The Weekly Market Update – 5/4/26: Impressive Earnings Growth Steals the Show

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	7,230.12	0.91%	10.75%	5.62%	29.83%	7,230.12	0.0%
Dow Jones Industrial Average	49,499.27	0.55%	6.81%	2.99%	21.71%	50,188.14	1.4%
NASDAQ Composite	25,114.44	1.12%	16.32%	8.06%	43.95%	25,114.44	0.0%
Russell 2000	2,812.82	0.93%	12.68%	13.33%	43.21%	2,812.82	0.0%
MSCI EAFE (USD)	3,048.80	0.89%	7.40%	5.40%	21.90%	3,179.91	4.3%
MSCI Emerging Markets (USD)	1,601.42	-0.53%	14.62%	14.03%	43.90%	1,629.94	1.8%
Bloomberg Commodity Index	140.22	3.02%	3.68%	27.84%	38.94%	237.95	69.7%
Barclays U.S. Aggregate Bond	93.10	-0.55%	-0.16%	-1.04%	0.73%	112.07	20.4%

Source: FactSet

2026 first quarter (1Q26) earnings growth swelled to +28.2% (S&P 500 index) year-over-year (Y/Y) as of 5/1/26, more than 1,500 basis points above the +12.9% FactSet consensus estimate on 3/31/26. Through Friday, 63% of S&P 500 constituents had reported, leaving 185 companies scheduled to report over the next few weeks, but if the pace holds, 1Q26 will be the best S&P 500 earnings growth quarter since 4Q21 (growth then was aided by a post-COVID shutdown recovery). Earnings growth was not the only consequential story for investors last week but, in our view, it was the biggest story. Other data points included strong monthly equity market gains with the S&P 500 up +10.4% in April and the Nasdaq Composite surging +15.3%. This was the S&P 500's strongest monthly price return since November 2020 (+10.8%). In addition, the Bureau of Economic Analysis (BEA) reported that the U.S. economy grew +2.0% annualized from the prior quarter in 1Q26 (as measured by gross domestic product, or GDP). While April equity market gains were initially attributed to investor optimism from a U.S.-Iran ceasefire (that remains in place) and hopes for peace talks, the earnings results were the primary driver, in our view. Earnings growth to-date was helped by large-company, technology-centric growth stocks as strong results from the larger companies (because the S&P 500 is weighted by market capitalization) drive overall index results higher. Six of the seven "Magnificent 7" (Mag 7) stocks have reported 1Q26 (Nvidia will report on 5/20/26) and have contributed +10.7% of the +28.2% growth (comprising 38% of S&P 500 1Q26 earnings growth). In addition, four other semiconductor memory companies contributed +3.1 points to the total. A few of the Mag 7 earnings reports included non-recurring gains from either investment portfolios or tax benefits, indicating that underlying operating earnings growth was not as strong as the +28.2% reported. Nonetheless, after adjustments, earnings have been impressive, helped by revenue growth tracking +11.4% (estimated +9.6%) and solid earnings across multiple sectors. 1Q26 earnings growth so far indicates, in our view, strong underlying corporate performance despite tangible headwinds from the Iran war and closure of the Strait of Hormuz.

Moderate 1Q26 GDP growth driven by surging business investment. U.S. GDP increased +2.0%, falling short of the +2.3% FactSet consensus estimate (from Wall Street economists). Consumer spending grew +1.6% in 1Q26 (annualized from the previous quarter) and contributed 1.1% to the 2.0% GDP. But business investment increased +10.4% (its best quarter since 2Q23) and contributed 1.4% to the GDP. Because business investment comprises about 14% of U.S. GDP, it rarely contributes more to overall GDP growth than consumer spending, which comprises 68% of GDP. But growth in computers, software, and research and development provided evidence that technology investment to support artificial intelligence and data centers has accelerated and is providing important support for the U.S. economy, even as consumer spending moderates.

Early May includes more earnings reports, close monitoring of the Strait of Hormuz, and April employment data due Friday. During the week of 5/4/26, 126 S&P 500 companies are scheduled to report 1Q26 financial results, with more upside expected. Middle East tensions remain high as the U.S. Navy looks to escort ships through the Strait of Hormuz. Oil markets are on edge with U.S. oil (West Texas Intermediate) trading at $105 per barrel Monday, still up +57% from pre-war levels. The Bureau of Labor Statistics will report on April jobs on Friday. Nonfarm payrolls are estimated to have increased +57 thousand (K). Jobs increased +178K in March and averaged +68K monthly from January through March.

