SECOND QUARTER 2026

SEI *Forward.*

We hope you have enjoyed reading SEI *Forward* over the past three-and-a-half years. As SEI welcomes Nathan Shetty as its new Chief Investment Officer, we will begin transitioning to new quarterly communications. Please watch for the first quarterly installment of SEI Vantage in October.

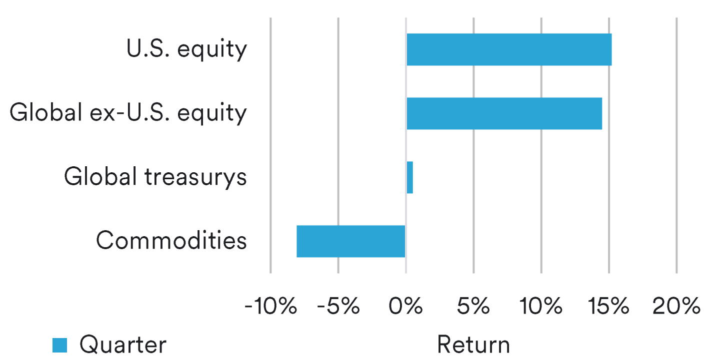
Market review

We entered the second quarter with equity markets challenged by war in the Middle East, as investors struggled with concerns over growth and inflation, along with how the Federal Reserve (Fed) would act with an impending change in leadership. As we exit the quarter it's clear equity markets, at least for now, have met those challenges as stocks generally sit just below all-time highs reached in early June, while inflation remains hot and sticky.

Markets have reacted to geopolitical volatility with impressive resilience. Although war news flow flip flopped between talks of ceasefires and truces versus sporadic attacks, both sides seem to be generally leaning into de-escalation. Crude oil suffered its largest quarterly decline since COVID-19, but longer term there are still numerous concerns. Tankers and cargo ships have begun to trickle out of the Strait of Hormuz, though we aren't seeing inbound ships, nor do we know what maritime traffic in the region will look like after the conclusion of hostilities. Strategic reserves have been drawn down in the U.S., while China has drastically reduced its oil purchases. Damage to infrastructure will take years to repair. Obviously, these concerns may put more upward pressure on inflation longer term, but for now at least oil's impact on inflation may be more muted than we witnessed earlier this year.

Inflation is becoming broader based, especially in services, and demand is generally outstripping supply across large swaths of the global economy. This is what we believe will ultimately drive the Fed to hike rates after being widely expected to continue cutting earlier this year. Meanwhile, U.S. 10-year Treasury yields have mostly fluctuated between 4% to 4.5%, indicating a market fairly complacent in its pricing of long-term inflation and policy rates.

Tales of the tape*



Source: Bloomberg, SEI as of June 30, 2026.
Past performance does not guarantee future results.

Notables for the quarter

- **Oil;** -31%: The partial reopening of the Strait of Hormuz and hopes that a more permanent cease fire is near caused oil to plunge.
- **Gold;** -14%: A more hawkish Fed, stable U.S. dollar, and a modest easing in geopolitical tensions pushed gold from its recent highs.
- **VIX level:** Market volatility returned to pre-war levels, ending the quarter at 16.45.
- **SpaceX (ticker SPCX);** +27%: The stock has notched gains amid volatile trading following its highly anticipated listing on June 12 with one of the largest ever initial public offerings (IPO).

All returns are in USD.

