



INVESTMENT STRATEGY STATEMENT | May 31, 2026

Beyond the AI Hyperscalers

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Performance Review & Outlook

U.S. Treasury yields hit multi-year highs in May, with the 10-year reaching 4.70% and the 30-year briefly breaching 5.00% for the first time since 2007, driven by hotter-than-expected inflation data, hawkish Fed commentary, and questions around incoming Fed Chair Kevin Warsh's policy outlook.

Both yields retreated by month-end, with the 10-year closing at 4.44% and the 30-year at 4.98%, aided by progress on a Middle East peace deal, an in-line PCE reading, and a roughly 15% drop in oil prices.

The month closed constructively, with renewed Middle East peace deal optimism and a roughly 15% drop in oil prices stabilizing sentiment heading into June.

May presented equity markets with a familiar tension between resilient domestic fundamentals and Iran conflict uncertainty, as markets digested April's rally that carried the S&P 500 above 7,000 for the first time, with oil prices the central variable throughout.

The fundamental earnings backdrop remained supportive, with 2026 S&P 500 earnings growth estimates rising from 15% to 22% since January—we remain constructive while emphasizing balance, diversification, and disciplined rebalancing.

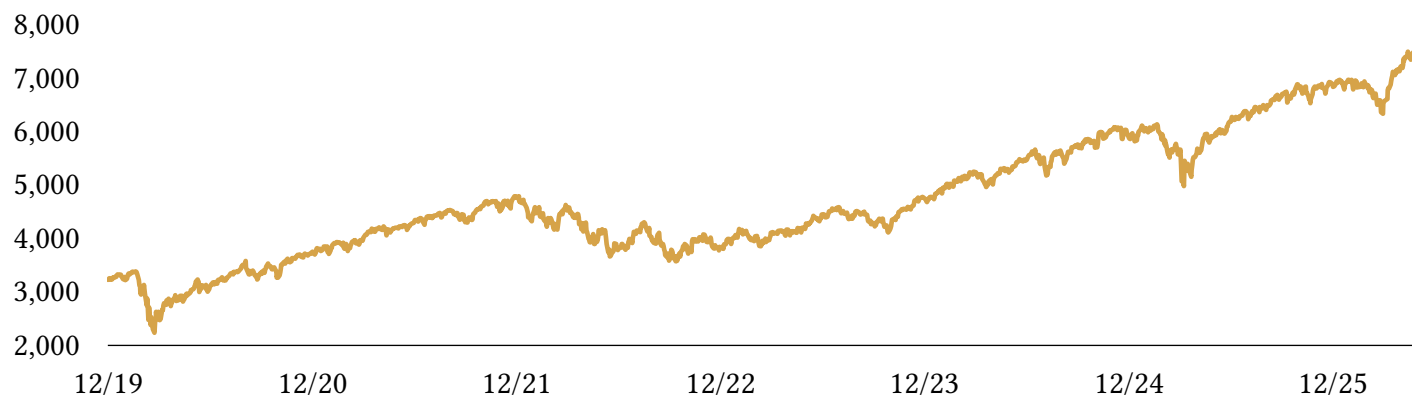
Technology leadership continued to broaden, reflecting growing recognition that AI infrastructure spending benefits extend well beyond the hyperscalers.

Equity Market Overview

May presented equity markets with a familiar tension between resilient domestic fundamentals and the persistent uncertainty of the Iran conflict.

After April's powerful risk-on rally that carried the S&P 500 above 7,000 for the first time, May proved more measured as markets digested outsized gains while continuing to grapple with the stop-start nature of geopolitical developments in the Middle East.

S&P 500 Price Index



Oil prices remained the central variable shaping investor sentiment. WTI crude experienced meaningful intra-month swings as headlines alternated between ceasefire optimism and renewed disruptions to Strait of Hormuz shipping lanes. Encouraging diplomatic signals would briefly ease energy-related inflation fears, only to be followed by developments pushing prices higher once again. We continue to believe that a resolution will serve as a meaningful catalyst for both equity markets and the broader inflation outlook. The question, as it has been since March, is not whether this conflict ends, but when.

