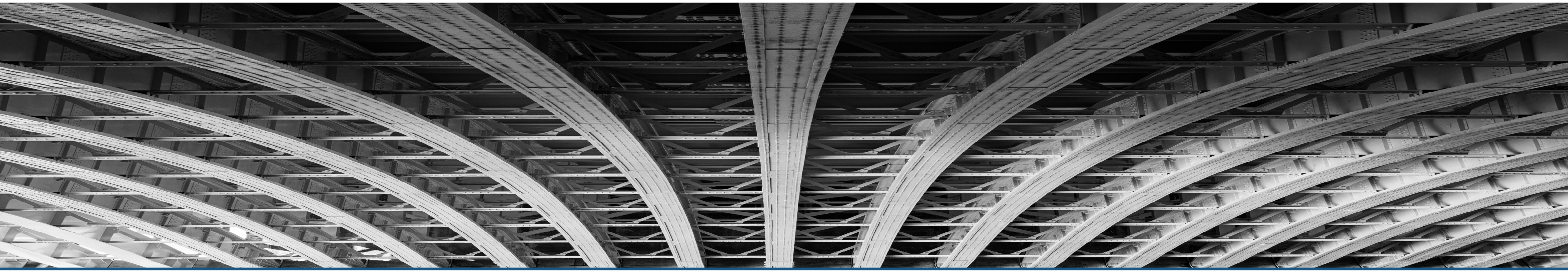


RISKBRIDGE

CIO Chartbook

May 27, 2025

Week In Review

- Global bond yields spiked higher (prices fell) around the globe as a confluence of events conspired to dampen demand for duration risk and caused some equity markets to lurch lower.
    - The Moody's downgrade of U.S. federal debt caused the U.S. to lose its second-to-last AAA rating. Some Treasury market investors (pension funds) could be forced sellers.
    - The "big, beautiful bill" was passed by the House of Representatives (~ 45 days earlier than previously expected by RiskBridge) and now moves to the Senate, where it will likely be marked up with more spending cuts and fewer tax breaks. As it stands, the bill is projected to add $3.3 trillion to the federal deficit. On balance, given the Senate's distaste for spending cuts, its version could be even more deficit-amplifying than the one voted out of the House.
    - The US threatened a 50% tariff on Europe as of June 1.
    - There were weak 20-year debt auctions in the US and Japan (their weakest auction since 1987). 30-year bond yields are 5.04% in the US and 3.02% in Japan.
    - Inflation came in hot in Canada and the UK.
    - U.S. manufacturers continue to experience and expect further price increases. The S&P Global Prices component rose to its highest level since 2022.
- Yields tend to be correlated across developed markets, meaning a move in the U.S. Treasury market can impact German bunds or JGBs, and vice versa.
- Broad concerns about fiscal sustainability are likely putting upward pressure on global bond term premium, which is the extra compensation investors demand to lend for longer periods of time.
- Global recession odds have fallen somewhat as worst-case trade fears abate. As a result, the MSCI EAFE Index hit a new all-time high. Relative to its ATH, the S&P 500 Index is -5%, and the MSCI EM Index is -19%.

Source: RiskBridge, Bloomberg. Data as of 05//23/2025. Past performance does not guarantee future results.

Week of May 27, 2025

Observations & Opinions

1. RiskBridge Models: “Risk On”
2. Has the US Stock Market Bottomed?
3. USD The Worst Performer YTD
4. US Stocks Remain In A Long-Term Sell Signal
5. US Bonds Still Outperforming US Stocks by 240 bps
6. Updated Positive/Negative Trends
7. Consensus GDP Estimates Revised Lower
8. Inflation Expectations Rising
9. Liquidity Still Leaving the System
10. The Best Bond Yield Call Is No Bond Yield Call
11. Futures Imply 2 Fed Rate Cuts
12. Yield Curve Bear Steepening
13. US Dollar Is In A Long-Term Sell Signal

Week Ahead

The US has a busy economic calendar in the last week of May, including the Conference Board's measure of consumer confidence, the final University of Michigan May survey, and the Dallas and Richmond Fed surveys.

Real sector data include April durable goods orders and April personal income and consumption data, which will factor into Q2 GDP projections. The CPI and PPI have stolen the thunder from the deflators. The core PCE deflator looks flat at 2.6% year-over-year.

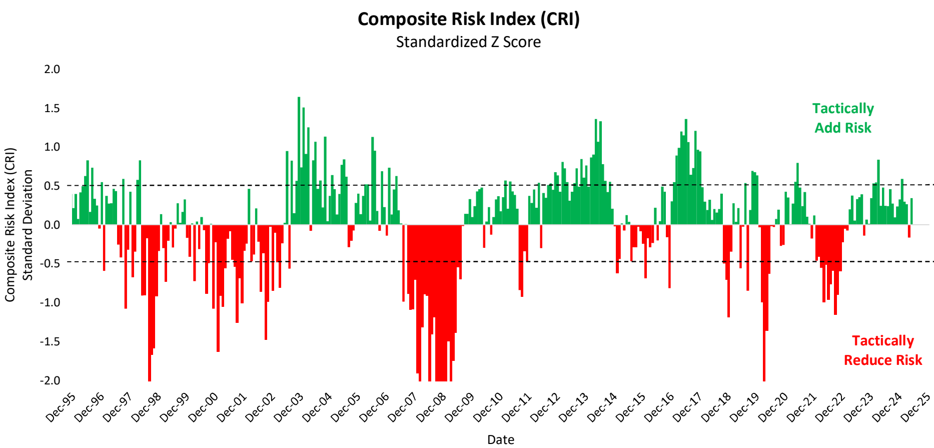
Germany and Spain report April retail sales, and France reports consumer spending. But the highlight of the week is that the four largest members of the EMU report April CPI figures ahead of the aggregate estimate on June 3. Barring a significant surprise, the market will continue to look for another ECB rate cut at the June 5 meeting.

China reports industrial profits on May 27. Despite being a huge manufacturing center, profits tend to be weak in China. Chinese companies, with access to patient capital, are more concerned with securing market share than profits. China reports its May PMI early on May 30 (Saturday).

Source: RiskBridge, Bloomberg. Data as of 05/27/2025. RiskBridge’s observations and opinions are based on internal research and third-party sources. Observations and opinions are subject to change based on market and economic factors, and there is no guarantee that forward-looking expectations will come true. Past performance does not guarantee future results.

