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## Two markets, two stories; stocks rally, bonds sound alarm

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After two months of bad news arriving fast and furious, May 2026 did something the previous quarter rarely allowed. It rewarded the long-term investor.

The major indexes finished the month firmly in the green. The S&P 500 rose 5.2 percent and closed at a record 7,580. The Nasdaq climbed roughly 8 percent. The Dow Jones crossed 51,000 for the first time. It was the S&P's ninth straight winning week — a streak previously matched at the end of 2023. Considering where the market stood in late March, with the Nasdaq 100 in correction and oil moving vertically, this was a recovery that few predicted.

The cause of the rebound was the same waterway that caused March's panic: the Strait of Hormuz, which was closed by Iran's Revolutionary Guard in late February. The United States and Iran reached a tentative 60-day memorandum to pause hostilities and restore shipping. Brent crude, which had spiked toward \$120, fell nearly 19 percent in May to around \$92 — its biggest decline since the depths of the pandemic. The ceasefire remains fragile, missile strikes continue in the Persian Gulf as negotiations continue, and any reopening of the Strait of Hormuz will likely be partial at best. The war premium has drained out of oil prices, but the conditions that created it have not been resolved.

While stocks celebrated, the yield on the 30-year Treasury bond surged to 5.2 percent — its highest level since July 2007. Most working adults have never managed their finances with long-term borrowing costs this high. This is not an American phenomenon. Japan's 30-year yield hit a record dating back to 1999, the United Kingdom's long gilt bond touched levels not seen since the late 1990s, and German bunds climbed in sympathy. When bond markets around the world move in the same direction at the same time, they are usually saying something worth hearing.

Bond yields are telling us that inflation is not finished. On May 28, the Federal Reserve's preferred inflation gauge, the Personal Consumption Expenditures (PCE) Index, came in at 3.8 percent year over year for April, a three-year high, with core PCE at 3.3 percent. The energy shock from the spring worked its way through the economy, as it did in the 1970s. Meanwhile, first-quarter GDP was

revised down to a tepid 1.6 percent annualized rate, below the earlier 2 percent estimate. Slowing growth alongside stubborn inflation has an unwelcome name that has crept back into the conversation: stagflation.

The Federal Reserve finds itself in an uncomfortable spot. At its late April meeting it held rates steady at 3.50 to 3.75 percent, but the vote was 8 to 4 by the most divided committee since 1992. That is not a committee that knows what to do next. Traders are seriously debating whether the Fed's next move could be a hike rather than a cut. Adding to the intrigue, the month brought a change of the guard at the Federal Reserve. Jerome Powell's term as chair ended in mid-May, and the Senate confirmed Kevin Warsh, an inflation hawk who has called for "regime change" at the central bank. Powell will stay on as a governor for now. Warsh inherits the divided committee in June.

So how were stocks able to rally through all of this? AI and data center investment. The information technology sector surged roughly 15 percent in the month. The engine remains the adoption of artificial intelligence, and Nvidia's widely respected CEO, Jensen Huang, called the current moment the single largest infrastructure build-out in human history. He believes AI is not a passing technology cycle, but a full reconstruction of the physical economy spanning chip factories, data centers, and the power grid that feeds them. A single large data center requires 30,000 truckloads of equipment to build, before even the consideration of the power plant needed beside it. Huang frames this as a chance to revitalize American manufacturing and rebuild a neglected energy grid. Whether the eventual returns justify the staggering capital being committed is the question every serious investor should be asking. But the spending is real.

In March, the worry surfaced that established software companies would no longer have customers, or at least high margins, in an AI world, and were sold off, as if all were doomed. Now the risk runs the other way, with capital flooding toward anything that promises to participate in the build-out. Investing discipline is the same in both directions. A company should earn its place in a diversified portfolio through durable revenue, a competitive moat, and free cash flow that does not evaporate when sentiment turns.

The good times will not roll uninterrupted. Market breadth, while improving, is still narrow, with technology and communication services responsible for the lion's share of the gains. Add an unresolved conflict in the Gulf, the highest long-term borrowing costs in nearly two decades, inflation running nearly double the Fed's target, and a central bank in transition, and the case for caution is clear. Yet the fundamentals that matter most to a long-term equity investor remain intact. Corporate earnings are growing, with full-year S&P 500 profit growth projected in the mid-teens. The labor market, while cooling, has not broken. The market rewards the investor who can tell the difference between a bad month and a bad business. As the economist Paul Samuelson once put it,

investing should be more like watching paint dry or grass grow. If you want excitement, go to Las Vegas.

May proved a point this column has made in calmer months and panicked ones alike. The investor who stayed the course through the March turbulence was rewarded in May. The one who bolted for the door locked in losses and missed the recovery. Stay invested. Stay diversified. And resist the urge to confuse a noisy month for a broken one.

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