MAY MARKET UPDATE

“SELL IN MAY”?
NOT THIS TIME



As of
May 31st, 2026

“Sell in May”? - Not This Time

May delivered another strong month for risk assets, defying the old “Sell in May” market adage as broad U.S. equity indices moved higher. The S&P 500 gained 5.26%, the Russell 1000 rose 5.10%, the Dow Jones Industrial Average advanced 2.93%, and the Nasdaq climbed 8.43%.

Fixed income markets also generated positive total returns. The U.S. Aggregate Bond Index gained 0.31% during the month, while U.S. municipal bonds returned 0.37%. Although Treasury yields moved higher during May, income and ongoing demand for high-quality fixed income helped support total returns across taxable and tax-free bond markets.

Investor sentiment remained steady, yet watchful. Equity markets continued to show resilience despite persistent inflation pressure, shifting Federal Reserve expectations, and an economic backdrop that remains strong but more complicated. The result was a month where portfolios benefited from broad equity participation, positive earnings momentum, and continued opportunities to capture attractive bond yields.

The Big Picture

Policy Expectations Continue to Shift Toward Higher-for-Longer

Market participants continued to move toward a more restrained view of Federal Reserve easing. By month end, market pricing implied that policy rates may remain higher than the Federal Reserve’s reported expectations over the next year. Current market expectations pointed to the possibility of the policy rate reaching roughly 3.86% by July 2027.

This shift reflects the tension between strong equity performance, persistent inflation pressure, and a labor market that remains stable but is no longer accelerating. Investors continue to expect the Fed to remain data dependent, with policy decisions shaped by inflation, labor conditions, and the durability of economic growth.

What the Economic Data is Telling Us

Inflation Continued to Reaccelerate in May

May inflation data reinforced the concern that inflation progress has become uneven. Consumer Price Index (“CPI”) ended the month at 3.81% year over year, continuing the upward trend that began in March and remaining above the Federal Reserve’s target.

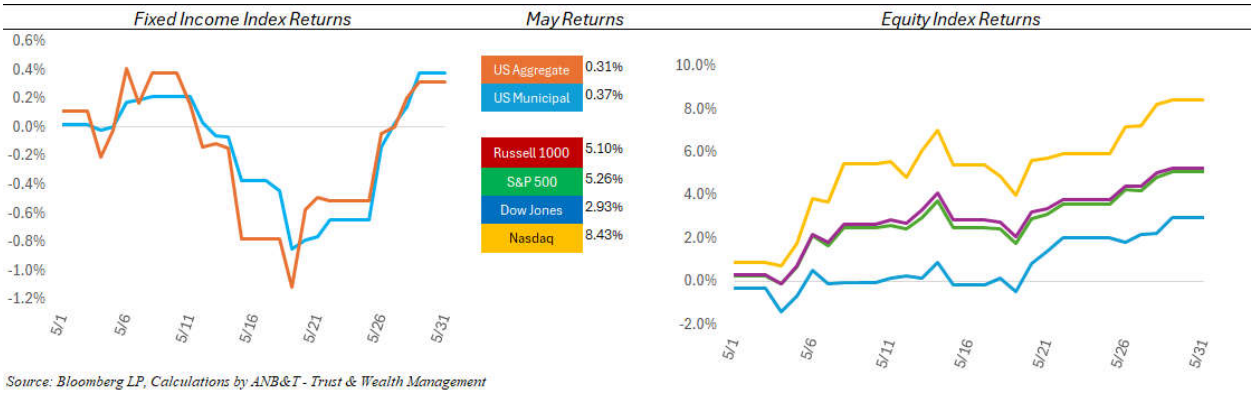
Personal Consumption Expenditures (“PCE”) readings also remained above target, reinforcing the idea that inflation may stay elevated even if price pressures have moderated from prior highs. This helps explain why markets have begun to price a less accommodative policy path, including the possibility that rates remain higher for longer or that additional tightening could be considered if inflation does not cool. ***(See Chart Book)***

Employment Remains Resilient, with Moderation Beneath the Surface
Nonfarm payrolls continued to trend in a moderating pattern through May, while the unemployment rate stood at 4.30%, unchanged from one year ago. This combination reinforces the complexity of the Federal Reserve's dual mandate. ***(See Chart Book)***

Payroll stability points to ongoing economic resilience, while the lack of acceleration suggests that some caution is appropriate. Strong employment data can reduce the urgency for rate cuts, but a labor market that is no longer strengthening materially keeps investors alert to the possibility that growth could slow more meaningfully later in the year.

