



Aptus May 2026 3-Pointers Highlights

Market Overview

May delivered another remarkably strong month for equities, providing another validation for remaining a "rational optimist". The market witnessed aggressive continuation following an excellent April, with the NASDAQ surging nearly 10% and the S&P 500 technology compounding by another 5%. Emerging Markets also continued its momentum, driven by structural strength in major semiconductor and memory names such as Samsung and SK Hynix, which collectively account for nearly 14% of the index. Underneath the hood, a healthy cyclical expansion occurred as supply constraints in memory and DRAM drove a significant revenue flow-down into small-cap semiconductor names. Rather than a pure mean-reversion trade, small caps are exhibiting authentic, fundamental growth, reflecting expanding market breadth beyond the initial mega-cap tech leaders.

Asset Allocation and Right Tail Events

The market's performance since its March 30th trough represents a profound case study in left- and right-tail dynamics, rallying an incredible 18% out of the geopolitical conflict in Iran. This fast, V-shaped recovery reinforces the core Aptus asset allocation philosophy of "more stocks, less bonds" while remaining risk-neutral. Because structural convexity is captured via volatility as an asset class during sharp pullbacks, the strategy eliminates the pressure and risk of trying to time market bottoms or light-switch the portfolio. Furthermore, the S&P 500 enters June on an eight-week consecutive winning streak. Historical evidence shows that strong momentum ultimately begets stronger forward momentum, highlighting that portfolio patience and staying simple pays significantly higher dividends than over-creativity.

Rates, Bonds, and the Trifurcated Yield Curve

The fixed income landscape experienced a sleepy but telling month, as yields flattened across a trifurcated curve. In the middle of the curve (2- to 7-year maturities), yields climbed as sticky inflation, energy prices, and the Iran conflict forced the market to price out early-year rate-cut expectations. Conversely, the front-end (3-month and 6-month) and long-end (20-year and 30-year) barely budged, signaling that market participants do not buy into narratives of a runaway, 1970s-style second wave of inflation. While the 10-year Treasury yield temporarily breached its historical 4.5% line of valuation demarcation (even kissing 4.70%) the equity market climbed this "wall of worry" in stride. This highlights that the economy's primary driver is authentic, stimulative real growth rather than a dangerous inflation spiral.



The Fiscal Regime and Portfolio Clocks

A permanent headwind facing traditional long-duration fixed income paper (10, 20, and 30-year Treasuries) is the worsening U.S. fiscal picture, with structural deficits projected to hover near 6% for the next decade. Because the federal government must continually borrow to fund this shortfall, an immense volume of debt issuance is flooding the market while the Fed pulls back its buying program. This secular shift diminishes the historical efficacy of aggregate bonds as a portfolio hedge; during the last 25 drawdowns of 5% or more in the S&P 500, the aggregate bond index only rose 9 times. Over a 10-year time horizon, money supply has historically compounded at a 6.5% CAGR, whereas a 10-year Treasury yields only 4.5% before taxes, leading to a structural "leakage" of real purchasing power. This structural regime demands alternative allocation tools, such as hedged and buffered equity, to generate true real returns.

Debunking the Bubble: Earnings and Fundamentals

Despite noisy warnings that extreme concentration and year-to-date returns have pushed equities into a dangerous bubble, underlying business fundamentals completely separate today's market from the late-1990s dot-com era. From 1995 to 1999, the S&P 500's total return ballooned 220% on the back of only 67% earnings growth, indicating aggressive, sentiment-driven multiple expansion. In contrast, over the 2021 to 2025 cycle, S&P 500 earnings growth actually outpaced market returns, surging 79% relative to an 85% total return, meaning market valuations have functionally compressed. While technology dominates 68% of year-to-date S&P performance, the concentration reflects massive operating leverage and real economic profitability. S&P 500 EPS growth is projected at 21% for the full year 2026 (up 28% year-over-year), while the average stock remains robustly supported by a 13% corporate earnings growth rate.

Looking Ahead

As the first quarter corporate earnings season concludes, short-term headlines and geopolitical frictions in Iran remain minor sideshows to the main character of the macroeconomic plot: the revolutionary rollout of artificial intelligence and advanced computing. Massive capital expenditures and data center infrastructure build-outs continue to act as a structural anchor for corporate margins and efficiency. Ahead of the highly anticipated Federal Reserve meeting in three weeks under a transitioning leadership structure, the hurdle for actual rate hikes remains high. Even if macro data prints choppy or interest rates eventually decline, equities remain the primary beneficiary of cheaper capital and lower discount rates. The investment committee reiterates its simple, foundational North Star: lean directly into beta, anchor allocations around secular earnings durability, and completely reject the seasonal urge to "sell in May and go away".

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