

## Key Insights

- **Earnings Deliver the Strongest Margin Print on Record:** Q1 profits grew 28.6%, more than double the 13.1% expected at quarter-end and the highest pace since Q4 2021. FactSet's blended net profit margin hit 14.8%, a record since tracking began in 2009.
- **A Market Carried by Few Names:** Information Technology led all sectors with 54.3% earnings growth, but excluding NVIDIA and Micron drops earnings gains to 30.1%. Communication Services tells the same story, with its 48.9% growth flipping to a 4.1% decline once Alphabet and Meta are stripped out.
- **Oil Relief Cools the Inflation Read:** A fragile US-Iran ceasefire pulled Brent back from its late-April high above \$119, sending Energy down 5.63% on the month. The line that matters is \$100, above which the margin drag Walmart already flagged starts hitting earnings. At the close of May 29 WTI crude was \$87.36.
- **Positioning Turns Dangerously One-Sided:** Allocators lifted equity exposure to a net 50% overweight, the most bullish since January 2022. Long semiconductors is now the Street's most crowded trade at 73%, leaving little dry powder behind the leadership.
- **The Space Trade Becomes the Speculative Story:** SpaceX filed for the largest IPO in history at a target of at least \$1.8 trillion, lifting a basket of space names 57% and the Procure Space ETF (UFO) roughly 69%. A Space Force budget jumping 78% toward \$71 billion sits behind it, but most of these names are unprofitable and richly valued.
- **Trump Accounts Create a New Default Buyer for U.S. Equities:** The first \$1,000 federal seeds and contributions start July 4, funneling money only into low-fee broad equity index funds. Bloomberg Intelligence pegs the flow at roughly \$12 billion a year, rising toward \$21 billion if households max out.

## Monthly Recap

May 2026 belonged to technology. The S&P 500 rose 5.26% on the month and the Nasdaq Composite climbed 8.43%, but the headline gains masked how narrow the leadership had become. The Technology sector jumped 19.76% and did nearly all of the index's work, while eight of the eleven S&P sectors actually fell, led lower by Energy (-5.63%) and Utilities (-5.19%), with Consumer Staples (-1.66%), Financials (-1.06%), Real Estate (-0.92%), and Industrials (-0.83%) close behind. Outside tech, only Health Care (+2.38%) and Consumer Discretionary (+2.13%) posted gains. The growth-over-value tilt that has defined the year held firm, with Russell 3000 Growth Index up 7.16% against Value's 2.94%, and the Bloomberg Magnificent 7 Index added 6.64% as mega-cap AI leadership reasserted itself. Breadth looked healthier across the size spectrum than within it: the Russell 2000 Index rose 4.37% and the Russell Top 50 Index gained 5.03%. Internationally, emerging markets led again, with MSCI EM up 7.98% and now ahead 23.76% on the year, outpacing MSCI Europe (+3.18%) and MSCI World ex-USA (+2.08%). The cross-asset tape told a calmer inflation story than April, as the Bloomberg Commodity Index fell 3.84% and gold slipped 0.11% while the late-April oil spike unwound. The U.S. Aggregate (+0.21%) and 20+ Year Treasuries (+0.53%) eked out small gains, the dollar firmed 0.57%, and crypto was the clear loser, with the Bloomberg Galaxy Crypto Index down 6.31%.

Stocks and bonds spent May telling opposite stories. Equities held near records on the back of a record-setting earnings season and an AI complex that refuses to cool, while the bond market pushed long-term yields to two-decade highs on fear of entrenched inflation. Oil, which had vaulted above \$119 in late April when U.S.-Iran talks collapsed, became the hinge once more, this time swinging back toward relief as a fragile ceasefire extension pulled Brent off its highs.

