

# Alexis Investment Partners

Practical | Tactical



## Summary

Stocks continued to spring higher in May, extending the tech led rebound off the March correction. It must be getting difficult for those sidelined by fear as major indexes breach all-time highs. We are pleased to report that our portfolios continued to outpace benchmarks in May, extending our year-to-date lead.

As much as we are enjoying our gains this year; high valuations, looming IPOs, contentious midterms, fresh Fed leadership and an uncertain geopolitical backdrop command our respect. Within our tactical strategy, we further rebalanced the portfolio – this time from a neutral (benchmark) weighting to modestly underweight stocks.

We are not betting against stocks and welcome further progress. We would not be surprised to see further gains through year-end but we believe it's prudent to lock in some gains and prepare for potential turbulence.

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

- The S&P 500, Nasdaq, and Dow Jones Industrial Average posted gains of 5.1%, 8.4%, and 2.8%, respectively, for the month. All three major U.S. indices closed May at new all-time highs.
- Market volatility, as measured by the CBOE VIX index, declined to finish May at 15.32.
- International developed markets returned 2.6% based on the MSCI EAFE Index in U.S. dollar terms, while emerging markets returned 9.5% based on the MSCI EM Index.
- The 30-year Treasury yield reached 5.18%, its highest level in nearly two decades, before finishing the month below 5%. The 10-year Treasury yield rose to 4.4%.
- Oil prices declined, with Brent crude closing at approximately \$92 per barrel and WTI at \$88.
- Gold ended the month slightly lower at \$4,539 per ounce.
- First quarter real GDP was revised lower from 2.0% quarter-over-quarter to 1.6%. April inflation showed headline CPI at 3.8% year-over-year and core CPI at 2.8%.

## What to Expect in Portfolios

Last month we said, “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.”

May’s strength reflects strong earnings growth and optimism that high oil prices and related inflation readings will ebb as the Iran war ends and AI fueled productivity gains spread. We continue to expect a volatile summer and proactively tactically reduced equity exposure to lock in some gains. We expect further incremental allocation adjustment in the months ahead.

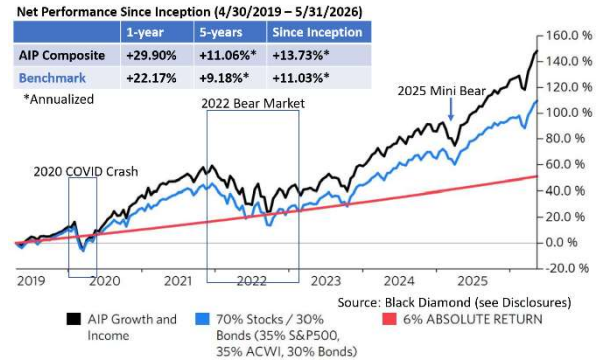
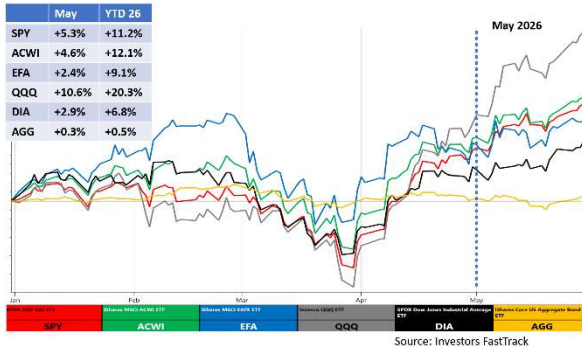
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May was impressive and 2026 is again looking quite good for stock investors. April's tech rebound continued at a blistering pace with the Nasdaq 100 (QQQ) up more than 10%!

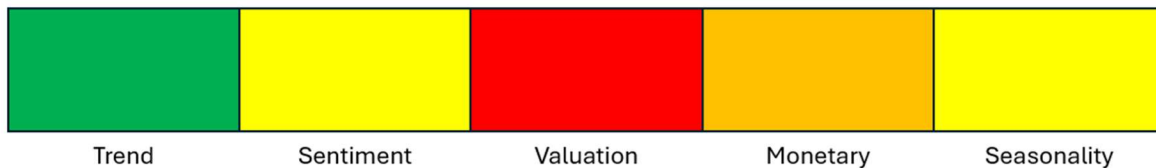
Bonds were dull, underperforming cash as high oil prices fueled inflation concerns and rising interest rates offset relatively attractive current income.

The chart below shows the net performance of our most popular composite since inception (120 accounts – see disclosures on page 4). The 7+ 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.



## 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:



Our indicators remain mixed but incrementally more cautious. This month we downgraded sentiment and monetary conditions.

**Trend strength remains intact**, somewhat offset by an unusually high number of stocks making new lows as major indexes breach all time highs.

Popular sentiment surveys, most notably AAI, still show healthy skepticism from retail investors that has been slow to heal. Stocks have enjoyed steady positive flows and **sentiment indicators based on objective data like money flows, options pricing and equity market participation are starting to flash warning signs.**

**Markets tend to test the resolve of Fed leadership** and the current transition from Powell to Warsh adds risk to an already deteriorating monetary backdrop. The fact that the war in Iran remains unresolved makes it more challenging for the Fed to follow through with rate cuts. Market based interest rates continue to drift higher.

**Significant IPOs on the horizon (SpaceX, Anthropic and OpenAI) are expected to fetch very high valuations** reflecting hyped sentiment while drawing funds from the broader market.

Such events create wealth for founders, provide access to capital for growing businesses and allow investors to participate in the future of these exciting enterprises. The problem is a potential strain on broader market liquidity and sky-high valuations that can turn great companies into lousy investments. It is also notable that **marque IPOs can be a precursor to market peaks as they tend to come when sentiment is enthusiastic.** AI is powerful and exciting but stocks peak on good news.

**Valuations remain a headwind for long-term investors.** Earnings growth is impressive as any weakness in consumer spending has been offset by AI driven investment. Profit margins have also been strong.

Seasonality is not favorable, but late summer tends to be more volatile.



### 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.

The March correction helped restore a wall of worry but is quickly fading into a distant memory as stocks stand at all time highs. Investor and consumer sentiment remain sour yet behavior tells a different story as spending and investment remain robust.

As risk managers we seek to learn from history, which inevitably leads us to error on the conservative side when patterns associated with elevated risk emerge. Recognizing that **there's an art to the science of investing** is important and humbling.

From a practical perspective, we also have found that **we make more money being optimistic than pessimistic**. In other words, we believe in the power of compounding and the benefits of participating in the long-term growth of the great companies that produce and benefit from innovation and fuel our economy. We also seek to benefit from the differences between different types of assets and the opportunity to blend and trade between equity and debt investments plus tangible assets like real estate and commodities to help us adapt to different environments and respond to evolving market cycles.

**Risk is an inherent part of opportunistic investing. Some risks can be mitigated; others must be managed.** Nobody has a crystal ball but that doesn't preclude us from making educated predictions based on a mix of objective data, historical patterns and decades of experience in the trenches. **We just released the first in a series of videos designed to share some observations and inferences that inform our investment strategy.** We appreciate you taking the time to review these and hope you find the visuals and perspective helpful, relatable and informative.

**It may seem like we're sounding an alarm** as we prepare for a potential shift from secular bull to secular bear market in the next months or years. We believe this is inevitable and simply a question of timing, but we are not anchored in this belief and have intentionally designed our strategy to be flexible. **We view forecasts as helpful tools for preparation, but tactical decisions are based on current observations, and our active approach allows us to adapt as needed.**

**We look forward to your feedback, questions and concerns.** Although our core strategy is intentionally tactical, 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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