, restricting Iranian oil exports. Despite these elevated risks, equity markets have continued to advance alongside rising oil prices.

Strategy

Given elevated valuations and ongoing volatility, we remain committed to our disciplined investment approach. We continue to favor less cyclical sectors that have historically demonstrated resilience during economic downturns. Within these sectors, we prioritize companies with strong pricing power, consistent free cash flow generation, and robust balance sheets.

In fixed income markets, yields have continued to rise amid concerns about prolonged geopolitical conflict and its economic implications. Yields on 20- and 30-year Treasury bonds have surpassed the so called 5% Maginot line, while the 10-year yield is approaching 4.5%. In response, we are gradually extending duration on maturing bonds toward the intermediate portion of the yield curve. This segment offers more balanced exposure, with less sensitivity to inflation and economic uncertainty compared to longer maturities. Within this space, mortgage-backed securities continue to present attractive risk-adjusted return opportunities.

While recent market conditions have tested investor patience, history supports the value of disciplined, long-term positioning. We remain focused on active and thoughtful portfolio management and appreciate your continued trust as we navigate this challenging market landscape together.

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