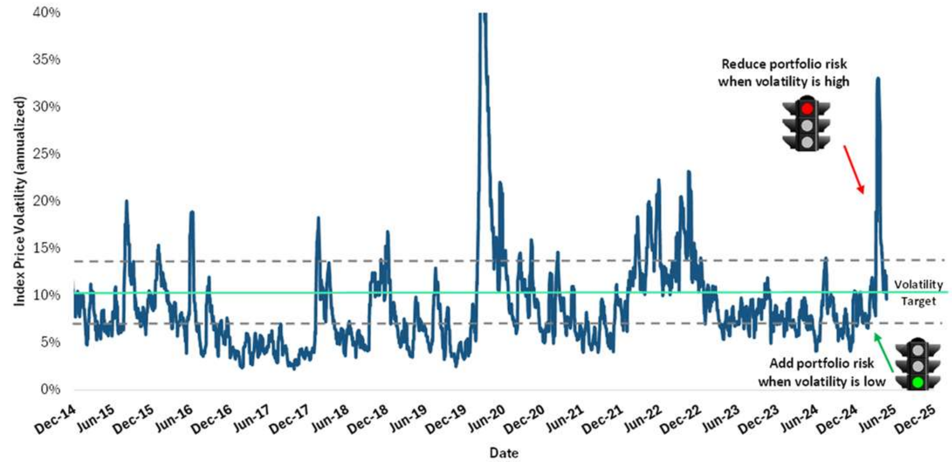
1. Key Risk Metrics

CRI = +.34σ (“Risk On”)

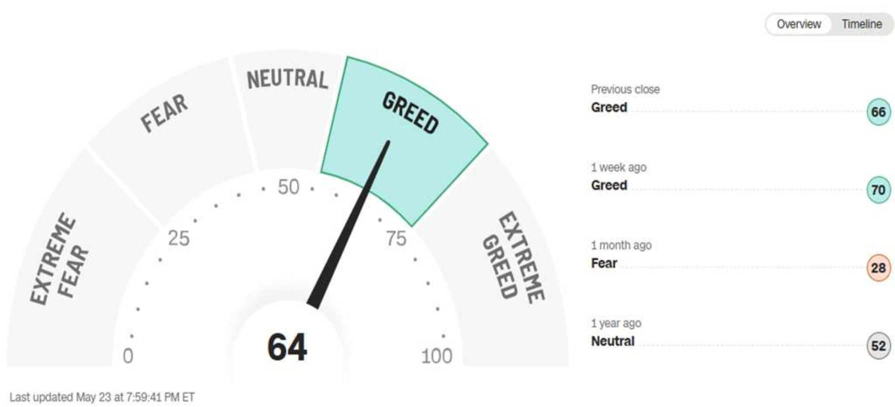


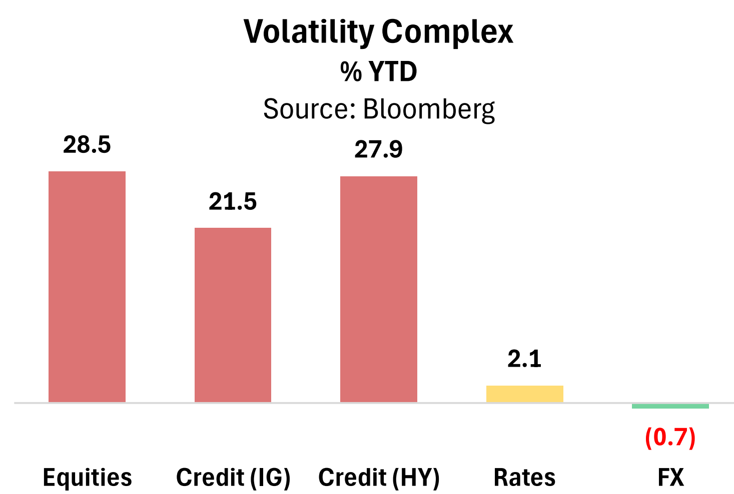
Volatility of the S&P Target Risk Growth Index

Annualized standard deviation of daily returns, monthly rolling periods



CNN Fear Greed Indicator

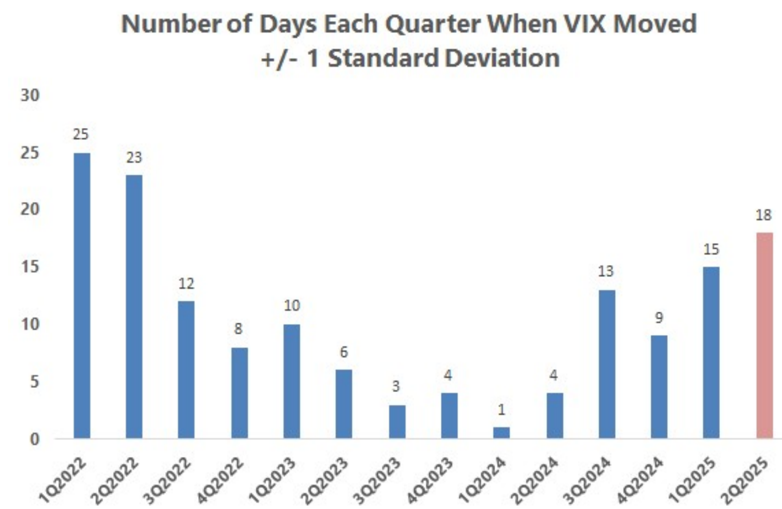


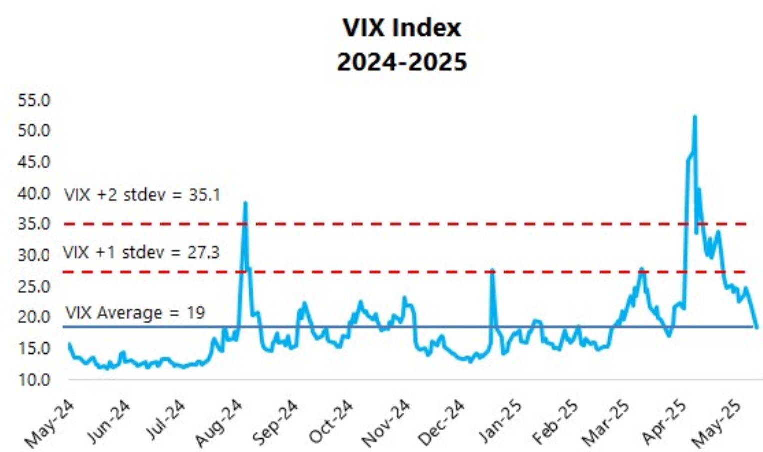


Source: Bloomberg. Data as of 05/23/2025 unless indicated otherwise.
Past performance does not guarantee future results.

