

NEWSLETTER

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3 BIG THINGS

1

Sell in May and go away? The popular market heuristic wouldn't have served you well thus far in 2026. Despite plenty of headlines to worry about, global equity markets continued moving higher and finished May near all-time highs. May saw strong returns in many areas, but nothing kept pace with technology as the sector was up nearly 20% in May. Other areas such as emerging markets saw strong performance but they too were boosted by the tech sector.

2

A major reason for May's strong market performance was corporate earnings. With nearly all companies having reported first quarter results, profits are on pace to grow almost 29% from a year ago, one of the strongest earnings seasons we've seen in several years. Just as importantly, companies didn't merely grow earnings, they significantly exceeded expectations. While headlines often dominate the financial news cycle, earnings remain the engine that drives stock prices over time. When businesses consistently earn more money, shareholders typically benefit as well. It's a good reminder that when we own stocks, we're not simply buying ticker symbols on a screen. We're buying ownership in businesses and participating in their long-term growth.

3

One of the hottest topics of the month was the upcoming SpaceX IPO. As excitement builds, we're already seeing funds marketed as a way to gain access before shares begin trading publicly. Investors should be careful. In many cases you're buying a fund wrapped around a story rather than direct ownership of the company itself. As always, understanding what you own is more important than chasing the hottest opportunity in the market. SpaceX may be a great company, but a great company and great investment are not always the same thing.



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Quote of the month: "Diversification may preserve wealth, but concentration builds it" - (Warren Buffett)

MARKET QUICKTAKES

ECONOMIC INSIGHTS IN A NUTSHELL

Economic data remained surprisingly steady during May.

Unemployment remained low, job growth exceeded expectations, and consumers continue spending. Inflation moved higher than economists would like, which has reduced expectations for interest rate cuts this year. For now, the economy appears to be walking a fine line between too hot and too cold. The continued strong growth and uptick in recent inflation data has shifted expectations from additional rate cuts this year to no further movement in 2026. In fact, there is a higher likelihood of a rate increase in 2026 than a cut at current market probabilities.

EQUITY

Equities saw strong returns during May on the back of Technology's 20% return. April and May rank among the strongest monthly returns in the fund's nearly 30-year history. While AI is clearly creating real business opportunities, periods of rapid gains can also tempt investors to chase performance. History reminds us that maintaining discipline is usually more rewarding than chasing what's worked recently. Other corners of the equity market advanced throughout the month but areas such as developed foreign markets, US value stocks, and US small cap stocks only advanced in the 2-4% range. A much more common monthly return.

