

Market Review

Earnings Power

Strong Q1 earnings fuel global rally and reinforce the case for diversification

April 2026

Key Observations

- *Global equities rebounded sharply in April. Strong Q1 corporate earnings, led by mega-cap technology, restored investor confidence after a turbulent start to the year shaped by the conflict with Iran.*
- *Diversification beyond U.S. large cap continued to pay. Emerging markets, international developed equities and U.S. small cap all delivered strong returns.*
- *The Federal Reserve held its policy rate at 3.50% to 3.75% as it weighed inflation pressure from higher energy prices against a softening labor market. April marked Chair Powell's final FOMC meeting in that role.*

Market Recap

April delivered a sharp recovery for global markets. After a difficult start to 2026 marked by the escalation of the Iran conflict and broader concerns about growth and inflation, investor sentiment shifted during corporate earnings season. Strong results, particularly from large U.S. technology companies, sparked a rally that pushed equities higher.

Large cap U.S. equities gained double digits, as the S&P 500 Index returned 10.5% for the month, supported by leadership from communication services, information technology and consumer discretionary. Positive earnings surprises from Alphabet, Amazon and Meta drove much of the upside. Smaller companies advanced even faster. The Russell 2000 Index gained 12.2% as easing recession concerns and improving earnings breadth across cyclicals supported a sharp rally. Information technology and industrials led the small-cap space, while energy and health care lagged.

International equities also delivered strong returns. The MSCI EAFE Index rose 7.5%, with broad participation across Europe and Japan. Information technology, industrials and financials led the regional advance, while a weaker U.S. dollar amplified returns for U.S. investors and added more than 200 basis points to the index's monthly gain. Emerging markets posted the strongest equity performance of the month. The MSCI EM Index

Financial Market Performance		
Index	April	YTD
S&P 500	10.5%	5.7%
Russell 2000	12.2%	13.2%
MSCI EAFE	7.5%	6.1%
MSCI EM	14.7%	14.5%
Bloomberg U.S. Agg Bond	0.1%	0.1%
Bloomberg U.S. HY Corp Bond	1.7%	1.2%
FTSE NAREIT All Equity REITS	9.0%	13.1%
Bloomberg Commodity	4.2%	29.6%

Source: Morningstar Direct. As of April 30, 2026.

climbed 14.7%, propelled by a 32.2% surge in the Information Technology sector as semiconductor and AI infrastructure demand continued to reaccelerate. Korea, Taiwan and India led individual markets, and the asset class is now up nearly 47% over the past year.

Fixed income produced more modest gains. The Bloomberg U.S. Aggregate Bond Index returned 0.1% as Treasury yields traded in a tight range but

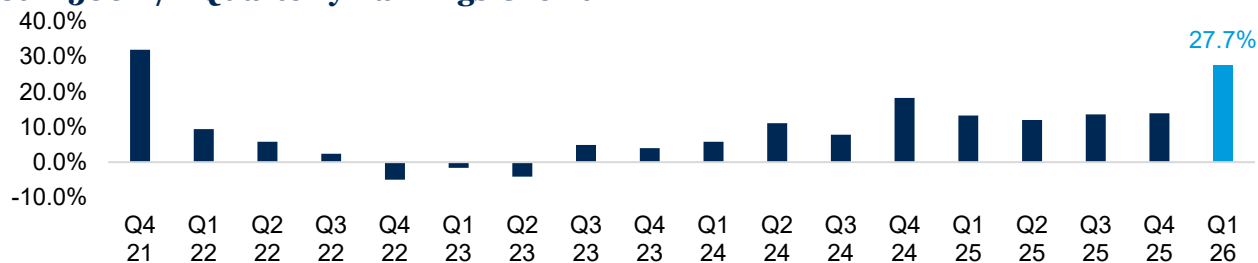
ultimately ended the month higher. The Federal Reserve held its policy rate at 3.50% to 3.75% at its April meeting, citing the need to assess the inflationary effects of higher energy prices alongside a cooling labor market. It was the third consecutive pause and Chair Powell's final meeting in that role. Credit markets fared better. Spreads tightened on the back of the equity rally and stronger earnings, helping the Bloomberg U.S. Corporate High Yield Index advance 1.7%.

