OpenArc
CORPORATE ADVISORY

Market Brief – May Recap

MACRO

Growth: The labor market remained resilient in May. The May employment report, released June 5th, showed nonfarm payrolls rising +172k, well above the +88k consensus, with April revised higher to +179k and March to +214k. The unemployment rate held at 4.3% for the third consecutive month, and average hourly earnings rose +0.3% monthly and +3.4% annually. Leisure and hospitality led job gains, followed by local government and healthcare. The strong print, alongside re-accelerating inflation, has shifted the conversation from cuts to potential hikes, with markets now pricing real probability of tightening by year-end.

Inflation: Inflation data confirmed the energy-driven re-acceleration in headline prices, though core measures showed early signs of cooling. The April PCE report, released May 28th, showed headline PCE at +3.8% and Core PCE at +3.3% year-over-year. The May CPI report, released June 10th, showed headline inflation accelerating further to +4.2% year-over-year, the highest in nearly three years, as the energy pass-through from the Iran conflict continued to work through the data. Core CPI ticked up modestly to +2.9%, but the monthly core print came in at +0.2%, decelerating from +0.4% the prior month and an early signal that underlying pressures may be cooling.

Monetary Policy: May brought a transition at the Federal Reserve, as Jerome Powell's term ended on May 15th and Kevin Warsh was sworn in as the 17th Chair. The April 29th FOMC meeting produced an 8-4 vote to hold rates steady at 3.50%-3.75%, with Governor Miran dissenting for a cut while Hammack, Kashkari, and Logan dissented in the other direction. The bigger story was the shift in market expectations through May. With headline inflation re-accelerating and the labor market holding firm, Fed Funds futures moved away from pricing cuts and toward pricing hikes, with markets ending May assigning roughly a 26% probability of a hike by December and pricing a peak policy rate near 3.75-4.00% by early 2027.

MARKET

Equities: Markets extended the April rebound through May, with the S&P 500 up over +5% and the Nasdaq 100 up nearly +11%. Technology dominated again, with the sector up nearly +20% and semiconductors up over +18%, as AI infrastructure spending continued to drive earnings revisions higher. Growth meaningfully outpaced Value, with the S&P 500 Growth Index up over +8% versus under +2% for Value, and Momentum led all major factors at over +11%. Beneath the surface, leadership remained concentrated, as the equal-weight S&P 500 returned nearly +2.7% versus over +5% for the cap-weighted version. Small caps gained nearly +4.5%, while EAFE was up over +2.4% and Emerging Markets surged over +7%. Energy was the laggard at nearly -5.7%, followed by Utilities at over -5%, as the late-month pullback in crude weighed on the complex.

Bonds: Fixed income posted modest gains in May despite a continued grind higher in yields. The Bloomberg Aggregate finished up nearly +0.3%, with investment-grade corporates up nearly +0.9% on tightening spreads, and high yield up nearly +0.5%. Long-duration Treasuries also held up, with TLT up over +0.5% as some bid returned at higher yields. The 10-year Treasury yield rose modestly to 4.45% from 4.39% at the end of April, while the 2-year climbed to 4.01% from 3.88%. Credit conditions remained orderly as risk appetite stayed firm.

Currencies: The U.S. dollar firmed modestly in May, with the DXY up nearly +0.9% as the higher-for-longer rate narrative reasserted itself. The euro, pound, and yen all weakened against the dollar, with the yen down over -1.7% as Japan's policy normalization continues to lag inflation pressures. Year-to-date, the dollar is essentially flat after the volatility of the first four months, having reversed much of the early-year weakness during March's geopolitical shock and stabilized since.

CIO SNAPSHOT

We maintain a constructive stance in our asset allocation, though we recently trimmed concentrated active positions to bring tracking error back in line after a strong run. This was not a defensive move. Beta exposure stayed similar, and we shifted a portion of concentrated idiosyncratic risk into broader equity exposure. The "Bits to Atoms" thesis remains intact, but with semiconductors and AI Leaders running sharply ahead of the broader market, our active tilts had grown well past their target sizing.

We continue to hold meaningful exposure to AI, power infrastructure, and aerospace and defense, alongside added breadth through broad US equity and international value. In fixed income, we remained long duration and emphasized slightly higher-quality opportunities.

With market breadth narrowing, real yields pressing higher, and the range of Fed outcomes widening as the new leadership settled in, smaller tilts preserved flexibility to add when conviction strengthens.

