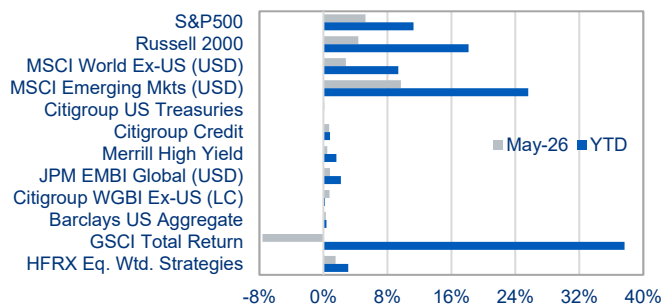


Global Market Review

U.S. equity markets rose further in May, extending April's large gains. Hopes for an imminent opening of the Strait of Hormuz, strong corporate earnings growth, and speculative ardor for all things AI remained the main catalysts for the continued rally. The massive, planned IPOs announced by SpaceX, Open AI, and Anthropic are emblematic of the AI frenzy gripping global equity markets. Advanced and emerging non-U.S. equity markets also rose in May. Among emerging equity markets, Korea and Taiwan generated especially strong returns reflecting a continued surge in their dominant semiconductor industries. U.S. Treasury yields were little changed in May. In the U.S. credit markets, spreads remained compressed across the rating spectrum. Interest rate futures continued to price in a slight bias toward Fed tightening this year, a marked change from before the war. Oil prices plummeted in May but stayed well above pre-war levels amid continued high market volatility. The U.S. dollar appreciated modestly.

Performance of Major Market Indices

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



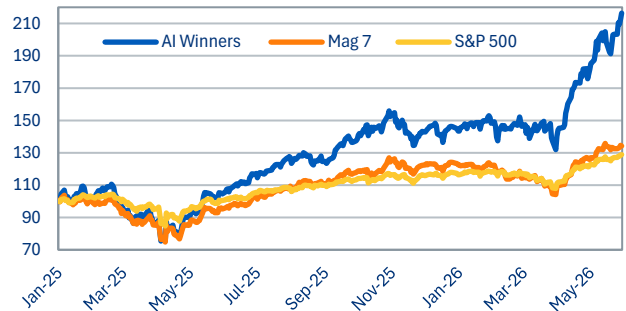
Oil prices fell and equity markets rallied further in May.

Extending the Light of Consciousness to the Stars

SpaceX, Anthropic, and OpenAI announced IPO plans with target valuations of \$1.75 trillion, \$1+ trillion, and \$825 billion, respectively, notwithstanding negative earnings in 2025. At these valuations, they would be among the biggest IPOs of all time. At a target valuation of 94 times 2025 revenue, the SpaceX IPO is by far the most ambitious. With a mission “to build the systems and technologies necessary to make life multiplanetary, to understand the true nature of the universe, and to extend the light of consciousness to the stars”, SpaceX aspires to “reshape terrestrial industries and lead to the emergence of new trillion-dollar markets on the Moon, Mars, and beyond.” SpaceX aims to raise between \$75-80 billion in its IPO later this year. This would dwarf the previous record of \$25.6 billion raised by Saudi Aramco. Unlike today's earnings-free IPO moonshots, Saudi Aramco was the most profitable company on planet Earth at the time of its IPO in 2019.

Exhibit 1. AI-Related Firms Dominate Market Gains

Source: Bloomberg. Index January 2025 = 100.



Record High U.S. Equity Prices and Valuations

One element of the timing of the planned IPOpalooza is a highly receptive public market. The S&P 500 set successive record highs in May, ending the month up 5.3%. The index is up 11.3% so far this year (Exhibit 1). Strong, broad-based earnings growth and positive earnings surprises, especially among mega-cap tech stocks, have been a key driver of the market's returns. Despite those earnings gains, the cyclically adjusted P/E ratio (CAPE) of the S&P500 index is in the 99th percentile. Since 1900, the current level of the CAPE ratio has been eclipsed only once just prior to the bursting of the 2000

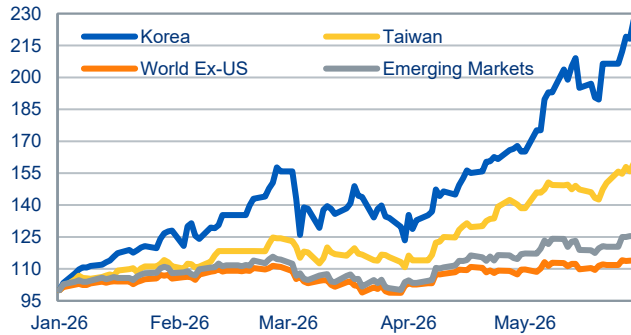
tech bubble. The combination of high market valuations and a planned surge in IPO activity raises some doubt about the sustainability of market pricing.

Non-U.S. Markets Extend Gains

The MSCI World ex-US index of advanced non-U.S. equities rose 2.8% in May, extending its strong gain in April (Exhibit 2). The index is up 9.4% so far this year. Both European and Japanese markets contributed to the gain.

