

## Week in review and ahead (vol.19-26)



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### Week in review

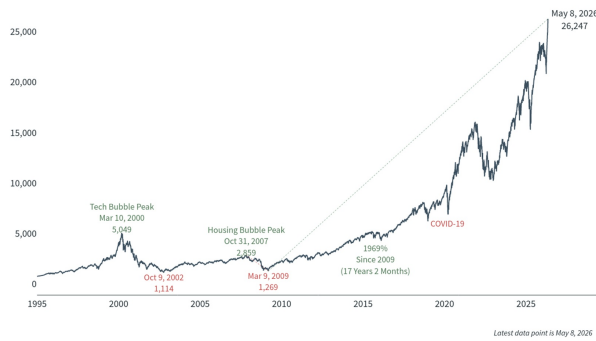
US markets recorded strong gains this past week as corporate earnings, in general, continue to exceed estimates (at a pace and scale well above historical averages) while forward guidance continues to see a greater number of upward revisions. The markets rallied particularly strong on Friday on a strong non-farm payroll report (“NFP”) for April and prospects that both, the US, and Iran, appear to seek an off-ramp to the conflict. Despite numerous strikes during the past week, the fragile cease fire appears to hold. The US is waiting Iran’s answer to its memorandum of understanding “MOU” that would cease hostilities, end the naval blockade of Iranian ports (and open up the Strait of Hormuz), pause Iran’s uranium enrichment to facilitate a 30-day negotiation period for a border peace deal. With the Strait of Hormuz remaining de facto closed (with few exceptions of passages being reported, albeit it is unclear if “toll” was paid to Iran), the global energy infrastructure and oil-shock is likely to worsen in the near-term, however, markets continue to look past those risks on the global and domestic economy. As such volatility remained unchanged for the week, indicating a calm, low-fear environment.

With AI and tech companies leading the rally, the Nasdaq gained 4.5% for the week, registering gains of 1.7% on Friday alone. The S&P 500 gained 2.4% in the week, advancing 0.8% on Friday, which, similar to the Nasdaq, closed just off a new all-time high exceeding 7,400 points for the first time. The Nasdaq had surpassed 26,000 points on Thursday. The rally was somewhat more subdued in the small cap Russell-2000, gaining 1.7% for the week, while the Dow Jones saw gains of 0.2%, with both remaining near their respective all-time highs. Noteworthy, not all of the sectors participated in the rally. In fact, about half of the Sectors represented by the S&P500, declined for the week, namely companies in the energy, healthcare, utilities, financials, and consumer staples sectors. Moreover, some companies have begun articulating concerns about the state of the US consumer as broad inflation, led by higher oil prices, are once again outpacing earnings growth.

Internationally, the rally in the US carried over to Asia with all major markets posting gains for the week, led by South Korea’s Kospi-Index gaining 11.3% for the week (on continued strength of (AI) semiconductor sector, including memory companies that is fueling the rally also in the US), and Japan’s Nikkei-Index that saw gains of 5.4% for the week. In Europe equity markets were somewhat more subdued, seeing little change in France and Germany, while the UK’s FTSE index declined by -1.3% for the week.

## Stock Market Cycles

NASDAQ Composite since 1995



Sources: Clearnomics, Nasdaq  
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## Week in review – US macroeconomics

With market’s continued focus on corporate earnings and risks from continued geopolitical uncertainty somewhat ignored (for the time being), this past week’s macroeconomic calendar was headlined by the NFP report for April, the job openings and labor turnover survey (“JOLTS”) for March, Q1’26 productivity, and the ISM service survey for April. Other releases included new home sales, construction spending, and the preliminary University of Michigan (“UMich”) consumer sentiment survey for May.

The ISM services survey for April held above the 50-threshold at 53.7%, virtually in-line with expectations of 53.6%, suggesting that the largest

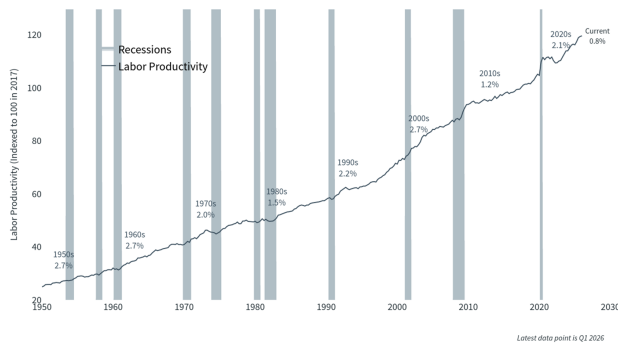
segment of the US economy continues to expand. Beneath the headline, however, the composition continues to indicate a challenging environment. The prices paid index remains elevated at 70.7%, the same level surveyed for March, indicating persistent input cost pressures, while new orders softened to 53.5% (-7.1%), the second weakest reading this year. The employment sub-index remained in contraction at 48.0%, missing estimates of 48.3% but higher sequentially (+2.8%), reinforcing the no-fire / no-hire dynamic.

