NEW YORK (MarketWatch) — The U.S. stock market rose in May by the most in three months, sending both the S&P 500 and the Dow Jones Industrial Average to record levels.

The excitement should be palpable, and it just isn’t. Gains came amid the lowest monthly average volumes since August 2013, according to FactSet, while volatility as measured by the CBOE VIX index (MDE:VIX) is at levels not seen since March 2013. Treasurys yields (ICAPSD:10_YEAR) have been diving, sending a shiver of unease that the bond market knows something equity investors don’t. Read: Treasurys notch biggest monthly gain since January

“The yield on the 10-year note reveals underlying suspicion that GDP growth expectations may be more fantasy than reality,” wrote Sam Stovall of S&P Capital IQ last week. Also he wonders: doesn’t an “abnormally low VIX” remind you of the very low tide that precedes a tsunami?

But it’s hard to side-step a trend, Stovall also notes, and the trend is up. The S&P 500 (SNC:SPX) closed at a record level for the 14th time this year on Friday, and the Dow Jones Industrial Average (DJI:DJIA) also closed at an all-time high, its fifth record close this year.

Even the Nasdaq Composite (NASDAQ:COMP), whose April performance was battered by a stampede out of tech stocks, had a great month. It rose 3.1%, the best of all three benchmarks. The performance seems to prove this Wall Street axiom: Don’t sell a dull market short. Read columnist Mark Hulbert on how the market usually performs after low VIX readings.

This market has surprised many analysts by its continued resilience in the face of lackluster earnings, not overly exciting economic growth and simmering geopolitical risks, such as in Ukraine. The benchmarks’ string of records against this backdrop has bolstered skeptics of the ‘sell in May’ strategy.

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One of the reasons May was not a month to sell is because the markets fully priced in the tapering of the Fed’s bond-buying program, while rate hikes are not expected for another year, said Kristina Hooper, U.S. investment strategist at Allianz Global Investors.

Looking ahead, Hooper expects the markets to grind higher, as the low interest rate and low inflation environment is still a favorable background for stocks.

But getting to record highs has its own perils. Next week investors get a flood of data from the U.S., Europe and China. They’ll decide whether they were right by being optimistic and might well have to readjust their expectations if economic reports disappoint.
The most important on the calendar is the U.S. government's nonfarm payrolls report Friday, preceded by weekly jobless claims on Thursday and ADP private-sector job growth report on Wednesday. The consensus for nonfarm payrolls is 200,000 jobs created in May, with the unemployment rate ticking up to 6.4% from 6.3%.

Economists at IHS Global Insight, whose forecast is 215,000, say at that level the job market would have returned to normalcy after a harsh winter. But the headline number is not the only element investors are paying attention to.

“The big question is wages, which were flat in April. We expect 0.2% growth in wages this month. Inflation is starting to pick up, but unless it is accompanied by stronger wage growth, the Fed is unlikely to react,” the note said.

Investors expect the ISM manufacturing and factory orders data to provide some evidence of a spring rebound.

On the corporate calendar, investors will pay attention to monthly car sales due on Tuesday and monthly retail sales due on Thursday.

Consumers shrugged off concerns about the tepid economy and continued to buy cars in April. Economists polled by MarketWatch forecast the same amount of car sales in May as in April, at 16.1 million.

As the earnings season for the first quarter winds down, next week only a handful of companies are scheduled to report. Among them are Krispy Kreme Doughnuts (NYSE:KKD) , Brown-Froman Corp. (NYSE:BF.A) , Hovnanian Enterprises (NYSE:HOV) , J.M. Smucker Co. (NYSE:SJM) , and VeriFone Systems Inc. (NYSE:PAY) .

But there’s plenty to trade off overseas. Early in the week, manufacturing surveys from China, Europe and elsewhere give a snapshot of how the world economy is faring. Then on Thursday, the European Central Bank meets. It is expected to announce easing measures, including a negative deposit rate, but stay away from a massive bond buying program like the kind the Federal Reserve is winding down. Read: ECB expected to cut rates, hold back on QE bazooka

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