

Overview of the Economy

The US economy offered mixed signals in May. First quarter GDP was revised from -0.3% to -0.2%, but with a weaker contribution from personal consumption and a larger drag from imports. Growth in Q2 is tracking around 2.2%, supported by business investment and inventory rebuilding. While some models, such as the Atlanta Fed’s GDPNow, forecast second-quarter growth exceeding 4%, we remain cautious given weak final demand and the uncertain impact of trade disruptions.

Trade policy once again re-entered headlines. A court ruling briefly blocked Trump’s tariffs, but an appeals court reinstated them pending review. US-China talks stalled, prompting renewed market concerns about supply chains and inflation persistence. President Trump’s Oval Office meeting with Fed Chair Powell ended without policy change but underscored ongoing political pressure for rate cuts. While tariffs are designed to support domestic industry, recent data suggest they may weigh more heavily on growth than on inflation, as businesses face margin compression rather than widespread cost pass-throughs.

April PCE inflation data was encouraging; both headline and core rose just 0.1%, keeping year-over-year rates near the Fed’s 2% target. Incomes rose 0.4% while consumption rose only 0.3%, suggesting cautious behavior among consumers. Rising personal saving rates reinforce this caution, with consumers showing restraint despite income growth. Overall, May confirmed a slow-growth, soft-inflation environment—one where policy uncertainty may be more influential than macro trends.

Equity markets delivered strong gains in May, reversing April’s risk-off tone. The Nasdaq was up 9.65%, driven by strong performance in AI and chip stocks, despite remaining down 0.73% year-to-date. The S&P 500 climbed 6.30%, bringing its YTD return to 1.06%, while the DJIA rose 4.16%.

MTD, Treasuries underperformed corporates and municipals but continues to outperform on a YTD basis, 2.51% versus 2.26% and -0.96%, respectively.

World Markets	MTD (%)	YTD (%)	1Y (%)	10Y (%)	10Y STD (±)
DJIA	4.16	0.08	11.16	11.32	15.53
S&P 500	6.30	1.06	13.50	12.83	15.40
NASDAQ	9.65	-0.73	15.04	15.31	18.54
Equity EM Mkts.	4.30	8.86	13.59	4.32	16.95
EM Bond Mkt.	0.67	2.97	8.04	3.08	7.35
US Agg. Bond	-0.72	2.45	5.46	1.49	5.03
Municipal Bond	0.06	-0.96	2.03	2.13	5.13
US High Yield	1.68	2.67	9.24	4.92	7.64
Commodity	-0.58	3.05	1.69	1.92	13.70
COMEX Silver	-5.68	5.57	-3.61	6.19	27.55
COMEX Gold	5.80	32.79	48.15	11.07	13.76
Brent Oil	-15.58	-27.24	-32.53	-4.25	36.81
Dollar Index	-0.14	-8.47	-5.13	0.28	6.52

Taxable Fixed Income

The taxable fixed income landscape was dominated by tightening spreads and cautious optimism. Credit markets rebounded strongly in May, following severe outflows earlier in the quarter. Institutional buyers, notably insurance companies, stepped in as rising Treasury yields offered attractive all-in returns.

Still, the divergence between technical strength and deteriorating fundamentals was notable. Tariff uncertainty is beginning to erode corporate sentiment and earnings visibility, particularly in lower-rated credits.

US Fixed Income	Price	Cpn	Total Returns (%)		Dur	Yield
	(%) Rtn	% Rtn	Mo.	YTD	+/-	+/-
Agg. Bond	-1.05	0.34	-0.72	2.45	6.07	4.71
US Treasury	-1.31	0.28	-1.03	2.51	5.82	4.19
US Agencies	-0.62	0.31	-0.31	2.52	3.29	4.37
Corporate	-0.40	0.39	-0.01	2.26	6.76	5.21
Taxable Muni	-1.61	0.37	-1.23	1.64	7.63	5.20
TM/BABs	-2.06	0.49	-1.57	1.63	8.78	5.75
US Agency MBS	-1.30	0.39	-0.91	2.41	6.15	5.15
Gov/Credit	-0.98	0.32	-0.66	2.44	6.10	4.55
TIPs	-0.69	0.10	-0.59	3.68	5.40	4.29
AAA Corporate	-1.28	0.34	-0.94	1.65	9.81	4.89
AA Corporate	-0.82	0.34	-0.48	2.00	7.71	4.87
A Corporate	-0.57	0.37	-0.20	2.33	6.74	5.06
BBB Corporate	-0.14	0.41	0.27	2.26	6.55	5.42

US Treasuries delivered their first monthly loss this year as all maturities came under pressure and rates across the curve moved in a parallel fashion. The poor monthly performance highlights the increasing pressure on Treasuries, as the US administration’s policies undermine investor confidence and markets price in the growing deficit. Despite May’s performance, intermediate treasuries continue to outperform equity markets YTD, with the 7-year UST the best performing segment of the curve at 3.78%, followed by the 5 and 10-year USTs at 3.64% and 3.40%, respectively.

Agency gross issuance climbed 16% from April’s level and topped \$100 billion for the first time since November, led by both conventional and Ginnie Mae issues. This year’s volume of \$445B is well above 2023 and 2024 levels for the first 5 months. Returns YTD for Agency MBS is 2.41%, offering better yields than corporate bonds when adjusted for rate risk. We are selectively adding to this sector given the attractive yield spreads and income levels for high quality bonds. Conversely, taxable municipals posted a 1.2% loss, underperforming Treasuries by over 1%. Though taxable Muni indices are still up 1.6% year-to-date, they lag the 2.5% return from comparable Treasury

benchmarks. While the sector still presents value in specific structures, we remain selective, emphasizing defensive positioning and avoiding thinly traded, long-duration paper.