Non-farm productivity for Q1’26 surprised to the downside increasing 0.8% quarter-over-quarter (“QoQ”), or half the rate of the prior quarter and well below expectations of 1.4%. On an annual basis, however, productivity gains rose 2.9%, continuing well above historical averages and the largest reading since Q3’24. Productivity gains are key for the economy as they generally act disinflationary and aid offset inflationary pressures otherwise. Notably, Fed Chair nominee Kevin Warsh explicitly emphasized during his confirmation hearing that productivity has shaped his thinking and, if confirmed, is likely to influence monetary policy.

On the labor side, the picture remained one of stability with softening at the margin. JOLTS for March showed job openings of 6.87 million, slightly above estimates of 6.8 million, the lightest reading since the end of last year. Initial jobless claims continued their favorable trend at 200K compared to estimates of 205K, well below historical averages and consistent with a no-fire labor market environment. The NFP report for April indicated that private payrolls rose 115K against an estimate of 65K, marking the first back-to-back months of job growth in 2026, with healthcare and hospitality driving the gains. Prior revisions netted a modest -16K, with March revised upward to 185K (from 178K) and February revised downward to -156K (from -133K). The headline unemployment rate (U3) held at

## U.S. Productivity Growth

Labor productivity index and average annual growth by decade, since 1950



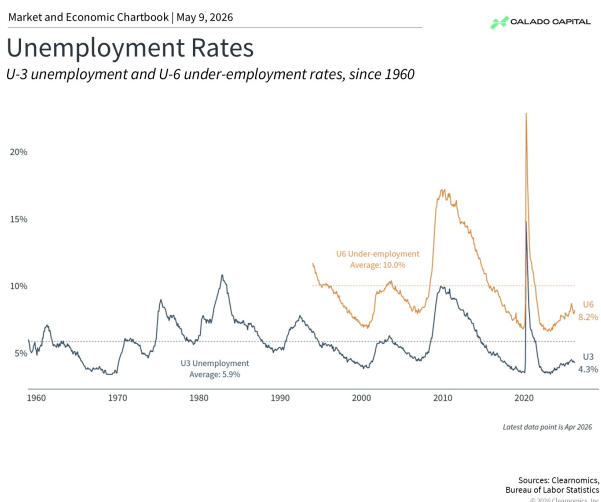
Sources: Clearnomics, Bureau of Labor Statistics  
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4.3% as expected, but underemployment (U6) ticked up to 8.2% (vs 8.0% expected), continuing its upward trend since February’26. The participation rate slipped 0.1pp to 61.8%, the lightest since September’21, continuing to move in the wrong direction. Average hourly earnings rose just 0.16% MoM compared to estimates of 0.3% and were virtually

unchanged from March. On an annual basis, earnings rose 3.6% compared to estimates of 3.8%, but ticked higher sequentially from 3.4%. Hours worked at 34.3 saw minor improvement but remain on the light side. Consistent with the report for April, preliminary unit labor costs for Q1'26 came in at 2.3% QoQ, better than the 2.6% expected and roughly half the previous quarter's growth rate, indicating low risks for wage-driven inflation pressures.

The balance of the week's data was broadly positive, except for sentiment surveys, a trend that continues to manifest. Factory orders for March advanced 1.5% MoM exceeding expectations of 0.6%, and 1.6% ex-transportation compared to estimates of 1.3%, pointing to still-healthy capital goods demand in the US. New home sales for March surprised to the upside at 682K, exceeding estimates of 660K and higher sequentially, with the median price down -6.2% YoY that should provide some tailwind for affordability as inventory increases to 8.5x months of supply. Similarly positive, construction spending for March rose 0.6% compared to estimates of 0.3%. Consumer sentiment, on the other hand, took a sharper turn lower as the UMich's preliminary May reading printed sentiment at 48.2 compared to estimates for 49.7, a new all-time low.

Taken together, with a labor market that is stable rather than deteriorating amid higher inflationary pressures should reduce the Fed's urgency to cut and likely to drift toward a more neutral stance, removing the easing bias previously adopted as some members of the FOMC sought by dissenting during the last meeting while agreeing to keep interest rates steady. Speaking of rates, treasury yields remained under upward pressure, with the 30-year jumping above the 5% threshold and the 10-year crossing above 4.4% mid-week before retreating somewhat after the softer ISM services release (despite still-elevated prices paid).



## Corporate earnings

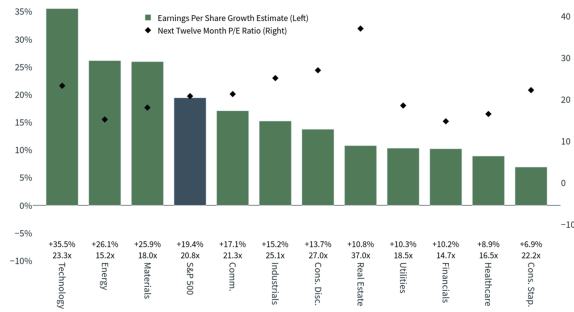
Corporations continue to report impressive results. In accordance with FactSet, and with nearly 90% of the companies belonging to the S&P500 reporting, strong results continue with the number of companies exceeding expectations (84%) and the magnitude of beating them (by an average of 18.2%). Both metrics continue to range well above historical 5- and 10-year averages. The current earnings growth rate for the quarter (including estimates for companies yet to report) is an estimated 27.7%, higher by 0.6pp reported last week, and well ahead of last quarter's 13.1%. If confirmed, this would be the highest quarterly growth rate since Q4'21 and the sixth consecutive quarter with double-digit growth.

