

COUNTERBALANCE

ENERGY | LABOR | STOCK MARKET

EXECUTIVE SUMMARY

Energy & Inflation

- Vessel traffic through the Strait of Hormuz remains sharply reduced, continuing to impair roughly 20% of global oil flow.
- Oil prices have backed off recent peaks but remain elevated around \$90-\$95 per barrel. Oil futures reflect optimism for price relief in the coming quarters.
- The CPI has continued to climb well above 3%. The Fed's long-discussed 2% target is now well off the table.

Labor Market

- Unemployment holds near 4.2%, and many recession gauges remain below their warning thresholds.
- Job creation has gained momentum, a stark contrast to headlines of software roles displaced by AI.
- Economic transitions are underway, but history suggests adaptation often proves more powerful than disruption.

Stock Market

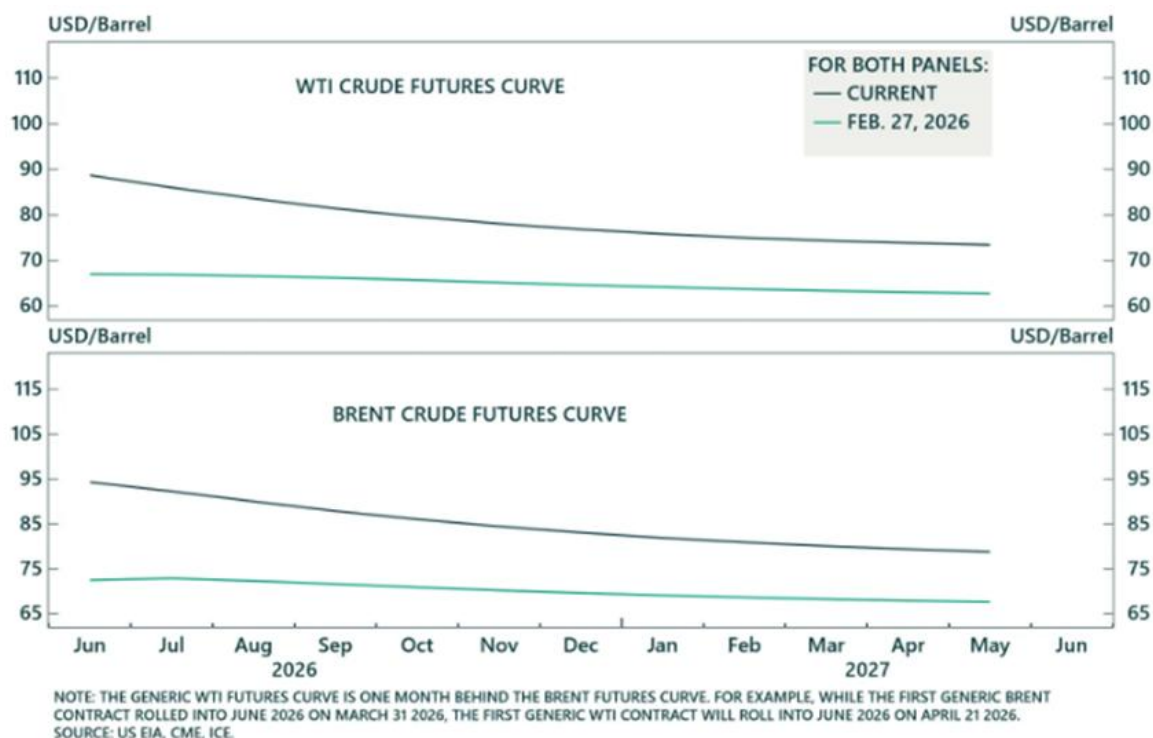
- Market gains remain heavily concentrated in a handful of companies, fueled by continued AI optimism.
- A record SpaceX IPO, potentially north of \$1.2 trillion, may echo past listings that arrived near market peaks.