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## The Earnings Anchor: The Strongest Quarter Since 2021

The fundamental case for May's valuations rests on a Q1 season that ranks among the best in two decades. With 97% of the S&P 500 reported, FactSet puts the blended year-over-year earnings growth rate at 28.6%, up sharply from the 13.1% analysts had expected on March 31. If that holds, FactSet notes it will be the highest growth rate since Q4 2021 and the sixth straight quarter of double-digit gains, running well above the five-year average of 16.4% and the ten-year average of 10.3%.

The quality of the beat is as striking as its size. FactSet reports that 85% of companies topped earnings per share (EPS) estimates, the most since Q2 2021 and above the five-year average of 78%, while the magnitude of those beats reached 16.7% above expectations, more than double the typical 7.3% and the largest positive surprise since Q1 2021. Revenue did its part, growing 11.8% year over year, the fastest pace since Q2 2022, with 81% of companies clearing sales estimates. The market is also paying close attention to the misses, punishing negative surprises with an average price drop of 4.6% around the release, steeper than the usual 2.9%.

Margins are the centerpiece. FactSet's blended net profit margin for the quarter came in at 14.8%, a record since the firm began tracking the metric in 2009, eclipsing the 13.2% set just last quarter and the year-ago 12.8%. Corporate America is converting revenue into profit more efficiently than at any point in the modern series, and it's doing so against only lackluster economic growth. That combination, record profitability without a booming economy, is the cleanest argument for why the index can carry rich multiples through inflation scares and geopolitical shocks.

## A Market Carried by a Handful of Names

For all the breadth in the headline numbers, the earnings engine runs on a small set of companies. FactSet data shows Information Technology leading all sectors at 54.3% earnings growth, but strip out NVIDIA (\$1.87 versus \$0.81 a year earlier) and Micron (\$12.20 versus \$1.56) and the sector's growth falls to 30.1%. The concentration is starker in Communication Services, where 48.9% growth flips to a 4.1% decline once Alphabet and Meta are removed. Ten of eleven sectors grew earnings, led by Technology, Communication Services, Materials (+42.5%), and Consumer Discretionary (+40.8%), with Health Care the lone decliner. The semiconductor industry alone posted 107% earnings growth, and within Consumer Discretionary, Amazon was responsible for so much of the gain that excluding it cuts the sector from 40.8% to 16.6%.

That concentration has quietly turned the S&P 500 into a long-duration asset, its value leaning on the discount rate applied to earnings expected far into the future, which raises the bar for growth to keep justifying the price. Any slip in AI infrastructure demand or the timeline to monetization would compress multiples fast, and the damage would fall hardest on the richest names. U.S.-listed chipmakers have now run nearly 70% since the start of April. Positioning shows how one-sided the conviction has become. Asset allocators lifted equity exposure to a net 50% overweight, up from 13% a month earlier and the most bullish since January 2022, per Bank of America's Global Fund Manager Survey. Long semiconductors is now the most crowded trade on the Street at 73% of respondents, ahead of long Mag-7 (14%) and long oil (6%).

## Oil as the Cross-Asset Switch

The month's calmer inflation read traces almost entirely to oil. After the late-April collapse of U.S.-Iran talks had vaulted Brent toward its highs, May brought a partial reprieve as diplomatic progress and a ceasefire extension between Washington and Tehran pulled crude back down. The relief showed up directly in the tape, with the Energy sector off 5.63% and the broad commodity complex down 3.84% on the month. According to Bloomberg, traders are still caught between the odds of a durable deal and the risk of fresh escalation, which keeps crude the cross-asset switch. The level that matters is \$100 a barrel. Stay below it and breadth can broaden on its own, taking some of the weight off the AI names. Break above it and the market starts pricing in the drag from tighter financial conditions and squeezed margins. Walmart offered the clearest read on that drag. Demand held up, especially among higher-income shoppers, but the retailer absorbed nearly all of last quarter's fuel-cost increase and warned the current quarter could bring an equal or larger hit. That is the oil shock moving off the commodity screens and into earnings margins, and outside the AI names there is far less room in guidance to absorb it.

