AGI CAPITAL MANAGEMENT

Market Insights Monthly

Chief Investment Office | May 2026

Report Overview

In our April monthly note, we called out the clear shift in market momentum, a shift from a bearish regime to a bullish one. The month of May was a continuation of that bullish momentum, motivated by robust corporate earnings, a better than expected economy, and easing tensions in the Middle East.

S&P 500 companies reported blockbuster Q1 results in early May, with 84% of companies beating estimates and earnings growing 28.4% year over year, the highest rate in years. Not only are earnings rapidly expanding, but profit margin estimates have climbed to 15% and sales growth accelerated by double digits.

Earnings were not the only surprise. Key labor market data such as payrolls inflected higher after several months of deceleration, reviving investor hope that a soft landing remains possible.

While markets have rallied to new highs, valuations remain below their peaks and, by some measures, much cheaper than prior periods. The Iran conflict is unresolved and crude impacts linger, yet stocks have defied gravity. Looking ahead, a fundamental backdrop of expanding earnings and a resilient economy supports further upside, though investors should expect bouts of chaos.

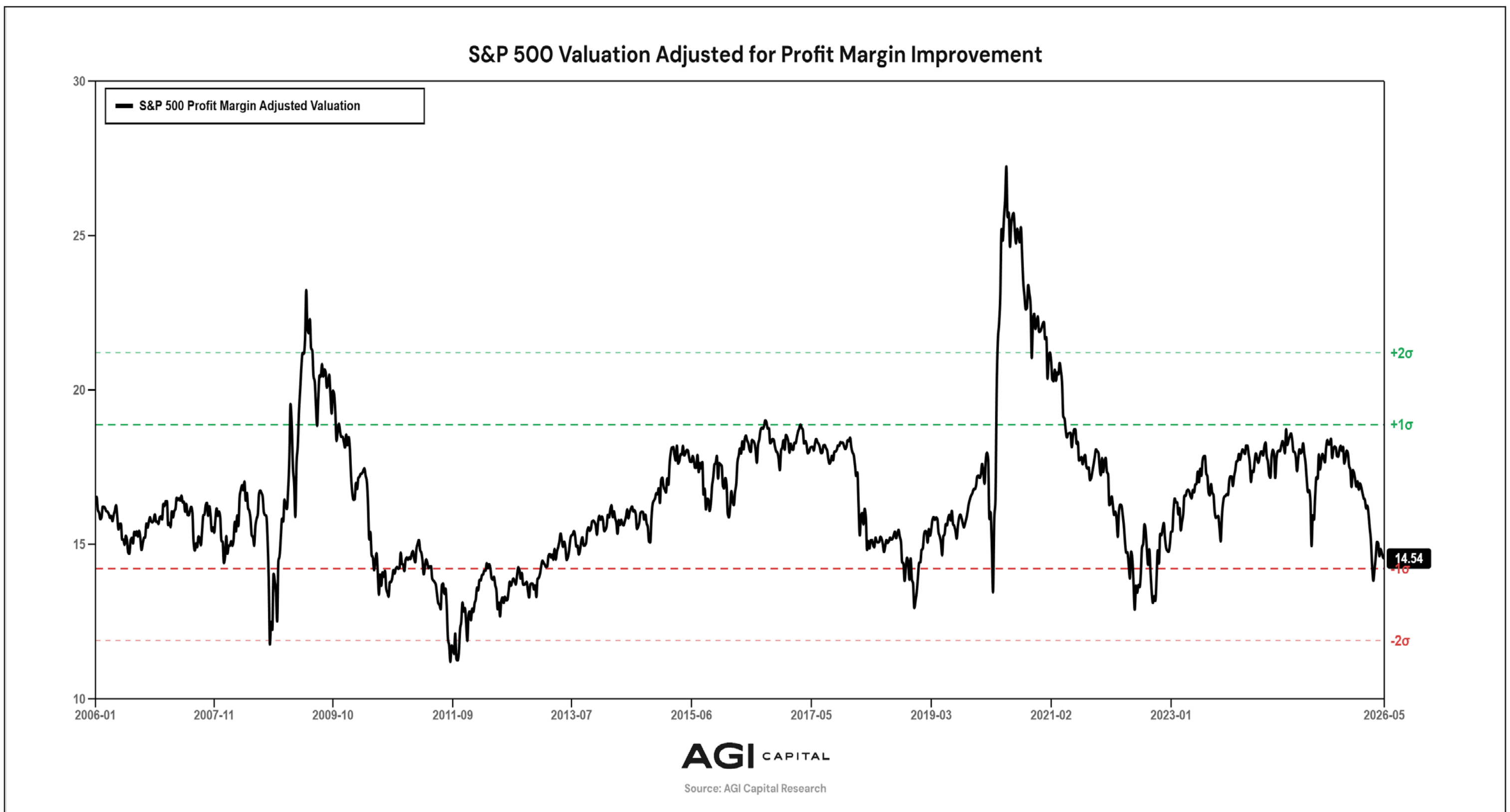
