

Market Commentary 02nd of June 2026

Overview: Equity Momentum Extends as Oil Prices Cool

In May 2026, global equity markets maintained their upward trajectory mostly due to solid corporate earnings growth. Strong earnings, particularly from AI and semiconductor-related companies, underpinned these gains, with Micron Technology surging 19% and surpassing \$1 trillion in market capitalization. The defining macroeconomic shift of the month was a significant correction in energy markets, which alleviated immediate stagflationary fears and allowed global equities to extend their spring rally. Concurrently, traditional fixed-income markets stabilized.

Equities: US, Europe, and UK

Risk appetite remained robust throughout May, pushing major Western equity indices deeper into positive territory for the year.

The S&P 500 (SPX) sustained its strong momentum, gaining 5.15% to close the month at 7580. While the index reached intraday all-time highs and finished strongly on a monthly basis, the tech-fueled rally highlighted a stark divergence across indices; the Nasdaq Composite pushed higher, whereas the Dow Jones Industrial Average lagged, declining slightly by 0.23% to 50,462.

Continental European equities continued their steady recovery. The MSCI Euro (MSER) advanced 3.46%, while Germany's DAX Index rose 3.34% to close at 25105. Crucially, May's gains pushed the DAX back into positive territory for the year, sitting at 2.51% YTD.

The FTSE 100 (UKX) experienced a relatively flat month, ticking up by just 0.29% to close at 10409. The UK market's heavy concentration in large energy producers acted as a headwind this month, capping gains as commodity prices retreated.

Fixed Income: Aggregate Bonds

Fixed-income markets enjoyed a rare month of synchronized positive returns. The cooling of energy prices lowered short-term inflation expectations, offering breathing room to sovereign and corporate debt. The global aggregate broad index notched a modest gain of 0.34%, bringing its YTD performance to a slightly positive 0.50%.



Commodities: Oil and Gold

Following months of geopolitical premiums, Crude Oil saw a sharp correction, plunging 16.86% to settle at \$87. Increased non-OPEC production and easing regional bottlenecks triggered the sell-off. Despite this monthly drop, oil remains the top-performing asset class of 2026, up 52% YTD.

Gold experienced a quiet month, drifting down 1.68% to \$4540/oz. The combination of a stronger dollar and a continued investor preference for equities limited the metal's upside, though it holds a steady YTD return of about 5%.

Currencies & Digital Assets: Dollar and Bitcoin

The Dollar Index (DXY) staged a modest recovery, rising 0.90% to finish at 98.942., with the Euro (EUR-USD) falling -0.61% and the British Pound (GBP-USD) weakening by 1.09% against the greenback.

After a powerful surge in April, Bitcoin (XBT-USD) entered a consolidation phase, retracting 3.77% to end May at \$73,581. The digital asset remains down 16% YTD as it carves out a post-rally trading range.

Why We Don't Sell Our Winners — And Why It Matters

One of the questions we get asked most often is why we tend to hold on to positions that have grown large in the portfolio. The instinct to “take some profits” after a strong run is entirely natural — and very human. But research published recently by Bloomberg Intelligence makes a compelling case for why doing exactly that, systematically and mechanically, can quietly destroy a lot of performance over time.

Only 4% of stocks really matter

The research draws on a well-known academic study by Hendrik Bessembinder of Arizona State University, published in 2019, which looked at US stock market wealth creation over 90 years. The numbers are striking. Just 86 stocks accounted for half of the entire market's \$16 trillion in wealth creation over that period. All net wealth creation, taken in aggregate, can be attributed to the top 1,000 performers — roughly 4% of all stocks ever listed. The remaining 96% collectively did no better than one-month Treasury bills. The majority actually trailed them.

Read that again. The entire engine of equity market wealth creation ran on a tiny minority of exceptional businesses. The other 96% were, at best, noise.

This has a direct and uncomfortable implication for how portfolios should be managed. If you own one of those rare 4% compounders — a Tesla, an Nvidia, an Alphabet — and you trim it simply because it has grown large, you may be doing exactly the wrong thing at exactly the wrong time. The cap-weighted S&P 500 does the opposite. It lets winners run, automatically increasing their weight as they grow. That structural feature is one of the main reasons it is so difficult for active managers to beat it over the long run.

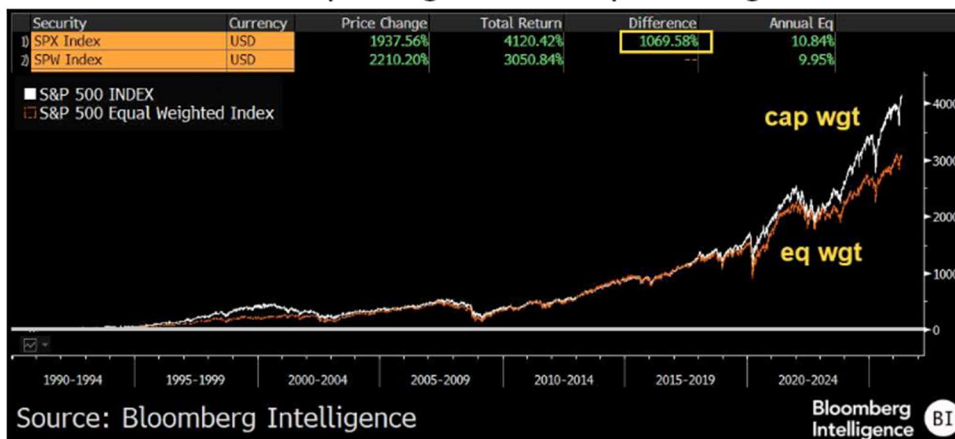


“Equal weight’s” dirty secret

The S&P 500 Equal Weight Index owns the exact same stocks as the S&P 500. Same companies, same universe. Yet since 1989, the equal-weighted version has returned around 3,050% — well behind the cap-weighted index’s 4,120%. The reason is straightforward. Equal weighting means constantly trimming the winners and topping up the laggards to maintain balance. In a market where a handful of companies have driven the overwhelming majority of returns, that has proven to be a very costly habit.

