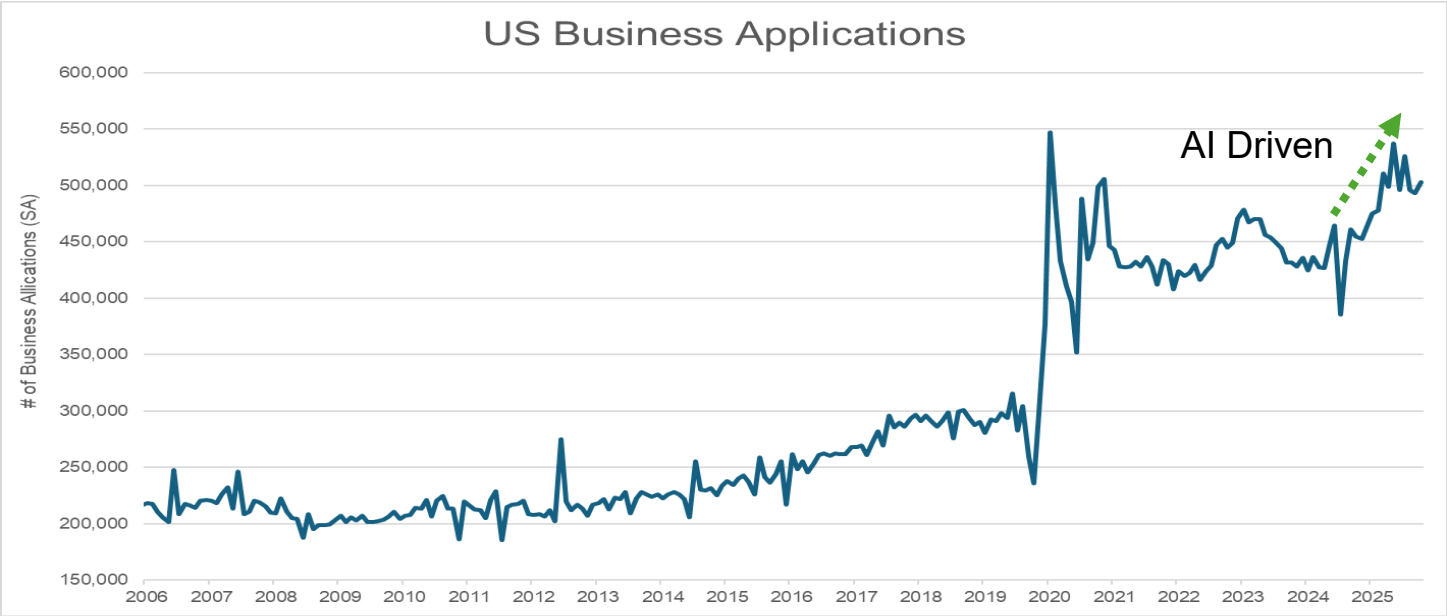
FIVE IN FIVE

June 2026

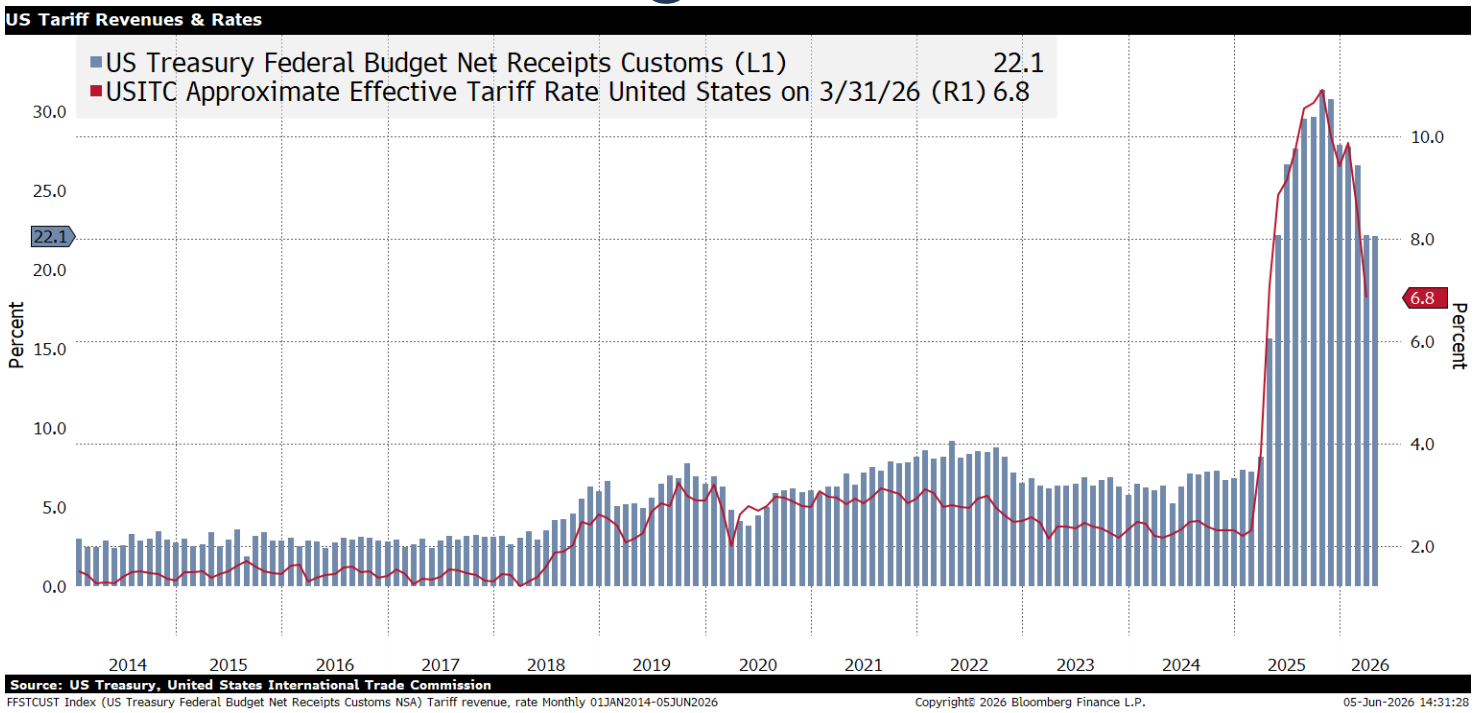
Business Formation Growing, Likely Driven by AI



Sources: Bureau of Labor Statistics, Bloomberg, BTC Capital Management

- Business applications have been growing at a rapid pace.
- The number of solo founders (smaller businesses) is driving this growth in new startups.
- AI large language models have been dramatically reducing the cost and complexity of launching a company.
- The Jevons Paradox applies to AI and employment. This economic principal states that as technology progresses the efficiency of a resource (labor) and the rate of consumption of that resource increases.
- Declining costs increase demand for a service supporting expansion of more businesses.

Lower Tariff Rates & Refunds Help Counter Rising Inflation



Sources: BTC Capital Management, Bloomberg Finance L.P.

