

MAY 2026

May market commentary

Beyond the AI rally: Building resilience in a concentrated market

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Executive summary

Risk assets closed May at record highs on exceptionally narrow leadership driven by the growth of artificial intelligence (AI), while the underlying economy remained in a late-cycle expansion – i.e. the mature phase, when economic growth is still positive, but the conditions that sustain it are increasingly strained.

The S&P 500 finished May with its ninth consecutive positive week and recorded 11 new highs during the month. Markets continued to “climb a wall of worry” including concerns surrounding geopolitics and the impact of higher oil prices, rising interest rates, potential changes in Federal Reserve leadership, fears of a private credit downturn, and recurring predictions regarding the demise of the software industry.

The investment implications remain consistent with our views last month: we want to own durable carry (from investments that offer a yield or income advantage that is expected to persist over time), maintain real diversification, and will decline to pay a premium for risk that is not compensated.

- **Markets:** The S&P 500 rose 6.2% to a record 7,580, the Nasdaq 100 rose 11.6% to 30,333, and emerging-market equities rose 8.3%. Leadership was narrow and concentrated in the momentum factor: the S&P 500 High Beta index advanced 11.4% while the S&P 500 Low Volatility index fell 3.5%.
- **Rates:** The 10-year Treasury yield stands at 4.45% and the 2s10s curve is positively sloped at 47 basis points. With the front end near 3.7%, high-quality fixed income earns a real return without material duration risk.
- **Credit:** Investment-grade spreads of 73 basis points and BB high-yield spreads of 161 basis points sit near multi-decade tights. The incremental compensation for incremental credit risk is inadequate.
- **Strategic positioning:** We are overweight U.S. growth and quality, emerging-market equity (Asian tech supply chain), short-duration Treasuries, USD-denominated emerging market debt, real estate, cash, and gold. We are underweight lower-quality credit, long-duration Treasuries, and illiquid private markets.

In plain terms:

We are not retreating from markets. We are refusing to over-concentrate in the handful of names driving the index, and we are being paid to wait through high-quality yield and genuine diversification.

Strategic asset allocation: Positioning summary

The table below summarizes the Farther Investment Strategy Team's active stance by asset class relative to a strategic-neutral policy allocation, with a conviction rating and the principal rationale. The narrative that follows develops the reasoning behind each major overweight and underweight.

ASSET CLASS	STANCE	CHANGE FROM PRIOR MONTH	CONVICTION	RATIONALE
Equities: Large-Cap Blend	Neutral		High	Concentration in mega-cap leadership has narrowed the breadth of index-level returns.
Equities: Mid-Cap	Neutral	↓	Moderate	Change in weight due to valuations no longer deeply discounted.
Equities: Small-Cap	Neutral		Moderate	Retain deliberate weight to participate in the broadening that historically follows narrow leadership.
Equities: Value	Neutral	↓	Moderate	Concentration in mega-cap leadership has narrowed the breadth of index-level returns.
Equities: Growth and Quality	Overweight		High	Double-digit earnings growth led by AI-related mega-caps; preferred quality and liquidity expression of U.S. risk.
Equities: International Developed	Neutral		Moderate	Currency headwinds and an increased reliance on oil imports make us cautious, despite lower valuations.
Equities: Emerging Markets	Overweight	↑	Moderate	Asian technology supply chain benefitting from AI investments.
Fixed Income: Short Duration	Overweight		High	Real return available near 3.7% to 4.1% without material duration risk; most attractive carry-to-convexity on the curve.
Fixed Income: Intermediate Treasuries	Neutral		Low	Flat yield curve limits the carry advantage relative to short maturities.
Fixed Income: Long-Duration	Underweight		High	Term premium and convexity are not adequately compensated at a 4.99% 30-year; asymmetry skews unfavorable.
Fixed Income: Investment-Grade Credit	Neutral	↑	Moderate	Held for incremental carry over Treasuries; spreads of 74 bps are tight, so the call is modest and quality-tilted.
Fixed Income: High-Yield	Underweight	↓	High	BB spreads of 161 bps and B of 299 bps sit near multi-decade tightness; option-adjusted spread does not pay for default and liquidity risk.
Fixed Income: Bank Loans	Neutral		Moderate	Higher yield benefits offset by tight spread risks.
Fixed Income: TIPS	Neutral		Moderate	Adding new category as breakevens near 2.4% are fair; retained as a measured hedge against an inflation re-acceleration.
Fixed Income: Municipals and Agency/MBS	Neutral		Low	Held for tax-aware carry and high-quality spread; MBS option-adjusted spread of 22 bps is rich.

ASSET CLASS	STANCE	CHANGE FROM PRIOR MONTH	CONVICTION	RATIONALE
Fixed Income: USD Emerging-Market Debt	Overweight		Moderate	The yield premium over comparable-quality domestic credit is attractive without local-currency volatility.
Cash and Equivalents	Overweight		High	Held as deliberate optionality at a positive real yield; dry powder to deploy into dislocations.
Alternatives: Gold	Overweight		Moderate	Tail and policy-uncertainty hedge with low correlation to equities and credit; reserve diversification remains a structural bid.
Alternatives: Commodities, Natural Resources, and Real Assets	Neutral		Low	Inflation pass-through and distinct economic drivers; structural copper demand constructive after a 36.6% trailing-year run. Any resolution involving Iran or normalization of Hormuz could lead to rapid compression in oil prices.
Alternatives: Real Estate (US and International)	Overweight		Moderate	Income, inflation linkage, and return drivers distinct from corporate earnings provide meaningful diversification.
Alternatives: Private Equity and Private Credit	Underweight	n/a	High	No allocation: illiquid, increasingly correlated with public equivalents, and commanding premiums we do not view as compensated.

Stance is expressed relative to a representative balanced-growth policy benchmark. Conviction reflects the strength of the signal and the asymmetry of the expected outcome. Positioning is reviewed monthly and adjusted as the data evolves.

