

# Context

Successful investing often involves understanding how economic growth, inflation, Fed policy, bond yields, and corporate earnings interact. Looking at these factors together provides a clearer picture of market opportunities and risk than focusing on any single indicator. Many investors focus only on stock prices, but understanding the broader context helps explain why markets move. Rising bond yields may be positive if they reflect stronger growth, but negative if they reflect accelerating inflation. Similarly, a slowing economy may be concerning unless it leads to lower interest rates that support future growth. Understanding all these moving parts helps investors make more informed long-term decisions.

## Q PERSPECTIVE

The month of May highlighted the continued resilience of the U.S. economy despite rising geopolitical tensions, higher energy prices, and renewed inflation concerns. **Chart I** shows that economic activity remained firmly in expansion territory, supported by healthy consumer spending, continued job creation, and improving business investment. First-quarter real GDP growth rebounded to an annualized 2.0%, reflecting solid private-sector demand and ongoing corporate investment. While labor market conditions cooled from the exceptionally strong pace of recent years, unemployment remained near historically low levels. Businesses faced some supply-chain disruptions and higher input costs, particularly within energy-sensitive industries, but overall economic momentum remained positive and reinforced confidence that the economy could absorb external shocks.

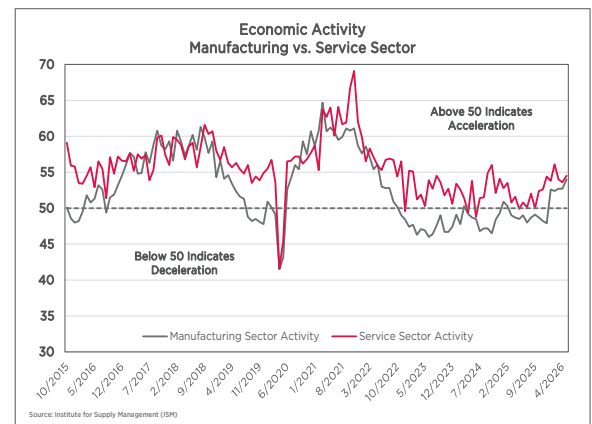
The bond market faced a more challenging environment. Treasury yields moved higher during much of the month as stronger economic data and persistent inflation concerns lowered expectations for additional monetary easing. **Chart II** shows the 10-year Treasury yield traded near 4.5%, while longer-term yields approached some of their highest levels of the year. Rising yields reflected a combination of economic resilience and concerns that increased government borrowing could place additional upward pressure on interest rates. Fixed-income investors remained focused on inflation trends, energy prices, and future Federal Reserve policy decisions.

Equity markets demonstrated notable strength despite periodic volatility tied to geopolitical developments as shown in **Chart III**. Major stock indexes traded near record highs, supported by solid corporate earnings, resilient economic growth, and investor confidence in long-term earnings prospects. Stocks recovered from earlier declines associated with Middle East tensions, as investors largely concluded that higher energy prices would have only a modest impact on economic growth. Since bottoming in late March, U.S. equities have rallied approximately 19%, reaching new all-time highs.

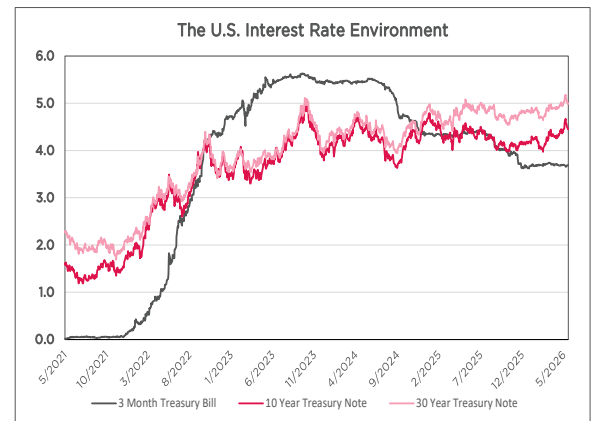
## INVESTMENT IMPLICATIONS

The strong recovery in stocks suggests that markets remain confident in the prospects for corporate profits and economic growth. However, elevated valuations, stretched technical levels, and higher bond yields may lead to periods of increased volatility. Investors should recognize that market leadership can shift as economic conditions evolve. Maintaining a diversified portfolio and focusing on long-term fundamentals rather than short-term market fluctuations influenced by rapidly changing news headlines remains a prudent investment approach.

**CHART I**



**CHART II**



**CHART III**

