

A “Don’t worry be happy week,” as investors shrugged off the prior week’s spike in the PPI, oil prices, interest rates, and the Iran war.

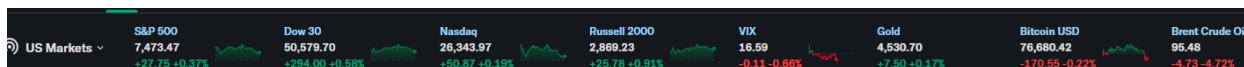
The week ended on a positive note. Oil prices fell ~8%, the US10 year dropped 4bp, to 4.56%, reversing last week’s price behavior. But inflation expectations ticked higher for the year-ahead to 4.8% from 4.7% and long-run expectations advanced to +3.9% from prior +3.5%. Consumer sentiment fell to a record low 44.8 vs 48.2, just below the prior record low in June 2022 as consensus as Strait of Hormuz disruptions continue and gasoline prices pushed higher. But investors seemed to focus more on the positive economic numbers such as a beat on pending home sales in April, a beat on the NAHB housing index for May, a beat on the S&P Global PMI Manufacturing Index of 55.3 vs 53.8 expected, an inline +0.1% leading indicators index and the diplomacy noise in the US-Iran War and the excellent beat and raise earnings numbers from Nvidia (NVDA) on both results (EPS +130% y/y and sales +85% y/y) and guide (revenue and EPS in the high +90s% y/y in the next Q). Stocks pushed higher the last three days of the week, seemingly taking a “don’t worry be happy” as far as the macro situation. Also notable as colleague CJ Brott points out is that the US and China are now engaged in a race for quantum compute supremacy with China committing one trillion yuan and the US putting \$2Billion into quantum compute companies.

The Nasdaq (+0.45%), DJ Industrial Average (+2.13%), S&P500 (+0.88%), Russell2000 (+2.71%), and S&P500 equal weight (+2.49%) all pushed higher. The US 10-year fell 4bp on the week to 4.56%.

Sectors were mostly higher. Utilities (UTES, +5.6%) and Retail (XRT, +4.4%) led while Communication Services (XLC, -0.5%) lagged. Most of this move was reversing the performance from the prior week.

Our expectation that many stocks that had been extended did indeed fall back last week, most notably in the Industrials areas such as Sterling Infrastructure (STRL, -13.65%), Vertiv (VRT, -11.7%), Comfort Systems (FIX, -8.5%), and Mastec (MTZ, -7.9%) as well as the Telecom/Data Comm area such as Coherent (COHR, -1.3%) and Lumentum (LITE, -2.5%). Some laggards rallied strongly such as Vistra (VST, +11.9%) and Constellation (CEG, +10.1%). Nevertheless, some strong stocks got stronger such as Advanced Micro Devices (AMD, +10.2%, +118.3% YTD), Credo (CRDO, +26.8%, +51.8% YTD), Ciena (CIEN, +5.3%, +149.6% YTD), Micron (MU, +3.6%, +163.1% YTD), Intel (INTC, +10.1%, +224.8% YTD), Sandisk (SNDK, +5.05%, +523% YTD). Despite very strong beat and guide, Nvidia (NVDA), fell -4.4% w/w.

Monday night stock futures are higher with oil prices lower as President Trump says that the “framework” for ending war in Iran and opening the Strait of Hormuz has “largely been negotiated.” Yet he also said that “It will only be a Great Deal for all or, no Deal at all,” and that he “is in no rush.” On Monday, the US military sank two IRGC ships attempting to lay mines and Iran responded by launching surface to air missiles at US planes which were followed by US attacks on missile launchers per WSJ -- Trump thinks bigger on ME as Iran Framework Brings Criticism.