The big picture

May was, on the surface, an extraordinary month for risk assets. Twelve-month total returns now stand at 28.7% for the S&P 500, 43.3% for the Nasdaq 100, and 51.4% for the MSCI Emerging Markets index. International developed markets, represented by the MSCI EAFE index, added 2.3% on the month and 19.9% over the trailing year.

Beneath that rally, the tape narrowed sharply. Russell 1000 Growth gained 7.4% against 2.9% for Russell 1000 Value. Communication Services and Information Technology dominated, while defensives such as Real Estate, Health Care, and Consumer Staples declined or barely participated. This is the signature of a leadership regime concentrated in a small number of mega-capitalization names rather than a broad cyclical expansion.

Our read of the underlying economy is unchanged from the prior month. We remain in a late-cycle economic expansion: growth has decelerated, the labor market has loosened, and inflation re-accelerated in the most recent data. The Federal Open Market Committee held the policy rate at 3.50% to 3.75% in late April in an eight-to-four decision, with one dissent favoring a cut and three preferring to drop the easing bias entirely. Futures markets began the month pricing some probability of a rate increase by year-end.

In plain terms:

Our portfolio is positioned for this environment with a deliberate, diversified posture, anchored by a large weight in U.S. large-cap growth and quality, meaningful short- and intermediate-term “belly” Treasury bond exposure for “durable carry,” a cash sleeve as optionality, broadened global equity exposure, and a disciplined underweight to lower-quality credit.

“It’s a tech world after all”

The momentum behind AI continues to accelerate, as evidenced by the outperformance of the NASDAQ (QQQ gained 32%) and the Technology Select Sector SPDR (XLK up 50%) relative to the S&P 500 (up 20%) from the March 30 low through May 29. AI enthusiasm has lifted many legacy technology companies that were previously viewed as industry dinosaurs. Intel (210% YTD), Dell (237% YTD), Cisco (58% YTD), Nokia (132% YTD), and Micron (240% YTD) have all surged into significantly overbought territory, with several exceeding their prior peaks from the 1999 technology bubble.

AI’s influence on market performance has become increasingly dominant. J.P. Morgan Asset Management estimates that AI-related industries now represent nearly 60% of the S&P 500. Goldman Sachs recently noted that technology accounted for approximately 85% of the S&P 500’s YTD return of 10% (as of mid-May), while the index excluding technology generated only a 3% gain. AI enthusiasm continues to be the primary driver of both momentum and growth factors across the market.

Bullish investors argue that this performance is justified. Technology sector earnings are forecast to grow 45% in 2026 and 31% in 2027. Based on these projections, the sector’s forward P/E multiple would decline to approximately 24x, representing a meaningful discount to its projected three-year earnings growth rate of 34%. The strength of the technology sector has also lifted broader market expectations, with S&P 500 earnings growth projected at 22% in 2026 and 15% in 2027.

Year-to-date, the S&P 500 has returned approximately 10%, while earnings estimates have increased by roughly 15%. As a result, the market’s valuation multiple has contracted by approximately 5%.

INDUSTRY	% OF S&P 500
Semis	18.3%
Hyperscalers	18.1%
Hardware	10.7%
Software	8.8%
Power	2.6%
Metals & Mining	0.5%

Source: Bloomberg; market monitor as of May 29, 2026.

In plain terms:

Despite the market’s record-setting advance, stocks are modestly cheaper today than they were at the beginning of the year.

The state of the economy

Real GDP grew at roughly a 1.6% annualized rate in the most recent quarter; positive but materially slower than the 2024 average. The labor market continues to soften, as the three-month average of nonfarm payroll gains has slipped toward 144,000 per month, down from cycle peaks above 200,000, and the unemployment rate has drifted up to 4.3%. The most recent employment report added 115,000 jobs, concentrated in health care, transportation and warehousing, and retail trade. Job openings (JOLTS) eased to 6.87 million from 7.24 million a month earlier, and the University of Michigan consumer sentiment index fell to 49.8 from 53.3, a notable deterioration that bears watching.

Inflation surprised to the upside. Headline CPI rose 0.6% on the month, lifting the year-over-year rate to 3.8%, its highest reading since the summer of 2023, and core PCE rose to 3.3% year-over-year. A portion of the acceleration reflected energy: oil traded near \$100 per barrel through much of April and the first half of May as a disruption at the Strait of Hormuz removed a substantial share of seaborne supply, before reversing sharply on news of ceasefire negotiations. The thirty-year primary mortgage rate edged up to 6.53%, a reminder that the policy-sensitive parts of the real economy remain restrained.

