

Week in Review

Equity Markets:

The markets notched their second consecutive week in a row and finished the month of April. The S&P 500 finished the week up 0.92% and finished April up just over 10%. The NASDAQ closed the week up 1.12% and notched a 15% return for the month of April, which was its best monthly return since April 2020.

Earnings season has been very strong so far. 63% of S&P 500 companies have reported results, and 84% of them have beaten earnings expectations, while 81% have delivered positive revenue results¹. The earnings growth rate has significantly exceeded expectations. The blended annual growth rate, which includes actual results with estimates, currently sits at 27.1%¹, a significant improvement on the 14.4% growth rate assumption from April 1².

Fixed Income Markets:

The Federal Reserve kept its benchmark rate unchanged, leaving it at the 3.50-3.75% target. Rates ticked up slightly with the 10-year Treasury closing the week 0.08% higher at 4.39%. The fixed income markets are pricing in a 62% probability of no more rate cuts through the end of the year, and following recent inflation reports and commodity market disruptions, there is a roughly a 30% probability for a rate increase before year end³.

The policy meeting saw four dissents out of the twelve votes. This marks the most dissents dating back to 1992⁴. The varying views confirm the uncertainty about the inflationary outlook moving forward. This was also likely to have been current Chairman Powell's final meeting before Kevin Warsh takes over as new Fed Chairman. Chairman Powell confirmed he will stay on the board of governors following his term as Chairman.

Economic:

The Fed's preferred inflation gauge, the Personal Consumption Expenditures Index (PCE), was released last week for the month of March. The headline reading jumped to an annual rate of 3.5% on the heels of oil price increases due to the conflict in the Middle East. The core reading, which excludes food and energy, rose to an annual rate of 3.2%, well above the Fed's 2% target. While elevated, both readings matched the consensus estimates of economists.

The economy continued to expand in the first quarter. GDP grew at an annual rate of 2%, slightly below the 2.2% economist's estimates. The growth was fueled by government spending and investment, but fell short in consumption. The labor market continued to show resilience as initial jobless claims came in at 189,000, well below the 212,000 expectation.

Looking Ahead

Equity Markets:

Earnings growth for the quarter has been abnormally strong. Much of the growth is being fueled by AI spending. Goldman Sach's estimates that 40% of earnings growth for the full year of 2026 is due to AI-related investments⁵.

The S&P 500 is trading at 21x forward four-quarter earnings. This is still above the 5 and 10-year averages but has moved down from the extreme levels earlier in the year due to earnings revisions. We believe there is special sensitivity due to the recent earnings upgrades and believe investors should remain diligent when allocating to risk assets. A minor adjustment down in expectations could result in a quick rebound to the 23x level.

This week will be a big week for earnings, with around 25% of the S&P 500 reporting. We have already seen the majority of financial sector and mega-cap names report, so we will see if the earnings strength so far extends to the broader market in the weeks to come.

Fixed Income Market

We have seen the 10-year yield steadily move higher so far this year, outside of the brief risk-off trade in early March that saw the 10-year yield fall below 4%. Our view the 10-year is little changed and we expect it to stay rangebound in 4.25-4.5% through the end of the year. We could see short periods of volatility that may push the yield closer to 5%, but we still believe the cyclical high has already been established back in October 2023 .

Our stance remains that we are in a higher rate, higher inflationary environment for the upcoming cycle. We could see inflation remain above 2% and oscillate in the mid 2's to 3%, which would lead to maintaining a higher federal funds rate. This is an opportunity for fixed income allocators because starting yields are likely to continue to provide attractive real returns through the upcoming cycle.

Economic:

This week's economic reports will be headlined by the labor market. The JOLTS report will be released on Tuesday, the ADP Private Payroll report on Wednesday, and to close the week, the Non-Farm Payrolls report on Friday. Other notable reports this week include the preliminary reading of the University of Michigan Consumer Sentiment Index, new home sales, and existing home sales.

**** See Important Disclosures on following page

Sources:

- 1)FactSet Research Inc
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- 5)Goldman Sachs
<https://www.goldmansachs.com/insights/articles/us-stocks-forecast-to-rise-in-2026>

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