



STRATEGY UPDATE • MAY 2026

Markets caught between energy shocks and earnings resilience

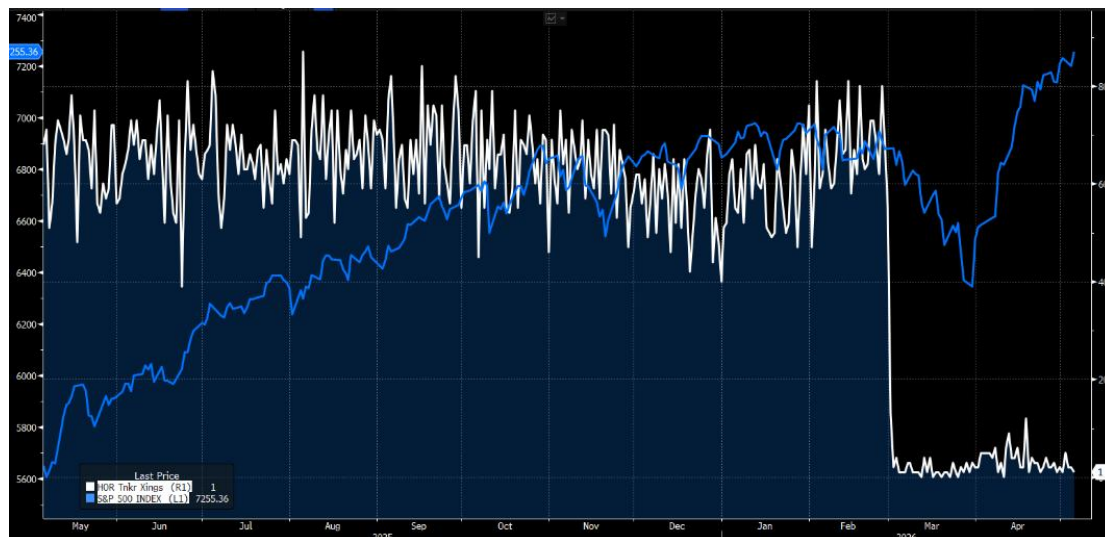
KEY TAKEAWAYS

- Markets remain supported by resilient earnings and expected policy stability into the US mid-term cycle, but the balance is becoming more fragile as risks shift from events to duration
- The key variable is the length of the geopolitical disruption: a prolonged energy shock would materially impact inflation and limit central banks' ability to ease
- AI-driven earnings continue to anchor equity markets, but the risk of insufficient monetization of the capex cycle is rising and increasingly relevant
- Market leadership remains highly concentrated, reinforcing the need for diversification toward Europe, Japan and selected emerging markets with more balanced valuations
- Staying invested remains the base case, but with greater flexibility as the year progresses and markets transition from policy-supported to more fundamentals-driven dynamics

The closing weeks of April 2026 have been characterized by a classic “tug-of-war” between geopolitical anxiety and the relentless momentum of corporate innovation. The escalation of the Iran conflict initially triggered a sharp spike in WTI crude and volatility, with the VIX moving higher, and a short-lived repricing across asset classes, yet this phase was followed by a surprisingly rapid stabilization. A two-week ceasefire announcement and renewed hopes for stabilized peace talks between Washington and Tehran catalyzed a relief rally, allowing the S&P 500 and Nasdaq to reclaim record highs and erase earlier drawdowns. This resilience has been supported by continued strength in earnings, particularly in sectors exposed to artificial intelligence, as well as by central banks maintaining a relatively calm stance despite elevated uncertainty. Europe and Japan have also contributed positively, benefiting from valuation

support and structural tailwinds, while emerging markets delivered more mixed performance, with dispersion driven largely by China-related weakness and stronger momentum in select Asian exporters. Performance in April was a story of clear bifurcation: equities delivered returns in the 4–5% range, largely driven by a sharp **rerating of the “Magnificent 7”**, while **US Treasuries remained broadly flat and gold paused its strong rally** as safe-haven flows partially rotated back into risk assets. Traditional 60/40 portfolios therefore faced one of their more challenging periods since 2022, reflecting the positive correlation between yields and inflation expectations. **This orderly market behavior suggests that we are currently in an “external shock” regime rather than a systemic breakdown.**

Strait of Hormuz transits vs. S&P 500



Source: Bloomberg

SHOCK DURATION & INFLATION

What stands out in the current environment is the growing **disconnect between macro uncertainty and market behavior**. Oil prices and geopolitical headlines have clearly driven sentiment, yet markets have increasingly chosen to interpret the shock as temporary. This is consistent with historical patterns: external shocks tend to generate an initial reaction, followed by a gradual normalization as long as the underlying economic system remains intact. However, this assumption is now being tested. **The key issue is no longer the existence of the shock, but how long it persists.** Disruptions to energy supply chains, even if partial, can create second-round effects through higher transportation costs, insurance premiums and broader supply chain frictions. These dynamics may not immediately derail growth, but over time they can sustain inflationary pressure and tighten financial conditions. Even without further escalation, the persistence of frictions in shipping routes, security measures and insurance costs, particularly around the Strait of Hormuz, can keep inflation expectations uncomfortably high and delay any meaningful policy easing.

