Financial Markets This Week

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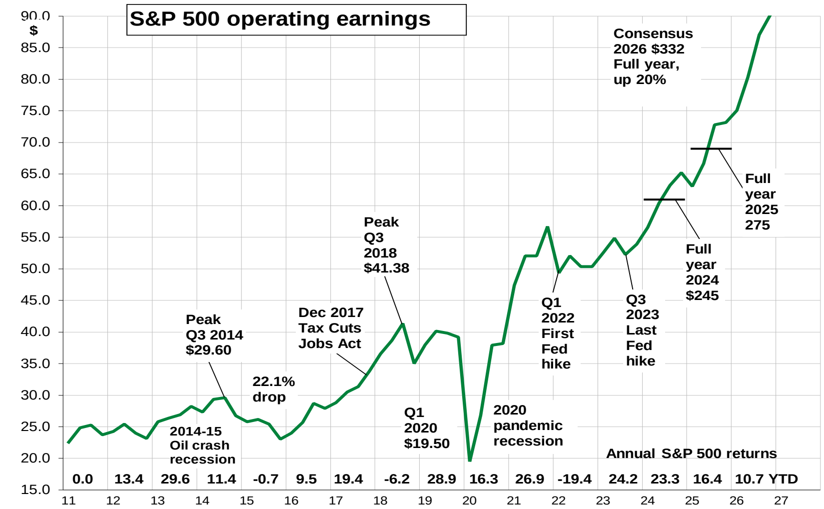
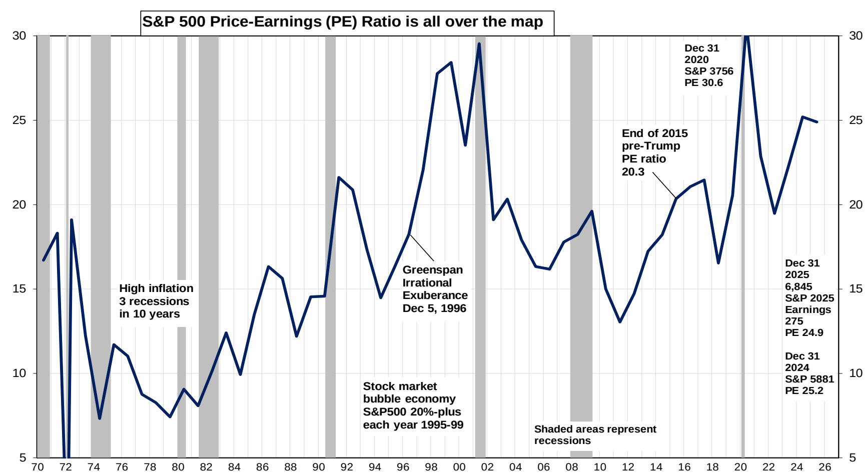
STOCK MARKET EARNINGS

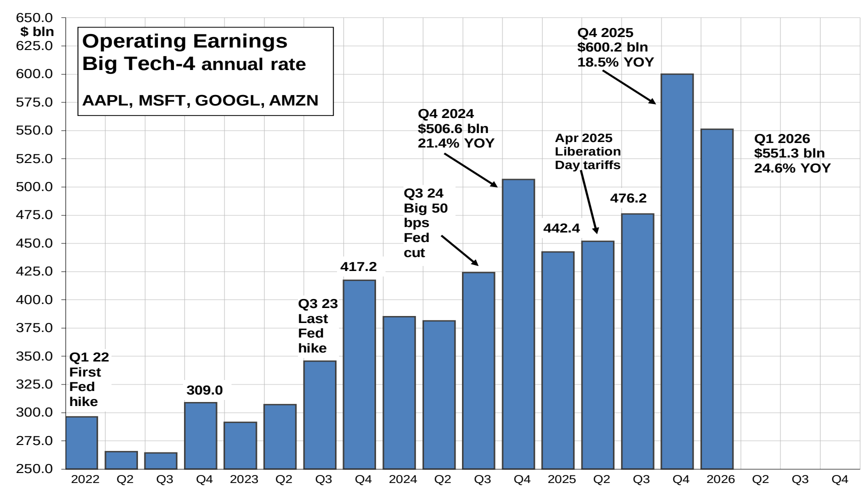
The explanation all fits if you are an economist looking at S&P 500 earnings with the recession-magnitude Fed rate hikes from Q1 2022 to Q3 2023 keeping corporate earnings in check. Not anymore. The stock market is rallying and maybe it is justified as some companies keep on making money with most of the first quarter 2026 earnings reports having been released. After a 12% gain in 2025, S&P 500 earnings expectations ahead are high this year at 20%.