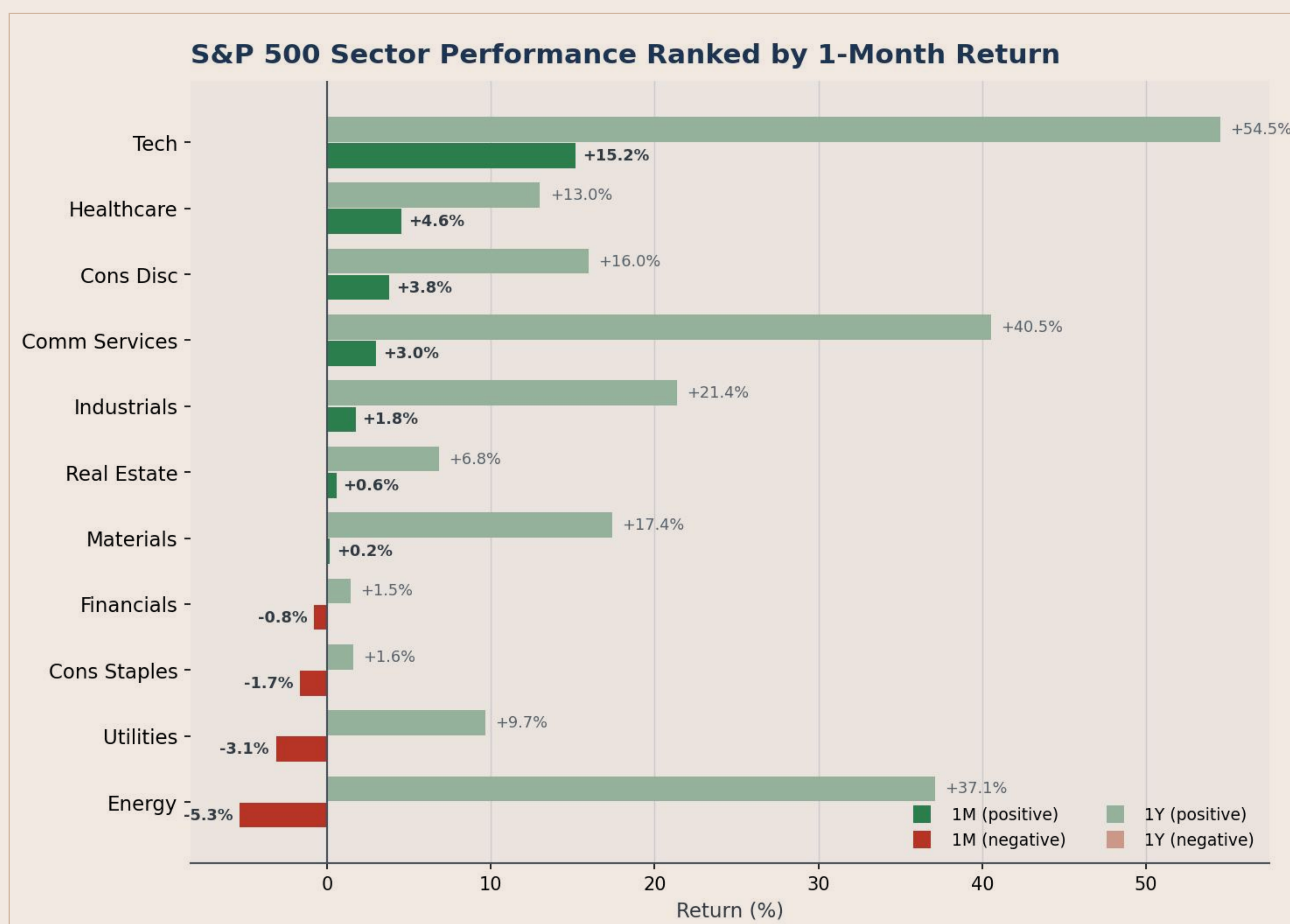
In plain terms:

The Federal Reserve is not the supportive force for markets in 2026 that it was in 2024. We do not assume that rate cuts will arrive to backstop markets if growth disappoints, so we build portfolios to perform on their own merits through diversification and durable carry rather than to lean on accommodative policy.

Equities: Records on narrow leadership

Technology and semiconductor names did the heavy lifting. The Information Technology sector rose 15.2% on the month and led the S&P 500, with Communication Services close behind. By contrast, Utilities fell 3.1%, Consumer Staples fell 1.7%, and Energy fell 5.3%. A concentrated index, like the current S&P's composition, can print a record while most sectors decline, and that is precisely what occurred.

Mid-cap equities returned a more modest 2.5% in May and small caps gained only 0.5%, while value and dividend factors lagged growth by several percentage points. Periods of narrow leadership have historically been followed by broadening, and we want the portfolio positioned for that rotation when it arrives.

