Pathstone

Summary

Monthly Market Insights

May 4, 2026

Economic Summary

Iran and Hormuz remain key “known unknown” risks

- Oil prices initially declined in April on ceasefire optimism, but then reversed back higher as negotiations with Iran stalled
- Trump announced “Project Freedom” on 5/3 aimed at letting commercial ships stuck in the Gulf clear through the Strait of Hormuz, but it won’t entail naval escorts, and Iran is warning vessels against passage, so Hormuz remains effectively closed
- This remains a key risk; in our view, the Trump administration appears to want an off-ramp, but it’s not an easy path

U.S. energy independence, consumer resiliency, and AI driven capex cycle provide relative tailwinds

- U.S. crude exports hit new all time high at over 6 mbpd
- Individual tax benefits from last years OBBBA have brought larger tax refunds, while wage growth and the labor market are holding up reasonably well, all supporting consumer resiliency
- AI capex from hyperscalers continues rising and is projected to be over $750 billion in 2026, providing an economic tailwind

Fed stays on pause, Warsh confirmation appears likely

- The Fed held rates stable in April, as expected, but saw several dissents that reflected a bias towards holding vs. future cuts
- Chair Powell noted that he will, in fact, remain on the committee as a regular Governor after his Chair term ends on May 15th
- Kevin Warsh is headed to a Senate confirmation vote and appears likely to be approved by the May 15th date

 Sources: Bloomberg, Federal Reserve.

Market Summary

Despite higher oil and low odds of rate cuts in 2026, the S&P hit a new all-time high

- Major equity indices chopped around last week as evolving Iran headlines and Q1 earnings caused day-to-day movement, but closed May 1st with the S&P 500 at a new all-time high of 7,230
- Energy leads YTD at up over 30%, but Technology and Consumer Discretionary led in April, largely driven by AI related winners, leading to large cap growth beating value in April (but still trailing YTD), the S&P 500 beating its equal weight version, and seeing semiconductors continue to beat software

S&P 500 earnings growth continues to be the driver – both realized and estimated

- S&P 500 blended (actual + remaining estimates) earnings growth is on track for 27.1% growth – this is up from 15% the week prior on the back of blockbuster megacap tech/AI related earnings from Alphabet, Amazon, and Meta, which accounted for 71% of the jump in earnings growth.
- The blended earnings growth rate for the Mag 7 companies has increased to 61.0% today from expectations for 22.4% earnings growth on March 31. Overall, 4 of the top 5 contributors to year-over-year earnings growth for the S&P 500 for Q1 are now Mag 7 companies: Alphabet, NVIDIA, Amazon, and Meta.
- Both the number (84%) and size (20.7%) of earnings beats in Q1 are well ahead of 5 & 10-year averages
- This is being driven by better-than-expected top line revenues at 11.1% and net profit margins at 14.7%
- So, while the S&P 500 has rallied back to new all-time highs, higher earnings estimates have kept the NTM P/E multiple from also moving to cycle highs – but at 21x, we certainly wouldn’t call it cheap

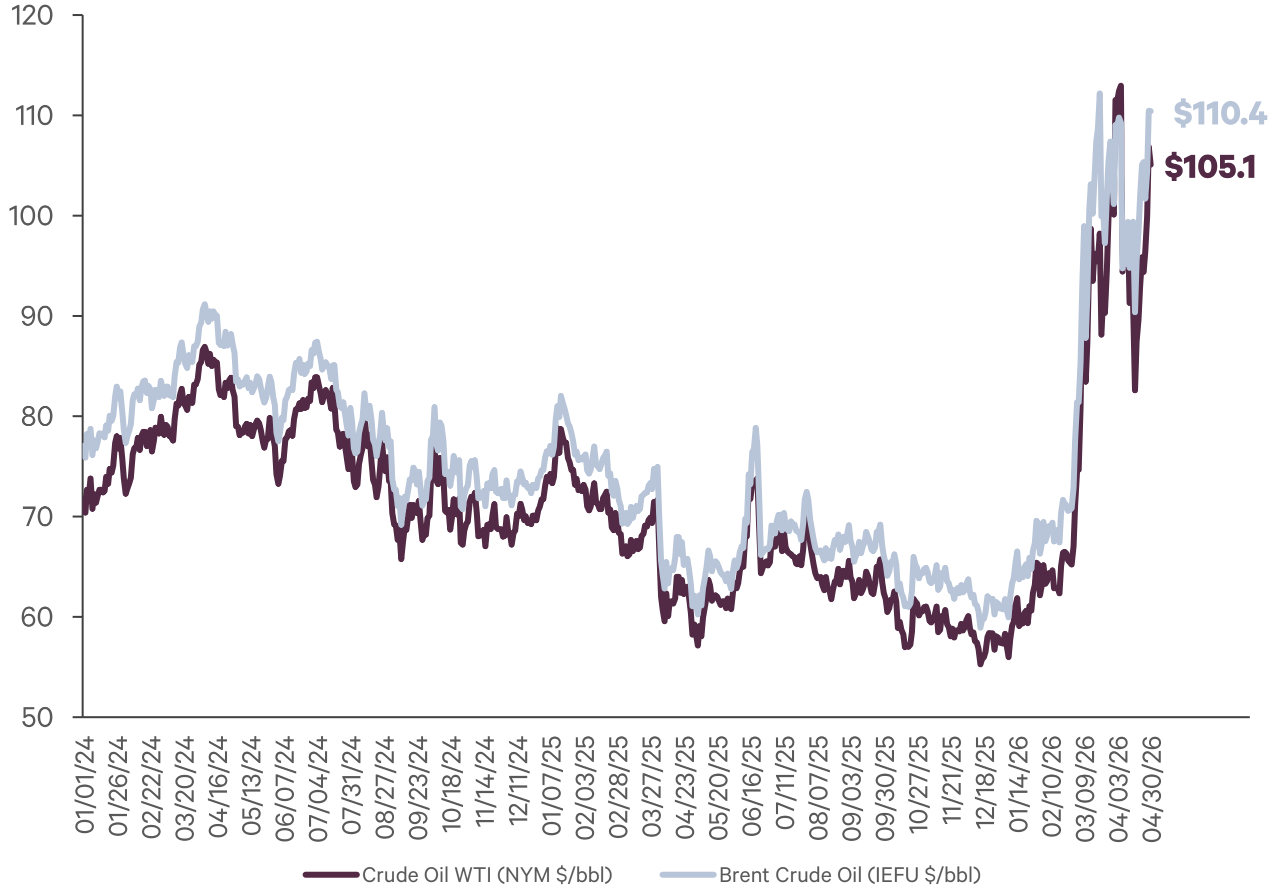
AI innovation and investment not showing any signs of slowing down

- Hyperscaler capex continues to ramp as demand for compute continues to out-strip supply, seeing the remaining performance obligations of the 4 largest hyperscalers continuing to grow to nearly $2 trillion – representing lofty expectations for continued future demand for compute
- Anthropic and OpenAI both rolled out new models in April that are supporting continued growth, along with new platform product features as they compete across both consumer and corporate AI use cases

Sources: FactSet, Bloomberg.

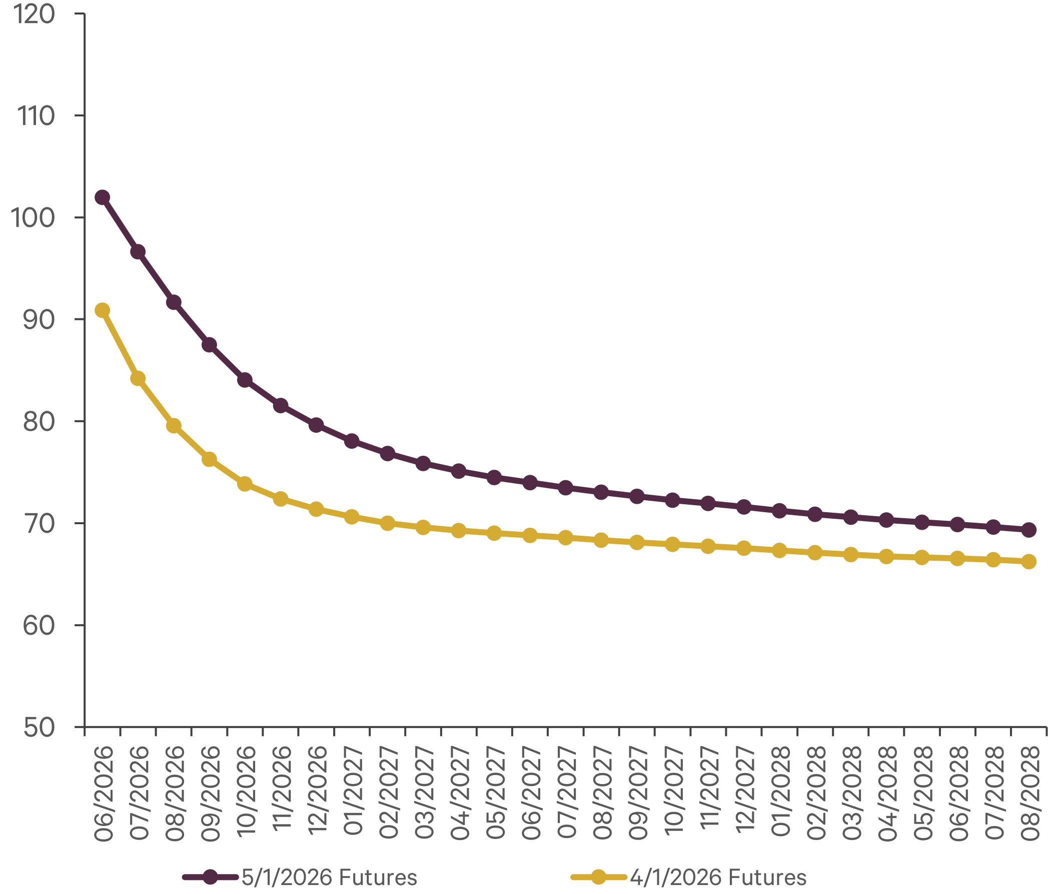
Oil resurgence reflects deadlocked U.S.-Iran negotiations – remains a key risk