- In February, the IEEPA tariffs put in place in April 2025 were terminated following a Supreme Court Decision.
- After reaching an average of 10.9% last October, tariff rates have dropped to an average of 6.8%.
- Monthly tariff collections have dropped from a high of $31.4 billion last October to around $22.1 billion in April.
- Refunds are slowly being issued with an estimated $166 billion of tariffs collected.
- U.S. trade authorities proposed a new set of tariffs (anti-competitive targeted) of a minimum of 10% on 60 trading partners (nearly all imports).

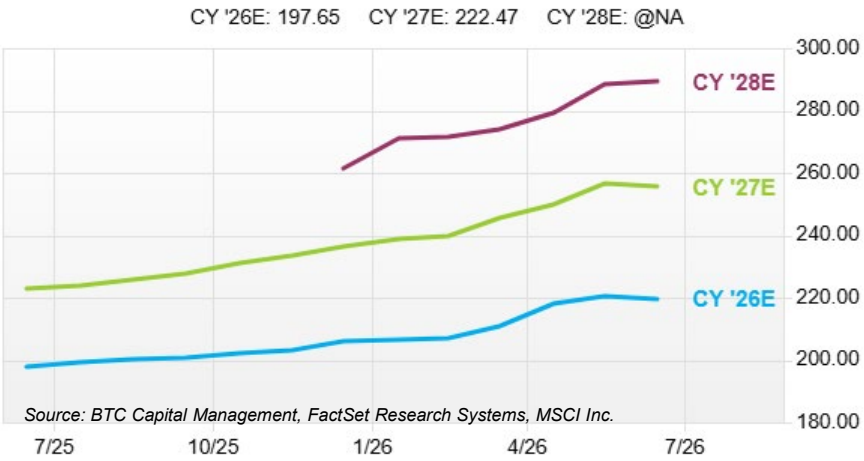
Higher Treasury Yields – Not Just an Oil Shock Story

Source: Bloomberg

Higher bond yields are more than just an oil story:

- Jobless claims – near all-time lows. It is even lower on population adjusted basis.
- U.S. Citi Economic Surprise Index – multi-year high.
- Global Economic Surprise Index – accelerating and above zero.
- Copper prices – at multi-year highs.