2. A Second Round of Volatility?

- While VIX receded to its long-term average (19), the number of large volatility days in 2Q exceed the prior quarter.
- History shows that a market bottom forms once the number of days with a VIX move of +/-1σ slows.
- We expect a second round of outsized market volatility in July & August due to the confluence of the debt ceiling debate, Treasury's "X Date," and the end of the 90-day tariff pause.
- VIX Playbook (sliding scale)
  Risk On (VIX < 19)
  Neutral (19<VIX<27.3)
  Risk Off (27.3 < 35.1)
  Risk On (VIX > 35.1)





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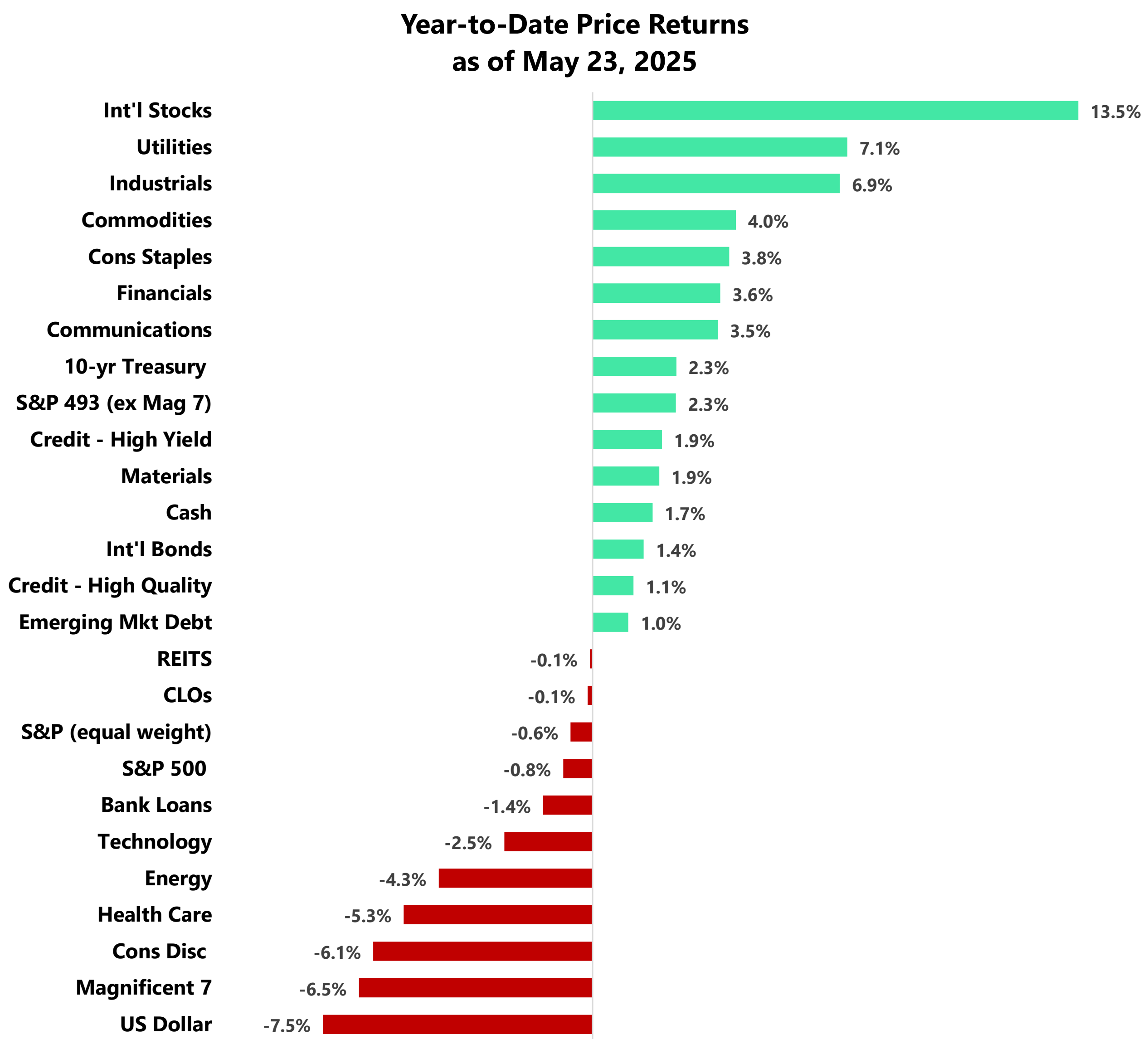
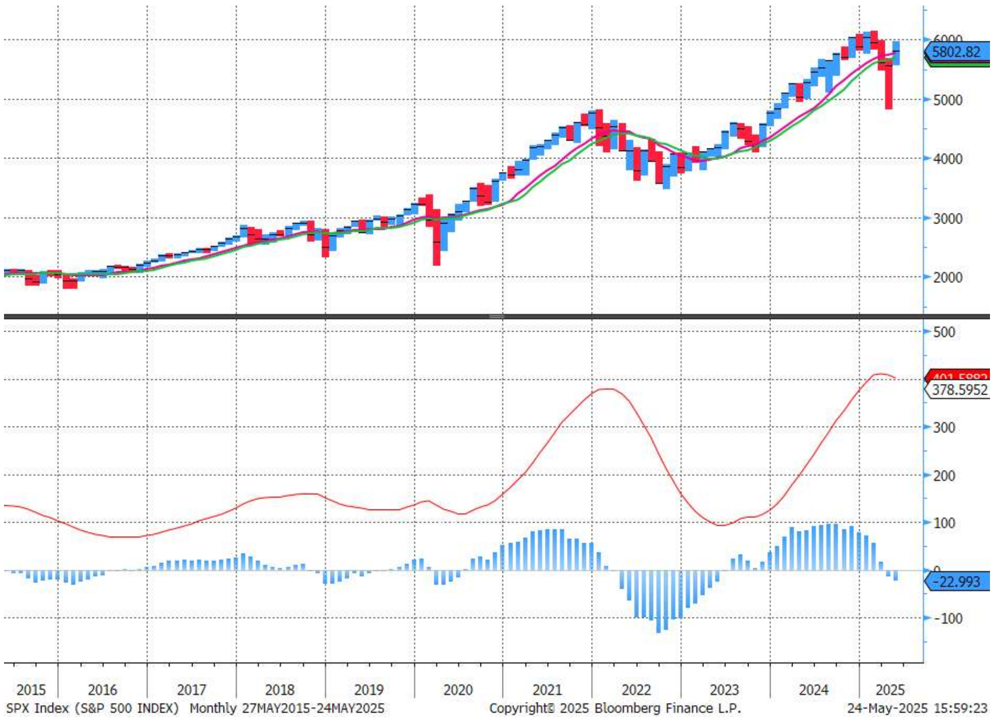
3. Market Returns



