



Capital Markets Commentary – May 2026

April showers bring May flowers, but this year, Wall Street didn't want to wait. U.S. equities bloomed early with markets pushing toward all-time highs in the month of April. After a bumpy start to the year, the S&P 500, which had briefly touched 7,000 for the first time back in January before pulling back, came roaring back to reclaim and exceed this milestone.ⁱ This was no small feat, given that markets were simultaneously navigating an active U.S.-Iran conflict, elevated oil prices, lingering inflation concerns, and a Fed that is in no hurry to cut rates. It seems Wall Street had its own idea of what spring was supposed to look like.

The S&P 500 closed April up more than 10%, its best monthly showing since late 2020. The Nasdaq led U.S. benchmarks with a 15.3% advance, and the Dow finished up 7.2%.ⁱ The strength was not limited to the United States, with the Eurozone STOXX 50 gaining 8.1%, the Nikkei advancing 17.9%, and the Hang Seng up 4.1%.ⁱ The lone voice of caution came from the bond market, where the 10-yr Treasury yield ticked up to 4.37% to close the month, continuing its climb from 4.32% in March and well above the 3.94% touched in February.ⁱ With Inflation concerns lingering, the Fed unmoved, and an active conflict in the Middle East, investors needed a reason to believe, and corporate earnings delivered.

The numbers being reported are impressive to say the least. As of this writing, roughly two-thirds of the S&P 500 have reported Q1 results with 84% of companies beating analysts' earnings estimates, which is above both the 5 and 10-year averages.ⁱⁱ In total, these companies beat earnings by a margin of roughly 20%, which is nearly three times higher than the 5 and 10-year average.ⁱⁱ The blended earnings growth rate of more than 27%, if it stands, will represent the highest on record since 4Q2021.ⁱⁱ This would also extend the streak of year-over-year double-digit earnings growth to six consecutive quarters. The large tech companies continued to lead the charge, and some analysts have already raised some of their 2Q2026 earnings estimates with sizable revisions.

The earnings season euphoria was not entirely uncomplicated. As we've previously mentioned, big tech's capital expenditures are, by any means, staggering. The market is not entirely overlooking this as several tech stocks traded lower, even after producing strong earnings. The enthusiasm for AI is not in question. What is in question is whether the spending required to compete in this race will generate returns that justify the scale or if the floor for what it costs to stay relevant is simply rising. Those are very different propositions, and the market is being asked to take a great deal on faith. As we've mentioned in previous letters, we question at what point this aggressive capital spending becomes a liability rather than a competitive advantage. The returns on AI infrastructure may be seen in some places. We are not suggesting that AI buildout is a costly mistake, but we have seen throughout history examples of cycles where infrastructure gets built well ahead of the economics. We use AI every day and anticipate a future where this technology may make our lives marginally easier.

With strong earnings results, markets appear to be looking past the Iran conflict. Last month we highlighted just how critical the Strait of Hormuz can be to global energy flows, and one month later that picture has only grown more complex. A ceasefire brokered by Pakistan on April 8th sent stocks surging and gave investors hope that a resolution was within reach. But let's be honest, hope and reality have not yet aligned. Iran has signaled it will not reopen the Strait until the U.S. lifts its naval blockade and formally ends the war, among other requests like reparations, security

guarantees against future U.S. and Israeli aggression, and international recognition of Iranian sovereignty over the Strait of Hormuz. On the other hand, the U.S. is demanding a sweeping agreement that goes well beyond a ceasefire, touching Iran's nuclear program, its ballistic missile capabilities, and its network of regional proxies. With both sides this far apart, the negotiations that gave markets so much hope in early April seem further away than the headlines would lead you to believe.