## The Bond Market's Warning

Treasuries themselves were quiet in May, with the Aggregate up 0.21% and long bonds up 0.53%, but the structural picture kept darkening. The \$50 trillion market for G7 sovereign debt has seen long-term yields climb to two-decade highs as investors demand more compensation for the risk of entrenched, structural inflation, and recurring supply shocks have markets betting central banks could be forced into a new phase of the cycle, with rate hikes back on the table. One signal stands out. The yield on the 10-year Treasury now exceeds the

S&P 500's earnings yield by a margin not seen since early 2002, at the tail end of the dot-com bust. On its face that is a warning, since bonds are offering more for less risk, and historically it has been a poor backdrop for stocks. Equities have shrugged it off so far. Whether they can keep ignoring what the long end of the curve is saying is the central question into June.

### The Space Trade

May also produced a more speculative story in space and satellite stocks. The spark was SpaceX filing for what is expected to be the largest IPO in history, after initially floating a valuation above \$2 trillion and reportedly trimming the target to at least \$1.8 trillion. NASA added momentum by awarding contracts to Blue Origin and Firefly Aerospace to help launch its lunar base program and deliver drones to the moon. The performance has dwarfed the broad market, with a Bank of America basket of U.S. space-race names up 57% this year according to Bloomberg. The Procure Space ETF (UFO) rose by roughly 69%, and individual names like Redwire, AST SpaceMobile, and Firefly posting repeated double-digit daily moves. A budgetary tailwind sits behind it, with the U.S. Space Force's 2027 budget jumping 78% from a year ago toward \$71 billion. The risks are just as visible. Many of these companies are unprofitable and trade at rich valuations, which is why wealth managers are urging small allocations, and the volatility is already on display: space stocks gave back gains when SpaceX trimmed its target, Blue Origin suffered a rocket explosion during a test, and Intuitive Machines fell almost 9% in a day after losing a NASA lunar terrain rover contract.

### Outlook

May leaves the market in an uneasy balance. The earnings backdrop is as strong as it has been in two decades, and that is doing real work to justify valuations and absorb shocks. But the support is narrow, with one sector carrying the index and a handful of names carrying the earnings, the bond market is pricing a less comfortable future, and oil remains the lever that could tip the whole thing. For June, the questions are easy to pose and hard to answer. Does Brent stay below \$100, does the AI complex keep delivering, and how long can equities keep ignoring the message from the long end of the curve?

## Topic of the Month: Trump Accounts – A New Default Buyer for U.S. Equities

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### The Setup

Account activation for Trump Accounts is currently underway, with consumers able to access and activate accounts through the Trump Accounts mobile app and web portal, both of which launched in May 2026. Per press reports, Treasury and its designated agent are sending authentication credentials to families who enrolled over the past tax season, alongside a mobile app that media coverage attributes to Bank of New York Mellon and Robinhood. Treasury Secretary Scott Bessent has framed the launch as a simple, secure on-ramp for households to start building long-term financial strength.

This is the first tangible milestone for a program that has been mostly abstract since it passed last summer. Trump Accounts, formally Section 530A accounts and briefly known during the legislative process as "MAGA Accounts," were created by the One Big Beautiful Bill Act, enacted July 4, 2025. The stated purpose is to give every American child an early ownership stake in the markets, narrowing the distance between people who earn and people who own. Adoption so far is meaningful but not yet decisive. As IRS-reported figures stand as of late March 2026, taxpayers had enrolled more than 4 million children, and over 1 million of those had claimed the federal seed contribution.

One detail matters for sequencing. Families can currently activate accounts and use the app, but no money moves yet. Actual contributions and the first federal seed deposits do not begin until July 4, 2026, timed to the country's 250th anniversary. So, the May launch is the plumbing going live. The capital flows start in roughly five weeks.