Source: RiskBridge, Bloomberg. Data as of 05/23/2025. “Industrials” based on XLI, “Financials” based on XLF, Bberg US Large Cap ex Mag 7 (B500xM7T Index), Commodities (BCOM Index), Int’l Stocks (MXWDU Index), S&P Equal Weight (SPW Index), Magnificent 7 (BM7T Index), Emerging Mkt Debt (EMB), Credit High Yield (LF98TRUU Index), CLOSs (JAAA), Bank Loans (BKLN), Cash (G0O1 Index), Credit High Quality (LUACTRUU Index), 10-yr Treasury (GA10 Index), US Dollar (BBDXY Index). Past performance does not guarantee future results.

4. Equity Views

S&P 500 Index with MACD Indicator (monthly)



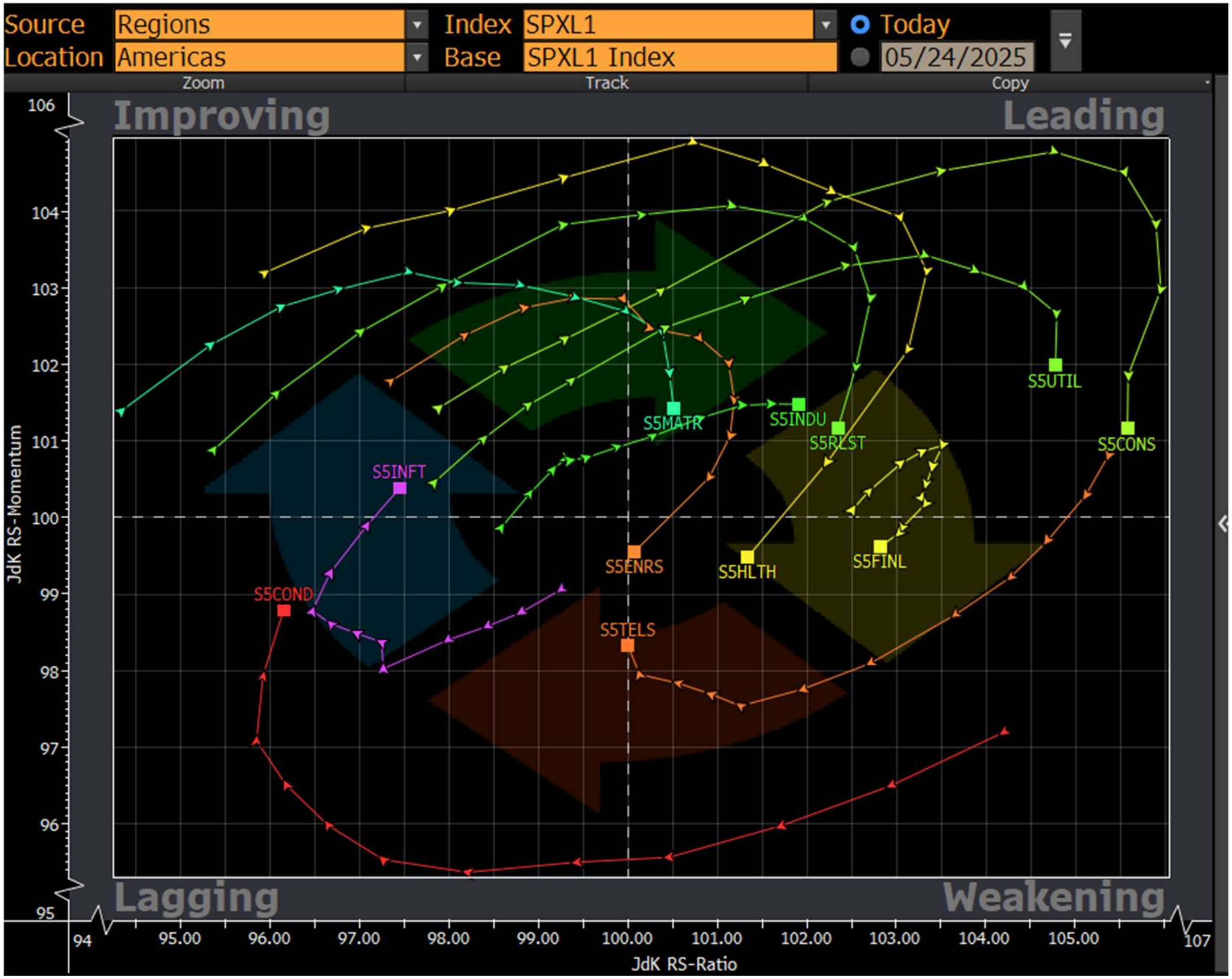
US Stock Market Fundamentals	7-year avg	2024	2025	Consensus
S&P EPS ($)	$167.76	$243.02	$265.00	$265.00
S&P EPS (y/y %)	10.5%	10.4%	9.0%	9.0%
Price/Earnings Multiple	21.9	23.9	21.9	21.9

S&P 500 Index (current)	**5,803**	
S&P 500 Upside	**5,800**	**0.0%**
S&P 500 Downside	**5,200**	**-10.4%**

History shows that bear markets don't bottom with PE ratios at 22x and high forward earnings expectations. Although consensus earnings expectations have fallen from $275/share to $265/share, we believe the air still needs to be let out of the earnings and multiple expectations before jumping back into US equities.

Source: RiskBridge, Blomberg. The S&P 500 Index shows monthly returns, with the uptrend confirmed by the 11- and 13-month moving averages. Moving Average Convergence Divergence (MACD) is a common technical indicator used to spot momentum and trend changes. Data as of 05/23/2025.
Past performance does not guarantee future results

4.1 Equities - Sector Leadership



Source: RiskBridge, Bloomberg. The Relative Rotation Graph (RRG) allows one to visualize the relative strength of a universe of sectors against the S&P 500 Index against each other, to identify market areas of interest and to explore further. RRG uses proprietary indicators to plot the relative strength and the direction of the S&P 500 sectors. RRG, JdK RS-=Ratio, Jdk RS-Momentum are Trademarks registered by RRG Research. Updated 05/23/2025.

