

# INVESTMENT PERSPECTIVES

MAY 2026

## Key Takeaways —

- Homebuyers on standby
- New Chair, new course
- May momentum matters



## WHEN WILL BUYERS RETURN TO THE HOUSING MARKET? ■

Mark Luschini, Chief Investment Strategist

Housing affordability is a problem for Americans striving to purchase a home. A monthly University of Michigan survey asking prospective buyers if now might be a good time to

buy a home shows that fewer than 20% believe it is. The housing sector has been hampered by the pandemic-induced surge in prices as people scrambled for homes better suited for remote work, and by the boost in mortgage rates driven by the rapid shift from recessionary conditions to explosive economic growth.

The Mortgage Bankers Association's weekly report on home purchase applications has been moving mostly sideways recently, following a slight upward bias since 2024. Part of the problem is the lack of available housing stock. Inventories are especially lean for existing homes due to "lock-ins"—homeowners with low mortgage rate loans that are unwilling to sell, and while new home inventories are elevated, homebuilder incentives have induced sufficient buying to draw inventories down in recent months.

Homeowners are recognizing that the bidding wars of circa 2021 are not what is happening today and are instead often trimming asking prices post-listing. Home prices nationwide are still rising, but at a decelerating pace, while some previously "white-hot" markets have seen outright price declines. The median prices for new and existing homes are near record highs, with both exceeding \$400,000. With recent price trends inferring there may be limited scope for significant gains from today's levels, a more stable house price regime may be in place. That, in turn, may eventually accrue to the benefit of buyers as "sticker shock" wanes and sellers' prices align with more realistic expectations.

After peaking two and a half years ago, mortgage rates have been grinding lower; consequently, housing affordability, as measured by mortgage costs covered by household income, has begun to rebound, albeit from the lowest level in 40 years. While overall home sales activity has struggled to gain momentum, existing-home sales jumped in December and again in February, an encouraging signal. Nevertheless, the sluggish and inconsistent trend in pending-home sales, which ultimately drives home sales, casts doubt on a sustained acceleration in home transactions.

The lack of affordability has entered the political realm, prompting policymakers to introduce remedies. Proposals to improve affordability face several challenges, and, in some cases, their efficacy may be limited. One course of action is to restrict institutional investors from acquiring single-family homes; however, they account for less than 20% of purchases, and the affected share would likely be smaller given the proposal's caveats, and as such, this measure may have only a marginal impact on nationwide house prices. Another proposed option is a nationwide rent-to-buy homeownership program, which is not a new concept and has seen underwhelming adoption in the past. More promising is a directive for Fannie Mae and Freddie Mac, the quasi-governmental agencies that underwrite mortgages, to purchase \$200 billion of mortgage-backed securities. This effort aims to tighten the spread between mortgage rates and Treasury yields, which is unusually wide today. Here again, the lasting impact of this exercise is questionable.

Ultimately, a combination of lower mortgage rates, stable prices, and time that allows household incomes to catch up to purchase and service the cost of homeownership is needed to meaningfully address what is delaying a persistent recovery in the housing market. The monthly survey of homebuilders, which asks them about sales

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prospects and buyer traffic, remains gloomy. Yet, homebuilder stocks, perhaps foreshadowing a developing but fragile prospective improvement, seem to reflect this, as prices for the group are up this year. For those who would be homebuyers, the goal of homeownership, while not as readily achieved as in the past, may simply require more time for the conditions to ripen before setting out the “Welcome” mat. ■



## A CHANGE OF LEADERSHIP AT THE FED

Guy LeBas, Chief Fixed Income Strategist

The Federal Open Market Committee, or FOMC, is the part of the Federal Reserve that most directly drives interest rate policy. In popular usage, “the Fed” is often

treated as one institution with one voice, but the system is more complicated. It includes the Board of Governors in Washington, D.C.; twelve regional Federal Reserve Banks spread across the country; and the FOMC, which brings these two sides together to set national monetary policy. The FOMC’s voting membership consists of the seven Fed governors, the president of the New York Fed, and four of the remaining eleven regional Fed presidents on a rotating basis. The Chair of the Federal Reserve Board also leads the FOMC. Assuming the Senate confirms Kevin Warsh soon, he will take over as Fed and FOMC Chair when outgoing Chair Jay Powell’s term ends on May 15.

The Board of Governors is a federal agency with leaders, including the Chair, nominated by the President, confirmed by the Senate, and set up to serve long staggered terms that

cross over two or more Presidential terms. That structure is deliberately awkward and designed to insulate monetary policy from political pressure, which might skew policy towards short-term benefits at the cost of longer-term inflation risks. One need not look any further than Türkiye in the 2010s, in which President Erdogan installed his son-in-law as head of the central bank and spurred a decade-long inflation crisis, to realize the risks of policy skew. Decades of academic and real-world evidence have demonstrated that politically independent central banks deliver better long-term outcomes for growth and inflation than do “captured” central banks. In the U.S., the staggered terms as well as the mixed federal and regional geographies of the Fed help to insulate the institution from political pressures. The system is not perfect, but it has historically been effective.

