

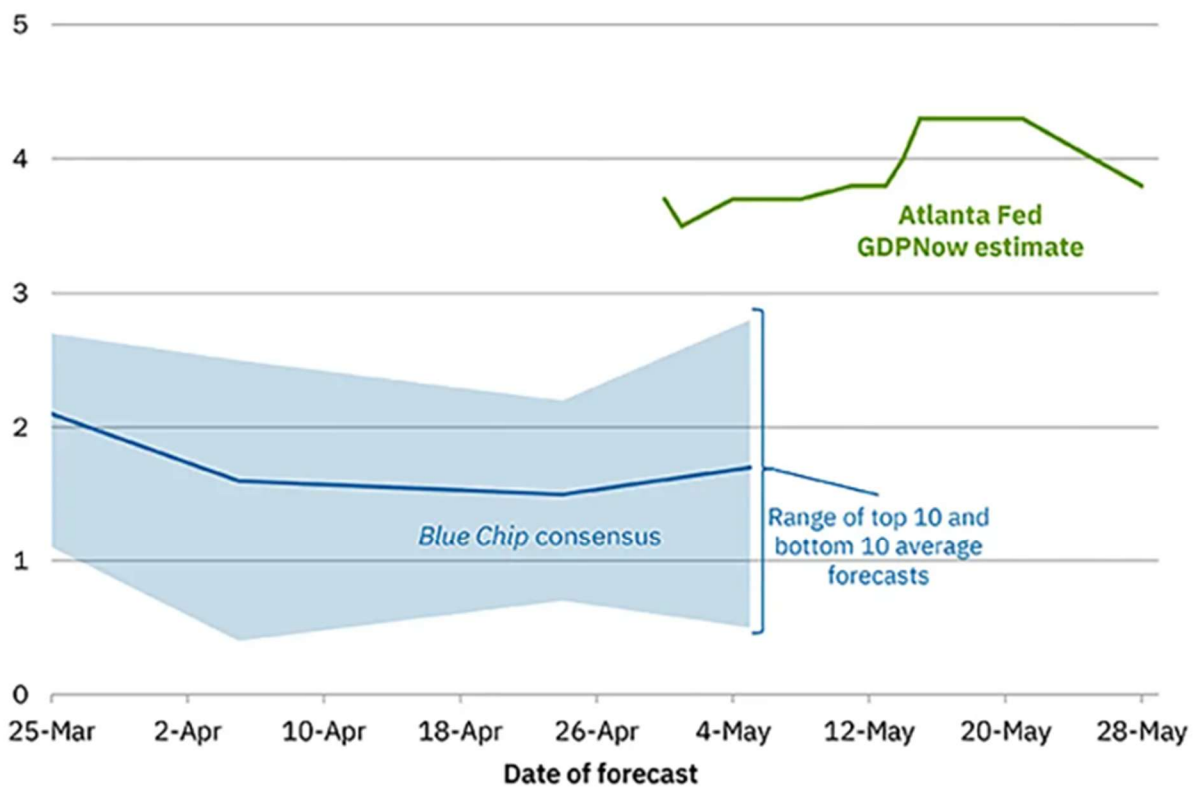
KEY TAKEAWAYS

- **Equities:** The markets continued to rally on the 30th or is it 50th 🎲 almost have an agreement headline with Iran. Finishing again at record highs for the S&P 500.
- **Fixed Income:** The U.S. 10-year Treasury Yield didn't like the continued elevated oil prices or higher reported inflation numbers, which drove up yields.
- **Crude oil** continued to have wild swings as well, with the almost agreement headlines and dropped significantly nearing price lows after the start of the Iran conflict/war.

