

May 2026

MONTHLY MARKET INSIGHTS

Key takeaways:

- Equity markets staged a powerful rebound in April, with the S&P 500 returning 10.42% and the Nasdaq Composite gaining 15.29%, more than reversing March's losses as a Pakistan-brokered ceasefire between the US and Iran took effect.¹
- First-quarter S&P 500 earnings are tracking 27.1% year-over-year growth, the strongest since Q4 2021, as the AI capital expenditure cycle continues to broaden across sectors and power equity gains.²
- The Federal Reserve held rates steady at 3.50%–3.75% at its April meeting. While this was Chairman Powell's last meeting as Chair, he unexpectedly announced his intent to remain on the Board of Governors until an appropriate time for him to step down.

April delivered one of the strongest monthly returns for equity markets in years. The S&P 500 returned 10.42% while the Nasdaq Composite climbed 15.29%, fully retracing March's losses and pushing the indexes back to record highs. Growth meaningfully outpaced value, with the Russell 1000 Growth index returning 11.87% versus 8.05% for the Russell 1000 Value index. International equities also rallied as the immediate energy panic from March faded, with the MSCI All Country World ex US Index returning 9.34%.³

The catalyst for the market's rebound came on April 8, when the United States and Iran agreed to a Pakistan-brokered ceasefire that paused hostilities and included a commitment to reopen the Strait of Hormuz.⁴ Crude prices retreated meaningfully from their March highs, and the risk-off sentiment that had weighed on global equities faded, allowing the underlying strength of corporate earnings to reassert itself as the dominant market narrative.

That said, the ceasefire is fragile, and commerce through the Strait remains minimal. Talks between Vice President Vance and Iranian counterparts failed to produce a durable framework. The US has maintained a naval blockade of Iranian ports, while Iran has only selectively permitted commercial traffic through the waterway.⁵ Brent crude finished the month above \$114 per barrel, well above pre-conflict levels.⁶ While acute panic over Iran has subsided, the conflict remains unresolved and continues to represent a potential source of risk should negotiations break down further.

While the ceasefire was a necessary catalyst, the magnitude of the rally was ultimately driven by the strength of first-quarter earnings. With nearly two-thirds of S&P 500 companies having reported, first-quarter earnings are tracking 27.1% year-over-year growth, the highest reading since the post-pandemic surge in Q4 2021 and a substantial step-up from the 13.1% growth rate analysts had projected at the end of

1. Bloomberg.

2. Butters, John. "Earnings Insight." FactSet, 1 May 2026, insight.factset.com.

3. Bloomberg.

4. "US-Iran Ceasefire Deal: What Are the Terms, and What's Next?" Al Jazeera, 8 Apr. 2026, www.aljazeera.com/news/2026/4/8/us-iran-ceasefire-deal-what-are-the-terms-and-whats-next.

5. Magdy, Samy, et al. "Here's What to Know About Ceasefire Negotiations Between the U.S. and Iran." PBS NewsHour, Associated Press, 27 Apr. 2026, www.pbs.org/newshour/world/heres-what-to-know-about-ceasefire-negotiations-between-the-u-s-and-iran.

6. Bloomberg.

March.⁷ The breadth of results is notable: nine of eleven sectors are posting year-over-year earnings growth, and seven are delivering double-digit gains. Revenue growth of 11.1% would mark the strongest top-line performance since Q2 2022.⁸ By nearly all measures, corporate America remains healthy and showing signs of accelerated growth

Much of this earnings strength is being fueled by the AI capital expenditure cycle, which has now reached a scale that impacts a wide range of industries. Combined 2026 capex guidance from Alphabet, Amazon, Meta, and Microsoft now totals approximately \$725 billion, up from roughly \$410 billion in 2025, with all four management teams signaling that 2027 spending will be meaningfully higher.⁹ This level of investment greatly benefits semiconductors, electrical equipment, power generation, industrial real estate, and the broader supply chain that builds and maintains these data centers. As a result, sectors such as Industrials, Materials, and Utilities, have become major beneficiaries of the AI buildout.

