Narrow But Powerful

The fog of war rarely clears quickly. The Iran conflict, which erupted in late February 2026, has already sent shockwaves through global energy markets. Emergency stockpile releases from the International Energy Agency (IEA) have provided periodic relief, but that medicine is finite. Brent crude remains volatile, and the risk of a renewed price spike — should diplomatic progress stall as reserves thin — has not gone away. Bond markets are already reading the small print. Core inflation trends remain skewed upward, driven increasingly by second-order energy effects rippling through supply chains and transport costs. Central bankers, for their part, show little appetite for dovish pivots; the hawkish drumbeat is likely to persist into the summer.

Yet equity investors have, for now, chosen to focus elsewhere. The corporate earnings season has delivered what the macro backdrop has not: genuine upside surprise. For the S&P 500, analysts now forecast full-year 2026 earnings growth of 21.5%, with quarterly growth rates of roughly 20–24% expected through the remainder of the year. Companies are reporting earnings nearly 18% above estimates — the strongest beat rate since early 2021 — with 84% of reporters exceeding consensus. In a market searching for conviction, that matters.

The engine is familiar. Information Technology continues to lead, with sector profit margins approaching 30%, materially above year-ago levels. AI-related capital expenditure is doing the heavy lifting. Hyperscaler spending that was already projected near $520 billion now appears headed toward $650 billion or more. The data-center supercycle is no longer theoretical; it is increasingly visible in reported earnings and forward guidance.

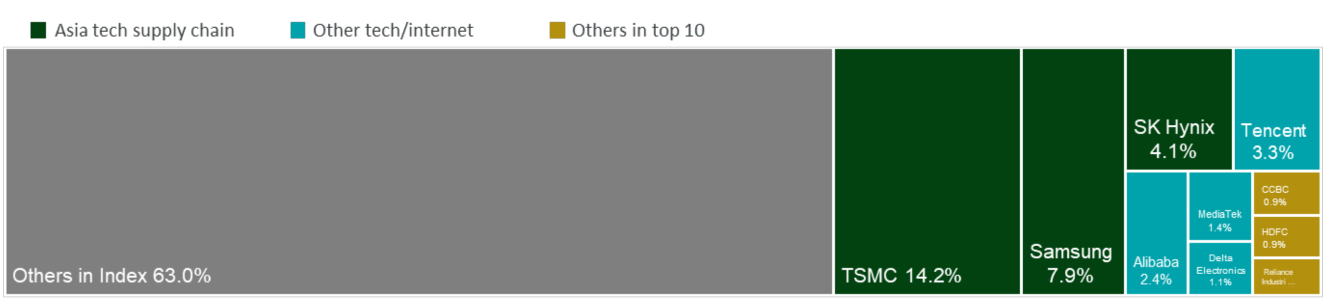
Nowhere is that more apparent than in emerging markets, where the profit story is, paradoxically, even more compelling — and more concentrated. Profit forecasts for Emerging Market (EM) companies have been revised upward by 30% in 2026, against just 10% for U.S. equivalents. Goldman Sachs puts its MSCI EM 2026 earnings growth forecast at 23%, with more than two-thirds driven by AI-related demand, as technology hardware and semiconductor profits surge. South Korea and Taiwan sit at the center of this dynamic, increasingly functioning as leveraged plays on global data-center investment.

That concentration should give investors pause. The MSCI EM index is, in important respects, no longer a broadly diversified emerging-markets vehicle; it is a proxy for the Asian tech supply chain.

Global resources equities present a different kind of paradox. Energy companies have benefited from elevated oil prices, while materials firms have been supported by infrastructure spending. We have begun trimming our overweight in natural resources back toward neutral. The earnings boost is real, but unlikely to compound once stockpile dynamics stabilize and geopolitical risk eventually recedes.

The overall read for summer: stay constructive on equities, anchored by an earnings backdrop that remains, for now, genuinely strong. But mind the narrowness. When three semiconductor companies in Taipei and Seoul account for the lion's share of one entire asset class's earnings growth, the rally's power and its fragility are two sides of the same coin.

MSCI EM Index Weights by Constituents – AI/Tech Holdings Dominate



Source: Northern Trust Asset Management, FactSet Earnings Insight (May 2026); Goldman Sachs Research; LPL Research/FactSet; European Business Magazine, Bloomberg. Data as of 4/30/2026. Historical trends are not predictive of future results.

POSITIONING SCENARIOS

Fiscal and Productivity Boost (30% probability)

Tax cuts, deregulation and AI adoption more than offset supply restraints. Strong productivity gains continue, allowing for robust economic growth without sparking higher inflation.

Two-Speed Expansion (40% probability)

Soft labor force dynamics and a bifurcated economy govern what would otherwise be a stronger growth environment, resulting in a trend-like expansion and disinflation.

Economic Fault Lines Broaden (30% probability)

The economic expansion is cut short by persistent supply-side restraints, energy headwinds, or AI-related disruption that weakens activity and/or tightens financial conditions.

Note: Probabilities are assumed from proprietary research and are subject to change.

Additional Index Definitions:

Bloomberg Treasury Bills 1-3 Months: The Bloomberg U.S. Treasury Bills: 1-3 Months Index tracks the market for treasury bills issued by the U.S. government with time to maturity between 1 and 3 months. US Treasury bills are issued in fixed maturity terms of 4, 8, 13, 17, 26 and 52 weeks.

Bloomberg U.S. Treasury: 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. STRIPS are excluded from the index because their inclusion would result in double-counting. The US Treasury Index is a component of the US Aggregate, US Universal, Global Aggregate and Global Treasury Indices. The index includes securities with remaining maturity of at least one year.