Market Wisdom

"Successful traders always follow the line of least resistance. Follow the trend. The trend is your friend,"
- *Jesse Livermore*

"The trick is not to learn to trust your gut feelings, but rather to discipline yourself to ignore them. Stand by your stocks as long as the fundamental story of the company hasn't changed,"
- *Peter Lynch*

"Markets are constantly in a state of uncertainty and flux and money is made by discounting the obvious and betting on the unexpected,"
- *George Soros*

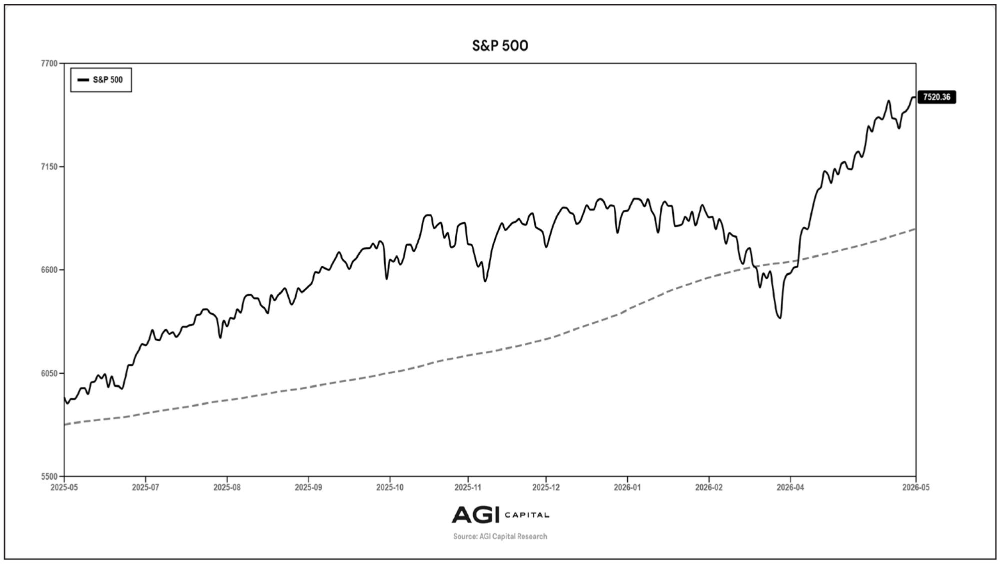
"He who lives by the crystal ball will eat shattered glass,"
- *Ray Dalio*



Market Review

From a technical standpoint, the S&P 500 (SPX) concluded May back above all key moving averages including the 200-day moving average.

The index posted a monthly gain of 5.15%, above the average May return of 0.38% and beating the May midterm year average of -0.63%.



Tactical Highlight

President Trump's May 14–15 visit to Beijing, his first since 2017, was conducted alongside a front of America's corporate chieftains, and ultimately delivered atmospherics over architecture.

Headline deliverables included a $17B annual agricultural commitment running through 2028 and a long-awaited commercial aircraft order, though materially below the volume whispered pre-summit.