Similarly, companies reporting better than expected revenues (of 80%) continue above (historical) five-and ten year averages, albeit the magnitude of the (estimate) beat is averaging about 1.7%, below the 5-year average (of 2%), but above the 10-year average (of 1.5%). Per FactSet, the blended revenue growth rate for the quarter is 11.3%, up 0.2pp from last week, and sequentially (from the 9.9% growth rate during the previous quarter), on pace to be the highest since (CY) Q2'22.

Estimates for subsequent quarters based on guidance (thus far), are for quarterly earnings growth to remain above the 20%-mark, for a YoY growth rate of 21.3% in calendar year 2026, down 0.3pp from the previous week. Earnings season continues next week with eleven S&P500 companies due to report as well as one of the Dow 30 components. Per FactSet, the forward 12-month P/E ratio of 21.0x continues well above the five- and ten-year averages of 19.9x and 18.9x, respectively.

### Sector Earnings and Valuations

Earnings Growth and P/E Ratios, Next Twelve Month Estimates



Sources: Clearnomics, I/B/E/S, Standard & Poor's © 2021 Clearnomics, Inc.

### Week ahead

The geopolitical (re-)escalation risk with Iran persists despite no longer taking center stage as the conflict enters the eleventh week. This may change should the US' MOU be rejected by Iran that may see hostilities resume. Markets will also look for the upcoming US-China Summit in Beijing with President Xi to meet POTUS on May 14-15th to assert any stabilization or improvements in bilateral relationship that arguably will have implications on the global economy.

From a US macroeconomic perspective, inflation will be the focus next week with implications for the Fed and the treasury market alike. Reports on retail inflation, or CPI, for April, wholesale inflation, or PPI,

for March, as well as import and export prices are slated to be reported with projections on headline for CPI and PPI to be in-line sequentially, while forecasts for core are expected to see acceleration. Besides inflation, US retail sales for April, existing home sales, and initial jobless claims will also be in focus. Forecasts for retail sales of merely 0.4% are well below March's rate of 1.7%, likely to indicate that the state of the consumer may be fragile and not as strong as previously, as impacts of the oil-supply shock may filter through the economy. Existing home sales are projected to be above 4.0 million after falling to 3.98 million in March while initial claims are expected to remain steady.

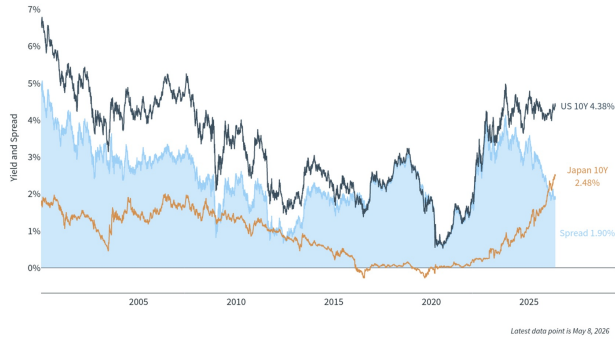
### Number of the week: 5.017%

The yield on the 30-year US Treasury breached the 5% threshold earlier this week, briefly trading at its highest level of the cycle, before easing back as softer ISM services and consumer sentiment data tempered the move. The selloff at the long end was not isolated to the US. In Japan, the 30-year JGB yield reached yet another record high this week, jumping briefly above 2.5% at the end of last week, extending a multi-month trend as the Bank of Japan continues unwinding more than a decade of yield curve control and as Japanese institutional investors recycle capital domestically. Long-end yields in Germany and the UK have drifted higher in sympathy.

The somewhat synchronized backup at the long end of global curves, even amid signs of softening US and global growth, may suggest markets are repricing term premia globally rather than reacting to growth or inflation alone. Concerns over US and global fiscal trajectory, higher long-run inflation expectations, and waning foreign demand for long-duration Treasuries are converging at a moment when Japan, which has been historically the marginal buyer of US duration, is finding more attractive yields at home. For investors and the economy, the implications extend well beyond Treasuries. A sustained 5%-handle on the long bond adds pressures to mortgage rates, lifts corporate borrowing costs (particularly for highly levered names), and eventually may weigh on equity multiples for growth assets. This dynamic may be worth watching closely as the Fed reassesses its easing policy stance.

## U.S. and Japan Interest Rates

Yields and spread between U.S. 10Y Treasury and Japan 10Y Government Bond



Sources: Cleareconomics,  
U.S. Treasury, LSEG  
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