Week in review and ahead (vol.22-26)

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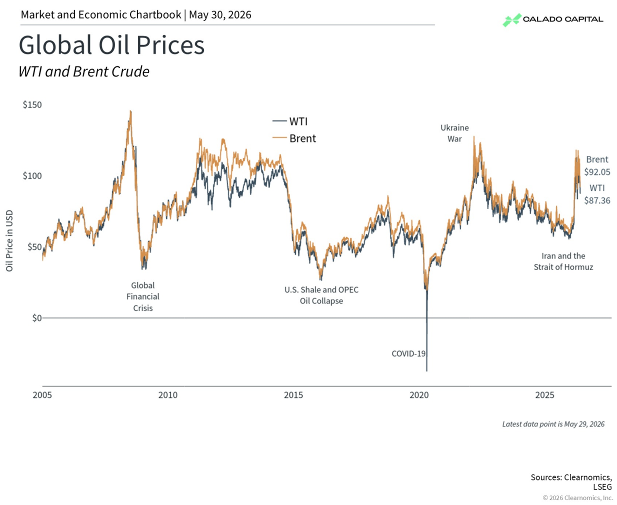
Week in review

US markets continued to climb higher as company earnings of AI infrastructure companies continue to report strong quarterly results, elevating forward guidance, continued hopes of a resolution to the conflict with Iran, and a softer than expected PCE inflation index in the US. Despite ongoing talks by the US and Iran to agree on a memorandum of understanding (“MOU”) that would extend the cease fire, numerous strikes were reported throughout last week that at minimum underscores the contentious nature of discussions. Regardless, markets continue to see through the geopolitical supply chain risks caused by the conflict and appear quite content by the fact that both sides appear willing to work on the MOU. Despite global and OECD inventories drawing at a record pace, heightened inflationary pressures globally, markets continue to favor that a resolution would restore oil and oil-dependent supplies from the region to pre-conflict levels. Hence, oil futures for Brent or West Texas Intermediate (WTI) have pared recent gains and are trading well off their recent highs. Similarly, treasuries and government bonds globally rallied this past week, after strong sell offs just a few weeks ago, sending yields lower by the end of the week on de-escalation optimism. The 10-year US treasury yield declined by -0.11%-points as did the German Bund (-0.09%), UK Gilt (-0.12%), and Japan’s JGB (-0.11%) for the same maturity. The optimism in the market, however, is encountered with some skepticism by energy companies and executives that continue to point to the significant disruption and destruction to assets and infrastructure alike that may take an extensive period of time, likely years, for supplies and inventory levels to reach pre-conflict levels.



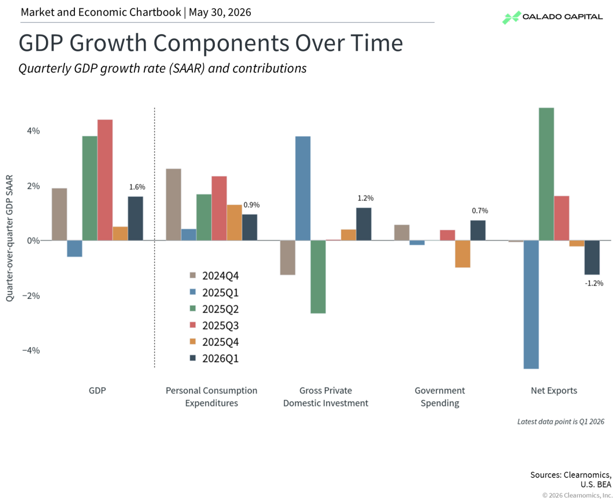
For the week, the S&P, Nasdaq Composite, and Dow Jones closed at all-time highs, hitting new intraday highs earlier in the week, advancing 1.4%, 2.4%, and 0.9%, respectively. The Russell-2000 advanced 1.8% for the week. Notably, the Dow Jones closed above 50,000 points for the first time, while the S&P continued to post weekly gains, now for the 9th consecutive week.

Internationally, most markets in Europe and Asia posted strong gains on the same optimism despite inflation bolstering calls for rate hikes. The German Dax advanced 0.9% for the week, closing near its all-time high, as its inflation rate for May came in at 2.6% year-over-year ("YoY"), well below expectations and previous month of 2.9%. Elsewhere in Europe, inflation for May was sequentially higher but in-line somewhat with expectations lifting equities in France and Spain. In Asia, markets were mixed. Japan's Nikkei index and South Korea's Kospi saw strong gains, advancing 4.7% and 7.6%, respectively for the week, and closing at new all-time highs. Markets in China, Hong Kong, and India, however, saw declines for the week of -1.1%, -1.7%, and -0.9%, respectively.

