Market Commentary | May 2025

Benchmark Review & Monthly Recap

Stocks Rally in May as Tariff Fears Subside; Long Yields Move Higher

Equity Markets

See Table 1 for May 2025, Q1 2025 and YTD results.

Table 1 | Equity Markets

Index	May 2025	Q1 2025	YTD
S&P 500	6.29%	-4.27%	1.06%
S&P 500 Equal Weight	4.35%	-0.61%	1.34%
DJIA	4.16%	-0.87%	0.08%
Russell 3000	6.34%	-4.72%	0.64%
NASDAQ Comp.	9.65%	-10.26%	-0.74%
Russell 2000	5.34%	-9.48%	-6.85%
MSCI ACWI ex U.S.	4.58%	5.23%	14.03%
MSCI Emerging Mkts Net	4.27%	2.93%	8.73%

Source: Morningstar. For illustrative purposes only. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index. Past performance is not indicative of future results.

Stocks rallied in May with large-cap growth stocks reminding investors of their strength over recent years. The NASDAQ Composite led all major indices for the month with a gain just shy of 10%. However, it, along with the Russell 2000 Index, remained the only indices on Table 1 in negative year-to-date territory. Value names lagged growth for the month but have been steadier performers year to date. For example, the Russell 1000 Value Index was up “only” 3.51% for the month, while its growth counterpart was up 8.85%. Despite that monthly underperformance, the value index was up 2.5% year to date while the growth index counterpart was down 0.27%. Small caps had a strong month, but those gains were not enough to offset weakness from earlier in the year. International stocks continued to rally, but their gains were more modest than U.S. stocks in May. Year to date, international stocks have been the clear winner. On an intraday basis, the S&P 500 Index experienced about a -10% correction in March from its all-time high set on February 19 and that pullback reached a nearly -20% correction on April 8. Stocks began their recover on April 9 with the postponement of the “reciprocal tariffs.” It is rather astounding to see the S&P 500 Index is up by just over 1% through five months in 2025 despite all that volatility and uncertainty. This is why we stay focused on fundamentals and try to keep clients focused on long-term objectives.

Highlights

- **Stocks:** U.S. stocks continued to rally in May with the ongoing 90-day pause in tariffs and as China and the U.S. announced progress in their trade discussions. Volatility remained elevated as the market continued to be sensitive to positive or negative headlines regarding tariff developments.
- **Bonds:** Yields moved notably higher in May as stocks rallied. Longer-dated bond yields rose more meaningfully. The 30-year U.S. Treasury yield broke above 5% — a level last seen briefly in 2023, but a level the U.S. has not had for an extended period since before the financial crisis of 2008.
- **U.S. Economy:** The big question mark for the economy continues to be what the ultimate tariff environment will look like. As we approach the end of the 90-day window in early July, volatility could elevate. However, at this point, economic data has held up with inflation moving lower and the job market remaining solid.
- **Federal Reserve:** The FOMC has not changed policy rates in 2025. The Fed seems to be taking a wait-and-see attitude regarding the tariff uncertainty and believes it is positioned well at this time. Expectations have fallen again for rate cuts with only two expected over the five remaining FOMC meetings in 2025. (Per CME FedWatch tool as of June 2, 2025.)

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Fixed Income

Bonds hit a headwind in May as rates rose, but year to date, they have helped offset some of the volatility seen in stocks. See Table 2 for bond index returns for May 2025, Q1 2025, and YTD.

Table 2 | Fixed Income Markets

Index	May 2025	Q1 2025	YTD
Bloomberg U.S. Agg	-0.72%	2.78%	2.45%
Bloomberg U.S. Credit	-0.07%	2.36%	2.35%
Bloomberg U.S. High Yld	1.68%	1.00%	2.68%
Bloomberg Muni	0.06%	-0.22%	-0.96%
Bloomberg 30-year U.S. TSY	-3.21%	4.28%	-0.32%
Bloomberg U.S. TSY	-1.03%	2.92%	2.51%

Source: Morningstar. For illustrative purposes only. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index. Past performance is not indicative of future results.

