May 2026

Alexis Investment Partners

Practical | Tactical

Summary

April was impressive as major indexes posted their best monthly gain since COVID! I am tempted to call April out as a reminder of how dangerous it can be to sell into fear and how investors are served by staying invested and focusing long-term. That said, April was an outlier (monthly gains or losses greater than 5% are rare) and although **we were well served by our decision to buy into the March correction**, this may be the wrong lesson to learn as **we drift into summer with stocks at record highs**.

We believe **this is an ideal time to review portfolio positioning and consider rebalancing**. Within our tactical strategy, we rebalanced the portfolio from overweight stocks to a neutral (benchmark) weighting. If you have questions or it's been a while since your last review, please schedule a call.

Key Market and Economic Data (*source: Clearnomics*)

• The S&P 500 and Nasdaq gained 10.4% and 15.3% for the month, both ending at new all-time highs, while the Dow Jones Industrial Average rose 7.1%.
• Volatility declined over the month, as measured by the CBOE VIX index, falling from 25.3 to 16.9 alongside improving market conditions.
• International developed markets returned 7.0% based on the MSCI EAFE Index in U.S. dollar terms, while emerging markets returned 14.5% based on the MSCI EM Index.
• The 10-year Treasury yield ended the month with little change at 4.37%. The Bloomberg U.S. Aggregate Bond Index was flat with only a 0.1% increase during the month.
• Brent crude oil ended April at $114 per barrel, with swings from as low as $92 to as high as $121. WTI closed the month at $105, as the Strait of Hormuz remained closed to shipping.
• Gold ended the month at $4,610 per ounce, a slight decline over the month.

What to Expect in Portfolios

Last month we said, "April is typically a good month for stocks and investor sentiment suggests the potential for a rebound."

The rebound exceeded our expectations, highlighting how extreme negative sentiment can indicate that investors are poorly positioned and selling pressure can fade before issues are resolved.

The snapback recovery has restored the bull market's uptrend but **we expect a volatile summer** as investors struggle with mixed signals regarding inflation, interest rates, mid-term elections, employment, AI and more.

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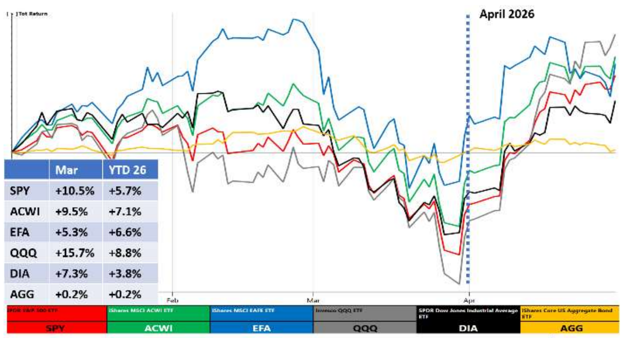
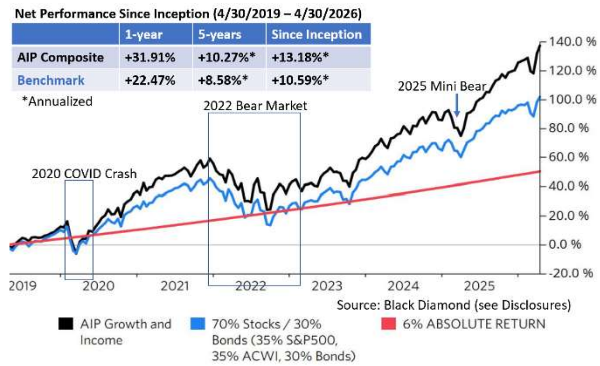
What a difference a month can make! The chart below shows the new year-to-date leader is the Nasdaq (QQQ). **Stocks and bonds gained - although bonds lagged cash year-to-date as interest rates rose.**

Foreign stocks rose less but it's hard to complain unless you sold the lows (sounds crazy, but there was significant fear induced selling in the correction).



Source: Investors FastTrack

The chart below shows the net performance of our most popular composite since inception (120 accounts – see disclosures on page 4). The 6+ years shown have been volatile including COVID and the 2022 Bear market. **Our strategy and discipline led to greater participation in gains than declines, allowing us to add value through this volatile time.**



Source: Black Diamond (see Disclosures)

Insights and Commentary

Investing can be an emotional roller coaster, leading to costly mistakes. To navigate effectively as we seek greater participation in advances than declines, we have found it helpful to monitor a series of indicators and models based on 3 key tenants, (Don't Fight the Fed, Don't Fight the Trend, Follow Sentiment Except at Extremes) The tiles below summarize current conditions:

Trend | Sentiment | Valuation | Monetary | Seasonality

Our indicators remain mixed this month (upgraded trend, downgraded sentiment and seasonality).

