

May 11, 2026

Some of you may be surprised by the stock market's recent strength, particularly with oil prices over \$100 a barrel, a Middle East conflict still active, and Russia's war of aggression continuing in Europe. Recent and unfolding developments deserve a close look.

Recently released First Quarter 2026 U.S. economic data reflect ongoing global and domestic unpredictabilities that may distort more typical financial market uncertainties, warranting a careful and individualized look at investment portfolios.

### **Ongoing Stagflation**

U.S. economic performance during the first quarter this year, below expectations, confirmed the stagflation trend that emerged last year. "The worst of both worlds" scenario where rising prices erode purchasing power while the economy fails to generate jobs, combining slow economic growth ("stagnation") with high unemployment and high inflation.

Three-month annualized core PCE rose from 2.4% in November last year to 4.4% in March this year (i). On April 30, the U.S. Bureau of Economic Analysis ("BEA") released its advance estimate:

- 2% GDP growth, down from anticipated 2.2-2.3%, [bea.gov/news/2026/gdp-advance-estimate-1st-quarter-2026](https://www.bea.gov/news/2026/gdp-advance-estimate-1st-quarter-2026); and
- Quarterly 4.5% PCE inflation (4.3 core PCE).

On Wednesday last week, the Treasury Borrowing Advisory Committee released its May 5 report of U.S. and global fixed-income markets, repricing in response to BEA-reported 2026 First Quarter U.S. inflation running at more than twice the Federal Reserve's 2% target: global investors now are demanding sharply higher returns to hold U.S. and global government bonds, <https://home.treasury.gov/news/press-releases/sb0490>.

Foreign holders of U.S. sovereign debt continue to reduce their holdings. China alone has cut its U.S. Treasury portfolio by roughly 42% since 2013. Reduced foreign demand means the U.S. must pay higher interest rates to fund its rising budget deficit, reinforcing upward pressures on rates and prices.

### **Fed Independence at Risk**

The day before the BEA's First Quarter data was released, Fed chair Jerome "Jay" Powell explained the Committee's decision to leave interest rates unchanged at 3.5-3.75%:

*Inflation has moved up and is elevated, in part reflecting the recent increase in global energy prices. Today the FOMC(ii) decided to leave our policy rate unchanged. We see the current stance of monetary policy as appropriate to promote progress toward our maximum employment and 2 percent inflation goals.*

*Developments in the Middle East are contributing to a high level of uncertainty about the economic outlook, and we will remain attentive to risks to both sides of our dual mandate.*

<https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20260429.pdf>

The 8-4 Fed vote not to accommodate White House demands for a lower Fed Funds Rate was notable in that only one of the four dissenters favored the demanded rate cut; the other three dissented against the statement's easing bias, signaling resistance to future cuts.

Also notable as the Fed's leadership transitions after eight years of Chair Powell's leadership: he announced his intention to remain on the Board of Governors after Kevin Warsh becomes chair—the first time since 1948 that a Fed chair will have stayed on past the end of their chairmanship. Powell explained that decision was based on concern for the central bank's capacity to remain independent of political influences, an independence that he said was "at risk." <https://www.nbcnews.com/business/economy/powell-will-remain-fed-board-doj-probe-rcna342522>.

Foreign central banks are responding to this uncertainty about U.S. monetary policy independence and broader policy unpredictability by accumulating gold at record rates—1,237 metric tons in 2025, the third consecutive year above 1,000 metric tons (the historical norm is around 200 metric tons annually) — and by repatriating gold from U.S. Federal Reserve vaults. BRICS+ nations now hold 17.4% of global gold reserves, up from 11.2% in 2019, reflecting a deliberate reallocation away from dollar-denominated assets.

Germany, France, the Netherlands, Venezuela, and India all have repatriated gold from U.S. Federal Reserve vaults; France completed in January the

removal it began in July last year of all 2,437 metric tons of its reserves. See generally, [gold.org/goldhub/research/gold-demand-trends](https://gold.org/goldhub/research/gold-demand-trends).