Real assets rounded out a constructive month. The FTSE NAREIT All Equity REITs Index gained 9.0%, with broad-based participation across property types. Office REITs jumped 13.6% on signs of stabilization in major metropolitan markets, and lodging, data centers and self-storage all rallied alongside improving fundamentals. Commodities advanced more modestly. The Bloomberg Commodity Index rose 4.2% as oil prices modestly consolidated after their early-year surge tied to the Iran conflict. Industrial metals and agriculture contributed positive returns, and gold finished roughly flat near record levels.

Strength and Resiliency in U.S. Equity Earnings

Q1 2026 earnings season has been the strongest in nearly five years. Blended year-over-year EPS growth for the S&P 500 is tracking at 27.7% (with 89% reporting), the highest since Q4 2021 and more than double the 13.1% expectation at quarter end. If realized, it would mark the index's sixth consecutive quarter of double-digit growth and its strongest quarter since Q4 2021.¹

S&P 500 Y/Y Quarterly Earnings Growth



Source: FactSet Earnings Insight, As of May 8, 2026. Q1 2026 (89% reported).

¹ FactSet Earnings Insight as of May 8, 2026

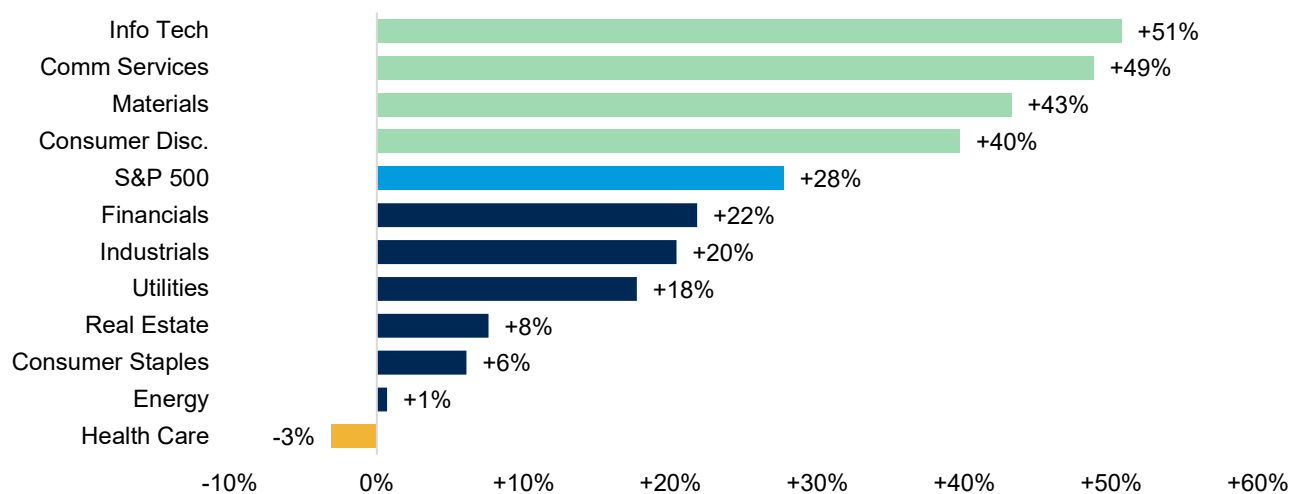
Mega-cap technology continues to disproportionately lift headline earnings. Strong results from Alphabet, Amazon, Meta and Microsoft drove most of the upside, lifting the "Magnificent 7" earnings growth to 61% versus 16% for the rest of the index.²

61% vs. 16%
Mag 7 earnings growth vs. rest of S&P 500

AI capital spending continues to set the pace. Hyperscaler capex commitments for 2026 climbed to roughly \$751 billion, an 83% increase from 2025 spending.³ That investment is feeding through to revenue and earnings momentum at chipmakers, infrastructure providers and select industrials, while at the same time raising legitimate questions about returns on capital. Another important note this quarter is the share of "other income" contributing to the growth. Nearly 60% of net income for Google and Amazon came from valuation increases to private company holdings such as Anthropic.³

Looking deeper at specific sectors, seven of eleven S&P 500 sectors are reporting double-digit year-over-year earnings growth. Information technology (+51%), communication services (+49%), materials (+43%), and consumer discretionary lead the index. NVIDIA and Micron Technology were key drivers within information technology, benefiting from strong AI-related demand for semiconductors. Health care is the only sector showing year-over-year declines. Beneath the surface, results were broader than the headline numbers suggest. Industrials and Financials posted a solid quarter with positive guidance, and more broadly companies reported the lowest frequency of EPS misses in 25 years (excluding COVID).³