Oil Prices



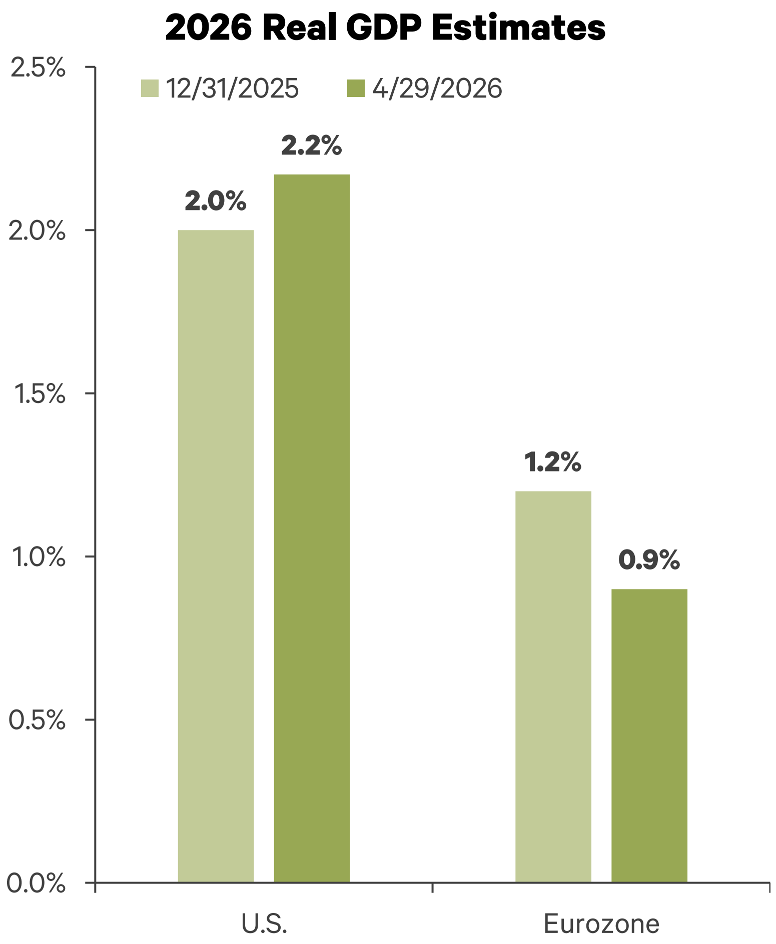
Sources: Pathstone with data from FactSet as of 5/1/2026

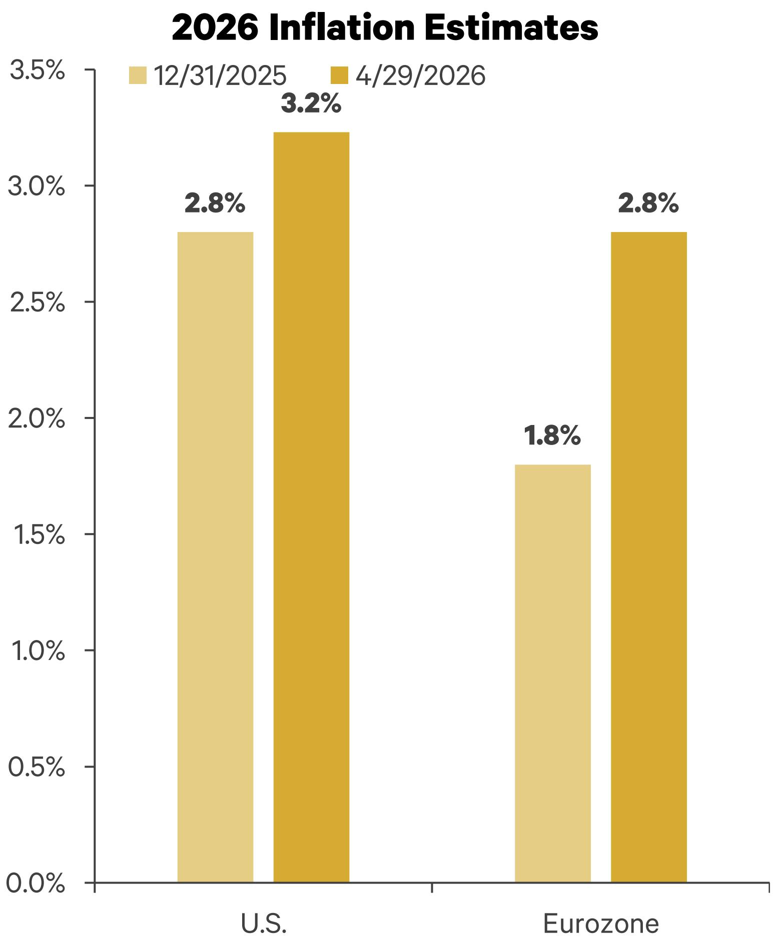
Crude Oil Futures

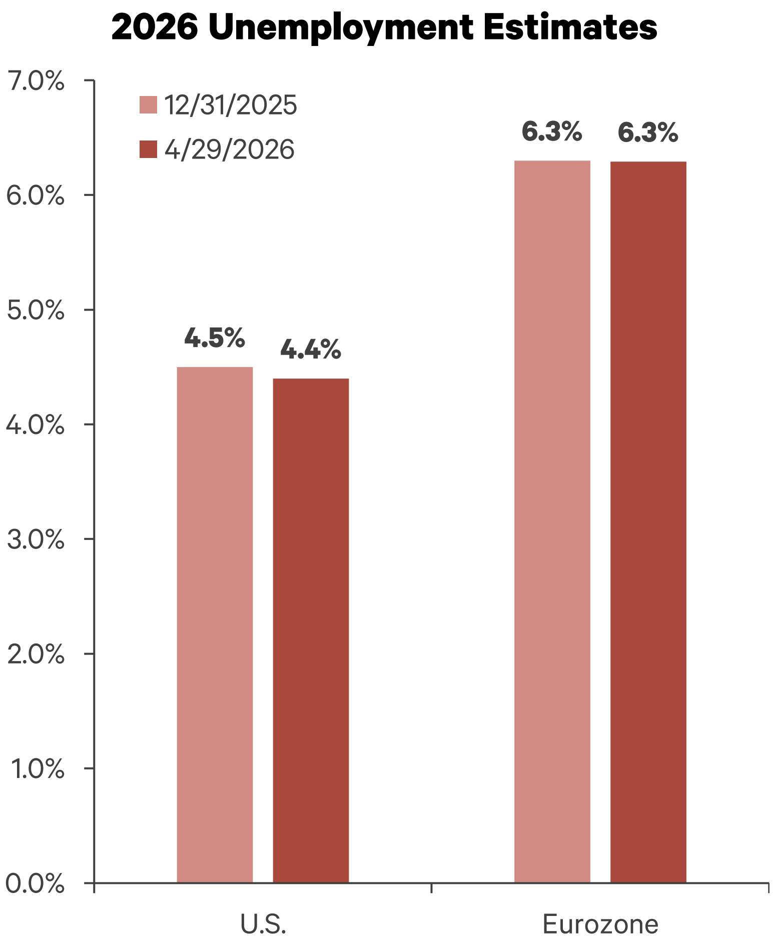


Sources: Pathstone with data from Bloomberg as of 5/1/2026

U.S. economic estimates less impacted given oil exports, consumer, & AI capex



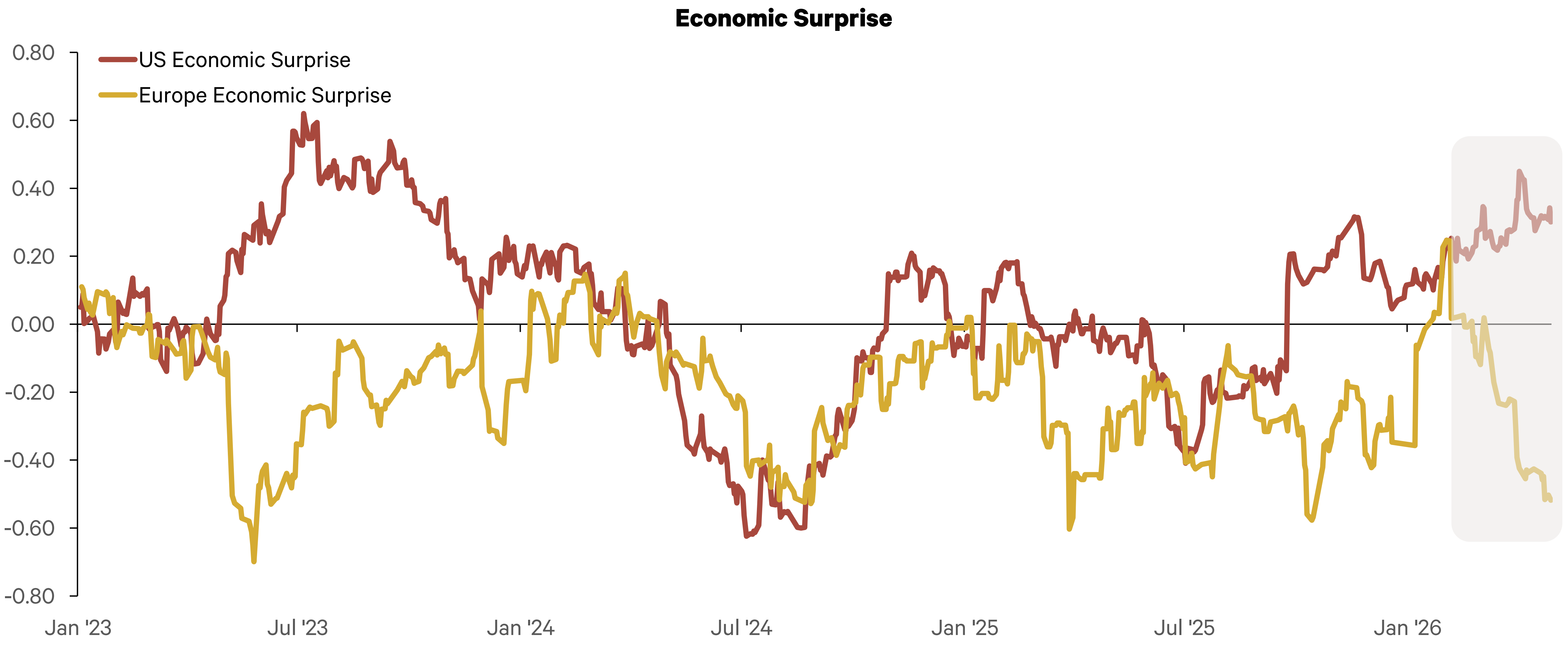




Source(s): Pathstone with data from Bloomberg. Data as of 4/29/2026.

Estimates are compiled by Bloomberg and are averaged for the calendar year 2026.