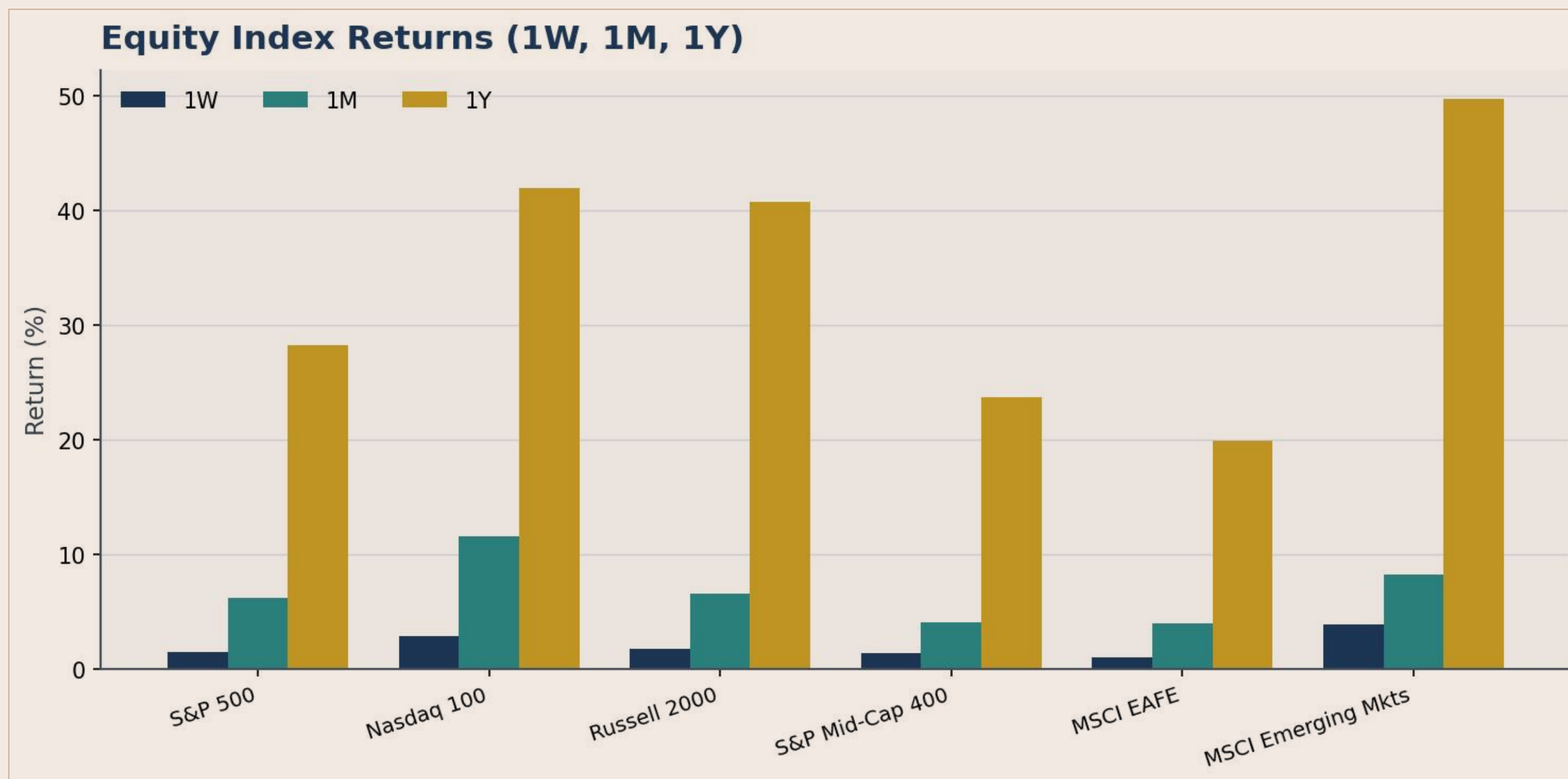


S&P 500 sector returns ranked by one-month performance, with year-to-date for context.
Source: Bloomberg; market monitor as of May 29, 2026.

International developed equities rose 2.3% in May, led by Japan, where the TOPIX gained 5.7% and the Nikkei 225 surged 12.5%. Emerging markets did even better at 8.3%, driven by Taiwanese semiconductors and a renewed China rotation. Taiwan now represents roughly 25% of the MSCI Emerging Markets index, with China close behind and India near 12%. The diversification benefit of holding international and emerging-market equities was evident, but the underlying concentration of those indices in AI-related semiconductor names is something we monitor closely.

In plain terms:

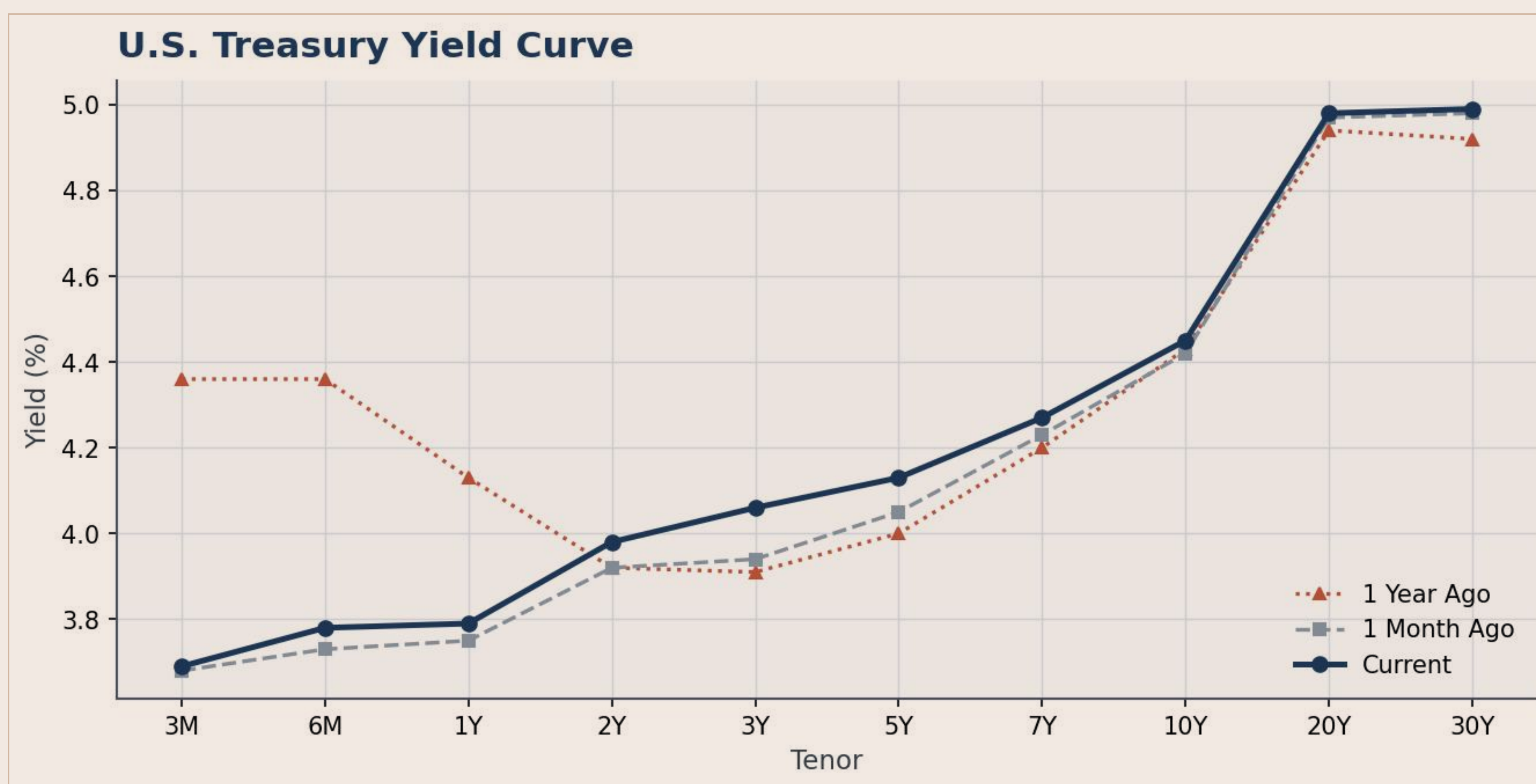
We are not advising clients to retreat from equities. We are advising them not to over-concentrate. Our positioning continues to maintain deliberate exposure to mid-cap, small-cap, value, international developed, and emerging-market sleeves.



Total returns by index across one-week, one-month, and one-year horizons.
Source: Bloomberg; market monitor as of May 29, 2026.