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The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities. Growth sectors are those that generally drive expected annual sales and earnings growth that exceed market and sector average. Value stocks will typically trade at valuation levels below peer group averages. Cyclical sectors tend to be more economically sensitive, with more volatility in sales and earnings growth when the economy is either decelerating or accelerating. Defensive sectors (which often include Consumer Staples, Health Care and Utilities) tend to outperform during periods of economic uncertainty or slow down, as many of the products and services in these sectors are essential in daily life and less impacted by economic swings.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric. Calculations on the percentage price change on indices is provided by FactSet.

Gross domestic product (GDP) is a measure of economic growth and refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data as a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at www.bea.gov. Major components of GDP include personal consumption expenditures, non-residential fixed investment, residential investment, government expenditures and adjustments for inventories and net exports (imports). Non-Residential Fixed Investment includes several subcategories including software and information processing equipment that measure investment in technology. Imports of goods and services are subtracted from GDP data (products are not produced or performed in the U.S) while exports are added to GDP. The first estimate of 1Q26 U.S. GDP was released on 4/30/26 and can be found at www.bea.gov.

On 2/28/26, the U.S. and Israel launched an air attack on Iran designed to eliminate weapons capabilities and critical infrastructure. On 3/1/26, the White House published a release detailing the operation. On 3/6/26, President Trump issued a 10-day deadline for Iran to open the Strait of Hormuz to shipping traffic. The deadline was set to end the evening of 4/6/26. On 4/8/26, the U.S. and Iran agreed to a two-week ceasefire that was set to expire (unless extended or replaced with a peace agreement) on 4/22/26, but has since been extended indefinitely.

U.S. oil prices are often described using the price per barrel of West Texas Intermediate (WTI. This is a high-quality low density crude oil grade sourced primarily from the Permian basin. Futures contracts and spot prices are traded on the New York Mercantile Exchange (NYMEX). Sustained higher oil prices could weigh on economic growth as consumers pay more for gasoline, and business incur higher transportation and input costs.

The Strait of Hormuz is located in the gulf between Oman and Iran. According to the U.S. Energy Information Administration, an estimated 20 million barrels per day are transported on ships through the Strait on a daily basis. This includes liquefied natural gas (LNG) as well and is an essential waterway for Gulf energy exports. As of 5/1/26, very limited shipping vessels were using the Strait of Hormuz.

The International Energy Agency (IEA) has monitored shipping and supply disruptions through the Strait of Hormuz. They have published key facts on the disruption with links to other reports as well. The Middle East and Global Energy Markets.

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The consumer price index (CPI) is a measure of average change, over time, in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics. The U.S. Personal Consumption Expenditures (PCE) Price Index is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis. PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE).

The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

S&P 500 earnings growth reflects the year-over-year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

Generative Artificial Intelligence (GenAI): We think of artificial intelligence as using advanced computers to process large amounts of data to ultimately approach human problem solving and decision making. While still predictive models, generative AI can give detailed responses, much better than a search engine, which does a good job of telling the user where to go to find additional information. As generative AI systems access more data, they become larger and learn to make better decisions. At each iteration, the system gains knowledge, enhancing its predictive (reliable) capabilities and ability to produce original content. Generative AI systems become more robust as they are used as all new data can be trained into the system, creating new challenges and opportunities.

The term "Magnificent 7" was first used in early 2023 by Bank of America. It referred to seven publicly traded stocks that at the time were the most highly valued companies in the S&P 500 index ranked by equity market value. The seven stocks were: Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta, and Tesla. Many of these companies are spending high level of cash flow and data center and semiconductor investment.

When we discuss "growth stocks" we are referring to companies that generate expected earnings growth (over a multi-year period) that is above expected earnings growth for the overall market (typically the S&P 500 index). The largest sector weights (by market capitalization) in the Russell 1000 growth index (as of 3/31/26) were Information Technology, Consumer Discretionary, and Communication Services. "Value" stocks are characterized by companies that trade at discounted valuations to an index, sector, and/or a peer group. The largest sector weights in the Russell 1000 Value Index (as of 3/31/26) were Financials, Industrials, and Health Care.

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics, while the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey is drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work.