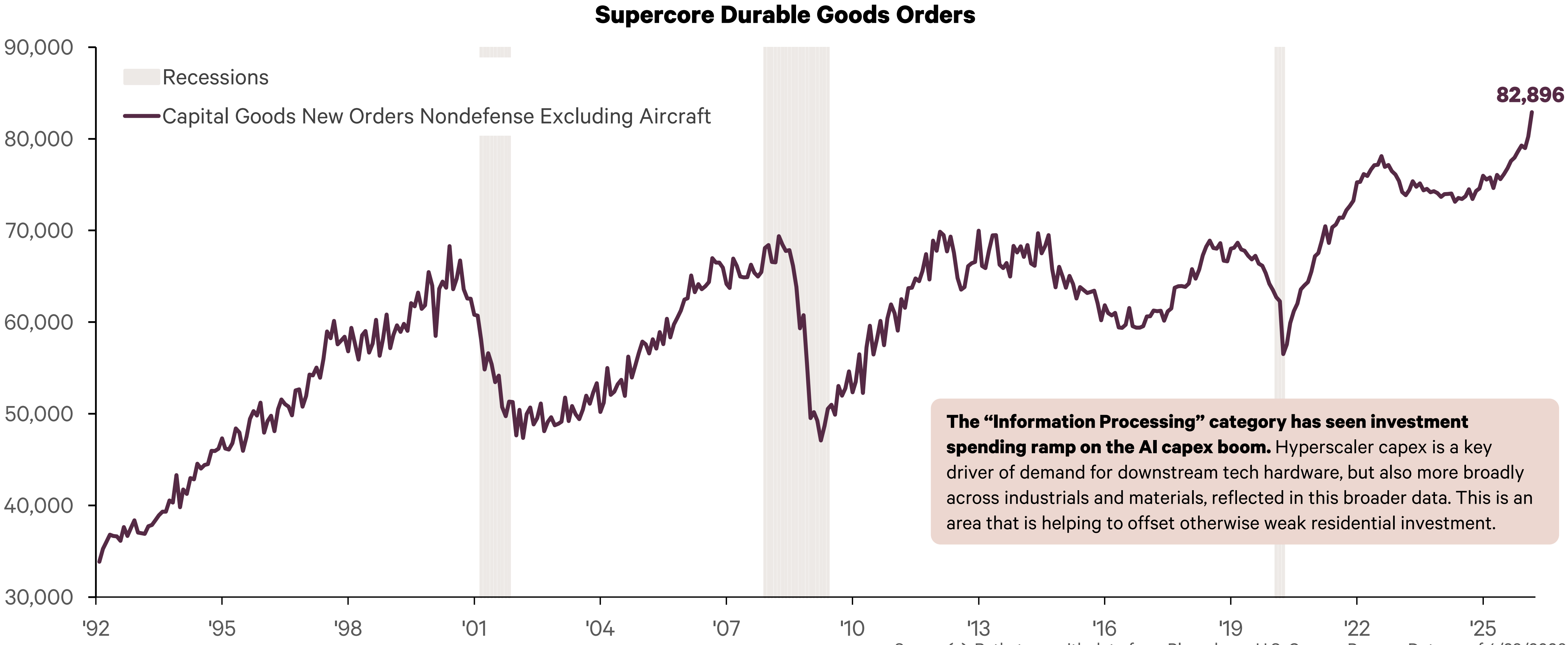
Actual U.S. and European economic data are pulling in opposite directions



Source(s): Pathstone with data from Bloomberg, Bloomberg Economics. Data as of 4/29/2026.

Leading indicators include economic variables that tend to move before changes in the overall economy. These indicators give a sense of the future state of an economy. The surprise element is calculated as the percentage difference between the actual economic data release and the median of analysts' forecasts for that release, smoothed with a six-month decay. Each of the data releases is given an equal weight within its sector and the overall index.

Increasing durable goods orders illustrates the AI capex boom



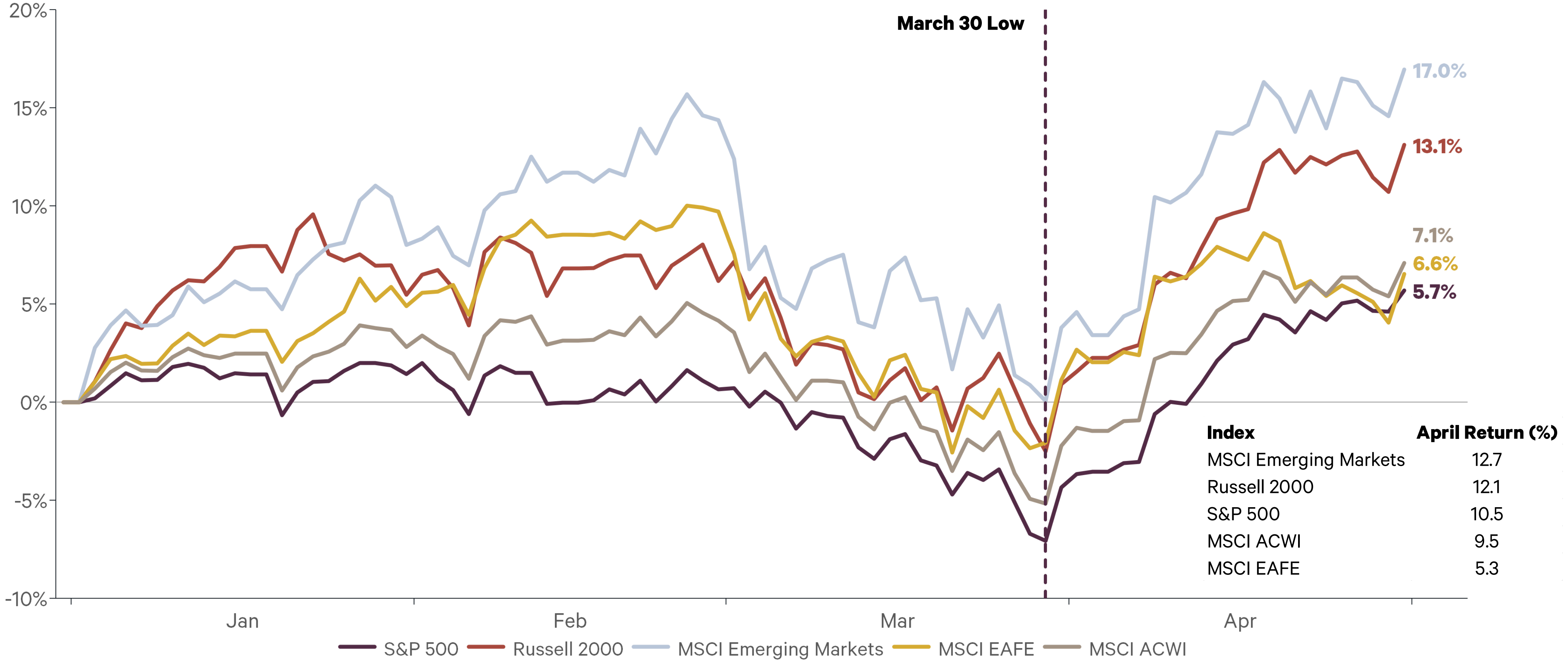
The "Information Processing" category has seen investment spending ramp on the AI capex boom. Hyperscaler capex is a key driver of demand for downstream tech hardware, but also more broadly across industrials and materials, reflected in this broader data. This is an area that is helping to offset otherwise weak residential investment.

Source(s): Pathstone with data from Bloomberg, U.S. Census Bureau. Data as of 4/29/2026.

This concept tracks the value of new orders received during the reference period. Orders are typically based on a legal agreement between two parties in which the producer will deliver goods or services to the purchaser at a future date.

Despite oil's resurgence, major equity indices rebounded in April

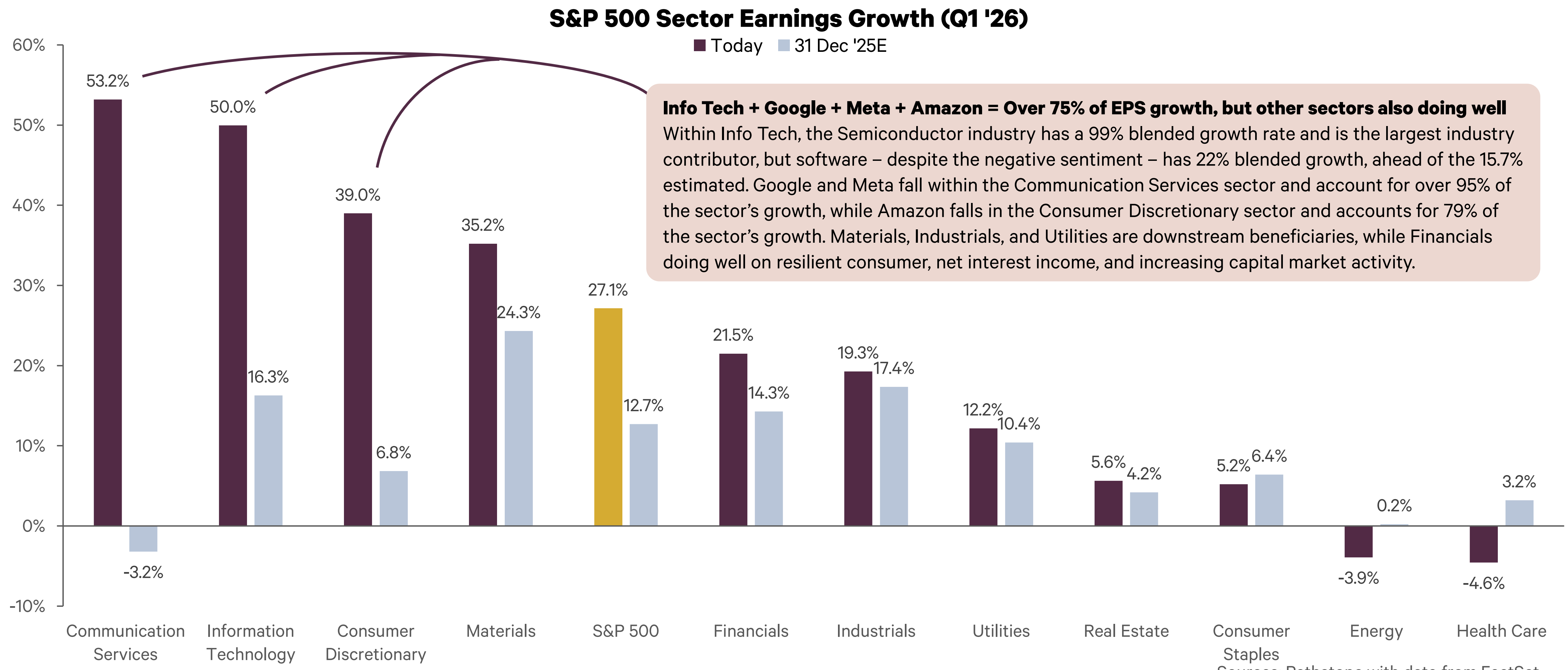
YTD Total Returns



Index	April Return (%)
MSCI Emerging Markets	12.7
Russell 2000	12.1
S&P 500	10.5
MSCI ACWI	9.5
MSCI EAFE	5.3

