Market commentary notes

Monthly call notes
Monday, June 1, 2026

Wealth Management

Eric A. Stubbs
Senior Vice President – Financial Advisor
Senior Portfolio Manager – Portfolio Focus

1211 Avenue of the Americas
Suite 3300
New York, NY 10036

(212) 703-6165
eric.stubbs@rbc.com

Summary

1. The Fed has a new Chairman although Jerome Powell remains a Governor, possibly until early 2028. With inflation rising and the economy apparently okay, the argument for lower rates remains weak.
2. First quarter earnings were up 28% from a year ago. IT and communications both saw significant earnings and revenue increases, but so did financials and industrials. There may be some issues of circularity in IT revenues and earnings, both of these could go the other way in the future.
3. The war in Iran continues, and with it, oil prices continue to be volatile, inducing volatility in Treasuries and gold as well.
4. The latest PCE price index inflation measures came in at +3.8% Year over Year (YoY), which is an increase from last month's reading. This is not the sort of environment where one would expect the Fed to relax rates.

Key issues

Jobs — Better than expected.

Jobs report — According to the April employment situation report, net new jobs in April were +115 thousand, which is about double what was expected, though still weak relative to average job creations of prior years. New jobs were primarily in healthcare, transportation and retail. There were job losses in government, info tech and telecom. In addition, the jobs estimate for February was revised down 23,000 to -156,000 and March was revised up 7,000 to 185,000. [https://www.bls.gov/news.release/empsit.nr0.htm, May 29, 2026].

Inflation — Heating up a little. The Personal Consumption Expenditures price index—the Fed's favorite inflation gauge—was up 3.8% in April compared to a year ago according to the most recent revision. [https://www.bea.gov/news/2026/personal-income-and-outlays-april-2026, May 29, 2026].

GDP growth — The 1Q 2026 second estimate revised down 0.4% to +1.6% annualized. That means that GDP rose about $120 billion or about $350 per person. The main reason for the increase, such as it was, is that imports fell about 2.5%. Imports are a negative in GDP calculations, so when they fall, the GDP number goes up. Consumer spending was up less than 1%. [https://www.bea.gov/news/2026/gdp-second-estimate-and-corporate-profits-1st-quarter-2026, May 29, 2026].

The Fed — Kevin Warsh was confirmed both as a new Fed Governor and voted by the Governors to be Chairman. Jerome Powell has remained on the board as his term runs until early 2028. To me, one of the most interesting recent developments was a comment in a speech by Governor Michelle Bowman who opined that it would be a policy mistake to react to inflation due to increasing oil prices by raising rates. That's both because the increases could be temporary and because raising rates wouldn't help. The latter is patently true: raising rates can help when inflation is due to rising demand because it reduces some categories of demand—auto loans and mortgages for instance—but it is of little help when inflation is due to supply problems and especially when those supply problems are due to factors outside of the U.S. [https://www.cnbc.com/2026/05/29/feds-bowman-warns-against-hiking-interest-rates-due-to-inflation-spike.html, May 29, 2026].

In their late April meeting the FOMC concluded that inflation was running hot, mostly due to energy price increases, and job creation was weak. Given that combination they were neither going to raise nor lower interest rates. Four Governors dissented. One (Miran) wanted to lower rates and three wanted to emphasize that they weren't going to lower rates. [https://www.federalreserve.gov/monetarypolicy/files/monetary20260429a1.pdf, May 29, 2026].

Earnings update — As of Friday, 94% of the S&P 500 companies have reports first quarter earnings and revenues. The 12-month earnings growth rate was a stunning +28.6%. That's the highest growth rate since the 2021 post-COVID recovery. [https://www.reuters.com/business/stunning-us-profit-strength-ignites-stocks-charge-record-peaks-2026-05-06/, 17 June 2026] As a reminder, at the beginning of the year, the guess for the 12-month earnings growth rate was about +13%. The 12-month forward PE estimate is 21.2, which is high-ish (10-year average was 18.9). YoY revenue growth was 11.8%, which is also very high. The Mag7 were a significant piece of the earnings growth and as a result, earnings in the communication sector rose 48.9% versus an expected decline of 3.7%.