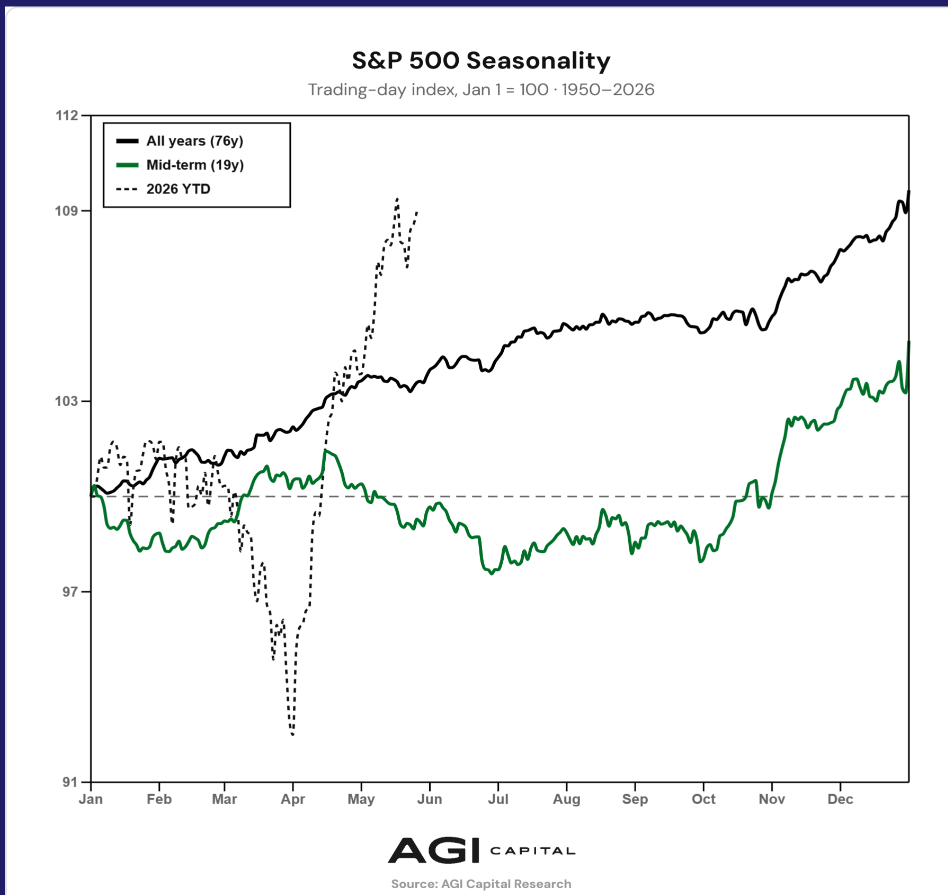
On semiconductors, Washington's licensing of advanced AI accelerators for select Chinese buyers proved hollow; Trump himself conceded post-summit that Beijing is steering domestic firms toward indigenous alternatives and has effectively blocked orders, leaving the framework commercially dormant.

Critically, rare earth export controls remain firmly in Beijing's grip, with no structural concessions extracted. The two readouts diverged sharply; Washington touted specifics while Beijing spoke only of "common understandings," a familiar tell that implementation risk runs hot.

Net-net: a tactical thaw, not a treaty. Position for a sustained tape-bid on AI and reflation themes, but treat the truce as conditional. Taiwan arms decisions and pending Supreme Court tariff rulings loom as binary catalysts capable of unwinding the China progress quickly still persist.

Summer Pullback or Continuation?

As the market closes out the month of May and heads into June, investors are left wondering if there will be a summer rally or consolidation. Looking back at all years since 1950, the S&P 500 has averaged 0.20% in June, positive 55% of the time. Mid-term years often change that, with June mid-term months averaging -2.11%, positive 37% of the time.



Forward Vision

As May gives way to June, investors are left to wonder what lies ahead after a robust eight week advance, and whether the easy money has already been made.

While midterm summers tend to disappoint, the confluence of strong earnings, an early year pullback, and a reaccelerating economy builds a credible case for continued upside.

