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# MARKET OVERVIEW MAY 2026

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## “TACO”, “FOMO” AND SO ON!

Despite the dual blockade of the Strait of Hormuz by Iran and the United States, stock markets have recovered most of the losses incurred at the beginning of the conflict. US indices have hit new records, driven by artificial intelligence (AI) and the semiconductor sector. However, the ceasefire has not resolved the situation: there is still a shortage of approximately twelve million barrels of oil per day on the market, representing nearly 12% of global consumption. Economic growth forecasts for the remainder of the year, revised slightly downward, appear increasingly less credible.

### STOCK MARKETS ARE LEVITATING

At first glance, the excellent performance of global stock markets seems completely disconnected from reality. The new records set by the New York indices give the misleading impression that the war is accelerating economic growth. Of course, this is far from the truth. The protracted conflict poses a serious threat to the global economy. Leading economic research institutes have already revised their forecasts downward for the remainder of the year. We are undoubtedly only at the beginning of this process. For more details, please refer to our previous monthly report on the importance of this region of the world in the energy and petrochemical derivatives sectors. Many industrial companies are already complaining about the initial shortages that are directly impacting their operations, particularly in the chemical, electronics, and capital goods sectors.

Investors seem to be behaving according to the famous acronym "FOMO" (fear of missing out), meaning that, in light of recent major crises (the pandemic, the inflationary shock, the outbreak of hostilities in Ukraine), the main risk is missing the recovery. Furthermore, the consensus largely bets on Washington's inability to prolong this war indefinitely, which is seriously weakening Donald Trump and the Republicans in the polls, just months before the midterm elections. This is the famous acronym "TACO" (Trump *always chickens out*), which means that Donald Trump, after testing the ultimate limits of his decisions, always ends up backing down, constrained by economic realities. This idea, mainly defended by the president's opponents, is based primarily on the twists and turns of the 2025 tariffs. However, it is largely exaggerated: the average tariff rate is currently around 11% (recently challenged by the Supreme Court), a level far exceeding the market consensus at the beginning of Donald Trump's second presidential term, and above all, a record since 1943. For the *Grand Old Party*, the midterm elections are almost certainly already lost in the House of Representatives (the lower house of Congress); doubt remains for the Senate. However, the argument surrounding electoral risk does not seem relevant for hoping for a short-term about-face from Washington, which remains committed to two core principles:

abandoning the development of Iran's military nuclear program—and undoubtedly the conventional ballistic missile arsenal that directly threatens Israel and the Gulf states—and freedom of navigation in the Strait of Gibraltar, in accordance with international maritime law—in order to avoid setting a dangerous precedent. The American blockade of the Strait aims to cut off the financial resources of the Tehran regime and to push the "realists," open to dialogue, to seize political control at the expense of the most radical ideological faction. For the time being, Iran is undoubtedly depriving itself of the equivalent of more than \$100 million per day in financial resources, essential for funding its military and administration.

Let's return for a moment to stock market indices. "FOMO" and "TACO" don't explain everything. Earnings for the main New York Stock Exchange index are expected to rise by 18% this year (consensus compiled by Bloomberg), a pace that may seem unattainable if US consumer spending, which accounts for nearly two-thirds of the United States' GDP (Gross Domestic Product), is weakened by rising energy prices. However, upon closer examination, this expected earnings growth is not unattainable, even in the scenario of a conflict dragging on for several more weeks or even months. **The reason is primarily sector specific.** Indeed, the technology sector represents roughly 33% of the market, and its expected earnings growth for 2026 is around 40%. Added to this is the energy sector (4% of the New York Stock Exchange), whose earnings are expected to rise by 30%. Therefore, a 14% to 15% increase in market earnings would already be virtually guaranteed. In other words, less than 40% of the US market accounts for roughly 80% of the consensus profit increase for the current year.

We can conclude, despite the high level of economic uncertainty, that Wall Street expectations are ultimately quite solid. It's worth noting that the quarterly earnings season confirms this analysis, even though the first quarter was only minimally impacted by the crisis in the Middle East. However, we observe that companies' forecasts and order books are generally reassuring, apart from the immediate impacts

suffered by the Gulf countries and the tensions observed in some supply chains. **Even Europe is performing positively, supported by the electrification and data center sectors.** The most relevant question for investors remains which sectors offer the best visibility in the coming months—that is, the greatest resilience—even assuming a freeze in the conflict and lasting consequences—over several quarters—on the energy and petrochemical derivatives markets. **Unsurprisingly, we highlight sectors linked to the AI investment cycle – particularly semiconductors – those related to the electrification of the economy,**

**and themes related to sovereignty, especially energy, raw materials, and defense.** Recent publications from Alphabet, Marvell Technology, ASML, ABB, Schneider Electric, Nexans, and ENI are striking examples of this. While these sectors are not entirely immune to the negative consequences of the crisis, their robust growth momentum is their main asset, dependent less on consumer sentiment and much more on the technological revolution of AI, the energy transition, and public demand in the case of military spending.