### What the Structure Actually Does

For an investor, the design is more interesting than the branding. Strip away the politics and you have a tax-advantaged account with a hard investment mandate pointed straight at broad U.S. equity.

Eligibility is wide. Any U.S. citizen under 18 with a valid Social Security number can have an account. Parents or guardians open one by filing IRS Form 4547 with their return, and starting mid-2026 they can also enroll through a Treasury-managed online portal (currently described in public materials as [trumpaccounts.gov](https://trumpaccounts.gov)). The federal government seeds a one-time \$1,000 deposit for every eligible child born between January 1, 2025 and December

31, 2028, a pilot that budget explainers put in the range of \$10 to \$20 billion over the decade, consistent with Congressional Budget Office-style cost estimates.

On top of the seed, anyone can contribute post-tax dollars, capped at \$5,000 per child each year (subject to aggregate 530A limits) and indexed to inflation after 2027. Employers and employees can route up to \$2,500 a year into an employee's dependent's account through a cafeteria plan, excluded from the employee's taxable income. Contributions from government entities and qualifying charities sit outside the \$5,000 cap entirely, which becomes relevant later when we get to the philanthropic and loophole questions.

The investment rules are the part worth underlining. By statute, the money can only go into broad U.S. equity index funds or ETFs that track the overall market, with no leverage permitted and a hard fee ceiling of 0.10%. Public materials describe the default at launch as an S&P 500 ETF, with other broad-based index options expected later. Funds are locked until the child turns 18, with narrow exceptions for death and certain rollovers. After 18, the account functions as a type of traditional IRA established under Section 530A.

That last point reshapes the tax story relative to early drafts. Lawmakers dropped the original idea of unlocking half the balance at 18 and half at 25, and they also abandoned an earlier proposal to tax withdrawals at long-term capital gains rates. The final version applies standard IRA mechanics. Growth is tax-deferred, withdrawals before age 59 and a half carry the usual 10% penalty (with carve-outs for higher education, up to \$10,000 toward a first home, and \$5,000 for birth or adoption), and on the way out, the gains plus any government, employer, or philanthropic contributions are taxed as ordinary federal income. That is a less favorable tax outcome than a Roth, and it's a detail clients will need spelled out clearly.

### Why This Matters For Markets

The mechanical takeaway is simple. The law is manufacturing a long-only, price-insensitive, fee-constrained buyer of U.S. equities, and it never sells until the beneficiaries reach adulthood years from now. It's the same basic argument that surrounded the launch of the 401(k) in the late 1970s, where critics warned about distortions from automatic equity inflows and proponents pointed to a broader ownership base, and where the flows ultimately reshaped the market over decades.

Bloomberg Intelligence estimates the program could push around \$12 billion a year into index funds and ETFs, rising toward \$21 billion annually if households actually max out

their contributions. That is not enough to move the broad market on its own, but the flow has unusual qualities. It is automatic, recurring, mandated into passive vehicles, and structurally indifferent to valuation. Over a decade those features compound.

The clearest beneficiaries are the large passive asset managers. BlackRock, Vanguard, State Street, and Fidelity are the natural homes for mandated low-cost index exposure, and the 0.10% fee cap effectively writes the incumbents' scale advantage into law. Smaller or higher-fee shops can't compete inside that ceiling. Robinhood sits in a different but real position, having co-built the consumer interface and the app experience that, at least initially, is the only way to access the program. That is a meaningful customer-acquisition channel into a generation of new account holders, and the eventual portability rules (a trustee-to-trustee transfer to a preferred brokerage down the line) turn those accounts into a contestable book of business.