The PE ratio has been about 25 times earnings the last two years. Earnings estimates for 2026 are 20% higher which means the S&P 500 can rally 20% and this will leave the PE ratio at 25 for a third straight year.

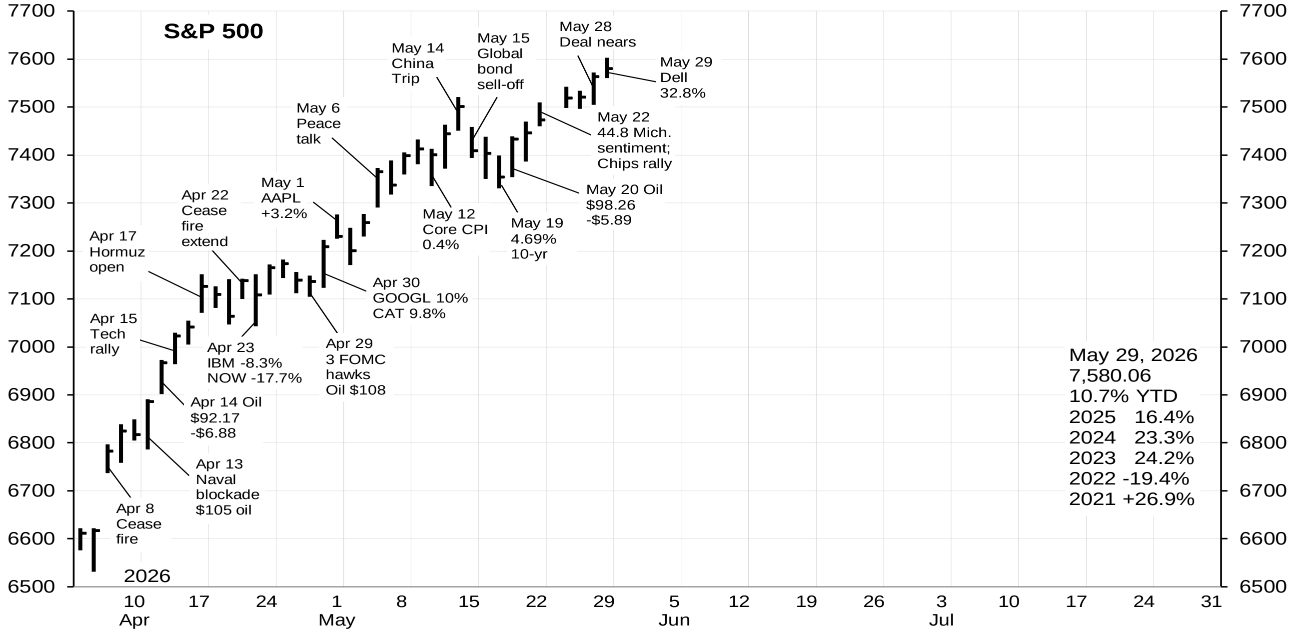
The big Tech-4 operating earnings were strong with a 24.6% year-on-year gain to $551.3 billion (annual rate) in Q1 2026. Holiday Q4 earnings just passed were huge at $600.2 billion. Since the end of the Fed tightening cycle in July 2023, operating earnings continue to accelerate despite investor worries of capex spending. Tech-4 companies are 22.4% of the S&P 500 index, and some investors are worried about the day when the music stops playing.