Sources: Pathstone with data from FactSet

Earnings beating analysts' estimates by wider than average margins

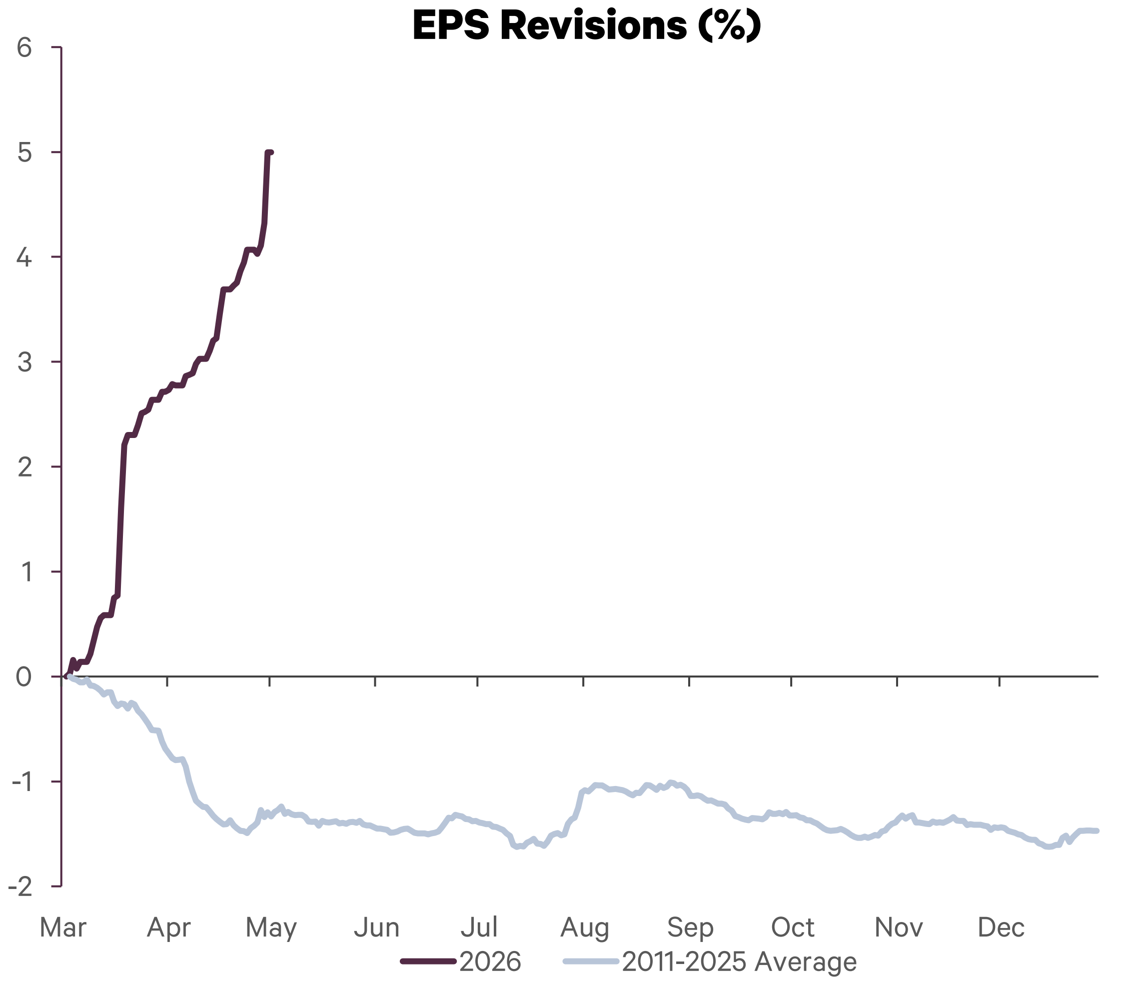


Info Tech + Google + Meta + Amazon = Over 75% of EPS growth, but other sectors also doing well
Within Info Tech, the Semiconductor industry has a 99% blended growth rate and is the largest industry contributor, but software – despite the negative sentiment – has 22% blended growth, ahead of the 15.7% estimated. Google and Meta fall within the Communication Services sector and account for over 95% of the sector's growth, while Amazon falls in the Consumer Discretionary sector and accounts for 79% of the sector's growth. Materials, Industrials, and Utilities are downstream beneficiaries, while Financials doing well on resilient consumer, net interest income, and increasing capital market activity.

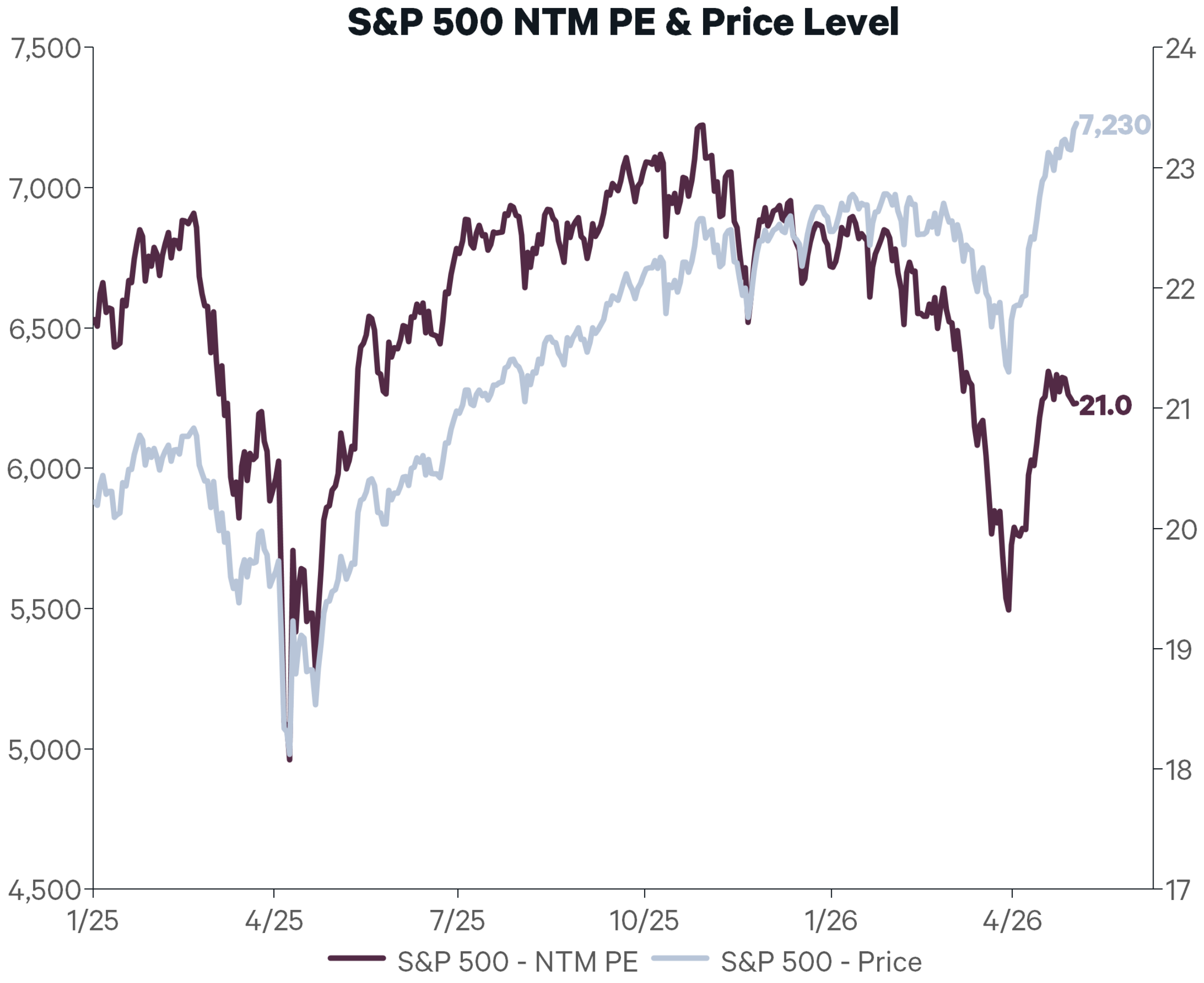
Sources: Pathstone with data from FactSet

Today as of 5/1/2026, with 63% of S&P 500 companies having reported. Blended earnings reflect actual reported earnings plus remaining analysts' estimates.

