

Multi-Asset Solutions Weekly Commentary

Key Observations

U.S. equity indices closed the week in the red, with the S&P 500 ending an impressive nine-week winning streak as weakness at the top of the market in the anointed 'Magnificent 7' was too much to overcome. Abroad, emerging market indices came under pressure as selling in recent AI winners stateside spilled over into related names in South Korea, specifically, leading to a weekly drop for the MSCI EM index.

Rotation out of some of this year's biggest AI-winners was evident throughout the balance of the week with capital finding its way into both 'defensive' and economically sensitive sectors, with financials, health care, and industrials standing out as some of the best performers. The May nonfarm payrolls report surprising to the upside on Friday put upward pressure on Treasury yields, tamping down investor sentiment and weighing on information technology valuations into the weekend.

Market participants recalibrated expectations for the path forward for monetary policy in the U.S. on the heels of the stronger May payrolls report, and Fed funds futures are now pricing in a 100% likelihood of at least one 25-basis point hike before year-end. Treasury yields across the curve rose into the weekend, creating tough sledding for investment-grade bonds, which tend to be more interest rate sensitive. Lower quality high yield credits fared a bit better, benefitting from shorter duration profiles and higher yields which offset the rise in rates.

What We're Watching This Week

U.S. Consumer Price Index (CPI) for May is released Wednesday, with the headline reading expected to rise 0.5% month over month and 4.2% year over year. Core CPI, which excludes volatile food and energy prices, is expected to rise 0.3% month over month and 2.9% year over year. Market participants will likely be keenly watching this release on the heels of the strong May payrolls report and should the month over month reading come in 'light' versus the consensus estimate as we expect, Treasury yields could reverse Friday's rise and move lower.

U.S. Producer Price Index (PPI) for May is released Thursday, with Final Demand PPI expected to rise 0.7% month over month, which would be a notable deceleration from the 1.4% reading in April.

The University of Michigan releases its preliminary Consumer Sentiment survey for June on Friday. The reading is expected to improve modestly to 46.0 from 44.8 the prior month, while remaining entrenched in worrisome territory. The expectations components of the survey will be worth monitoring to gauge how the drop in energy prices late last month impacted 5- to 10-year inflation expectations.

| | Price/Yield | | | Total Return (%) | | | |
|--|-------------|------------|-------------|------------------|--------|---------|---------|
| | 6/5/2026 | 1 Week Ago | 1 Month Ago | Year to Date | 1 Year | 3 Years | 5 Years |
| S&P 500 | 7,383.74 | -2.55 | 0.40 | 8.43 | 25.86 | 21.54 | 13.41 |
| NASDAQ 100 | 28,957.60 | -4.50 | 1.35 | 15.03 | 35.31 | 26.72 | 16.94 |
| S&P Mid Cap 400 | 3,693.56 | -0.82 | -0.86 | 12.35 | 23.99 | 15.18 | 7.89 |
| S&P Small Cap 600 | 1,672.89 | -0.66 | -0.85 | 14.72 | 31.26 | 13.98 | 5.62 |
| MSCI World ex US | 468.29 | -1.59 | 0.26 | 12.54 | 28.86 | 18.90 | 8.23 |
| MSCI EM | 1,717.34 | -1.94 | 1.24 | 23.18 | 47.99 | 23.05 | 7.03 |
| Bloomberg U.S. Aggregate | 4.80 | -0.54 | -0.64 | -0.17 | 4.43 | 3.82 | 0.04 |
| Bloomberg Corporate | 5.26 | -0.59 | -0.43 | 0.08 | 5.19 | 5.17 | 0.46 |
| Bloomberg U.S.High Yield | 7.19 | -0.42 | -0.22 | 1.26 | 6.78 | 8.87 | 4.25 |
| Bloomberg EM USD Aggregate | 6.07 | -0.25 | -0.12 | 1.20 | 8.80 | 8.52 | 1.96 |
| Bloomberg Global Aggregate ex-USD (\$Hedged) | 3.21 | -0.47 | -0.04 | -0.20 | 0.59 | 2.49 | -0.23 |
| Bloomberg Municipal Bond | 3.62 | 0.39 | 0.59 | 1.74 | 7.16 | 3.74 | 0.95 |