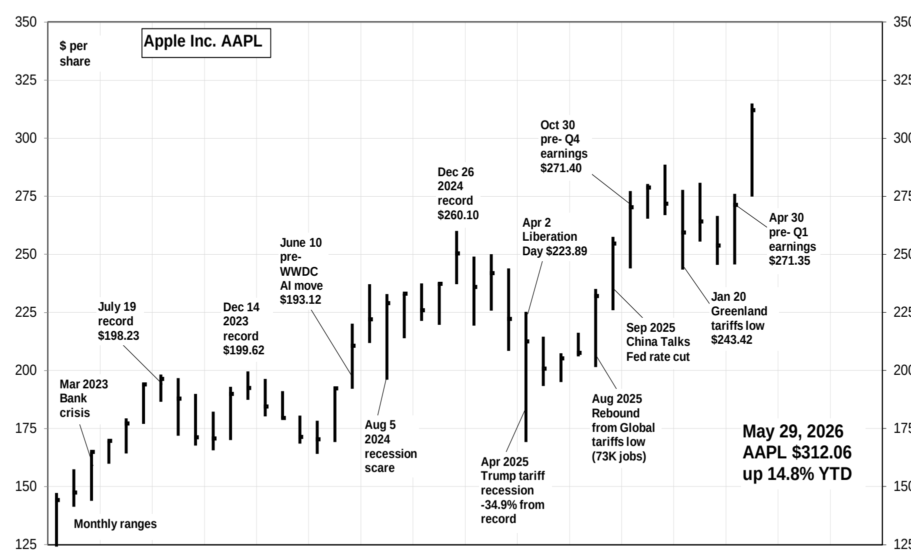
INTEREST RATES



Where's the market going? No more fundamental question. S&P 500 hit a new record close on Wednesday, up 9.9% on the year, despite the Iran war and its inflation, a new regime-change Fed Chair with many FOMC 1.0 member leftovers still thinking about potential rate hikes. Stock market seems to be running on AI dreams and the chips needed to make it a reality. Meanwhile, 10-yr yields fell from the extremes as non-professionals don't realize that bond portfolio managers like to buy when yields jump higher, put money to work, and don't worry about "short-term" paper losses (just a number on a piece of paper) if yields keep going higher. Yields sank like a stone following crude oil. Markets waited yet again for an Iran peace deal, but nothing as of the close. Stocks closed up 10.7% YTD at record highs anyway. [10-yr Treasury yields] were 4.44% Friday versus 4.56% the week before.

Apple, Inc. (AAPL) up 14.8% YTD, Tim Cook stepping down

CEO Tim Cook's stepping down notice was after the bell on Monday, April 20, and the stock fell the next day, but that was pretty much the low at $265. The stock closed at $271.35 on Thursday, April 30 before earnings, and was up as much as 5.8% the next day. Net sales were up 17% to $111.2 billion, and the company says it will rise 14 to 17 percent next quarter, more than the Street expected. The stock managed to finally move above $300 Thursday/Friday, May 21-22 last week along with tech and chips. WWDC starts on Monday, June 8 at 1pm ET.



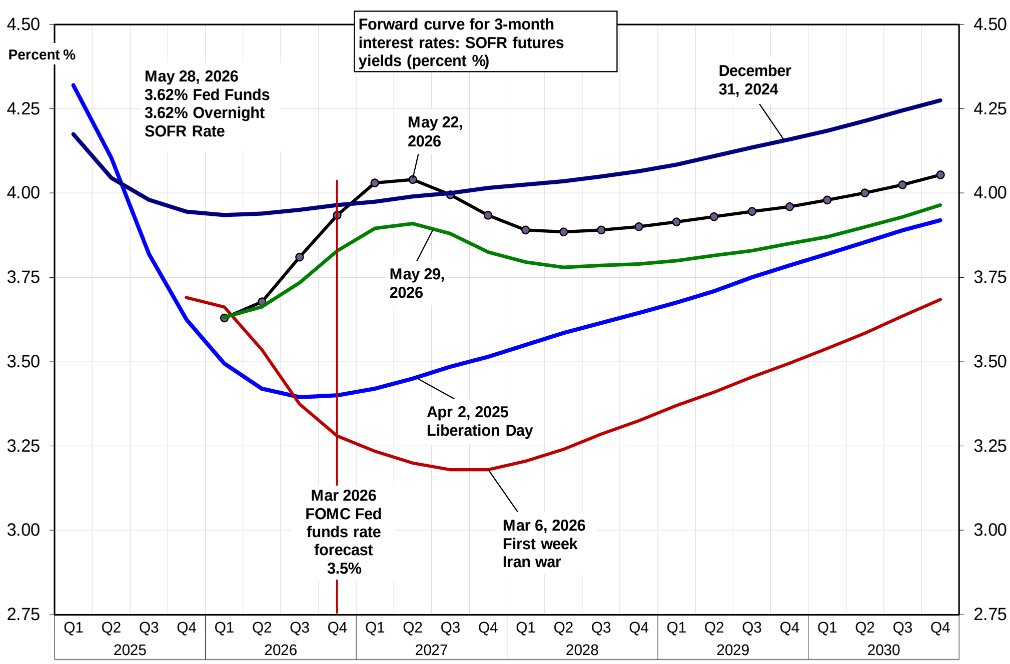
Calendar				
Year	Operating	Net		Greater
Mln $	Income	Sales	iPhone	China
Q1 2026	35,885	111,184	56,994	20,497
Q4 2025	50,852	143,756	85,269	25,526
Q3 2025	32,427	102,466	49,025	14,493
Q2 2025	28,202	94,036	44,582	15,369
Q1 2025	29,589	95,359	46,841	16,002
Q4 2024	42,832	124,300	69,138	18,513
Q3 2024	29,591	94,930	46,222	15,033
Q2 2024	25,352	85,777	39,296	14,728
Q1 2024	27,900	90,753	45,963	16,372

