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ECONOMIC REVIEW¹

- U.S. Gross Domestic Product (GDP) got its final revision for the first quarter of 2026, which showed that it grew at an annualized rate of 1.6%. This was slightly below the previous estimate of 2.0%.
 - In the final reading, personal consumption was revised lower, raising concerns about the health of the consumer.
 - The first quarter included the onset of the Iran War, which raised gas prices and likely subdued consumer spending in other areas.
- The Personal Consumption Expenditures Price Index (PCE), a key inflation measure, rose 0.4% in the last month and is up 3.8% versus last year.
 - Higher energy prices continue to elevate readings of inflation.
- The core reading, which excludes the more volatile sectors like food and energy, came in at 0.2% on a month-over-month (MoM) basis, and 3.2% on a year-over-year (YoY) basis.
 - This measure is known to be the Federal Reserve's (Fed) favorite inflation gauge because they believe it is the best forward-looking measure for identifying emerging trends in inflation.
 - With this critical measure still well above the Fed's 2% target, interest rate cuts are unlikely in the near-term.
- Personal Income, the average amount employees make in a month, was flat in April. This was the second consecutive month where inflation outpaced wage growth on a MoM basis.

How does the most recent economic data impact you?

- Higher inflation coupled with lower wage growth is a bad combination for consumers, many of whom are now dealing with prices rising faster than their salaries.
 - Questions around the impact of AI on wages and overall employment remain, as well.
- High inflation continues to challenge the Fed, and even with the new Fed Chairman, Kevin Warsh, he is unlikely to cut interest rates with inflation at current levels.
- The downward revision to GDP caused some hesitation for investors who are now facing incrementally higher inflation and incrementally lower growth. However, both are still at moderate levels relative to history.



A LOOK FORWARD¹

- This week, investors will be monitoring the labor report, including key details like the unemployment rate and the number of nonfarm payrolls added to the economy, as well as ISM Manufacturing and Services.

How does this week's slate of economic data impact you?

- A strong labor market is likely to keep the Fed from cutting interest rates as inflation remains elevated, but if the labor market weakens, that could make the interest rate decision more difficult for Fed officials.
- Both ISM Manufacturing and Services will provide a snapshot of how managers are viewing business conditions in their respective sides of the economy.



MARKET UPDATE²

Market Index Returns as of 5/29/26	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	1.44%	16.31%	11.27%	29.78%	23.36%	14.15%
NASDAQ	2.39%	25.04%	16.33%	41.98%	28.37%	15.27%
Dow Jones Industrial Average	0.91%	10.38%	6.86%	22.71%	17.72%	10.19%
Russell Mid-Cap	1.34%	10.40%	11.82%	22.37%	18.09%	8.15%
Russell 2000 (Small Cap)	1.77%	17.11%	18.15%	43.08%	19.86%	6.61%
MSCI EAFE (International)	1.07%	10.75%	9.37%	22.80%	17.50%	8.72%
MSCI Emerging Markets	3.96%	25.82%	25.61%	54.31%	24.64%	7.79%
Bloomberg US Agg Bond	0.83%	0.42%	0.38%	5.13%	4.07%	0.17%
Bloomberg High Yield Corp.	0.55%	2.19%	1.68%	7.57%	9.33%	4.39%
Bloomberg Global Agg	1.00%	1.59%	0.50%	3.26%	3.71%	-1.54%



OBSERVATIONS

- Equity indices continued their positive performance, finishing the last week of May broadly positive as tensions with Iran eased somewhat.
 - The S&P 500 (+1.44%) posted its ninth weekly gain in a row, but the NASDAQ (+2.39%) led major market indices as enthusiasm for the AI trade continued.
 - Even the Dow Jones finished the week positive, up 0.91%.
- Both small- and mid-cap stocks also performed well, rising 1.77% and 1.34%, respectively.
- International developed markets rose 1.07%, slightly underperforming domestic equities.
 - Emerging market stocks led all major asset classes, rising nearly 4% on the week.
- Yields fell across the fixed income landscape, with the assumption that lower tensions with Iran would lead to lower gas prices and ultimately lower inflation.
 - International bonds were up 1.00%, while domestic bonds followed closely at 0.83%, and high yield bonds rose 0.55%.