The U.S. Economy

The second read on 1st quarter GDP again came in weaker than expected at 1.6% vs. expectations of 2.0%. PCE, the embedded GDP inflation, held at 4.5% as initially reported. The 2nd quarter looks stronger, the GDPNow estimate at +3.8% while the Blue-Chip consensus forecast is closer to 1.8%, as shown in the chart below. Not great, but reasonable growth.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2026:Q2
Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

Stocks and Bonds

The U.S. 10-year Treasury yield traded about 10 basis points around last months' close to start the month. However, inflation reports and the swearing in of new Fed Head Kevin Warsh saw the 10-year Treasury yields blow through the 4.5% mark launching toward 4.7%. By month end, more, "this time we are really serious", headlines of a peace agreement between the US and Iran lead to a sharp drop in oil prices. The drop in oil prices should lead to less inflationary pressures and 10-year Treasuries breathed a sigh of relief and yields pulled back to the mid 4.5% level. June will be interesting as new Fed Head Warsh will be leading the Fed Meeting, while former Fed Head Powell will still be at the table. That potential drama takes a back seat to the intense inflationary pressures from the supply shock from oil and other cargo markets caused by the Iran conflict/war. As they say, grab your popcorn, there could be some fireworks. The bump in yields was not a detrimental headwind for High Quality fixed income, which as measured by the iShares US Aggregate Bond ETF increased +0.41% for the month. The U.S. 10-year Treasury bond yield ended the month at 4.56%, up from April's close of 4.39%.

The Dow Jones Industrial Average climbed +2.78%, the S&P 500 rose +5.15%, and the small cap iShares Russell 2000 ETF popped +6.68%. The International markets traded similarly to the U.S. markets. The MSCI EAFE iShares Core International Developed Markets ETF Index jumped +5.04%, and the MSCI Emerging Markets iShares Core ETF Index soared +7.60%.

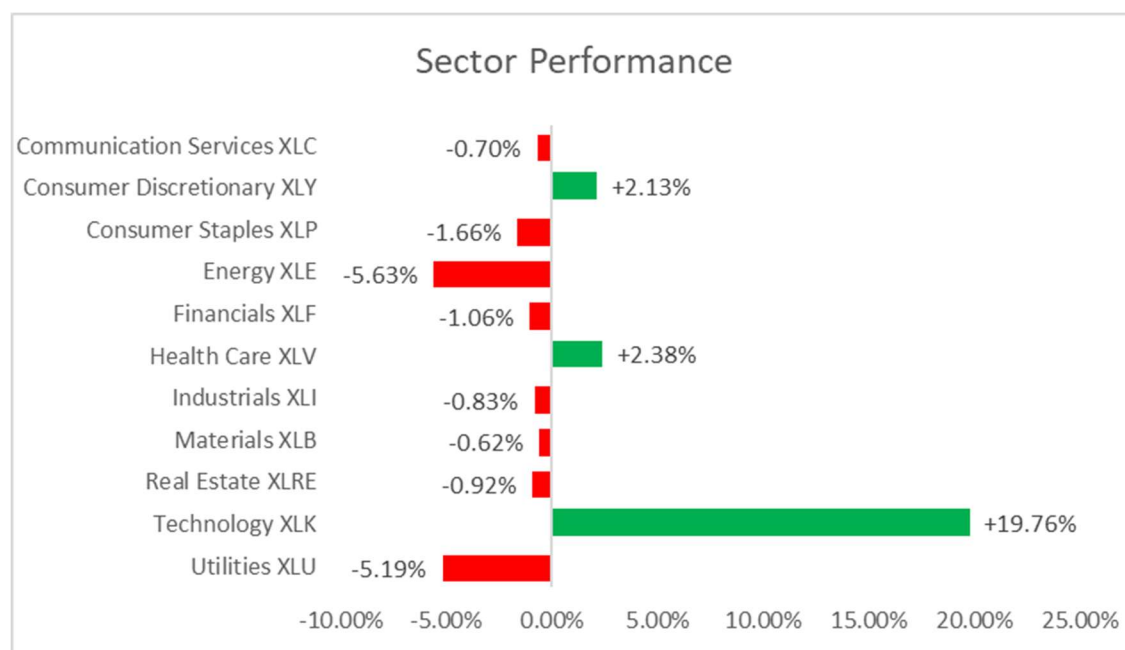
May's sector performance again saw Technology very strong and the rest not so much.

The best performers were...

- Technology: +19.76%
- Health Care: +2.38
- Consumer Discretionary: +2.13%

The worst performers were...

