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Volatility catches up to markets

What's moving markets

- Worries about rising interest rates and inflation, along with artificial intelligence (AI) spending have triggered volatility between June 1-9: The S&P 500 and Dow Jones Industrials Indices fell 2.7% and 0.2%, respectively, the Nasdaq fell 4.8%, and the CBOE Volatility Index (VIX), a measure of market volatility, jumped the most in a single day since March 26, before the U.S.-Iran ceasefire.
- The selling broke a nine-week winning streak for the S&P 500 Index. Overnight equity futures trading into June 10 points to lower opens for the S&P 500 and the Nasdaq 100 Indexes.
- Also during June 1-June 9, Treasury yields rose across most maturities, and two-year note yields touched a 52-week high, pointing out that economic and inflation strength may force the Federal Reserve (Fed) to raise short-term borrowing costs.
- The volatile June 1-9 period in U.S. stocks echoed in losses for Gold (-6.2%), Industrial metals (-2.2%) and Bitcoin (-15.6%), while the dollar pushed higher.
- The selling broadened to non-U.S. equities. The MSCI EAFE and MSCI Emerging Equities Indexes were down -2.3% and -5.5% respectively last week. South Korea's Kospi Index seesawed between minus and positive 8% between June 5-8.
- Key factors driving markets lower so far in June could continue to spark near-term volatility and include:
 - Investor concerns and profit-taking around the sustainability of capital expenditure (capex) spending and surge in Technology shares following downward revisions to first-quarter productivity.
 - Financial and commodity markets have been slow to appreciate the economic damage that is building as countries use up their energy reserves.
 - While strong investor sentiment is likely to support upcoming mega IPOs (initial public offerings), their scale and current unprofitability introduce risks of short-term volatility.

Our perspective

- We still target a year-end S&P 500 Index price between 7400-7600 but reiterate that the key factors behind last week's volatility likely will remain. We continue to see pullbacks as buying opportunities.

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- We expect a steady Fed policy interest rate and believe long-term yields are near their likely year-end peaks, although a risk remains that a 10-year Treasury yield over 5% could cap the potential for further multiple expansion.
- Financial and commodity markets have been slow to appreciate the economic damage that is building as countries use up their energy reserves.
- While strong investor sentiment is likely to support upcoming mega IPOs, their scale and current unprofitability introduce risks of short-term volatility.
- We remain favorable on the AI theme and the Information Technology sector but favor rebalancing into ancillary trends (e.g., data centers) with more attractive valuations. To this end, we also favor Financials, Industrials, Utilities.
- The S&P 500 Index is in an uptrend and we see support at the 50-day moving average (7195) and the 200-day moving average (6868).

Implications for investors

- A slew of issues remain unresolved and could lead to additional market volatility.
- However, we continue to expect positive economic growth, limited inflation and interest-rate increases, and strong earnings growth.
- Selectivity leads us to still prefer to focus new investments on asymmetries across capital markets—sharp moves (higher or lower) that we believe have outrun fundamentals, as we describe below.

What to do now

Looking ahead, headlines warrant caution, but we remain focused on investments supported by stronger fundamentals and what we see as favorable risk-reward tradeoffs. We recently updated guidance to reflect this view by reallocating from the S&P 500 Energy sector to Information Technology (Tech). Based on 12-month forward earnings estimates, Tech still trades only modestly above the S&P 500 on price-to-earnings multiples (23x vs. 20.3x), suggesting no meaningful valuation premium despite significantly higher earnings growth rate projections according to Bloomberg consensus estimates. By contrast, Energy may continue giving back earlier gains as peace discussions progress even with periodic setbacks with recent clashes between the U.S. and Iran. West Texas Intermediate crude futures have already fallen sharply to the low 80s.

We still see opportunities to rotate from the Energy sector into other undervalued equity sectors that we favor, such as Financials, Industrials, and Utilities, in addition to Information Technology. For example, in Financials, solid balance sheets with strong earnings projections along with capex spending and the recent surge in merger and acquisition activity should support the Financials sector, which has underperformed the S&P 500 Index by over 12% year-to-date as of June 5. As with the Tech sector and gold, we see a lot of fear priced into the selling of the Financials sector and maintain it as our most favored equity sector.

We see similar opportunities in commodities, particularly gold. Through June 5, spot gold fell more than 20% from its January 28 peak as international buyers sold gold and other assets to raise dollars for higher oil prices. Speculative investment also reversed in 2026. We believe this forced selling, alongside rising oil prices and a stronger U.S. dollar, creates an opportunity to reallocate from crude oil into gold. Our view on precious metals remains constructive, with a year-end 2026 target midpoint of \$5900 per troy ounce and limited downside below \$4700–\$4800.

Risk Considerations

Forecasts and targets are based on certain assumptions and on views of market and economic conditions which are subject to change.

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. Although **Treasuries** are considered free from credit risk they are subject to other types of risks. These risks include interest rate risk, which may cause the underlying value of the bond to fluctuate. The **commodities markets** are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility. Investing in **gold or other precious metals** involves special risk considerations such as severe price fluctuations and adverse economic and regulatory developments affecting the sector or industry. **Sector investing** can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility.

Digital currency also known as crypto currency or bitcoin, as an asset class is highly volatile, can become illiquid at any time, and is for investors with a high risk tolerance. Digital assets may also be more susceptible to market manipulation than securities. Crypto is not insured by the Federal Deposit Insurance Corporation or the Securities Investor Protection Corporation. Investors in crypto do not benefit from the same regulatory protections applicable to registered securities.

Definitions

CBOE Volatility Index (VIX) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

Dow Jones Industrial Average is an unweighted index of 30 "blue-chip" industrial U.S. stocks.

MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Nasdaq 100 Index tracks the 100 largest non-financial companies listed on the Nasdaq stock exchange.

NASDAQ Composite Index measures the market value of all domestic and foreign common stocks, representing a wide array of more than 5,000 companies, listed on the NASDAQ Stock Market.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the U.S. stock market.

KOSPI (Korea Composite Stock Price Index) is South Korea's primary benchmark stock market index, representing all common stocks traded on the Stock Market Division of the Korea Exchange (KRX).

An index is unmanaged and not available for direct investment.

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