This brings the current environment closer to a late-cycle phase where **the balance between growth and inflation becomes increasingly delicate**. In the short term, the impact on inflation is likely to remain contained, with energy price spikes behaving as cyclical disturbances. However, **if disruptions extend into the coming months, the cumulative effect could shift the narrative toward a more stagflationary backdrop**. At the heart of the current investment dilemma is therefore duration: whether the current shock remains temporary or evolves into a more persistent regime. This is particularly relevant given that interest rates are already significantly higher than in previous cycles, limiting the ability of central banks to respond aggressively. In such a scenario, the traditional diversification between equities and bonds

becomes less reliable, as both asset classes can come under pressure simultaneously, as seen in 2022. This creates a “**spectre of stagflation**”, not yet a base case, but increasingly present in the distribution of outcomes, reminiscent of both the 2022 energy shock and, in a more extreme comparison, the supply-driven dynamics of the 1970s.

EARNINGS & AI MONETIZATION

At the same time, **it is important not to overstate the bearish case**. Current economic data continues to show resilience across major regions. Manufacturing indicators have stabilized or improved, credit growth remains supportive, and consumption, particularly in the US, continues to hold up. Corporate earnings have also been stronger than expected, with technology and AI-related sectors acting as the primary drivers. **This earnings resilience is the central anchor for equity markets**. As long as companies are able to deliver growth and maintain margins, markets can absorb a significant amount of macro uncertainty. Importantly, **the global economy today benefits from buffers that were absent in previous cycles**, including higher starting interest rates and more resilient private sector balance sheets.

However, this strength is not without its own risks. The current cycle is heavily dependent on the AI investment theme, which has driven a substantial increase in capital expenditure across large technology companies. The assumption embedded in market valuations is that this investment will translate into sustained and scalable profitability. **The larger risk for global equity markets is therefore not necessarily a deterioration in growth, but rather insufficient monetization of this capex cycle**. If returns on these investments fall short of expectations, the impact would extend beyond the technology sector, given its weight in global indices and its role in supporting overall earnings growth. In that sense, markets are increasingly pricing execution rather than just potential, leaving limited room for disappointment should the monetization phase lag behind the investment cycle.

DIVERSIFICATION & PORTFOLIO POSITIONING

Another important feature of the current market is the **high level of concentration**. **A limited number of large-cap stocks continue to drive index performance, particularly in the US**. This creates both strength and vulnerability. On one hand, these companies benefit from structural growth drivers and strong balance sheets. On the other, it increases the sensitivity of the overall market to any change in sentiment toward this group. In contrast, other regions offer a more balanced exposure. Europe, while facing near-term headwinds from energy costs, continues to benefit from fiscal support and more attractive valuations. Japan remains supported by corporate governance reforms, improving shareholder returns and a still accommodative policy backdrop. Emerging markets are increasingly benefiting from a softer US dollar and improving earnings momentum, although China remains a key uncertainty. This reinforces the case for a **gradual diversification away from an increasingly concentrated US market** toward regions with more balanced valuation and earnings dynamics.

From a portfolio perspective, **this environment does not justify a full de-risking**. De-risking portfolios through outright asset sales requires a clear transition toward an economic contraction or a sustained inflation shock. At present, there is no compelling evidence that such a regime shift is underway. Instead, markets remain in a phase where uncertainty is elevated, but growth and earnings continue to provide support. In this context, maintaining exposure while adjusting risk dynamically remains the most effective approach. Absent a clear endogenous deterioration in growth, **staying invested remains the most rational baseline**, with risk managed tactically rather than structurally reduced.

POLICY & OUTLOOK

Looking ahead, political dynamics will also play a role. **Market participants increasingly expect that policy decisions in the US will remain supportive as the mid-term election cycle approaches.** While this should not be seen as a guarantee, it reinforces the idea that downside risks may be managed, at least in the near term. This contributes to a constructive backdrop for equities over the coming months. However, as the year progresses, the focus is likely to shift toward the sustainability of growth, the evolution of inflation and the eventual normalization of policy, all of which could introduce greater volatility. This suggests that **the current constructive phase may extend into the mid-term horizon**, before markets become more fundamentally driven toward year-end.

In conclusion, financial markets are currently balancing between resilience and fragility. The underlying trend remains constructive, supported by earnings strength, improving liquidity conditions and structural growth themes such as artificial intelligence. At the same time, risks are becoming more nuanced and increasingly linked to duration rather than immediate shocks. For equities, this translates into a continued upward bias, but with a growing need for selectivity, diversification and active risk management. The coming months are likely to reward investors who remain invested but flexible, capturing opportunities across regions and themes while staying attentive to the evolving macro landscape. The key challenge ahead is no longer the shock itself, but how long it lasts and how deeply it feeds into inflation, policy and ultimately earnings.

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