▲ Overweight
— Neutral
▼ Underweight

	Asset Class	CIO View
	Equities	
Regions	US Large Cap	▼
Regions	US Mid Cap	▲
Regions	US Small Cap	—
Regions	Developed International Equities	▼
Regions	EM Equities	—
Factors	Growth	▲
Factors	Quality	▲
Factors	Value	▼
Sectors	Industrials	▲
Sectors	Technology	▲
Sectors	Financials	—
	Fixed Income	
Factors	Credit	▲
Factors	Duration	▲

Source: Dynasty Financial Partners, Bloomberg, Strategas, BCA, Goldman Sachs Research, YCharts, FactSet, Bureau of Labor Statistics, Federal Reserve, as of 06/10/2026

US Related

ETF	Description	May 2026	2026
SPY	S&P 500	5.26%	11.24%
DIA	Dow Jones Ind	2.90%	6.79%
QQQ	Nasdaq 100	10.57%	20.34%
IJH	S&P Midcap 400	2.51%	13.29%
RSP	S&P 500 Eq Weight	2.65%	9.48%
QQQE	Nasdaq 100 Eq Weight	8.96%	16.78%
IWB	Russell 1000	5.11%	10.83%
IWM	Russell 2000	4.48%	18.19%
IWV	Russell 3000	5.06%	11.08%

Factors

ETF	Description	May 2026	2026
IVW	S&P 500 Growth	8.12%	13.97%
IVE	S&P 500 Value	1.90%	7.87%
IJK	Midcap 400 Growth	4.93%	17.86%
IJJ	Midcap 400 Value	-0.06%	8.44%
IJT	Smallcap 600 Growth	1.15%	15.89%
IJS	Smallcap 600 Value	1.08%	15.13%
DVY	DJ Dividend	-0.32%	10.63%
MTUM	Momentum	11.21%	26.28%
USMV	Low Volatility	2.07%	3.01%
SIZE	Size	3.12%	9.26%
QUAL	Quality	3.98%	8.73%

Global

ETF	Description	May 2026	2026
EWA	Australia	-0.81%	11.68%
EWZ	Brazil	-9.55%	13.03%
EWC	Canada	0.36%	9.05%
MCHI	China	-4.29%	-8.27%
EWQ	France	1.41%	2.18%
EWG	Germany	2.77%	2.19%
EWH	Hong Kong	-2.57%	8.75%
INDA	India	-1.74%	-10.16%
EWI	Italy	2.79%	9.28%
EWJ	Japan	4.33%	15.14%
EWW	Mexico	2.60%	13.13%
EIDO	Indonesia	-14.80%	-31.98%
EWP	Spain	2.19%	7.42%
EIS	Israel	5.30%	25.14%
EWU	UK	-0.47%	6.71%
EFA	EAFE	2.42%	9.13%
EEM	Emerging Mkts	7.20%	25.39%
IOO	Global 100	5.77%	12.93%
VT	All World	4.58%	12.36%
CWI	All World ex US	4.08%	13.67%

Sectors

ETF	Description	May 2026	2026
XLY	Cons Disc	2.13%	1.43%
XLP	Cons Stap	-1.66%	7.33%
XLE	Energy	-5.63%	26.72%
XLF	Financials	-1.06%	-5.34%
XLV	Health Care	2.38%	-3.05%
XLI	Industrials	-0.83%	11.92%
XLB	Materials	-0.62%	13.29%
XLRE	Real Estate	-0.92%	9.75%
XLK	Technology	19.76%	32.84%
XLC	Comm Services	-0.70%	-1.41%
XLU	Utilities	-5.19%	4.78%
SMH	Semis	18.20%	66.31%

Currencies

ETF	Description	May 2026	2026
FXB	British Pound	-0.85%	0.71%
FXE	Euro	-0.48%	-0.40%
FXY	Yen	-1.72%	-1.79%
DXY	Dollar	0.85%	0.67%