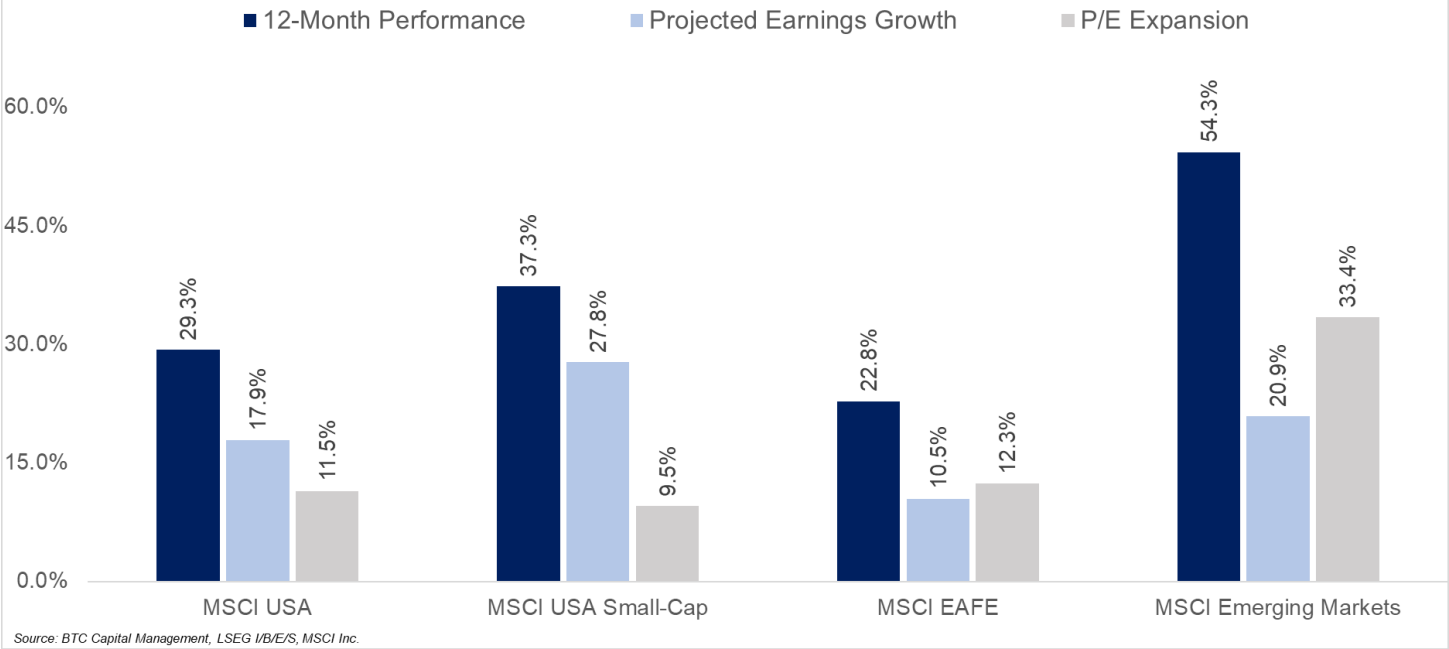
Projected Earnings Growth: U.S. Versus Foreign



- U.S. Treasurys are following global yields higher.
- Middle East rebuild could weigh on near-term Treasury auctions.
- Previous sources of long-term Treasury demand may be eroding at the margin.
- Longer-dated oil futures are moving higher.
- If yields break 5.10%, it would be the highest since 2007.

Index Performance Attribution – P/E Expansion + EPS Growth

12-Month Trailing Returns as of 05/29/2026



- Historically, the long-term driver of a company's price performance has been attributed to earnings growth.
- The chart above presents the trailing 12-month returns for U.S. large cap (MSCI USA Index), U.S. small cap (MSCI USA Small Cap Index), foreign developed (MSCI EAFE – Net), and emerging markets (MSCI Emerging Markets – Net).
- As exhibited above, 61% of the trailing 12-month return for U.S. large cap is attributed to earnings growth, while earnings growth explains 75% of the period return for U.S small cap.
- Regarding foreign developed, 46% of the trailing 12-month return is attributed to earnings growth, while earnings growth explains 39% of the period return for emerging markets.
- In the case of these latter two equity classes, price-to-earnings (P/E) expansion is responsible for the preponderance of return over the last 12 months.

Disclosures

Sources: BTC Capital Management, Bloomberg, PSC Portfolio Strategy, FactSet

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