



## “Surprise!”

### Market Commentary – May 2026

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*Written April 30, 2026 – [www.banyan-asset.com](http://www.banyan-asset.com)*

**The advance estimate of Gross Domestic Product (GDP) shows that the output of goods and services produced by labor and property located in the U.S. grew at an annual rate of 2.0% in the first quarter of 2026.** This is higher than the 0.5% reading in 2025 Q4. The components of the 2026 Q1 GDP number are: consumer spending +1.08 percentage points, investment +1.48 percentage points, net exports -1.30 percentage points, and government spending +0.73 percentage point. The sum of these numbers equals +1.99%. GDP was driven by solid business investment (especially equipment and intellectual property products, which added +0.88 and +0.70 percentage point, respectively), a bounce in government spending (nondefense, ironically), and modest consumer demand. Net exports weighed on GDP as imports surged more than exports, which were robust as well. Overall, the economy is enjoying real growth.

**The Federal Open Market Committee (FOMC) announcement on monetary policy on April 29 included some unusual fireworks.** The FOMC left its benchmark federal funds rate in a target range of 3.5% to 3.75%, but they also added that “developments in the Middle East are contributing to a high level of uncertainty about the economic outlook”. Moreover, this was the first announcement since October 1992 where four voters (out of twelve) in the FOMC dissented on the Fed decision. One dissenter preferred to lower the rate by 0.25%, while the other three dissenters did not want to include an easing bias. Finally, this was presumably the last FOMC meeting chaired by Jerome Powell, who is scheduled to be replaced as Federal Reserve Chair by Kevin Warsh on May 15 (his senate approval is pending, but likely). The next FOMC decision on monetary policy is scheduled to be announced on June 17.

**The annual update of our universe of stocks reflected fewer potentially interesting companies than prior years, which is not too surprising given that the stock market is high.** We analyzed a total of 1,199 companies with a cumulative market capitalization of \$66.3 trillion. Our research identified “our universe”, which is comprised of stocks we believe to have the best risk/reward prospects (based on a combination of low valuation, low beta, low debt to market cap, and high dividend yield). This year, 71 companies made the cut (versus 85 companies in 2025, 85 in 2024, 82 in 2023, 73 in 2022, and 65 in 2021). Our stocks have the following market cap ranges: <\$1B (15 stocks), \$1B to \$5B (10 stocks), \$5B to \$20B (17 stocks), \$20B to \$100B (16 stocks), and >\$100B (13 stocks). The next step in our research process is to do a deep dive on companies of interest, including an estimate of a stock’s fair value, calculation of various financial metrics, and identification of opportunities and threats relative to the company’s story.

**Technical factors of the market are bullish (more demand than supply), while fundamentals are fairly priced – therefore, we are mildly bullish on the market.** The Standard & Poor’s forecast for S&P 500 earnings per share (EPS) through March 31, 2027 is \$336.00, which implies a price-to-earnings (P/E) ratio of 21.5 with the S&P 500 at 7,209. The earnings yield (E/P) of 4.66% represents fair value relative to the 10-year U.S. Treasury note yield of 4.40% (a yield spread of 0.26%). The eight largest companies in the S&P 500 make up \$24.3 trillion of the \$64.5 trillion index market capitalization with a weighted P/E of 35.2. If 37.6% of the index has a P/E of 35.2, then 62.4% of the index has a P/E of 13.2 for the overall P/E to be 21.5. A P/E of 13.2 is an E/P of 7.60%, which is attractively priced compared to the 10-year Treasury note yield of 4.40% (a yield spread of 3.20%).

**In a move that surprised nearly everyone on Wall Street, the S&P 500 rallied an astonishing 10.4% in April.** Even more amazing, the index punched through strong resistance to close today at an all-time high. Moreover, this was accomplished with the price of oil hitting new highs and the conflict with Iran unresolved. There should be plenty of support around 7,000, which was former resistance. Financial markets can throw a curve ball from out of nowhere. In April 2026, the outcome was bullish. Of course, there can be surprise bearish outcomes, as well, which are famously etched in investors’ psyche. A balanced approach to portfolio management allows investors to participate in some upside while softening downside.