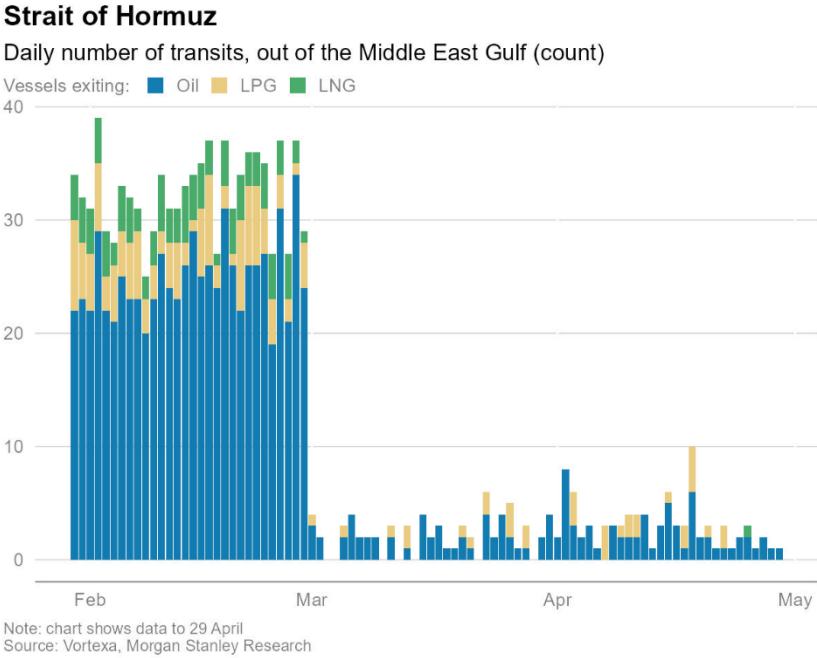


Figure 1

Weekly U.S. Exports of Crude Oil

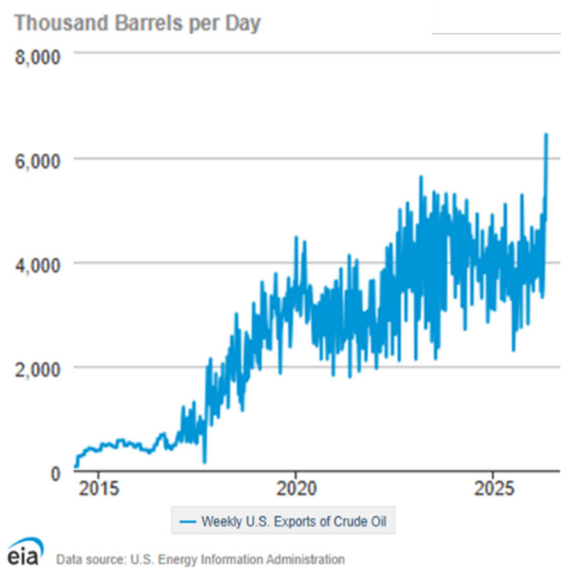


Figure 2

Given how quickly the situation has been evolving, Morgan Stanley Research has been updating their analysis on a near daily basis. This cadence emphasizes how fluid and consequential this conflict remains. Their tracking of daily transit activity through the Middle East Gulf, shown in Figure 1, displays just how dramatic transits have fallen while the world's most critical energy corridor remains effectively closed.ⁱⁱⁱ There is, however, a slight silver lining worth mentioning. As shown in Figure 2, U.S. crude oil exports have surged to a record high of more than 6 million barrels per day.^{iv} Global buyers are scrambling to replace lost Middle Eastern supply with American crude and this disruption has created a demand environment that is difficult to manufacture any other way. Markets may be looking past the conflict, but the data suggests the coast is not yet clear, even if American oil is trying to help keep the lights on in the meantime.

As discussed last month, the Federal Reserve is in a tough position given the underlying circumstances. During their April meeting, the Fed decided to hold rates at 3.50% to 3.75%.^v The more interesting story, however, was in the details. The vote was 8 to 4, the most dissenting voices in over thirty years, with three of those four dissenters not asking for cuts, but asking for removal of the easing bias.^v Core inflation at 3.2% is drifting the wrong way and the labor market has produced almost no net job growth over the past three months.^{vi} The Fed also added explicit language acknowledging that the conflict in the middle east has introduced uncertainty into an outlook that was already far from clear, but the world already knew this. This meeting was almost certainly Powell's last press conference as Chair, which means that Wall Street's peculiar obsession with whether he opened with "good afternoon" has finally run its course. We'll pour one out for our friends using prediction markets. On the flip side, Kevin Warsh's nomination cleared the Senate Banking Committee that same morning and markets tend to expect a Warsh Fed to lean toward easier policy. Whether the data will allow him that luxury is a separate question and he may find the institution somewhat less eager to follow suit than the administration might hope.

The stock market's strong performance in the month of April does not change what every American experienced the last time they filled up their tank. The national average price of a gallon of gasoline has risen to roughly \$4.45, since the conflict in Iran began in late February.^{vii} This can have a significant impact on consumer purchasing power and it can often land the hardest on households that have been struggling with higher prices. When more of a family's budget goes to the gas pump, less of it finds its way to restaurants, retailers, and the broader consumer economy

that accounts for the majority of U.S. GDP. The stock market and the kitchen table are not always telling the same story, and right now they seem to be telling quite different ones.

April was a remarkable month for equities, and we would be remiss not to offer an additional word of caution alongside the good news. A month like April has a way of making investors want to act. The S&P 500 experienced significant losses earlier this year before recovering, and that kind of round trip, while uncomfortable, is entirely normal. Large swings within a calendar year are a regular feature of equity markets, not an exception to them. Chasing returns after a strong month carries its own risks, and a portfolio decision made in the glow of a 10% rally deserves the same scrutiny as one made in the depths of a selloff. If the volatility of recent months has you questioning your comfort level, your allocation, or your long-term plan, we would rather have that conversation now than after the next move either direction. We are always here.

One last thing... Mother's Day is May 10th. Call her, send her flowers, take her to a nice dinner, and make her feel like the most important person in the world, because if your mom is anything like mine, she is.

As always, should you have specific questions or concerns, please never hesitate to reach out.

We look forward to hearing from you.

Graystone Consulting | Charleston, WV

ⁱ Source: Morgan Stanley Wealth Management GIO, Bloomberg, FactSet

ⁱⁱ Source: FactSet Research, Earnings Insight Report as of May 1, 2026

ⁱⁱⁱ Source: Vortexa, Morgan Stanley Research, "Strait of Hormuz - Daily Tracker #55"

^{iv} Source: U.S. Energy Information Administration, "Weekly U.S. Exports of Crude Oil", Petroleum & Other Liquids

^v Source: Federal Reserve Board, "Federal Reserve Issues FOMC Statement," Press Release. April 29, 2026.

^{vi} Source: Federal Reserve Board, "Transcript of Chair Powell's Press Conference April 29, 2026"

^{vii} Source: AAA, National Average Retail Gasoline Prices, May 3, 2026.

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