FEDERAL RESERVE POLICY

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	27-May	20-May	13-May	6-May	3/11/20*	3/11/20
Factors adding reserves						to May 27
U.S. Treasury securities	4461.901	4457.712	4450.235	4434.161	2523.031	1938.870
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1964.786	1977.661	1981.060	1981.060	1371.846	592.940
Repurchase agreements	0.111	0.007	0.004	0.002	242.375	-242.264
Primary credit (Discount Window)	6.362	5.599	6.002	5.735	0.011	6.351
Bank Term Funding Program	0.000	0.000	0.000	0.000		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	0.026	0.027	0.029	0.029		
Main Street Lending Program	0.599	1.420	1.406	1.404		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Gold stock	11.041	11.041	11.041	11.041	11.041	0.000
Central bank liquidity swaps	0.050	0.016	0.042	0.206	0.058	-0.008
Federal Reserve Total Assets	6755.7	6765.1	6779.9	6760.8	4360.0	2395.719
~~3-month Libor %~~ SOFR %	3.63	3.50	3.59	3.61	1.15	2.480
Factors draining reserves						
Currency in circulation	2465.412	2461.745	2458.020	2457.249	1818.957	646.455
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	842.660	781.979	807.420	862.757	372.337	470.323
Treasury credit facilities contribution	0.000	0.821	0.821	0.821		
Reverse repurchases w/others	1.853	24.867	3.719	1.633	1.325	0.528
Federal Reserve Liabilities	3688.720	3658.367	3662.487	3709.368	2580.036	1108.684
Reserve Balances (Net Liquidity)	3067.025	3106.715	3117.367	3051.481	1779.990	1287.035
Treasuries within 15 days	93.305	88.919	94.449	92.033	21.427	71.878
Treasuries 16 to 90 days	347.048	343.911	332.071	322.685	221.961	125.087
Treasuries 91 days to 1 year	500.718	504.852	511.124	507.653	378.403	122.315
Treasuries over 1-yr to 5 years	1430.262	1429.880	1394.557	1394.175	915.101	515.161
Treasuries over 5-yrs to 10 years	481.343	481.258	515.413	515.328	327.906	153.437
Treasuries over 10-years	1609.226	1608.892	1602.621	1602.287	658.232	950.994
Note: QT starts June 1, 2022	Change	5/27/2026	6/1/2022			
U.S. Treasury securities	-1308.878	4461.901	5770.779			
Mortgage-backed securities (MBS)	-742.660	1964.786	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

The Fed meets June 16-17, 2026 to consider its monetary policy. Fed 2.0 just started and Fed Vice Chair Jefferson, the Vice Chair who is supposed to back up the Chair 1,000%, gave a (brief) scheduled speech on the outlook when Warsh had not even been in the building for a week. His four-year term ends in September 2027. He was in Tokyo speaking on [Global Economic Developments and the U.S. Economy]. He thinks the current 3.75% Fed target leaves policymakers well positioned to respond to developments. He has not prejudged the next meeting. The risks on inflation are tilted to the upside, but he expects inflation to fall later this year after the tariff effects and the energy shock dissipate. That was at the Bank of Japan. Kansas City Fed President Schmid was in Iceland early Friday morning saying inflation was too hot and too far above target for too long. Another FOMC voice saying inflation might not be transitory. Perhaps time for Chair Warsh to combine the Kansas City and Dallas regional Federal Reserve banks as a cost savings measure that the Administration favors. But wait until the Jackson Hole confab in August which this year is on "Financial Innovation: Implications for Payments and Policy." Interesting.

Fed Policy-key variables				Long
	2026	2027	2028	Term
Fed funds	3.4	3.1	3.1	3.1
PCE inflation	2.7	2.2	2.0	2.0
Core inflation	2.7	2.2	2.0	
Unemployed	4.4	4.3	4.2	4.2
GDP	2.4	2.3	2.1	2.0
March 2026 median Fed forecasts				



6.5 bps of a 25 bps rate hike is discounted by the September 2026 meeting.