The IT sector experienced the highest rate of earnings growth at +54%. Communications services were next at 49%. Earnings in materials were up 40%, mostly due to metals and mining.

The net profit margin across the S&P 500 rose 2% to 14.8%. In dollar terms, that means that earnings rose at annualized rates from about $2 trillion to $2.6 trillion, which is a huge increase. [https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_052926A.pdf, May 30, 2026].

I have a concern with the earnings expansion in IT and communications: Specifically, that accounting standards are such that when one company owns stock in another and the value of that stock rises, that increase is booked as earnings, even though it isn't related to revenues or cash profits. [https://dart.deloitte.com/USDART/home/codification/assets/32x/asc323-10/roadmap-equity-method-investments-jv/chapter-1-overview/chapter-1-overview, https://viewpoint.pwc.com/dt/us/en/pwc/accounting_guides/financial_statement_/financial_statement___18_US/chapter_10_equity_me_US/104_income_statement_US.html, 17 June 2026]. Of course, if the stock price declines, earnings can go the other way too. I suspect that this accounts for a good part of the margin increases and also earnings increases. Something to watch for going forward.

Tariffs — There's not much new news on the tariff front. [https://www.tradecomplianceresourcehub.com/2026/02/24/trump-2-0-tariff-tracker/, May 2, 2026]. Here's a link to a good explainer on tariffs: [Fiscal and Economic Effects of Tariffs | Econofact, May 28, 2026].

May — Momentum continues. The S&P 500 and other equity indexes continue to recover from their dip. Bonds, on the other hand, are fluctuating around the zero-line. The S&P 500 was up more than 5% in May, slightly outperforming international stocks, although the latter are still a little ahead YTD and over 12 months. Oil is fluctuating in the $90's depending on day-to-day Iran news. Oddly, gold and Treasuries are fluctuating in a way that is counterintuitive to me. I'd expect both to rise in value as Iran uncertainties rise, but the opposite has been the case for the last couple of months.

Global stock indexes

Total Index	May %	YTD %	1 yr. %	Estimated PE Trailing/ Projected
S&P 500	5.26	11.27	29.78	28.45/21.03
S&P Mid Cap	2.45	13.27	25.87	26.19/16.91
S&P Small Cap	1.04	15.48	33.33	55.55/15.67
FTSE All REIT	0.06	13.21	13.65	
MSCI All Country xUS	5.03	14.36	32.77	
MSCI Emerg Mkt	9.69	25.61	54.31	

Source: Morningstar as of May 31, 2026. Estimated PEs are 12-month values from https://www.spglobal.com/spdji/en/index-family/equity/us-equity/#overview. Trailing PEs are as of December 31, 2025. Projected PEs are as of April 30, 2026. Figures are provided for comparisons over time.

Fixed income and alternatives

Total Return Index	May %	YTD %	1 yr %
Bloom Agg Intermed	0.17	0.45	4.95
ICE BofA U.S. Convertibles	6.40	23.50	42.79
S&P GSCI	-7.61	37.66	51.14
Bloom U.S. Corp HY	0.49	1.68	7.57

Source: Morningstar as of May 31, 2026.

Sector performance — In May, the three best performing sectors were IT, consumer discretionary and healthcare. The worst three in May were utilities, consumer staples and energy. YTD energy, industrials and ITs led the pack while utilities, financials and healthcare brought up the rear. On a 12-month basis, IT, communications and energy topped the rankings. [https://www.spglobal.com/spdji/en/documents/performance-reports/dashboard-us.pdf, May 29, 2026]. [https://digital.fidelity.com/prgw/digital/research/sector, May 29, 2026].

Commodities

RBC Wealth Management does not provide advice on commodities and/or futures investing, and does not solicit or offer commodities and/or futures trading services.

