

FOCUS NEWSLETTER

A TIMELY UPDATE ON THE ECONOMY, FINANCIAL MARKETS AND INVESTMENT OPPORTUNITIES

MAY 2026

An Uncertain Economy

The U.S. economy is navigating growth through another complicated moment amidst a global conflict and high energy prices.

U.S. economic growth can be measured by total consumption or total income. Both are trending near 3%, albeit volatile on a month-by-month basis.

Second quarter's reported figures will appear strong due to record personal tax refunds being spent and easy comparisons with last year's Liberation Day (April 2) tariff disruptions.

Inflation (CPI) accelerated to 3.3% in March, impacted significantly by gasoline prices (+21.2%) due to the Iran conflict. On a positive note, food prices were unchanged with lower meat and egg prices. The Federal Reserve is wary of how much and how long the Iran war will impact inflation in the coming months and may be less inclined to cut rates until at least the Fall.

Unemployment remains subdued. In March, the U.S. added 178,000 nonfarm jobs, and the unemployment rate declined to 4.3%. Hiring was strong in health care and construction. Employment figures could be volatile as highly paid data center job growth is offset by fewer high-paid federal government jobs; fewer low-paid immigrant workers and Artificial Intelligence (AI) displacement.

Consumer spending—responsible for roughly two-thirds of the U.S. economy—remains resilient. In March, retail sales unexpectedly increased 4.0% from March 2025. However, consumer confidence reached an all-time (56-year) low in April.

KEY DATES

- 5.8 Unemployment Report
- 5.12 April CPI
- 5.25 Memorial Day
Stock Market Closed
- 5.28 GDP 1Q Second Estimate
- 6.5 Unemployment Report
- 6.10 May CPI
- 6.17 FOMC Press Conference
- 6.19 Juneteenth
Stock Market Closed
- 6.25 GDP 1Q Third Estimate
- 7.2 Unemployment Report
- 7.3 Independence Day (observed)
Stock Market Closed
- 7.14 June CPI



Stock Market Shocked

The Iran war disrupted shipping in the Strait of Hormuz raising the price of oil and other commodities, including fertilizers, petrochemicals and aluminum. Approximately 20% of the world's oil and liquified natural gas transits the Strait of Hormuz.

These shipping disruptions could temporarily lower U.S. economic growth (GDP) by 0.5% to 1%. Most countries in Europe, the Middle East and Asia are at more risk for deeper contractions.

The U.S. stock market (S&P 500) fell nearly 8% from the start of the war on February 28 through March 30. As initial shock and uncertainty faded, both the S&P 500 and NASDAQ surged to new highs in mid-April, driven by optimism over a potential peace resolution and strong corporate earnings releases to date.

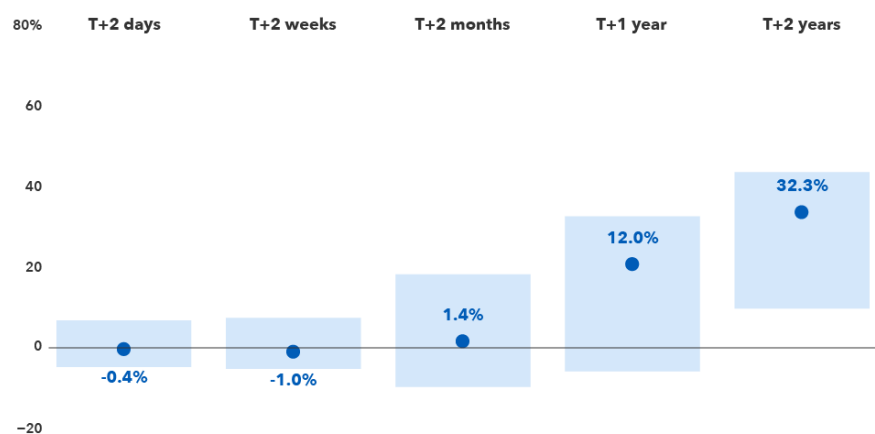
Selloffs tied to oil shocks have been short-lived

Oil shocks are common sources of market volatility since they can stoke inflation and slow growth. Historically, markets have rebounded quickly.