The FOMC Chair is not merely another voter, but instead sets the meeting agenda, shapes the policy debate, guides the post-meeting statement, and communicates the committee’s reaction function through press conferences and testimony. The Chair cannot simply dictate policy; each voting member has an individual vote, and dissents do occur. Still, the Chair

Infographic 1: The Federal Reserve FOMC — 3 Key Things to Know

**THE FEDERAL RESERVE FOMC**  
3 KEY THINGS TO KNOW

**1 WHO IS ON THE FOMC**

12 MEMBERS TOTAL

- 7 GOVERNORS on the Fed Board in Washington, D.C.
- PRESIDENT OF THE NEW YORK FED (Always votes)
- 4 OF THE 11 OTHER REGIONAL PRESIDENTS (Rotate yearly)

ALL 12 PRESIDENTS participate in discussions at every meeting.

**2 HOW VOTING WORKS**

7 OF 12 VOTE ON POLICY DECISIONS  
The 7 voting members are the 7 Governors, the New York Fed President, and 4 rotating regional presidents.

**INFORMED DELIBERATION**  
All 12 members share information, challenge views, and shape the committee’s decisions.

**3 THE CHAIR LEADS**

**THE CHAIR SETS THE AGENDA AND GUIDES THE COMMITTEE.**

- Shapes the discussion and policy statement
- Communicates the Fed’s decisions to the public and markets
- Represents the Fed and helps anchor expectations

The FOMC combines national perspective with regional insight to set monetary policy that supports maximum employment, stable prices, and financial stability.

Source: Janney ISG, Federal Reserve Board

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has enormous soft power. Given President Trump's expressed preferences, it seems reasonable to expect that incoming Fed Chair Kevin Warsh will guide the FOMC towards a generally lower-rate policy than outgoing Chair Jay Powell.

A Chair who is more inflation-focused might keep policy tighter for longer, even as growth slows. A Chair who is more employment-focused might tolerate somewhat higher inflation to protect labor markets. A Chair viewed as politically aligned with the White House could prompt investors to demand higher long-term yields, particularly if markets believe short-term rates will be held too low for too long. Conversely, a Chair with a strong reputation for independence and discipline can help anchor inflation expectations even before taking policy action. The pending changeover to Kevin Warsh will not completely change the direction of monetary policy from energy-led inflation worries to growth-focused rate cuts, but on the margin, it seems likely Warsh will advocate a more stimulative policy over time. Moreover, he can guide Fed research, meeting agendas, and discussions in such a way as to make easier policy more likely—even at the expense of potentially higher long-run inflation.

The upshot is that the FOMC is both a voting body and an institution backed by generations of credibility around its inflation mandate. Its formal votes determine the target range for overnight interest rates and the stance of balance sheet policy, and those decisions ultimately reflect the consensus of a dozen or more senior Fed officials.

When the Chair changes, markets are not just handicapping a person. They are reassessing the Fed's priorities, its tolerance for inflation, and the degree to which monetary policy will remain independent from the political cycle. In his confirmation hearings, incoming Fed Chair Kevin Warsh pledged to maintain a balanced policy and respect for the Fed's historical independence. But given the increasing politicization of monetary policy in recent years, it beggars belief that President Trump would nominate a candidate for Fed Chair who did not align with the President's stated low-rate preference. ■



## SELL IN MAY? WE THINK NOT

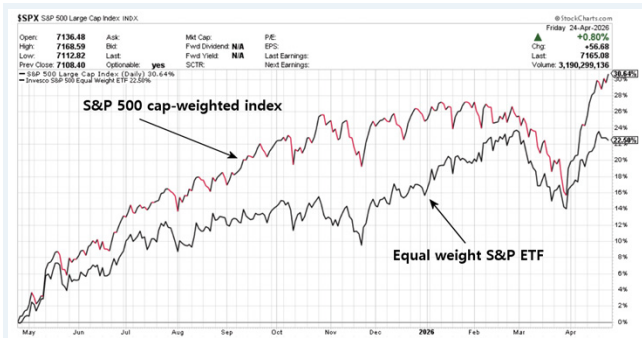
Gregory M. Drahuschak, Market Strategist

The stock market closed in April 2026 with the S&P 500 posting its second-best result for the month in the previous 77 years. However, with the major equity market indices near recently

set historic highs, the market faces four key issues. How it deals with the practical and hopefully profitable application of artificial intelligence (AI), the potential resetting of global energy conditions, the developing concern that inflation may be more persistent than presently thought, and the direction of intermediate-term interest rates will shape stock market performance for May and possibly months longer.

