



## The Markets

The bond market was not happy last week.

The bond market typically doesn't get as much attention as the stock market does, but it is a powerful force in the financial world. When a government, company, or other type of organization needs financing, it may issue a bond. In return for borrowing money, the bond issuer promises to pay a set amount of interest for a certain period and then return the lender's money.

The United States government issues a lot of bonds. It sells U.S. Treasury bills (very short loans), notes (generally 2- to 10-year loans), and bonds (longer-term loans) to investors.

U.S. Treasuries help fund our country's yearly deficit, and national debt. The U.S. deficit is the difference between how much the government spends and how much it receives through taxes and other revenue sources. The national debt is all of the deficits added together minus any surpluses.

"Investors' willingness to buy government bonds, and the price they are willing to pay, depends largely on how risky they consider the bonds and whether they can make more money elsewhere," explained Drew DeSilver of Pew Research.

Some of the factors that investors consider when deciding how much interest is enough interest include economic strength, inflation, outstanding debt, and spending habits. Investors also consider the return potential of other types of investments.

### Bond yields moved higher last week as prices fell.

Last week, interest rates on U.S. Treasuries rose sharply as a combination of issues caused bond investors to reassess the amount of interest they wanted to make a loan to the U.S. government. The issues included:

- **A lack of progress toward peace in the Middle East.** "Oil climbed above \$105 a barrel after a Trump-Xi summit in Beijing produced no breakthrough over the Strait of Hormuz standoff," reported Denitsa Tsekova and Isabelle Lee of Bloomberg.
- **Concerns about higher prices.** In the U.S., wholesale prices rose 6 percent year over year in April and consumer prices increased 3.8 percent year over year.
- **The possibility of central bank rate hikes in 2026.** "Government bond markets tumbled around the world, sending yields surging from Japan to the US on intensifying fears that the war-driven price shock will force central banks to raise interest rates to contain the impact," reported Burgess and MacKenzie.

By the end of the week, the yield on the 30-year U.S. Treasury bond was 5.13 percent, a level last seen almost two decades ago, according to Karishma Vanjani of Barron's.

"Higher benchmark yields could...present headwinds for U.S. stock prices, as companies and consumers will face higher borrowing costs. This can also weigh on economic growth and corporate profits, while possibly making bond returns more competitive with stocks," reported Amanda Cooper, Karen Brettell, Laura Matthews and Gertrude Chavez-Dreyfuss of Reuters.

Last week, the Standard & Poor's 500 Index eked out a gain despite losing ground on Friday. The Nasdaq Composite Index and Dow Jones Industrial Index both declined for the week, as yields on many maturities of U.S. Treasuries moved higher.

<b>Data as of 5/15/26</b>	<b>1-Week</b>	<b>YTD</b>	<b>1-Year</b>	<b>3-Year</b>	<b>5-Year</b>	<b>10-Year</b>
Standard & Poor's 500 Index	0.1%	8.2%	25.2%	21.4%	12.2%	13.6%
Dow Jones Global ex-U.S. Index	-1.9	9.0	26.6	14.9	5.7	6.9
10-year Treasury Note (yield only)	4.6	N/A	4.5	3.5	1.6	1.8
S&P GSCI Gold Index	-3.2	5.9	41.2	31.0	19.7	13.7
Bloomberg Commodity Index	1.8	28.5	38.6	11.3	8.6	5.2

S&P 500, Dow Jones Global ex-US, S&P GSCI Gold Index, Bloomberg Commodity Index returns exclude reinvested dividends. The three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance; MarketWatch; djindexes.com; U.S. Treasury.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

**ARTIFICIAL INTELLIGENCE (AI) HAS BECOME AN INFRASTRUCTURE STORY.** The United States has experienced several periods of tremendous transformation. Each one required enormous infrastructure investment and reshaped both the United States economy and everyday life.

- In the early 1800s, railroads made transportation cheaper and faster.
- From the 1800s into the 1900s, electric power transmission lit homes and businesses.
- In the mid-1900s, America's new interstate highway system changed transportation and fostered significant economic growth.
- Throughout the 1900s, telecommunications advances supported telephones, radio, television, the internet, streaming, and other innovations.

### **AI systems require massive amounts of electricity and water infrastructure**

AI is widely understood to be technology that helps companies and individuals automate tasks and improve productivity. However, it has rapidly become an energy infrastructure story, something Americans living near large data centers are experiencing firsthand.

Recently, the power company that supplies energy to Lake Tahoe residents and businesses told the regional utility that it will stop providing power after May 2027. It plans to redirect the power it generates to data centers in northern Nevada, reported Catherina Gioino of Fortune. The regional utility is searching for an alternative power provider.

What is happening in Lake Tahoe illustrates the infrastructure challenges that AI's rapid expansion is creating. The massive data centers that support cloud computing, streaming services, online search, and AI systems require extraordinary amounts of electrical power and cooling capacity. In some cases, a single hyperscale facility can consume as much power as a city, reported Lars Paulsson, Kari Lundgren, and Kati Pohjanpalo of Bloomberg.

### **Is America's energy grid ready for AI?**

A key challenge for AI is that the United States' electrical infrastructure is not ready for a rapid expansion of energy-intensive computing. In 2025, America's energy infrastructure received a grade of D+ from the American Society of Civil Engineers (ASCE), down from a C- in 2021.

"As Americans increasingly depend on electrification in their daily lives, energy demand is experiencing its highest growth in two decades. An increase in electric vehicles (EVs) and a rise in data centers will demand 35 gigawatts (GW) of electricity by 2030 alone, up from 17 GW in 2022," according to the ASCE.

Just as railroads required steel and bridges and the internet requires fiber optics and wireless towers, AI will require a new generation of energy generation, transmission, cooling, and industrial infrastructure.

For investors, the scale of this build-out represents one of the most significant capital deployment cycles in a generation. Amid enthusiasm about the future, it's important to remember that transformational change is accompanied by significant uncertainty. As a result, it's important to hold a well-diversified portfolio that reflects your financial goals.

## WEEKLY FOCUS – THINK ABOUT IT

“...people respond to incentives. If the price of a good goes up, people demand less of it, the companies that make it figure out how to make more of it, and everyone tries to figure out how to produce substitutes for it. Add to that the march of technological innovation...The end result: markets figure out how to deal with problems of supply and demand.”

— *Steven D. Levitt, Economist*

Best regards,

A handwritten signature in cursive script that reads "Ann Marie Etergino".

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- Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.
- Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
- The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
- All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.
- The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
- The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- Gold represents the 3:00 p.m. (London time) gold price as reported by the London Bullion Market Association and is expressed in U.S. Dollars per fine troy ounce. The source for gold data is Federal Reserve Bank of St. Louis (FRED), <https://fred.stlouisfed.org/series/GOLDPMGBD228NLBM>.
- The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.
- The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
- International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
- Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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