Crude oil moves through the global economy the way pressure moves through a closed system. Push at one end, and the force is felt everywhere downstream. With the Strait of Hormuz still contested, that pressure is showing up in fuel, food, packaging, and freight, helping lift the Consumer Price Index back above 3%.



Yet the system has held. Unemployment remains near 4.2%, recession indicators continue to stay quiet, and job creation is gaining momentum. Markets and supply chains are already adjusting to the disruption, even if the headlines suggest otherwise. The pressures are real: elevated public debt, a concentrated stock market, and higher energy prices. But so is the economy's capacity to adapt and distinguish meaningful trends from short-term disruption.

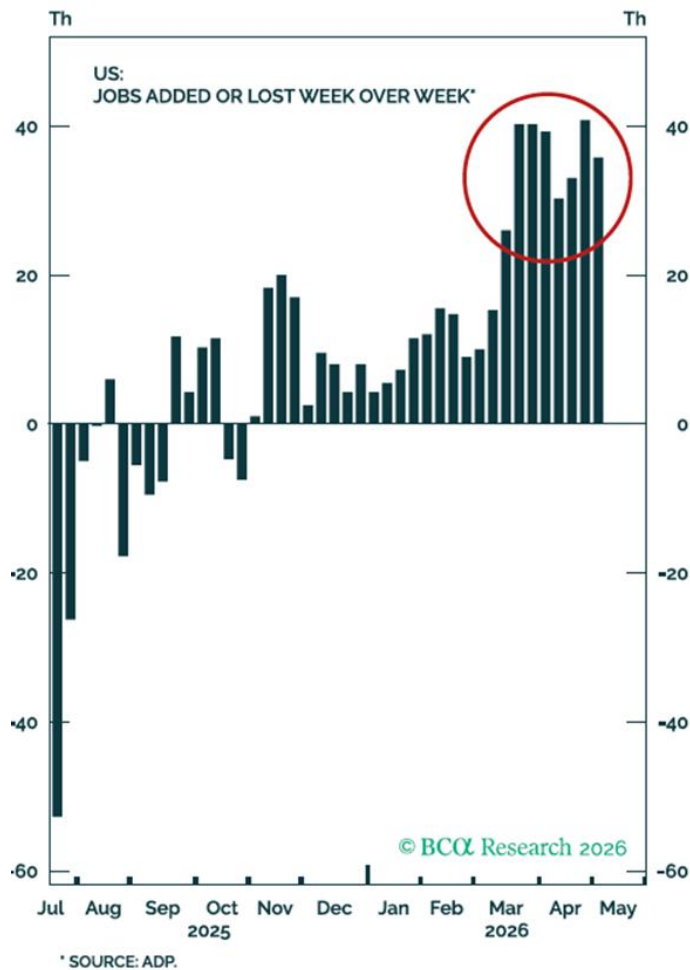
OIL PRICES



- The Strait of Hormuz remains a critical pressure point for global markets. Vessel traffic continues to run below pre-conflict levels as military tensions persist. While periodic discussions of de-escalation emerge, peace is neither breaking out nor fully breaking down.
- Global supply chains are adapting, but the adjustment process is gradual. Rerouting large ocean-going vessels is not like flipping a light switch. Alternative shipping routes, sourcing decisions, and logistics networks require months to realign, keeping energy markets sensitive to ongoing disruptions.
- The futures market is signaling adaptation rather than crisis. The chart above shows oil prices have moved sharply higher, with West Texas Intermediate near \$90 per barrel and Brent crude near \$95, yet prices decline steadily further out on the futures curve. Markets appear to be pricing a temporary disruption and eventual normalization rather than a permanent supply shock.

