

Hamilton-Bates Market Update

**Deal or
No Deal?**

May 18, 2026

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After rallying on hopes of a deal to end the Iran War, the market has continued to do relatively well even in the face of no deal having been signed, despite many headline blurbs of hopes for a deal. This has taken many of the indexes to highs in early May, but the rally since has really started to thin out and become much more selective. Other than the AI trade, really not much has moved in the past few weeks. Furthermore, high energy prices and rising bond yields are threatening to put more pressure on the 'real economy'. We are probably near or at the point where if a deal does not happen the market starts to struggle.

Earnings, Economy, Energy and Interest Rates

The economy has held up well given the sharp rise in energy prices, with earnings projected to be up over 20% this year so far on the S&P 500. Nvidia's earnings are due out on Wednesday, and they have the potential to move markets. The problem is expectations are pretty high.

The economy is growing but appears quite bifurcated. There are clear signs that we have a K-shaped economy, which in economic terms means some folks are doing really well while others are really struggling. This pressure comes from the aforementioned rise in energy prices and the inflation that has accompanied that rise.

Adding to the uncertainty are the moves out of the technology sector that has been rounds of head-count cutting as technology firms cut headcount to by AI computing power and implement AI into their workflow—replacing people. For now the labor market is holding and as long as we don't see a large net shedding of jobs the economy will be ok.

Inflation is becoming a problem as CPI and PPI came in hot, and persistent inflation seems to be a problem. Inflation had been expected to continue cooling, but the Iran War changed that. This

inflation is now flowing into the bond market, where we have seen yields rise precipitously—pushing long-term yields above levels that signal problems for stock prices. Key levels we have been watching are 4.40% on the 10-year yield and 5.00% on the 30-year yield. We are now at 4.59% and 5.12% respectively— that suggests headwinds now for stocks coming from the bond market.

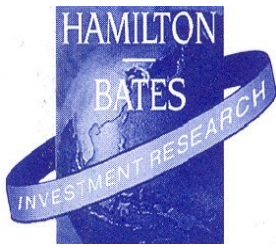
The new Chair of the Fed comes on board, and man does he have is plate full. Expectations for cuts have turned to expectations for hikes, but most likely the Fed will be on hold for most of 2026. New Fed chairs are historically 'tested', so Chairman Warsh will need to hit the ground running.

Stock Market Outlook

The major averages haven't done anything 'wrong' yet, and the trend still remains bullish. However beneath the surface things are looking a bit ragged. A lot of sectors are struggling, and the number of advancing stocks has sagged. The number of new lows in the S&P is also fairly high for a market this close to its highs. These things suggest caution at current prices and we would not be chasing prices higher. We had a market drop in March, a pop into April and May, and now we will let things settle to see how the summer will fare. A late May pullback would not be a shock, but news of a deal in Iran or a return to conflict could dramatically alter the near-term outlook.

Portfolio Strategy

The trend is still up, and has been despite the historic trend of softness in the mid-term election year. That weakness normally hits fully in the August-September period so we could manage to get through the mostly of the summer before a significant fall. A correction between now and October would be a great opportunity. The second year of the Presidential Cycle is historically choppy, but the third year is overwhelmingly bullish. **We expect a strong rally from whatever low we see this year.**



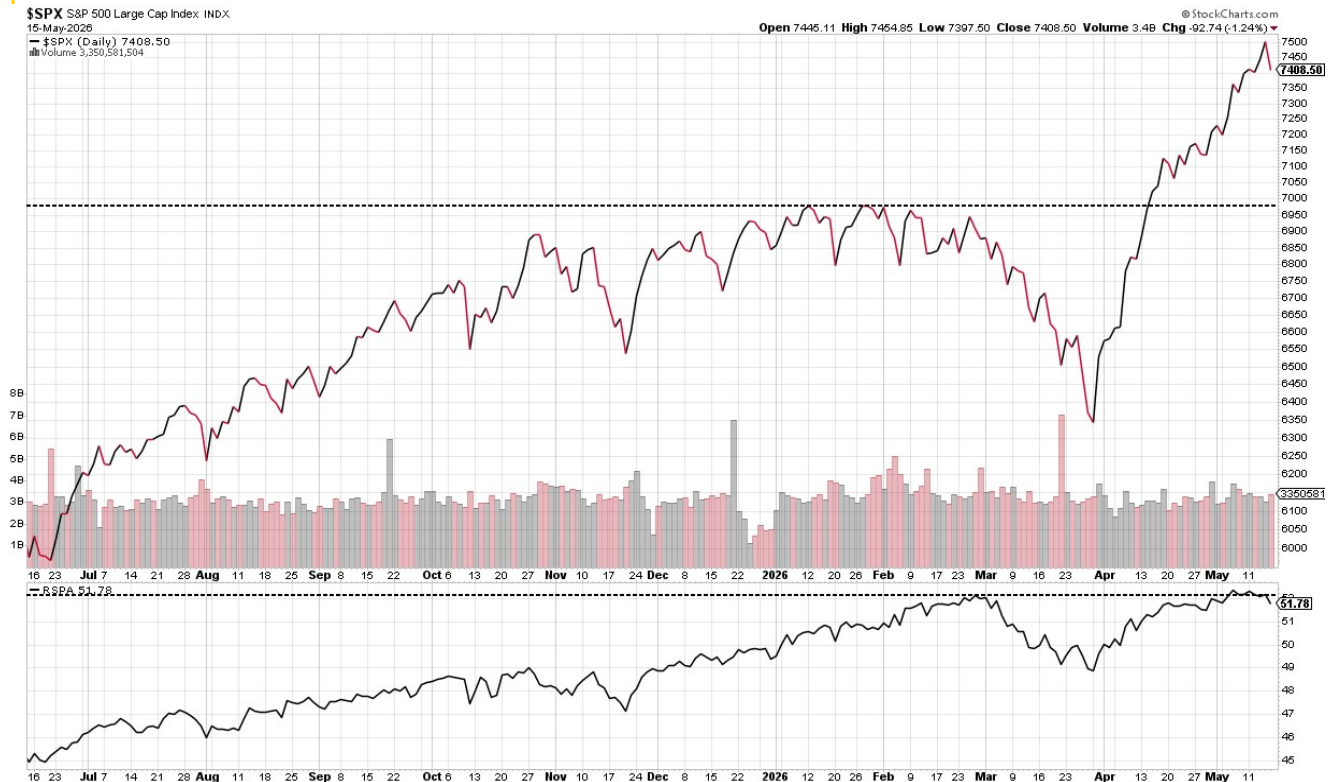
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**Some Stocks are More
Equal than Others**

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S&P 500 Market Chart



S&P 500 Chart—Cap Weighted Index Rallies While Equal Weight Stalls

The markets dropped into late March on concerns over the war with Iran and the sharp rise in oil prices since it started. In early April announcements over potential deals have come, and markets have responded positively. Oil however is still near its highs. Furthermore, the rally has been narrow, with large-cap technology leading an everything else lagging.

This can be seen in the chart above which shows the S&P 500 in the top panel, and the S&P 500 equal-weight index in the bottom. The technology dominated S&P 500 made a new high in April and has continued to push higher. The equal weight S&P is not dominated by one sector—being equal weighted—and it has struggled to get above its March peaks. This disparity reflects the negative impact of oil prices on the majority of stocks in the economy, while technology is largely not impacted by energy prices.

This disparity tempers our bullish enthusiasm a bit and suggests buying on dips not chasing here.