Bloomberg Global Treasury: The Bloomberg Global Treasury Index tracks fixed-rate, local currency government debt of investment grade countries, including both developed and emerging markets. The index represents the treasury sector of the Global Aggregate Index.

Bloomberg Municipal: The Bloomberg Municipal Bond: Index is a flagship measure of the US municipal tax-exempt investment grade bond market. Included in the index are securities from all 50 US States and four other qualifying regions (Washington DC, Puerto Rico, Guam, and the Virgin Islands). The index includes state and local general obligation bonds and revenue bonds. All bonds in the Municipal Bond Index are tax exempt and hence are not eligible for other indices that include taxable bonds, such as the Bloomberg U.S. Aggregate.

Bloomberg U.S. TIPS: The Bloomberg US Treasury Inflation-Linked Bond Index (Series-L) measures the performance of the US Treasury Inflation Protected Securities (TIPS) market. Federal Reserve holdings of US TIPS are not index eligible and are excluded from the face amount outstanding of each bond in the index.

Bloomberg Global Inflation-linked: The Bloomberg Global Inflation Linked Index (Series-L) measures the investment-grade, government inflation-linked debt from 12 different developed market countries. Investability is a key criterion for inclusion of markets in this index, and it is designed to include only those markets in which a global government linker fund is likely and able to invest.

Bloomberg U.S. Aggregate: The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, fixed-rate agency MBS, ABS and CMBS (agency and non-agency). Provided the necessary inclusion rules are met, US Aggregate-eligible securities also contribute to the multi-currency Global Aggregate Index and the US Universal Index.

Bloomberg Global Aggregate: The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt from twenty-seven local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

JP Morgan GBI – EM Global Diversified Composite Index: The J.P. Morgan Emerging Markets Bond Index Global Diversified tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities.

Bloomberg U.S. High Yield: The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate 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. Bonds from issuers with an emerging markets country of risk, based on the indices' EM country definition, are excluded. The US Corporate High Yield Index is a component of the US Universal and Global High Yield Indices.

Bloomberg Global High Yield: The Bloomberg Global High Yield Index is a multi-currency flagship measure of the global high yield debt market. The index represents the union of the US High Yield, the Pan-European High Yield, and Emerging Markets (EM) Hard Currency High Yield Indices. The high yield and emerging markets sub-components are mutually exclusive.

MSCI AC World: The MSCI ACWI captures large and mid cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries.

MSCI USA: The MSCI USA Index is designed to measure the performance of the large and mid cap segments of the US market.

S&P 500: The index, a gauge of the large-cap U.S. equity market, includes 500 companies that represent approximately 80% of the market capitalization of publicly traded U.S. equities.

Russell 2000: The Russell 2000® Index measures the performance of the small-cap segment of the US equity universe.

Russell 1000 Growth: The Russell 1000® Growth Index measures the performance of the largecap growth segment of the US equity universe. It includes those Russell 1000 companies with relatively higher price-to-book ratios, higher I/B/E/S forecast medium term (2 year) growth and higher sales per share historical growth (5 years). The Russell 1000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics.

Russell 1000 Value: The Russell 1000® Value Index measures the performance of the largecap value segment of the US equity universe. It includes those Russell 1000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium term (2 year) growth and lower sales per share historical growth (5 years). The Russell 1000® Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics.

MSCI World: The MSCI World Index captures large and mid cap representation across Developed Markets countries.

MSCI World ex US: The MSCI World ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries*--excluding the United States. With 778 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI Europe: The MSCI Europe Index captures large and mid cap representation across Developed Markets (DM) countries in Europe. The index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

MSCI Japan: The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. The index covers approximately 85% of the free float-adjusted market capitalization in Japan.

MSCI Emerging Markets: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI China: The MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). The index covers about 85% of this China equity universe. Currently, the index includes Large Cap A and Mid Cap A shares represented at 20% of their free float adjusted market capitalization.

S&P Global Natural Resources: The index includes 90 of the largest publicly-traded companies in natural resources and commodities businesses that meet specific investability requirements, offering investors diversified and investable equity exposure across 3 primary commodity-related sectors: agribusiness, energy, and metals & mining.

S&P Global Infrastructure: The S&P Global Infrastructure Index is designed to track 75 companies from around the world chosen to represent the listed infrastructure industry while maintaining liquidity and tradability. To create diversified exposure, the index includes three distinct infrastructure clusters: energy, transportation, and utilities.

MSCI ACWI IMI Core Real Estate: The MSCI ACWI IMI Core Real Estate Index is a free float-adjusted market capitalization index that consists of large, mid and small-cap stocks across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries* engaged in the ownership, development and management of specific core property type real estate. The index excludes companies, such as real estate services and real estate financing companies, that do not own properties.

CBOE Volatility Index: The Cboe Volatility Index (VIX Index) is a leading measure of market expectations of near-term volatility conveyed by S&P 500 Index option prices.

CBOE Crude Oil Volatility Index: The Cboe Crude Oil ETF Volatility Index (OVX) is an estimate of the expected 30-day volatility of crude oil as priced by the United States Oil Fund (USO).

Philadelphia Stock Exchange Semiconductor Index: The Philadelphia Semiconductor Index is a modified capitalization-weighted index comprised of companies that are involved in the design, distribution, manufacturing, and sale of semiconductors.

NASDAQ-100 Index: The NASDAQ-100 Index is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ. No security can have more than a 24% weighting.