

CIO-OFFICE DAILY OUTLOOK

5 May 2026

No sooner had it seemed that tensions in the Middle East were fading, than they flared up suddenly bringing market participants back to reality. And in this respect stocks and bonds have been discounting different occurrences and behaved differently as against the crisis. Equities were buoyed by impressive S&P 500 earnings surprises that reached 20% in Q1 and lifted benchmarks to new all-time highs, while Treasuries were affected by rising crude prices to trade in a range with slight upward bias. Can the divergence last? It can, insofar as the earnings season carries on and continues to impress. Macro factors will come back roaring to the fore once the reporting comes to an end, and that would be towards May-end. The S&P 500 earnings surprise was the biggest in years, and dwarfed what seen elsewhere, for instance in Europe, that reinforced the resumption of the trade on US exceptionalism alongside strong AI trends. Yet some cracks emerged despite the calm in stocks. Some companies, like Colgate-Palmolive, mentioned a hit to margins from rising raw materials costs, while others, like Norwegian Cruise Line, warned about 2026 on rising fuel costs and reduced travel demand. Even the realm of AI was affected, with Apple pointing to significantly higher memory costs. Meanwhile, on the bond side investors had to reprice the monetary policy path for 2027, now expected to be a year where the Fed will be hiking to contain inflation. Investors are coming to terms with what is now perceived to be an entrenched standoff that has caused supply issues across the hydrocarbons space. It is not only about crude stockpiles, rather firstly about those of refined products, that are drawing faster than crude stocks. Asian buyers pivoted to American crude products and blends that are in diminishing stock there as well that eventually will be affecting pricing in the United States too. The available stockpiles of crude and refined products are setting the deadline for the unresolved Middle East issue to at most very few months from now. Yesterday, a rally in crude drove stocks and bonds lower on concerns about the Hormuz crisis. The S&P 500 (-0.4%) was led lower by materials (-1.6%) and industrials (-1.2%) with energy (+0.9%) the only sector in the green. The underperformance of the most cyclical and globally exposed sectors carried on from the previous week, highlighting worries about the impact geopolitics could have on global growth. Palantir Technologies (+1.4%) raised its revenue outlook for the year and beat analyst forecasts, currently quite an exception in the beleaguered software sector. Brent crude jumped 6% topping \$114/bbl. Treasuries weakened with the yield on the 10-year note climbing 7bps to 4.44%, and the 30yr closing just a tad above 5%. The US dollar rebounded on safe-haven flows, while gold (-2%) declined as financial conditions tightened.

Spending on artificial intelligence drove increased spending in business equipment in the month of March, extending a yearlong stretch of solid capital investment. Economists expect business investment to remain solid throughout 2026 on favourable AI trends. In the eurozone the final reading of the PMI manufacturing was confirmed at 52.2 for April, highest since 2022 and a third month of expansion back-to-back. Indeed, manufacturing rose to a four-year high globally, driven by both the AI and the rearmament cycle.

Markets this morning

In the Eastern hemisphere bond yields rose after Middle East tensions heightened again and stoked inflation concerns. The dollar strengthened. Traders boosted wagers that the Fed will have to raise interest rates to curb inflation following a surge in oil prices. There is no cash trading in Treasuries during Asian hours due to a holiday in Japan. Brent crude retraced some of the previous session's gains to trade just under \$113 a barrel. Gold edged up 0.3% to around \$4,540 an ounce, while Bitcoin advanced to around \$80,500. Futures for the S&P 500 were little changed, while Asian shares slipped 0.4%, with markets in mainland China, Japan and South Korea closed for holidays.

Upcoming key events/data

Today investors in the United States will be focusing on the ISM Services and the JOLTS report that will offer insights into supply-demand conditions of the US labour markets. Amongst large caps AMD will be reporting Q1 results.

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