Investors Expect a Limited Easing Cycle
Following the May data, market pricing continued to point toward limited policy easing and the possibility that rates could remain higher than previously expected. The market's view remains dependent on whether inflation resumes a downward trend and whether labor-market softness becomes more pronounced. ***(See Chart Book)***

Market Performance in May



Source: Bloomberg LP, Calculations by ANB&T - Trust & Wealth Management

What Drove Markets in May

Stock market indexes were influenced by:

- Continued resilience in risk appetite, despite higher inflation readings and higher interest rate expectations.
- Broad equity strength, led by technology-oriented and growth-sensitive areas of the market.
- A constructive earnings backdrop, with May reporting broadly exceeding analyst expectations.
- Investor willingness to remain engaged with AI, infrastructure, utilities, and real estate themes despite persistent macro uncertainty.

May earnings provided a constructive fundamental signal. Of the 492 companies reporting within the Russell 1000 during the month, 333 companies, or 68%, posted positive sales surprises and 390 companies, or 79%, exceeded earnings expectations. Overall sales and earnings surprises came in at 1.84% and 20.02%, respectively, suggesting that corporate fundamentals remained more resilient than consensus estimates.

Bond market indexes were influenced by:

- A modest move higher in Treasury yields, with the 10-year Treasury rising roughly 7 basis points to 4.44%.
- A flatter Treasury curve as the 2-year yield rose more than longer maturities.
- A flatter municipal curve, with longer-term municipal yields falling more sharply than short-term yields.
- Continued opportunities to capture attractive yields relative to recent history.

Although Treasury yields moved higher, fixed income returns were positive overall. Taxable bonds gained 0.31% and municipal bonds returned 0.37% during the month. The combination of attractive income, tax-equivalent yield opportunities, and ongoing demand for high-quality bonds continues to support the fixed income opportunity set for appropriate investors.

What We Are Watching and How We Are Positioning

Key Themes Guiding Market Behavior:

- Inflation and PCE trends relative to Federal Reserve targets.
- Labor market strength alongside a stable but elevated unemployment rate.
- Whether markets continue to price higher policy rates than the Fed dot plot.
- Earnings durability as equity returns become more dependent on fundamentals.
- Relative value opportunities created by bond yields, equity volatility, and sector dispersion.
- The relationship between AI investment, power demand, infrastructure buildout, and profitability.
- The continued development of institutional-grade digital asset adoption within the broader global macro environment.

How We Continue to Allocate Across Portfolios

Our investment process continues to blend dynamic long-only equity with active fixed income strategies. Within equities, the Legacy portfolio balances growth and value on a discretionary basis, while the Dividend portfolio emphasizes lower volatility and higher current income. We also maintain factor-aware exposure through Momentum and Quality strategies, which seek to pair disciplined diversification with favorable market characteristics.

For investment themes with more international exposure, Benjamin Builder solutions complement the other equity strategies and offer an efficient method to invest broadly across geography, style, and sector using an institutional, active process. Across portfolios, we remain focused on quality businesses, dependable cash flow, and durable competitive advantages rather than chasing narrow pockets of short-term movement.

In fixed income, we continue to emphasize government and investment-grade credit for stability and dependable income, while also evaluating municipal bonds where tax-equivalent yields remain compelling for appropriate investors.

We Continue to Emphasize:

- **Quality U.S. equities** as the core of long-term appreciation, with a focus on AI infrastructure and power companies.
- **Government and investment-grade credit** for stability and dependable income.
- **Strategic global allocations** to diversify macro and policy risk.
- **Liquid alternatives**, including selective exposure to assets such as gold, to enhance portfolio responsiveness.
- **Digital asset research** as institutional adoption continues to develop within the broader global macro environment.

How We Are Positioning Across the AI Stack:

Rather than concentrating exposure in a narrow group of high-valuation companies, we seek diversified participation across three primary layers of the AI ecosystem:

Infrastructure and Compute

- This includes semiconductor designers, equipment manufacturers, data center operators, and networking providers that enable the computational backbone of AI systems. These businesses benefit from sustained capital investment cycles tied to AI buildout.