Commodity and food price changes, current month and YoY

Commodity	May %	YoY %
Copper	7.3	36.1
Lumber	2.9	-0.7
Cotton	-7.4	17.0
Sugar	-3.8	-17.8
Coffee	-7.0	-22.3
Wheat	-2.1	14.3
Corn	-3.9	0.6
Oil	-16.9	43.7
Natural Gas	18.9	-4.6

Source: https://tradingeconomics.com/commodities, May 30, 2026.

In May, 3 of our nine major commodities experienced price increases. On a 12-month basis, five experienced price increases. Apart from oil and gas, the average annual increase in commodities prices was about +3.8%, which tracks with what we're seeing in general for pricing.

Looking more broadly at commodities, when we look at 22 categories of agricultural commodities and 26 categories of industrial commodities, only 22 of the 48 saw price increases in May, which is low. On the other hand, 35 out of the 48 saw inflation, which is a high over the period we've been monitoring. By comparison, in December, the count was 20. That suggests some significant upward pressure on prices.

U.S. economy

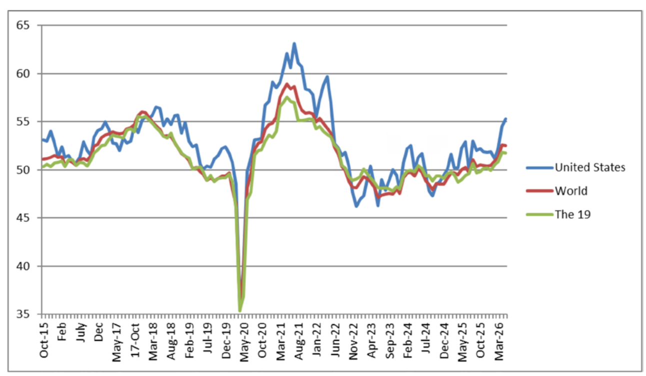
U.S. PMI statistics — The U.S. manufacturing PMI rose to a very strong 55.3. The services PMI, most of our economy, declined a little to 50.9. Between the two, it looks like U.S. production is growing modestly to moderately despite the obvious headwinds especially in energy prices. [https://tradingeconomics.com/country-list/services-pmi, May 30, 2026]. [https://tradingeconomics.com/country-list/manufacturing-pmi, May 30, 2026].

International

Manufacturing PMI — Every month we look at global Purchasing Managers Index (PMI) statistics for 36 countries. In May, 27 of them reported PMIs of 50 or more. That's the same as the prior month and up from 23 three months ago. The average reading of 52.5 is little changed but suggests that the global economy is doing okay—not showing signs of recession at this point. China stayed at 52.2 and the EuroArea is down slightly at 51.4, but still in growth territory. Germany, and France dipped a little, but Spain, Sweden and Italy are all in the positive column.

On the services side, the EuroArea dipped further to 46.4. China was about the same at 52.6. [https://tradingeconomics.com/country-list/services-pmi, May 30, 2026].

Here's our updated graph of Manufacturing PMIs



Source: Author's calculations based on published PMI statistics as of May 30, 2026.

Table summary

Region	Manu PMI	Last Month	12 mo. Ago
U.S.	55.3	54.5	52.3
19 majors	51.8	51.8	49.0
38 world	52.5	52.6	50.0
EU	51.4	52.2	49.4
China	52.2	52.2	50.4