Forward earnings estimates are improving, keeping P/E multiple off highs



Sources: Pathstone with data from Bloomberg



Sources: Pathstone with data from FactSet

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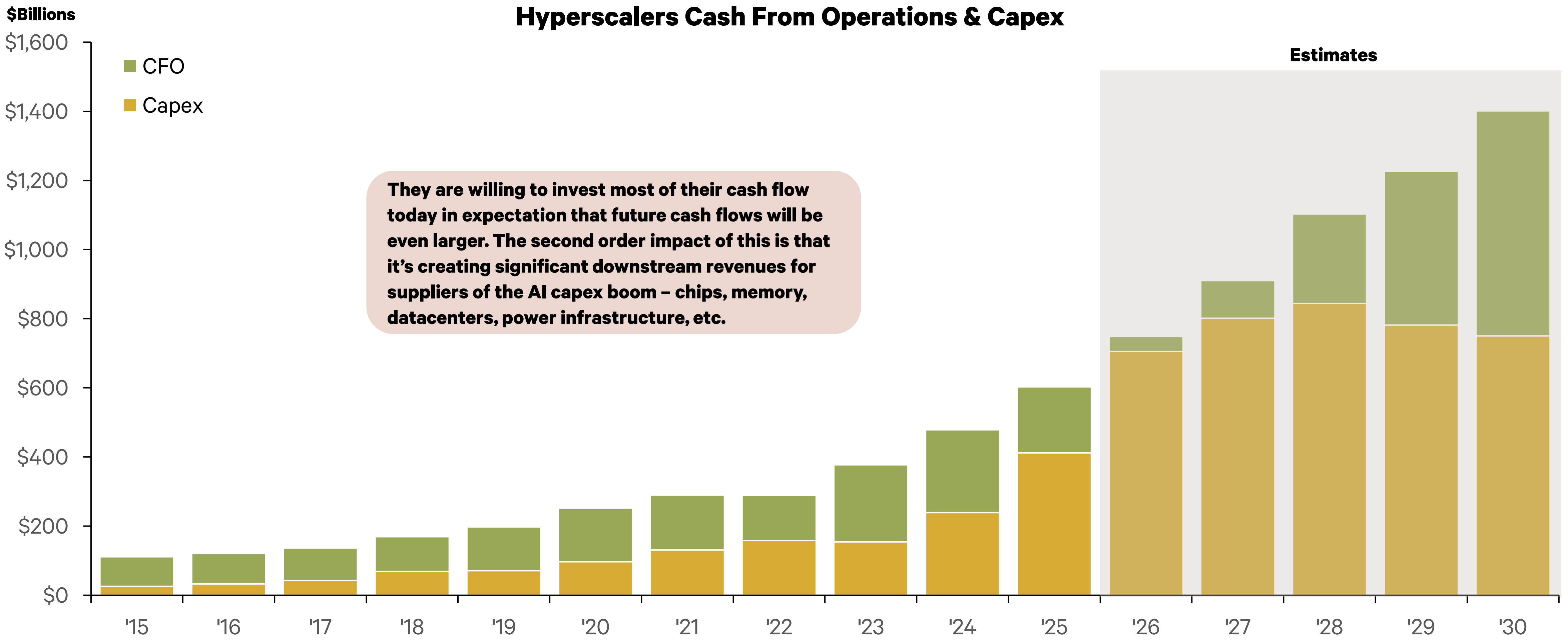
NTM P/E Ratio: Aggregate market cap of its constituent companies divided by their collective estimated earnings over the next twelve months, reflecting how richly the broader market is valued relative to near-term profit expectations. EPS Revisions (Indexed, % starting in March): A normalized measure of analysts' earnings-per-share forecast changes over time, rebased to 0% in March, showing the cumulative percentage shift in consensus EPS estimates from that starting point.

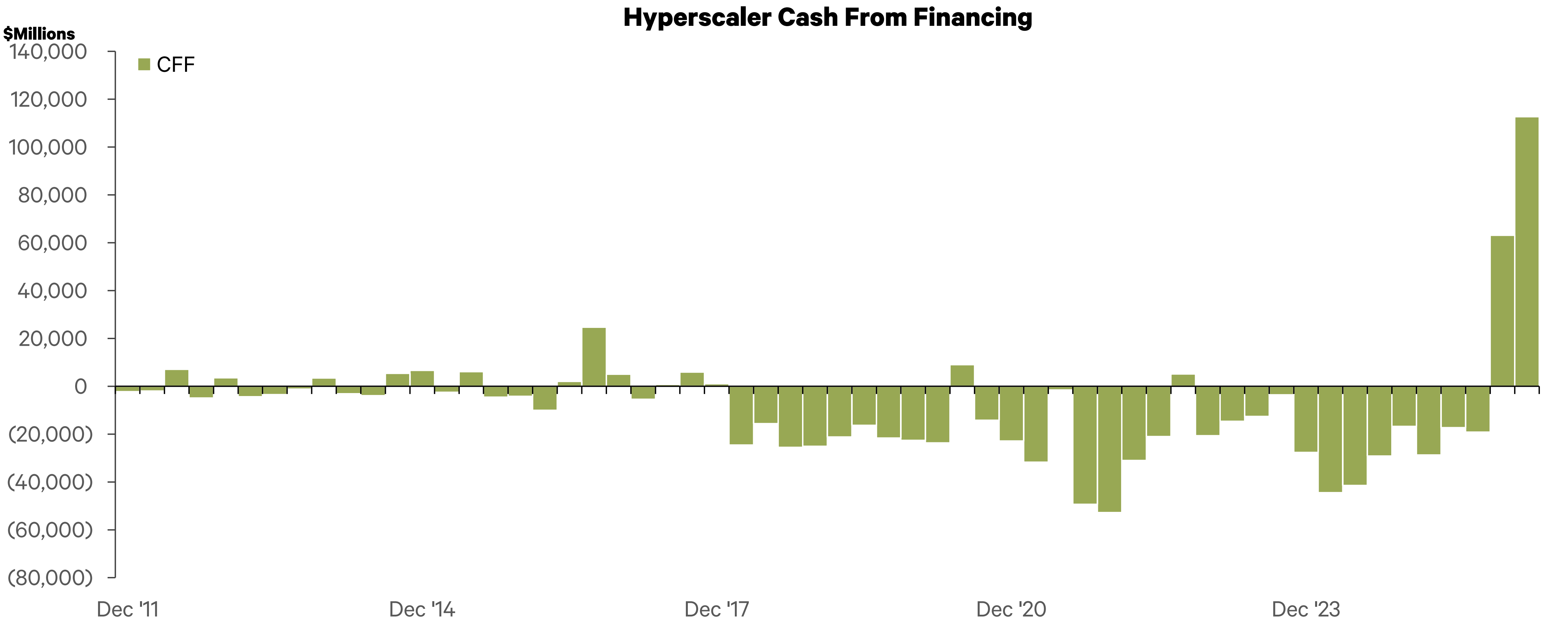
Hyperscaler capex growth is eating up cash flow, but expected to level off



Sources: Pathstone with data from Bloomberg. As of 4/30/2026.

Hyperscalers represented by Amazon, Microsoft, META, Alphabet, and Oracle.

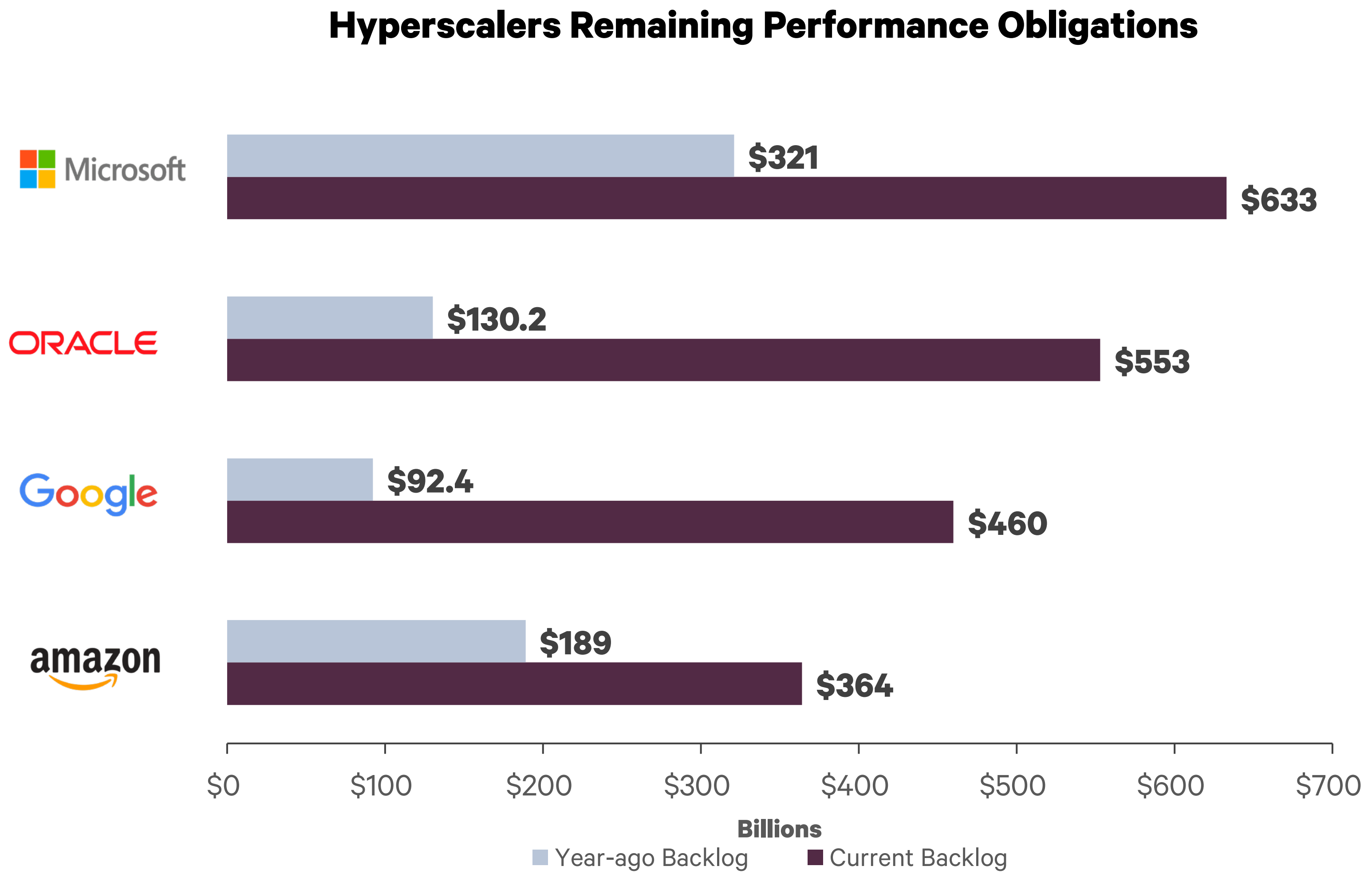
Debt financing is increasing and net cash returns to shareholders decreasing



Hyperscalers: Amazon, Microsoft, Meta, Alphabet, and Oracle.
Sources: Pathstone with data from Bloomberg. Data as of 4/30/2026.

Cash from financing shows how a company raises and returns capital, capturing activity like debt borrowing and repayment, equity issuance, and dividend payments. A rising cash from financing typically means a company is increasingly relying on external sources like debt or equity issuance to fund its operations or growth.

