Monthly Market Update

June 2026

Madison INVESTMENTS

- The S&P 500 reached new record highs after nine consecutive weekly gains, returning 5.3% in May and 11.3% year-to-date.
- Strong earnings fueled market gains, with 75% of reporting S&P companies beating expectations and technology firms driving nearly all of May's advance.
- AI spending expectations have risen dramatically, boosting demand across manufacturing, construction, materials, energy, and labor markets.
- Prospects for near-term Federal Reserve cuts have diminished as inflation remains elevated and employment data stays relatively strong.
- Corporate earnings have stayed strong as momentum and speculative stocks dominate returns, with energy demand and government spending continuing to rise.

By the end of May, the S&P 500 Index had racked up its ninth straight week of advances, setting new all-time highs. The monthly return was 5.3%, bringing the year-to-date result to 11.3%. The typical American was likely more in tune with new highs at the gas pump or on steaks than the S&P, but stocks were not operating outside the bounds of fundamentals. The key driver was earnings, and they were bountiful. Through late May, 75% of reporting S&P companies beat first quarter expectations, led by technology and energy stocks. As in trailing periods, earnings growth was particularly eye-popping among makers of central processing units (CPUs) and memory chips. In May, technology firms were responsible for almost all of the market's advance. Assessments of AI data center spending have increased since the start of the year, not by $1 or $2 billion, but by more than $100 billion. The top-five mega-cap developers are now expected to commit $723 billion in 2026.

One emerging development is the spreading impact of all this AI spending, which is acting like a private sector fiscal stimulus. It's seen in industrial companies that make heavy equipment to build and operate data centers, and in the materials and energy being used to build and power them. It shows in the solid employment numbers as each of the hundreds of new data centers employs thousands of construction and trade workers.

Despite persistent inflation, consumer spending remained strong–in line with low unemployment and the wealth effect of several years of strong market returns. If we can get past the conflict with Iran and the associated spike in gas prices, we are optimistic about the economic outlook. The likelihood of Federal Reserve cuts, which were once an anticipated market boost, is waning behind strong employment and rising inflation. Even the confirmation of Trump-endorsed Kevin Warsh as new Fed Chair is unlikely to overcome the economic realities and a Federal Open Market Committee that will include the past chair, Jerome Powell. We are looking into 2027 for any possible cuts.

As long as corporate earnings remain robust, current market trends can continue. But the concentration in momentum (investors favoring recent market winners) and speculative stocks gives us pause. Certainly, the geopolitical situation could worsen, as could inflation. Americans looking for quick relief at the pumps will likely need considerable patience, as even under the best circumstances, the restoration of Gulf oil will take time. In the meantime, the demand side will likely expand behind growing international and domestic needs. Hundreds of AI data centers are under construction, with each consuming as much energy as a mid-sized city. These data centers are commonly paired with fossil fuel-based generators, even if only for backup. While the current administration began with ambitious plans to cut government spending (think DOGE), in reality, government spending, particularly from the War Department, is showing concerning expansion. This means more government debt issuance and a market that is already leery of inflation demanding higher yields. We feel this is a good time to celebrate stock market gains, take a hard look at risk, and ensure that portfolios are suitably balanced.

U.S. Equities (%)

	May	YTD	1 Year	3 Year	5 Year	10 Year
DJ Industrial Average	2.9	6.9	22.7	17.8	10.2	13.5
S&P 500	5.3	11.3	29.8	23.6	14.1	15.6
Russell 1000	5.1	10.9	28.8	23.3	13.3	15.4
Russell 1000 Value	2.9	13.7	28.5	19.4	10.4	11.4
Russell 1000 Growth	7.2	8.2	28.7	26.4	15.7	18.9
Russell Midcap	2.9	11.8	22.4	18.5	8.1	11.7
Russell 2000	4.4	18.2	43.1	20.3	6.6	11.2

U.S. Equity Characteristics - S&P 500

	May	12/31/25
Price/Earnings Ratio (NTM)	21.2	22.2
Weighted Avg. Market Cap ($B)	1,614.3	1,430.6
Dividend Yield (%)	1.1	1.1

U.S. Equity Sectors - S&P 500 (%)

	May	YTD	Weight
Communication Services	-0.9	9.3	10.4
Consumer Discretionary	2.6	4.1	9.7
Consumer Staples	-3.2	7.5	4.6
Energy	-5.6	26.0	3.1
Financials	-1.1	-5.3	11.3
Health Care	2.5	-3.0	8.3
Industrials	-0.8	12.0	8.3
Information Technology	16.0	23.8	38.6
Materials	-0.7	11.9	1.8
Real Estate	-1.1	10.6	1.8
Utilities	-5.1	4.8	2.1

International Equities (%)