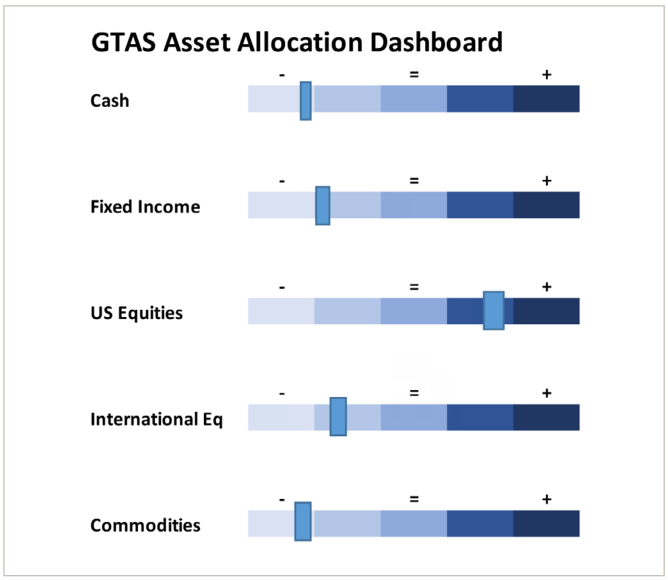
Source: Author's calculations based on published PMI statistics May 30, 2026.

Investment strategy:

1. **Gold** — Continuing to hold in light of the apparent easing of tensions with Iran.
2. **Bonds** — We had a significant sell off and then partial rally. It created some opportunities especially in longer dated Munis.
3. **Equities** — Given the earnings growth in the U.S., sticking to equities, and especially U.S. equities, seems to make sense. We remain overweight aerospace and defense as well at info tech. Keeping small- and mid-cap exposures.

In general, our strategy is to look past the current uncertainties and invest with an eye to a year or more out.

GTAS allocation chart



(+/=/-) represents our group's views over a 6 to 18 month time horizon concerning tilts relative to our strategic positions.
+ implies an overweight in that asset class.
= implies a weighting similar to our strategic weight.
- implies an underweight.

Index definitions:

Past performance is no guarantee of future results. You cannot invest directly in an index.

Bar Agg Intermed — Bloomberg Barclays U.S. Aggregate Intermediate Total Return index is composed of the BarCap Government/Credit Index, the Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. The returns for the index are total returns, which includes the daily reinvestment of dividends.

Bar U.S. Corp HY — Bloomberg Barclays U.S. Corporate High-Yield Total Return index includes all fixed income securities having a maximum quality rating from Moody's Investor Service of Ba1, a minimum amount outstanding of $100 million and at least one year to maturity.

FTSE All REIT — FTSE Nareit All Equity REITs Total Return index is an index of publicly traded Real Estate Investment Trusts (REITs) that own commercial property. All tax-qualified REITs with common shares traded on the NYSE, AMSE or NASDAQ National Market List are eligible. Additionally, each company must be valued at more than $100MM USD at the date of the annual review.

ICE BofA U.S. Convertibles — ICE BofA U.S. Convertible Bonds Total Return index tracks the returns of US-traded convertible debt issued by companies with a significant presence in the United States. The index is composed of various combinations of convertible structure and credit quality, e.g. it includes investment-grade, speculative-grade, and non-rated issues. The returns for the index are total returns, which include reinvestment of dividends.

MSCI All Country xUS — MSCI All Country World Index Ex USA NR is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. The index consists of 48 developed and emerging market country indices. The returns for the index are total returns, which include reinvestment of dividends.

MSCI Emerg Mkt — MSCI Emerging Markets NR index consists of 26 developing economies including Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates.

S&P 500 — S&P 500 Total Return index is a market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenues are based in the U.S.; it's often used as a proxy for the U.S. stock market. Total Return (TR) indexes include daily reinvestment of dividends.

S&P GSCI — S&P GSCI Total Return index is a composite index of the commodity futures. It represents unleveraged, long only investments in commodity futures that are broadly diversified.

S&P Mid Cap — S&P MidCap 400 Total Return index is comprised of stocks in the middle-capitalization range and includes approximately 10% of the capitalization of U.S. equity securities. Total Return (TR) indexes include daily reinvestment of dividends.

S&P Small Cap — S&P SmallCap 600 Total Return index consists of 600 domestic stocks chosen for market size, liquidity and industry group representation. Total Return (TR) indexes include daily reinvestment of dividends.

RBC Wealth Management

26-NF-01779 (06/26)