Demand for compute continues to climb, outstripping supply

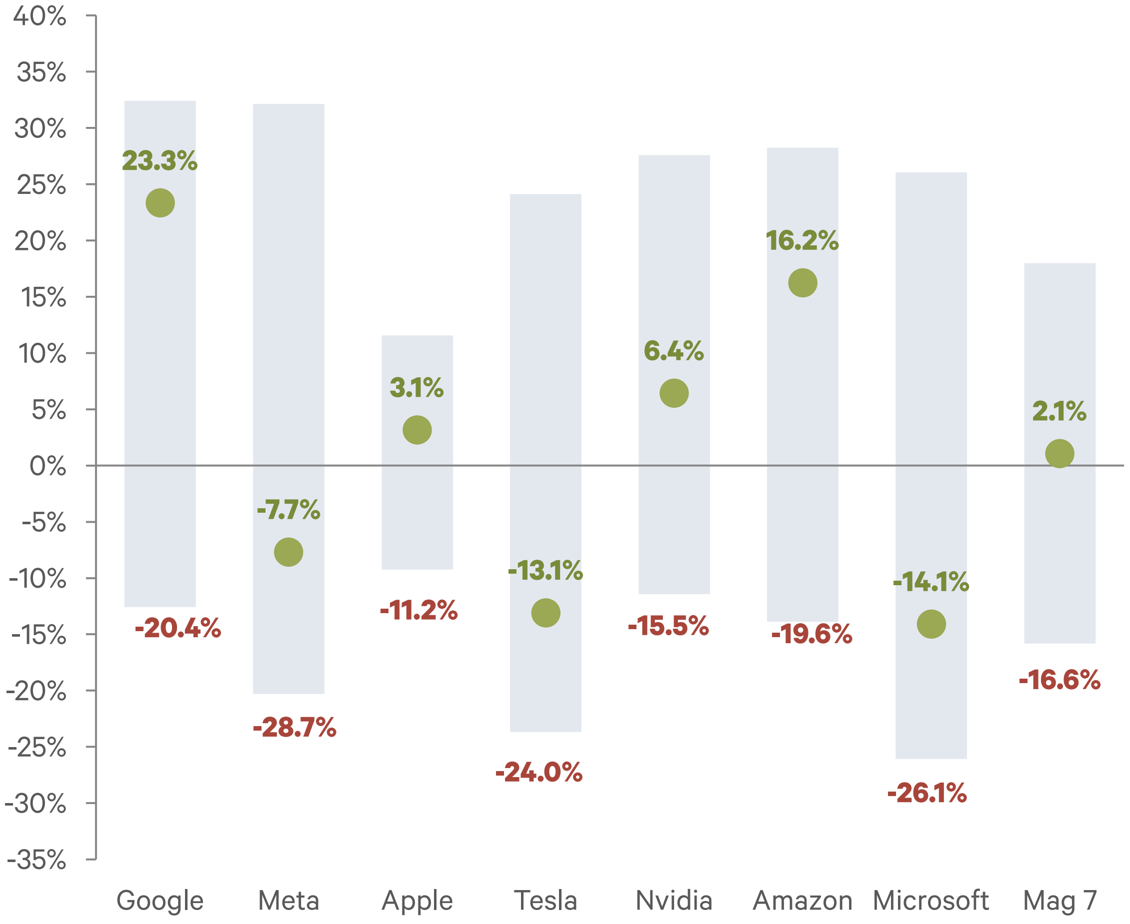


Source(s): Pathstone with data from Bloomberg.

Remaining performance obligations represent the total transaction price allocated to contracts with customers for goods or services that have not yet been delivered or recognized as revenue. Company logos are shown for illustrative purposes only and this is not a recommendation to invest in these companies.

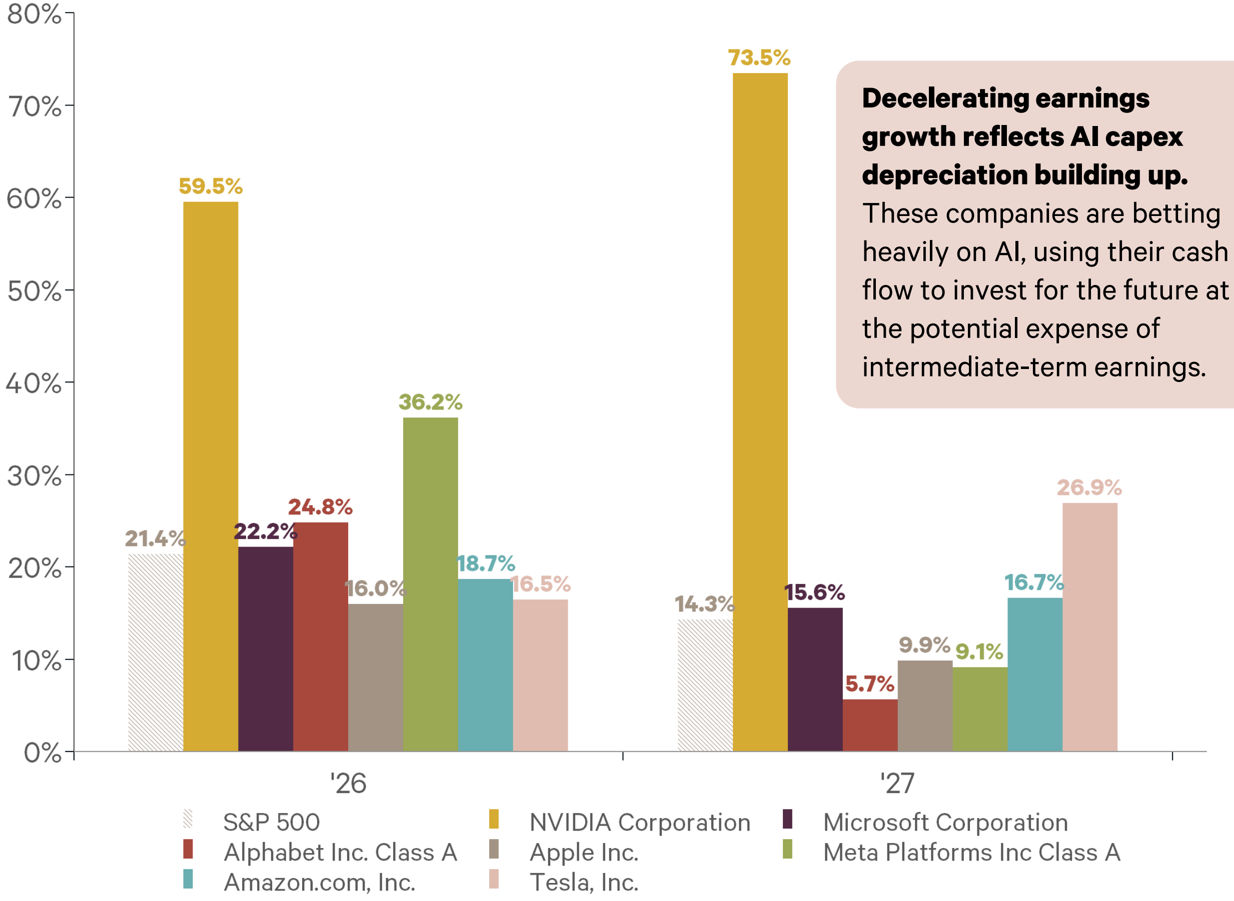
Mag 7 have been volatile as AI capex remains a key question

2026 YTD Returns and Intra-year Max Drawdowns



Analysts Expected Earnings Growth

Calendar Year-over-Year

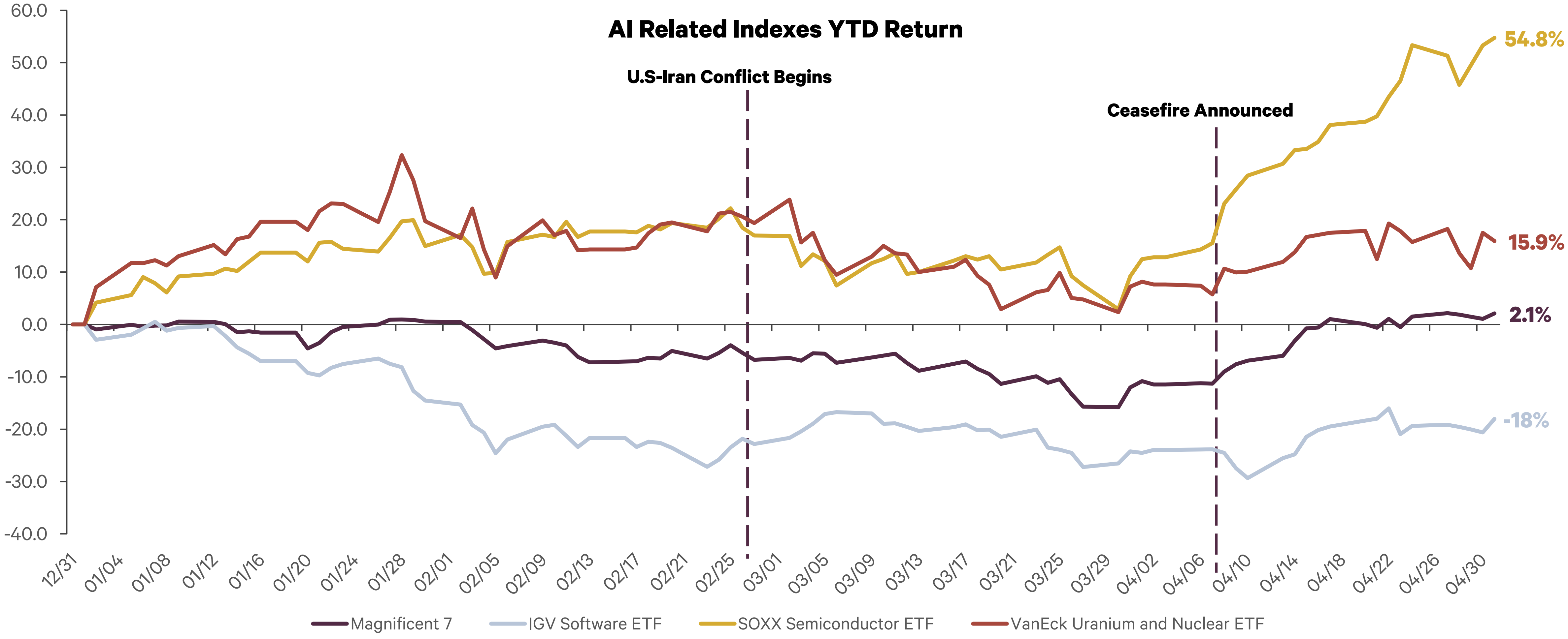


Decelerating earnings growth reflects AI capex depreciation building up. These companies are betting heavily on AI, using their cash flow to invest for the future at the potential expense of intermediate-term earnings.

