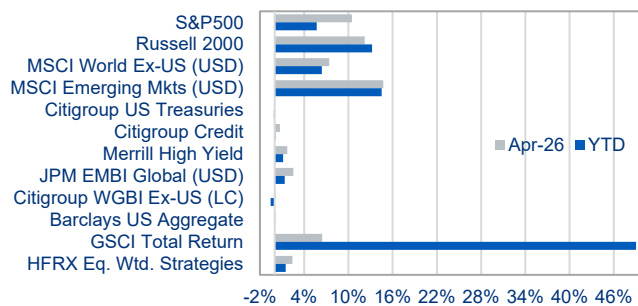


Global Market Review

War sent global equity markets tumbling in March. Hopes for peace sparked a sharp rebound in April. Strong earnings growth, especially among AI giants, also contributed to April's rally. Reflecting the dominance of AI-related firms, U.S., South Korean and Taiwanese equity markets performed especially well. Crude oil prices also soared in April, the supply of key distillates became increasingly tight, and their prices rose, sapping the purchasing power of households and firms around the world. Faced with a commodity supply shock of uncertain depth and duration, major central banks – including the Fed, the BoE, the BoJ, and the ECB – kept their policy rates unchanged in April, despite rising inflation and inflation expectations. The U.S. Treasury yield curve steepened as short-term yields were little changed while longer term yields rose. Since the beginning of the year, expectations for Fed rate cuts have fallen. Futures markets now attach a 75% probability to no change in rates this year. The U.S. dollar depreciated.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



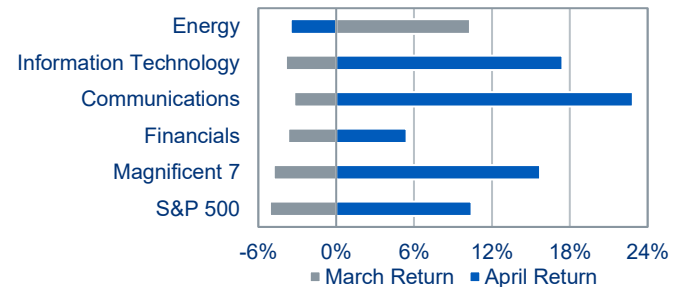
Hopes for peace buoy global equity markets.

U.S. Equity Rally Reverse March Losses

In a dramatic rebound from March, the S&P 500 rose 10.5% in April, its biggest monthly gain since November 2020. With the exception of the energy sector, the April rally was wide-ranging across sectors and market segments 2020 (Exhibit 1). Growth stocks (+12.2%) outperformed value (+8.2%), while small cap stocks outperformed large (12.2% versus 10.1%). Hopes for peace, solid corporate earnings growth, and massive AI profits and capital expenditures helped fuel the rally, notwithstanding rising oil prices. With about one quarter of the firms in the S&P 500 reporting, profit margins appear high and earnings growth strong. AI-related firms stood out.

Exhibit 1. April's Rebound Reverses March Losses

Source: Bloomberg. Returns of U.S. equities in March and April.



Four AI hyperscalers – Amazon, Google, Meta, and Microsoft – announced stellar earnings growth in the first quarter and equally spectacular planned increases in capital expenditure. The hyperscalers plan capex of \$725 billion this year (equivalent to 2.3% of GDP), up 77% from last year. They forecast further large increases next year. The capex of these four firms is sufficient to generate a material boost to U.S. corporate earnings and GDP growth. However, the magnitude of these investments is also beginning to eat into their free cash flow, which has fallen by about half over the past year.

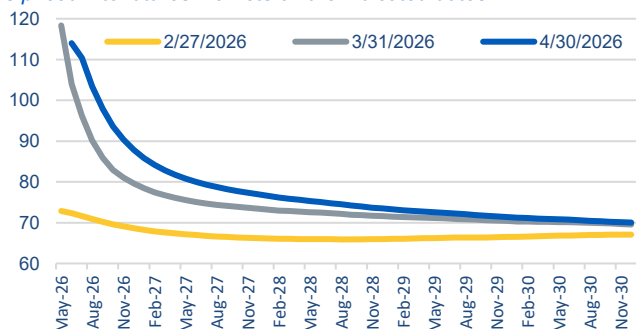
Commodity Price Shock Deepens

A recent World Bank analysis found that the impact of geopolitical shocks on commodity prices is significantly higher than shocks precipitated by other factors. This outsized impact stems from the heightened uncertainty created by geopolitical shocks that drives up risk premiums and speculation, and spurs competition to secure supplies.

The effective closure of the Strait of Hormuz has resulted in a loss in traded crude oil of 10 million barrels per day, the largest oil shock on record. Given the importance of the Strait as a key transit point for a range of key commodities, the impact of its closure has spread broadly across industries and sectors.

Exhibit 2. Oil Futures Curve Has Shifted Up

Source: Bloomberg. Brent crude prices at various points in the future as priced into futures markets on the indicated dates.