Fed funds futures call Fed policy		
Current target: May 29 -- 3.75%		
Rate+0.13	Contract	Fed decision dates
3.760	Jul 2026	Jun 17*
3.815	Oct 2026	Adds Jul 29, Sep 16*
*July 2026 could be two days at a new rate		
*Oct 2026 could be 3 days at a new rate		

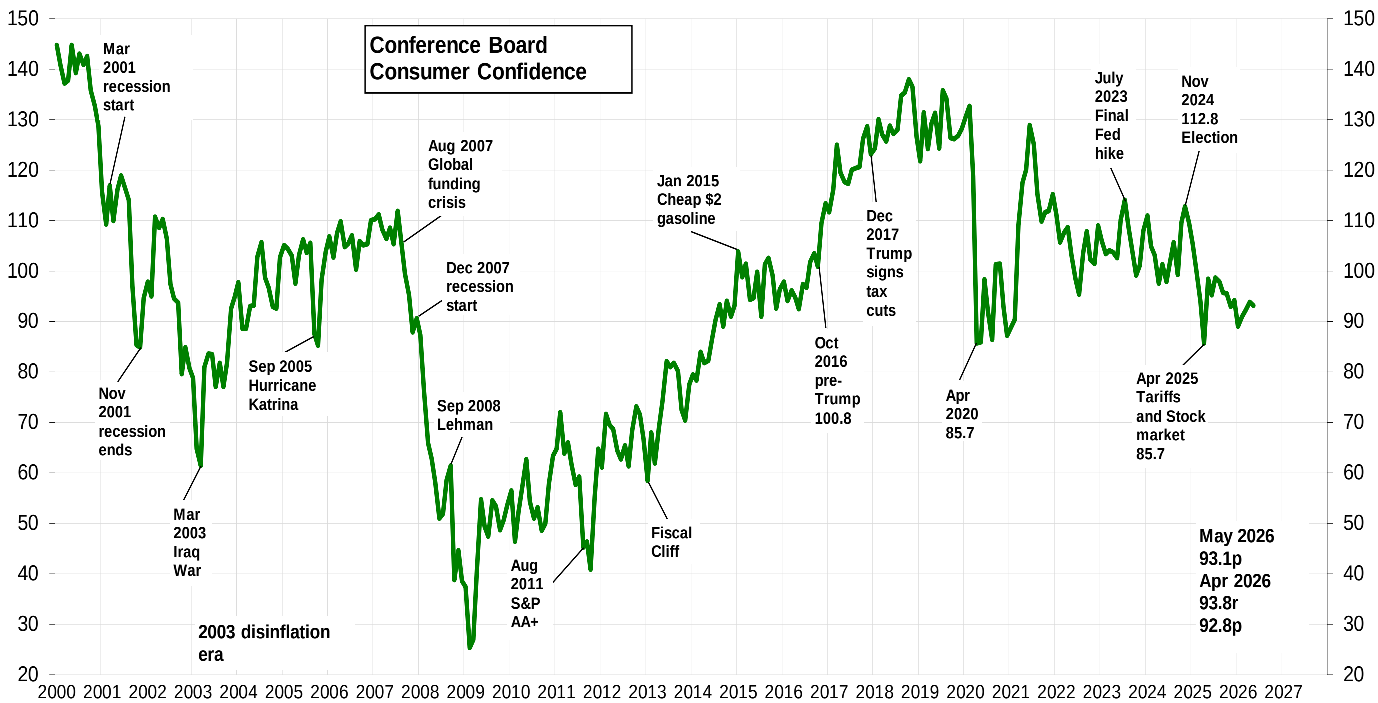
Next up: May CPI inflation Wednesday, June 10 830am ET														
Monthly	2026				2025									2025
% Changes	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb
Core CPI inflation	0.4	0.2	0.2	0.3	0.2	na	na	0.2	0.3	0.3	0.2	0.1	0.2	0.1	0.3
Core PCE inflation	0.2	0.3	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.1	0.4
Core PCE YOY	3.3	3.2	3.0	3.1	3.0	2.8	2.8	2.8	2.9	2.9	2.8	2.8	2.6	2.7	3.0
Core CPI YOY	2.8	2.6	2.5	2.5	2.6	2.6	na	3.0	3.1	3.1	2.9	2.8	2.8	2.8	3.1

OTHER ECONOMIC NEWS

Another day another measure shows consumers unworried (Tuesday)

Breaking economy news. Unlike the consumer sentiment index from the University of Michigan at all-time lows, the Conference Board measure is little changed. April had been 92.8, revised to 93.8, then back down slightly to 93.1 in May. Not much to see on the chart here. The preliminary survey results cover May 1 to the 19th.