FIXED INCOME

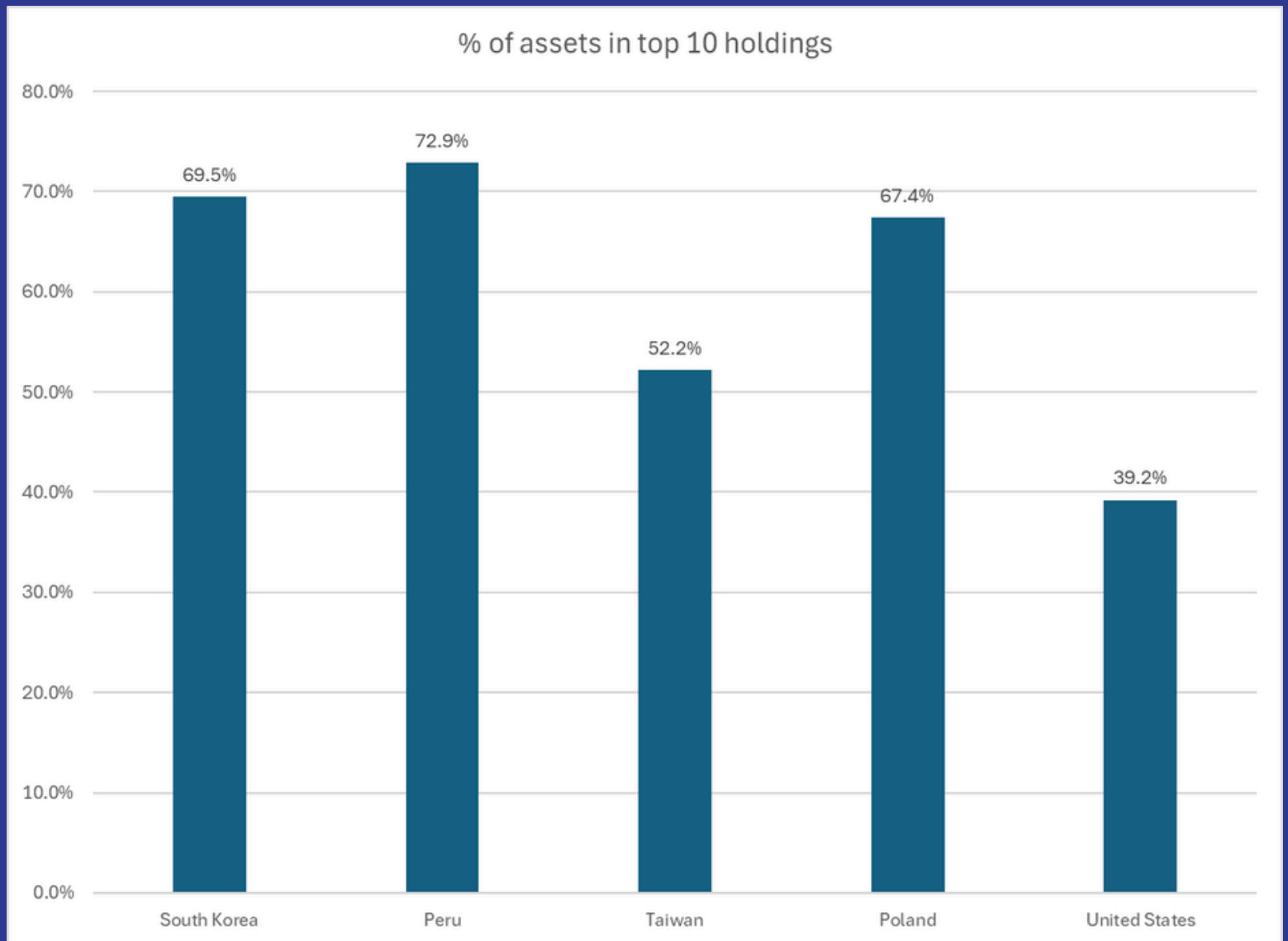
Rates moved higher, which is painful, but may be moving higher for a good reason. Long-term rates are a function of growth and inflation. If we see above-trend growth, we should expect rates to remain elevated. Separately, as the conflict in Iran rolls on, oil prices have remained elevated and that directly affects inflation figures. This all comes at an interesting point as the new Federal Reserve chairman, Kevin Warsh, began his term in May. He will have to weigh a President who is outspoken on lowering rates with new data that is not conducive to a rate cutting environment.

COMMODITIES

Commodities took a breather in May after being on a tear the first four months of the year. The broad basket retreated 3.5% but commodities remain one of the best performing asset classes for the year thus far. Silver bucked the trend of losses seeing a return of 2.5%. The hope of a resolution in Iran saw energy prices dip by nearly 10%. This should lead to some relief at the gas pump for those people that are planning a summer vacation road trip or flight.

A VIEW FROM MARKET STRATEGISTS

A big topic in the US market is the degree of concentration that has developed among the 10 largest positions. This is true and a risk we see to the US equity market. But when you look outside the US, there are other countries with much larger concentration. Four single country ETFs have more than doubled going back to the start of 2025, South Korea, Peru, Taiwan and Poland. Each of these ETFs have significantly higher concentration in their 10 largest holdings than the US. What makes the risk even larger, is that a couple of them have 40%+ in just two names! When we think about risk and diversification we always want to be incredibly mindful of concentration. As the quote of the month says, concentration builds wealth. This is true, when things go right concentration creates incredible returns, but it also increases risk when things go wrong. That's why we believe concentration deserves respect, even when it's rewarding investors.

