

Market Commentary

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Stocks Rebound to New Highs as Geopolitical Tensions Stabilize

The S&P 500 Index gained more than 10% in April, recovering its March decline and setting a new high. Nine of eleven sectors traded higher as stocks recovered from the March selloff, but eight sectors underperformed the index as mega-cap stocks represented a majority of the gains.

Bonds traded lower in April as Treasury yields increased. However, corporate bonds outperformed Treasury bonds as credit spreads tightened.

International stocks underperformed the S&P 500 as U.S. Growth stocks led during the recovery. Emerging markets gained 14.7% and outperformed developed markets' 7.6% return, with energy-importing regions like Europe and Japan impacted by the continued oil supply disruption.

Geopolitical Risks Stabilize

Back-to-back ceasefires, first between the U.S. and Iran on April 7th and then between Israel and Lebanon on April 16th, changed investors' outlook, and the reversal was immediate across markets. The S&P 500 erased all its March losses and went on to set a new all-time high by month-end. The Dow surged over 1,300 points the day the U.S.-Iran ceasefire took effect, its best day in a year. The Nasdaq Index gained nearly 15% during the month, driven by a historic semiconductor rally, and the Russell 2000 small-cap index gained just under 10% to reach an all-time high.

The recovery also reached beyond stocks. Credit spreads, which reflect how concerned the bond market is about corporate borrowers, reversed three months of widening in four weeks, and market uncertainty, as measured by the VIX Index, fell to pre-conflict levels.

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Oil prices fell sharply on the ceasefire announcements, including the largest single-day decline since 2020, but have since risen back above \$100 per barrel. Gasoline remained above \$4 a gallon throughout April, and consumer confidence fell to its lowest reading in the University of Michigan survey's 70-year history.

The relief was broad and fast, but the underlying situation remains unsettled. The Strait of Hormuz, which carries roughly 20% of global oil supply, remains effectively closed, with only a few tankers crossing daily compared to hundreds before the conflict. Oil prices fell sharply on the ceasefire announcements, including the largest single-day decline since 2020, but have since risen back above \$100 per barrel. Gasoline remained above \$4 a gallon throughout April, and consumer confidence fell to its lowest reading in the University of Michigan survey's 70-year history. The ceasefires reduced fears of further near-term escalation, and investors moved quickly to price that in. However, the oil supply disruption resulting from the conflict has not been resolved. We remain concerned over the longer-term impact of the oil infrastructure destruction.

AI Continues to Create Winners and Losers Within the Tech Sector

AI requires massive upfront investment to build and operate, including computer chips, data centers, power generation, and networking equipment. The companies that build the infrastructure are seeing a surge in demand as the physical backbone behind AI is constructed.

The technology sector gained nearly 18% in April, but the gap between its strongest and weakest components was wide. The divergence is being driven by artificial intelligence, which is simultaneously fueling demand in one part of the sector and raising fundamental questions in another. AI requires massive upfront investment to build and operate, including computer chips, data centers, power generation, and networking equipment. The companies that build the infrastructure are seeing a surge in demand as the physical backbone behind AI is constructed. At the same time, AI is advancing to the point where it can perform tasks that traditionally require human users interacting with software. AI agents, automated systems that can handle workflows like customer service, data entry, and internal reporting, are raising questions about the future of enterprise software.

The divergence could be seen in markets during April. Semiconductor stocks, which sell computer chips, rose more than 40% with a major semiconductor index registering gains for 18 consecutive trading days, the longest uninterrupted winning streak for the group dating back to the early 1990s. Semiconductor funds absorbed \$5.5 billion in new investment during the month, and earnings results from major chip-makers confirmed that infrastructure spending is translating into revenue growth.

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Enterprise software moved in the opposite direction. Several of the largest names in the industry have declined more than 30% this year, and the selling has even hit companies that beat earnings estimates and raised their forward guidance. The divergence comes as the market works through which business models AI will enhance and which it will disrupt. It's a question likely to define not only the technology sector but also the broader market for some time.

Despite the market's impressive rebound and renewed optimism, important crosscurrents remain. Geopolitical tensions have eased but have not been fully resolved, and the ongoing disruption to global energy supply continues to present economic risks. At the same time, structural shifts, particularly the rapid advancement of artificial intelligence, are creating both opportunities and challenges across sectors. As markets adjust to these evolving dynamics, we believe maintaining a disciplined, long-term perspective remains essential.

Please contact us if you'd like to discuss further.

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S&P 500 Index is a capitalization-weighted index calculated on a total return basis with dividends reinvested. The index includes 500 widely held U.S. market industrial, utility, transportation and financial companies.

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Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. PM-11042027-5459703