

# A MARKET CLIMBING — DESPITE HIGHER INFLATION —

- Markets continue to reach new highs.
- Inflation pressures and higher rates remain.
- Earnings strength is driving this market higher.

 <p><b>STRONG EARNINGS</b></p> <ul style="list-style-type: none"> <li>• 84% of S&amp;P 500 companies beat expectations.</li> </ul>	 <p><b>RESILIENT LABOR MARKET</b></p> <ul style="list-style-type: none"> <li>• Employment remains stable, supporting spending and profits.</li> </ul>	 <p><b>STABLE GROWTH OUTLOOK</b></p> <ul style="list-style-type: none"> <li>• Growth is slowing gradually, but not collapsing.</li> </ul>	 <p><b>MARKET FOCUS</b></p> <ul style="list-style-type: none"> <li>• Markets remain focused on earnings, not inflation or rates.</li> </ul>
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**Earnings strength is the foundation of this market.** As long as companies continue delivering results, the path of least resistance remains higher.



## A Market Climbing Despite Higher Inflation

Markets continue to push higher even as inflation pressures remain stubborn.

Normally, hotter CPI and PPI reports, rising oil prices, and elevated interest rates would create significant pressure on equities. Instead, the market continues to absorb those risks remarkably well. **That resilience is driven by one thing above all else: EARNINGS.** This earnings season has been one of the strongest we have seen in years. **Roughly 84% of S&P 500 companies have beaten expectations**, and more importantly, the magnitude of those beats has been *substantial*. Companies are not simply clearing lowered estimates — they are delivering meaningful

upside surprises while **maintaining strong margins** and **raising guidance**. The market is responding accordingly. At the same time, the *labor market remains stable*. Economic growth is slowing gradually, but not collapsing, which is helping support both consumer spending and corporate profitability. That combination of resilient earnings and stable employment continues to outweigh concerns surrounding inflation and interest rates.

### Why AI Continues to Drive Markets Higher

AI remains the defining investment theme of this cycle, **but the story is evolving**. This is no longer just a speculative technology trade centered around a handful of mega-cap companies. The AI expansion is now *spreading across multiple sectors* of the economy. The most important development is the **massive infrastructure buildout** taking place underneath the surface:

- Data centers
- Semiconductors
- Power generation
- Networking
- Electrical systems
- Cloud infrastructure

Companies tied to the physical infrastructure layer of AI are now experiencing *significant revenue growth and expanding margins*. This broadening participation matters because it creates a more durable earnings foundation for the market overall. **What stands out most is that companies continue investing aggressively despite elevated rates and macro uncertainty. That tells me corporate confidence remains very strong.** Businesses clearly believe AI-driven productivity gains and future revenue opportunities justify continued capital spending even in a more difficult policy environment.

## AI REMAINS THE DEFINING INVESTMENT THEME OF THIS CYCLE

- AI is no longer just a speculative technology trade.
- The AI expansion is now spreading across multiple sectors of the economy.
- Massive infrastructure buildout is happening underneath the surface.

### THE INFRASTRUCTURE BUILDOUT POWERING AI

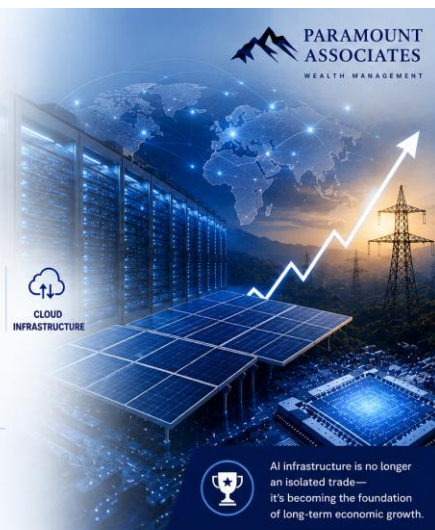
 DATA CENTERS	 SEMICONDUCTORS	 POWER GENERATION	 NETWORKING	 ELECTRICAL SYSTEMS	 CLOUD INFRASTRUCTURE
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**Broadening participation is strengthening the market.**

- Companies in the AI infrastructure layer are seeing strong revenue growth and expanding margins.
- This creates a more durable earnings foundation.

**Corporate confidence remains very strong.**

- Companies continue investing aggressively despite elevated rates and macro uncertainty.
- AI-driven productivity gains and future revenue opportunities justify continued capital spending.



AI infrastructure is no longer an isolated trade — it's becoming the foundation of long-term economic growth.

A MARKET DRIVEN BY FUNDAMENTALS, NOT OPTIMISM.

## THE BIG RISK: INFLATION REMAINS ELEVATED

While the economy remains stable and earnings are strong, inflation and higher rates limit the Fed's flexibility.

-  **INFLATION REMAINS THE MAJOR RISK**  
Recent CPI and PPI reports came in hotter than expected.
-  **ENERGY COSTS DRIVING HIGHER PRICES**  
Oil prices remain elevated and continue to fuel inflation across the economy.
-  **THE FED FACES LIMITED FLEXIBILITY**  
With a stable economy and strong earnings, the Fed cannot easily cut rates.
-  **HIGHER RATES ARE HERE TO STAY**  
Markets are willing to tolerate higher rates as long as earnings remain strong.
-  **RISING RISK COULD SPARK VOLATILITY**  
If inflation pressures build further or long-term yields rise materially, volatility could increase quickly.



### The Fed's Growing Challenge

While earnings have been outstanding, **inflation remains the major risk**. Recent CPI and PPI reports came in **hotter** than expected, with energy costs becoming a major contributor. Oil prices remain elevated, and historically, sustained increases in energy prices eventually filter through transportation, manufacturing, services, and consumer prices more broadly. **This creates a difficult situation for the Federal Reserve.** The economy remains stable, the labor market has not broken, and earnings growth remains extremely strong. Under those conditions, the Fed has limited flexibility to aggressively cut rates if inflation begins stabilizing above target. *Markets currently appear willing to tolerate higher rates as long as earnings remain strong.* But if inflation pressures continue building or long-term Treasury yields move materially higher, **volatility could increase quickly.**

### Why This Market Still Has Support

Despite the risks, this **market continues to have strong underlying support**. Earnings growth remains powerful. AI investment continues to accelerate. *The labor market remains resilient*. Economic activity continues expanding. Importantly, *earnings strength is also broadening beyond just technology*. Financials, industrials, materials, and infrastructure-related companies are all participating more meaningfully in this cycle. That creates a healthier market backdrop than many investors realize.

There are certainly risks:

- Inflation
- Oil prices
- Geopolitical tensions
- Interest rates
- Elevated valuations

*But markets are not ignoring those risks. They are weighing them against fundamentals that continue to surprise to the upside. Right now, the earnings engine remains stronger than the macro fears — and until that changes, the path of least resistance for markets likely remains higher.*

-Scott Tremlett CEO/Chief Investment Officer