



Monthly Digest

MAY 2026

Commentary	2
Client Updates	10
Featured Media	14
Highlighted Strategy	18

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When the Middle Moves

April's inflation report arrived May 12th, and it was not the report markets were hoping for. Consumer prices rose 3.8% year-over-year – a sharp acceleration from March's 3.3% annual pace, according to the Bureau of Labor Statistics. The month-over-month gain was 0.6%, following March's 0.9% increase. Energy did most of the damage, accounting for more than 40% of the overall rise, with gasoline climbing 5.4% on a seasonally adjusted basis. Food prices added another 0.5% for the month.

Those numbers are uncomfortable. But they are also, in isolation, explainable. Energy is volatile. Gasoline responds to events abroad. The usual exemptions were available, and markets were prepared to use them.

What markets were not prepared for was what came next.

MORAN MONTHLY DIGEST MAY 2026

A CLOSER LOOK AT THE UNDERLYING DATA

Core CPI – which strips out food and energy – rose 0.4% in April, double the 0.2% pace recorded in each of the two prior months. The 12-month core rate moved from 2.6% to 2.8%. Shelter, the largest component of the index, jumped 0.6%. Both rent and owners' equivalent rent rose 0.5%.

That alone would have warranted attention. What makes this report more significant is what the Federal Reserve Bank of Cleveland's underlying gauges showed. Median CPI rose 0.4% in April – double March's pace. The 16% trimmed-mean CPI also rose 0.4%, likewise doubling the prior month.

These measures exist precisely for moments like this. They strip away the most volatile components – the gasoline spikes, the plunging used-car prices – and focus instead on the middle of the distribution. When headline inflation is hot but median and trimmed-mean are calm, the argument that the problem is narrow holds. When all three move in the same direction at once, that argument becomes very difficult to sustain.

In April, they all moved in the same direction. At a 0.4% monthly pace, the Cleveland Fed's underlying measures are running at roughly a 5% annualized rate. That is not a path back to the Fed's 2% target. In a single month, headline inflation, core inflation, shelter, median CPI, and trimmed-mean CPI all pointed the wrong way simultaneously.

One month does not prove a trend. But it does narrow the space for reassurance. The best available explanation is that April was a storm: geopolitical energy pressure, seasonal factors, and shelter noise arriving together. The Cleveland Fed's numbers make that explanation harder to lean on. Those measures are specifically designed to see through the storm.

MORAN MONTHLY DIGEST MAY 2026

WHAT THIS MEANS FOR MONETARY POLICY

The Federal Reserve can look through a one-month gasoline spike. It cannot look through a report in which every measure of underlying inflation moves the wrong way at once. The disinflation story – the story markets had been counting on to unlock rate cuts – took a meaningful hit in April.

The confirmation is visible in real yields, which have surged to their highest levels in a year, per Bespoke Investment Group. Fed Funds futures now fully price in one rate hike this year – a dramatic pivot from where market expectations sat before the start of the Iran conflict. The market's view on where rates will be by December has shifted nearly three full notches. Meanwhile, S&P Global's flash manufacturing PMI survey for May found that 75% of respondents who anticipated cost changes in the next six months said they would raise prices to pass them on. That is not a number that suggests second-round inflation is an abstract concern.

For bond investors, the implication is direct: think in terms of real yields and institutional process rather than expectations about external pressure on the Fed. The Fed has a mandate – maximum employment and stable prices – and it should execute that mandate on evidence and judgment. When monetary policy becomes entangled with noise, the result is more volatility in rates and risk premia, not less. Duration should be managed intentionally in this environment.

THE EARNINGS STORY UNDERNEATH

Set the inflation report aside for a moment and look at what the equity market is actually telling us. Because the story there is considerably more constructive – and also more nuanced.

With roughly 90% of the market having reported and the traditional bookend to the season in – Walmart's results closed out Q1 – we can call earnings season finished. The EPS beat rate landed at 72.8%, in the 94th percentile of all seasons since 2001, per Bespoke Investment Group. The revenue

MORAN MONTHLY DIGEST MAY 2026

beat rate was even stronger at 74.9%, in the 98th percentile – a level that points to both elevated inflation and strong profit margins as things currently stand. Guidance was also strong: 11.8% of reports raised guidance this quarter, in the top quintile historically, while guidance cuts came in at the bottom 10% of the historical range.