The 10-year U.S. Treasury yield closed at 4.01% on April 4 – the lowest closing yield level of the year as the flight to quality hit a crescendo amid tariff worries. However, a quick reversal in yields started to happen with rates moving above 4.4% during the middle of April before settling at 4.17% by the end of the month. May saw rates move higher once again, this time spurred in part by concerns about expanding debt under the "One Big Beautiful Bill Act," and the 10-year U.S. Treasury rate ended May at 4.41.% More dramatically, the 30-year U.S. Treasury surged from April's close at 4.66% to a closing high of 5.08% on May 21, before closing the month at 4.92%. Our expectation of a volatile rate environment has materialized so far in 2025, with the recent pressure on rates moving higher. The more rate sensitive parts of fixed income, like U.S. Treasuries, were hardest hit in May, while high yield rallied during a strong month for stocks. Munis have been the laggard in bonds so far this year. However, outside of munis and long-dated U.S. Treasuries, bonds have done their job this year with solid gains through May and offsetting some equity market volatility.

We maintain our long-standing position favoring credit versus pure rate exposure in this interest rate environment. We also believe the role bonds play in a portfolio – to provide stable cash flow and to help offset the volatility of stocks in the long run – has not changed. The volatility seen in bonds provides opportunities for active bond managers, and in our opinion, having an active bond management approach makes sense in this environment. Furthermore, rates remain elevated and provide attractive opportunities for bond investors.

Economic Data Highlights and Outlook

Jobs: The job market remained strong in April. Non-farm payrolls increased by 177,000, well ahead of expectations of 138,000. However, the prior month was revised to show more than 40,000 fewer additions than previously reported. The unemployment rate remained at 4.2%, as expected. Job openings dropped rather sharply in March to under 7.2 million from just below 7.5 million in February. Interestingly, layoffs also declined by 222,000 in March. This movement might have been an initial reflection of businesses pausing some of their hiring activity in light of the uncertainty around tariffs. At this point it looks like companies are slowing hiring, but they are not enacting massive layoffs. Due to the central role of consumers in the U.S. economy, we will continue to monitor job market data. Chart 1 shows the unemployment level and the number of job openings. Clearly the spread between these two measures has closed in recent years, and the job market is becoming more balanced between job seekers and jobs available.

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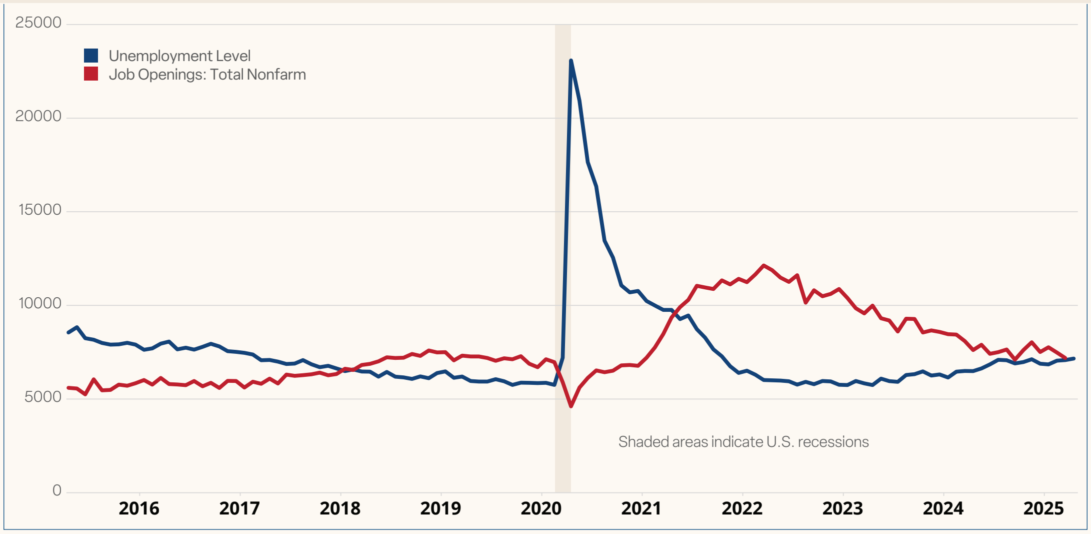
Chart 1

Job Openings: Total Nonfarm vs Unemployment Level

1/1/2015 to 4/1/2025



Sources: Board of Governors of the Federal Reserve System, U.S. Bureau of Labor Statistics

For illustrative purposes only. Past performance is not indicative of future results.