Past performance does not guarantee future results.

5. Fixed Income Views

Bloomberg US Aggregate Bond Index (Price) with MACD Indicator (weekly)

The Bloomberg US Aggregate Bond Index (+1.6%) outperformed stocks (-0.9%) year to date in 2025.

In our view, US bonds have a 3% upside and a 4% downside over the next six months. We believe the 10-year US Treasury yield may rise as the administration distributes “fiscal candy” (tax cuts, deregulation).

IG credit spreads are 91 bps (in line with our 100-bps target), and HY credit spreads are 330 bps (above our 350-bps target).

The ratio of credit rating upgrades/downgrades is 0.9, YTD.

- **Investment grade credit** yields 5.35% with a 6.7yr duration
- **High yield credit** yields 7.69% with a 3.0yr duration
- **EM debt**(USD) yields 6.62% with 5.9yr duration
- **MBS (residential)** yields 5.28% and 6.3yr duration
- **MBS (commercial)** yields 5.01% and 4.0yr duration

Source: RiskBridge, Blomberg. The Bloomberg US Aggregate Bond Index shows monthly price levels, with the uptrend confirmed by the 11- and 13-month moving averages. Moving Average Convergence Divergence (MACD) is a common technical indicator used to spot momentum and trend changes. Data as of 05/23/2025.
Past performance does not guarantee future results

6. Asset Price Trends

POSITIVE TREND

- Large-cap value
- Communications
- Staples
- Utilities
- Industrials
- NASDAQ/QQQ
- Financials/banks/insurance/asset managers
- Int’l equities - developed
- Int’l equities – emerging

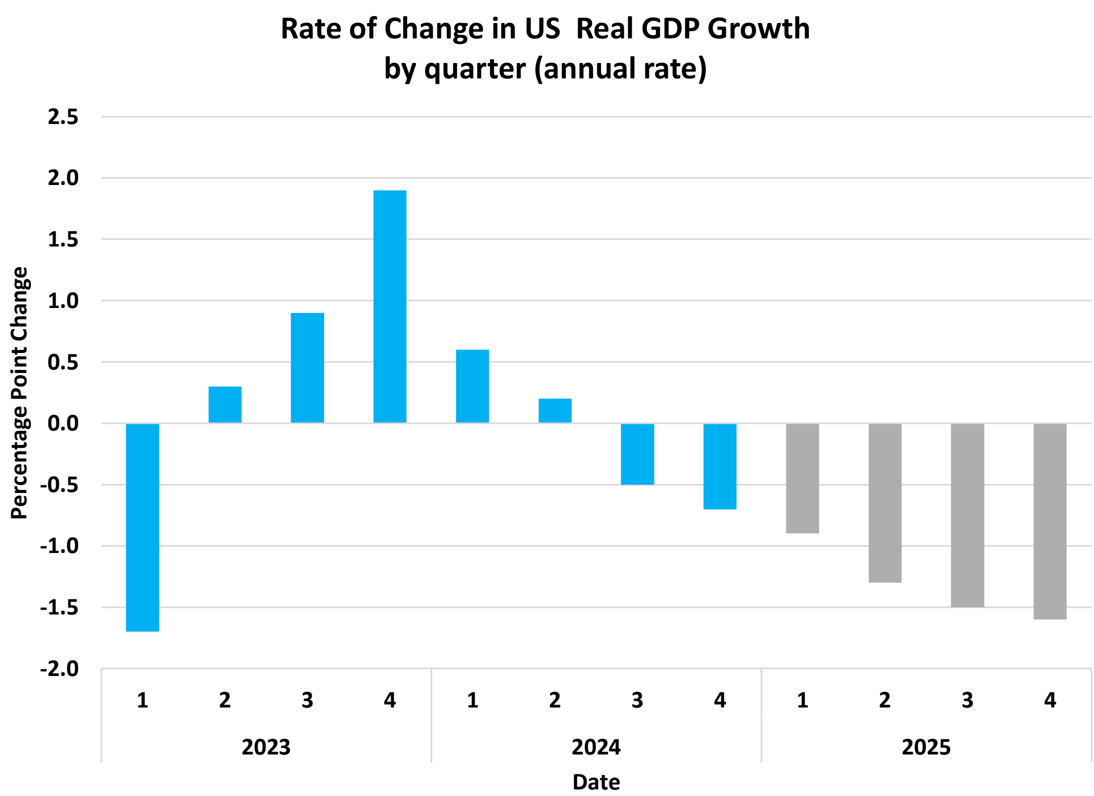
- CTAs
- Commodities
- Precious metals
- Agriculture
- Infrastructure

NEGATIVE TREND

- US Large Cap Stocks
- Large-cap growth
- US SMID
- Discretionary
- REITS
- Energy
- Health care/Biotech
- S&P equal weight
- Materials
- Technology
- Core bonds
- Treasuries – Short (on watch)
- Treasuries – Intermediate
- Treasuries – long
- RMBS
- CMBS
- AAA CLOs
- Fixed Income Opportunistic
- Credit – Investment Grade
- Credit – High Yield
- Bank loans
- Emerging market debt
- Municipal Bonds
- Convertibles
- Preferreds
- Oil
- Industrial metals

Source: RiskBridge, Bloomberg. Trend analysis measures each asset relative to the S&P 500 Index for equities, relative to the Bloomberg US Aggregate Bond Index for fixed income, and relative to the Bloomberg Commodity Index for commodities. The analysis generates a trend regression using two years of daily price data. “Positive Trends” are upward-sloping, and “Negative Trends” are downward-sloping. Data as of 05/23/2025. Past performance does not guarantee future results.