Oil (WTI \$/Barrel)



The month closed on a more constructive note. Renewed hope for a Middle East peace deal, combined with a roughly 15% drop in oil prices, helped stabilize sentiment heading into June. Markets have demonstrated throughout this conflict a clear capacity to look through near-term geopolitical noise when the underlying growth picture remains compelling.

The technology sector continued to demonstrate resilience, with several names outside the traditional hyperscaler conversation emerging as notable outperformers.

Micron Technology (MU) +84%, Dell Technologies (DELL) +104%, and NetApp (NTAP) +65% each saw meaningful appreciation during the month, reflecting the market's broadening recognition that AI-driven infrastructure spending benefits extend well beyond the household names that dominated 2024 and early 2025. This broadening of leadership within technology is consistent with our long-held view that the AI build-out would eventually reward a wider ecosystem of beneficiaries beyond the "arms dealers."

The S&P 500 earnings backdrop remained supportive, with 2026 earnings growth estimates rising from 15% in early January to 22% by late May.

May was, in many respects, a month of consolidation—absorbing April's gains, monitoring geopolitical developments, and positioning ahead of what may be a pivotal summer for both the Iran situation and the broader economic outlook. We remain constructive on the fundamental outlook while continuing to emphasize balance, diversification, and disciplined rebalancing as core principles for navigating a complex environment.

Sector and Index Performance

+5.2% S&P 500

+2.8% Dow Jones Industrial Avg.

+8.4% Nasdaq Composite

Outperforming Sectors

+15.9% Technology

+2.6% Consumer Discretionary

+2.3% Health Care

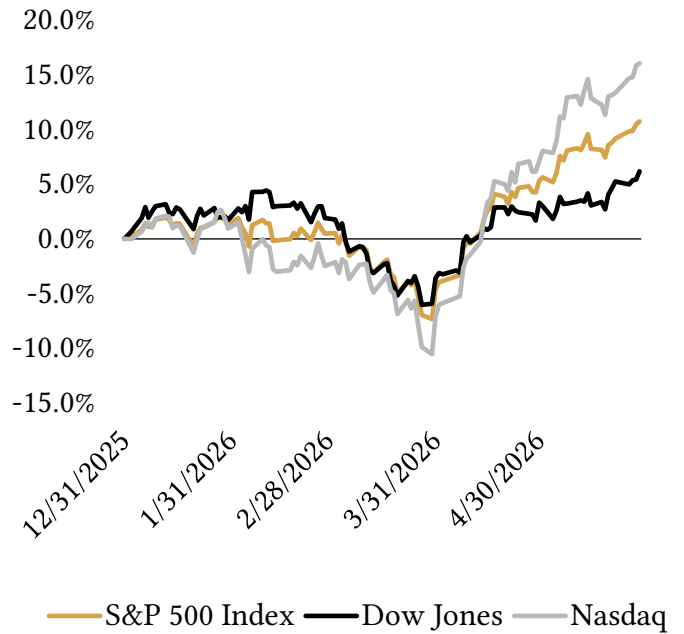
Underperforming Sectors

-6.1% Energy

-5.5% Utilities

-3.3% Consumer Staples

Index Returns YTD



Looking ahead, one of the most anticipated events of June will be the SpaceX IPO, expected to price at approximately \$1.8 trillion—a valuation that would rank it among the largest companies in the S&P 500 upon inclusion and require the market to absorb a significant amount of new equity capital.

This dynamic, combined with the anticipated IPOs of Anthropic and OpenAI on the horizon, raises important questions around index concentration.