LABOR MARKET

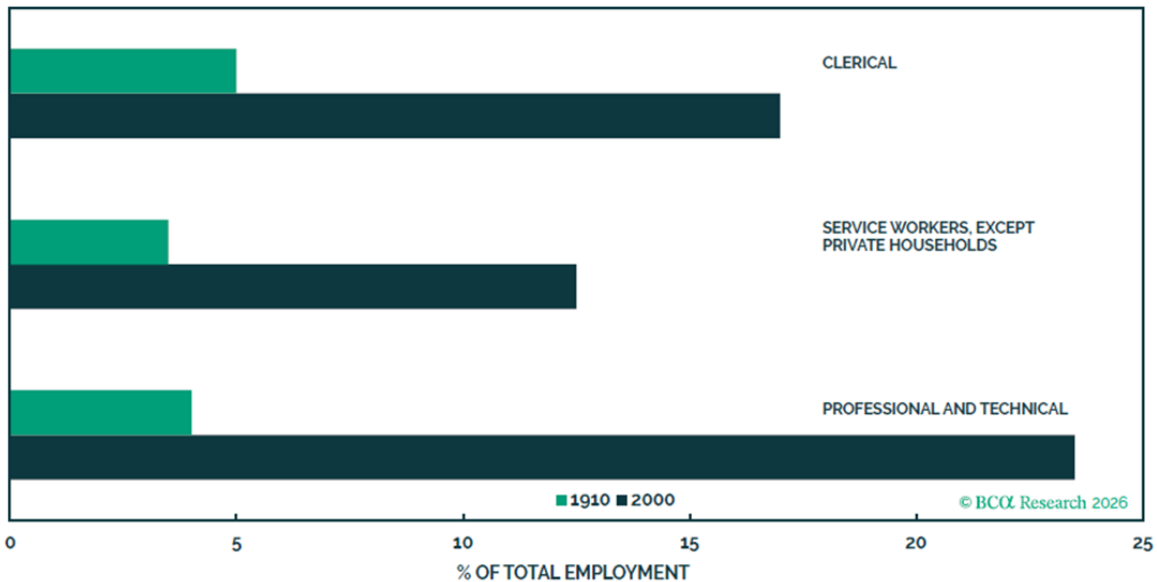
Job Creation Is Gaining Momentum



- The labor market continues to defy recession expectations. Unemployment remains near the 4.2% to 4.3% range, historically low levels despite years of forecasts calling for a meaningful economic slowdown and deterioration in employment conditions.
- Broader measures of labor market health remain constructive. Employment conditions have cooled from the unusually tight post-pandemic environment, but the data continues to point toward expansion rather than contraction, with few signs of the stress typically associated with an approaching recession.
- Hiring momentum is quietly improving beneath the headlines. While attention remains focused on layoffs within technology and software, recent job creation data suggests the broader economy continues to generate jobs and adapt to changing workforce demands.

TECHNOLOGY & SHIFTING LABOR

...But New Jobs Have Appeared



SOURCE: OCCUPATIONAL CHANGES DURING THE 20TH CENTURY - IAN D. WYATT AND DANIEL E. HECKER, MONTHLY LABOR REVIEW (BLS), 2006.