7. Economic Growth



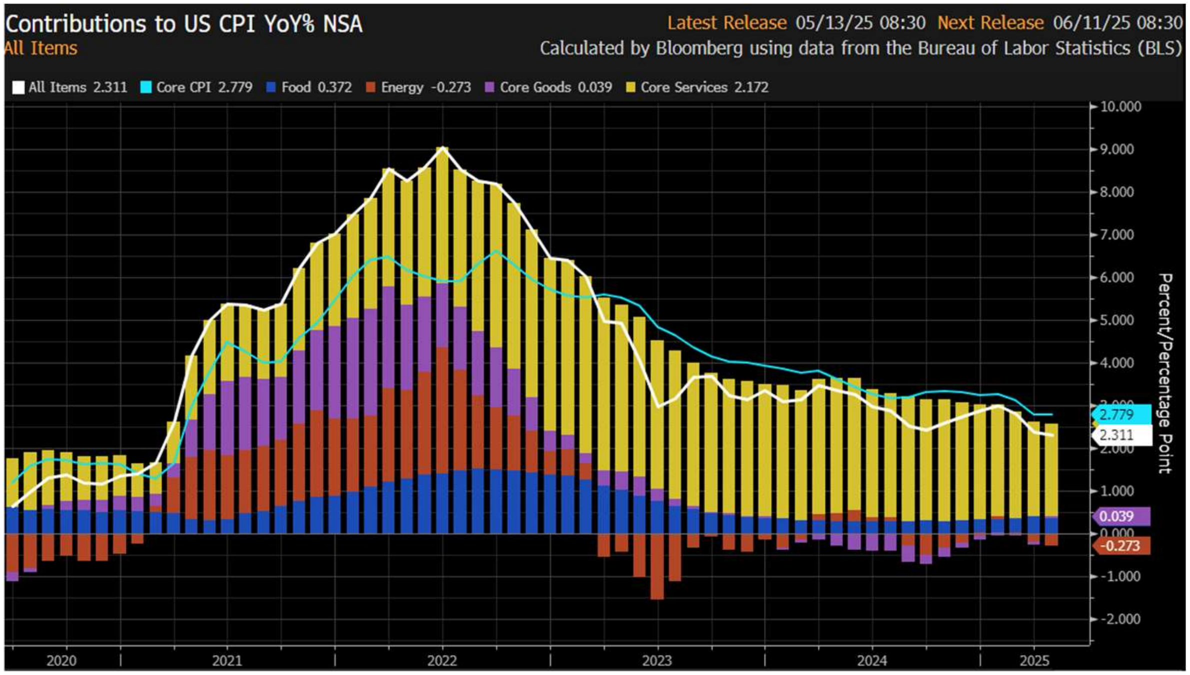
The Bloomberg consensus forecast for 2025 US real GDP has been revised lower to 1.4% compared to 2.8% in 2024.

Economic Slowdown: The Atlanta Fed's GDPNow for 2Q is +2.4%.

RiskBridge assumes 1.8% real GDP and 3.4% CPI for 2025, implying nominal GDP growth of 5.2%. We assume the probability of a recession in the next year is approximately 35%.

Source: RiskBridge, Bloomberg. Data as of 05/23/2025. US Real GDP (y/y%) and rate of change vs. prior year.
Past performance does not guarantee future results.

8. Inflation



April inflation data came in as expected. US headline inflation (CPI) was 2.311%, and core inflation (core CPI) is 2.78%.

Accelerating prices were found in medical care services, transportation, household furnishings, food away from home, and energy services.

Decelerating prices included energy commodities, information services, and sporting goods.

We maintain our view that US tariffs will be inflationary and potentially push 2025 CPI towards 3.25 – 3.50% year over year.

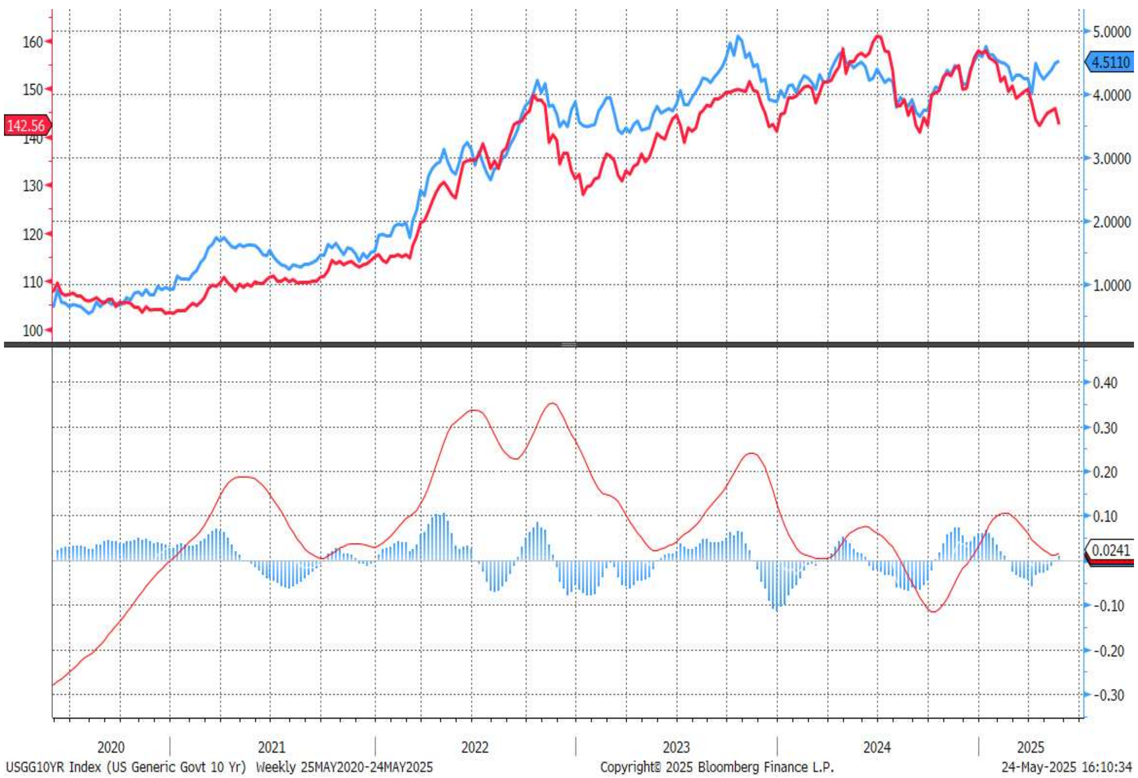
We continue to monitor inflation in Japan (3.5% y/y), Europe (2.7% y/y), and China (-0.1% y/y).

The long-term outlook for inflation depends on the policy mix (monetary, fiscal, trade, immigration, and regulatory).

Source: RiskBridge, Bloomberg, Bureau of Labor Statistics. Data as of 05/23/2025.
Past performance does not guarantee future results.