Fixed income: A healthier yield curve

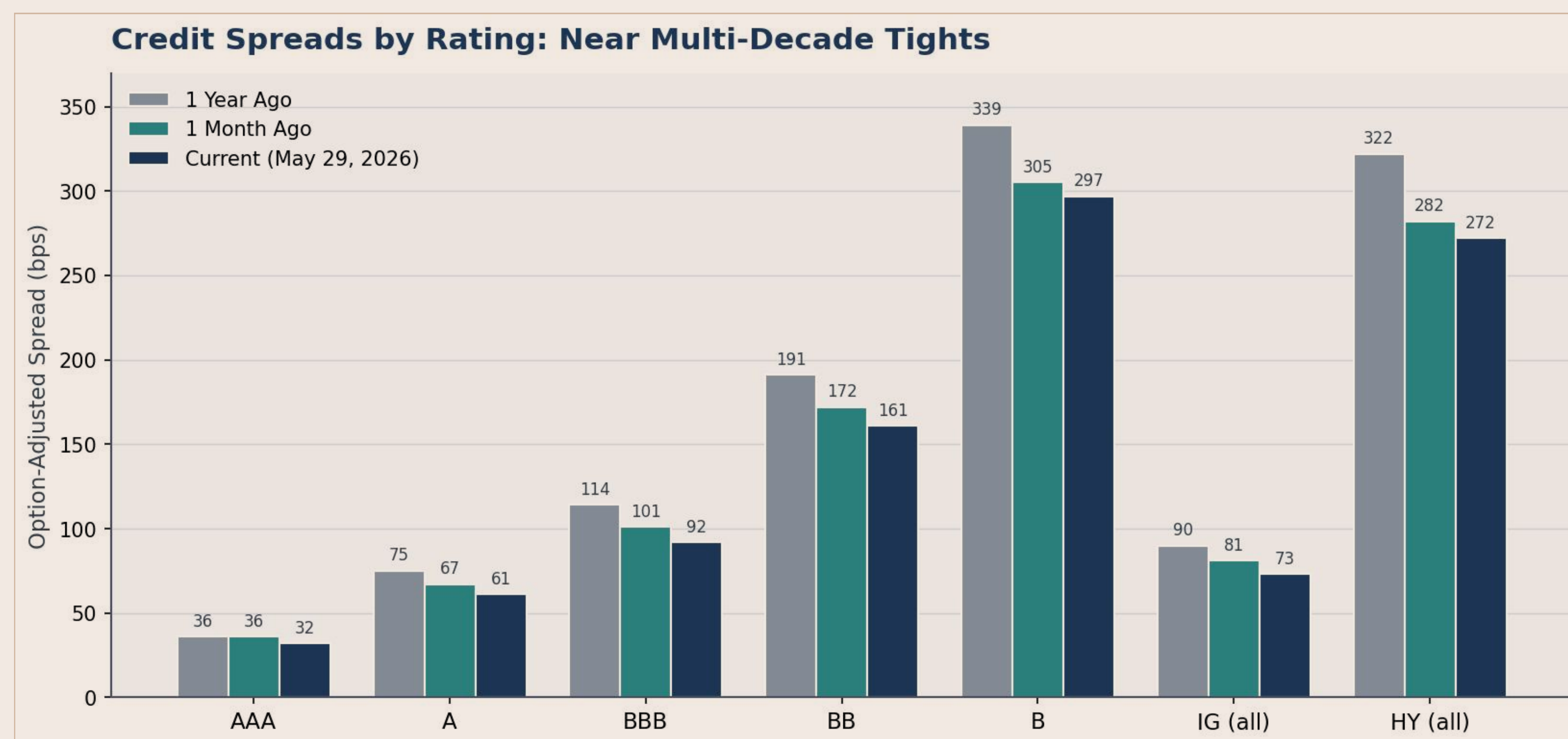
The ten-year Treasury yield stands at 4.45%, up 9 basis points on the month, and the thirty-year yield at 4.98%, up 4 basis points. The two-year yield rose 15 basis points to 3.98%, leaving the two-to-ten-year curve positively sloped at 47 basis points, a healthier configuration than the inversion that prevailed in 2022 and 2023. The intra-month range was wider than the month-end change suggests: the ten-year traded as high as 4.57% before rallying 12 basis points over the past week as oil reversed and ceasefire optimism spread.



U.S. Treasury par yield curve, current versus one month and one year ago.
Source: FRED, U.S. Treasury; market monitor as of May 29, 2026.

The opportunity in bonds today resides in the starting yield itself. With the front end of the curve near 3.7% and the intermediate “belly” near 4.1%, owning high-quality, liquid fixed income earns a real return without requiring substantial duration risk.

Within credit, however, the picture remains unforgiving: investment-grade spreads of 74 basis points and BB-rated high-yield spreads of 164 basis points sit near multi-decade tights. The market offers little incremental compensation for incremental credit risk, and we decline to reach for it.



Option-adjusted spreads by rating, current versus one month and one year ago.
Source: Bloomberg, ICE BofA indices; market monitor as of May 29, 2026.

In plain terms:

Bonds are once again contributing meaningfully to portfolio returns. We hold high-quality issues, we earn yield, and we are deliberate about where we accept credit risk. We are not extending duration to the long end, and we are not buying cheap-looking yield in lower-quality credit, because neither is paying us enough to do so.

The interest rate backdrop

Markets continue to advance despite the steady rise in long-term interest rates. During May, the yield on the U.S. 30-year Treasury bond climbed above 5% for the first time since 2007. Higher energy prices have contributed to stronger inflation data and rising inflation expectations.

The debate now centers on what happens if an Iran peace agreement is ultimately achieved. While lower oil prices and softer inflation data could temporarily relieve pressure on bond yields, structural challenges remain. Rising government debt, persistent fiscal deficits, increased Treasury issuance, and substantial investment-grade corporate issuance to fund AI-related capital spending may keep long-term yields elevated.

25-year Yield History of the 30-year Treasury Bond



Source: Bloomberg as of May 29, 2026.

Notably, long-term rates have continued to rise despite the Treasury Department's efforts to concentrate issuance at the short end of the curve in order to reduce upward pressure on longer maturities.