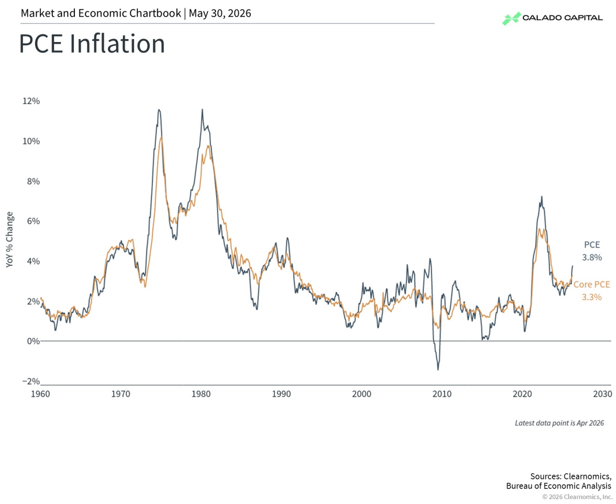
Week in review – US macroeconomics

This past week's US macroeconomic calendar was headlined by the second estimate of first-quarter GDP on Thursday and, more importantly, by Friday's Personal Income and Outlays report for April, including the personal consumption expenditures ("PCE") price index, the inflation gauge the Federal Reserve weighs most heavily. The balance of the week was rounded out by durable goods orders and new home sales for April, the latest weekly initial jobless claims, and the Chicago purchasing managers' index ("PMI") for May.

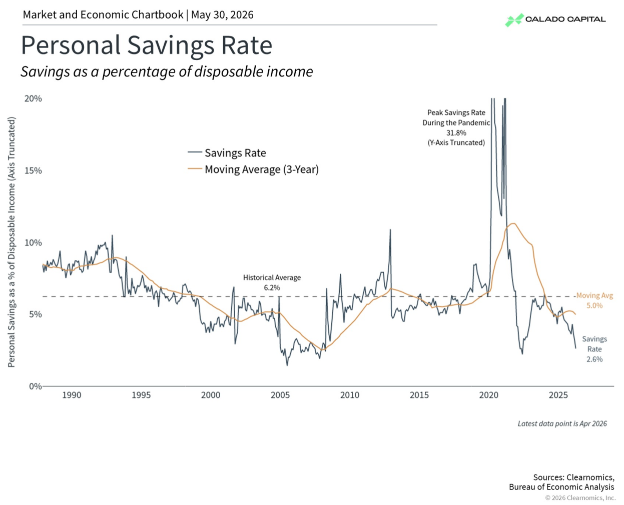
The second estimate of first-quarter 2026 GDP was revised down to 1.6%, from the 2.0% advance reading, a notable 0.4 percentage-point ("pp") downgrade that points to slowing growth momentum entering the year than initially believed. The GDP price index, the broadest measure of price development in the quarter, was revised lower as well, to 3.5% on a quarter-over-quarter ("QoQ") basis from the 4.5% previously reported, a meaningful cooling for the quarter's inflation read, which did include two of the three months pre-war, as the monthly data have since pointed to heightened inflationary pressures.



Headline PCE rose 0.4% month-over-month ("MoM") in April, below expectations of 0.5% and sequentially better than the elevated 0.7% recorded previously, while core PCE, which excludes the volatile food and energy components, rose just 0.2% MoM, below both estimates and the prior pace of 0.3%. On an annual basis, however, the inflation picture is less benign. Headline PCE accelerated to 3.8% YoY, in line with expectations but up from 3.5% previously, reflecting the energy pass-through from the ongoing oil supply shock, while core held at 3.3% YoY, in line with estimates yet ticking up 0.1pp sequentially. Within the GDP report, the second estimate of core PCE for the quarter edged up to 4.4% QoQ, from the 4.3% initially reported. As such, overall, the monthly (inflation) prints were better than feared, particularly on core, even as the annual trend continues to tick up, gradually.



The greater concern for the economy from last week's data set, however, came from the income and spending detail. Personal income was flat in April, at 0% MoM versus expectations of 0.4% and down sharply from 0.6% previously, even as personal spending rose 0.5% MoM, in line with estimates but decelerating from an elevated 0.9% the prior month that was likely impacted by the one-time impetus of tax refunds. With income stalling and outlays still rising, and rising faster than incomes in real terms once inflation is accounted for, the personal savings rate fell to 2.6%, one of the lowest readings on record. That dynamic implies consumers are increasingly funding consumption by drawing down savings and expanding their use of credit, likely to bridge what they may perceive as a short-term squeeze. Therein lies the risk for the US economy. Should the consumer instead come to treat the higher, energy-driven price level as the new reality, the response may be to pull back, slowing spending impacting growth more broadly at a time when monetary policy may not be able to come to aid as it shifts priority back to inflation.