S&P 500 Index returns following geopolitical-related oil supply disruptions, 1990-2024

Range across seven oil shocks ● Average return



Sources: Capital Group, Bloomberg, Standard & Poor's. Specific geopolitical events that are reflected in average returns figures include: Gulf War (August 1990), 2003 invasion of Iraq (March 2003), Niger Delta supply disruptions (February 2006), Arab Spring + Libya Civil War (February 2011), Hormuz closure risk + Iran sanctions (December 2011), Drone attack on Saudi installations (September 2019), Russian invasion of Ukraine (February 2022). Event dates are aligned to the nearest observable market price ("T"). If a shock occurs on a non-trading day, the prior trading day is used as the start date. Horizon returns are measured using the first available trading day on or after the stated calendar horizon (e.g. "T+2 days"). Past results are not predictive of results in future periods. Figures reflect total returns. As of March 10, 2026.

Investments are not FDIC insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

Absorbing The Aftershocks

The U.S. economy and financial markets have already absorbed a great deal of uncertainty. The largest, most diverse and most technologically advanced economy in world history is proving resilient.

Economic growth of 3%+ is achievable due to:

- New Federal Reserve Chair expected to lower overnight lending rates before year-end
- Automation, AI and other new technologies are driving a productivity surge with benefits seen throughout corporate America
- Pro-business Federal policies and regulatory reforms
- Record Federal income tax refunds (and upcoming tariff refunds)
- Rising "defense" industry sales due to recent conflicts
- U.S. is now a net energy exporter; as such, higher energy prices bring more cash into the U.S.

Since the 2007-9 Financial Crisis, domestic economic growth has been slow with negligible and negative growth in some areas offset by the strength of technology creators. As newer AI applications and technologies become widespread, companies from most industries will benefit from discovering new uses and benefits. In turn, this could lead to lower operating costs, higher throughput, increased efficiencies and rising productivity throughout the economy.

Bank lending is key for growing economies. Given Washington's pro-business regulatory environment and moderate

to lower overnight interest rates, bank lending should continue to increase, supporting widespread economic growth.

Coupling these items with fiscal stimulus, record foreign investment, reshoring and a strong dollar provides a boost to U.S. economic growth. After 19 years of sub-par growth at best, few remember how to position investment portfolios for this stage of an economic cycle.

There will always be caveats. If recently high energy prices persist, then higher costs will feed thru the economy (starting with consumer transportation, business shipping, plastics, resins, and fertilizer). Also, anticipated long-term increases of entitlement spending combined with record income (& tariff) tax refunds result in higher federal deficit spending. In turn, this should lead to higher long-term interest rates depressing the price of long-term bonds.

Changing Stock Market Leadership

Through April 13, small and mid-cap stocks have outperformed their peers. Why?

Bank regulations have been relaxed or reduced; consequently, bank lending (and profitability) is rising which benefits the small and mid-size businesses dependent on short-term loans. In upcoming years, larger firms dependent on longer-term bond financing could experience the opposite effect as long-term interest rates and credit spread can rise through an economic expansion.

Economy-wide productivity increases, increased defense and energy exports and surging capital spending should greatly help firms conducting the majority of their business domestically. Smaller companies tend to have more domestic exposure than larger multinational firms.

As corporate earnings growth accelerates for growing small and mid-sized firms in various economic sectors, the stock prices of those firms should be revalued higher. This is referred to as a broadening of the market.

Some stock indices might not fully benefit from this leadership change, as past stock leaders are now expensive and their valuation multiples have plenty of room to contract. Ten of the stocks (e.g., Nvidia, Microsoft, Meta, etc.) that rose the most in recent years, currently have stock market capitalizations exceeding \$1 trillion. These stocks represent approximately 33% of the S&P 500. Their median PE exceeds 24, and their growth rates should slow in upcoming years.

Looking at the rest of the market, many individual stocks experiencing accelerating earnings growth could be rewarded with higher valuation multiples; resulting in their stock prices rising faster than their earnings grow.

For example, the shares of a company growing at 10% per year, might trade at 12 times earnings (i.e. a PE multiple of 12). If the outlook for that firm improves to the point that where its earnings growth is expected to accelerate to 15%, then the financial markets might value the stock at a PE of 18. Alone, this valuation multiple change would add 50% to the stock price return.

Investment Opportunities (As of 4/13/2026)

	<u>Forward P/E</u>	<u>Median Market Cap (\$B)</u>
S&P 500 Top 10 companies	24.6x	2,186.0
S&P 500	20.3x	39.4*
CMC Dividend Appreciation	12.8x	9.0
CMC Growth & Income	10.6x	8.0
CMC Small & Mid-Cap	8.8x	1.7

*S&P 500 Median Market Cap as of 3/31/2026.

CMC model portfolios P/E calculated by the median P/E of the stocks in each model from Applied Finance Group data.

Source: S&P Top 10 companies & S&P 500 Forward P/E data from J.P. Morgan Asset Management and S&P Global.