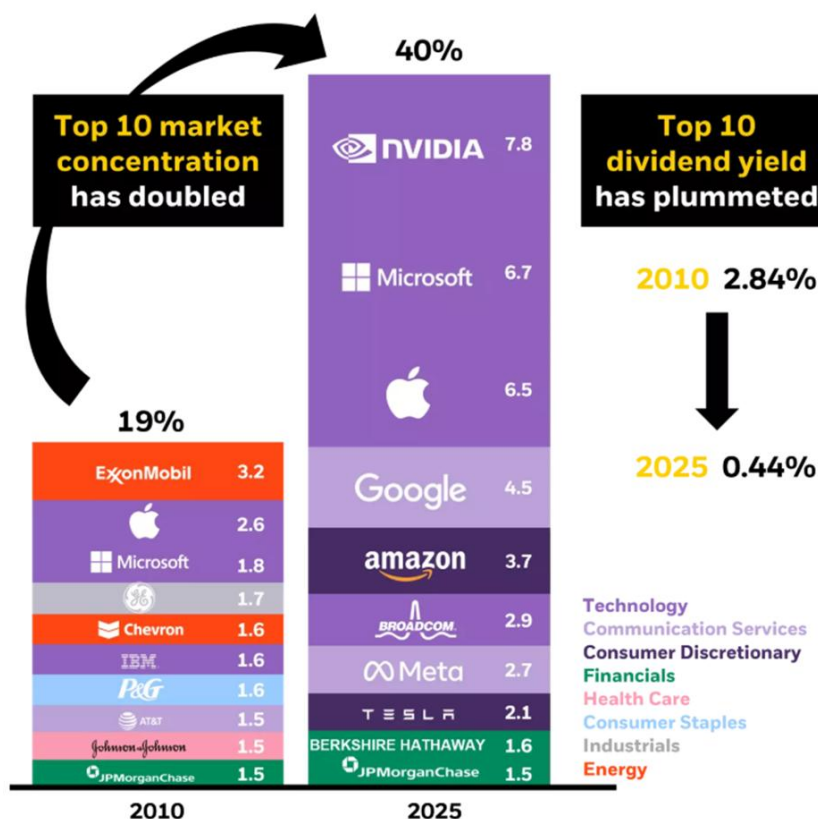
- Artificial intelligence is beginning to reshape parts of the workforce. Many routine analytical, technical, and clerical tasks can now be automated more efficiently, creating legitimate disruption and fear across a range of occupations.
- History suggests technological change often creates as much opportunity as it destroys. More than 35% of Americans worked in agriculture during the early 1900s, compared with less than 3% today. As most of the jobs people did a hundred years ago have vanished, entirely new categories of professional, technical, and service-oriented work emerged to drive economic growth.
- While the current transition may not be seamless, a familiar pattern could emerge. Artificial intelligence is likely to reduce demand for certain jobs while creating demand for new skills, industries, and occupations that are difficult to fully envision today. If history is any guide, adaptation rather than displacement will be the defining feature of the next chapter in the labor market.

INFLATION & INTEREST RATES



- Inflation has moved higher alongside energy prices since the onset of the Iran conflict. While inflation may be nearing a peak and could moderate as oil markets normalize, recent trends suggest the path lower is likely to be slower to achieve than the post-pandemic disinflation investors experienced heading into the year.
- Interest rates have responded to renewed inflation and uncertainty this year. Both 2-year and 10-year Treasury yields have moved higher as investors reassess inflation expectations, energy prices, and geopolitical risks. Markets have also scaled back expectations for near-term Federal Reserve rate cuts, reflecting a growing belief that policy may remain restrictive for longer.

