



Defying expectations

OUTLOOK & TACTICAL UPDATE | MAY 2026

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The Big Picture:

- US equities have rebounded sharply – almost too sharply.
- The jobs market is suddenly as hot as it was pre-pandemic.
- We're cautious about the speed of certain equity market moves.
- **Inflation** is the biggest portion of our 12-month Macroeconomic Scenario Analysis (MES).
- We are concerned if high oil prices continue to linger.

As we near the halfway point of the year, it's important to reevaluate our investment playbook. Domestic large-cap US equities rebounded nearly 20% off the March low. That seemed unthinkable with oil above \$90 per barrel. **The labor market also has defied expectations for the last three months**, with more than 560,000 jobs added in March, April, and May. Previously, the US Bureau of Labor Statistics (BLS) payroll report alternated between positive and negative monthly job gains going back to May 2025. A total of 49,000 jobs were lost over those 10 months and healthcare dominated, giving rise to the job market's "low-hire, low-fire" moniker. Finally, despite higher inflationary readings and decent gross domestic product (GDP) growth reports, **investors entered 2026 expecting interest rate cuts** from the Federal Reserve (Fed). To be fair, **market sentiment has shifted toward a potential Fed rate hike**, but only very recently and almost begrudgingly.

Does it make sense? We'll tentatively say "yes," though **we caution against the velocity of market moves in recent weeks**. The most important caveat is that artificial intelligence (AI) is an ongoing, structural theme, carrying the overall S&P 500 Index. While we think AI is as transformative as advertised, **we quibble with the parabolic trajectory** of some AI-related stocks and sub-industries. Inflation has not caught up to end-consumers yet, and the monthly job reports are causing economists to raise their estimates for labor market equilibrium, which is another positive.

Given the backdrop, our 12-month Macroeconomic Scenario Analysis (MES) is centered around **Inflation** and tail risks (**Chaos**). **Our Inflation probability moved higher in May and it occupies half of our MES forecast**. We've noted that inflation has been above the Fed's 2% target threshold for several years. This is before the current environment of insatiable AI demand and higher energy prices. Regarding the war in Iran, one initial impact was obviously the price of oil. **But as the conflict has dragged on, the world has discovered related supply shocks** such as sulfur, fertilizer, and aluminum. For now, higher oil prices have not filtered through to other categories, but we believe it's simply a matter of time. The war in **Iran also challenges the Fed and adds a new tail risk for us to monitor** – monetary policy under new Fed Chairman Kevin Warsh. He potentially wants to shift the Fed's preferred inflation metric, modify its methods of communication, and change its balance sheet policies. Warsh faces a delicate balancing act given a suddenly robust labor market, no end in sight to the Middle East conflict, and a challenging political environment. Finally, US GDP growth estimates suggest an economy that is moving along in the 1.5% to 2% range. While not gangbusters, this is perfectly acceptable and highly dependent on the ever-present AI theme.

In terms of portfolio positioning, **we trimmed some exposure to our AI-related areas, taking advantage of the white-hot equity market gains in recent weeks**. In our Conservative and Conservative Growth strategies, we sold the broader technology sector, while we sold our emerging markets-excluding US exposure in Moderate Growth and Growth strategies. **Our emerging markets position had become a de-facto bet on semiconductors**, with the top three names making up more than a third of the position. We reallocated a small amount to both the aerospace and defense sectors in our Conservative and Conservative Growth strategies. We also increased our domestic S&P 500 Index position in our Moderate Growth and Growth strategies. Within fixed income, we slightly increased duration across the board, as yields on the 10-year US Treasury note temporarily pushed beyond their usual 4% to 4.5% range. Finally, **we are maintaining our gold position**, since gold performs well within our models given our current MES outlook. However, it's important to note that **higher real interest rates are a likely drag** for the asset class in the near term.