## BOND MARKETS MORE WORRIED

Interest rates tell a more nuanced story and should be closely monitored. Since the start of the conflict, major central banks have reiterated their duty to remain vigilant regarding inflation, which has resumed a decidedly upward trajectory since the beginning of the conflict. The US PCE (Personal Capital Employer) index *Consumption The Expenditure Price Index (EPI)*, the Federal Reserve's most closely watched price indicator, accelerated to 3.5% year-over-year for March, compared to 2.8% in February, exceeding the Fed's average target of 2%. The *core* PCE index, which excludes food and energy, rose 3.2% year-over-year. While inflation expectations remain firmly anchored on both sides of the Atlantic for the time being, reflecting forward energy price curves, bond market interest rates are indicative of some nervousness among investors. Undoubtedly, central bankers will be keen to maintain their credibility should these expectations falter. In no case, and despite their slight contraction since the beginning of the year thanks to profit growth, would the rather high valuation levels observed in equity markets be compatible with a potential continued rise in long-term interest rates. As a more precise benchmark, a scenario where the real interest rate (after anticipated inflation) for ten-year dollar sovereign bonds returns to the level of 2.5% – observed in the fall of 2022 – compared to 1.9% today, would undoubtedly mean significant turbulence in the stock markets.

turmoil and the threat of financial system collapse. Does the appointment of Kevin Warsh signal a change of course? In the future, will the US central bank be more cautious or slower to inject massive amounts of liquidity in the event of a stock market crash? The question remains open...

**In any case, rising interest rates are not good news for the global economy, which is fueled by public debt, while investment needs in AI, energy transition, electrification and of course defense are staggering. Europe is particularly affected.** Germany, whose ruling CDU-SPD coalition is weakened in the polls (the far-right AfD party is at 28%) and by the results of the latest local elections, will undoubtedly experience disappointing growth again in 2026: Berlin has revised its GDP growth forecast downward from +1% to +0.5% in real terms. Half of the revision is a direct consequence of the conflict in the Middle East, while the other half results from a slower-than-expected start to the stimulus plan and reforms. **The question of this governing coalition's effectiveness in unleashing Germany's potential growth is becoming a real issue.** But that's not all. With the next French presidential election, a year away—a crucial event for the future of both France and the European project—international investors urgently need to assess the possible scenarios and try to assign probabilities to them. Macronism heralded a new golden age for the French economy. Nothing of the sort happened: the social-statist doctrine is part of this country's DNA, and denial of reality is what best unites the political parties represented in the National Assembly. Few reforms have been successfully implemented, as economic activity has been largely financed by credit. **Investors will realize, sooner or later, the inability of French political institutions to calmly restore balance to public finances through a profound reform of the social model and, above all, its financing.** The discrediting of moderate governing parties paves the way for a future radical democratic experiment at the highest levels of government, whether on the right or the left, synonymous with a major financial shock, with the inevitable spread of the shockwaves to the rest of the European Union. A stowaway in the Eurozone, France is the elephant in the room that investors refuse to see. For how much longer? Eurozone long-term interest rates will need to be monitored very closely in the coming months.

Still about the interest rate environment, Kevin Warsh's hearing before the US Senate committee tasked with confirming his nomination as Fed chairman, replacing Jerome Powell who remains governor despite political pressure, indicates a desire to return to greater monetary orthodoxy. Certainly, the decisions of the US central bank are collective (twelve of the nineteen members of the FOMC, the Federal Open Market Committee, vote), and Kevin Warsh's remarks are primarily political. However, we note that his comments emphasized price stability more than full employment, the Fed's other fundamental objective. Its new chairman is a staunch opponent of quantitative easing, which, according to him, is responsible for the financial asset bubbles, inflationary surges, and wealth inequality that have widened in the United States since the *subprime mortgage crisis*. However, investors have long relied on the perpetuation of the "Federal Reserve put," meaning the certainty that the Fed will always act, possibly through unconventional measures, in the event of severe market

## CONCLUSION

The Middle East crisis is far from over. While tensions in bond markets reflect uncertainties surrounding monetary policy and inflation,

stock market indices demonstrating remarkable resilience, driven by long-term investment cycles in AI, energy, and defense, which are

largely unaffected by short-term economic uncertainties. **This strength, unchallenged by the quarterly earnings season, will allow even the most**

**cautious investors to hedge against the extreme risks in their portfolios at a reasonable cost.**

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