The sector picture underneath is worth examining. Technology led in both beat rates and guidance raises, as expected. But Financials were actually stronger than Tech on EPS and revenue beat rates in historical context. Consumer Staples stand out for the opposite reason: they averaged declines on EPS beats, revenue beats, and guidance raises simultaneously – a bottom 2% season in historical terms. That divergence is not random noise. It reflects the consumer environment that retailers confirmed in detail this quarter.

Walmart's Q1 results illustrated the bifurcation clearly. Comparable sales for U.S. stores rose 4.1% year-over-year, driven primarily by traffic rather than ticket size – a healthy sign. But management flagged a 250 basis point headwind from the surge in fuel prices, which is reallocating profits from one part of the economy to another. Their CFO noted the growing divide directly: the high-income consumer is spending with confidence across many categories, while the lower-income consumer is increasingly budget-conscious and, in some cases, navigating financial distress, per Bespoke Investment Group. Target told a similar story, posting a strong 20% adjusted EPS beat with comps of 5.6% year-over-year, well above the 1.9% expected – but that strength came from discretionary categories and digital, not staples. TJX and Ross Stores, meanwhile, posted exceptional results, with Ross delivering 17% adjusted EPS beats on revenues 7% higher than expected. Value is winning where the middle-market consumer is under pressure.

MORAN MONTHLY DIGEST MAY 2026

AN INDEX THAT IS NOT THE MARKET

We have written before about the difference between an expensive market and an expensive top. The data continues to make the case. Decomposing the S&P 500's price return over the past two years, only 3.70% of the index's 40.49% price appreciation can be attributed to multiple expansion, according to Bloomberg data. Virtually all of the performance has come from earnings growth. The forward P/E has actually compressed – from its peak of 23.12x last October to 19.13x as of late March – even as markets have pressed to new highs.

At the same time, equal-weight performance is broadly keeping up with the cap-weighted default from a breadth perspective, per Bespoke Investment Group. Technology breadth looks extremely healthy, with record highs for the equal-weight matching the market cap-weighted performance. The average stock in Communications Services, Consumer Discretionary, Consumer Staples, and Industrials has lagged – but that concentration story is not new. It is a reminder that index ownership is not the same as market ownership.

The S&P 500's ten largest companies account for approximately 37% of the index's total market capitalization – more than three standard deviations above the long-term average, according to research from the College for Financial Planning. That concentration is reinforced by a feedback loop: capital flows into index funds disproportionately benefit the largest constituents, inflating their valuations and making the index progressively more sensitive to the performance of a small number of firms. The cap-weighted S&P 500 trades at close to a 30% premium to its equal-weighted counterpart, up from roughly 13% just before the pandemic, according to RBC Wealth Management.

MORAN MONTHLY DIGEST MAY 2026

THE IPO QUESTION: PARACHUTING ONTO THE ROOF

The concentration risk embedded in the cap-weighted index is about to get a stress test. SpaceX has filed its S-1, with an IPO expected in June at a valuation approaching \$2 trillion. OpenAI is targeting a public offering as soon as September. Anthropic, Databricks, and Stripe are candidates for what Barron's has called mega-IPOs at valuations of \$100 billion or more if SpaceX's offering goes well.

The historical record on mega-IPOs is not encouraging. The 1,724 U.S. IPOs from 2011 through 2024 had an average first-day pop of 23%, according to data cited in Barron's from University of Florida professor Jay Ritter – but over the following three years, newcomers lagged the market by 25 percentage points. Of the largest IPOs, only nine have beaten the S&P 500's returns from their first-day closing price. Just 17 have generated positive returns at all. The trends are especially rough for companies trading at high premiums to revenue.

SpaceX itself is a case study in the complexity. The Starlink satellite business is genuinely impressive: subscribers more than doubled year-over-year by March 2026, and the combined Space and Connectivity segments look reasonably healthy on a standalone basis. But the AI segment – which includes xAI and X, formerly known as Twitter – is a different story. Revenue growth in AI slowed to 13% year-over-year in Q1. Capital expenditures in Q1 alone were \$10 billion, almost half the full-year 2025 total and more than 200% of revenue. Debt has risen rapidly, with interest costs now representing 14% of revenue and rising, per Bespoke Investment Group. At the anticipated \$2 trillion valuation, the combined Space and Connectivity business would be valued at roughly 128x sales or 15,000x EBIT – a number that requires the AI segment to deliver at a scale that is, as yet, far from established.