Source: Yahoo Finance

Technicals remain constructive as the S&P500 sits +0.6% above the 10dma, +2.2% above the 21ema, +6.9% above its 50-day moving average and 9.8% above the 200dma. The Nasdaq consolidated slightly at +0.4% above the 10dma, +2.8% above the 21ema, 10.1% above the 50dma and 14.1% above the 200dma. Consolidation would still be welcome to let moving averages catch up and reduce the risk of a pull-back. For despite a “be happy week” the inflation, Iran war, and interest rate risks remain though at least for now investors are focusing more on the very strong investment into AI and AI data centers as a key driver of the economy.



MARKETSURGE
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Source:

Bullish talking points:

- AI demand remains very, very strong as the Nvidia earnings report demonstrated. CPU quantification alone was \$20B for 2026, \$200B TAM and \$1T 2025-2027

Blackwell-Rubin guide and boosted stock dividend to \$0.25 from \$0.01 and stock buy-back boosted by \$80B.

- Anthropic revenue expected to double in Q2 and deliver first positive Op Income. Anthropic and SpaceX expanded their compute deal. Energy and infrastructure deal announcements from Bloom Energy (BE) and Applied Digital (APLD) which indicated in meetings at an investor conference they had signed \$31B in deals in the last 11 months.
- Diplomatic traction in the US-Iran war.
- Strait of Hormuz saw two China tankers carrying 4M barrels of crude oil exit as well as one S. Korea Tanker with 2M barrels passed the SoH. The IRGC said it coordinated 26 vessels through in 24 hours.
- Home Depot said its early Q2 sales remained firm despite pressures from high gasoline prices.
- No complacency in equities as hedge fund short positioning at 10-year high according to Goldman Sachs. Also AAll bull-bear spread at -11.9% from +2.7% prior week.

Bearish talking points:

- Global bond yields on the US 10-year 2 std dev move higher in one month and 20-year bond hit 5.18% this past week the highest in 19 years. Further correlation b/t equities and US bond yields most inverse since late 1990s or nearly 30years.
- Some observers calling out the lack of evidence of AI productivity boom (reason for Warsh dovish rate views).
- Walmart fell 7% post earnings on worries of higher gasoline prices on consumer demand. Also lack of guidance raise from Deere despite strength.
- FOMC minutes called out raised inflation concerns.
- Low cash levels of 3.9% from 4.3% the prior month according to May BoA Global Fund Manager Survey, the biggest drop since Feb 2024.

Outlook: Entering seasonally strong season (despite the adage of “sell in May and go away”

As my colleague, CJ Brott put it so beautifully, the future “runs through the gas pump.” Since the end of February, higher gasoline prices have cost consumers an estimated \$45B offsetting much of the benefit of more favorable income taxes. None-the-less, CJ pulled out an interesting statistic is that in two out of every three years, the average gain in the S&P500 is 3% to 4% from Memorial Day to Labor Day. Looking at the longer term, I continue to believe that the AI infrastructure-driven rally has strength, which is why I post, week after week what the forecast capital spending is on the AI buildout. Also, any Fed rate cuts for 2026 are essentially just not going to happen. The economy is too strong, inflation too elevated, not to mention a war with Iran and elevated oil prices that are going to be filtering through the economy.

Key tailwind for 2026 remains the buildout in AI and AI infrastructure. Note the latest estimates in the buildout of AI and AI infrastructure with the top 4 at \$700B to \$725B:

- Meta to \$125-\$145B, +\$10B both ends
- Alphabet (Google) raised 2026 cap ex to \$180B-\$190B, +\$5B both ends
- Microsoft: \$190B for CY2026
- Amazon confirmed \$200B
- Nvidia confirmed \$1Trillion market for Blackwell + Rubin chips for CY2025-2027.

AI infrastructure investments estimated as \$7.6T to \$10.4T over the 2025-2030 time frame as shown in the latest table below.