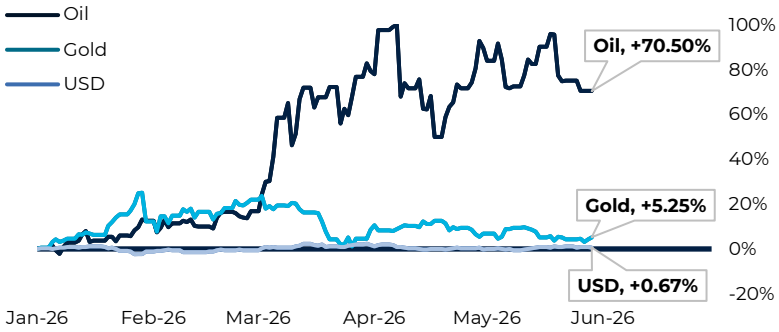
Fixed Income

ETF	Description	May 2026	2026
SHY	1-3 Yr Treasuries	0.08%	0.54%
IEI	3-7 Yr Treasuries	-0.11%	-0.17%
IEF	7-10 Yr Treasuries	-0.02%	-0.31%
TLH	10-20 Yr Treasuries	0.44%	-0.30%
TLT	20+ Yr Treasuries	0.53%	-0.14%
AGG	Aggregate Bond	0.29%	0.49%
TIP	T.I.P.S.	0.19%	1.69%
JNK	High Yield	0.48%	1.77%
MBB	Mortgage-Backed	0.36%	0.95%
LQD	IG Corporate	0.86%	0.76%

Commodities

ETF	Description	May 2026	2026
DBC	Commodities	-5.21%	31.84%
DBA	Agric Commod.	-2.78%	6.78%
USO	Oil	-12.24%	86.65%
UNG	Nat. Gas	12.55%	-2.69%
GLD	Gold	-1.54%	5.25%
SLV	Silver	2.51%	6.07%

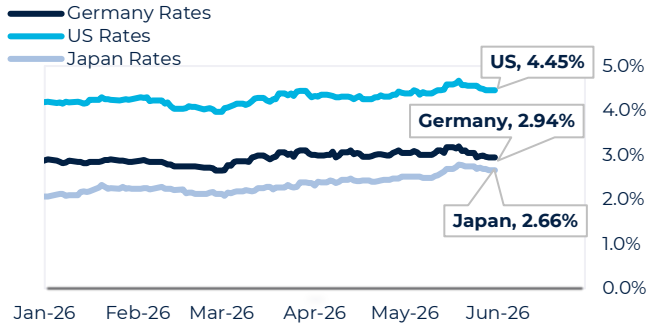
Commodity & Dollar Performance



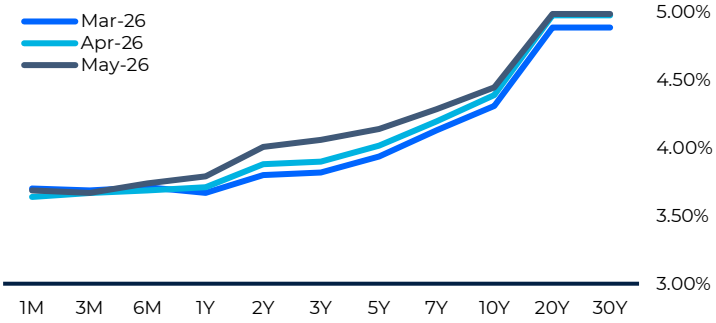
The Risk-On Rally Rocks On

Technology surged nearly +20% in May as a strong Q2 earnings season confirmed continued demand tied to the AI infrastructure buildout, driving the sector's outsized leadership. However, 8 of the 11 S&P sectors did not participate in the rally, signaling notably narrow breadth across the market. This means index gains were driven by a small handful of leaders rather than a broad-based advance. While the AI-driven fundamentals supporting the leading names remained strong, the rally's narrow breadth meant the broader index advanced on the back of a concentrated group of Technology and semiconductor names.

10-Year Bond Yields



US Yield Curve



Economic Data	Prior Release Date	Prior Estimate	Prior Actual	Next Release Date	Upcoming Forecast Estimate
Effective Federal Funds Rate	4/29/2026	350bps–375bps	350bps–375bps	6/17/2026	No change expected
US Total Nonfarm Payrolls	6/5/2026	88K	172K	7/2/2026	--
US Unemployment Rate	6/5/2026	4.3%	4.3%	7/2/2026	--
Core PCE Index YoY%	5/28/2026	3.3%	3.3%	6/25/2026	--
US CPI YoY%	6/10/2026	4.2%	4.2%	7/14/2026	--
US Real GDP QoQ%	5/28/2026	2.0%	1.6%	6/25/2026	

Source: Dynasty Financial Partners, Bloomberg, Strategas, BCA, Goldman Sachs Research, YCharts, FactSet, Bureau of Labor Statistics, Federal Reserve, as of 06/10/2026

Tactical Asset Allocation Guide

OpenArc CORPORATE ADVISORY

Legend

Very Underweight | Underweight | Slight Underweight | Neutral | Slight Overweight | Overweight | Very Overweight