Sources: Pathstone with data from FactSet

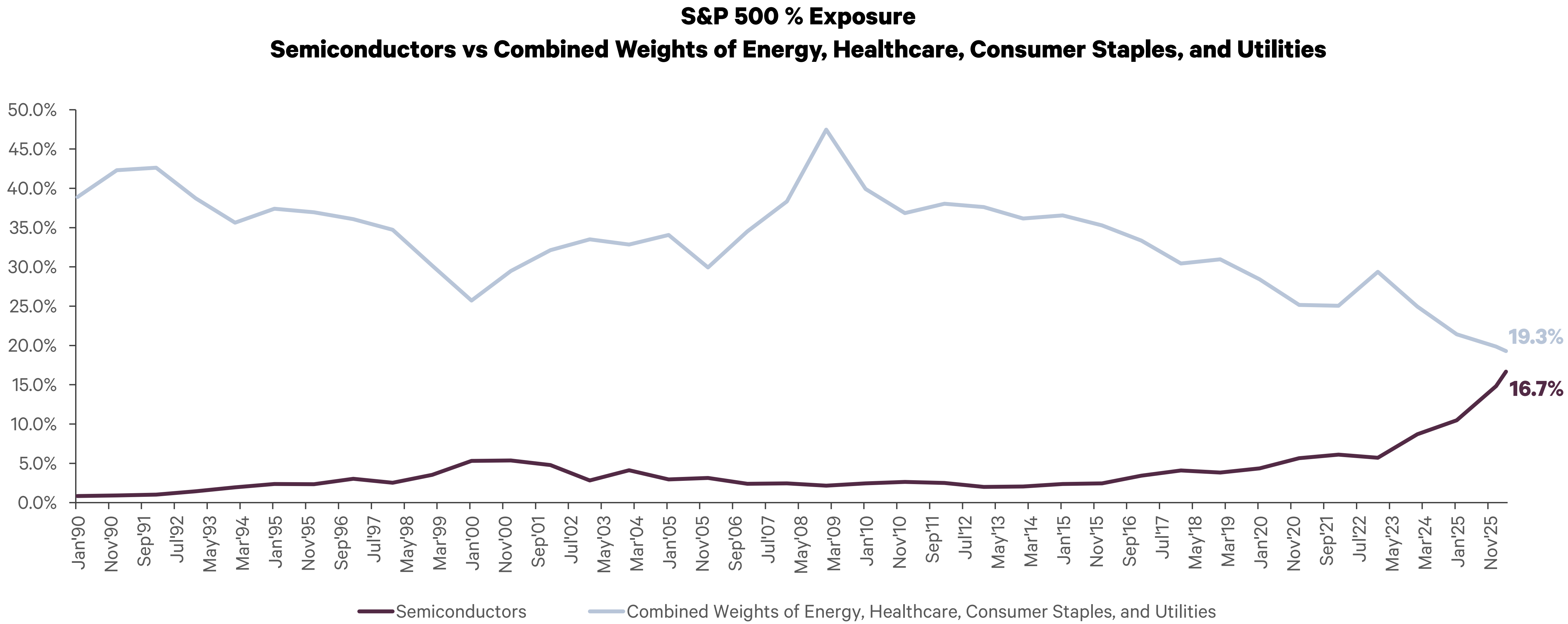
Green dots represent the year-to-date total return. Red text shows the maximum intra-year-to-date drawdown. Gray bars represents the range of returns throughout 2026.

Semis continue leading, while software is just bouncing up off the lows



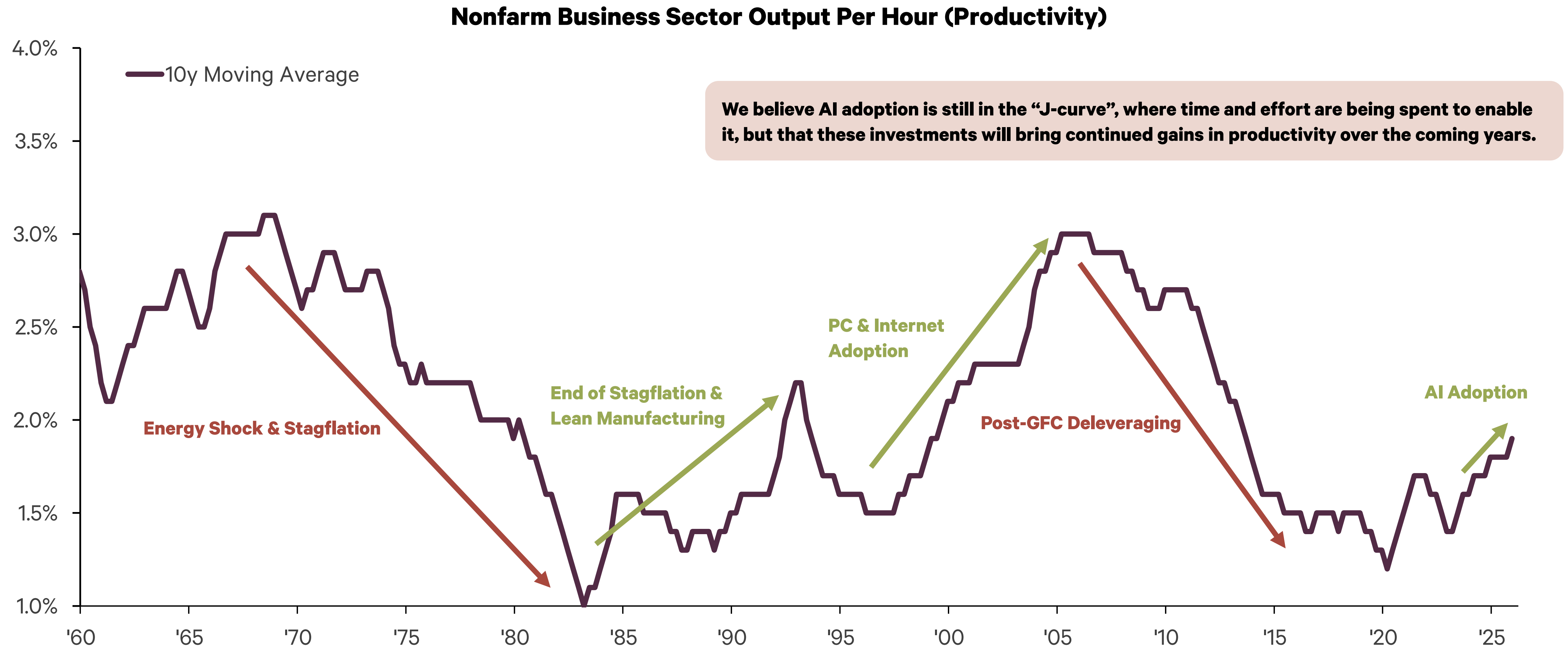
Sources: Pathstone with data from FactSet as of 5/1/2026

Semiconductors concentration in S&P is reaching all time highs



Sources: Pathstone with data from Bloomberg as of 4/30/2026

Longer-term, focus remains on the potential for AI led productivity boost



Sources: Pathstone with data from Bloomberg, Bureau of Labor Statistics. Data as of 4/1/2026.

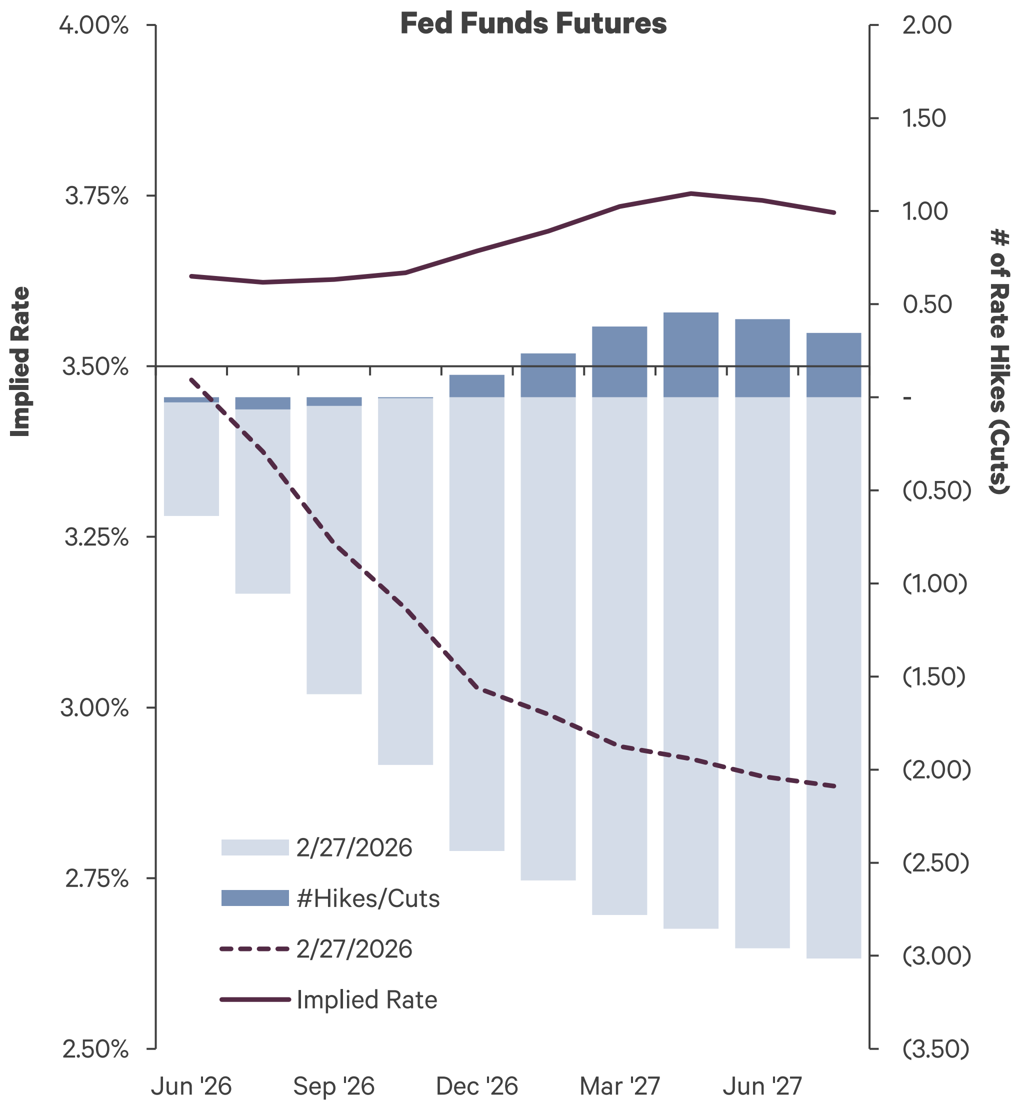
Productivity tracks the total output that can be produced with a given input of labor. Generally it is measured by dividing total real gross domestic product by either total employment or total hours worked.

