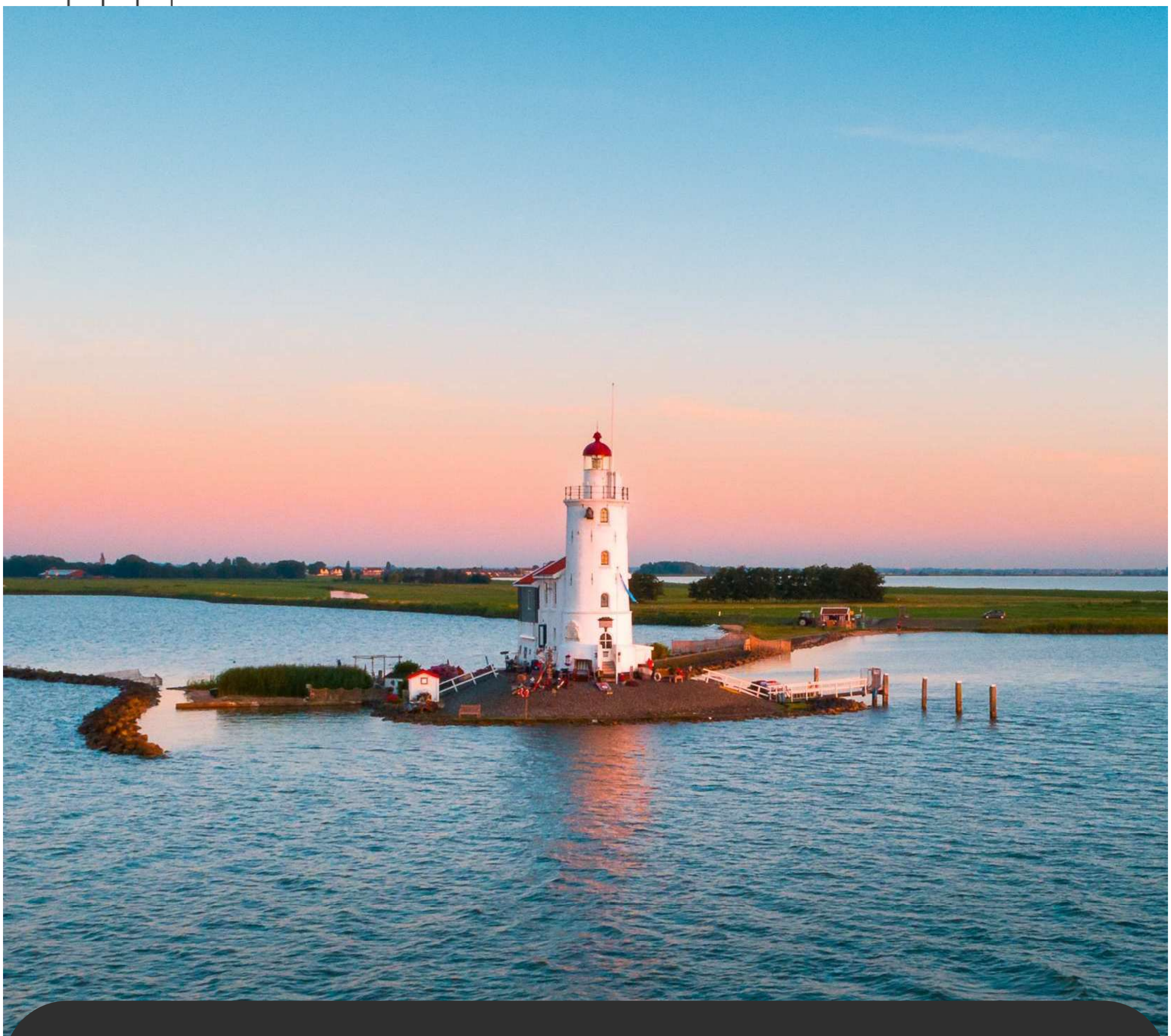

# Market Commentary
## CIO: Four Key Themes

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# Macro Outlook: Four Key Themes

**Oil Prices — A Geopolitical Wildcard, But Likely to Ease**

The near-term picture for oil has been dominated by geopolitical disruption. Technical research has noted that crude recently surged on geopolitical risk, with resistance levels near $78–$81/bbl coming into play, and that a rally in WTI has dampened expectations for Fed rate cuts in the near term.