9. Liquidity

10yr Treasury Yield (blue) and USDJPY spot rate (red) – weekly



The USD/JPY pair is a key indicator of global liquidity because Japan is a primary funding currency in leveraged trades where hedge funds borrow cheaply in yen to invest in higher-yielding assets abroad.

Generally, during liquidity contractions, these trades unwind rapidly as investors liquidate foreign positions and repatriate funds to Japan, strengthening the yen and pushing USD/JPY (red line).

The normal correlation exists because rising US yields vs. Japanese yields drives capital into USD assets pushing the USDJPY pair higher.

The recent divergence may be driven by fiscal and tariff policy uncertainty. We expect the historical relationship to return through monetary policy changes not currently anticipated by investors.

Source: RiskBridge, Bloomberg, The Conference Board. Data as of 05/23/2025.
Past performance does not guarantee future results.

10. Interest Rates

10-Year Treasury Yield (daily) with Trading Band & Fibonacci

The 10-year Treasury (+2.3%) is outperforming the Bloomberg US Aggregate Bond Index (+1.6%), YTD. The 10-year Treasury yield fell -6 bps YTD.

It is plausible that the 10-year yield could trade as high as 5.0% (stagflation, unwinding leveraged trades) and as low as 4.0% (US recession).

The term premium, an important component of the nominal 10-year Treasury yield, is +20 bps in the past month, rising to 0.88%. Rising yields have coincided with a credit rating downgrade of US Treasury debt, which RiskBridge anticipated since the beginning of the year.

Source: RiskBridge, Bloomberg. 10-year generic US Treasury yield from 01/01/2020-05/23/2025.
Past performance does not guarantee future results.

11. Futures Suggest 2 More Rate Cuts By Year-End

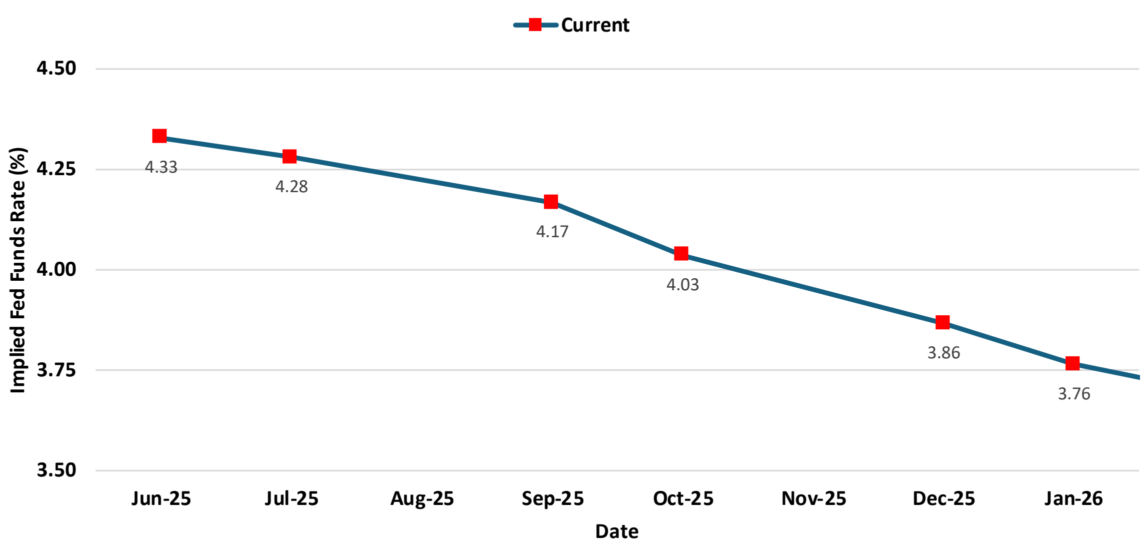
Implied Probability of Fed Rate Cuts Based on Fed Fund Futures

Date of Fed Policy Announcement

Implied Fed Funds Target Rate	6/18/2025	7/30/2025	9/17/2025	10/29/2025	12/10/2025	1/28/2025	3/18/2026	4/29/2026
4.25%	5.6%							
4.00%		20.7%						
3.75%			46.4%					
3.50%				51.6%				
3.25%					68.0%			
3.25%						41.0%		
3.00%							53.2%	
								29.8%

Implied Fed Funds Rate

(based on OIS swap pricing)



Futures imply two Fed rate cuts by the end of 2025.

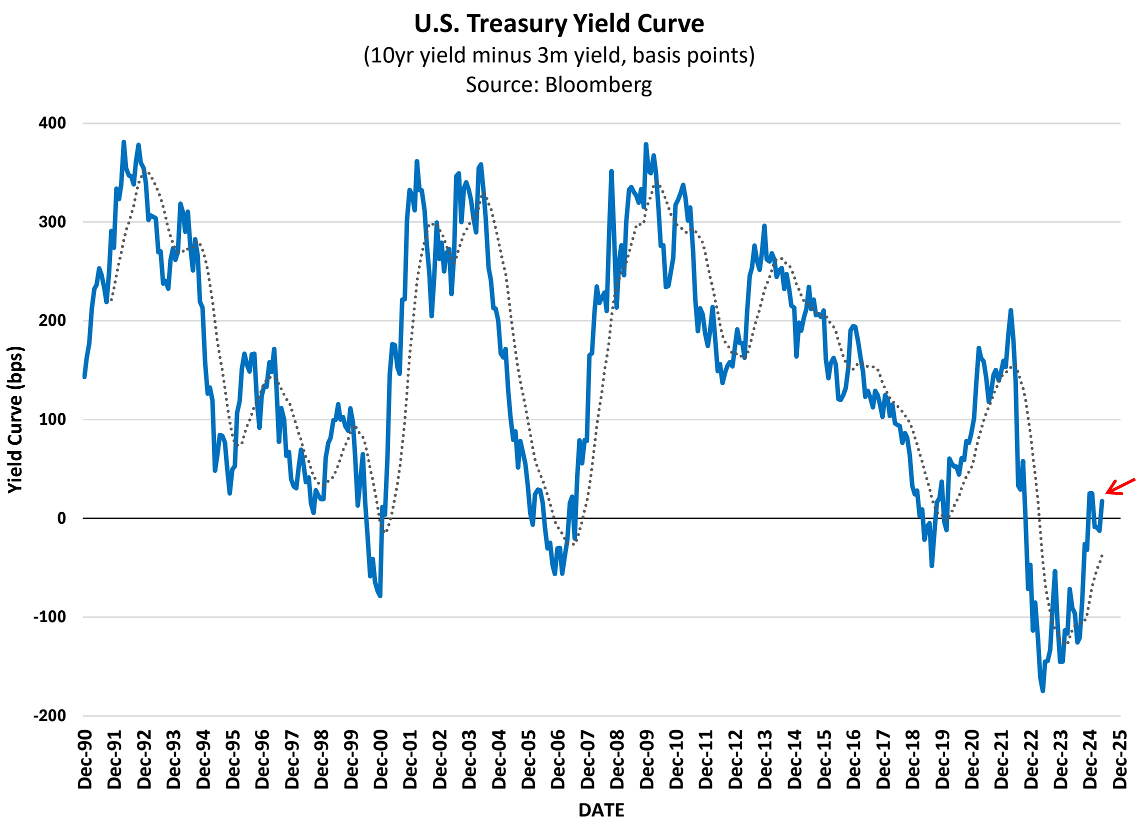
In our view, the Fed faces a tough task trying to battle aggressive fiscal retrenchment that is stagflationary (slowing growth, rising inflation) in nature.