There is a macro caution worth carrying alongside the bullish read. Analysts at the Urban Institute warn that engineering a locked, long-only, valuation-blind bid for stocks could push equity returns above what underlying economic growth would justify and inflate asset prices over time. It's the same dynamic that makes the flow attractive to managers in the near term and uncomfortable to think about in the long term. A buyer that doesn't weigh price lifts the price for whoever already owns the asset, but weakens price discovery, the market's job of working out what a stock is actually worth. That work happens when buyers and sellers form views on value and trade on them. When a meaningful slice of demand stops paying attention to price and just buys whatever the index holds, that signal weakens and prices can drift further from fundamentals.

### Where It Fits, and Where It Doesn't

For clients asking the practical question, where does this sit in a child's savings stack, the honest answer is that Trump Accounts are a complement, not a replacement. Think of them as a default equity sleeve rather than the centerpiece.

Against a 529 plan, the Trump Account loses on education. A 529 grows and pays out completely tax-free for qualified schooling, often comes with a state income tax deduction, and carries no federal annual contribution limit beyond gift-tax considerations. A Trump Account is taxable on the way out, capped at \$5,000 a year, and locked until 18 with almost no flexibility. If the goal is college, the 529 is the stronger tool by a wide margin.

Against a custodial Roth IRA, the Trump Account wins on access and loses on taxes. A child needs earned income to fund a Roth, capped at the lesser of that earned income or the annual IRA limit (\$7,000 in 2026), which rules out most young kids. Trump Accounts have no earned-income requirement, so they work from birth. But a Roth remains the most tax-efficient vehicle in the lineup, since qualified withdrawals come out entirely tax-free, while Trump Account gains and some contributions get taxed as ordinary income.

Against a UTMA or UGMA custodial account, the trade is flexibility for tax treatment. Custodial accounts let you invest in nearly anything and tap the money before 18 for the child's benefit, but their earnings are taxed annually under the kiddie-tax rules. Trump Accounts give up that flexibility in exchange for tax-deferred growth and a far narrower investment menu.

What no other account offers is free money at the door. The \$1,000 federal seed for kids born 2025 through 2028 is genuinely unique, and so are the philanthropic add-ons stacking on top of it. For an eligible newborn, the rational move is straightforward. Claim the seed, let it compound, and treat the account as the baseline equity holding while directing flexible savings toward a 529 or Roth depending on the family's goal.

### The Philanthropy and the Loopholes

The private money flowing toward these accounts is large and, in places, strategically interesting. Michael and Susan Dell have committed \$6.25 billion to fund \$250 deposits for roughly 25 million children aged 10 and under who live in ZIP codes with median income below \$150,000. Ray Dalio has pledged \$250 per account for about 300,000 children in Connecticut. Separately, large asset managers such as BlackRock have announced internal match programs for the \$1,000 federal seed for eligible employees' children, according to company statements, though that's an employer perk rather than a core program feature.

Because government and charitable contributions appear to fall outside the \$5,000 cap, wealthy donors are exploring whether they can route larger sums through 501(c)(3) structures, and that's the developing tax debate investors should track. The IRS generally requires a charity to benefit a broad or indefinite "charitable class," meaning the group helped has to be large enough and open-ended enough that it functions as a public benefit rather than a private gift dressed up as one. A statewide pledge like Dalio's clears that bar because the beneficiaries are every eligible child in Connecticut. The children of your country

club do not, because the group is closed and identifiable, so a "charity" set up to fund their accounts would be treated as private benefit and lose its deduction. Whether the workable version of this produces genuinely uncapped deductions is unsettled, and the strategy looks confined to sophisticated donors for now.

The more aggressive idea under discussion, and it's a proposal rather than current law, is letting billionaires donate appreciated shares of their own companies directly into the accounts. If the administration changed the asset rules to permit it, which would likely require regulatory or legislative change, a founder could offload large blocks of stock, take a market-value charitable deduction, and reduce or avoid capital gains tax. The catch cuts the other way for the beneficiaries. Because the assets couldn't be sold until adulthood, those accounts would carry concentrated single-stock risk for years, which runs against the program's diversified-index design. Watch this less for near-term market impact and more as a signal of how the rules might bend under pressure from large donors.