| | Price/Yield | | | | | | |
|---------------------------------|-------------|------------|-------------|------------|------------|-------------|-------------|
| | 6/5/2026 | 1 Week Ago | 1 Month Ago | 12/31/2025 | 1 Year Ago | 3 Years Ago | 5 Years Ago |
| SOFR (yield) | 3.62 | 3.63 | 3.62 | 4.49 | 4.29 | 5.06 | 0.01 |
| 30 Year Mortgage (average rate) | 6.60 | 6.63 | 6.39 | 7.28 | 6.92 | 7.03 | 3.10 |
| 2 Year Treasury (yield) | 4.15 | 4.00 | 3.94 | 4.24 | 3.92 | 4.47 | 0.14 |
| 10 Year Treasury (yield) | 4.53 | 4.44 | 4.42 | 4.57 | 4.39 | 3.68 | 1.55 |
| 30 Year Treasury (yield) | 5.00 | 4.97 | 4.99 | 4.78 | 4.88 | 3.88 | 2.23 |
| WTI Crude (closing price) | 90.54 | 87.36 | 102.27 | 71.72 | 63.37 | 72.15 | 69.62 |
| Gold (NYM \$/oz) | 4,337.10 | 4,560.50 | 4,568.50 | 2,641.00 | 3,350.70 | 1,958.00 | 1,889.80 |

Source: Bloomberg (3- and 5-Year Annualized)

Index returns are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

Stocks

Capital Rotates Out Of 'Tech' And The 'Magnificent 7'; Small And Mid-Cap Indices Outperform The S&P 500 Due To Their Higher 'Non-Tech' Exposure; Emerging Market Indices Punished As South Korea's Tech Exposure Drags.

S&P 500 Ends Nine-Week Winning Streak As Capital Rotates Out Of AI-Related Leaders And The 'Magnificent 7.'

The S&P 500 kicked off the month on its back foot, falling 2.5% on the week as capital moved out of growth-oriented areas most heavily tied to the AI mania and was redeployed into a combination of economically sensitive and defensive areas. The communication services, consumer discretionary, and information technology sectors all closed lower by at least 3.9% on the week, with notable weakness coming from 'Mag 7' members Amazon (AMZN), Meta Platforms (META), Microsoft (MSFT), and Tesla (TSLA), which all posted declines of 6% or more on the week. Encouragingly, while the market capitalization weighted S&P 500 fell 2.5% on the week, the equal weighted S&P 500 posted a more modest 0.5% weekly drop, which highlights how detrimental weakness at the top of the market was to the headline index.

Value-oriented sectors were beneficiaries as profit taking in the 'Mag 7' and AI winners dinged the information technology sector, which fell by 5.4% on the week, but there appeared to be some disagreement amongst market participants as to whether 'defensives' of economically sensitive sectors were the better place to be. The financials and industrials sectors both posted a positive week, but the classically 'defensive' health care sector was the big winner, rising 2.3%. The two sectors that stood out most to us on the week were the health

care sector, which rallied behind impressive breadth, and financials, which gained 1.3% after having lagged the S&P 500 throughout the first five months of the year by a sizable margin. One week does not a trend make, and whether last week's improved relative performance out of these two sectors can be sustained remains to be seen, but last week's rebound highlights the existence of relative value in areas that have been overlooked due to the AI frenzy, and these pockets could be the place to look for opportunities as we enter into the historically sleepy summer months.

Higher 'Non-Tech' Exposure A Tailwind For SMid, For One Week, Anyway.

The S&P Mid Cap 400 and S&P Smallcap 600 indices fell by 0.8% and 0.6%, respectively, last week, and both indices are again ahead of the broader S&P 500 year-to-date. The S&P 500 outperformed the 400 and 600 by a sizable margin from the March 30 low through the end of May as much of this year's gains have been tied to AI-related names in the information technology sector. Last week's reversal of fortune is notable, but it coincides with a marked improvement in market breadth, which is also something we haven't experienced since prior to the onset of the conflict in the Middle East in late March. At the sector level, both the 400 and 600 carry much larger weights to economically sensitive sectors, specifically financials and industrials, which taken together account for 40% of the Mid Cap 400 and over 34% of the Smallcap 600, compared to less than 20% in the S&P 500.