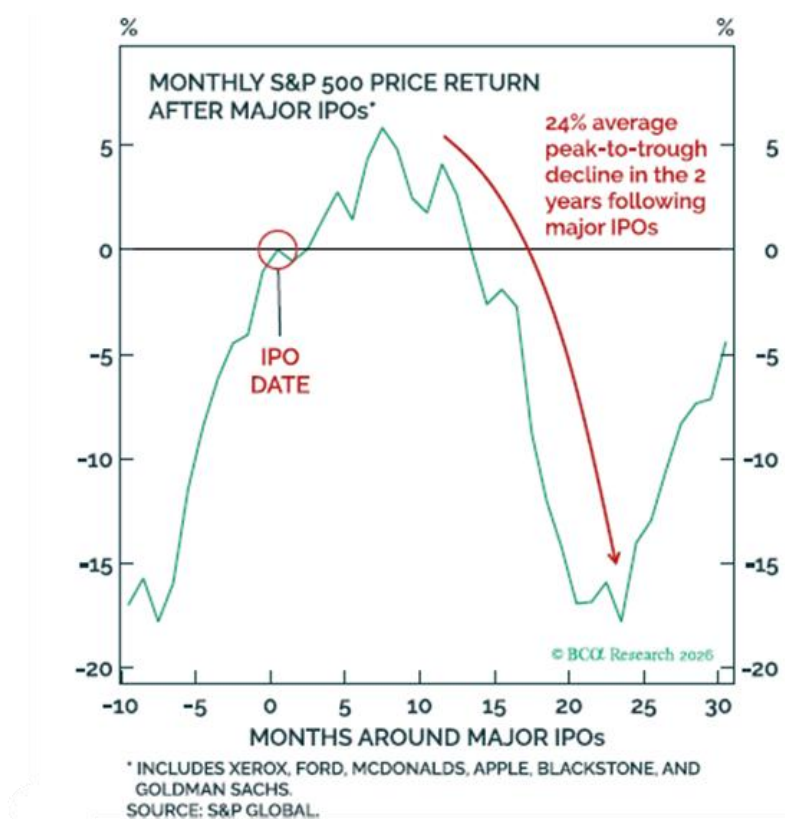
TECHNOLOGY IS DRIVING MARKET RETURNS



Source: BlackRock, FactSet. S&P 500 index weights. Data as of December 31st 2010 and as of October 31st, 2025. Box colors correspond to company GICS sector mapping to distinguish index composition change by sector. Any companies mentioned do not necessarily represent current or future holdings of any BlackRock products. For actual Fund holdings, please visit www.ishares.com. **Past performance does not guarantee future results.**

- A small group of companies continues to drive an outsized share of market performance. The ten largest stocks now represent more than 40% of the S&P 500, roughly double their weight from 2010, highlighting just how concentrated market leadership has become.
- Investors have rewarded that leadership with ever-higher valuations. Dividend yields have compressed substantially as enthusiasm for growth, artificial intelligence, and technological innovation has pushed prices higher relative to underlying cash distributions.
- History suggests leadership eventually evolves, even when current trends appear unstoppable. Periods of extreme concentration can persist longer than expected, but they have typically been followed by broader participation as new industries, sectors, and companies emerge to drive the next phase of growth.

IPO & SIGNALING



- Years of abundant private capital have allowed a new generation of companies to reach unprecedented scale before going public. Potential IPOs from firms such as SpaceX, OpenAI, and Anthropic could represent some of the largest public offerings in market history.
- The return of blockbuster IPOs often reflects strong investor optimism and favorable market conditions. A record SpaceX IPO, potentially north of \$1.2 trillion, would underscore the continued enthusiasm surrounding innovation, technology, and artificial intelligence.
- History suggests these moments frequently emerge in the later stages of market cycles. From Ford and Apple to Goldman Sachs and Blackstone, many landmark IPOs arrived near periods of peak investor enthusiasm. Importantly, the signal has rarely been immediate, as markets have often continued advancing for months before broader leadership eventually shifted. However, even the strongest market narratives eventually face the test of expectations and valuation.

CONCLUSION

As the year reaches its midpoint, the balance of evidence remains mixed but not fragile. On one side of the scale, energy costs have pushed inflation back above 3%, interest rates have risen in response, public debt is extremely elevated, and equity market leadership is unusually concentrated. Investor enthusiasm is powerful, but history suggests it is cyclical rather than permanent.

On the other side, the economy continues to show meaningful resilience. Unemployment remains low, broader measures of employment health remain constructive, and job creation is gaining momentum beneath the headlines. Supply chains are adapting, markets are pricing eventual normalization in oil, and technological disruption continues to create new opportunities alongside displacement.

The key is not weighing any single data point in isolation, but understanding how the balance continually shifts. In this environment, discipline, perspective, and attention to underlying trends matter more than reacting to each new headline.

If you would like to review your risk exposure and how it aligns with your long-term financial plan, we are happy to discuss your situation, the markets, or anything else you would like to talk about.

We are here to guide you and to provide clarity and confidence along the way.

Sincerely,

Spectrum Asset Management, Inc.

Newport Beach, CA

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