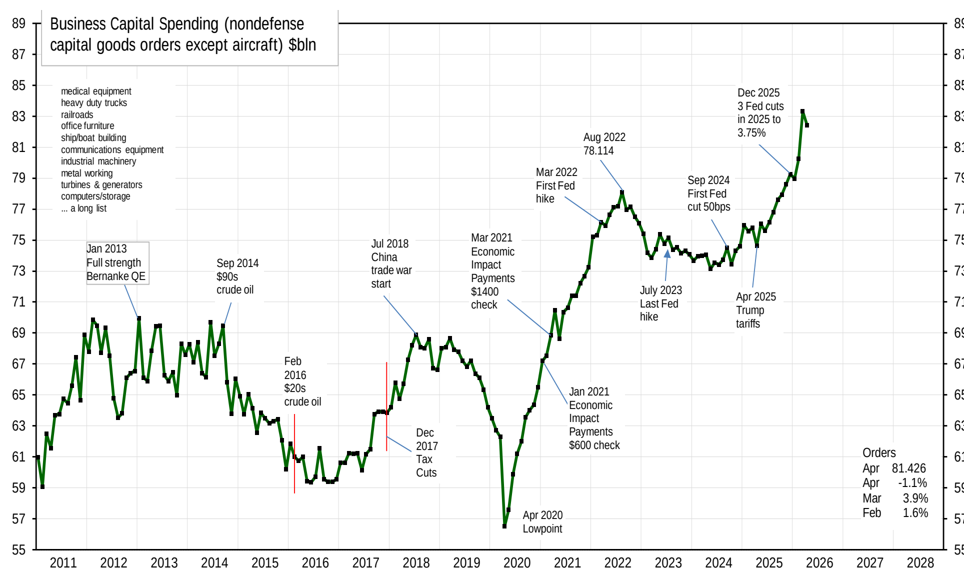
Net, net, the Conference Board consumer confidence index is barely registering what is happening over in the Middle East and if the consumer is upset about the economy, they sure are not telling anyone about it. Little change in the index since February. We are stunned how the consumer is so little perturbed by the Iran war and $4 gasoline, let alone jobs and incomes. Resilient is hardly the word for the consumer's behavior and outlook on life, and clueless or resigned are words looking far more descriptive of their attitudes. Longer-term, consumers have clearly lost their swagger since the November 2024 elections, but in recent months, Washington economic officials have done less to surprise Americans since the brief confidence collapse on the announced Liberation Day tariffs in April 2025. Consumer confidence has not rebounded to their former highs unlike the stock market. Maybe the stock market wealth effect is trickling down to the average American afterall and keeping their chins up. Stay tuned.



Economy cooler, inflation not not hot (Thursday)

Breaking economy news. GDP, PCE spending/inflation, durable goods, jobless claims, all released at 830am ET. Too much data to count. Real GDP in Q1 2026 is 1.6% now, no longer 2.0%. Inventories added less. Growth still would not be much without the 0.9% percentage point contribution from business equipment which is what AI has to give America. Real consumer spending slowed to just 0.1% in April from stronger 0.3s in both February and March, and consumers dipped into their savings to do it, where personal saving as a percentage of disposable personal income was 2.6 in April versus 3.2 in March and 3.6 in February. So much for April income tax refund checks that were $100.7 billion versus $86.4 billion in April 2025. If spending is unchanged in the rest of the second quarter real consumption would be 1.7%, virtually the same as 1.4% in Q1 2026, and we estimate it will be 2.5% when May/June are received.