Inflation: Inflation data leaned positive when reported in May. The Consumer Price Index (CPI), both core and headline, rose 0.2% in April when a 0.3% gain was expected. The year-over-year headline reading was 2.3%, which was better than expected and the prior month mark of 2.4%. The core CPI rose 2.8% on an annual basis, as expected. The monthly reading of the Producer Price Index (PPI) declined by -0.5% when a 0.2% increase was expected. The core PPI also fell unexpectedly for the month by -0.4% when a 0.3% increase was expected. Those declines led to lower annual headline and core PPI readings than the prior month's levels. Declines in the inflation numbers likely reflect the significant decline in oil prices. (West Texas Intermediate Crude dropped more than $10 per barrel since the beginning of April.) The Personal Consumption Expenditures (PCE) Price Index rose by 0.1% on both a headline and core basis for the month, as expected. The annual increase in the PCE core price index, the inflation reading targeted by the Fed, showed a gain of 2.5% in April, down from the 2.7% annual increase in March. (For more specific data, please refer to the end of this report.)

Overall, we believe inflation continues to make progress toward the Fed's stated goal of around 2% for the core PCE price index reading. We expect this path to be bumpy, and tariff concerns have increased inflation fears and expectations, but we will wait to see if a real change will develop regarding pricing data. Inflation data over the last couple of months has shown ongoing improvement. Chart 2 shows the core CPI and core PCE price indices and the recent improvements in those price level readings.

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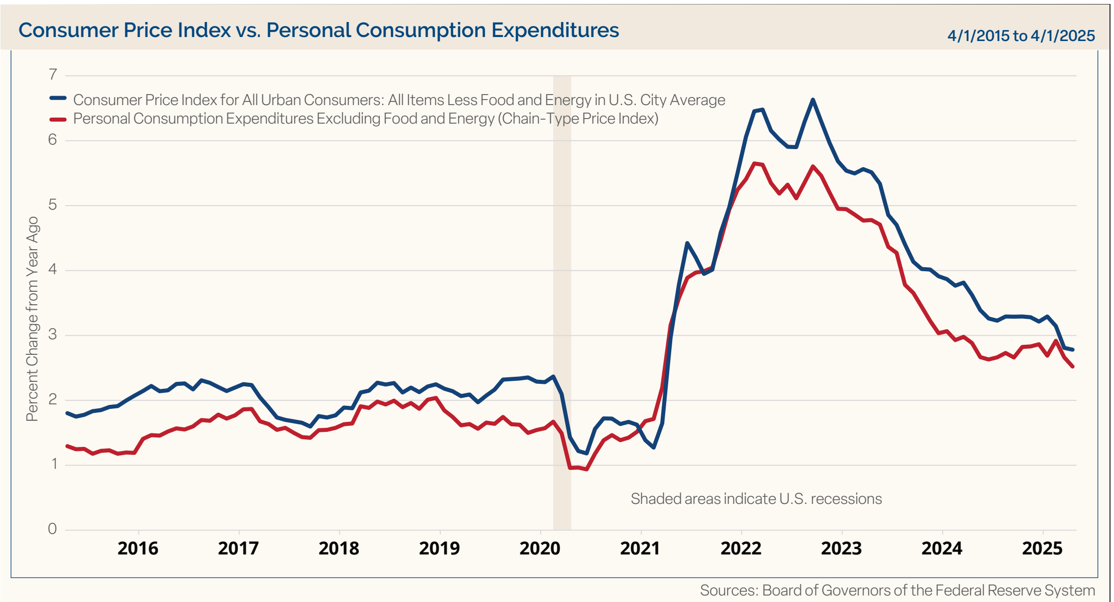
Chart 2



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GDP: The second reading of Q1 2025 continued to reflect contraction during the quarter by -0.2% on an annualized basis. Estimates were at -0.3%, which was the same number as the advance release. We had been expecting some weakness due to a spike in imports as businesses stockpiled inventories in the first quarter ahead of anticipated changes in tariff policy. However, it was unwelcome news that economic activity declined after a solid year of expansion in 2024. The personal consumption component of Q1 GDP was weak and revised lower to 1.2% compared to expectations of 1.7% and the prior estimate of 1.8% on annualized rates. By comparison, the Q4 2024 personal consumption rate was 4.0%. We have consistently said it takes a lot to knock down U.S. consumers, but spending activity did slow in the first quarter as some of the tariff concern headwinds were building and much of the country experienced poor weather in January and February. We hope this turns out to be an anomalous GDP reading, and the current Atlanta Fed GDP Now estimate shows expected Q2 2025 to come in at a 3.8% annualized pace (as of May 30, 2025).