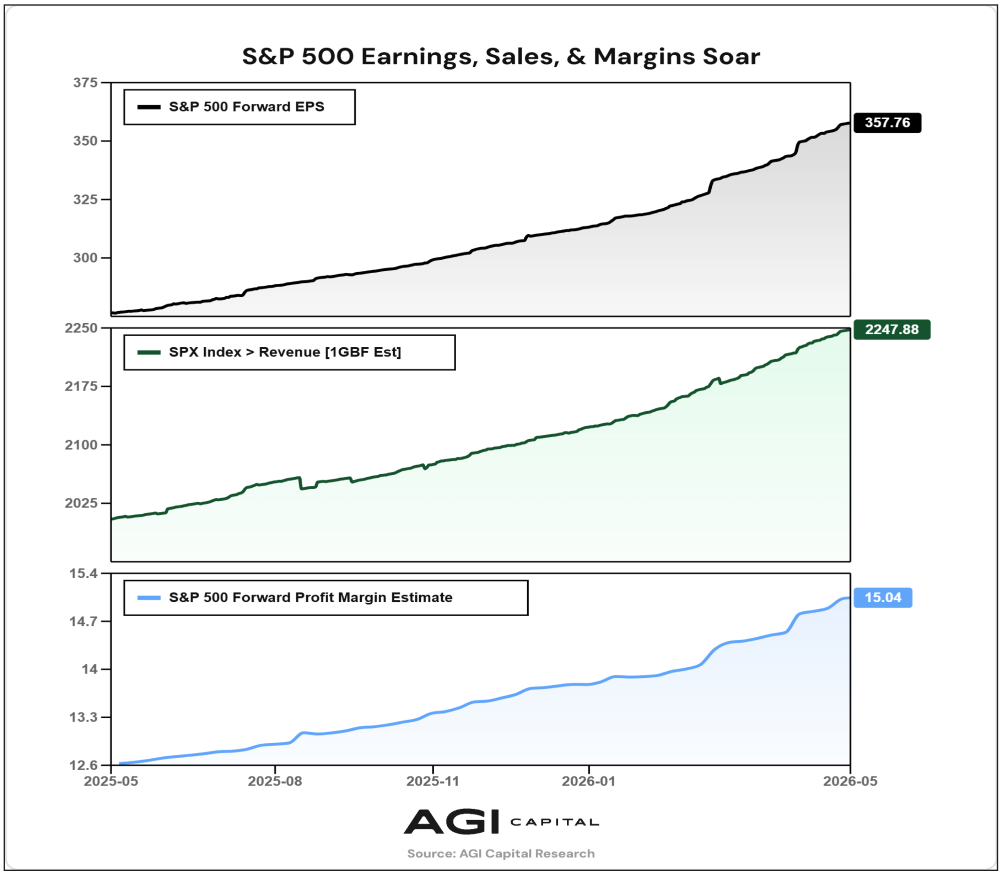
Before topping in Q1, the S&P 500 traded at roughly 23.1 times forward earnings; today it sits just below 21. Yet at that peak, forward earnings per share stood at $297; today they are $360.15, more than 20% higher, a divergence that rarely lasts long.