This dynamic helps explain why earnings strength has broadened well beyond technology and why the rally has been able to extend. Unsurprisingly, the Magnificent 7 sit at the center of this dynamic and have been the largest contributors to the quarter's earnings strength. The cohort's blended earnings growth accelerated to 61.0%, with Alphabet, Amazon, Meta Platforms, and Nvidia among the top five contributors to the S&P 500s earnings growth.¹⁰

April was also a notable month for US monetary policy. The Federal Open Market Committee held the federal funds rate steady at 3.50%–3.75% for a third consecutive meeting, citing elevated uncertainty stemming from the Middle East conflict and the resulting energy price pressures.¹¹ The decision was notable for the level of dissent, with four members voting against the action, the most divided FOMC since 1992.¹² Three of the dissenters wanted the easing bias removed from the statement, signaling growing reluctance to commit to further cuts in the current environment.

Perhaps most importantly, Chairman Powell, in what he confirmed will be his last press conference as Chair, announced that he intends to remain on the Board of Governors after his term as chair concludes on May 15, citing concerns about the Federal Reserve's institutional independence.¹³ With Powell's term as Chair at its end, Kevin Warsh, President Trump's nominee, has advanced from the Senate Banking Committee and could be confirmed by the full Senate as early as the week of May 11.¹⁴ The June FOMC meeting will likely be the first under Warsh's leadership and will be closely scrutinized for signals of any shift in policy direction. Given the existing reluctance among some committee members to support further easing and Powell's continued presence on the Board, it may prove difficult for Warsh to pursue a more dovish policy agenda. Such friction could also reignite tensions between the administration and the Fed.

In last month's commentary, we highlighted how investor sentiment had become singularly focused on the conflict in the Middle East, with the underlying strength of corporate fundamentals largely overlooked. In a matter of weeks, that dynamic has fully reversed. Markets have moved past the conflict almost entirely, despite the fact that the situation in the Strait of Hormuz remains unresolved. The risk of an inflation re-acceleration tied to elevated energy prices has similarly faded from investor focus. As we move beyond the bulk of earnings season, the

7. Butters, John. "Earnings Insight." FactSet, 1 May 2026, insight.factset.com.

8. Id.

9. Hamilton, Brett. "'Magnificent 7' Earnings Rush Reveals AI Spending Surge, with Hyperscaler Capex Set to Reach \$725 Billion in 2026." Yahoo Finance, 30 Apr. 2026, finance.yahoo.com/markets/article/magnificent-7-earnings-rush-reveals-ai-spending-surge-with-hyperscaler-capex-set-to-reach-725-billion-in-2026-224901707.html.

10. Butters, John. "Earnings Insight." FactSet, 1 May 2026, insight.factset.com.

11. "April 29, 2026: FOMC Statement." Board of Governors of the Federal Reserve System, 29 Apr. 2026, www.federalreserve.gov/newsevents/pressreleases/monetary20260429a.htm.

12. Cox, Jeff. "Fed Holds Rates Steady, with Four Dissenters at Powell's Likely Final Meeting as Chair." CNBC, 29 Apr. 2026, www.cnbc.com/2026/04/29/fed-meeting-today-live-updates-warsh-powell.html.

13. Id.

14. Id.

tailwinds that supported April's rally may begin to fade, raising the bar for further upside. Forward consensus now calls for earnings growth of 21.3% in Q2 and 20.6% for the full year, leaving limited room for disappointment.¹⁵ With expectations reset higher and earnings season largely behind us, investor focus is likely to shift back toward unresolved risks in the Middle East, the trajectory of inflation, and the leadership transition at the Federal Reserve.

Looking ahead, the strength of corporate earnings and the ongoing AI investment cycle continue to provide a solid foundation for risk assets. However, the rapid shift in market sentiment has narrowed the margin for error. We will continue to closely monitor developments in the Middle East, the path of oil and inflation, and the leadership transition at the Federal Reserve, making tactical adjustments to client portfolios as warranted. As always, we welcome the opportunity to speak with clients who wish to discuss their portfolios or the current market environment in greater detail.

15. Butters, John. "Earnings Insight." FactSet, 1 May 2026, insight.factset.com.

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