

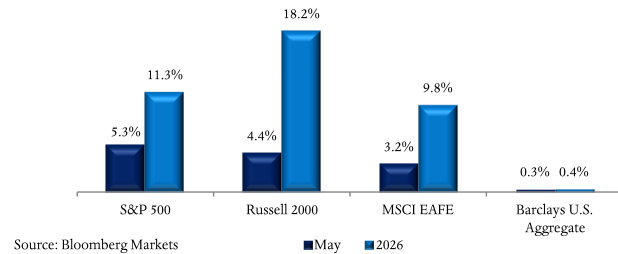


MARKETS

Equities advanced sharply in May, extending April's recovery. Negotiations between Washington and Tehran to extend their ceasefire and reopen the Strait of Hormuz appeared to gain traction. In turn, investors increasingly focused their attention on the structural tailwinds of artificial intelligence. The S&P 500 index rose +5.3% during the month (+11.3% ytd), closing with nine consecutive weekly gains, a feat achieved only four other times in the past forty years. The technology-heavy Nasdaq Composite (+8.4% in May; +16.3% ytd) was driven by a historic surge in semiconductor stocks (+22.1% in May atop April's +38.4%, marking its strongest such stretch since inception in 1996). Smaller companies also participated, with the Russell 2000 rising +4.4% (+18.3% ytd). From a factor perspective, growth reasserted its leadership over value (+7.0% versus +2.3%), reversing the rotation seen earlier in the year.

Overseas stocks, as measured by the MSCI EAFE index (+3.2% in May; +9.8% ytd), also moved higher. The European Stoxx 600 index, which had borne the brunt of Middle East-related risk advanced +3.2% (+8.1% ytd), despite notably weak economic data. Japanese equities in the Nikkei 225 index posted another strong month (+11.9% in May; +32.7% ytd) on the back of better-than-expected earnings growth. It was once again the emerging markets that led, leaping +9.7% and outperforming every other asset class (+25.7% ytd), paced by extraordinary gains in Korea and Taiwan, both of which continued to benefit from their central positioning in the AI hardware supply chain.

Fixed income, by contrast, experienced sharp intramonth volatility, reflecting the bond market's uncertainty over prospects for growth, jobs and inflation. US Treasury yields drifted higher, as resilient labor data and an increasingly hawkish Fed outweighed the relief from



falling oil. Most notably, the 30-year yield made a marginal new cycle high near 5.2% before retracing to 5.0%. Despite the choppiness, the Bloomberg US Aggregate index closed marginally higher (+0.3%; +0.4% ytd).

The Bloomberg Commodity Index declined -3.6% (+25.0% ytd), dragged lower by energy and precious metals. WTI crude fell -16.9%, to \$87.36 per barrel, its largest monthly loss in six years, as investors focused on reports that the US and Iran were nearing a framework that would extend the ceasefire and ultimately reopen the Strait of Hormuz. Precious metals showed tentative signs of stabilization following their steep correction from February highs, with gold easing -1.7% to \$4,535/oz and silver gaining +2.1% to \$75.26/oz, a divergence that points to silver's industrial demand support against the drag of higher real yields on bullion.

GEOPOLITICS

The closure of the Strait of Hormuz entered its fourth month in May, even as negotiations to extend the ceasefire and reopen the waterway appeared to make halting progress. Dialogue between Washington and Tehran continued, punctuated by President Trump's recurring intimations of an imminent "deal," to which headline-driven trading dutifully responded, driving oil lower, equities higher, and the dollar softer. Yet attempts to reopen the Strait have not reached fruition. Several sticking points, including control of the passage itself and of Iran's highly enriched uranium, remain unresolved and potentially intractable. The supply disrupt-

tion from the conflict still amounts to roughly 14 million barrels per day, or about 13.5% of pre-conflict global output, risking the prospect of short-term inflation concerns evolving into a more durable stagflationary worry should the closure persist. Structural incentives for de-escalation remain intact on both sides. Should energy inventories of net importers steadily draw down, there is great risk to the global economy. On the other hand, should Middle Eastern energy storage reach maximum capacity, the ensuing shutting-in of oil and gas wells could cause irreversible damage to their geological formations, hurting Middle Eastern economies dependent on energy-related revenues.

US

Concerns over the inflationary impact of higher energy prices dominated the US macroeconomic picture. The consumer price index (CPI) rose 3.8% year-over-year in April, its fastest annual pace since early 2023, and 2.8% excluding food and energy, lifted by a rebound in housing-related components. Meanwhile, economic growth remained resilient but less robust than the market narrative implied, with first-quarter GDP revised down to 1.6%, up from 0.5% in Q4 but below the 2% advance estimate. Even so, the labor market has resurged, with May featuring strong job growth of 172,000 (the third consecutive month of healthy additions) and consumer spending remains durable. Unemployment remained steady at 4.3%, with annual wage growth decelerating to 3.4% from 3.6% in April.

Kevin Warsh assumed the Federal Reserve's chairmanship during a period which the FOMC is divided over the direction of monetary policy, with persistent inflation and conflict-related uncertainty guiding towards an extended period of tight liquidity. As a result of the current economic state, markets have begun to expect one or more interest rate hikes by year-end.