Platforms and Cloud Providers

- Large cloud and hyperscale providers are integrating AI tools directly into enterprise workflows. These companies are positioned to monetize AI through subscription pricing, productivity enhancements, and enterprise adoption.

Applications and Productivity Beneficiaries

- Beyond the infrastructure buildout, we see opportunities in companies leveraging AI to improve margins, automate processes, enhance customer targeting, and increase operational efficiency across industries.

In addition, we maintain selective exposure to power and energy infrastructure companies, as the electrical demand required to support AI data centers continues to grow. Reliable energy generation and grid modernization are becoming increasingly important components of the AI expansion cycle.

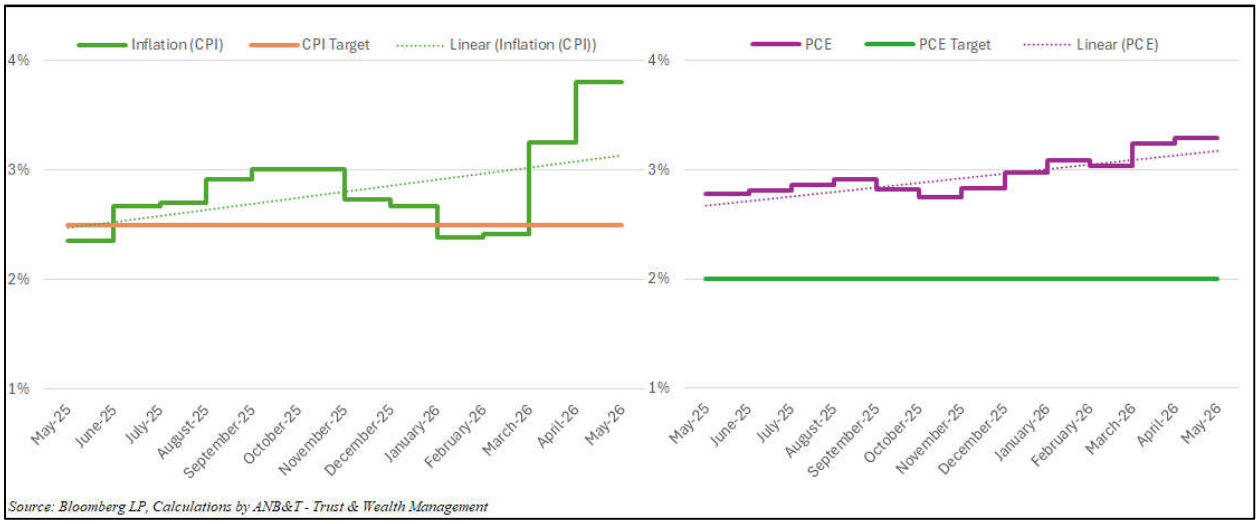
Final Thoughts

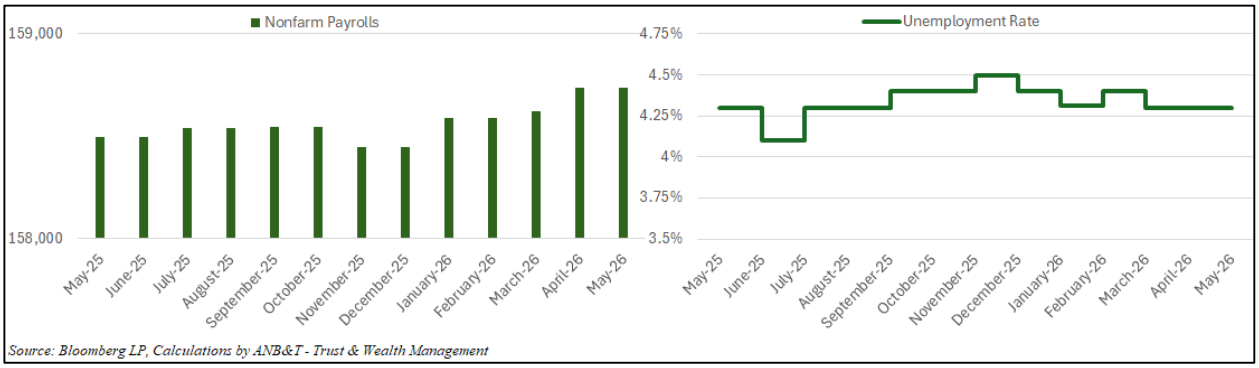
May reinforced the resilience of markets despite a complicated macroeconomic backdrop. Equity markets rose broadly, fixed income generated modest positive total returns, and corporate earnings generally exceeded expectations. At the same time, inflation remained elevated, the Federal Reserve's policy path became less certain, and markets continued to price a higher-for-longer rate environment.