Q2 2026

	Asset Class	View	Commentary
Equities	US Large Cap		As the AI investment cycle shifts from software to physical infrastructure, we continue to favor areas of the market positioned to benefit from the shift to physical infrastructure and the real economy, expressed through thematic allocations. In Q2, we modestly trimmed our concentrated AI-linked positions and added to broad-based large-cap to reduce the concentration that had built up after their strong run, leaving our overall large-cap exposure little changed and bringing active risk back in line.
	US Mid Cap		We remain slightly overweight on our midcap allocation to offset our reduced large-cap positioning. Midcaps offer a compelling middle ground, with greater domestic revenue exposure, less mega-cap concentration risk, and more direct exposure to the infrastructure and industrial themes driving this cycle.
	US Small Cap		Small caps navigated around a challenging macroeconomic and geopolitical backdrop, as names tied to the physical economy and the AI infrastructure buildout continued to benefit. Through select active strategies, managers have captured targeted exposure to these specific themes that remain supported by strong demand.
	Developed International		We remain underweight international developed, though less so than prior quarters. European defense spending, ECB flexibility, and attractive valuations are positives, but March's oil shock disproportionately hit energy-importing economies. We continue to tilt to value within the developed international space.
	Emerging Markets		Our neutral stance on emerging markets reflects a mixed outlook: while the oil shock benefits commodity exporters, it pressures energy importers, and China's domestic consumption pivot, though structural, faces headwinds from trade frictions and slowing global demand. Taiwan and South Korea have been notable bright spots this year, rewarded by the market for their role in the AI supply chain.
Factors	Growth		We maintain a small overweight, reflecting continued conviction in AI infrastructure beneficiaries.The "Bits to Atoms" theme has punished software and rewarded hardware, with a significant performance difference between the semiconductor and software sectors year-to-date, further supporting our decision to use active management.
	Value		Value underperformed Growth for the second consecutive month in May, as strong earnings growth propelled a momentum-driven rally in AI-linked names. We remain slightly underweight Value in the US, while holding an overweight to Value in developed international markets.
	Quality		We maintain a small overweight position, as late cycle dynamics typically reward quality factor exposure. Core factor exposure is expressed via a more dynamic, signal-driven approach. In an environment where factor leadership is shifting rapidly and stock dispersion is at the 98th percentile, we believe blending quality with more nimble quantitative strategies is better positioned to capture rotations in real time.
Sectors	Technology		AI remains a dominant theme within our portfolios and the broader market. We remain exposed via our active Technology allocation and believe we are in the middle of a larger, meaningful supercycle. With semiconductors and AI leaders running sharply ahead of the market in recent months, we recently trimmed concentrated active positions to bring active risk back in line after a strong run.
	Financials		We remain neutral on financials as credit conditions tighten and private credit stress raise questions about broader spillover. Easing regulation and capital markets activity remain positives, but the risk-reward has shifted given the uncertain macro backdrop and rising loan loss provisions.
	Industrials		Industrials are our largest sector overweight and the clearest expression of our investment thesis. Aerospace and defense spending is accelerating globally, with 100% of NATO members now meeting the 2% GDP spending threshold. Simultaneously, AI-driven power demand and grid modernization create a multi-year capex cycle. The combination of defense and power infrastructure makes this sector a structural overweight.
Fixed Income	Duration		We remain slightly extended in duration, remaining defensive in our fixed income posture. We favor broader Agg exposures over credit-sensitive exposures. March's yield spike tested this positioning, but our base case for eventual rate relief as geopolitical noise fades remains intact.
	Credit		We prefer higher-quality fixed income and select structured credit, positioning for a backdrop where tight spreads leave little room for error. Historical data shows that starting from bottom-decile spreads has typically meant negative forward returns for HY and EM credit over 6-12 month horizons.

Source: Dynasty Financial Partners, Bloomberg, Strategas, BCA, Goldman Sachs Research, YCharts, FactSet, Bureau of Labor Statistics, Federal Reserve, as of 06/10/2026

