

# INVESTMENT VIEWS

MAY 31, 2026

## CHANGES ABOUNDING

Our focus at MH & Associates is managing client portfolios through the ups and downs of the financial markets and the economy. The goal is to find investments that are right for the current environment and build a portfolio around them. At this time, as we have alluded to on numerous occasions, great changes are underway for both markets and the economy.

One change that we are closely watching is the financial authority's attitude towards inflation. Previous officials had been very keen to keep inflation low and steady, even at the cost of economic growth. Fed officials did not hesitate to raise interest rates or take other measures to slow the economy if inflation rose too much above the famous 2 1/2% threshold. To be fair, inflation can be very damaging to vast parts of the economy, especially if it comes with low real economic growth or without labor wage gains.

However, there are emerging signs that Fed and Treasury officials will tolerate higher inflation that comes with solid real economic growth. For example, if real GDP is growing at 4% and inflation is 3%, for a total of 7% nominal GDP growth, this may be acceptable to authorities, even preferred over lower real GDP growth with lower inflation. If policymakers, in pursuit of rebuilding the infrastructure and industrial capacity of the United States, implement such attitudes there will be significant implications for investor portfolios going forward. Such policies would affect many aspects of the financial markets and likely induce a shift in investor decisions. We continue to monitor this possible change closely.

### RARE EARTH MINERALS

We invested early in the rare earth space, taking a position in MP Materials (MP) long before most investors knew what rare earth minerals were. After a very strong run last year MP and other rare earth companies went through a volatile period of consolidation. Investors turned their attention to other areas, while the story for RE minerals just continued to build. At this point there is political consensus by most politicians (rare these days) that taking charge of our RE mining and production is an economic and political necessity. This nation cannot advance or compete in the coming years without abundant rare earth magnets and as we have seen since last year, China is very willing to use our needed supplies as a bargaining chip. Obviously, this is unacceptable and points to the likelihood that RE development will continue to receive government support and investment to ensure a secure supply chain.

### PRECIOUS METALS RESETTING

After a historic run in 2025 and into 2026, gold and silver have been taking a well-deserved break, working off overbought and euphoric investor sentiment. The corrective price action has been fairly sharp with big moves down coming over just a few days. What was the catalyst for these moves? It was the Iran War.

Various parties from central banks to wealthy individuals have been accumulating gold and to a lesser extent - silver over the past several years. Some of these parties now find that their financial circumstances have changed and need to sell some of their gold. From Middle East oil producers who can't sell oil due to the Hormuz blockade and need to fill a budget hole, or an oil importing nation suddenly struggling with \$120 barrels of oil, needing to help their citizens offset sharply higher costs – gold was sold to meet their need.

This sell-off was healthy and needed to keep the overall uptrend on a sustainable path. We do believe that higher gold and silver prices are ahead and are beginning to reaccumulate our position after some profit taking last year.

## YIELDS AND ENERGY

After the most recent reading on inflation showed increased pricing pressure, bond yields have once again started to rise. The 30-year yields closed at its highest level since 2007 and the 10-year yield is not very far behind. Bond prices (which run inversely to bond yields) have been in a downtrend for over six years and recent developments do not look like anything will change soon. Traditionally bond prices dropping were a good thing for stocks as money moved out of bonds and into equities. This relationship changed since bonds peaked in 2020 and rapidly rising bonds yields have been a severe threat to equity valuations as well as bond prices. This classic relationship is what the traditional 60/40 portfolio was based on and it has been crushed for over a half decade. We have been bearish on bonds for years and have been keeping any positions on the extreme short end of the maturity curve to keep interest rate risk to a minimum and maintain flexibility. However, continuing rising yields will harm our some of our equity exposure and is something we are watching closely.

The area of our portfolios that might catch some lift is our energy positions which tend to outperform longer dated bonds as longer term yields rise. These positions are one way to express a bearish view on the bond market and we have maintained these holdings even though they held back our overall performance in the last couple years. When energy stocks are outperforming long bonds, money is moving towards real assets and we believe this will continue.

## IRAN WAR

In general, the markets have definitely started to ignore the Iran War, with headlines that were once cause for a bad day in stocks are now seen as a chance to buy. We do believe that financial markets are discounting mechanisms and they are currently pricing in a peace deal in the near future. However, oil companies are starting to warn that perhaps within 60 days, the supply disruptions from the Strait of Hormuz will reach critical levels. Gasoline inventories in the U.S. are at the lowest levels since 2003 and no spare capacity to replenish them. The markets for now are looking past this and placing its bets on a resolution.

## UPCOMING AI SPENDING BUST

Markets traditionally run in a capital spending boom and bust cycle and the AI spending buildout will very likely not be any different. New technology cycles begin with funding from the cash flows of the companies in the industry which the new technology is meant to revolutionize. Currently "hyperscalers" (Google, Meta, Microsoft, etc) are spending billions of their own dollars to build out the infrastructure for artificial intelligence. This spending is being done well in advance of any meaningful revenue with the thinking "if you build it, they will come". That is the very unknown at this point, when will the profits from AI actually start to show up.

Currently AI is purely in a testing phase as companies attempt to grasp its efficiencies as well as its complexities, lack of accuracy and the enormous costs with using it. Without getting into how queries into a large language model or AI agent are priced, let's just say that many companies are learning a hard lesson when the bill comes due. Some are even finding that it is more expensive to use these new tools than it would have been to keep the employees who they fired to bring down costs and save money. This will naturally change as the technology improves, but there is no telling when this will be.

So when does the spending bust happen? As the spending moves from internal industry to the external outside investors, those new monies are a bit more easily spooked and will be looking for the cash flows to finally come in. If they get scared out of their investments by some black swan event or other market effect (rising rates, economic recession, etc), then financing will be quickly withdrawn. Revenues and profits will need to start showing up by 2029 or the capital to fund AI expansion could become extremely hard to find. This is not an immediate concern to be fair as a vast majority of the investments are still internally financed, but it will occur at some point and the technology needs to begin to prove itself.

**Recommendation List:** A list of all previous specific investment discussions published over the past 12 months will be provided upon request. Please email [lara@mhandassociates.com](mailto:lara@mhandassociates.com) or call our office for this list.



MH & Associates Securities Management Corporation  
2888 Loker Avenue East, Suite 318 • Carlsbad, CA 92010  
23901 Calabasas Road, Suite 2005 • Calabasas, CA 91302  
(626) 440-9694 • [www.mhinvestments.net](http://www.mhinvestments.net)