

Chris Hyzy:

This is Chris Hyzy, Chief Investment Officer for the May Viewpoint titled “The Era of Transformation: Part 1, Are You Ready?” After another spike in equity market volatility in March, indices reached a low point at the end of the month. The significant rise in uncertainty regarding the military campaign in the Middle East, the sharp rise in oil and gas prices, and a multi-decade blow in consumer sentiment all led to an approximate 9-10% correction across most U.S. equity markets.

This week, yields fell quickly followed by the shortest recovery period to new all time highs for the S&P 500 in history in early April. Recently, a robust earnings season led by strong capital investment from the hyperscalers and positive estimate revisions across the AI infrastructure chain of industry groups have paved the pathway from mega cap technology to resume leadership within the equity market complex once again. This has all occurred as the duration of the military campaign has extended. Oil prices still remain above \$100.00 per barrel, a fourth coming leadership transition of the Federal reserve, short-term inflation well above the Fed’s target, and poor consumer sentiment.

We highlight our CIO view for the shorter term which in our estimation is approximately three to 12 months, which is part 1 in the three part series, “The Era of Transformation, Are You Ready?” We will release a medium term, approximately 12-24 months, and long term around 24 months plus in our June and July Viewpoints respectively.

The short-term through the balance of the year, we believe there are, number one, risks that are elevated, both headlines, geopolitics, midterm concerns, and oil and gas price pressures. Two, robust corporate earnings. Positive revisions are expected, and operating leverage is increasing.

Three, rotation across equities once again. Multiple leadership groups begin to reassert themselves, increased non-U.S. allocation for one. And number four, the resilient consumer marches on. Attractive asset price returns are helping boomers, while decent wage gains are still helping and supporting the lower cohorts.

In conclusion, headline risks, midterm election uncertainty, and potential oil and price gas pressures are likely to lead to slower growth as we approach and move through the summer months. This could lead to another volatility, choppy trade, and some consolidation. But we believe it's still a buying on weakness type of environment given the strong capital investment growth, resilient consumer, and robust earnings alloc into next year.

Now, as developments shift from the short and medium term to the long term, we continue to expect major transformations to unfold. The transformations are likely to be supported by a supply driven economic cycle around the world, which we expect to be supported of asset price reflation. In other words, a cycle that supports an equity overweight based upon robust profits continuing wider margins, rising productivity, a weaker U.S. dollar, a reindustrialization, and the need to rebalance world trade and rebuild world infrastructure. We maintain our equity overweight continue with a preference for a high level of portfolio diversification, expect interest rates to remain locked in a long range, and profits to hit record highs in the intermediate term. We are buyers on weakness in the equity markets as our base and bulk case for equity positioning remains firm.

That will do it for today, thanks for listening.

Operator:

Please see important information provided in this report.

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