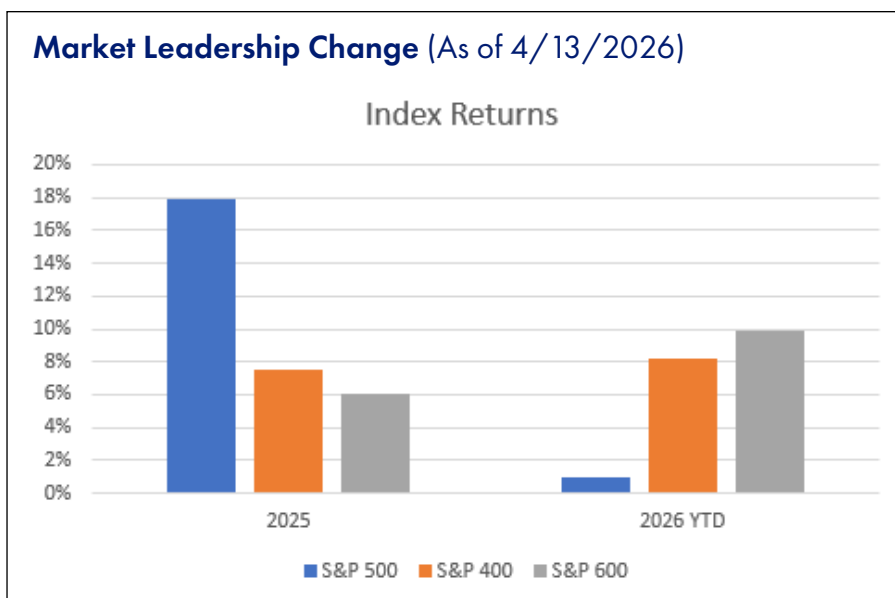
As this occurs to many firms of various sizes spanning several economic sectors, their stockholders benefit. This fuels a change in stock market leadership. As seen in this chart, while the small-cap S&P 600 and mid-cap S&P 400 indices lagged the large-cap S&P 500 in recent years, that trend appears to be reversing in 2026.

Investing in the Changing Environment

What if your investment manager selectively picked a diverse group of stocks expected to benefit from accelerating earnings growth? A well-selected portfolio of stocks expected to benefit from accelerating growth

with attractive dividends might sport a median valuation multiple below or near the low teens like CMC's Dividend Appreciation and Growth & Income strategies. Similarly, a concentrated portfolio of individually selected small and mid-cap stocks (e.g., CMC's SMID strategy), could have an even lower valuation multiple today. Those lower valuation multiples might not last long. If such a portfolio experienced accelerating earnings growth while many mega-caps experience a decline in their growth rates, the investment results of these dividend-oriented and small-cap portfolios could materially exceed the results of major large-cap indices and large-cap mutual funds.

How about if all stock valuations moved to a PE of 16? Some large-cap indices could experience material losses while certain select dividend and small-cap portfolios generate superior results. However, individual stock metrics might not simply return to a long-term average and remain there. Generally, a stock will trade above its long-term average valuation half of the time and vice versa. Many attractive dividend-paying stocks and small and mid-cap stocks have been trading below their long-term average valuation multiple. What if these stocks now spend some time above their long-term average valuation multiple? Results could be exponential.



CMC Stock Holding Spotlight

Pitney Bowes, a component of CMC's Growth & Income, Dividend Appreciation and SMID strategies, has seen positive momentum.



Pitney Bowes (PBI), a leading logistics and shipping provider, generated enough cash to repurchase 20% of its shares last year. Such a move boosts Earnings Per Share (EPS) growth. Somehow, a recent announcement of strong EPS growth surprised Wall Street analysts. During the first four weeks of April shares surged 43% from \$11.05 to \$15.82. PBI also has been rewarding shareholders with quarterly cash dividends. Last year PBI announced four cash dividend increases (81% cumulative increase).

Investing/Spending In Retirement

A common question/concern for people retiring or who are in retirement is do they have an effective strategy that will help them withdraw, spend, and invest their savings for reliable income.

Below is an excerpt from CMC's Retirement Toolkit.

Two frequently used approaches for retirement spending are known as the 4% and 6% rules. They are relatively simple. Retirees can add up all of their investments and plan to withdraw 4% or 6% of that total during each year of retirement. A residence, first and second homes, are not counted as part of those investments.

- **The 4% Rule** allows retirees to avoid impairing the principal and the principal's ability to grow with inflation.
- **The 6% Rule** allows retirees to withdraw 6% of their risk-adjusted investable assets each year without exhausting the principal.