	May	YTD	1 Year	3 Year	5 Year	10 Year
ACWI	5.2	12.1	30.3	22.3	11.5	12.8
ACWI ex USA	5.0	14.4	32.8	20.8	8.8	9.8
MSCI EAFE	3.1	9.4	22.8	18.2	8.8	9.3
Emerging Markets	9.7	25.6	54.3	25.2	7.5	10.7
China	-3.0	-8.5	6.1	11.9	-5.2	5.2
Japan	5.0	16.1	31.7	20.2	9.5	9.6
Germany	2.8	2.2	6.1	19.0	6.8	8.1
United Kingdom	-0.3	7.0	23.0	19.3	11.7	8.5
India	-0.6	-11.2	-11.4	6.8	4.7	8.4

Key Asset Prices

	May	12/31/25
EUR/USD	1.17	1.17
USD/CAD	1.38	1.37
USD/JPY	159.23	156.80
GBP/USD	1.35	1.34
Bitcoin ($)	73,579.7	87,508.8
Gold ($/oz)	4,492.0	4,324.0
Crude Oil (WTI) ($/bbl)	91.2	57.3

Fixed Income (%)

	May	YTD	1 Year	3 Year	5 Year	10 Year
Government Bond	0.1	0.0	3.7	2.8	-0.3	1.1
Municipal	0.4	1.3	6.7	3.8	0.9	2.2
U.S. Aggregate Bond	0.3	0.4	5.1	3.9	0.2	1.7
Investment Grade Corporate	0.7	0.6	6.0	5.2	0.6	2.7
High Yield	0.5	1.7	7.6	9.4	4.4	5.9

U.S. Treasury Yields (%)

	May	12/31/25
3-Month	3.69	3.67
6-Month	3.78	3.59
2-Year	3.98	3.47
5-Year	4.13	3.73
10-Year	4.45	4.18
30-Year	4.99	4.84

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Dow Jones Industrial Average® (The Dow®): a price-weighted measure of 30 US blue-chip companies, covering all industries except transportation and utilities.

S&P 500® Index: large cap market index which measures the performance of a representative sample of 500 leading companies in leading industries in the US.

Russell 1000® Index: measures the performance of the 1,000 largest companies in the Russell 3000® Index.

Russell 1000® Growth Index: designed to track those securities within the broader Russell 1000 Index that FTSE Russell has determined exhibit growth characteristics.

Russell 1000® Value Index: designed to track those securities within the broader Russell 1000 Index that FTSE Russell has determined exhibit value characteristics.

Russell 2000® Index: a small cap market index which measures the performance of the smallest 2,000 companies in the Russell 3000® Index.

Russell Midcap® Index: measures the performance of the mid cap segment of the US equity universe.

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MSCI ACWI ex USA Index: captures large and mid cap representation across 22 of 23 Developed Markets countries (excluding the US) and 23 Emerging Markets countries.

MSCI EAFE (Europe, Australasia & Far East) Index: a free-float adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada.

Emerging Markets - MSCI Emerging Market Index captures large and mid cap representation across 24 Emerging Markets (EM) countries.

China - MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs).

Japan - MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market.

Germany - MSCI Germany Index is designed to measure the performance of the large and mid cap segments of the German market.

United Kingdom - MSCI United Kingdom Index is designed to measure the performance of the large and mid cap segments of the UK market.

India - MSCI India Index is designed to measure the performance of the large and mid cap segments of the Indian market.

Government Bond - Bloomberg US Government Index measures the performance of US Treasury and Agency Indices, including Treasuries and US agency debentures.

Municipal - Bloomberg US Municipal Index covers the USD-denominated long-term tax-exempt bond market and has four main sectors: state and local general obligation, revenue, insured, and prerefunded bonds.

US Aggregate Bond - Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, USD-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage backed securities, asset-backed securities and corporate securities, with maturities greater than one year.

Investment Grade Corporate - Bloomberg US Credit Index measures the investment grade, USD-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

High Yield - Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded.

Weighted Avg. Market Cap: measures the size of the companies in which the portfolio invests. Market capitalization is calculated by multiplying the number of a company's shares outstanding by its price per share.

Price-to-Earnings (P/E) Ratio: measures how expensive a stock is. It is calculated by the weighted average of a stock's current price divided by the company's earnings per share of stock in a portfolio.

Dividend Yield: the portfolio's weighted average of the underlying holdings and not the yield of the portfolio.

Federal funds rate: the target interest rate range set by the Federal Open Market Committee (FOMC) for banks to lend or borrow excess reserves overnight. It influences monetary and financial conditions, short-term interest rates, and the stock market.

Upon request, Madison may furnish to the client or institution a list of all security recommendations made within the past year.

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