Consumer Confidence: One economic data point that has been heavily affected by the tariff discussions and resulting economic uncertainty has been consumer confidence. Consumers are clearly saying they are not as confident in 2025. The University of Michigan consumer sentiment reading has fallen dramatically in recent months. It is important to watch what consumers "say" in confidence surveys; however, we think it is more important to monitor what consumers "do," meaning spending data. We will monitor whether this drop in consumer confidence translates into less spending by consumers in the months ahead. Chart 3 shows the consumer sentiment reading from the University of Michigan. It is remarkable to see how negatively consumers reacted to tariffs and the uncertainty that surrounded that event. As this chart shows, consumers have only been this negative a few times in the last 45 years. If some clarity develops around tariffs, it would not be a surprise to see consumer confidence start to rebound.

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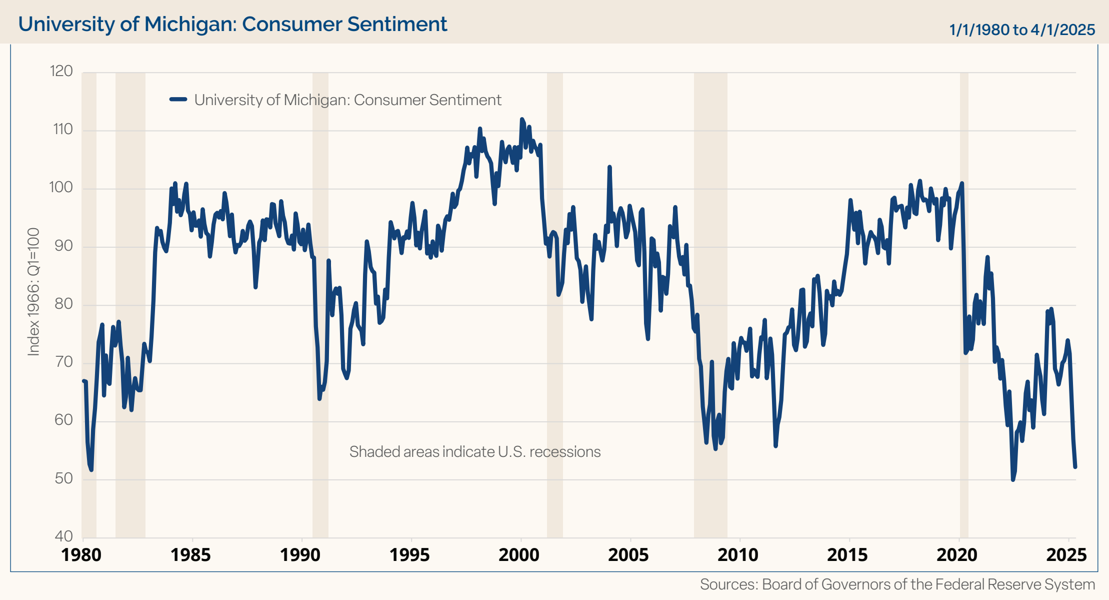
Chart 3



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Other Economic Data Points: After back-to-back readings above 50 to start the year, the ISM Manufacturing survey has struggled. This reading declined to 48.7 in April, which was better than expectations of 47.9, but lower than the prior month of 49.0. This was the lowest reading for this index in 2025, and every reading in 2025 has been lower than the prior one. Unfortunately, that trend continued in May, with the reading falling to 48.5 — below the expectations of 49.5 — and marking a new low for 2025. The ISM Non-Manufacturing Index, which covers the much larger service industries in the U.S. economy, showed some modest improvement increasing to 51.6 from the prior level of 50.8 and expectations of 50.2. Slowing manufacturing and non-manufacturing activity has developed recently, which is another likely side effect of tariff uncertainty. Recall, ISM readings above 50 reflect expansion and those below 50 indicate contraction.

Housing data for April remained under pressure with interest rates generally higher. Housing starts, building permits, and existing home sales were lower than expected in April. However, the pace of housing starts did improve from March, but building permits and existing home sales were lower than the prior month. New home sales were an outlier, as April's pace surpassed both expectations and the prior month's levels. The leading economic indicators index slumped in April with a -1.0% monthly drop, matching estimates. Retail sales (ex auto and gas) slightly missed expectations (0.2% compared to 0.3%), but the prior month showed an increase of 1.1%, which was better than the previously reported 0.8% monthly gain. Consumers appear to have been pulling forward spending activity ahead of potential tariff price increases in March, and it will be interesting to see if the slump in confidence readings translates to lower spending moving forward.