Retirees risk having to withdraw money at inopportune times. This process interrupts the compounding process and can greatly reduce wealth. The Bucket Approach is a straight forward method that helps mitigate this risk. The basic idea is to have 3 buckets to allocate capital based on when the money is expected to be spent.



The Bucket Strategy

Bucket #1 (1-2 Years)

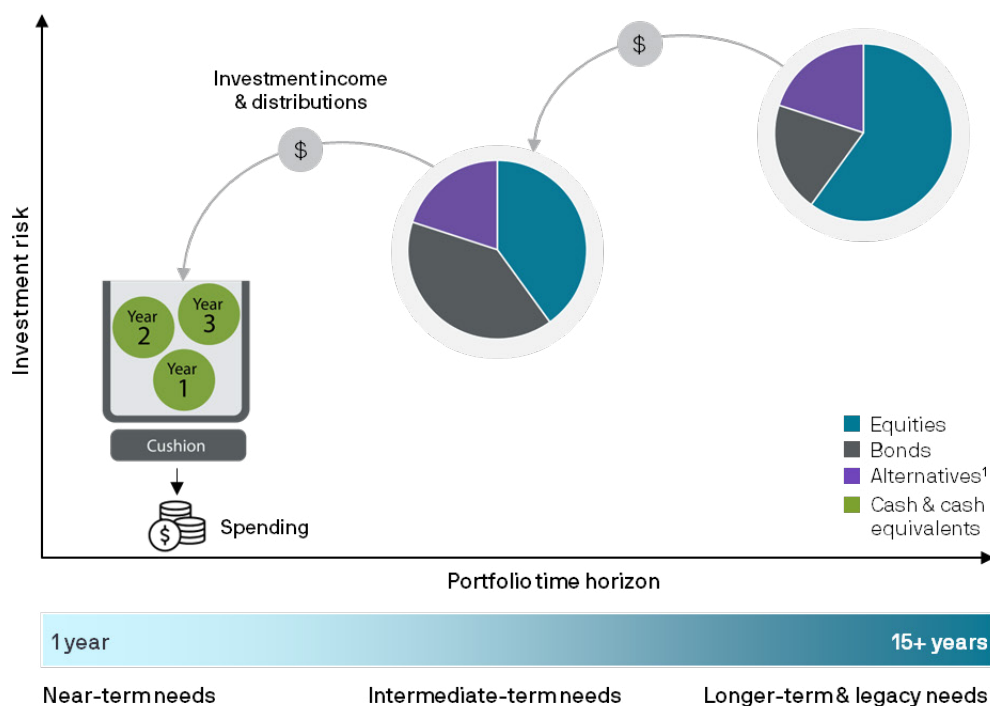
Bucket #1 is the cash component of your portfolio that holds money for near-term spending needs (up to 2 years' worth of living expenses). This bucket helps retirees cope with the fluctuations of the market.

Bucket #2 (3-5 Years)

Whereas Bucket #1 is all about safety and liquidity, Bucket #2 includes investments in high quality, yet low-yielding securities, that can weather almost all equity-market shocks during the midterm time horizon and provide financial security and reliable income.

Bucket #3 (5 Years & Beyond)

Bucket #3 is the growth engine of the portfolio and is dominated by equity and/or equity funds. Historically, equities have generated the highest passive returns out of any asset class. Given Bucket #3's long-term horizon, this diversified portfolio can withstand the market gyrations. The longer the time horizon, the more likely this bucket generates wealth.



Time-based segmentation

Aligning your time horizon with an investment approach may help you to be more comfortable with maintaining diversified portfolio allocations in retirement.

For the near-term portfolio, consider maintaining:

- Funds to cover 1-3 years of the gap between your income and spending needs
- A cushion for unexpected expenses

For illustrative purposes only. Bonds are subject to interest rate risks. Bond prices generally fall when interest rates rise. The price of equity securities may rise or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. Equity securities are subject to stock market risk, meaning that stock prices in general may decline over short or extended periods of time. Investing in alternative assets involves higher risks than traditional investments and is suitable only for the long term. They are not tax efficient and have higher fees than traditional investments. They may also be highly leveraged and engage in speculative investment techniques, which can magnify the potential for investment loss or gain.

¹Equity, fixed income and cash are considered traditional asset classes. The term "alternative" describes all non-traditional asset classes. They include private and public equity, venture capital, hedge funds, real estate, commodities, distressed debt and more.

Source: J.P. Morgan Asset Management.

J.P.Morgan
ASSET MANAGEMENT

*** Email us at information@the-cmc.com to receive a copy of CMC's 2026 Retirement Toolkit.



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