	Q4 24	Q1 25	Q2 25	Q3 25	Q3 25	Q4 25	Q1 26p	Q2 26r
REAL GDP	1.9	-0.6	3.8	4.4	4.4	0.5	2.0	1.6
REAL CONSUMPTION	3.9	0.6	2.5	3.5	3.5	1.9	1.6	1.4
CONSUMPTION	2.6	0.4	1.7	2.3	2.3	1.3	1.1	1.0
Durables	0.9	-0.3	0.2	0.1	0.1	0.0	0.0	0.0
Nondurables	0.5	0.3	0.3	0.5	0.5	0.1	0.0	0.1
Services	1.2	0.4	1.2	1.7	1.7	1.2	1.1	0.9
INVESTMENT	-1.3	3.8	-2.7	0.0	0.0	0.4	1.5	1.2
Business Plant	-0.3	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
& Equipment and	-0.2	1.0	0.4	0.3	0.3	0.2	0.9	0.9
Intellectual Property	0.0	0.3	0.8	0.3	0.3	0.3	0.7	0.6
Homes	0.2	0.0	-0.2	-0.3	-0.3	-0.1	-0.3	-0.2
Inventories	-0.9	2.6	-3.4	-0.1	-0.1	0.1	0.4	0.1
EXPORTS	-0.1	0.0	-0.2	1.0	1.0	-0.4	1.3	1.3
IMPORTS	0.0	-4.7	5.0	0.6	0.6	0.1	-2.6	-2.6
GOVERNMENT	0.6	-0.2	0.0	0.4	0.4	-1.0	0.7	0.7
Federal defense	0.2	-0.3	0.0	0.2	0.2	-0.4	0.1	0.1
Fed nondefense	0.1	-0.1	-0.4	0.0	0.0	-0.7	0.5	0.5
State and local	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Below line: Percentage point contributions to Q1 2026 1.6% real GDP								
Third estimate for Q1 is Thursday, June 25								



Durable goods slowed, but from a huge jump the month before. As it stands, nondefense capital goods orders ex-aircraft fell back in April by 1.1% after the extraordinary 3.9% jump in March. Most of the increase in March was AI-again: computers and electronic products.

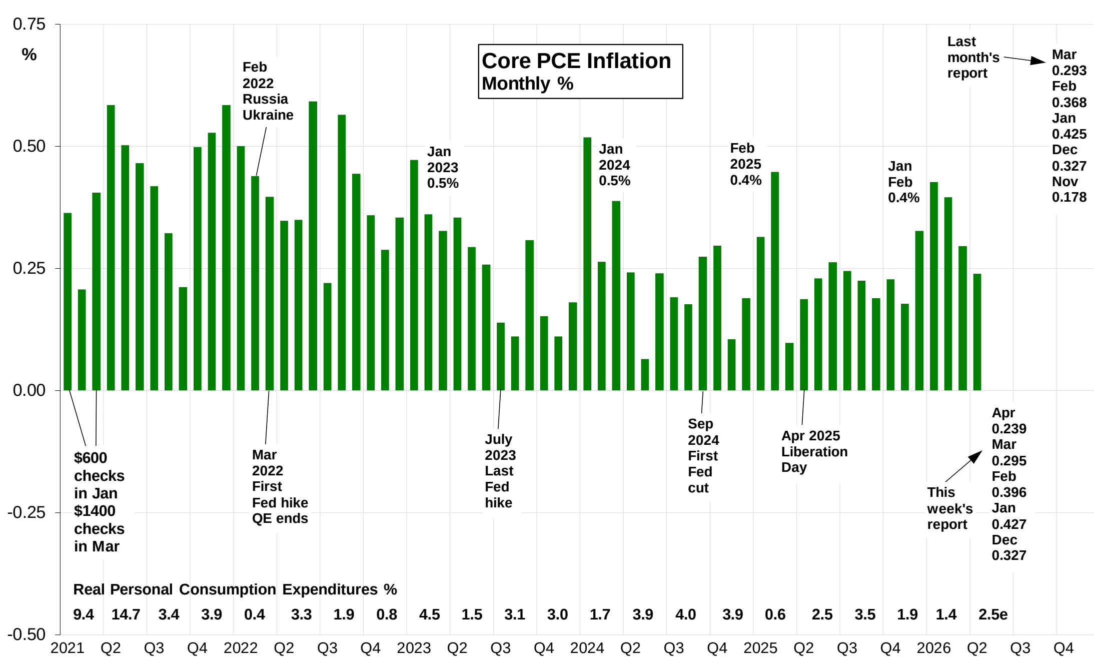
Besides durable goods, weekly jobless claims for the May 23 week increased 5K to 215K which is where it has been since the Iran war started. Continuing claims for the May 16 week, the survey week for the May employment report next Friday, June 5, were 1.786 million and does not hint at much of a change to the April 4.3% (4.34) jobless rate in theory, although it was almost 4.4% last month. New home sales were down in April to 622 thousand at an annual rate after getting revised back to 2021. It would have been weaker if not for the increase out West. Median prices jumped to $422,500 finally in April, and are above the $417,400 2025 annual level. A nice price if you can find one.