Year	Base Annual (\$T)	Base Cumulative (\$T)	Accelerated Annual (\$T)	Accelerated Cumulative (\$T)
2025	0.50	0.50	0.50	0.50
2026	0.95	1.45	1.20	1.70
2027	1.14	2.59	1.50	3.20
2028	1.37	3.96	1.88	5.08
2029	1.64	5.60	2.35	7.43
2030	1.97	7.57	2.94	10.37

Source: xAI's AI Buildout Funding and Plans - Grok as of 5/17/2026

Market technical indicators indicating all conditions for a power trend continue to be in place. While the power trend rally continues, the Iran – US conflict still looms and the market is now discounting an increase in interest rates this year instead of a cut. One Truth post by President Trump can upend the market rally. S&P500 is not overly extended at just 2.2% above its 21ema and the Nasdaq 1.5% above its 21ema. Still there is a lot of distance to the 50dma (11% for the Nasdaq and 7% for the S&P500) which often serves as the point at which investors decide if they have made a mistake or not. If the rally continues apace conditions could be ripe for a broader pull-back and or consolidation. The PHLX Semiconductor Index (SOX) is ripe for a pull back as it sits +15.5% above its 21ema is what we said last week and pull back it did as it fell -4% Friday and sits +6.0% above the 21ema now.



Source: [MARKETSURGE](https://www.marketsurge.com)
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Decisive odds of rate cut remain well out in the future with Dec 8 meeting at ~0% and now showing over 50% probability of a Fed rate hike (FedWatch - CME Group). The odds of a rate cut at better than 50/50 do not show up at all for over a year and looking out to July 2027 are only 1.5%.

The US 10-year interest rate fell 3bp to 4.56%.

Stock Market Today/Week: May 22, 2026

Index	Level	Day change	Week Change
S&P 500	7,473.47	+0.37%	+0.88%
Nasdaq Composite	26,343.97	+0.19%	+0.45%
Dow Jones Industrial Avg.	50,597.70	+0.58%	+2.13%
US 10 year	4.56%		-3bps

Source: Factset

Key events/headlines for the week ahead: Nothing major on deck. Headlines for a possible settlement with Iran likely in focus. Nice set ups for optical plays such as Lumentum (LITE) and Corning (GLW) as well as chip equipment makers such as ASML and power plays such as GE Vernova (GEV) per Investor's Business Daily Dow Jones Futures Ris, Oil Prices Dive on Iran Deal Hopes.

5/26/2026 FHFA Home Price index for Mar; Consumer Confidence for May: 91.9 expected vs 92.8 prior.

5/27/2026 Preliminary durable goods orders for April: m/m +1.1% expected vs +0.85% prior. ADP Weekly employment change for week ended May 9.

5/28/2026 GDP Chain Price SAAR Q/Q second preliminary for Q1: +3.6% prior. GDP SAAR growth for Q1 second preliminary: +2.0% expected. Initial jobless claims for week ended 5/23: 213k expected vs 209k prior week. Core PCE deflator M/M for April:).30% and y/y +3.3%. PCE for Aril +0.30% M/M vs).90% prior.

5/29/2026 Chicago PMI for May: 51.2 expected vs 49.2 prior.

Source: Factset

What to do now: Pruning laggards and losers raising cash positions as pull back risk has increased.

Appendix:

What kind of positive technical confirmations for a power trend per IBD ("Webby's rules"):

1. Follow through day (FTD)
2. Subsequent FTDs.
3. Close above 21-day exponential moving average (EMA).

4. Low above 21EMA.
5. 3 consecutive days with low above 21EMA.
6. Close above 50-day moving average (DMA).
7. Low above 50dma.
8. 3 consecutive days with low above 50dma.
9. Close above 200dma.
10. Low above 200dma.
11. 3 consecutive days low above 200dma.
12. 21ema moves above 50dma.
13. 21ema moves above 200dma.
14. 50dma moves above 200dma.

As of 5/24/2026 a rally confirmation in place, and all the power trend conditions are in place rules in place for both the Nasdaq and the S&P500.

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