The bond market must also navigate the possibility of changes in Federal Reserve leadership and an increasingly likely shift away from the Fed's easing bias. Federal Reserve meeting minutes acknowledged that the next policy move could potentially be a rate increase if inflation remains persistently above the 2% target. Further complicating the outlook is the current disconnect between the Fed Funds rate of 3.50% to 3.75% and the 2-year Treasury yield of approximately 4.04%. At a minimum, we believe investors should remain attentive to the possibility of a policy shift during the upcoming June meeting.

Alternatives and real assets

Gold consolidated in May. After advancing more than 37% over the trailing twelve months, the metal traded flat for the month at \$4,560 per ounce as the dollar firmed modestly and oil reversed on the ceasefire bid. We continue to hold gold as a core position. The conditions that historically support it remain present: restrictive real rates that are nevertheless declining at the margin, central-bank reserve diversification away from the dollar, and elevated geopolitical risk. Over the trailing year, gold has delivered both meaningful return and meaningful diversification, exhibiting low correlation with equities and credit during periods of stress.

Broad commodities retraced 2.6% in May after a powerful start to 2026, yet the BCOM index remains up 36.6% over the trailing twelve months, driven by oil and industrial metals. Copper rose 10.9% on the month to a multi-year high, reflecting structural demand from electrification, grid build-outs, and data-center construction. Real estate and infrastructure exposures provide income streams driven by leases, regulated returns, and demographic demand, economic drivers distinct from corporate earnings, and they offer a degree of inflation pass-through that pure financial assets do not.

In plain terms:

Alternatives are not a speculative satellite; they are part of the structural core of a thoughtful 2026 portfolio. We do not allocate to private equity or private credit at this time, because both are illiquid, both are increasingly correlated with their public-market equivalents, and both currently command premiums we do not view as adequately compensated.

How the portfolio is positioned, and why

Our portfolio spans a broad set of asset classes and is built around a few deliberate convictions rather than a long list of small bets. U.S. equities represent the largest block, led by high-quality large-cap, with complementary positions across growth, value, mid-cap, and small-cap. International exposure is meaningful and spans developed markets, developed small-cap, and emerging markets. Fixed income is a substantial allocation weighted toward the front end and belly of the Treasury curve, complemented by investment-grade corporates and smaller, diversifying sleeves in municipals, TIPS, agency mortgage-backed securities (MBS), U.S.-dollar emerging-market debt, and select credit. Long-duration Treasuries are held only sparingly. Cash is held as a deliberate optionality sleeve, and a core position in physical gold anchors a modest real-assets allocation.

The shape of the portfolio has changed meaningfully from a quarter ago. We reduced U.S. mid-cap and long-duration Treasuries materially, redeploying that capital into U.S. large-cap, the front of the Treasury curve, emerging markets, and the cash sleeve. We hold U.S. large-cap as the largest single position because, despite elevated multiples, the index continues to deliver double-digit earnings growth led by the artificial-intelligence-related mega-caps, and the breadth tilt that mid-cap historically provided no longer carries the same valuation discount it did a year ago.

Within fixed income, the duration profile is concentrated in the front end and belly of the Treasury curve, where carry is most attractive and convexity is least asymmetric. Short and intermediate Treasuries together with cash provide substantial dry-powder, yield-bearing capacity. We hold investment-grade corporates for incremental carry over Treasuries, and we remain deliberately light on lower-quality credit because option-adjusted spreads do not compensate for the risk at current levels.

Within alternatives, the gold position has been trimmed modestly as the metal consolidated following a powerful trailing-year run. We continue to hold gold for its low correlation with equities and bonds and its role as a tail-risk hedge in policy-uncertainty regimes; the smaller sizing reflects reduced inflation-acceleration risk in our framework relative to a quarter ago. At the total-portfolio level, the book remains broadly diversified across a meaningful number of independent return drivers, with a moderate expected volatility, consistent with a posture built to compound through a wide range of outcomes.

What we are watching

Three key developments would materially alter our view over the coming months:

- **Labor market:** Should the unemployment rate rise such that the three-month moving average crosses 0.50 percentage points above its prior twelve-month low, the Sahm rule would trigger. We would expect to extend portfolio duration meaningfully, reduce credit risk, and re-evaluate equity beta.
- **Inflation:** A re-acceleration of inflation (core PCE) above 3.5% year-over-year would compel the Federal Reserve to pause or reverse its modest easing, an outcome that would weigh on both equities and bonds and would likely benefit gold and broad commodities.
- **Credit:** A meaningful widening from today's compressed spreads, specifically high-yield BB above 250 basis points or investment-grade above 110 basis points, would represent the most reliable early-warning indicator. It would prompt us to harvest gains from risk assets and reallocate toward higher-quality holdings.

The path forward

Market momentum appears likely to remain intact in the near term. The current eight-week advance of approximately 18% ranks as the ninth largest rally of its kind in market history. In each of the previous eight occurrences, stocks were higher both three and six months later, with an average six-month gain of approximately 11%.

What could derail the rally? Two additional risks remain at the top of our watch list, complementing the labor market, inflation, and credit signals described above.

- **Oil inventories:** Continued disruption in the Strait of Hormuz could eventually lead to a meaningful depletion of global oil inventories. To date, interruptions in shipping activity have been offset by existing inventories and releases from strategic petroleum reserves. However, as these supports diminish and seasonal demand rises during the summer months, tighter supply conditions could push oil prices toward levels that begin to destroy demand. We estimate that threshold to be approximately \$150 per barrel or higher.
- **A wave of new equity supply:** SpaceX is widely expected to lead a new generation of mega-cap technology IPOs, potentially followed by Anthropic and OpenAI. SpaceX alone is estimated to carry a valuation approaching \$1.75 trillion. While the initial public float is expected to represent only about 4.3% of outstanding shares, future lockup expirations and secondary share sales could introduce a significant amount of additional equity supply into public markets. Collectively, SpaceX, OpenAI, and Anthropic could eventually add \$4 trillion to \$5 trillion of market capitalization based on current valuations.

While these companies represent exciting growth opportunities, the introduction of such a large volume of new equity supply relative to the S&P 500's current market capitalization of roughly \$70 trillion warrants close attention.