EUROPE

The European economic recovery narrative remains derailed due to the ongoing energy shock. Macroeconomic

May 2026 Economic Statistics

	May-26	Dec-24	Dec-23
Federal Funds Target Rate	3.50 - 3.75%	4.25 - 4.50%	5.25 - 5.50%
Consumer Confidence Index	93.1	104.7	110.7
Manufacturing PMI Index	54.0%	49.3%	47.4%
Unemployment Rate	4.3%	4.2%	3.7%
JPY / USD	159.26	157.18	141.06
USD / EUR	1.1659	1.0353	1.1036
Gold / oz.	\$4,535.82	\$2,623.81	\$2,062.59
Oil (WTI) / bbl	\$87.36	\$71.72	\$71.65

Sources: see disclosure *

data continued to soften: the eurozone composite PMI fell to its lowest level since late 2023, consistent with slower economic growth, while consumer confidence, though improving marginally, remained below historical averages. Meanwhile, headline inflation picked up to 3.0% year-over-year, driven by energy costs. An additional culprit is negotiated wages, which rose at a 2.6% annual pace through April. Overall, economic growth projections for the euro area have been revised down by the European Commission, to 0.9% in 2026 and 1.2% in 2027. As such, markets are pricing a 25-basis-point ECB interest rate hike in June, with further tightening anticipated in the fall.

In the United Kingdom, inflation came in lower than expected (2.8% in April, down from 3.3% in March) and the labor market softened, as seen by the 5.0% unemployment rate (up from 4.6% one year ago). As a result, the Bank of England struck a more cautious tone, with Governor Bailey signaling no urgency to hike given weak growth (GDP expected to slow to 0.8% in 2026, down from 1.4% in 2025) and already-tight financial conditions.

ASIA

Japan's first-quarter economic growth exceeded expectations, rising at a 2.1% annualized rate, supported by consumption and expansionary fiscal policy under the new PM Takaichi. The country's AI complex has entered the spotlight as a beneficiary and driver of economic growth. Notably, first-quarter earnings across Asia grew roughly 40%, one of the strongest quarters

in years, heavily influenced by technology and semiconductors, with the hardware value chain of foundries, memory makers and equipment suppliers seeing earnings more than double year-over-year.

In China, firm industrial production led to 14% higher year-over-year exports. This was offset by soft consumption, weak credit and continued property-sector pressure. To illustrate, exports of solar panels doubled to 68GW in March, while EV sales surpassed \$9b in April, with BYD's popular Dolphin Mini selling for \$21,000 in Mexico.

OUTLOOK

The prospect of a US-Iran settlement, together with expectations of an eventual reopening of the Strait of Hormuz, marks a meaningful improvement in the geopolitical backdrop. The sooner transit through the chokepoint returns to normal, the more contained the economic damage from the energy shock is likely to be. Normalization is supportive for both equities and bonds, though the two markets are positioned quite differently: equities have remained notably optimistic throughout the crisis, underpinned by genuinely strong corporate fundamentals, and may have already discounted a favorable resolution, leaving them more exposed should the peace process stall; bonds, by contrast, stand to benefit more meaningfully from easing inflation expectations.

Corporate earnings remain the most important anchor for equities, and on that score the first quarter was exceptional. Eighty-five percent of S&P 500 constituents exceeded estimates, well above historical norms, while year-over-year earnings growth accelerated to 28.6%, more than double the 13.1% expected entering the season and the fastest pace since exiting the Covid downturn in the fourth quarter of 2021. Encouragingly, the strength was broad-based, with ten of eleven sectors seeing upward revisions and cyclical contributors alongside mega-cap technology. That said, we cautiously note the narrowing character of the advance. Index gains have grown increasingly concentrated in a handful of AI-linked names even as headline benchmarks set records, large-cap market

breadth has deteriorated, and valuations sit toward the upper end of their historical range, with the forward price-to-earnings multiple of 21.2 above its ten-year average of 18.9. The durability of the AI theme ultimately rests on whether the extraordinary capital being committed to related infrastructure translates into sustainable monetization, and if robust demand will match the ever-growing supply. We would point out that the surge in memory pricing now flattering semiconductor earnings is itself a cyclical dynamic prone to reversal. This does not argue against participation in the AI theme, but it does counsel against complacency. Among the risks to our constructive base case for remaining invested in quality stocks, a technology-driven unwind on lofty expectations and eventual "AI fatigue" remain most worth respecting.

In fixed income, the crosscurrents of reaccelerating inflation amid continuing growth, and a Fed inclined to wait, argue for a continued policy pause. Given this outlook, our bias remains toward short-duration positioning, where the income component can do the heavy lifting while price risk is contained should the long end of the yield curve resume its climb.

Given the unusually uncertain outlook for inflation and growth and the possibility of a stagflationary episode, we reiterate the case for diversification across geographies and asset classes, keeping in mind that the case for the dollar's diminishing safe-haven premium may once again come into focus. Further, we continue to advise investors to consider alternative assets, with our favored hedge funds well-positioned to add value through periods of volatility. Unique, non-market-correlated investments in cybersecurity, water infrastructure, and battery storage offer compelling opportunities to deploy capital into the private markets. Natural resources have historically protected purchasing power during inflationary and unstable periods, and are recommended at the current stage of the Artificial Intelligence buildout cycle. Lastly, our proprietary efforts to source direct investments continue to gain traction, with several interesting small and middle-market prospects.

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*Sources: Reuters, Bloomberg, Bureau of Labor Statistics, Conference Board, Federal Reserve, Institute for Supply Management, MSCI, Russell, Standard & Poor's, Financial Times and the Wall Street Journal.