



POST OAK PRIVATE WEALTH ADVISORS

ADVISORY, CONSULTING & INVESTMENT MANAGEMENT

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Monthly Market Commentary

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After two whipsaw months of stock returns—the 5% decline in March following the onset of the Iran conflict and its implications for energy prices, then April's 10.5% rebound following the cease fire agreement—May brought a more measured tone to the stock market. The S&P 500 added over 5% for the month while the Nasdaq Composite Index gained more than 8% as stocks firmed up their gains from April rather than extending them. In some ways, that's exactly what we'd want to see after a sharp recovery like we saw in April. What we didn't see is a significant pullback, which speaks to the underlying resilience of investor sentiment for the time being.

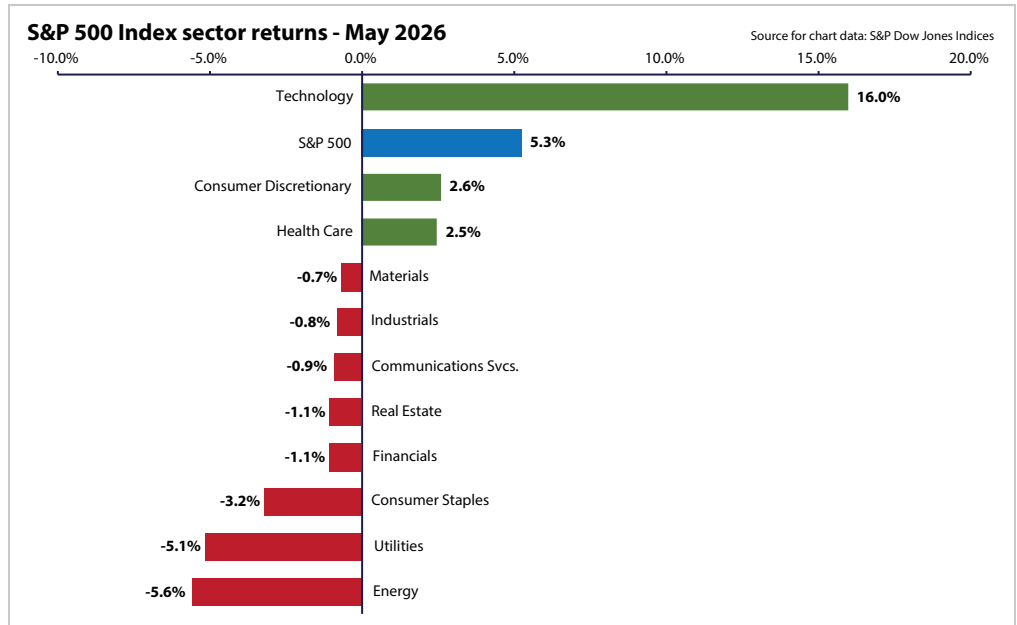
Not that there isn't enough fodder to fuel investors' anxieties. The geopolitical backdrop remains unsettled, with the "no war, no peace" stalemate between the U.S. and Iran persisting through May and showing little evidence of a near-term resolution despite the hopes around talks and deals. Global oil prices remained elevated at month-end as do U.S. gas prices right before the summer travel season, which has inflamed inflation risk and acted as a tax consumers and businesses alike. Equity investors have pragmatically chosen to focus on what they can actually measure rather than what they cannot predict. What they can measure right now is corporate earnings and those numbers have been staggering, especially for technology companies that contributed nearly all of the S&P 500's gains last month.

Looking back on an impressive earnings season

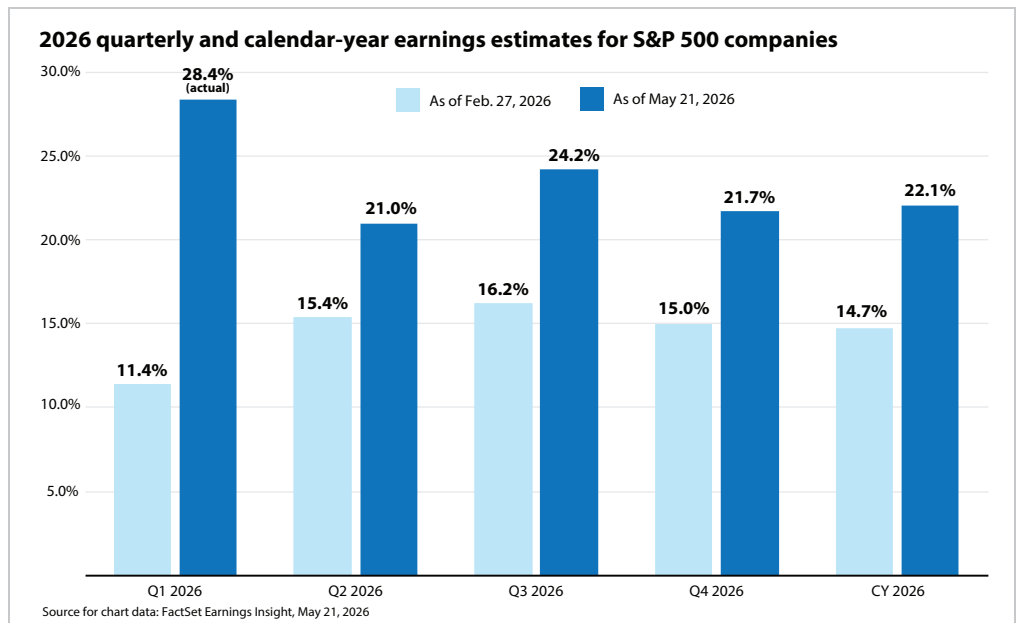
With the most recent earnings season now complete, the final numbers exceeded the elevated expectations at the end of the first quarter. The year-over-year earnings growth rate for the S&P 500 came in at approximately 28.4% according to FactSet, the strongest pace of growth since the post-pandemic rebound of 2021. Additionally, 84% of S&P 500 companies beat consensus earnings estimates for Q1, which is above both the five- and ten-year historical averages. On top of that, net profit margins reached 17-year highs last quarter. These aren't numbers you manufacture with accounting maneuvers; they reflect tangible operational strength across a broad swath of American business.