Fed holds rates stable on higher inflation and uncertainty, Warsh confirmation appears likely

The Federal Open Market Committee (FOMC) left rates unchanged at a target range of 3.5%-3.75%. Three regional Fed presidents: Beth Hammack, Neel Kashkari, and Lorie Logan voted in support of holding rates, but disagreed with including an "easing bias in the statement at this time". Fed Governor Stephen Miran voted in favor of lowering rates by 25 basis points. Notable in the Fed's statements were "developments in the Middle East are contributing to a high level of uncertainty about economic outlook".

Powell announced he will stay on the Fed board as a governor. Even after U.S. Attorney Jeanine Pirro announced closing of the criminal probe and referring the matter to the Fed's Inspector General to scrutinize the renovation cost overruns. Powell doesn't believe that this investigation is truly over with transparency and finality, which has prompted him to stay as a governor. His term as governor ends January 31, 2028. He has also affirmed the "importance for the economy, the people that we serve, that they can depend, over time, on a central bank that operates that way, free of political influence". He noted he will keep a "low profile" as a governor and would leave when he thinks it's appropriate to do so.

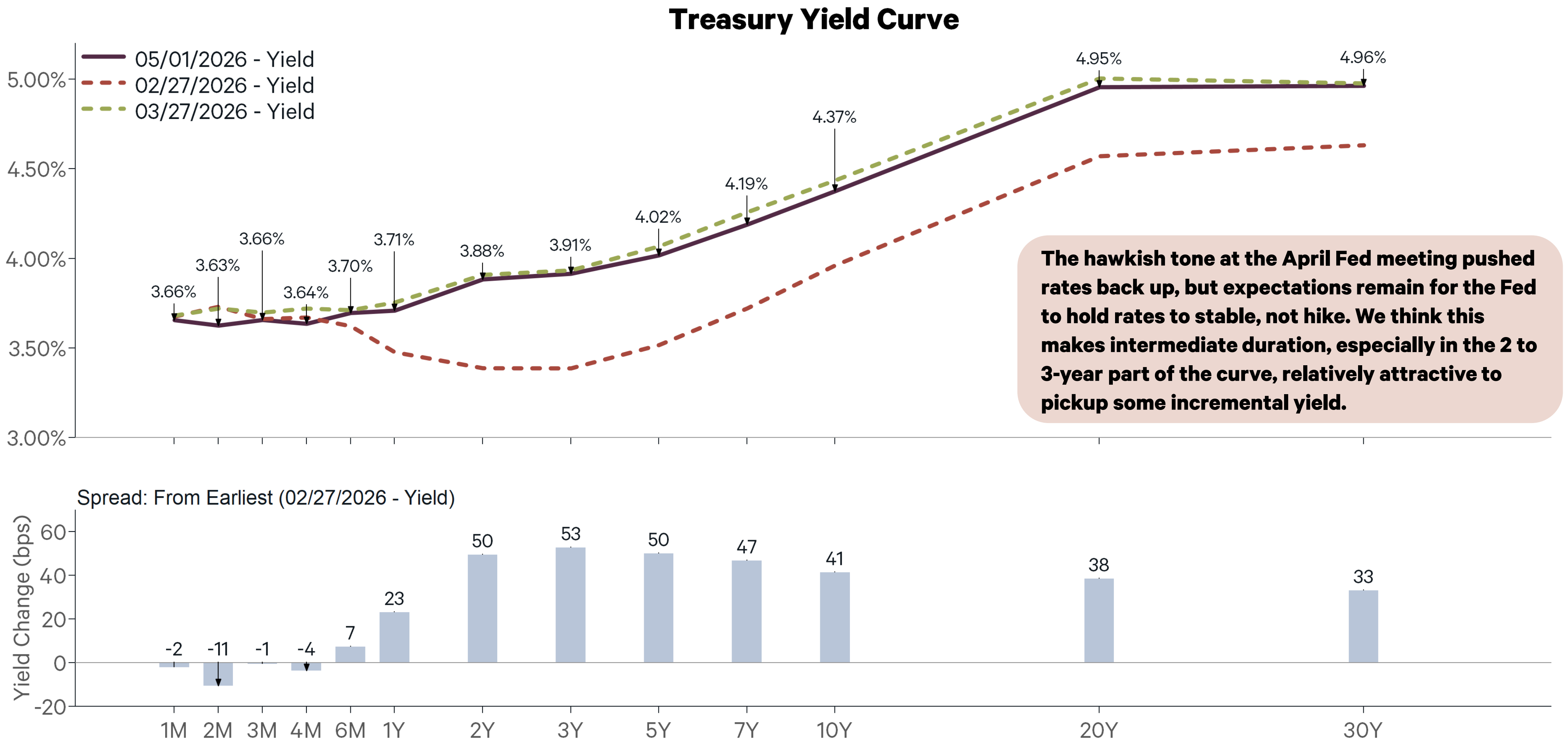
Incoming Fed Chair nominee Kevin Warsh was approved by the Senate Banking Committee on 4/29 and heads to the Senate for final confirmation, which appears likely by the May 15th end of Powell's term as Chair. Warsh will now face a committee with growing dissents, where some members want to make it clear that future rate cuts should not simply be the default base case. Market odds are for no cuts in 2026.



Source(s): Pathstone with data from Bloomberg. As of 5/4/2026.

Fed Fund futures represent market implied estimates of future rates.
Sources: Federal Reserve.

Treasury yield curve shifted back towards post-war highs



Sources: Pathstone with data from FactSet

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US Equities by Size and Style

US Large Cap	Russell 1000 TR USD	The Russell 1000 Index consists of the largest 1000 companies in the Russell 3000 Index.
US Large Cap Growth	Russell 1000 Growth TR USD	Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
US Large Cap Value	Russell 1000 Value TR USD	Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
US Small Cap	Russell 2000 TR USD	The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.
US Small Cap Growth	Russell 2000 Growth TR USD	Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.
US Small Cap Value	Russell 2000 Value TR USD	Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.
US Mid Cap	Russell Mid Cap TR USD	Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.
US Mid Cap Growth	Russell Mid Cap Growth TR USD	Russell Midcap Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values.
US Mid Cap Value	Russell Mid Cap Value TR USD	Russell Midcap Value Index measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values.

Global Equities

US Large Cap	S&P 500 TR USD	The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.
US Large Cap Tech	NASDAQ	The NASDAQ-100 Index is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ.
European Large Cap	MSCI Europe Large GR USD	The MSCI Europe Large Cap Index is a free-float weighted equity index.
European Small Cap	MSCI Europe Small Cap GR USD	Europe Small Cap - Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Spain, Sweden, Switzerland and UKMSCI's Developed Market Indices are based on the share prices of approximately 1.60
Japan	MSCI Japan GR USD	The MSCI Japan Index is a free-float weighted equity index. This index prices in real time in USD.
Asia ex-Japan	MSCI AC Asia Ex Japan GR USD	The MSCI AC Asia ex Japan Index is a free-float weighted equity index. This index is priced in USD.
China	MSCI China GR USD	The MSCI China Index is a free-float weighted equity index. This index is priced in USD.
EM Latin America	MSCI EM Latin America GR USD	The MSCI EM Latin America Index is a free-float weighted equity index. This index is priced in USD.
EM Europe	MSCI EM Europe GR USD	The MSCI EM Europe Index is a free-float weighted equity index. This index is priced in USD.
Magnificent 7	Magnificent 7 Index	The Mag 7 index tracks the performance of the seven largest US-listed technology and communication companies: Apple, Tesla, Nvidia, Meta, Amazon, Google, and Microsoft
AI Leaders Index	Goldman Sachs AI Leaders Index	The index developed by Goldman Sachs selects companies positioned to benefit from artificial intelligence integration while excluding "Magnificent 7" firms to provide diversified exposure to the broader AI ecosystem.
Uranium and Nuclear ETF	VanEck Uranium and Nuclear ETF	An exchange-traded fund that tracks companies involved in uranium mining, nuclear power generation, and the broader nuclear energy supply chain.
Expanded Tech Software	iShares Expanded Tech Software Sector ETF	An exchanged-traded fund that tracks U.S.-listed companies in the software industry, including application, systems, and interactive home entertainment software.
Semiconductors	iShares Semiconductor ETF (SOXX)	An exchanged-traded fund that tracks U.S.-listed companies engaged in the design, manufacture, and distribution of semiconductors.

Fixed Income

Short-term Treasuries	Bloomberg 1-3 Yr US Treasury TR USD	The Bloomberg US Treasury 1-3 Yr Index measures the performance of US Treasuries with a maturity of between 1-3 years.
Long-term Treasuries	Bloomberg US Treasury 10+ Yr TR USD	The Bloomberg US Treasury 10+ Yr Index measures the performance of US Treasuries with a maturity of at least 10 years.
Inflation-Linked Bonds	Bloomberg US Treasury US TIPS TR USD	The Bloomberg US Treasury Inflation-Linked Bond Index (Series-L) measures the performance of the US Treasury Inflation Protected Securities (TIPS) market. Federal Reserve holdings of US TIPS are not index eligible and are excluded from the face amount outstanding of each bond in the index.
Municipal Bonds	Bloomberg Managed Money Short/	Bloomberg Managed Money Short/Intermediate Total Return Index Unhedged USD
Mortgage-Backed Securities	Bloomberg US MBS TR USD	The Bloomberg US Mortgage Backed Securities (MBS) Index tracks fixed-rate agency mortgage backed pass-through securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon and vintage.
Short-term Investment Grade	Bloomberg USD Corp Bd 1-5 Yr TR USD	Bloomberg US Corporate 1-5 years Total Return Index Value Unhedged USD.
Long-term Investment Grade	Bloomberg US Corp Bond TR USD	The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.
High Yield	Bloomberg US Corporate High Yield TR USD	The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded.
EM Aggregate Bonds	Bloomberg Emerging Markets Hard Currency Aggregate Index	The Bloomberg Emerging Markets Hard Currency Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.