MORAN MONTHLY DIGEST MAY 2026

There is also a structural question for index investors that deserves attention. With a free float expected to be at most \$75 billion at IPO on a \$2 trillion market cap, SpaceX's actual weight in the S&P 500 under float-adjusted rules would be roughly \$75 billion – placing it in the bottom 200 or so stocks by weighting, per Bespoke Investment Group. The Invesco QQQ would need to buy approximately \$2 billion worth of shares at a \$75 billion float. Index investors will not be taking on the valuation risk in a meaningful way initially. But as lockup shares are released and the float expands, that calculus changes – at a lag, and at whatever price the market has set by then.

The more pointed observation, as Barron's notes, is that in a bygone era an IPO was a way for investors to get in on the ground floor of a promising company. In 2026, it is more like parachuting onto the roof. Private investors have already captured the growth. Public markets are being asked to price in what comes next – at valuations that leave very little room for the unexpected.

WHERE THIS LEAVES US

The picture that emerges from May is one of genuine but uneven strength. Earnings delivered. The labor market held. AI adoption continued to broaden. But inflation proved stickier than the comforting narrative required, real yields moved higher, and the consumer story fractured visibly along income lines. The market as a whole is not expensive – but the top of it is, and a wave of mega-IPOs is about to ask public investors to extend that bet further.

None of this is an argument for abandoning equities. Over long horizons, owning businesses with pricing power and durable earnings remains the most reliable way to grow wealth faster than inflation can erode it. But with stretched valuations concentrated at the very top of the cap-weighted index, and a pipeline of heavily hyped new issuance on the horizon, the discipline of selectivity matters more, not less.

MORAN MONTHLY DIGEST MAY 2026

Valuation has historically been a poor predictor of one-year returns but a reasonably strong predictor of ten-year returns. Investors planning for the decade ahead should weigh that asymmetry carefully. The best opportunities may lie outside the cap-weighted headline – in equal-weighted exposure, mid- and small-caps, and international developed markets, where valuations and earnings growth are better aligned, and where the crowd is considerably thinner.

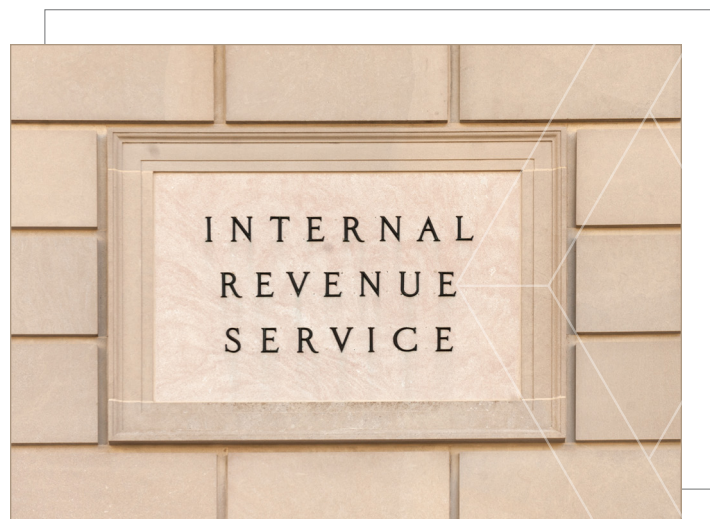
As always, our team is here to help you think through what any of this means for your specific situation. No two clients have the same goals, time horizon, or comfort with uncertainty – and the right portfolio is the one built around yours. If the current environment has raised questions or surfaced concerns, we welcome the conversation.



CLIENT UPDATES

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Mailing of Internal Revenue Service Forms 5498 and 5498-ESA



The 2025 Internal Revenue Service (IRS) Forms 5498 and 5498 ESA will be sent to clients by May 31, 2026.

Form 5498 summarizes Individual Retirement Accounts (IRA) activity for the 2025 tax year, including contributions and the account's fair market value (FMV) as of December 31, 2025.

This applies to Traditional, Roth, Simplified Employee Pension (SEP), and Savings Incentive Match Plan for Employees (SIMPLE) IRAs.

Form 5498 ESA summarizes contributions made to Coverdell Education Savings Accounts (ESAs) for 2025.

Clients will receive these forms only if a 2025 contribution was made and BNY Pershing serves as the custodian or servicing agent for the account.

If an IRA or ESA was not on our records as of December 31, 2025, there is no FMV to report for 2025 and a form will not be generated—unless a prior year contribution for 2025 was made in 2026, in which case a form may be issued.