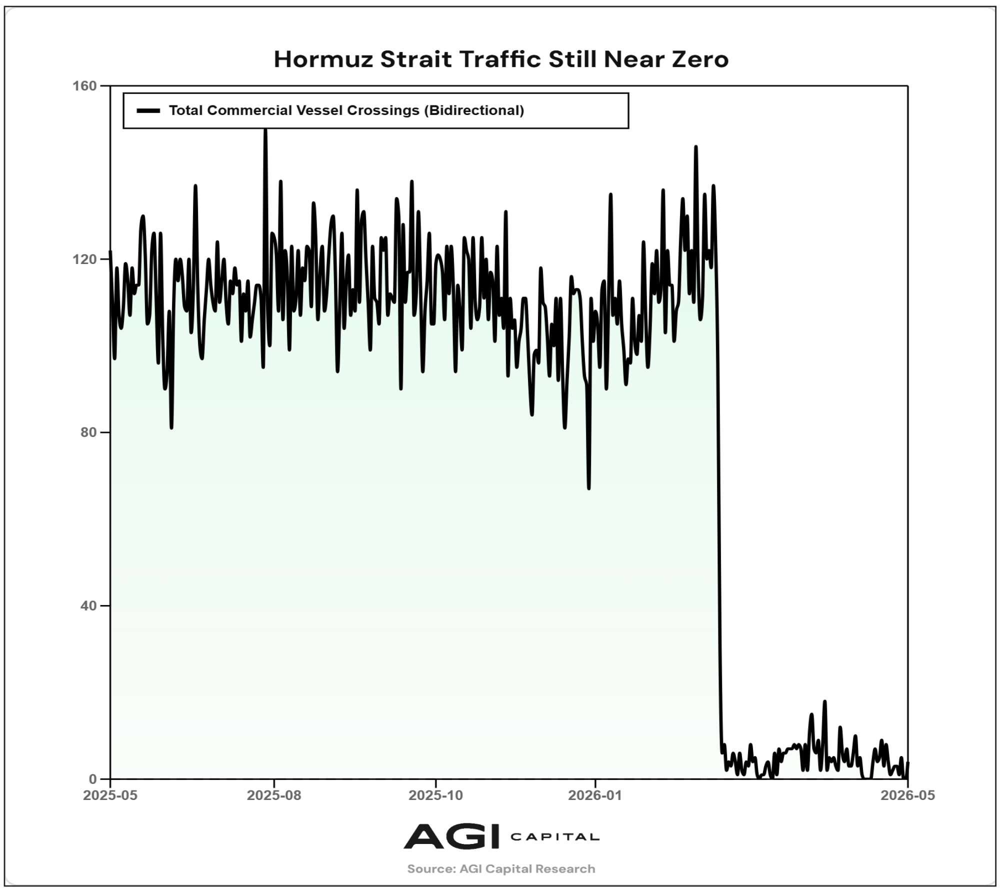
Margin estimates have meanwhile climbed from near 13% at the Q1 top to 15.1% today. Adjust the price to earnings ratio for that margin improvement and the index trades closer to 14 times, nearly a full standard deviation below its average since 2006.

This earnings strength has unfolded even as the Strait of Hormuz remains effectively closed, with daily shipping traffic near zero. Equities, undeterred, appear to be holding three convictions: that months have passed without a recession, that the US is better insulated than its peers from a crude shock, and that the mere prospect of peace is enough to keep investors comfortable.

Labor market data firmed through May and GDP estimates moved higher. Improving growth set against corporate earnings strength is a powerful combination.

The risks are real. Peace talks could collapse, the market could outrun itself, or a wave of mega IPOs could drain the rally of oxygen. Yet the fundamental backdrop speaks for itself.





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S&P Midcap 400 Index: The S&P Midcap 400 Index is a capitalization-weighted index measuring the performance of the midrange sector of the U.S. stock market, and represents approximately 7% of the total market value of U.S. equities. Companies in the Index fall between the S&P 500 Index and the S&P SmallCap 600 Index in size: between $1-4 billion.

S&P Small-Cap 600 Index: The S&P SmallCap 600 Index consists of 600 domestic stocks chosen for market size, liquidity (bidasked spread, ownership, share turnover and number of no trade days) and industry group representation. It is a market valueweighted index (stock price times the number of shares outstanding), with each stock's weight in the index proportionate to its market value.

Russell 2000® Index: The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

NASDAQ 100 Index: The NASDAQ 100 Index is an unmanaged group of the 100 biggest companies listed on the NASDAQ Composite Index. The list is updated quarterly and companies on this Index are typically representative of technology-related industries, such as computer hardware and software products, telecommunications, biotechnology and retail/wholesale trade.

NASDAQ Composite Index: The NASDAQ Composite Index measures the market value of all domestic and foreign common stocks, representing a wide array of more than 5,000 companies, listed on the NASDAQ Stock Market.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted index of 30 "blue-chip" industrial U.S. stocks.

Hollerith, David. "Jamie Dimon Warns Markets Resemble Pre-Financial Crisis Era: 'I See a Couple of People Doing Some Dumb Things'." Yahoo Finance, 24 Feb. 2026, https://finance.yahoo.com/news/jamie-dimon-warns-markets-resemble-pre-financial-crisis-era-i-see-a-couple-of-people-doing-some-dumb-things-133719344.html.

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