We publish this commentary monthly and will adjust positioning as the data evolves. Please contact your Farther advisor with questions about how this view applies to your specific financial plan.

Where major markets stand

Global Equity Indices

INDEX	LAST	1W %	1M %	1Y %	52W RANGE
S&P 500	7,580	+1.4	+6.2	+28.2	5,912-7,580
Nasdaq 100	30,333	+2.9	+11.6	+42.0	21,341-30,333
Dow Jones Industrial	51,032	+0.9	+4.4	+20.9	42,172-51,032
Russell 2000	2,919	+1.7	+6.6	+40.7	2,066-2,937
S&P Mid-Cap 400	3,725	+1.4	+4.1	+23.7	2,994-3,730
S&P Small-Cap 600	1,685	+0.8	+2.7	+30.7	1,279-1,698
MSCI EAFE	3,118	+1.0	+4.0	+19.9	2,568-3,180
MSCI Emerging Markets	1,752	+3.9	+8.3	+49.7	1,154-1,752
MSCI ACWI	1,131	+1.6	+5.9	+28.5	880-1,131

Total returns where available.

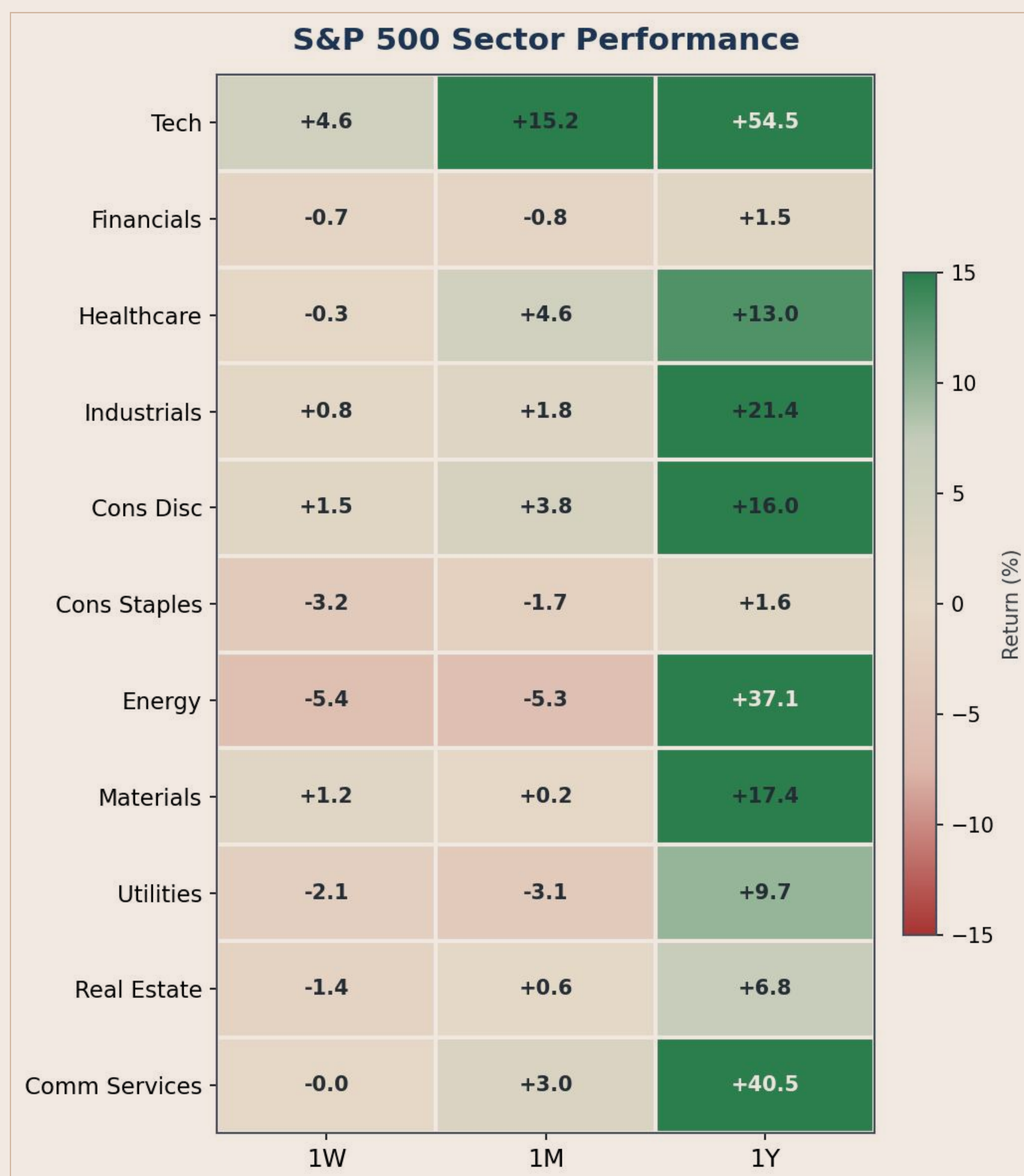
Source: Bloomberg; market monitor as of May 29, 2026.

Rates, Credit, and Cross-Asset Levels

INDICATOR	CURRENT	1W CHG	1M CHG	1Y REF
UST 2-Year Yield	3.98%	-15 bps	+6 bps	3.92%
UST 10-Year Yield	4.45%	-11 bps	+3 bps	4.43%
UST 30-Year Yield	4.99%	-8 bps	+1 bps	4.92%
2s10s Slope	+47 bps	+4 bps	-3 bps	+51 bps
Real 10-Year (TIPS)	2.07%	-9 bps	+11 bps	2.11%
10-Year Breakeven	2.38%	-2 bps	-8 bps	2.32%
IG OAS	73 bps	-1 bps	-8 bps	90 bps
High-Yield BB OAS	161 bps	-1 bps	-11 bps	191 bps
High-Yield OAS (all)	272 bps	-2 bps	-10 bps	322 bps
VIX	15.3	-1.4	-3.5	n.a.
MOVE Index	70.2	-8.2	-4.1	n.a.
U.S. Dollar (DXY)	98.9	-0.3	0.0	n.a.
WTI Crude	\$87.36	-9.6%	-18.3%	+43.4% (1Y)
Gold	\$4,560	+0.8%	0.0%	+37.5% (1Y)
VIX	15.3	-1.4	-3.5	n.a.