Clients enrolled in electronic delivery for tax statements for their IRA or ESA by May 1 will receive Form 5498 or 5498 ESA electronically.

Please contact us at 239-920-4440 if you have any questions.



CLIENT UPDATES

Upcoming Office Closures

As a friendly reminder, our office will be closed in observance of the following holidays:

- Thursday, June 19 – Juneteenth
- Friday, July 4 – Independence Day

We wish you and your family a safe and enjoyable holiday.

CLIENT UPDATES

Achievements Worth Sharing

We're proud to share one recent recognition that continues to reflect the strength of our firm and the leadership our clients count on.

Moran Wealth Management® earns the 2026 “Best Places to Work for Career Growth” certification issued by Best Companies Group.

This national recognition is based in part on employee feedback and a comprehensive data-driven evaluation process. Employees directly assess whether opportunities for learning, development, and advancement are meaningful, accessible, and consistently supported.

At Moran Wealth, investing in our people is an important part of how we operate. We aim to create a workplace where team members are supported, challenged, and given opportunities to grow over time.

We're grateful to our team for contributing to a culture that emphasizes development, collaboration, and long-term career progression.

Best Places to Work for Career Growth Certification is issued by Best Companies Group. Moran Wealth Management paid a registration fee to participate in the Best Places to Work for Career Growth program, administered by Best Companies Group. This is a survey-based competition; selection was determined through a comparative analysis of employee survey data collected within the prior 12 months across all participating organizations. Following notification of selection, Moran entered a separate licensing arrangement solely to obtain the right to display the official program badge in our marketing materials. This sponsorship conferred no role in the selection process. For more details on the selection process and methodology, visit <https://bestcompaniesgroup.com>.





**FEATURED
MEDIA**



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How State Residency Affects Large Financial Transactions

Large financial transactions often involve more than investment strategy alone. For high-net-worth individuals and families, state residency can influence how a transaction is taxed, how income is treated, and whether timing affects the broader planning picture. That may come into focus during a business sale, a real estate transaction, a concentrated stock sale, a Roth conversion, or a significant wealth transfer.

For affluent households, the practical issue is not simply where you live. It is whether your residency status could affect the outcome of a major financial event and what should be reviewed before acting. In many cases, the transaction itself is only one part of the decision. Timing, documentation, tax exposure, estate planning, and long-term cash flow may all need to be considered together.

In our latest article, we explore how these investments work and the key considerations in determining whether they align with your objectives...

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FEATURED MEDIA

How to Protect Yourself and Your Wealth From Cybercrime with Mark Hurley | Quarter Over Quarter E019

Cybercrime has quietly become one of the largest and most sophisticated global industries, now surpassing the scale of illegal drug trafficking.

In this episode, Tom Moran and Don Drury are joined by Mark Hurley, CEO and Founder of Digital Privacy Protection, to break down the rapidly evolving cybersecurity landscape and what it means for individuals and families.

[WATCH THIS EPISODE ON YOUTUBE](#)



FEATURED MEDIA

How to Find Your Financial Freedom Number | Dime After Dime E019

Many investors think about a “financial freedom number,” but defining that number involves more than a simple calculation.

In this episode of Dime After Dime, Tony Stich talks with Julie Rich about what it means to reach financial independence and how that number may vary based on individual circumstances. They discuss a basic framework for estimating a starting point, along with the limitations of relying on simplified calculations alone.

[WATCH THIS EPISODE ON YOUTUBE](#)



HIGHLIGHTED STRATEGY

SPIN

FEATURED STRATEGY

Spin-Off Opportunities (SPIN)

This strategy seeks capital appreciation by investing in companies recently spun off from their parent organizations, capturing potential post-spin value creation and operational independence benefits.

WHAT IS THE SPIN STRATEGY?

- The strategy invests in companies recently spun off from their parent firms.
- Designed to capture the performance rebound and value creation that often follow separation from parent companies.
- Investors should expect moderate turnover and periods of above-average volatility due to the nature of spin-off timing and market adjustments.

[For more information on SPIN and other strategies, please visit our website.](#)

Your financial advisor will begin building your portfolio by first identifying your unique investment style based on a variety of factors, such as income, risk tolerance, diversification, investment and financial goals, and preferred market exposure. This will help us select a suitable strategy for you, allowing us to use a personalized approach designed to help pursue your short- and long-term financial goals.

Where Strategy Begins

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