Q1 2026 S&P 500 Earnings Growth By Sector



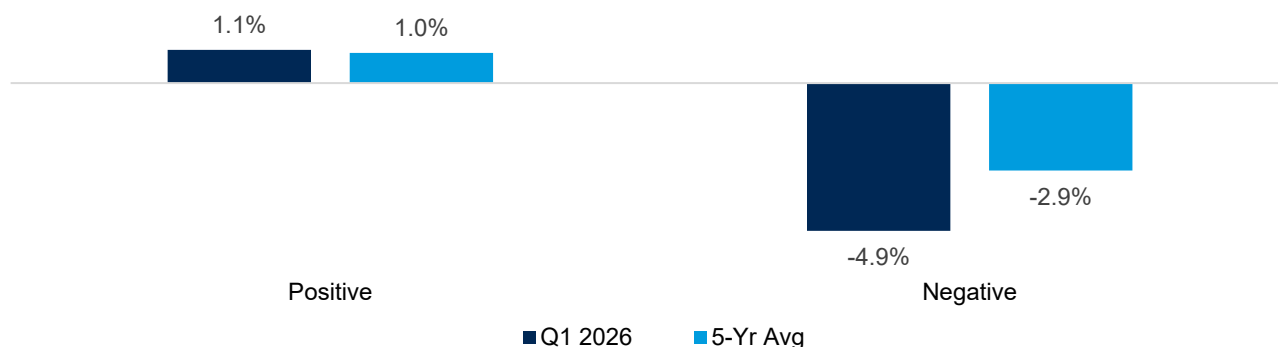
Source: FactSet Earnings Insight as of May 8, 2026

² FactSet Earnings Insight, May 1, 2026.

³ Goldman Sachs U.S. Weekly Kickstart, May 1, 2026. Based on 5 largest public hyperscalers (AMZN, GOOGL, META, MSFT, ORCL)

Equities responded constructively and the risk-on tone was visible across global markets. Beneath the surface, however, the reward for individual EPS beats has been unusually small. The median company beating consensus outperformed the index by just 20 basis points the day after reporting, one of the smallest readings on record.

S&P 500 EPS Surprise vs. Avg Price Change



Source: FactSet Earnings Insight. May 8, 2026. Period two days before the earnings release through two days after the earnings release.

On the other hand, companies with negative earnings surprises were disproportionately punished. That suggests good news was largely priced in. Capital spending also outpaced share repurchases by a wide margin, with capex up over 40% year-over-year in Q1 versus a 1% increase in buybacks, something that warrants monitoring.⁴

Strong earnings remain the primary support for current valuations. The S&P 500's forward P/E of 21x sits above its five-year average of 19.9x and ten-year average of 18.9x, but the multiple is more digestible if 2026 earnings deliver the 21% growth analysts now expect.⁵ The path to that outcome requires margins to hold and AI capex to continue translating into revenue. There are risks to this, particularly around margin compression. Tariffs, energy costs and wage pressures could erode the profitability gains analysts are projecting. And market concentration combined with elevated valuations leaves less margin for disappointment.

Outlook

April reminded investors how quickly sentiment can shift when fundamentals reassert themselves. After a turbulent start to 2026, strong corporate earnings and easing tensions in the Middle East provided a powerful counterweight to macro headwinds earlier in the year and lifted nearly every major asset class. The themes from our 2026 Outlook continue to play out. Diversifying away from U.S. large cap has been beneficial year to date, with small caps, international developed equities and emerging markets all leading. AI-related capital spending is broadening into more parts of the economy, and companies are delivering solid earnings growth.

⁴Goldman Sachs U.S. Weekly Kickstart, May 1, 2026.

⁵ FactSet Earnings Insight. May 8, 2026.

We remain mindful of the cross-currents. Valuations are stretched, market concentration is elevated, sentiment improved meaningfully and the macro backdrop remains uncertain with the Iran conflict, tariff implementation and a Federal Reserve transition all in motion. Strong fundamentals are an important tailwind, but they argue for thoughtful diversification rather than concentrated bets. We continue to favor portfolios that are positioned to participate in the broadening of returns while protecting against the risks that elevated valuations introduce.

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