BY THE NUMBERS

Pope Leo XIV Released His First Encyclical: Pope Leo XIV wrote a social encyclical which addressed artificial intelligence. Divided into five chapters, Magnifica Humanitas has an underlying premise that technology is not an antagonistic force to humanity, nor is it inherently evil. However, technology is never neutral, because it takes on the characteristics of those who devise, finance, regulate, and use it. Many believed that the encyclical took a stance against AI, which has been part of a larger movement as skepticism over AI’s impact on the labor market, or energy shortages from data centers has taken the forefront for many town hall forums, social media platforms, and upcoming midterm elections.³

OpenAI Just Solved an 80-Year Old Famous Math Problem: The company OpenAI, maker of ChatGPT, announced that a major geometry conjecture has at last been solved—via a straightforward query to a chatbot, alongside comments from a number of experts, who declared the artificial intelligence’s method “clever” and “elegant.” The experts also hastened to add that, without humans intervening to “clean up” the AI’s work, the result wouldn’t be so convincing. “The human still plays a vital role in discussing, digesting, and improving this proof, and exploring its consequences,” wrote mathematician Thomas Bloom in the “reflections” document. Nevertheless, the mathematical proof combined multiple fields of mathematics to create an outside-the-box answer.⁴

Economic Definitions

PCE (headline and core): PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.

GDP: Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

ISM Manufacturing Index: The Manufacturing ISM Report On Business is based on data compiled from purchasing and supply executives nationwide. Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (New Orders, Backlog of Orders, New Export Orders, Imports, Production, Supplier Deliveries, Inventories, Customers' Inventories, Employment and Prices), the report shows the percentage reporting each response, the net difference between the number of responses in the positive economic direction and the negative economic direction, and the diffusion index. A PMI reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally declining.

ISM Services Index: The Services ISM Report On Business® is based on data compiled from purchasing and supply executives nationwide. Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (Business Activity, New Orders, Backlog of Orders, New Export Orders, Inventory Change, Inventory Sentiment, Imports, Prices, Employment and Supplier Deliveries) this report shows the percentage reporting each response, and the diffusion index. An index reading above 50 percent indicates that the non-manufacturing economy in that index is generally expanding; below 50 percent indicates that it is generally declining. Orders to the service producers make up about 90 percent of the US economy.

Personal Income: Consumer or Household Income (often referred to as personal income) tracks all income received by households including such things as wages and salaries, investment income, rental income, transfer payments, etc. This concept is not adjusted for inflation.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg US Agg Bond: The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg High Yield Corp: The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg's EM country definition are excluded.

Bloomberg Global Agg: The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Municipal Bond Index: The Bloomberg U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

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Investing involves risk, including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss. In general, the bond market is volatile; bond prices rise when interest rates fall and vice versa. This effect is usually pronounced for longer-term securities. Any fixed-income security sold or redeemed prior to maturity may be subject to a substantial gain or loss. Vehicles that invest in lower-rated debt securities (commonly referred to as junk bonds or high-yield bonds) involve additional risks because of the lower credit quality of the securities in the portfolio. International investing involves special risks not present with U.S. investments due to factors such as increased volatility, currency fluctuation, and differences in auditing and other financial standards. These risks can be accentuated in emerging markets.

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¹ Data obtained from Bloomberg as of 5/29/26.

² Data obtained from Morningstar as of 5/29/26.

³ [Pope Leo's 'Magnifica humanitas': AI must serve humanity not concentrate power - Vatican News](#)

⁴ [AI just solved an 80-year-old 'Erdős problem,' and mathematicians are amazed | Scientific American](#)



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