After a couple of years of solid stock market gains with relatively little volatility, equity weakness to start 2025 was unsettling for investors. Volatility was amplified in April with the tariff announcement and the uncertainties that tariffs might cause. However, stocks bounced back strongly in May as some of the worst-case outcomes for tariffs seemed to have been removed (or at least postponed). While not pleasant, equity volatility is a normal part of doing business in the stock market. Focusing on market fundamentals, we see an economy that we believe will grow in 2025, a Fed that is cutting interest rates, a fairly reasonably valued stock market, and S&P 500 companies that are expected to grow their earnings in 2025 and 2026. We will watch closely (and do expect) to see revisions that lower earnings estimates in the months ahead, but we have not seen much damage to those so far. Uncertainty about tariffs has ushered in volatility, and our analysts and portfolio managers will monitor industries and sectors that might be impacted by tariffs as they are making portfolio decisions. However, some of the most feared outcomes regarding tariffs seem to have passed. We still want to see what actually gets implemented regarding tariffs versus the headlines that are relentlessly inundating investors. As always, we believe it is imperative for investors to stay focused on their long-term goals and not let short-term swings in the market derail them from their longer-term objectives.

Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Apr	47.9	48.7	49	—
ISM Services Index	Apr	50.2	51.6	50.8	—
Change in Nonfarm Payrolls	Apr	138k	177k	228k	185k
Unemployment Rate	Apr	4.20%	4.20%	4.20%	—
Average Hourly Earnings YoY	Apr	3.90%	3.80%	3.80%	—
JOLTS Job Openings	Mar	7500k	7192k	7568k	7480k
PPI Final Demand MoM	Apr	0.20%	-0.50%	-0.40%	0.00%
PPI Final Demand YoY	Apr	2.50%	2.40%	2.70%	3.40%
PPI Ex Food and Energy MoM	Apr	0.30%	-0.40%	-0.10%	0.40%
PPI Ex Food and Energy YoY	Apr	3.10%	3.10%	3.30%	4.00%
CPI MoM	Apr	0.30%	0.20%	-0.10%	—
CPI YoY	Apr	2.40%	2.30%	2.40%	—
CPI Ex Food and Energy MoM	Apr	0.30%	0.20%	0.10%	—
CPI Ex Food and Energy YoY	Apr	2.80%	2.80%	2.80%	—
Retail Sales Ex Auto and Gas	Apr	0.30%	0.20%	0.80%	1.10%
Industrial Production MoM	Apr	0.10%	0.00%	-0.30%	—
Building Permits	Apr P	1450k	1412k	1467k	1481k
Housing Starts	Apr	1363k	1361k	1324k	1339k
New Home Sales	Apr	695k	743k	724k	670k
Existing Home Sales	Apr	4.10m	4.00m	4.02m	—
Leading Index	Apr	-1.00%	-1.00%	-0.70%	-0.80%
Durable Goods Orders	Apr P	-7.80%	-6.30%	9.20%	7.60%
GDP Annualized QoQ	1Q S	-0.30%	-0.20%	-0.30%	—
U. of Mich. Sentiment	May P	53.4	50.8	52.2	—
Personal Income	Apr	0.30%	0.80%	0.50%	0.70%
Personal Spending	Apr	0.20%	0.20%	0.70%	—
S&P CoreLogic CS 20-City YoY NSA	Mar	4.50%	4.07%	4.50%	4.53%

Source: Bloomberg; S=Second Reading, P=Preliminary.

For illustrative purposes only. Past performance is not indicative of future results. Neither past actual, projections, nor other forward looking statements regarding future financial performance of markets are only projections and actual events or results may differ materially.

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Disclosures

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The manager utilizes a proprietary investment model to assist with the construction of the strategy and to assist the manager with making investment decisions. Investments selected using this process may perform differently than expected as a result of the factors used in the model, the weight placed on each factor, and changes from the factors' historical trends. There is no guarantee that Clark Capital's use of a model will result in effective investment decisions.

Fixed income securities are subject to certain risks including, but not limited to: interest rate (changes in interest rates may cause a decline in market value or an investment), credit, prepayment, call (some bonds allow the issuer to call a bond for redemption before it matures), and extension (principal repayments may not occur as quickly as anticipated, causing the expected maturity of a security to increase).