"…the good functioning of the Treasury market is essential for the smooth implementation and transmission of monetary policy, and thanks in part to the resilience of funding liquidity, the Treasury market has continued to function well even amid a deterioration of liquidity conditions."

- Roberto Perli, FRBNY Manager of the System Open Market Account (SOMA)

Source: RiskBridge, Bloomberg. Data as of 05/23/2025. Implied Fed Funds Rate based on Overnight Interest Swap (OIS) rates. Past performance does not guarantee future results.

12. Yield Curve Bear Steepening



The state of the yield curve reflects investors' beliefs about the economy and Fed rate cycles.

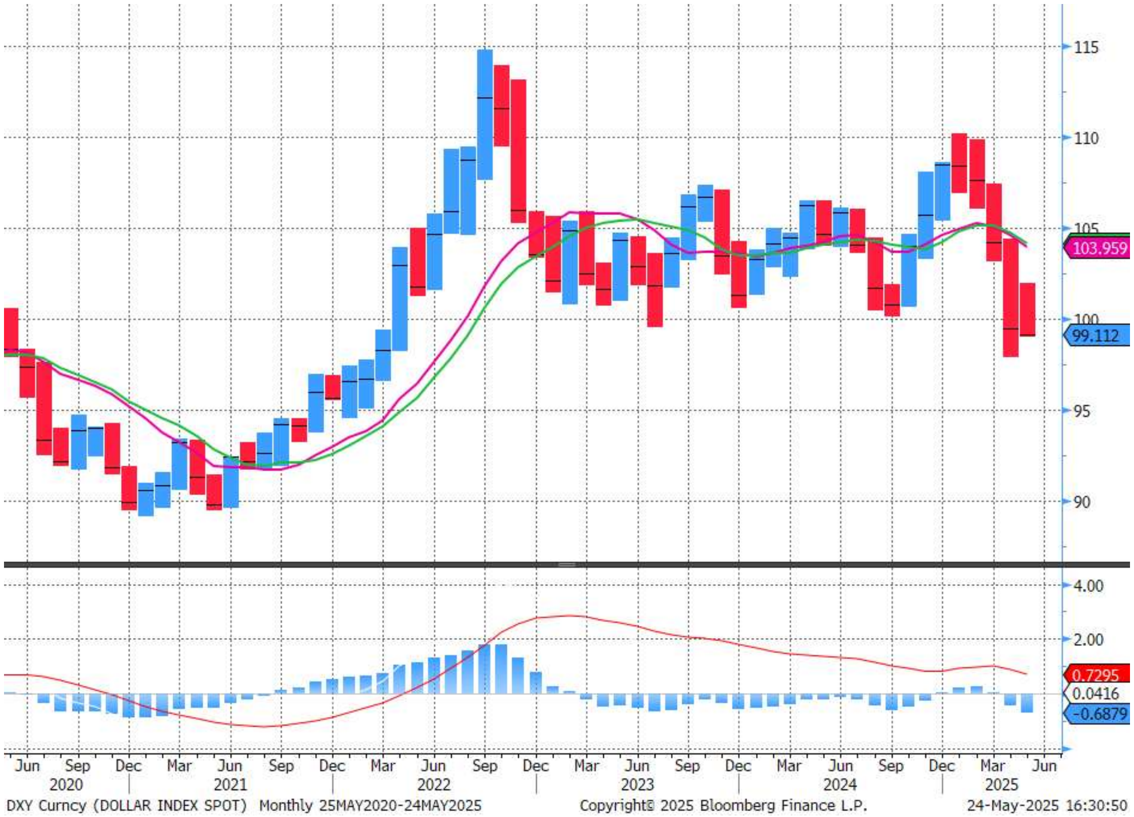
The yield curve (10yr minus 3mo) is now +5 bps.

This is consistent with rising 10-year Treasury yields reflecting expectations for nominal GDP of 4.5% to 5.0%.

Source: RiskBridge, Bloomberg. 10-year generic US Treasury yield minus the 3-month T-bill yield from 1990 to 2025. Data as of 05/23/2025. Past performance does not guarantee future results.

13. USD Weakness Confirmed

DXY Index (weekly) with Moving Average Convergence/Divergence



The Dollar Index has returned -7.5% YTD and has a confirming long-term sell signal.

The DXY index has spent most of the last month below 100 (currently 99.1).

Momentum indicators have turned down, and the 5 DMA has broken below the 20 DMA. A DXY break of the 98.9 area warns of a retest of 98.0.

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S&P 500® Index is a market capitalization-weighted index of 500 of the largest U.S. companies, designed to measure broad U.S. equity performance.

VIX (VIX Index) is a financial benchmark designed to be an up-to-the-minute market estimate of the expected volatility of the S&P 500 Index and is calculated by using the midpoint of real-time S&P 500® Index (SPX) option bid/ask quotes. The VIX Index is intended to provide an instantaneous measure of how much the market thinks the S&P 500 Index will fluctuate in the 30 days from the time of each tick of the VIX Index.

Drawdown Analysis measures the peak-to-trough decline or the maximum loss an investment might experience during a specific period. A prudent investor may have a maximum drawdown threshold, which triggers taking risk mitigation measures to protect a portfolio. The recovery window is also a key consideration of drawdown assessment. This is the length of time it takes to recover or overcome the drawdown experienced. The recovery window will vary depending on the type of assets held by the portfolio and the investor's goals.

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