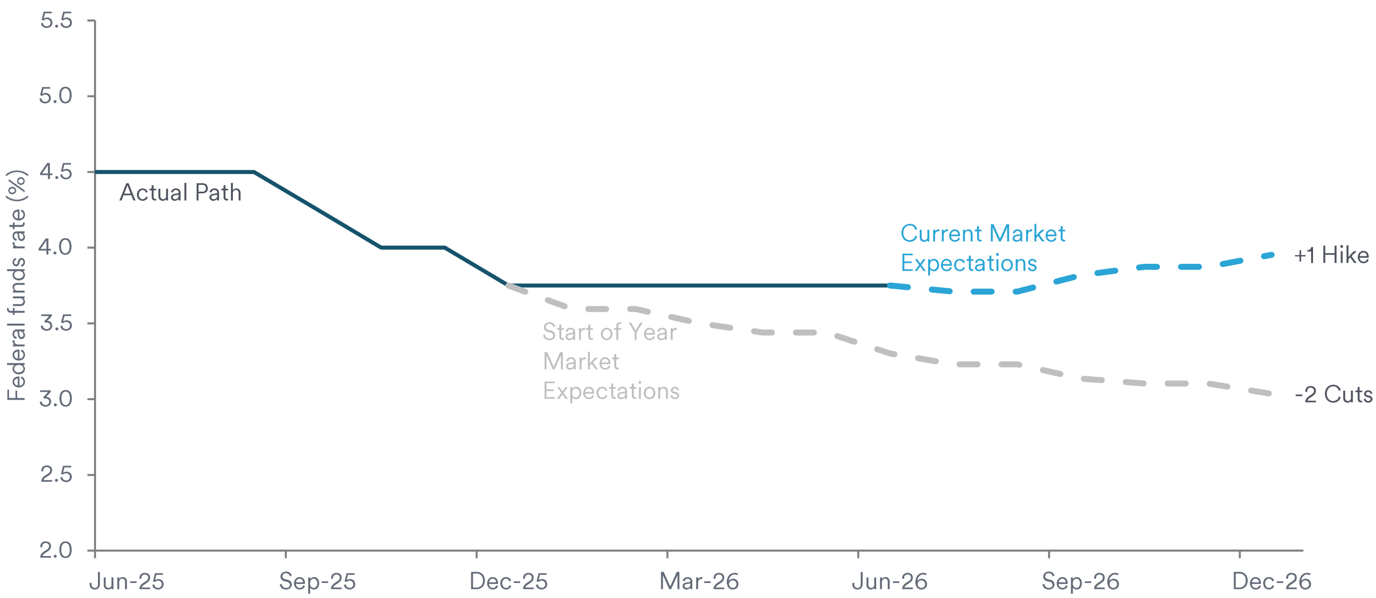
Our view

Capital markets are entering a more complicated reflationary phase. The market backdrop remains supportive for risk assets, but the cycle is becoming more inflation-sensitive, more rate-volatility-sensitive, and more dependent on physical bottlenecks than on pure financial liquidity. The correct framing is not recession versus expansion; it is whether growth remains strong enough to support earnings without forcing real yields, term premia, and the dollar high enough to compress valuations.

Macro

- **Growth remains resilient, but that is a double-edged sword.** Manufacturing activity, labor-market momentum, macro surprise indicators, and earnings revisions do not point to an imminent recession. However, stronger growth also reduces the case for Fed easing and keeps the discount-rate risk alive for long-duration assets.
- **Inflation risk is now driven by supply-side constraints and strong demand.** Oil, tariffs, electricity demand, AI infrastructure, semiconductor constraints, and persistent cost increases for services can keep inflation sticky on their own. Meanwhile, reaccelerating growth without realized productivity gains would add demand-pull pressure. Private demand running above potential real growth makes a clean return to 2% inflation difficult without either productivity gains or tighter policy.
- **The Fed has limited room to cut and is more likely to hike once.** Longer-term inflation expectations remain reasonably anchored, which argues against an aggressive hiking cycle. But resilient growth, renewed inflation pressure, market pricing, and the nominal-demand backdrop are consistent with one hike followed by a pause, moving policy from modestly accommodative to closer to neutral.

Exhibit 1: Federal funds rate and market-implied expectations



Source: SEI, FRED, as of June 25, 2026.

- **Long-end rates and real yields are the key valuation risk.** Even without a sustained Fed hiking cycle, higher real growth, fiscal risk, and term premia can pressure long-duration bonds and expensive equity segments.

