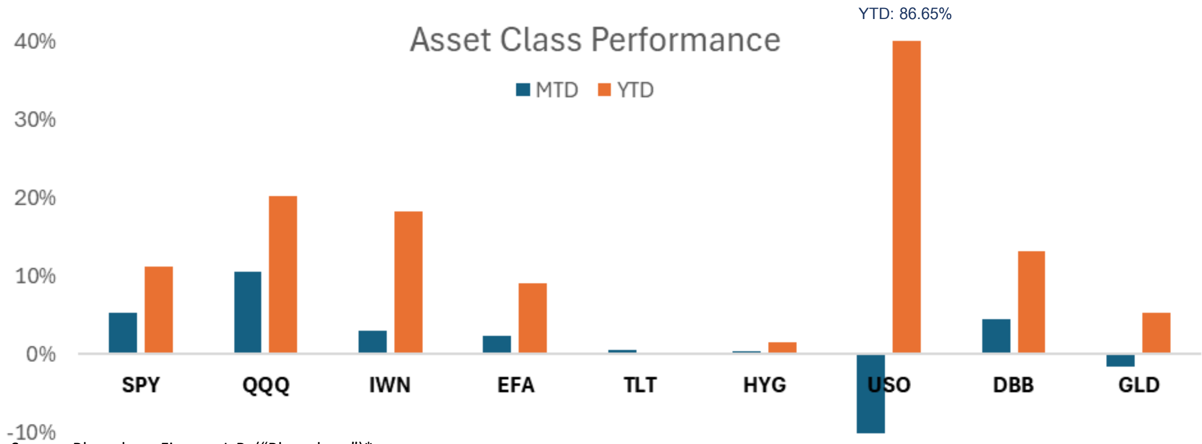
Key Developments

Our top market developments of the past month are as follows:

1) Memory Lapse – Rampant demand for AI compute capacity has led to extreme shortages for memory. Leading producer Micron Technology became the ninth company to join the $1 trillion club on May 26 (after rising 19% in a single day). High Bandwidth Memory (HBM) – which is sold-out past year-end – has joined TSM fab allocations and power as a key bottleneck for AI growth (with AI data centers consuming roughly 60-70% of supply).

2) Strong Earnings, Stark Divide – S&P 500 Q1 earnings growth came in at nearly 29%, the best since Q4 2021. But the Mag 7 grew earnings ~63% versus ~17% for the remaining 493 companies. The earnings season closed with impressive numbers that were nonetheless heavily dependent on a small cohort of AI-exposed names.



Source: Bloomberg Finance L.P. ("Bloomberg")*.

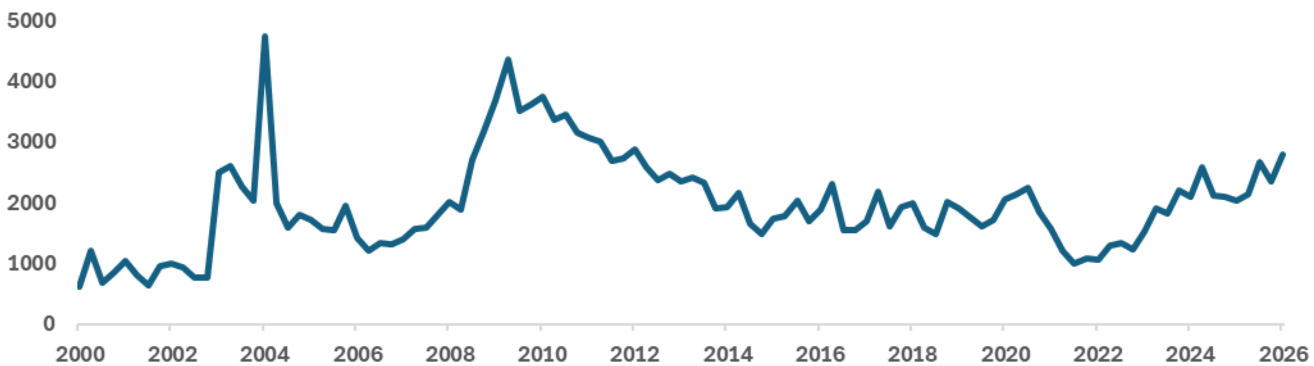
3) Iran, Inflation, and Bonds – April core CPI came in hot, with PCE running at 3.8% headline and 3.3% core, as energy price inflation from the Hormuz blockade seeps into broader measures. Central banks are taking notice: the ECB hiked and the BoJ raised its inflation forecasts. Markets now imply a nearly 40% chance of an FOMC rate hike by December, and the 30-year Treasury yield has surged above 5%.

* Through Apr. 30, 2026; SPY (SPDR S&P 500 ETF Trust); QQQ (Invesco QQQ Trust Series 1); IWM (iShares Russell 2000 ETF); EFA (iShares MSCI EAFE ETF); TLT (iShares 20+ Year Treasury Bond ETF); HYG (iShares iBoxx High Yield Corporate Bond ETF); USO (United States Oil Fund LP); DBB (Invesco DB Base Metals Fund); and GLD (SPDR Gold Shares).

Portfolio Considerations

- **A Special K?** While AI spending has been powering GDP growth, the consumer is showing cracks along the K-shaped economic divide. The top 10% of households now account for 45%+ of spending while lower-income consumers run down savings and lean on credit cards (with average APRs of 21.5% near multi-decade highs). Corporate commentary confirms that luxury and high-end discretionary remain resilient while QSRs, staples, and mass-market report buyer fatigue. It is perhaps a good time to stress test portfolios against the possibility of a consumer spending lull.
- **The Default Setting –** Chapter 11 at a 10-year high, spec-grade defaults projected at 4.25%. Casual dining, consumer discretionary retail, and CRE most vulnerable. Credit allocators should be paying attention to what the equity market is ignoring.

US New Chapter 11 Bankruptcy Cases



Source: Bloomberg Finance L.P. ("Bloomberg"), Administrative Office of US Courts.

Looking forward...

- **Consumer Inflection Point –** We have yet to see consumer fatigue in economic data, so April retail sales and May confidence reports to be released in June offer another chance to see if higher energy costs are translating into a spending slowdown.