New Home Sales	Total	Northeast	Midwest	South	West	Median Price $
2023 Year	666	33	68	412	153	428,600
2024 Year	686	34	80	413	158	420,300
2025 Year	678	33	82	412	150	417,400
Jan 2026	576	29	75	339	133	416,200
Feb	641	18	83	397	143	412,300
Mar	663	31	88	410	134	391,100
Apr	622	27	66	370	159	422,500
	Thousands at Seasonally Adjusted Annual Rate					

Net, net, overall inflation remains hot thanks to soaring energy prices, but the economy is somewhat cooler with the downward revision to first quarter GDP, and softer data in April for real consumer spending and key capital goods orders are making the prospects for a substantial pickup in economic growth in the second quarter less likely for now. Core consumer inflation nudged up as the Fed expected to 3.3% year-on-year in April from 3.2% in March and headline inflation was the hottest this year at a 3.8% year-on-year pace.

The Fed's so-called preferred inflation index may not be around for long under the newly installed Fed Chair Warsh who along with the rest of the Trump administration economics team is turning over every rock for data which shows inflation is just perfect. (Found it: the Warsh-endorsed Dallas Fed Trimmed Mean PCE inflation calculated after today's official data is only 2.3% year-on-year. There is no cost-of-living crisis for Americans.) Moving on, if Washington economic officials were looking for evidence to back up claims there is no cost-of-living crisis in America, they will have to look elsewhere because PCE consumer inflation is still heating up in April as the Iran war pushes energy costs sharply higher.

Monetary policy is less well positioned than ever and Fed rate hikes are suddenly back on the table in a big way. The inflation risks are very, very real and the million dollar question is whether Fed officials will turn the other way and try to ignore it as being temporary like they did during the Biden inflation outbreak five years ago. Bond traders were relieved that core consumer inflation was not even worse this month, but the three-decimal change was 0.239%, so it was close to being a 0.3% monthly increase if you want to split hairs. Stay tuned.



World trade normalizes (Friday)

Breaking economy news. The advance trade statistics for goods in April, where the full report is released on Tuesday, June 9.

Net, net, America's trade with the rest of the world continues to normalize after the volatility seen at the start of the Trump administration with its import tariffs last year. Goods exports are outpacing the imports of goods which brings the trade deficit down marginally. Capital goods imports are soaring which appears to be related to the equipment purchases made by corporations during the AI boom. Capital goods exports are also strong which explains why there is a US factory production resurgence. Exports of agricultural products are little changed from year ago levels so the trade agreement made with China does not appear to be reflected in the numbers yet. Stay tuned. The widening trade deficit was a drag on the US economy in the first quarter's slow growth, but the trade deficit at the start of the second quarter is holding steady for now. Q1 2026 growth was 1.6% with exports adding 1.3 percentage points and imports subtracting 2.6 percentage points from economic growth. World trade is normalizing with no effect from the Iran war for a second straight month.

ADVANCE TRADE STATISTICS FOR APRIL

	Monthly				Percent changes		
Seasonally adjusted	Apr	Mar	Feb	Apr	Apr 26	Mar 26	Apr 26
Trade	2026	2026	2026	2025	Mar 26	Feb 26	Apr 25
Balance	-82,400	-85,269	-81,737	-85,710			
Exports	219,670	211,200	205,262	189,984	4.0	2.9	15.6
Foods, Feeds, & Beverages	14,969	15,020	14,004	13,670	-0.3	7.3	9.5
Industrial Supplies (1)	88,254	86,401	81,574	74,923	2.1	5.9	17.8
Capital Goods	71,258	66,280	65,136	59,070	7.5	1.8	20.6
Automotive Vehicles, etc.	12,832	13,201	12,927	12,149	-2.8	2.1	5.6
Consumer Goods	22,777	21,133	23,076	21,320	7.8	-8.4	6.8
Other Goods	9,579	9,166	8,545	8,852	4.5	7.3	8.2
Imports	302,070	296,469	286,999	275,694	1.9	3.3	9.6
Foods, Feeds, & Beverages	17,455	17,405	16,822	18,477	0.3	3.5	-5.5
Industrial Supplies (1)	53,082	54,129	51,813	51,942	-1.9	4.5	2.2
Capital Goods	126,673	119,971	118,237	90,446	5.6	1.5	40.1
Automotive Vehicles, etc.	34,673	35,214	32,172	33,143	-1.5	9.5	4.6
Consumer Goods	55,976	56,526	54,040	69,800	-1.0	4.6	-19.8
Other Goods	14,211	13,225	13,914	11,886	7.5	-5.0	19.6

(1) Includes petroleum and petroleum products.

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