The IEA has reported a sharp drop in global oil demand, projecting an average decline of 80,000 barrels per day for the year — a reversal not seen since the Covid-19 pandemic. OPEC, however, remains more optimistic, leaving its annual growth outlook unchanged and expecting a meaningful rebound in the second half of the year.

Our View: Oil prices are likely elevated relative to fundamentals. Absent a sustained geopolitical disruption, we would expect prices to moderate as supply normalizes. Importantly, lower oil prices would serve as a meaningful tailwind for both inflation and consumer confidence — as the saying goes, "the cure for high prices is high prices."

**Inflation — Trending in the Right Direction**

Despite persistent consumer concerns, we remain firmly in the camp that inflation is on a downward path. The core argument is straightforward: three categories — shelter, auto insurance, and used/new cars — account for roughly 60% of the CPI basket and have been the primary drivers of elevated readings since 2019. Excluding those items, Core CPI has grown at just 1.9% annually. If those components do not re-accelerate, a second wave of inflation is difficult to construct.

Key takeaways:

Core CPI has been gradually cooling, and the trend is your friend here.

The Fed is likely to remain data-dependent, with rate cuts potentially resuming in the second half of the year as inflation data cooperates.

Declining oil prices, if sustained, would provide an additional disinflationary impulse.

Our View: We believe the inflation scare is more noise than signal. The structural drivers of the 2021–2023 inflation surge are dissipating, and we expect Core CPI to continue drifting toward 3% and eventually lower, setting the stage for a more accommodative Fed posture.

**S&P 500 Earnings — A Durable Foundation for Equities**

Corporate earnings have been a consistent bright spot. Recent earnings seasons have shown strong beat rates — approximately 79% of S&P 500 companies exceeding expectations, with an average upside surprise of roughly 7%. Earnings as a structural support for equities, not a vulnerability.

Key considerations:

AI and software adoption are broadening corporate margin potential.
Industrials, financials, and the Magnificent Seven remain favored sectors for earnings leadership.
Potential risks in the second half include a new Fed chair transition and any lingering energy price effects — either of which could trigger a 15–20% correction before resuming higher.
Despite near-term volatility, the medium-term earnings trajectory remains constructive, with 2027 potentially setting up as one of the strongest rallies in a generation.

**The U.S. Consumer — Resilient, But Worth Watching Closely**

The American consumer has consistently surprised to the upside. Retail sales have repeatedly beaten expectations, driven by online shopping, apparel, and discretionary services. The consumer has been the engine of economic growth, and that has not fundamentally changed.

That said, there are fault lines worth monitoring:

Credit card balances are historically elevated, and delinquency rates have been rising.
The average national credit score has seen its largest decline since 2009.
The top 10% of earners now account for nearly half of all consumer spending — the highest share on record — suggesting the headline resilience is increasingly concentrated at the upper end of the income spectrum.
Real wage growth has been largely flat, meaning consumers are spending more while their purchasing power has not meaningfully improved.

Our View: The consumer is not broken, but the breadth of spending is narrowing. Lower-income households are under genuine financial pressure, while upper-income households continue to drive the aggregate numbers. This dynamic argues for selectivity within consumer-facing sectors — favoring companies with pricing power and exposure to higher-income demographics.

**Bottom Line**

The macro backdrop remains more constructive than the headlines suggest. Inflation is easing, earnings are growing, and the consumer — while uneven — has not buckled. Oil is the key wildcard: a sustained spike would complicate the Fed's path and squeeze real incomes, but the base case is for normalization. For long-term investors, the message is clear — stay positioned, manage the turbulence, and keep focus on quality growth.

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