



Market Commentary

Weekly perspective on current market sentiment

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Last week's S&P 500 Index: -2.6%

Looking ahead after first-quarter earnings

Key takeaways

- First quarter S&P 500 Index earnings point to a constructive outlook for equities, though recent market action reinforces that periodic volatility is likely.
- We remain favorable on the artificial intelligence (AI) theme and the information technology (IT) sector but are mindful of valuations and favor rebalancing into ancillary sectors we view as having attractive valuations, including Financials, Industrials, and Utilities.

With nearly all S&P 500 Index companies having reported first-quarter 2026 results, we believe the earnings season points to a constructive outlook for equities. At the same time, recent market action reinforces that volatility is likely to remain a feature of the market action.

S&P 500 Index first-quarter earnings are tracking growth of nearly 25%, well above the 14.4% consensus forecast in April, underscoring stronger-than-expected corporate momentum. Analysts have responded by raising expectations for calendar-year 2026, according to Bloomberg. Revenue growth was also solid at 11.1%, with every S&P 500 Index sector outperformed initial analyst forecasts, while profit margins continued to hold near record highs.

The broader earnings outlook has also improved in our view. Following S&P 500 Index earnings growth of approximately 1% in 2023 and 9% in 2024, Bloomberg estimates now point to 12% growth in 2025 and 23% in 2026, before slowing to 15% in 2027. In simple terms, companies are not only earning more but have seen accelerated earnings growth. Technology was the primary driver, although other sectors—including Energy, Financials, and Materials—have contributed.

Recent gains in global equities have likely been supported by improved geopolitical sentiment, including easing tensions in the Middle East. We believe strong first-quarter earnings have been the primary driver of U.S. large-cap performance. The S&P 500 Index rose 18% in April and May combined—one of the strongest 40-day rallies since 1950. While technology stocks have led the advance, the rally has broadened, with the equal-weighted S&P 500 Index also reaching new highs and more than 60% of constituents trading above their 200-day moving average.

For investors, this suggests the rally is supported by improved corporate fundamentals rather than sentiment alone. Bloomberg data supports that since 1950, S&P 500 Index moves of this magnitude are unusual in the fourth year of a bull market, but confidence appears to be building that AI can support future economic growth and corporate earnings.

We maintain our year-end S&P 500 Index target of 7400–7600 but reiterate that volatility is likely, driven by factors including Federal Reserve policy uncertainty, AI capital spending, geopolitical risks (including the U.S.–Iran conflict), elevated initial public offering (IPO) issuance, and upcoming midterm elections. We continue to view pullbacks as buying opportunities.

We remain favorable on the AI theme and IT sector, while acknowledging elevated valuations. We continue to favor rebalancing toward ancillary sectors with attractive valuations, including Financials, Industrials, and Utilities.

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Risk considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Foreign investing** has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. These risks are heightened in emerging markets.

Forecasts, estimates, and projections are not guaranteed and are based on certain assumptions and views of market and economic conditions which are subject to change.

Sector investing can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility. The **Energy** sector may be adversely affected by changes in worldwide energy prices, exploration, production spending, government regulation, and changes in exchange rates, depletion of natural resources, and risks that arise from extreme weather conditions. Investing in the **Financial** services companies will subject an investment to adverse economic or regulatory occurrences affecting the sector. There is increased risk investing in the **Industrials** sector. The industries within the sector can be significantly affected by general market and economic conditions, competition, technological innovation, legislation and government regulations, among other things, all of which can significantly affect a portfolio's performance. **Materials** industries can be significantly affected by the volatility of commodity prices, the exchange rate between foreign currency and the dollar, export/import concerns, worldwide competition, procurement and manufacturing and cost containment issues. Risks associated with the **Technology** sector include increased competition from domestic and international companies, unexpected changes in demand, regulatory actions, technical problems with key products, and the departure of key members of management. Technology and Internet-related stocks, especially smaller, less-seasoned companies, tend to be more volatile than the overall market. **Utilities** are sensitive to changes in interest rates, and the securities within the sector can be volatile and may underperform in a slow economy.

Definitions

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

S&P 500 Equal Weight Index is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

An index is unmanaged and not available for direct investment.

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