Industries that are riding the crest of the AI wave—tech, communications, materials and consumer discretionary—are delivering earnings over and above the S&P 500 as a whole. This is especially true for the "Magnificent 7" firms, whose actual earnings growth for Q1 came in at 63% year-over-year, versus 17.4% for the rest of the S&P 500. The bottom-line outperformance of tech companies showed up in sector returns for the month; technology contributed more than S&P 500's May return while eight other sectors detracted from monthly performance and saw negative returns for the month. (See the chart on the following page.)

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But there's another side to this performance and it's one that investors should understand: spectacular earnings seasons raise the bar for future performance. Every quarter that produces stellar results like last quarter's recalibrates what "good enough" looks like going forward. When analysts set their Q2 and full-year estimates, they do so with Q1's extraordinary numbers as their baseline. The market has, in effect, moved the goalposts as evident in recent forward earnings estimates following Q1 earnings season when compared against the previous quarter. As the chart below illustrates, current earnings estimates for future quarters and the full 2026 calendar year are considerably higher than they were three months ago, which were elevated from previous estimates as well.



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What this means practically is that we are now in an environment where earnings misses or even earnings beats that simply fail to impress the market sufficiently are likely to be punished swiftly and severely. We have already seen this dynamic play out in individual stocks this season: a company reports solid results, but falls short of elevated expectations on one metric, and its stock drops 10-15% in a single session. Multiply that across a handful of large-cap names that carry significant index weight, and you have the ingredients for meaningful market-level volatility, even when the overall earnings picture looks healthy. Investors should not be surprised if they see sharp single-day moves in familiar names as Q2 reporting begins in mid-July. That is not necessarily a sign that something has gone wrong with the bull market case for stocks, but it comes with the territory when valuations and expectations are both running high.

AI is more than a trend

If there is a single force driving markets, reshaping industries, and rewriting the rules of competition in real time, it's artificial intelligence. I want to be more direct about this than I have been in previous commentaries, because I think the magnitude of what's happening is still underappreciated by many, even as it dominates the financial headlines.

The AI infrastructure buildout is already the dominant story in corporate capital allocation. The billions being spent by Alphabet, Amazon, Microsoft, and Meta on data centers, custom silicon, and energy infrastructure are not speculative bets on a distant future. They are investments in capabilities that are generating competitive advantages for these companies today. Those capital expenditure decisions are flowing directly into the income statements of chipmakers like NVIDIA, power and grid companies like GE Vernova, and a growing ecosystem of industrial and materials firms that supply the physical backbone of the AI revolution. When a company like GE Vernova reports Q1 earnings of \$17.44 per share against expectations of \$1.95, you are witnessing AI's economic footprint in real time.

But the infrastructure story, as extraordinary as it is, is only the first chapter. The more profound transformation is happening at the application level, changing the way every industry operates. Financial services firms are using AI to synthesize vast quantities of data and insights that in the past required teams of analysts. Healthcare companies are using AI to accelerate drug discovery and improve diagnostic accuracy. Manufacturers are using AI to optimize supply chains and reduce downtime. Retailers are using AI to personalize customer experiences in ways that were previously impossible. This is not future tense. These applications are generating productivity gains, reducing costs, and expanding margins in the present day.

This is genuinely exciting not only for us as investors but also as citizens; this kind of productivity renaissance historically has driven long periods of above-trend economic growth. Higher productivity means companies can do more with the same inputs, which is fundamentally good for corporate earnings, real wages, and the broader economy. However, the labor market implications of the AI transformation remain one of the most significant but also most vexing questions of the present moment. Productivity revolutions throughout history have ultimately created more jobs and more prosperity than they destroyed, but the transition has never been painless nor evenly distributed. The Industrial Revolution, electrification, and the advent of computing all displaced categories of work that had previously seemed permanent and secure. AI appears likely to follow that pattern, but perhaps at a speed and breadth that those earlier transformations did not approach.