Emerging Market Semiconductor-Centric Countries Dinged Amid U.S. Tech Selloff

A pronounced shift in sentiment surrounding the AI trade negatively impacted emerging market stocks, with the MSCI Emerging Markets index declining by 1.9%. The MSCI South Korea index led the way lower, with the KOSPI entering correction territory down roughly 13.4% from its June 1st

all-time high. Last week's downdraft in the MSCI Korea index amounted to a 6.5% decline, the worst weekly return for the index since the first week of March and can be traced back to the memory names we've referred to as the 'DRAM Darlings.' The tone change last week was centered around AI-related names as earnings/guidance was deemed 'not good enough' by market participants. It's too early to suggest the uptrend for AI-related names has changed, as this could just be consolidation after a rapid rise in recent weeks exacerbated by light summer volume, but this change in momentum is something we intend to monitor closely. Emerging markets outside of Korea were largely spared and look more constructive going forward as the FTSE Emerging index, which doesn't hold exposure to South Korea, was off by a more modest 0.9%, and outperformed the MSCI All-Country World index by 1.3% on the week.

Bonds

Yields Don't Respond To Strong Manufacturing, Services Data Early In The Week, But Rise As Strength In The Labor Market Boosts Bets On Rate Hikes; Emerging Market Debt Bucks The Risk-Off Trend.

Manufacturing, Services Data Surprise To The Upside In May, But Rates Barely Notice. The Institute for Supply Management (ISM) released its monthly Manufacturing and Services indices for May last week. On balance, readings painted a constructive picture of the U.S. economy with both headline indices surprising to the upside and showing that both segments of the U.S. economy grew/expanded at a more rapid pace last month than had been expected. For context, a reading above 50 is indicative of expansion or growth, while a reading below 50 indicates contraction. The Services ISM index came in at 54.5, above the 53.8 estimate, and the Prices Paid component, while still elevated at 71.3, was below the 72.3 estimate. Perhaps most encouraging, the New Orders reading came in at 57.3, well ahead of the 53.4 estimate and the 53.5 reading from April. The Manufacturing ISM for May also surprised to the upside, coming in at 54.0 versus the consensus estimate of 53.0, and the Prices Paid component again came in below expectations at 82.1 versus the 85.0 estimate. As was the case with the Services index, the New Orders component of the Manufacturing ISM was the most encouraging datapoint as the reading of 56.8 topped the 54.5 estimate. All told, both the Manufacturing and Services segments of the U.S. economy grew more than expected in May, and with the Prices Paid components softer than expected and the New Orders readings surprising to the upside, we are left with the view that the U.S. economy was downright strong last month, not just resilient. We were a bit surprised that the strength of the ISM readings didn't push Treasury yields higher, but it could have been a function of investors focusing on the nonfarm payrolls data set to be released later in the week.

Rate Hike Bets Rise As May Payrolls Rise More Than Expected, With Growth For Prior Months Revised Higher. Last week brought with it the release of two readings on the state of the U.S. labor market last month in the form of the ADP Employment report and the more closely watched Nonfarm Payrolls report. The ADP report was released earlier in the week and showed 122k jobs were created during the month, modestly above the 120k estimate.

Given that the ADP report often shows a slower pace of hiring than does the Nonfarm Payrolls report, market participants went into Friday's release of the May Payrolls report expecting a potentially sizable upside surprise relative to the 88k consensus estimate for jobs growth during the month. That's precisely what materialized as the report showed 172k jobs were created during the month, and payrolls from the prior two months were revised higher by 93k in aggregate, while the unemployment rate came in at 4.3% as expected. The apparent strength in the labor market led market participants to ratchet expectations for rate hikes prior to year-end higher, as Fed funds futures were pricing in a 100% chance of at least one 25-bp hike at the end of last week. Treasury yields across the curve rose into the weekend, with the 10-year yield rising 5-basis points on the day and 9-bps on the week to close at 4.53%.

Rise In Yields Late Last Week Doesn't Derail Emerging Market

Bonds. The rise in interest rates in the U.S. last Friday that materialized after the strong May nonfarm payrolls report pressured prices of Treasuries and other investment-grade bonds but was less detrimental for high yield and emerging market debt at the margin. At a high level, the primary fixed income sub-asset classes we track were broadly negative, but the Bloomberg U.S. Corporate High Yield index and EM US Aggregate index finished the week lower by just 0.4% and 0.2% respectively, while more rate sensitive subsets like investment grade corporates fell by closer to 0.6%. Modest weekly declines out of high yield and EM debt capture why allocators are willing to stick with lower duration, higher yielding asset classes despite compressed valuations. Credit spreads for emerging market bonds closed the week lower and made a new 20-year low last week before ticking higher into the weekend, and that compression in spreads has emerging market bonds tied with U.S. high yield as the best performing fixed income sub-asset classes year-to-date within our portfolios and serves as an example of how time in the market is more important than timing the market.

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