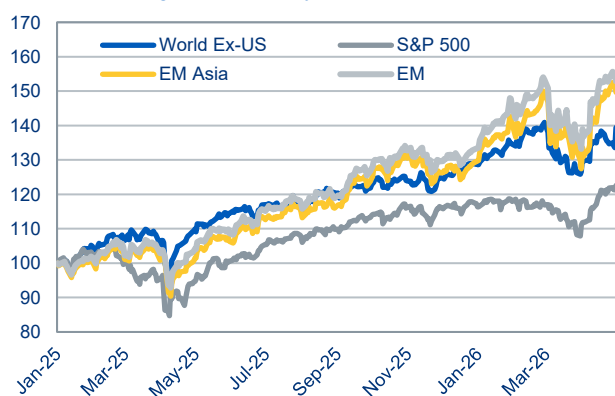
Brent crude prices in April touched their highest level since the Russian invasion of Ukraine in 2022. While the futures market initially priced in a short supply disruption arising from the closure of the Strait of Hormuz, it is beginning to point to a more protracted conflict. The oil futures curve has shifted up, suggesting that oil prices will remain higher for longer (Exhibit 2). Stocks of crude, gasoline, diesel, jet fuel, and other distillates are dwindling. Commodity traders forecast that if the Strait remains closed shortages will become acute by June, especially in Asia and Europe. If this trend is unchecked, prices will need to rise further to curtail demand by enough to close the supply gap, resulting in stagflation.

Non-U.S. Markets Also Rebound in April

The MSCI World ex-US index of advanced non-U.S. equities rose 7.4% in April, reversing its steep plunge in March (Exhibit 3). The index is up 6.4% so far this year. Both European and Japanese markets contributed to the gain

Exhibit 3. Asian Emerging Equities Lead Other Markets

Source: Bloomberg. Index January 2025 = 100.



Emerging equity markets rose 14.7% in April, another case of a strong rebound from March declines (see Exhibit 3). So far this year, emerging equity markets are up 14.5%. Asian equity

markets have enjoyed particularly strong returns, gaining 17.5% in April and 15.7% so far in 2026. Korean and Taiwanese markets have been particular standouts, driven by large semiconductor firms which dominate both markets. The Brazilian equity market has also performed well this year, buoyed by rising oil and commodity prices.

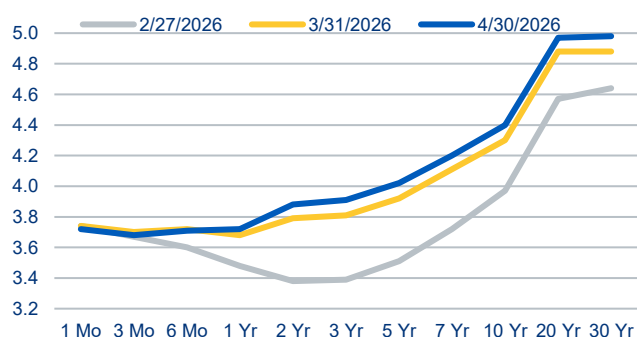
Capital flows to emerging economies have been increasingly dominated by non-bank financial intermediaries including investment funds, pensions, insurance companies and hedge funds, rather than more traditional flows from banks and direct investment in plant and equipment. These portfolio inflows have resulted in a rapidly rising share of foreign holdings in emerging local debt and equity markets. While these flows represent progress in deepening emerging capital markets and weaning them away from dependence on foreign denominated debt, the increasing foreign footprint in local emerging markets also increases the vulnerability of these markets to shifts in global risk sentiment.

Supply Shock Stymies Central Banks

Uncertainty about the depth and duration of the commodity supply shock created by the closure of the Strait of Hormuz kept major central banks on hold in April as it did in March. Futures markets no longer expect a Fed rate cut this year, despite the prospect of a more dovish new Fed chair. The U.S. Treasury yield curve has steepened since the start of the conflict, largely reflecting rising rates in the middle of the curve (Exhibit 4). Inflation expectations and term premiums have increased since the beginning of the war.

Exhibit 4. U.S. Treasury Yield Curve Steepens

Source: U.S. Treasury. U.S. Treasury yields at different maturities on dates shown.



Performance of Major Market Indices through 04-30-2026

Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	10.5%	10.5%	5.7%	31.1%	21.7%	13.1%
Russell 2000	12.2%	12.2%	13.2%	44.4%	18.2%	5.7%
MSCI World Ex-US (USD)	7.4%	7.4%	6.4%	26.3%	16.0%	9.3%
MSCI Emerging Mkts (USD)	14.7%	14.7%	14.5%	46.7%	20.7%	6.1%
Citigroup US Treasuries	-0.1%	-0.1%	-0.1%	2.5%	2.4%	-0.3%
Citigroup Credit	0.7%	0.7%	0.1%	5.6%	4.7%	0.7%
Merrill High Yield	1.7%	1.7%	1.1%	8.7%	8.8%	4.3%
JPM EMBI Global (USD)	2.5%	2.5%	1.4%	12.5%	9.3%	2.6%
Citigroup WGBI Ex-US (LC)	0.1%	0.1%	-0.6%	-1.1%	0.9%	-2.0%
Barclays US Aggregate	0.1%	0.1%	0.1%	4.1%	3.5%	0.2%
GSCI Total Return	6.4%	6.4%	49.0%	66.2%	21.0%	19.2%
HFRX Eq. Wtd. Strategies	2.4%	2.4%	1.5%	8.9%	5.9%	2.7%