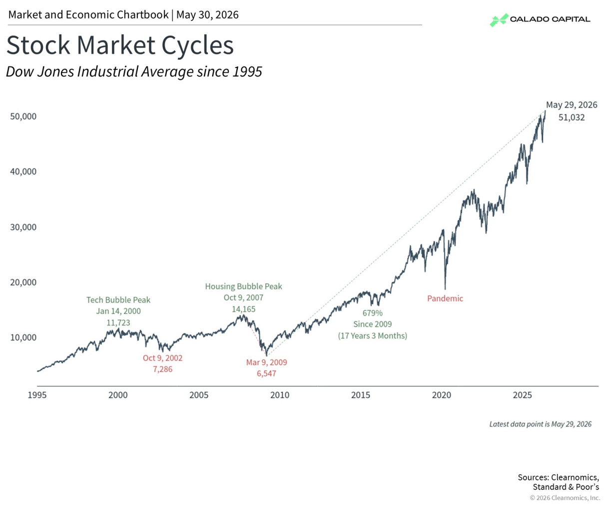
The balance of the week’s data, by contrast, leaned positive on the industrial side. Durable goods orders for April surged 7.9% MoM on headline, nearly double the 4% expected and the strongest reading since May 2025, while orders excluding transportation, a better read on underlying demand, rose 1.1%, above the 0.6% expected and the second-highest print this year, a constructive signal for business investment. Similarly, the Chicago PMI print of 62.7 against expectations of 51.8 surprised with the strongest reading since January’22 and a genuine statement of manufacturing strengthening in the US. The exception remained housing. New home sales for April disappointed yet again at a 622K annualized pace, well below the 663K expected and down 6.2% MoM, as elevated mortgage rates continue to weigh on demand. Initial jobless claims, at 215K, came in marginally above the 211K expected but remain well-behaved and below historical averages.

Last week’s data pointed to a downward pressure to growth, headline inflation pushing higher by energy with core proving sticky, a visibly stretched consumer, yet resilient manufacturing and capital-goods demand. Given the risks, one may expect the Fed to pivot, not just from removing language towards an easing bias, but towards tightening monetary policy, including asserting possible rate hikes. Markets, which have been repricing for sustained inflation as of recent with bonds selling off, will likely turn and focus on monetary policy, ahead of the Fed’s June 16-17 meeting under new Chair, Kevin Warsh.

Corporate earnings

The corporate earnings season is winding down, however, AI infrastructure and hardware companies, including software/SaaS companies reporting last week continue to beat consensus expectations, and issue strong guidance, underpinning the semiconductor and AI trade. Given the volatility in the software/SaaS trade earlier in the year due to AI displacement fears, some of the Companies in the sector after reporting earnings are beginning to distance themselves from it, as markets are repricing them. For retailers, earnings last week were mixed. The commentary during the calls, however, did not allude to waning consumer demand, which could signal growth concerns.

Earnings season continues next week dominated yet again by software/SaaS companies, specifically in cybersecurity, and retail companies.



Week ahead

The markets will continue to focus on progress towards a final MOU to sustain last week's optimism, as the conflict draws out and is entering its 14th week. Next week we will see key macroeconomic reports to offer additional insights on the state of the economy and the labor market. Specifically, ISM to provide its reading on the manufacturing sector for May, followed by the non-farm payroll ("NFP") report for May, and the job openings and labor turnover (JOLTS) survey for April. The unemployment rate in the US is projected to remain at 4.3% and assuming the NFP does not surprise negatively, risks to the Fed's unemployment mandate should remain in balance, likely "dictating" the need to prioritize its other mandate, inflation.

Number of the week: 50,000

The Dow Jones Industrial Average closed above the 50,000-mark for the first time in its history this week (at 51,032 points), a milestone reached roughly two years after the index first crossed 40,000 in May 2024, or up nearly 25% since then. The breakout came amidst a broad, tech-led rally that saw the S&P 500 advance for ninth consecutive weekly gains, its longest winning streak since 2023, while the Nasdaq gained 8% for the month of May alone.

Since its inception the Dow Jones has shifted from industrial, railroads, and commodities (i.e., steel, oil, chemicals, manufacturing) dominated companies towards service, finance, healthcare, consumer brands, and obviously technology. The shift over decades was to mirror the shift of the US economy itself, towards a service, knowledge, and consumer driven economy. As such, Amazon and Nvidia were recent additions (in November and February of 2024 replacing Intel and Walgreens, respectively) and none of the original components that initiated the Dow Jones index in 1896 are part of it today. For reference, the S&P500 makes changes to its index on a quarterly basis, while the Nasdaq-100 does so annually, and likely one factor why perception or significance of the Dow Jones may have fallen behind the aforementioned.

The following provides an overview of the milestones which has accelerated markedly. From 1,000 points in 1972 to 10,000 in 1999, then 20,000 (2017), 30,000 (2020) and 40,000 (2024), each leg arriving faster than the prescriptions of the last.

If you have questions about how this may impact your investments, or how you should be positioned, please do not hesitate to contact us at claudio@caladocapital.com.

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