Rates remain in a holding pattern with yields trading on average, in a +/-50 basis point (bp) range from 2-years to 30. Markets are now recalibrating prices to just two 25 bp cuts in 2025 from four at the beginning of 2025 and aligning more closely with the Fed's March projections.

Our strategy remains focused on higher-quality issuers and liquidity while selectively extending duration in the belly of the curve, where we see the best risk-reward tradeoff.

Tax-Exempt Markets

Municipals posted modest gains in May, but the tone of the market remained fragile. The Bloomberg Municipal Bond Index finished slightly positive, driven almost entirely by coupon income. Year-to-date, the index remains down 1.0%—the worst start through May since the 2013 Taper Tantrum. General obligation and essential service bonds continued to outperform, while revenue bonds—particularly in healthcare and transportation—lagged amid sector-specific risks.

Municipal Market	Price	Cpn	Total Returns (%)		Dur	Yield
	(%) Rtn	(%) Rtn	Mo.	YTD	+/-	+/-
Municipal Agg	-0.31	0.37	0.06	-0.96	6.70	4.04
1-Yr Muni (1-2)	0.10	0.37	0.48	1.36	1.21	3.11
3-Yr Muni GO (2-4)	0.37	0.37	0.74	1.31	2.29	3.00
5-Yr. Muni GO (4-6)	0.66	0.37	1.03	1.36	3.58	3.10
7-Yr. Muni (6-8)	0.63	0.37	1.00	1.07	4.83	3.50
10-Yr. Muni (8-12)	0.28	0.36	0.64	0.17	6.00	3.77
15-Yr. Muni (12-17)	-0.45	0.36	-0.09	-1.51	7.64	4.29
30-Yr. Muni (22+)	-1.38	0.39	-0.98	-3.67	10.92	4.88
AAA Muni	-0.37	0.37	-0.01	-0.97	6.84	3.85
AA Muni	-0.27	0.37	0.10	-0.94	6.59	3.92
A Muni	-0.30	0.38	0.07	-0.94	6.70	4.31
BBB Muni	-0.48	0.39	-0.09	-1.25	7.52	4.81
Gen. Oblig.	-0.25	0.36	0.11	-0.87	6.33	3.80
State GO	0.04	0.37	0.42	-0.07	5.44	3.59
Local GO	-0.48	0.36	-0.12	-1.45	6.98	3.95
Revenue	-0.34	0.38	0.03	-1.04	6.92	4.16
California	-0.17	0.37	0.20	-1.33	6.59	3.90
New York	-0.57	0.38	-0.19	-1.41	7.16	4.09

May issuance surged to \$48.5 billion, well above the \$35.8 billion 10-year average for the month. ETF inflows also resumed in May with over \$8 billion entering passive Muni vehicles, even as open-end funds continued to experience modest outflows. Despite this supply, reinvestment demand remained strong, with June redemptions and maturities expected to reach \$35 billion.

Money market balances remain elevated, supporting front-end demand, while tax-loss harvesting helped fuel bid lists averaging \$1.3 billion daily—a full 30% above 2023 levels.

Curve steepening offered opportunities across the maturity spectrum. The 1–10-year AAA slope widened to 52 bps, while the 1–30 year slope reached a three-year high of 172 bps. Like treasuries, intermediate maturity bonds (5–10 years) led performance, while longer-dated structures remained flat and are down over 3.5% year-to-date. Our barbell approach—emphasizing callable short paper and 10–15-year final maturities—helped manage reinvestment risk while benefiting from curve dynamics.

Credit dispersion also widened as high-quality AAA bonds outperformed Baa-rated names by 35 bps YTD. Essential service credits like water and sewer held up well, while healthcare revenue bonds were down again in May.

Our positioning remains focused on high-grade GOs, essential services, and structurally sound revenue bonds with low headline risk. We continue to look for opportunities to harvest losses for swaps and use the steepness in the curve to add yield when spreads are compensating for the risk. With June's reinvestment calendar offering supportive tailwinds, we anticipate selective opportunities in secondary offerings and new issue concessions.

Precious Metals and Digital Assets

Gold prices climbed 5.8% in May to close at \$3,288.30, continuing a multi-month uptrend fueled by global uncertainty, central bank buying, and a weaker U.S. dollar. Silver, however, reversed sharply, falling 5.68% for the month despite a positive year-to-date return of 5.57%. The US Dollar Index also declined 0.14% in May, extending its YTD losses to 8.4%, which has helped support demand for non-dollar assets including gold.

In the digital asset space, Bitcoin rallied above \$112,000 in late May, buoyed by increased institutional interest and new adoption headlines such as Visa's expanded crypto-linked payment initiatives. While we are not direct participants in cryptocurrencies, we continue to monitor blockchain innovation and digital asset market developments as they influence investor behavior and financial infrastructure. Gold remains our preferred hedge against systemic risk and fiat currency debasement, while we view crypto markets as evolving and highly speculative.

Summary and Strategy Outlook

May brought a welcome reprieve from April's volatility, but crosscurrents persist. Inflation continued to ease, and income growth was strong—but final demand softened, market expectations for rate cuts narrowed, and trade risks intensified. Whether the soft-landing narrative holds will depend on summer data—until then, we remain agile, conservative, and fully engaged.

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