### The Friction and the Fault Lines

Two real problems sit between the program and broad adoption.

The first is the gift-tax question, and it's the more immediate drag. Because the money is locked until 18, contributions may not count as "present-interest" gifts, which could disqualify them from the annual gift-tax exclusion. In plain terms, a grandparent funding an account might have to file IRS Form 709 to draw on their lifetime exemption. Tax experts are split on this, and the IRS hasn't published a definitive resolution, so it remains an open compliance question. Until it's clarified, expect that uncertainty to deter exactly the affluent contributors most likely to max the accounts out, and retail participation to lag the program's potential.

The second is distributional, and it's structural rather than fixable with guidance. Lower-income families are already enrolling at lower rates, partly because setup runs through the tax-filing system that many financially vulnerable households are disconnected from. Analysts at think tanks including Brookings and the Economic Policy Institute warn that because higher income families are far more likely to contribute the full \$5,000 per year, the program is likely to reinforce or widen existing wealth gaps rather than close them. Critics describe it as an ownership-society instrument rather than an anti-poverty tool and argue the dollars would do more through direct transfers or an expanded refundable child tax credit. The early-withdrawal 10% penalty makes the accounts especially impractical for

families with volatile income who might need the money before the child turns 18. These are arguments from analysts rather than settled outcomes, but they're well-represented in the policy debate.

For an investor, that critique is not a reason to dismiss the program. If anything it reinforces the market thesis, because it points to capital concentrating among households with the means to contribute consistently, which is precisely the flow that benefits the passive managers.

### Bottom Line

Trump Accounts won't reshape the market in 2026. The flows are real but modest at launch, and the first contributions don't even start until July. The longer-term significance is the design. Congress has built a recurring, mandated, fee-capped, valuation-blind bid for U.S. equity index products, and pointed a generation of new account holders at a small set of incumbent managers and one consumer app.

For clients, the practical guidance is to claim the \$1,000 seed wherever a child is eligible, treat the account as a baseline equity holding, and keep flexible college and retirement savings in the more tax-efficient vehicles built for those jobs. Don't fund beyond the seed until the gift-tax treatment is clear.

For the portfolio view, the names with the most direct exposure are the large passive managers, with BlackRock best positioned given its scale, its match program, and its place in the default fund lineup, and Robinhood as the consumer-facing wildcard. We're watching three things from here: how fast activation converts into July contributions, whether Treasury resolves the gift-tax ambiguity, and whether the appreciated-stock donation rules get adopted. Any of the three could change the size and shape of the flow.

*This note is for informational purposes and reflects analysis of currently available program details, several of which remain subject to Treasury guidance and possible further legislation. It is not investment, tax, or legal advice.*

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## Conclusion

The story of May is the gap between two markets that no longer agree. The fundamental tape was as strong as any in twenty years, with a record margin print and a beat rate that left forecasts far behind, yet the price action kept narrowing until a single sector and few names were doing nearly all the work. Equities read that strength as permission to hold near records. The bond market read the same backdrop and pushed long yields to two-decade highs, betting that inflation is structural and that central banks may not keep lowering rates. Both cannot be right for long.

What ties the month together is how much now rests on things outside the earnings story. Oil is the switch, and the \$100 line decides whether breadth can heal on its own or whether the drag Walmart flagged starts showing up across guidance with far less room to absorb it. The 10-year yield sitting above the S&P's earnings yield, last seen at the end of the dot-com bust, is the warning the market has chosen to shrug off. The concentration that makes the index a long-duration asset is the same concentration that leaves it exposed if growth slips or the discount rate keeps climbing. None of this breaks the bull case. It suggests June will be influenced less by corporate earnings results and more by whether oil behaves, the AI complex keeps delivering, and equities can go on ignoring the long end of the curve. The truce held in May. It is not a comfortable one to carry forward.

Sincerely,

The James Research Team



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