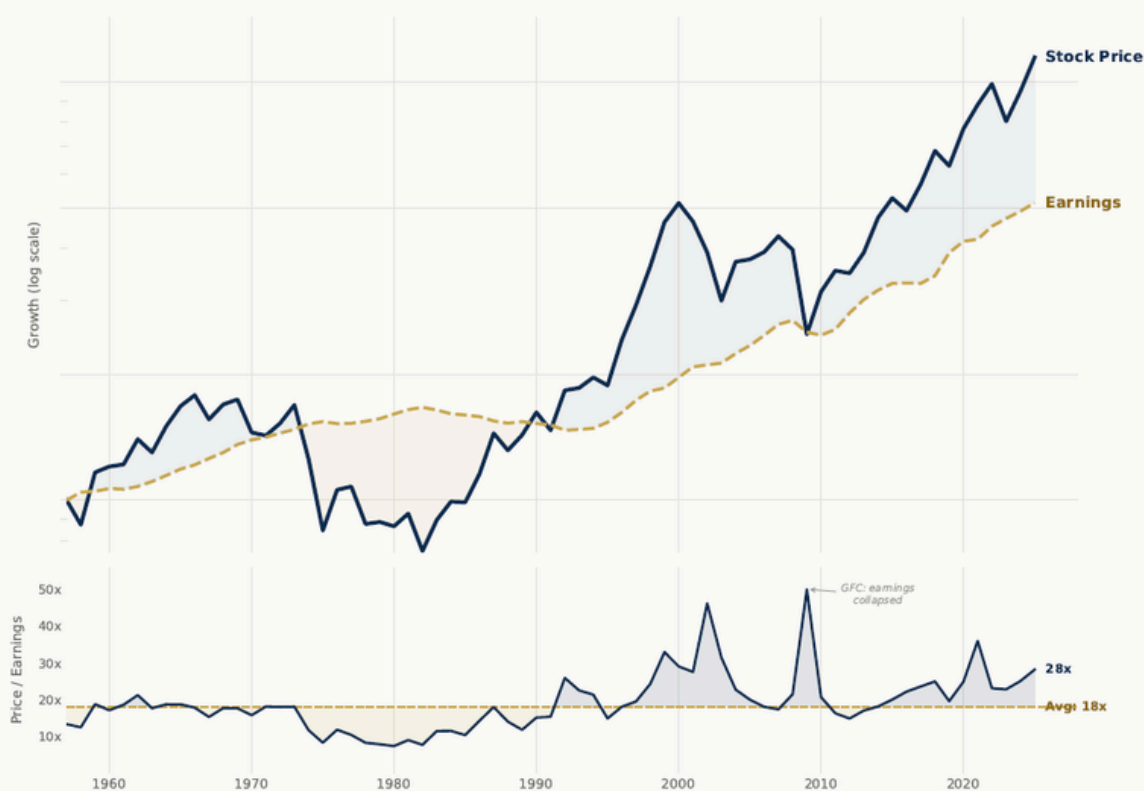


EVERGREEN REMINDERS

Our second main point revolved around the strong earnings growth we've seen so far in companies reporting first quarter 2026 earnings. This strong earnings period and the subsequent ferocious rally in equity prices made me think about why we own stocks. Often, we can lose sight of what owning a stock is, but it is owning a share of a company and thus a share of their earnings. We know that despite short-term volatility due to a myriad of reasons when we zoom out company and market earnings growth drives the returns we see. The chart below depicts this trend. As earnings steadily rise over longer periods, we've seen equity markets march higher as well. The second depiction breaks out the building blocks of return. Over long periods, stock returns come from three places: earnings, yield, and multiple expansion or compression (what we pay for those earnings). When viewed this way equity markets are quite simple. We have an idea of what dividend yields are, we are constantly projecting what earnings will be, and we know the market multiple to buy those earnings. Over time multiples rise and fall typically toward an average of about 18x. Earnings have averaged 4-6% growth and yields have averaged 4%. Currently dividend yields are only 1% and multiples are already rich so we are much more dependent on earnings to see equity returns in this environment and boy have companies delivered for us!

What Drives Stock Prices? Earnings.

S&P 500 price and corporate earnings have grown together since 1957



Source: Robert Shiller dataset. Inflation-adjusted. Indexed to 1957 = 100. Earnings smoothed (10-yr avg). P/E uses trailing annual earnings.

Building Blocks of Stock Returns



BEYOND THE MARKET

LIFESTYLE HACK

This link has some interesting summer hacks. As someone who has a tendency to get an early-season sunburn, the aloe vera ice cube idea is something I can't believe I haven't thought of.

<https://www.imhvac.com/blog/20-summer-life-hacks-to-impress-your-friends>

PLANNING CORNER

As we reach the halfway point of the year, June is a natural check-in for your financial life. Ask yourself:

- Am I saving what I planned to save this year?
- Are my spending habits matching my priorities?
- Have any major life events changed my goals?
- Do I need to adjust anything before year-end?

Small course corrections today are much easier than major corrections in December.

Disclosures

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.

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