As Bob Dylan wrote in 1963, more than 60 years ago, the words ring true again: the times they are a-changin'. After 82 years of USD rise and dominance as the world's reserve currency, global investors are diversifying currencies, repatriating their gold.

In 1944, the Bretton Woods Conference at the end of World War II established a new international monetary and financial order that pegged global currencies to the USD, then backed by gold, <https://www.federalreservehistory.org/essays/bretton-woods-created>.

After President Nixon ended the USD's convertibility to gold in 1971, the U.S. negotiated a 1974 agreement with Saudi Arabia, who agreed to price all its oil in USDs and recycle surplus dollars into U.S. Treasuries, creating a new global demand to hold USDs and US Treasury debt. Other OPEC producers followed suit, establishing what became known as "the petrodollar system". In exchange, the United States provided stable USD revenue streams, military protection, and economic investment.

In June 2024, Saudi Arabia let its 50-year exclusive USD-oil-pricing arrangement expire. As of last month, Iran is operating a toll system in the Strait of Hormuz that requires oil tankers to pay transit fees in Chinese yuan or cryptocurrencies, <https://www.tradewindsnews.com/tankers/iran-taking-payments-for-strait-of-hormuz-passage-in-crypto-and-chinese-yuan/2-1-1969290>.

How will all that diversification impact the value of the U.S. Dollar?

### **Increasing Stock Market Concentration**

A narrow group of ten stocks—companies positioned across the AI infrastructure value chain—is carrying roughly 2/3 of the S&P 500's climb since March: Alphabet, Nvidia, Amazon, Broadcom, Intel, Micron, Apple, AMD, Microsoft, and SanDisk.

In January this year, reviewing the S&P Index's evolution since 1990, RBC characterized the increasing concentration this way: "Over the past decade, the S&P 500, which has historically been viewed as a balanced cross-section of the U.S. economy, has slowly transformed into a tech- and AI-dominated index. We believe this 'Great Narrowing' should be top of mind for

investors.” <https://www.rbcwealthmanagement.com/en-us/insights/the-great-narrowing-sp-500-concentration>

We are experiencing the narrowest market breadth since the dot-com era, with a small handful of stocks driving the “bull market” that has prevailed—except for April last year—since at least 2023. On Friday last week, The FINANCIAL TIMES reported that the “[s]oaring S&P propelled by Big Tech equities prompts warnings about ‘fragility’ of rally”, <https://tinyurl.com/FT-FragileStkMktRally>.

Yes, financial market prices may bounce back quickly these days—but not necessarily all of them.

### **Bottom Line**

Three categories of atypical market forces are at work today: (1) real-economy stress under conflict and inflation, (2) monetary and institutional unpredictability, and (3) equity-market composition and concentration risk.

One investment question worth naming directly: the value of the US Dollar (“USD”) declined roughly 10% last year and the structural pressures driving that decline may be intensifying. Cash may feel safe. But might globally diversified equity and debt ownership offer more reliable wealth preservation, income stability, and long-term capital appreciation than stashed USDs? We think so.

We expect ongoing volatility in domestic and foreign financial markets to present shifting risks and opportunities. Global diversification matters across geographies and asset classes. Risk management matters. Dollar-cost averaging strategies remain sensible. Periodic pullbacks have historically rewarded patient, diversified investors.

Where this letter cannot help is the single question that matters most: how do these conditions look against your specific goals, financial risk tolerance, and time horizons?

Please do not hesitate to get in touch for portfolio review and forward-looking planning. And, as always, please reach out to me with questions.

Warmest Regards,  
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CFP®, Certified Private Wealth Advisor®

i “PCE” is shorthand for U.S. Personal Consumption Expenditures (aka “consumer spending”). “Core PCE” excludes food and energy price changes (go figure). As you probably know, consumer spending is roughly 2/3 of the entire U.S. spending—also known as domestic economic activity or gross domestic product, or simply “GDP”).

ii The Federal Open Market Committee (the “FOMC”) is the principal U.S. monetary policymaking body within the U.S. Federal Reserve System (the “Fed”), tasked with promoting maximum employment and stable prices.