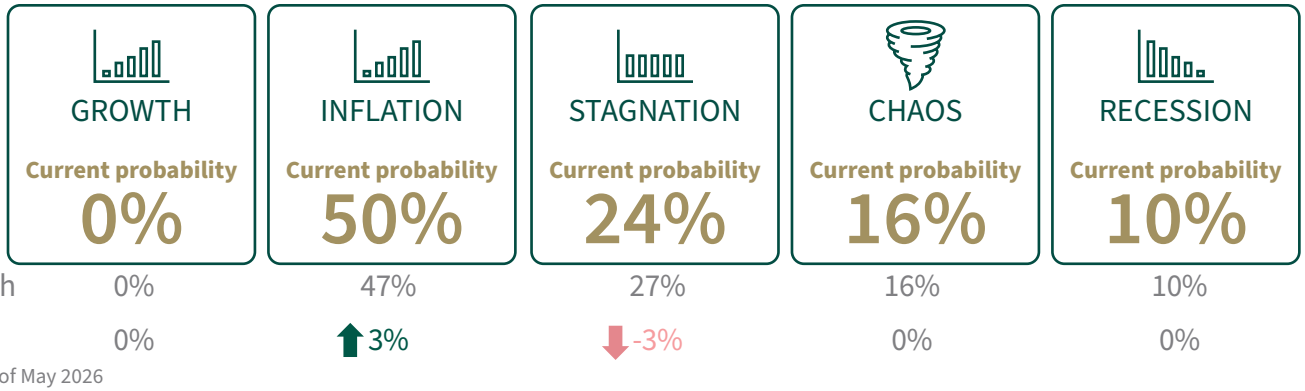
In total, the first five-plus months of the year have tested investors' patience, and market action in certain areas feels similar to the late 1990s. Inflation remains a primary concern, and **we think oil prices of \$100 per barrel cannot peacefully co-exist with substantially higher equity markets**. We've crossed the 100-day mark on the Iranian conflict, upending monetary policy expectations at the beginning of the year. Through it all, the AI boom has continued, along with capital expenditures and future earnings estimates. **We are bullish on the AI theme**, but we believe **some of the technology sector needs a cooling-off period**. As we watch for a deal in the Middle East, we have booked some recent gains and are awaiting a better overall entry point.



Jason Richey, CFA
Portfolio Manager

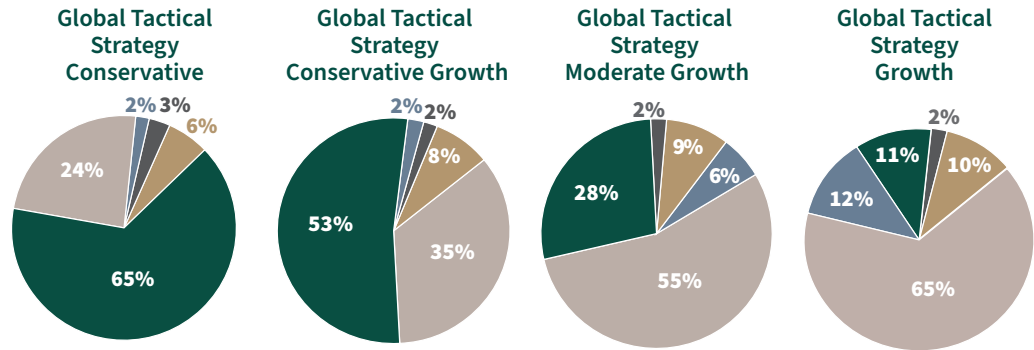
MACROECONOMIC Scenario Analysis

On a monthly basis, the Cougar Global investment team establishes the probabilities of the future path of the U.S. economy over the next 12 months and quantifies its independent global research into the following five scenarios:



ASSET ALLOCATION Shifts

As of May 2026



| Asset Class | Symbol | Total US Equity | | | Total Fixed Income | | | Total International Equity | | | Cash | | | Gold | | |
|---------------------------------|--------|-----------------|---------------|--------|--------------------|---------------|--------|----------------------------|---------------|--------|----------------|---------------|--------|----------------|---------------|--------|
| | | Previous Month | Current Month | Change | Previous Month | Current Month | Change | Previous Month | Current Month | Change | Previous Month | Current Month | Change | Previous Month | Current Month | Change |
| S&P 500 | IVV | 8 | 9 | 1 | 9 | 11 | 2 | 20 | 23 | 3 | 22 | 25 | 3 | | | |
| S&P 400 | IJH | 3 | 3 | 0 | 4 | 4 | 0 | 4 | 4 | 0 | 7 | 7 | 0 | | | |
| S&P 600 | IJR | 0 | 0 | 0 | 4 | 4 | 0 | 5 | 5 | 0 | 5 | 5 | 0 | | | |
| MSCI EAFE | IEFA | 2 | 2 | 0 | 2 | 2 | 0 | 5 | 6 | 1 | 11 | 12 | 1 | | | |
| U.S. Healthcare | XLV | 5 | 5 | 0 | 6 | 6 | 0 | 6 | 6 | 0 | 8 | 8 | 0 | | | |
| Nasdaq 100 | QQQ | 2 | 0 | -2 | 3 | 0 | -3 | 4 | 2 | -2 | 4 | 2 | -2 | | | |
| S&P Aerospace & Defense | XAR | 2 | 3 | 1 | 3 | 4 | 1 | 7 | 7 | 0 | 7 | 7 | 0 | | | |
| Financial Select Sector | XLF | 2 | 2 | 0 | 4 | 4 | 0 | 5 | 5 | 0 | 7 | 7 | 0 | | | |
| Emerging Markets ex -China | EMXC | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | -2 | 2 | 0 | -2 | | | |
| U.S. Infrastructure Development | PAVE | 2 | 2 | 0 | 2 | 2 | 0 | 3 | 3 | 0 | 4 | 4 | 0 | | | |
| TOTAL EQUITIES | | 26 | 26 | 0 | 37 | 37 | 0 | 61 | 61 | 0 | 77 | 77 | 0 | | | |
| Short-Term TIPS | STIP | 16 | 16 | 0 | 13 | 13 | 0 | 10 | 10 | 0 | 5 | 5 | 0 | | | |
| U.S. Aggregate Bonds | AGG | 23 | 26 | 3 | 17 | 20 | 3 | 10 | 13 | 3 | 3 | 6 | 3 | | | |
| U.S. 1-3 Year Treasury Bonds | SHY | 11 | 8 | -3 | 8 | 5 | -3 | 3 | 0 | -3 | 0 | 0 | 0 | | | |
| Treasury Floating | TFLO | 4 | 4 | 0 | 3 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | |
| 0-3 Month Treasury Bond | SGOV | 11 | 11 | 0 | 12 | 12 | 0 | 5 | 5 | 0 | 3 | 0 | -3 | | | |
| TOTAL FIXED INCOME | | 65 | 65 | 0 | 53 | 53 | 0 | 28 | 28 | 0 | 11 | 11 | 0 | | | |
| Gold | IAU | 6 | 6 | 0 | 8 | 8 | 0 | 9 | 9 | 0 | 10 | 10 | 0 | | | |
| Cash | CASH | 3 | 3 | 0 | 2 | 2 | 0 | 2 | 2 | 0 | 2 | 2 | 0 | | | |

The portfolios reflect the inherent risks of fluctuating prices and uncertainty of rates of returns. The cash portion of this portfolio is represented by money market instruments.

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Cougar Global Investments calculates the Macro Economic Scenario (MES) analysis by assigning probabilities to each of the five economic scenarios (Growth, Stagnation, Inflation, Chaos and Recession) over the next 12 months. Macroeconomic scenarios are based on quantitative data sourced from various firms and then weighted and may be adjusted based upon Cougar Global Investments thought capital. MES are subject to change. These are hypothetical examples and are not representative of any specific situation. Actual economic results may vary. Economic forecasts set forth may not develop as Cougar MES indicates and there can be no guarantee that these strategies promoted will be successful. Past performance is no guarantee of future results. Macro Economic Scenarios: Growth – U.S. economy is growing at or above its potential growth rate, Recession – U.S. economy is shrinking (negative quarter over quarter growth rate), Stagnation – U.S. economy is growing at lower than its potential growth rate, Inflation – Consumer Price Index (CPI) inflation rate is higher than U.S. economy's potential growth rate, Chaos – a high impact, low probability event ("Black Swans").

Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful. Small-capitalization companies are subject to higher volatility than those of large-capitalized companies. International and emerging market investing involves special risks such as currency fluctuation and political instability and may not be appropriate for all investors. Stock investing involves risk, including the risk of loss. Investments in emerging market issuers are subject to a greater risk of loss than investments in issuers located or operating in more developed markets. This is due to, among other things, the potential for greater market volatility, lower trading volume, higher levels of inflation, political and economic instability, greater risk of a market shutdown and more governmental limitations on foreign investments in emerging market countries. High Yield/Junk Bonds are not investment grade securities, involve substantial risks and generally should be part of the diversified portfolio of sophisticated investors. Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity and redemption features. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price. Mortgage-Backed Securities are subject to credit, default risk, prepayment risk that acts much like call risk when you get your principal back sooner than the stated maturity, extensions risk, the opposite of prepayment risk, and interest rate risk. Investing in IAU involves additional risks. 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Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, disease, and regulatory developments. The Bloomberg U.S. Aggregate Bond Index is composed of the total U.S. investment-grade bond market. The market-weighted index includes Treasuries, agencies, CMBS, ABS and investment grade corporates. The MSCI ACWI® (All Country World Index) measures the performance of large and mid-cap stocks across 23 developed markets (DM) and 24 emerging markets (EM) countries. The S&P 500 or Standard & Poor's 500 Index (IVV) is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. The iShares Core S&P Mid-Cap ETF (IJH) seeks to track the investment results of an index composed of mid-capitalization U.S. equities. The iShares Core S&P Small-Cap ETF (IJR) seeks to track the investment results of an index composed of small-capitalization U.S. equities. The iShares Global Consumer Staples ETF (KXI) seeks to track the S&P Global 1200 Consumer Staples (Sector) Capped IndexTM. The iShares Core MSCI EAFE ETF (IEFA) seeks to track the investment results of an index composed of large-, mid- and small-capitalization developed market equities, excluding the U.S. and Canada. The Health Care Select Sector SPDR® Fund (XLV) seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of the Health Care Select Sector Index (the "Index"). The S&P Aerospace & Defense Select Industry® Index (XAR) represents the aerospace & defense segment of the S&P Total Stock Market IndexTM. The Financials Sector Index (XLF) seeks to provide an effective representation of the financial sector of the S&P 500 Index. The Index includes companies from the following industries: financial services; insurance; banks; capital markets; mortgage real estate investment trusts ("REITs"); and consumer finance. The Nasdaq-100 (QQQ) is a globally recognized index that tracks the performance of 100 of the largest non-financial companies listed on the Nasdaq Stock Market® encompassing a diverse range of industries and sectors. The Global X U.S. Infrastructure Development ETF (PAVE) seeks to provide investment results that correspond generally to the price and yield performance, before fees and expenses, of the Index U.S. Infrastructure Development Index. The iShares MSCI Emerging Markets ex China ETF (EMXC) seeks to track the investment results of an index composed of large- and mid-capitalization emerging market equities, excluding China. The iShares 0-3 Month Treasury Bond ETF (SGOV) seeks to track the investment

results of an index composed of U.S. Treasury bonds with remaining maturities less than or equal to three months. The iShares 0-5 Year TIPS Bond ETF (STIP) seeks to track the investment results of an index composed of inflation-protected U.S. Treasury bonds with remaining maturities of less than five years. The iShares Core U.S. Aggregate Bond ETF (AGG) seeks to track the investment results of an index composed of the total U.S. investment-grade bond market. The SPDR® Bloomberg 1-10 Year TIPS ETF (TIPX) seeks to provide investment results that, before fees and expenses, correspond generally to the price and yield performance of the Bloomberg 1-10 Year U.S. Government Inflation-Linked Bond Index. The iShares 1-3 Year Treasury Bond ETF (SHY) seeks to track the investment results of an index composed of U.S. Treasury bonds with remaining maturities between one and three years. The iShares Treasury Floating Rate Bond ETF (TFLO) seeks to track the investment results of an index composed of U.S. Treasury floating rate bonds. The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

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Cougar Global Investments is a global macroeconomic asset allocation manager that believes the goal of investing is to achieve compound annualized returns for clients. We use a disciplined portfolio construction methodology combining post-modern portfolio theory and risk management to pursue our clients' objectives.

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