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White-collar, knowledge-intensive work appears to be squarely in the crosshairs of the AI revolution. Tasks that require synthesizing information, drafting documents, writing code and analyzing data are precisely where AI excels. What happens to labor demand in those categories over the next five to ten years is a big unknown, and I would be skeptical of anyone who claims to know the answer with confidence. Yet, I feel comfortable saying that AI will reward workers and companies who adapt and embrace the technology over those who resist it. We are watching this dynamic carefully, as it has meaningful implications for consumer spending and earnings trends that ultimately drive equity returns.

I was particularly struck by comments from Ken Griffin, the billionaire founder of trading firm Citadel Securities, as he described a major shift in his thinking on AI after seeing its real-world capabilities inside his own organization. Griffin said that work traditionally performed by highly educated specialists, “people with master’s and PhDs in finance” and that previously required “weeks or months” can now be completed by AI agents in “hours or days.” He emphasized that these are not routine administrative tasks, but “extraordinarily high-skilled jobs” involving sophisticated analytical work. Griffin said the speed and magnitude of change affected him personally, remarking, “I went home one Friday actually fairly depressed,” because he could see how dramatically AI may reshape society and knowledge work. While he continues to believe human judgment remains essential, he acknowledged that AI has reached a point where there has been a “step change in the productivity of the AI toolkit,” making it “profoundly more powerful” than it was even months earlier.

The new Fed chair’s precarious balancing act

A new era of leadership at the Federal Reserve as Jerome Powell concluded his tenure at the helm last month and new Fed chair Kevin Warsh has been confirmed. The circumstances Warsh faces could hardly be more complicated and the challenges he inherits deserve some plain-spoken analysis.

There’s no ambiguity about the political context of Warsh’s appointment; President Trump has been crystal clear about his desire for lower interest rates and Warsh’s selection was widely understood to reflect that preference. The White House has been vocal—at times extraordinarily so—in pushing for rate cuts as a means of stimulating economic growth and reducing the cost of servicing the federal debt. That political pressure is real. What’s equally real is the inflation data. The two major gauges of inflation, the Consumer Price Index and the Personal Consumption Expenditures index—both reported a 3.8% year-over-year rise in inflation for April, with energy costs the primary driver of higher consumer prices. Neither number is remotely near the Fed’s 2% target. Cutting interest rates in this kind of inflationary environment would risk adding fuel to the fire that had taken years of painful policy tightening to bring under control. The bond market, which has its own well-developed opinion on such matters, would react swiftly and negatively to any sign that the Fed was abandoning its inflation-fighting credibility for political convenience.

Warsh is a sophisticated market participant who understands this dynamic well. He has built a reputation as an institutionalist who respects the Fed’s independence. His challenge will be to navigate the tension between a president who wants one thing and an economy that is telling him something quite different, while also establishing his own credibility with markets in the early and highly scrutinized days of his tenure leading the Fed. The central bank’s independence is one of the foundational pillars of U.S. financial market credibility. If that independence is perceived to be compromised, the consequences—higher long-term interest rates, a weaker dollar, reduced foreign appetite for U.S. Treasuries—would be felt by every investor, regardless of political affiliation.

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Our base case is that Warsh threads this needle: perhaps holding rates steady in the beginning, allowing the data to guide future policy decisions, and pushing back against any political pressure to move prematurely. But it's a situation we are monitoring closely because the risks of a policy misstep in either direction are not trivial. There's a very real and growing case to be made for actually raising rates, which was reflected in the minutes released from the Fed's last meeting. In my view, a rate cut right now seems quite impossible.

Looking ahead: How long can the economy stay resilient?

The broad economic backdrop in May continued to reflect an economy that's holding up better than many predicted but facing real headwinds that investors shouldn't ignore. GDP growth for the first quarter came in at 1.6% year-over-year, revised down from a 2.0% initial reading but still improved over the prior quarter, with AI-related investment estimated to account for more than half of that growth. Consumer spending, while still positive, showed signs of slowing, particularly among lower- and middle-income households who are feeling the cumulative weight of elevated energy and food costs. Higher-income consumers continue to spend freely on experiences, travel, and premium goods, creating a K-shaped dynamic in consumption that's worth watching as we move into the back half of the year.

The labor market remained a bright spot with April's nonfarm payrolls adding 115,000 jobs, less than the previous month but ahead of expectations. Investors should remain attentive to the way AI is beginning to reshape hiring decisions at major corporations. Several large technology, financial services, and professional services firms have quietly reduced their hiring plans for certain categories of knowledge workers, citing productivity gains from AI tools. It's too early to see this in the aggregate jobs numbers, but it is a trend that bears careful watching.

As we move into the summer months, the investment landscape is at the same time more rewarding and more demanding than it was a year ago. Rewarding because the earnings growth story is real, the AI transformation is generating tangible economic value, and the U.S. economy has demonstrated remarkable resilience. Demanding because stock valuations are elevated, investors expectations are high, the geopolitical situation remains unresolved, and the new Fed chair faces a treacherous path ahead navigating the economic pressures from higher inflation and the political pressures for lower interest rates.

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