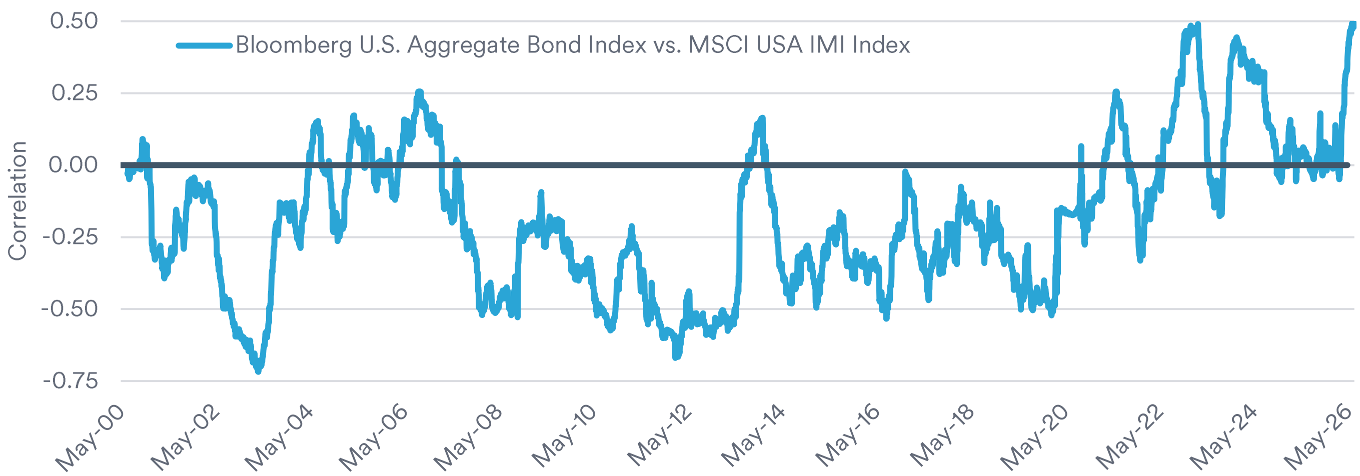
Equity and real assets

- **Equity earnings are still a source of support.** Forward earnings growth and revisions remain positive, and earnings breadth is healthier than return concentration suggests, particularly in the U.S., Japan, and across the global manufacturing and AI supply-chain cycle.
- **Valuation discipline matters more now.** The U.S. and parts of Asia look expensive, while Europe, the U.K., and selected value-oriented segments appear more reasonably priced. Markets can continue to work, but the margin of safety is thinner.
- **Investment opportunities are broadening beyond mega-cap growth.** AI remains an important theme; however, the next phase increasingly depends on chips, power, grids, cooling, data centers, energy, materials, and industrial capacity. The beneficiaries may shift from software narratives toward infrastructure and old-economy enablers.
- **Real assets and infrastructure deserve a larger role.** If the constraints to growth are physical, then commodities, industrial metals, infrastructure, and select cyclicals provide both return potential and diversification in an inflation-sensitive regime.

Fixed income and currencies

- **Bonds are less reliable as a hedge.** Elevated stock-bond correlations, higher inflation volatility, and rising term premia mean Treasurys are likely to trade more like risk assets than they have in recent cycles. We believe inflation-linked exposure is more attractive than nominal bonds as breakeven rates are still underpricing persistent inflation pressure.

Exhibit 2: Rolling 6-month stock/bond correlation



Source: SEI, FactSet, as of June 30, 2026.

- **Prefer carry where spreads are not already compressed.** With high yield and investment grade spreads tight, we prefer to generate carry from other sources such as currencies or commodity curve positioning.
- **The dollar view rests on rate levels and regional divergence.** Short-term dollar strength is supported by the interest rate gap between the Fed and Bank of Japan, persistent yen weakness, and potential renminbi weakness if China remains export-reliant and domestic demand does not improve.

Developments to monitor

- **Macro:** There are numerous inflation-related risks. A sharper oil shock or renewed inflation pass-through by companies could push inflation higher and either could nudge the Fed to be more hawkish. Increased rate volatility and term premia are also concerns.
- **Equity:** Risks include Asian emerging markets, which are benefiting from the AI theme, losing their recent momentum. Valuation compression is also a concern, especially if we see real rates begin to rise.
- **Fixed income and currencies:** A weaker U.S. dollar would be a somewhat surprising development and could spark a rally in emerging market debt.
- **AI theme:** AI remains a key theme, but its focus may be shifting. With capital expenditures rapidly increasing along with the cost of capital, any disappointments with monetization have become a key risk. On the other hand, if AI-related productivity gains exceed expectations it could lead to easing inflation pressures.

Summary views

Macro/Cross-asset	• We remain constructive overall on the global economy and risk assets, but we are more selective. • Our higher inflation bias persists; industrial metals and commodities are attractive. • A recession in 2026 still appears unlikely. Resilient growth and sticky inflation will likely lead to one or more Fed rate hikes, but not a sustained hiking cycle.
Equity	• Active management remains a key call this year with positive exposures to global value, quality, and momentum factors, with value as the primary emphasis. We favor earnings-supported equities over non-earners, while avoiding excessive reliance on long-duration (rate-sensitive) growth. • Emerging-market equities remain interesting given valuations and leverage to economic growth. • As the AI theme progresses, we like old-economy beneficiaries.
Fixed income	• With credit spreads tight we prefer carry from other sources. • We expect bonds to correlate more with risk assets than in recent decades, limiting their ability to serve as an outright equity hedge. • Defensive positioning in credit remains as we prefer higher quality securitized exposures. • We still like FX (currency) carry exposure with an emphasis on emerging-market currencies.

Indexes

*Tales of the tape: U.S. equity: S&P 500 Index; Global ex-U.S. equity: MSCI ACWI ex-USA Index; Global Treasurys: Bloomberg Global Treasury Index; Commodities: Bloomberg Commodity Index.

Glossary and index definitions

For financial term and index definitions, please see: https://www.seic.com/ent/imu-communications-financial-glossary

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