CIO Spotlight: Earnings Are Doing the Work

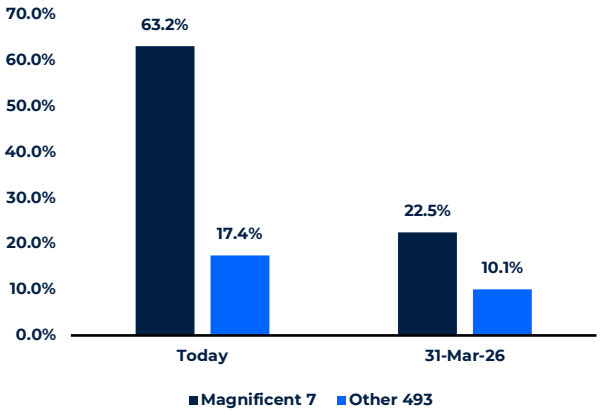
A genuinely impressive quarter

Q1 2026 earnings season delivered some of the strongest results we've seen in years, and yet the broader narrative through May has been about valuations, real rates, and breadth, not fundamentals. That gap is worth examining. With nearly all S&P 500 companies having reported, blended earnings growth came in at +28.8% year-over-year, more than double the +13.1% expected at quarter-end and the sixth consecutive quarter of double-digit growth. Eighty-five percent of companies beat EPS estimates, the highest beat rate since Q2 2021, and net profit margins reached 14.8%, the highest level FactSet has recorded since it began tracking the metric in 2009. Revenue growth came in at +11.8% with 82% of companies beating top-line estimates. The strength was broad-based, not just a Mag 7 story.

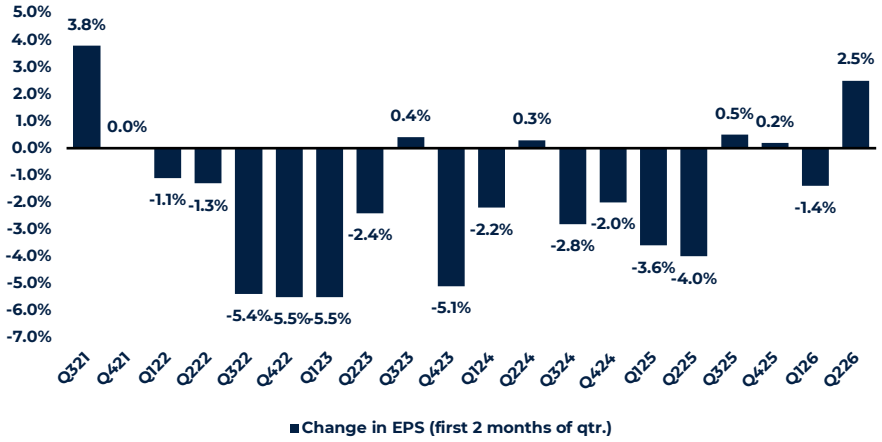
Mag 7 led, but the other 493 also delivered

The Magnificent 7 reported earnings growth of +63%, the strongest quarter from that group since Q2 2021. More notably, the other 493 companies in the S&P 500 grew earnings +17%, their strongest quarter since Q4 2021. Both groups hitting multi-year highs at the same time is a meaningful data point. The headline number is being driven by AI infrastructure beneficiaries, but the breadth of earnings strength beneath that leadership has improved materially.

S&P 500 Q126 Earnings Growth: "Magnificent 7" vs. Other 493 (Source: FactSet)



Change in S&P 500 Quarterly EPS: First 2 Months of Qtr. (Source: FactSet)



The bull case has fundamental support

This matters because it changes how to think about valuations. The S&P 500's forward P/E sits at 21.1, above both the 5-year average of 19.9 and the 10-year average of 19.0, and the easy critique is that the market is rich. However, earnings growth expectations continue to support the picture. Since the end of Q1, the S&P 500 price is up over +16% while the forward EPS estimate has risen over +8%, meaning earnings have done roughly half the work. More importantly, despite the rise in oil prices, real rates, and inflation concerns through April and May, analysts raised Q2 2026 EPS estimates by +2.5% during those two months, the largest two-month upward revision since Q3 2021. In a typical quarter analysts lower estimates by roughly 2%. Full-year 2026 EPS expectations have risen +5.3% in the same window. Companies and analysts are responding to the macro shock by raising estimates, not cutting them.

Bottom Line

Q1 was a reminder that earnings, not narrative, ultimately determine returns. The strength of the quarter gives the market room to continue advancing if forward estimates hold, and the upward revisions through May suggest the bar is being raised, not lowered. We remain constructive on the broader earnings backdrop and believe the AI-driven capex cycle continues to support multi-year profit visibility for the companies building the physical infrastructure. At the same time, we recently trimmed concentrated active risk because the gap between what the index needs to deliver and what is already priced in has narrowed. Earnings are doing the work, but the bar gets higher from here.

Source: Dynasty Financial Partners, Bloomberg, Strategas, BCA, Goldman Sachs Research, YCharts, FactSet, Bureau of Labor Statistics, Federal Reserve, as of 06/10/2026

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Source: Dynasty Financial Partners, Bloomberg, Strategas, BCA, Goldman Sachs Research, YCharts, FactSet, Bureau of Labor Statistics, Federal Reserve, as of 06/10/2026