For many investors, the evolution or perhaps revolution of AI tops everything else. The AI explosion has been dominated by major semiconductors and other technology stocks, which have been the drivers of stock market performance. Since April 2025, these firms, which have the largest representation in the S&P 500 (the Technology Sector is 35% of the S&P), have helped the capitalization-weighted S&P 500 outperform an equal-weighted version of the index by 36%. In the last two years, this outperformance has been 45%.

Chart 1: S&P 500 Large Cap Index



Source: Stockcharts.com; Janney Investment Strategy Group

Regardless of how innovative AI-related technologies are, the market has become focused more intently on which firms can use them effectively and turn the promise of enhanced profitability into reality. Massive capital deployment, data center construction issues, and employment dislocation have become part of the daily market narrative. The market is punishing companies that overpromised AI-driven cost savings while rewarding companies that have successfully integrated still-fledgling AI technologies.

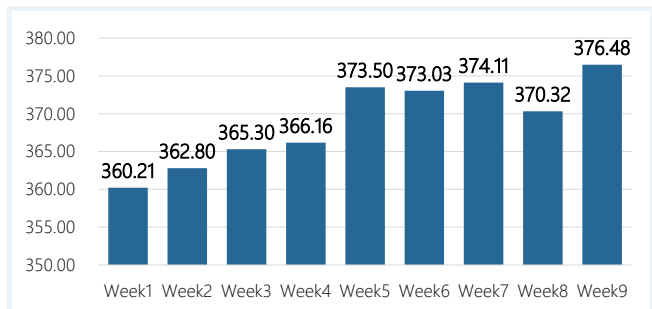
The AI promise has come alongside the enormous strain on the nation's electric grid. The massive power requirements of generative AI data centers have turned utilities and energy infrastructure into growth sectors, driving the valuation of the traditionally staid Utility Sector to record levels. The war with Iran further complicates

the market, as investors must price in the risk that, if the recent oil price spike persists, it could pressure corporate profits and possibly derail the economy.

Even before the Iran War muddled the economic picture, the market was beginning to grapple with the prospect that reaching the Fed's 2% inflation target might be much more difficult than previously believed. The Federal Reserve is in a difficult position as cutting interest rates to bolster growth could add to existing inflation concerns. The U.S. Bureau of Economic Analysis's initial estimate showed that first-quarter GDP growth was 2.0%, which was slightly below consensus expectations.

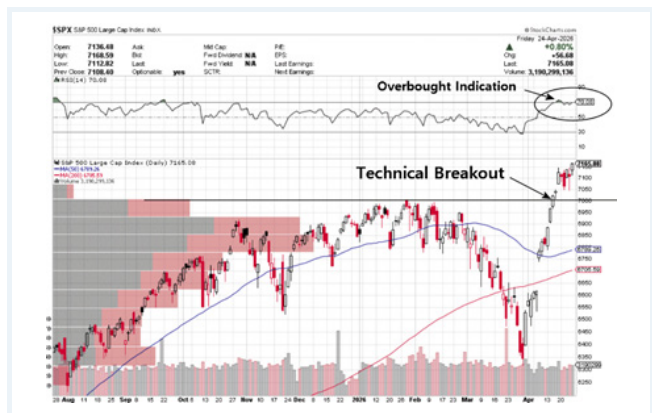
Valuation concern is valid, but using decade-old benchmarks is not relevant in today's technology-driven economy. However, even though market valuations are somewhat elevated, robust earnings growth is keeping valuations relatively in check. The current 2026 S&P 500 earnings estimate suggests that first-quarter earnings growth was 15.1%. If this is the actual growth rate for the quarter, it will be the sixth straight quarter of double-digit year-over-year earnings growth. At the current \$376.48 estimate, the S&P 500 is trading at 19 earnings multiple—still moderately elevated but below levels that have often marked market peaks.

Chart 2: 2027 S&P 500 Earnings Estimate



Source: LSEG T1; Janney Investment Strategy Group

Chart 3: S&P 500 Large Cap Index



Source: Stockcharts.com; Janney Investment Strategy Group

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Volatility last month enabled the S&P 500 to accomplish what it struggled to do during the previous seven months. Once the S&P 500 exited the top of its trading range around 7,000, the index was unencumbered by potential natural sellers who had been trapped at higher prices. This allowed even moderate buying to push the S&P higher, which by April set a new all-time high at 7,176. However, the speed and extent of the rush above 7,000 put the S&P in a technically overbought condition.

May begins what, in many years, is the market's comparatively less productive six-month period, which spawned the all-too-frequently wrong "sell in May" cliché. For example, May has been positive for stocks in 12 of the past 13 years. However, technical conditions, along with economic and geopolitical factors and likely increasing midterm election considerations, might inhibit the market for a period. In our view, however, reaching 7,500 this year remains a reasonable expectation. ■

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