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INVESTMENT COUNSEL

Market update

June 1, 2026

Stocks headed to an 8th straight week of gains, with most major equity indices moving higher. The advance reflects two main supports: hopes for a de-escalation in Middle East tensions and a corporate earnings backdrop that continues to exceed expectations. Bonds, by contrast, were largely flat during a volatile stretch shaped by both war-related inflation concerns and signs of improving economic conditions.

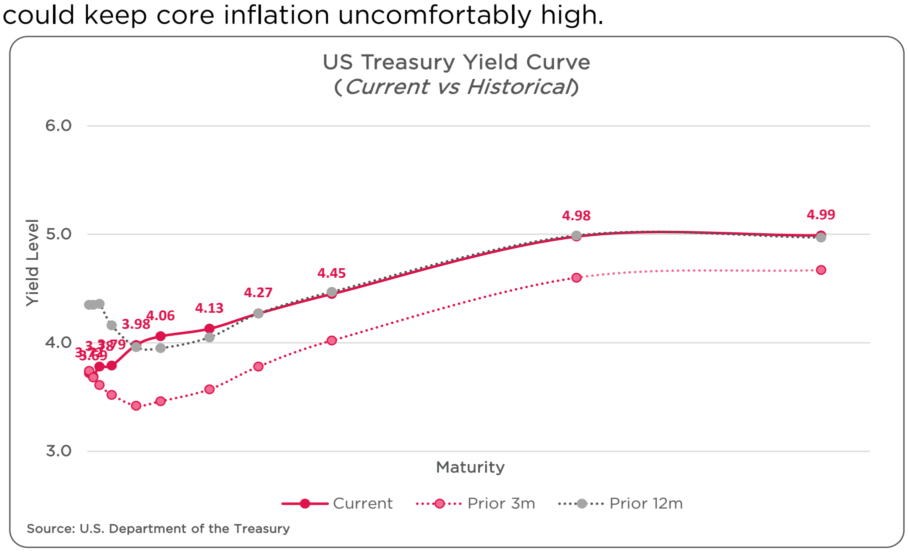
	MAY	1 YEAR
• U.S. Taxable Bonds	+0.3%	+5.1%
• U.S. Stocks	+5.1%	+29.8%
• Foreign Stocks	+5.1%	+33.4%

Treasury yields have risen since late February, with the 10-year yield up roughly 65 basis points from its recent low. Several macro developments help explain the move:

- Inflation data has remained firm.
- The closure of the Strait of Hormuz has pushed oil prices higher.
- Federal Reserve rhetoric has become less dovish

Even so, economic growth has proved more resilient than expected. Retail sales, industrial production, manufacturing surveys, jobless claims, and payroll growth all suggest the U.S. economy is absorbing the energy shock better than many feared.

Risks remain though. In the near term, additional increases in the 10-year yield and in energy prices could trigger an equity pullback, particularly after the sharp recent rally in semiconductors, growth stocks, and momentum names. Over the medium term, tariffs, AI-related capital spending, a stabilizing/reaccelerating labor market, and firm nominal demand could keep core inflation uncomfortably high.



Source: U.S. Department of the Treasury

This marks a meaningful shift from the start of the year, when investors were focused on when the Fed might resume cutting rates. Initially, the appointment of new FOMC Chair Kevin Warsh was seen as a potentially dovish transition. Instead, he appears set to lead a committee that is increasingly reluctant to ease policy, despite an economic backdrop that might otherwise argue for rate hikes.