- Energy: -5.63%
- Utilities: -5.19%
- Consumer Staples: -1.66%



Source: <https://www.morningstar.com>

Oil Report

Crude Oil stalled near the highs of the Iran conflict/war through mid-month and looked poised to run to new highs, but that ended up being a head fake. The daily headlines of deal, no deal, fake news, no really we have a deal weighed heavily on oil into month end, driving oil to close at the lows of the month. It is really hard to tell what is going on with the actual negotiations. However, the market/world is saying/hoping for a deal and resolution to the conflict/war, at least that is my interpretation through price action. The other geopolitical hotspots, Cuba, and the Ukraine/Russia conflict poke their head out from time to time to say, "don't forget about me" and then fade into the background. The current NYMEX WTI Crude Oil futures settled at \$87.76, dropping over 16% from the prior month's close of \$105.07 a barrel. RBOB gasoline was similar to Crude, dropping by almost 16% for the month, vs. April's close. The busy driving season is upon us and Memorial Day weekend had some of the highest prices in history, though the sharp drop in wholesale gas into month end should take out some of the bit of those prices.

The Rest of the Data

The April ISM Manufacturing Index held at 52.7 matching March's reading of 52.7, holding above the 50 level. The ISM Services Index decreased to 53.6 in April, from March's print of 54.0, remaining above the 50 level. Any reading above 50 generally indicates improving conditions. The prices paid component for Manufacturing continued to surge, now at very elevated levels, and Services' prices held firm at elevated levels. Consumer confidence increased to 93.8 in May, which compares to 92.8, as reported in April. The unemployment rate in April remained at 4.3%, while the number of jobs again jumped, up 115,000, far better than repeat expectations of +65,000. The Consumer Price Index for All Urban Consumers (CPI-U) for April jumped only 0.6% versus 0.9% for the month of March, on a seasonally adjusted basis. Over the last 12 months, the All-Items Index rate popped to +3.8% on a non-seasonally adjusted basis. The CPI ex Food and Energy increased +2.8% over the last year. Economic growth reports continue to be surprisingly good, though inflation is heating up from the supply shocks caused by the Iran conflict/war. We will continue to monitor economic activity, policy announcements, and inflation reports for potential shifts.

Summary

The Iran conflict/war remains the dominant theme in the markets. The reality is that no matter how fast the conflict/war may be resolved, real damage has been done to energy infrastructure and time will be needed to untangle the logistics of all the ships that have been floating around in the Persian Gulf for oil and other raw materials. What is still unknown is the duration of the conflict/war, which compounds the impact as it continues and whether the next move is actual peace or resuming heavy bombardment. Asia remains the most reliant on the Persian Gulf and will likely have the largest impact, followed by Europe. The US has pockets of benefits as the US has dramatically increased export shipments of Oil and Natural Gas, but clearly gas prices are higher and likely to see future food inflation as supplies of fertilizer are hampered. The challenge now, what happens to the market if the perceived next step of peace arrives. The equity markets have rallied strongly for 2 months. Does the ink drying on a peace agreement spark a long-awaited selloff? Or does the mounting anticipation of a sharp selloff lead to

another leg higher as the bears continue to be wrong? The equity market has become very barbelled like politics, lots of weight on both extremes. Some measures of the equity market are very frothy, like a top may be imminent. However, other measures show heavy bearish positioning that continues to grow as the market moves higher. We will continue to take it one day at a time and stay focused on our process.

More than ever, the markets can be emotional, so we retain our focus on what we can control, which is the amount of equity risk that is taken in a clients' portfolio in concert with the clients' risk tolerance and long-term goals. The markets will always face different "worries", today it is inflation/war vs. growth and interest rates, tomorrow it will be something else. We have built our asset allocation models with dynamic features and quarterly rebalancing, both in fixed income and equities.

If you have specific questions about your portfolio or financial situation, we are here to help. Long-term financial planning is designed to deal with uncertainty like those we discussed above. Our portfolio management process is to design a prudent allocation across many asset classes. Equities are for long-term growth and several vehicles that we utilize offer defensive mechanisms to mitigate equity market declines.



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