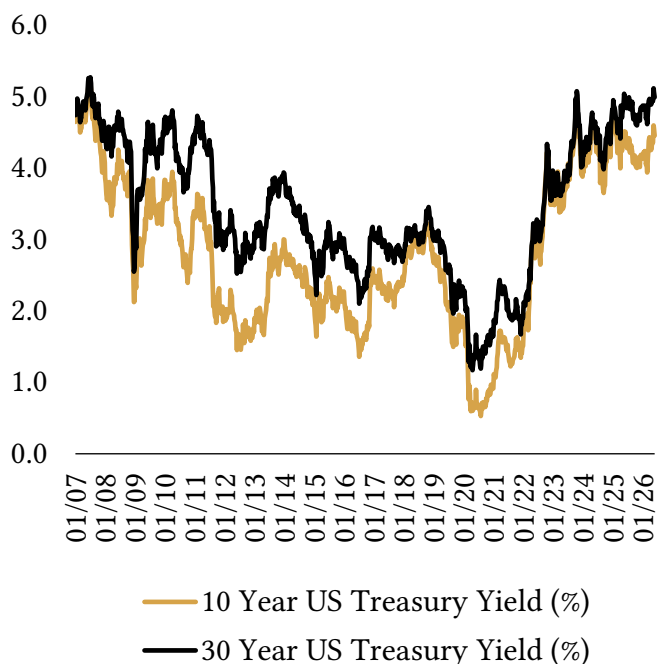
As these AI-era giants enter public markets, their scale has the potential to further concentrate index weightings at the top—a trend that investors with passive allocations should be mindful of.

Fixed Income Market Overview

U.S. fixed income markets saw historic movement in May. The 10-year U.S. Treasury peaked at 4.70%, a 16-month high, breaking through the 4.50% resistance level it had held since May 2025. More notably, the 30-year long bond broke above the 5.00% resistance level it had held since September 2023, when it last briefly breached that mark.

Before that, the longbond had not traded above 5.00% since June 2007—a striking move in any historical context.

10 & 30 Year U.S. Treasury Yield (%)



commentary from members reinforced the Fed's continued focus on inflation. Adding to the move was the Senate confirmation of incoming Fed Chair Kevin Warsh and the questions it raised about the forward-looking path of rate policy. Many traders began to price in no rate cuts for the remainder of 2026, with rate hikes now back on the table. HSBC characterized U.S. Treasuries as being in a "danger zone."

So what does this all mean for rates going forward, and how significant are these breaks above key yield resistance levels? NBCS Asset Management has long watched these levels alongside other key economic indicators. In our view, when yields stay elevated long enough that former resistance levels begin acting as support, the market is signaling that inflation may prove stickier than expected, and that economic growth is being suppressed.

So how long is long enough? The yield markets may have already offered a hint. May closed with renewed hope for a Middle East peace deal, an in-line PCE reading (the Fed's preferred inflation gauge), and a roughly 15% drop in oil.

Both the 10-year (4.44%) and the 30-year (4.98%) finished the month back below those key resistance levels.

The path forward is still unclear, but for now the bond market isn't ready to signal that substantial cracks in the economy are beginning to show.

These moves were driven by several factors. First, hotter-than-expected CPI and PPI readings early in the month pointed to more persistent inflation. That was followed by Jerome Powell's final FOMC meeting, where both the minutes and

12-Month Percentage Change of Indices

Index (Local Currency)	Level	May	YTD	12-Month
S&P 500	7,580.06	5.3%	11.2%	29.7%
Dow Industrials (DJIA)	51,032.46	2.9%	6.9%	22.7%
Nasdaq	26,972.62	8.4%	16.3%	42.0%
Russell 2000	2,919.338	4.4%	18.3%	43.2%
U.S. 2yr Treasury	4.0041	3.5%	15.3%	1.7%
U.S. 10yr Treasury	4.4355	1.5%	6.4%	0.4%
Gold (NY Spot \$/oz)	4,540.26	-1.7%	5.1%	36.8%
Silver (NY Spot \$/oz)	75.2975	2.1%	5.1%	126.0%
Copper (\$/metric ton)	13,599.71	5.3%	9.2%	41.4%
Oil (WTI Spot/bbl)	87.36	-16.9%	52.1%	43.4%
Oil (Brent Spot/bbl)	92.05	-19.3%	51.3%	43.5%
Natural Gas (\$/mmBtu)	3.29	18.9%	-10.7%	-6.6%