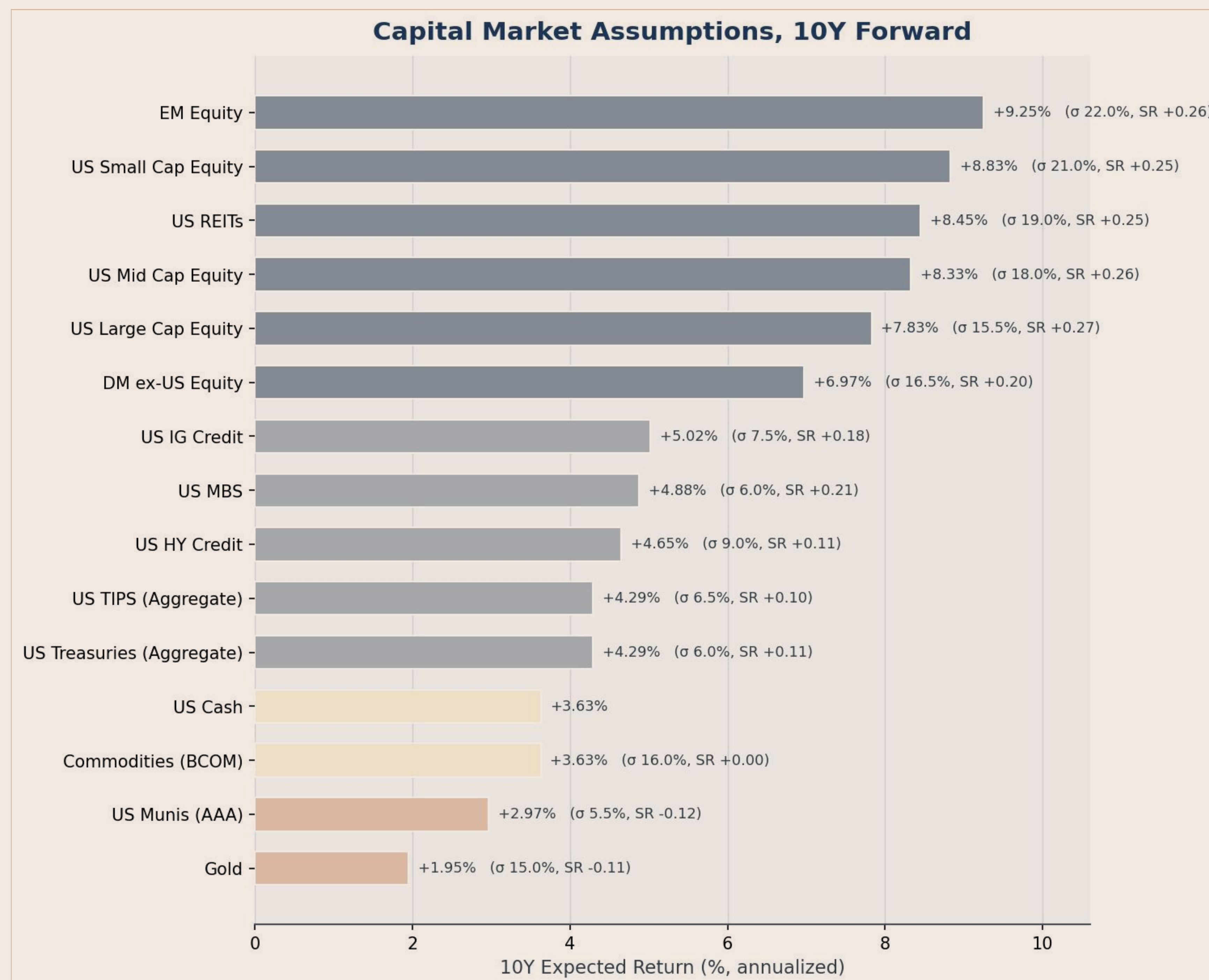
Source: FRED, U.S. Treasury, Bloomberg, ICE BofA; market monitor as of May 29, 2026.

S&P 500 Sector Performance Heatmap



Sector total returns across one-week, one-month, and one-year horizons. Source: Bloomberg; market monitor as of May 29, 2026.

Farther Ten-Year Capital Market Assumptions



Forward ten-year expected returns by asset class, with expected volatility and Sharpe ratio versus cash. Build-up methodology.
Source: Farther; market monitor as of May 29, 2026.

GLOSSARY

- **OAS:** Option-Adjusted Spread, the extra yield over comparable-maturity U.S. Treasuries that an investor earns on a corporate bond, adjusted for embedded options.
- **Basis point (bp):** One one-hundredth of a percentage point. A move from 4.40% to 4.45% is five basis points.
- **Core PCE:** The Personal Consumption Expenditures price index excluding food and energy, the Federal Reserve's preferred measure of underlying inflation.
- **Sahm Rule:** A recession indicator that triggers when the three-month moving average of the unemployment rate rises 0.50 percentage points or more above its trailing twelve-month low.
- **Real federal funds rate:** The nominal policy rate set by the Federal Reserve minus a measure of expected inflation; positive values indicate a restrictive monetary policy stance.
- **TIPS:** Treasury Inflation-Protected Securities, Treasury bonds whose principal adjusts with CPI, providing direct inflation protection.
- **Breakeven inflation:** The difference between a nominal Treasury yield and a TIPS yield of the same maturity, the level of inflation at which the two would deliver equal returns.
- **GICS:** The Global Industry Classification Standard, the eleven-sector classification system used by S&P and MSCI to organize publicly traded equities.
- **Capital Market Assumptions (CMA):** Forward-looking estimates of expected return, volatility, and correlation for each asset class, used as inputs to strategic asset allocation.

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DISCLOSURES

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