During the correction, we noted that the trend was still positive despite recent weakness as the reason we downgraded to neutral (yellow) instead of negative (red). **The snapback recovery to new highs for most indexes has confirmed the bull market from a trend perspective.**

Sentiment indicators still show healthy skepticism but marked improvement off the lows. This is somewhat typical as market strength breeds confidence. People who held cash fearing further downside tend to invest as confidence improves.

The interesting offset currently is a mixed message from asset allocation data showing very high cash (money market) balances but also record high stock holdings as a percentage of investments (investors are underweight bonds). **We view sentiment as supportive but believe it may be less of a tailwind this cycle.**

Valuations remain a headwind for long-term investors. There are pockets of value where individual stocks sold off despite continued good earnings growth. That said, high valuations tend to be associated with higher volatility and below average long-term performance.

Rising oil prices have fueled inflation fears. Interest rates have drifted higher resulting in tighter monetary conditions. Fed leadership is changing, but the Fed has signaled a reluctance to reduce interest rates as some members recently suggested rates may currently be close to "neutral". That suggests reduced confidence in the path to lower inflation (closer to the 2% target). We agree, as 2.5% to 3% inflation aligns with long-term history. That said, we still see room for the Fed to cut rates by 0.5% to 1% over the next year.

Sell in May and Go Away is a popular slogan based on better returns between November and April. That said, most of **the "summer doldrums" tend to happen later in the summer** and the average return between May and October is positive, so we would not sell stocks based on seasonality alone at this time.

Update, Observations, Indicators and Outlook:

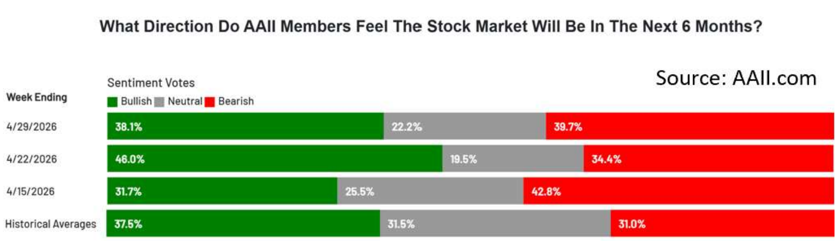
Our **Market Pulse** shows **the bull market has resumed** control.

In a bull market, pullbacks and corrections tend to be relatively shallow and short lived, presenting opportunities to add to our favorite stocks as they sell off in sympathy with the correction.

None of the questions we raised in the last letter have been resolved. In other words, **there is no shortage of potential catalysts for more volatility.** The caveat is that these concerns are widely known, which may limit downside and could even spur upside rallies should favorable news come through.

Earnings growth has been very strong. This is certainly positive but it's also hard to argue that strong growth isn't **already priced into stocks based on current rich valuations.**

AAII is a prominent, long-standing association of individual investors famous for its sentiment polls and investor education. The chart below shows bearish sentiment back near where it was in the correction while bulls are basically aligned with long-term averages. **There was a surge of optimism off the lows, but that faded as oil prices rose along with skepticism of an imminent end to the Iran war.**



This is a challenging period for investors, and we are grateful to have **a flexible strategy** that **allows us to adapt and manage risks proactively.** This works thanks to your continued confidence, which we strive to earn through results and consistent communication.

In the coming months **we plan to share some videos** that we hope will help us share some of the lessons we have learned over the last decades that shape our view of markets today, tools we use to manage risk, and why we believe the next years might look more like 2000-2010 than 2011-2025.

We look forward to your feedback, questions and concerns. Although our core strategy is intentionally tactical based on our long-term views, we have the flexibility to adapt our approach to your portfolio based on your individual goals and preferences.

Market Pulse:

We try to avoid jargon, but a few terms are helpful when describing financial conditions.

Bull Market: markets trending up (making higher highs on rallies and higher lows in periods of decline). **We can expect periodic pullbacks and corrections, but these should be relatively short and shallow – followed by resumption of the up-trend.**

Consolidation: after a period of strong gains or steep declines sometimes markets become range bound, moving up and down by 3-5% over several weeks. After consolidation, the prior trend resumes.

Pullback: a decline of 3-5% that generally happens at least twice per year. Pullbacks often resolve within a few weeks.

Correction: a decline of 5% to 10% that typically happens once per year. Like pullbacks, markets recover quickly after corrections, generally within 3- 6 months.

Bear Market: a decline of 20% or more. Many bear markets are fully recovered within 18- 24 months, but severe bear markets like 2000-2003 and 2007-2009 can take 5-7 years or longer to recover from.

Bottoming Process: After a correction or bear market, stocks often bounce and re-test lows multiple times before recovery.

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Closing Comments:

Several clients have recently been speaking with friends who are looking to make a change either because they are nearing a life transition or have been unhappy with their current advisor.

We appreciate your referrals and are pleased that our company continues to enjoy steady growth. Our focus is always on providing exceptional service and performance and we are very grateful for your confidence and support!

Please call and/or email us personally for most of your account servicing needs and especially when you have questions or concerns.

Disclosures

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