Exhibit 2. AI Drives Returns Across Emerging Equities

Source: Bloomberg. Index January 2026 = 100.



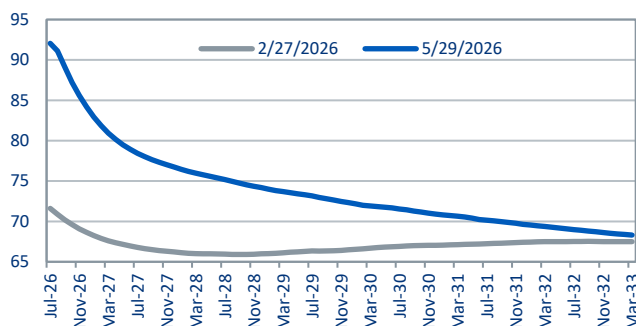
The AI theme has been a major driver of emerging equity markets this year, contributing importantly to their 9.7% gain in May and their return so far this year of 25.6%. AI dominance is especially apparent across Asian emerging equity markets, which are up 29.7% so far in 2026. Korean and Taiwanese markets continue to lead all other major markets thanks to the large semiconductor firms that dominate both markets.

War, Uncertainty, and Prices

Since the onset of hostilities at end-February, oil prices and oil price volatility have surged, and heightened uncertainty has been priced into the market. The cumulative loss of oil supply in the first two months of the war exceeded 1 billion barrels, or about 14 million barrels of oil per day that has been only partially offset by increased oil production elsewhere. Reflecting this supply shortfall, futures prices for Brent crude remain well above those prevailing prior to the war despite the ceasefire announced in early April (Exhibit 3).

Exhibit 3. Oil Futures Suggest Sustained High Prices

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



The probability distribution of future oil prices derived from options has widened significantly, its mean has shifted to the right, and the tail distribution of expected prices has skewed significantly to the right. The message is clear: higher oil prices are not a one-way bet, but they are a significant risk.

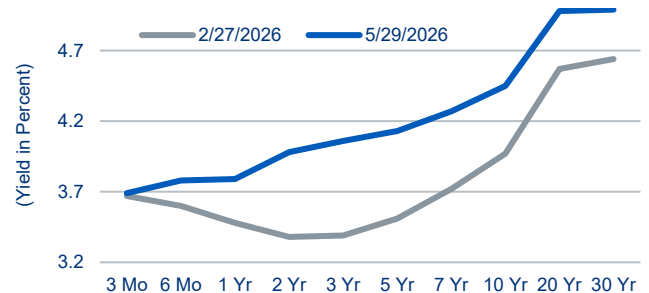
The impact of higher oil prices has already been felt downstream in patterns of retail spending, flight cancellations, the cost of maritime and road transport, the production of petrochemicals, and agricultural production. Governments in both advanced and emerging economies have stepped in to cushion the impact on consumers through subsidies, price controls, tax holidays, and the rationing of key distillates.

Debts, Deficits, Inflation and Yields

Sovereign bond markets across advanced economies have sold off in recent months with long-term yields rising especially sharply. This reflects inflationary pressure from rising energy and other input prices as a result of the war, mounting government deficits and debt issuance, a reduction in central bank demand with the end of quantitative easing, and higher risk premiums reflecting uncertainty over future inflation and increased geopolitical fragmentation. In some countries, notably the U.S., the U.K., and Japan, debt dynamics appear unsustainable.

Exhibit 4. U.S. Treasury Yield Curve Steepens

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



In the U.S., Treasury yields have risen across the maturity spectrum since the start of the war (Exhibit 4). Although both real yields and inflation expectations have increased, the main driver of the yield increase has been higher inflation expectations, especially at shorter maturities.

Performance of Major Market Indices through 05-31-2026

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	5.3%	16.3%	11.3%	29.8%	23.6%	14.1%
Russell 2000	4.4%	17.1%	18.2%	43.1%	20.3%	6.6%
MSCI World Ex-US (USD)	2.8%	10.4%	9.4%	24.0%	18.8%	9.1%
MSCI Emerging Mkts (USD)	9.7%	25.8%	25.6%	54.3%	25.2%	7.5%
Citigroup US Treasuries	0.1%	0.0%	0.0%	3.7%	2.8%	-0.3%
Citigroup Credit	0.7%	1.4%	0.8%	6.3%	5.4%	0.7%
Merrill High Yield	0.5%	2.2%	1.6%	7.4%	9.3%	4.4%
JPM EMBI Global (USD)	0.8%	3.4%	2.2%	12.4%	10.0%	2.6%
Citigroup WGBI Ex-US (LC)	0.8%	0.9%	0.2%	0.1%	1.2%	-1.9%
Barclays US Aggregate	0.3%	0.4%	0.4%	5.1%	3.9%	0.2%
GSCI Total Return	-7.6%	-1.7%	37.7%	51.1%	20.3%	16.7%
HFRX Eq. Wtd. Strategies	1.5%	4.0%	3.1%	9.2%	6.7%	3.0%