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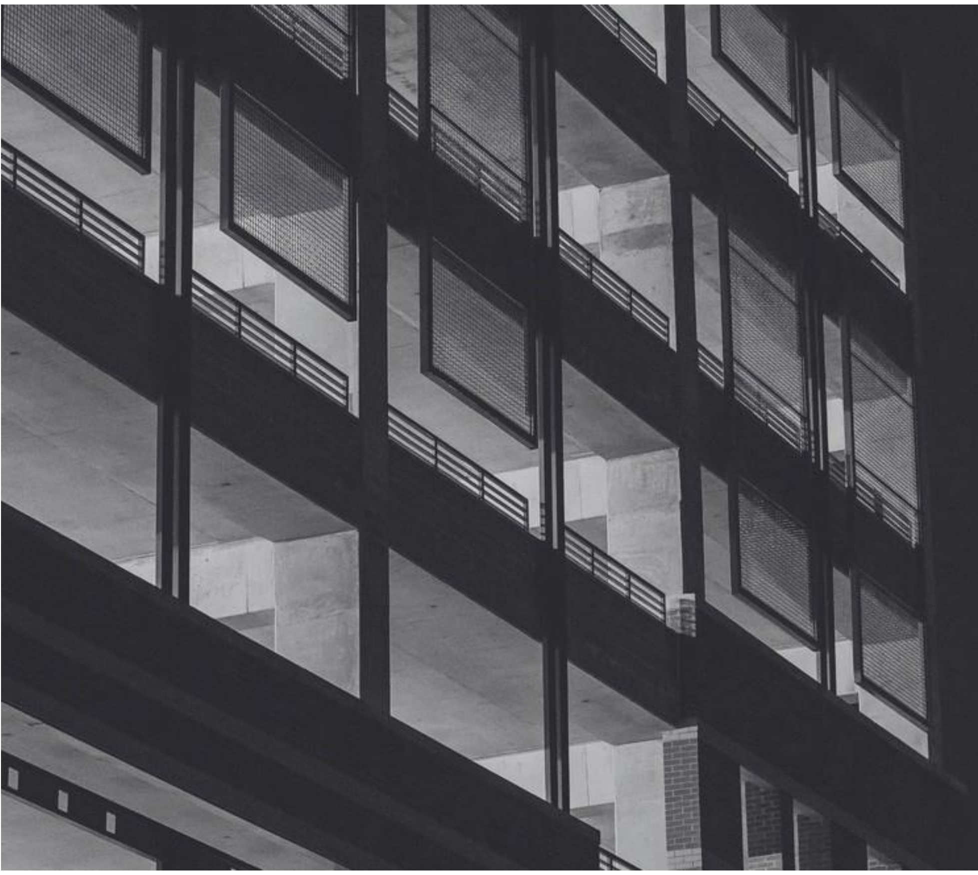
MONTHLY REVIEW

MAY 2026



Even assuming that the P/E ratio of the U.S. market has fallen toward the 21–22 range thanks to strong earnings growth — meaning that, despite the rally, valuation multiples have partially compressed, which is normally a positive factor for equities — the fact that U.S. government bonds are offering yields close to 5% implies that the equity risk premium has narrowed significantly. And when the spread between expected equity returns and the risk-free rate becomes too small, it is natural for some investors to start reducing their exposure to risk.

Seeing the S&P 500 index surpass 7,500 points on the screens — even if only briefly — particularly struck me.

I immediately thought back to that Monday afternoon on April 7, 2025, when the same index had fallen to just above 4,800 points in the days following the now-famous “Liberation Day.” A gain of more than 50% in just over a year: the perfect moment to exclaim “Incredible, my friends,” as the late José Altafini would have said.

Even more impressive was the rally that developed between late March and mid-May, in an extremely complex geopolitical environment, yet supported by a U.S. earnings season that was decisively stronger than expected.

In several cases, corporate results literally shattered analysts’ estimates.

At a certain point, however, equity investors must inevitably have turned their attention to the bond market. The yield on the U.S. 10-year Treasury rose above 4.6%, while the 30-year Treasury approached 5.2%, levels not seen since July 2007. And it was probably at that point that some investors started doing the math.

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That is why, in recent days, a natural phase of profit-taking seems to have begun, the intensity of which will depend on several factors.

Among these, it is worth mentioning a very interesting statistic compiled by Barclays. Historically, after the appointment of a new Federal Reserve Chair and their first official speech, the response of the U.S. equity market has not been particularly strong.

According to historical data available since 1930, the S&P 500 has recorded average declines of 12% and 16% respectively in the 3 and 6 months following the new Chair's first public address.

Naturally, this is more of a statistical curiosity than a truly predictive indicator, but it remains an interesting element to monitor.

To this we can add the seasonal component — the famous "Sell in May and go away" — although today markets seem to be far more influenced by real interest rates, liquidity conditions, and corporate earnings than by simple seasonal statistics.

More interesting, however, is the recent appearance of several "Hindenburg Omens," a technical indicator with a rather spectacular name but a relatively simple meaning. The Hindenburg Omen occurs when the market simultaneously shows many stocks reaching annual highs while many others hit annual lows. In practice, the indices continue to rise, but internal market participation becomes progressively less uniform.

Historically, this indicator has preceded some difficult phases for the markets, but it has also generated numerous false signals. In several cases, indices continued rising for months after the indicator appeared.

For this reason, many professionals consider it more a sign of deteriorating market breadth and increasing internal fragility rather than a true predictive tool for an imminent crash. And that is probably the most appropriate interpretation today as well. Another key issue, in our view, continues to be U.S. inflation.

The PPI (Producer Price Index), namely the producer price inflation index, remains relatively elevated and suggests that inflationary pressures have not yet fully subsided.

But perhaps the most important point is another: the U.S. economy continues to show surprising resilience. The latest macroeconomic data revealed industrial production above expectations, accelerating manufacturing activity, still-solid consumer spending, and nominal GDP growth close to 6%.

And it is precisely this economic strength that is complicating the Federal Reserve's task.

Because an economy that is too resilient makes it more difficult to justify rapid interest rate cuts, and this is exactly where much of the tension observed in the bond market over recent weeks originates.

Without necessarily wanting to play Cassandra, the feeling is therefore that Wall Street is entering a different phase: less linear, more volatile, more sensitive to interest rates, and above all far more selective than the one observed during the first part of the year.

For this reason, as always, the most rational choice is probably to avoid both excessive enthusiasm and panic, even if the historically negative statistics associated with the appointment of a new Fed Chair were once again to prove accurate.

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