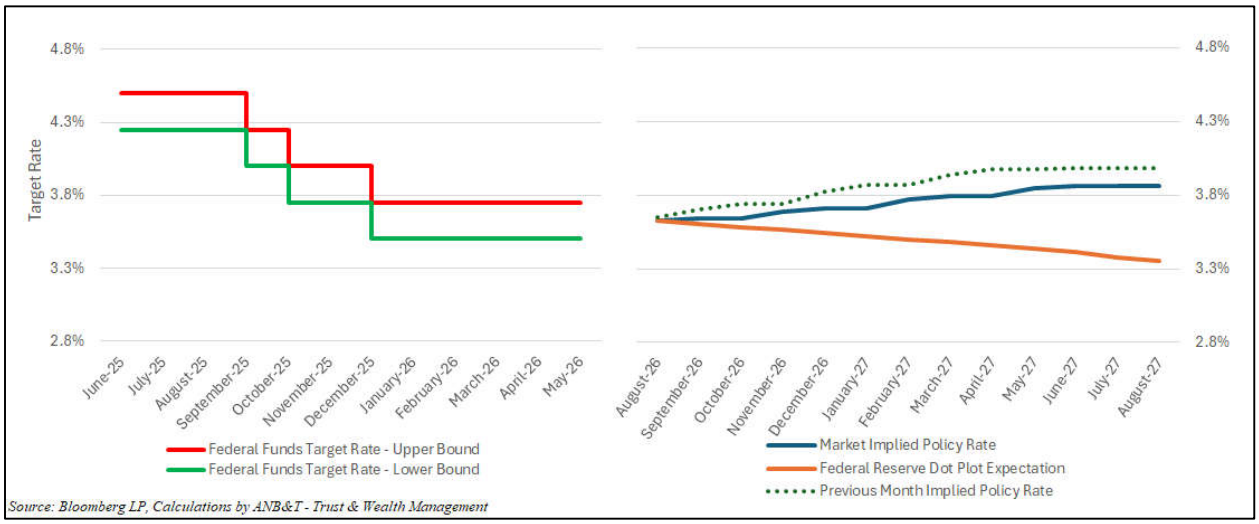
That combination argues for balance rather than complacency. Our approach continues to pair growth opportunities with defensive positioning, so portfolios remain aligned with long-term objectives while staying responsive to changing market conditions.

Thank you for your continued trust in American National Bank & Trust for your financial needs.

Chart Book


Inflation (CPI)
CPI Target
Linear (Inflation (CPI))
PCE
PCE Target
Linear (PCE)
4%
3%
2%
1%
May-25
June-25
July-25
August-25
September-25
October-25
November-25
December-25
January-26
February-26
March-26
April-26
May-26
Source: Bloomberg LP, Calculations by ANB&T - Trust & Wealth Management


Nonfarm Payrolls
159,000
158,000
Unemployment Rate
4.75%
4.5%
4.25%
4%
3.75%
3.5%
May-25
June-25
July-25
August-25
September-25
October-25
November-25
December-25
January-26
February-26
March-26
April-26
May-26
Source: Bloomberg LP, Calculations by ANB&T - Trust & Wealth Management


Target Rate
4.8%
4.3%
3.8%
3.3%
2.8%
June-25
July-25
August-25
September-25
October-25
November-25
December-25
January-26
February-26
March-26
April-26
May-26
Federal Funds Target Rate - Upper Bound
Federal Funds Target Rate - Lower Bound
August-26
September-26
October-26
November-26
December-26
January-27
February-27
March-27
April-27
May-27
June-27
July-27
August-27
Market Implied Policy Rate
Federal Reserve Dot Plot Expectation
Previous Month Implied Policy Rate
Source: Bloomberg LP, Calculations by ANB&T - Trust & Wealth Management