Data as of May 31, 2026. Source: FactSet/Bloomberg

Economic Overview

Key Economic Indicators



JOB MARKET

Employment Report

The labor market continued its modest recovery in April, with nonfarm payrolls rising by 115,000, well above the consensus estimate of roughly 55,000–62,000, though down from an upwardly revised 185,000 in March. February was revised down by 23,000 from -133,000 to -156,000, while March was revised up by 7,000 from +178,000 to +185,000, leaving February and March combined 16,000 lower than previously reported. The unemployment rate held steady at 4.3%, while average hourly earnings increased 0.2% for the month and 3.6% on an annual basis, both coming in below the respective estimates of 0.3% and 3.8%. Healthcare led with 37,000 new positions, and the month also saw another drop in the labor force and a decline in tech-related jobs, continuing the low-hire, low-fire environment that has prevailed since early 2025.

HOUSING MARKET

House Prices

Home price appreciation continued to cool in March. The S&P Cotality Case-Shiller National Home Price Index posted a 0.7% annual gain for March 2026, down from 0.8% in February, with more than half of major U.S. metropolitan markets posting year-over-year price declines. For the 10th consecutive month, inflation outpaced national home price appreciation, with March CPI running 2.6 percentage points above the 0.7% annual gain, extending the streak of negative real home price returns. Mortgage rates, after dipping below 6% in late February, rebounded to roughly 6.4% by the end of March, re-intensifying the affordability squeeze on buyers.



PERSONAL INCOME & SAVING

April presented a markedly different picture than March's headline-grabbing surge. Personal income was flat while personal consumption expenditures rose \$111.1 billion, or 0.5%, in nominal terms—reflecting increases of \$67.2 billion in spending on services and \$44.0 billion in spending on goods. However, real PCE, adjusted for inflation, increased just 0.1% for the month, suggesting much of the nominal gain reflected higher prices rather than incremental consumption. The savings cushion deteriorated further: the personal saving rate fell to 2.6% in April, down from 3.6% in March, as consumers continued drawing down savings to support spending in the face of stagnant income growth.



ECONOMIC GROWTH

GDP Growth

The second estimate for Q1 2026 GDP was revised down to an annual rate of 1.6%, compared with the advance estimate of 2.0% and Q4 2025's 0.5%. The downward revision primarily reflected adjustments to investment and consumer spending. The contributors to the increase in real GDP in the first quarter were exports, investment, consumer spending, and government spending, while imports—a subtraction in the calculation of GDP—increased. Despite the revision, Q1 still marked a meaningful acceleration from Q4 2025, supporting the view that underlying growth has firmed even as the economy navigates the inflationary effects of the Iran conflict

INFLATION

Consumer Price Index (CPI)

The annual inflation rate accelerated further in April, with headline CPI rising 0.6% for the month and 3.8% on a year-over-year basis, the highest since May 2023. Energy prices, which jumped 3.8%, accounted for more than 40% of the headline gain, while food prices climbed 0.5%. For energy, that put the 12-month gain at 17.9%, while food was up 3.2%. The gasoline index increased 28.4% annually. Core CPI proved less benign than in March, rising 0.4% for the month and 2.8% year-over-year, the highest monthly rate since January 2025.

Personal Consumption Expenditures (PCE) Price Index

The Fed's preferred inflation gauge continued its upward march. Headline PCE inflation rose to 3.8% year-over-year in April, up from 3.5% in March, while core PCE accelerated to 3.3% year-over-year, up from 3.2% in March. On a monthly basis, headline PCE rose 0.4% while core PCE increased just 0.2%, an encouraging deceleration from March's 0.3% reading and a tentative sign that underlying inflation may be stabilizing even as energy-driven headline figures climb. Still, both headline and core PCE remain well above the Fed's 2% target, reinforcing our expectation that rate cuts remain unlikely in the near term, particularly while the energy-price impulse from the Iran conflict continues to filter through the data.

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