The contrast between two real fund managers makes the point hard to ignore. Both Cathie Wood’s Ark Innovation Fund (ARKK) and Ron Baron’s Baron Partners Fund (BPTIX) identified Tesla as a major winner back in 2016, each holding it at roughly a 10% weight. ARKK trimmed it consistently to maintain target weightings, as a disciplined active manager might. Baron let it run — at one point it reached 50% of the fund. Over the following ten years, Baron Partners returned 722%, more than double ARKK’s 318% and ahead of the Nasdaq 100. Tesla alone accounted for roughly half that outperformance. Hindsight is 20/20, of course. But the point is not really about Tesla. It is about the structural cost of selling your best ideas before they have finished running.

S&P 500 Cap Weighted vs Equal Weighted



What this means for how we manage your money

At Elgin, we have always believed that staying invested in high-quality companies — and having the conviction to hold them through volatility rather than trimming mechanically — is one of the most important edges available to a long-term investor. The Bessembinder study puts a rigorous academic foundation under that conviction.

We do reduce positions. When our assessment of a company’s fundamentals changes, when valuation becomes genuinely difficult to justify, or when a better opportunity presents itself — we act. But we do not sell winners simply because they have become large. In a market where wealth creation is this concentrated, letting the right businesses run is not a lack of discipline. It is discipline.

Source: Bloomberg Intelligence, “ARKK and BPTIX: A Study in Portfolio Rebalancing”, Eric Balchunas, May 2026. Academic reference: Hendrik Bessembinder, “Do Stocks Outperform Treasury Bills?”, *Journal of Financial Economics*, 2019.



Semiconductor bubble?

An article on Bloomberg (<https://www.bloomberg.com/news/articles/2026-05-31/ai-bubble-debate-gets-real-as-chip-stocks-rally-turns-historic>) this week began with the following paragraph:

Chipmakers are by far the hottest stocks in the market, but their recent surge is lending urgency to the debate over whether investors are buying into an artificial-intelligence bubble that's due to burst.

Considering that almost 80% of the S&P 500's gain this year is coming from just 10 companies — all are in technology and seven are semiconductor stocks, this is a valid question as market breadth is far too concentrated and if these 10 companies retreat, the market could plunge.

The same article gives both sides of the argument and investors can take away what they want from it. What we know is that an increasing number of our clients are getting nervous and are asking whether they should take profits and wait on the sidelines. The content in the first part of this month's commentary argues against doing so.

As you can see from two companies (Nvidia and Micron) that have become synonymous with the semiconductor index, their earnings growth has kept pace with their growing stock price.



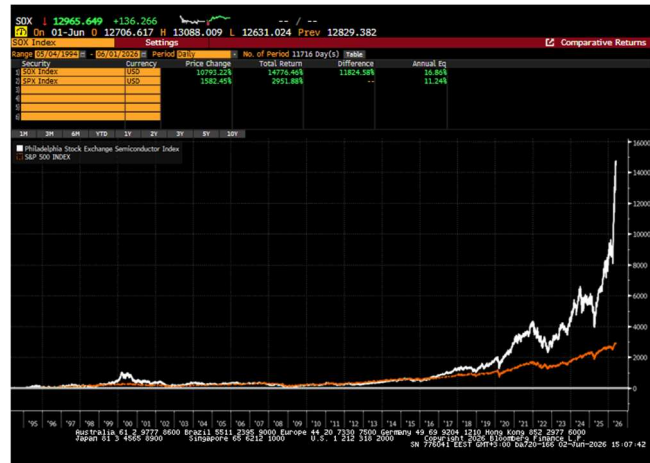
And their valuations (Micron P/E of 11.13 & NVDA P/E of 22.44) are actually lower, or in line with the US market index (P/E of 21.03), even though they are growing their earnings at a rate that is multiple times higher.





Semiconductors have been at the forefront of innovation and growth for the better part of three decades. The SOX index has managed to do considerably better than the overall market over the years, and as you can see from the graphic below, there were many more up-years than down-years, leading to an annual outperformance of 5.5% over the market. This includes the dotcom crash, the global financial crisis crash, covid, Trump tariffs and multiple wars.

That is why we have a lot of exposure to companies like Nvidia, Broadcom and Micron in our client portfolios.



What could derail this juggernaut?

The most obvious answer is a slowdown in spending on data centers by the hyperscalers. For the time being, based on what Alphabet, Amazon, Microsoft and Meta have recently announced, they intend to meaningfully increase their capex in 2027 and beyond.

Fasten your seatbelts. It will be a very bumpy ride with lot of scary dips along the way. But we suspect that those who stick to high-quality semi stocks will be amply rewarded.

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