Non-investment-grade debt securities (high-yield/junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated securities.

The value of investments, and the income from them, can go down as well as up and you may get back less than the amount invested.

Equity securities are subject to price fluctuation and possible loss of principal. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. Certain investment strategies tend to increase the total risk of an investment (relative to the broader market). Strategies that concentrate their investments in limited sectors are more vulnerable to adverse market, economic, regulatory, political, or other developments affecting those sectors.

JOLTS is a monthly report by the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor counting job vacancies and separations, including the number of workers voluntarily quitting employment.

The Core Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

The Core Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

The PCE price index, released each month in the Personal Income and Outlays report, reflects changes in the prices of goods and services purchased by consumers in the United States.

References to market or composite indices, benchmarks or other measures of relative market performance over a specified period of time (each, an "index") are provided for your information only. Reference to an index does not imply that the portfolio will achieve returns, volatility or other results similar to that index. The composition of the index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking error targets, all of which are subject to change. Investors cannot invest directly in an index.

The Dow Jones Industrial Average® (The Dow®), is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.

The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

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The Bloomberg US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index.

The NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 80% of U.S. equities.

The S&P 500® Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight or 0.2% of the index total at each quarterly rebalance.

The University of Michigan Consumer Sentiment Index rates the relative level of current and future economic conditions. There are two versions of this data released two weeks apart, preliminary and revised. The preliminary data tends to have a greater impact. The reading is compiled from a survey of around 500 consumers.

The Russell 1000 Index is a stock market index that tracks the highest-ranking 1,000 stocks in the Russell 3000 Index, which represent about 93% of the total market capitalization of that index.

The Russell 2000 Index is a small-cap stock market index that represents the bottom 2,000 stocks in the Russell 3000.

The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

Nonfarm payrolls (NFPs) are the measure of the number of workers in the United States excluding farm workers and workers in a handful of other job classifications.

A municipal bond, commonly known as a muni, is a bond issued by state or local governments, or entities they create such as authorities and special districts.

The CBOE Volatility Index (VIX) is a real-time index that measures the expected volatility of the S&P 500 over the next 30 days.

The U.S. Treasury index is based on the recent auctions of U.S. Treasury bills. Occasionally it is based on the U.S. Treasury's daily yield curve.

The 30 Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 30 years.

The Bloomberg Barclays U.S. Corporate High-Yield Index covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.

The Bloomberg Barclays U.S. Credit Index measures the investment grade, U.S. dollar denominated, fixed-rate taxable corporate and government related bond markets.

The Bloomberg Aggregate Bond Index or "the Agg" is a broad-based fixed-income index used by bond traders and the managers of mutual funds and exchange-traded funds (ETFs) as a benchmark to measure their relative performance.

The Bloomberg US Trsy Bellwethers 30Y is a U.S. Treasury debt obligation that has a maturity of 30 years.

The ISM Non-Manufacturing Index is an index based on surveys of more than 400 non-manufacturing firms' purchasing and supply executives, within 60 sectors across the nation, by the Institute of Supply Management (ISM). The ISM Non-Manufacturing Index tracks economic data, like the ISM Non-Manufacturing Business Activity Index. A composite diffusion index is created based on the data from these surveys, that monitors economic conditions of the nation.

ISM Manufacturing Index measures manufacturing activity based on a monthly survey, conducted by Institute for Supply Management (ISM), of purchasing managers at more than 300 manufacturing firms.

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The MSCI Emerging Markets Index captures large and mid cap representation across 27 Emerging Markets (EM) countries.

The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 27 Emerging Markets (EM) countries*. With 2,359 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

The S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index seeks to measures the value of residential real estate in 20 major U.S. metropolitan areas. The U.S. Treasury index is based on the recent auctions of U.S. Treasury bills. Occasionally it is based on the U.S. Treasury's daily yield curve.

The Leading Economic Index provides an early indication of significant turning points in the business cycle and where the economy is heading in the near term.

In the United States, the Core Personal Consumption Expenditure Price (CPE) Index provides a measure of the prices paid by people for domestic purchases of goods and services, excluding the prices of food and energy.

The Conference Board's Leading Indexes are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. They are constructed to summarize and reveal common turning point patterns in economic data in a clearer and more convincing manner than any individual component – primarily because they smooth out some of the volatility of individual components.

Gross domestic product (GDP) is the standard measure of the value added created through the production of goods and services in a country during a certain period.

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