

CJ's Weekly Market Memo

May 2, 2026

“Buy in May and Plan to Stay”

You know the old Wall Street ditty—“Sell in May and go away.” It’s one of the market’s most durable seasonal clichés, and in a normal year I’d tip my hat to it. But this is not a normal year. The S&P 500 closed at a fresh all-time high of 7,230 on May 1st. The Nasdaq punched through 25,000 for the first time in history. Both indexes strung together their sixth consecutive weekly gain—the longest such streak since October 2024. If you sell this market and walk away, you might come back in the fall and wonder who moved your cheese. So this year I’m flipping the script: Buy in May and plan to stay.

The Economy: Stronger Than the Headlines

If you relied on the evening news for your economic outlook, you’d think the sky was falling. Oil above \$100. Gasoline climbing. The Iran conflict grinding on with the Strait of Hormuz still effectively closed. And yet the actual economy keeps humming along, seemingly immune to the noise.

Initial jobless claims just printed 189,000—the lowest reading since the 1960s. Let that sink in. Private-sector hiring measured by ADP’s weekly data accelerated to a pace above 150,000 jobs per month. Job openings tracked by Indeed appear to have bottomed and are starting to stabilize. The labor market is not just holding up; it is quietly re-accelerating.

The earnings picture is equally compelling. With roughly two-thirds of S&P 500 companies having reported first-quarter results, 84% have beaten earnings estimates—the highest beat rate since the second quarter of 2021. Companies are reporting earnings 21% above analyst expectations on average, and the blended growth rate for the quarter is tracking toward 27%. Forward guidance has been exceptional: the net guidance raise rate sits in the 88th percentile historically. FactSet’s John Butters noted that based on historical beat patterns, actual Q1 earnings growth could approach 19% when all reports are in—which would be the strongest quarter since late 2021. For the full calendar year 2026, analysts now project earnings growth north of 21%. Some on the Street think even those estimates may prove too conservative.

BlackRock’s Rick Rieder has made one of the more provocative arguments I’ve heard recently: that the United States is becoming effectively recession-proof, at least for the foreseeable future, because AI-driven capital investment and productivity gains are providing a structural floor under growth. Real private domestic final purchases continue to point to an economy growing around 2% in real terms, boosted by robust investment in intellectual property, software, and the AI-related buildout of data centers

and power infrastructure. Rieder's math is striking—he estimates that if AI reduces labor's share of corporate costs by even 5%, that translates to roughly \$1.2 trillion in annualized savings. That kind of structural margin expansion doesn't just support earnings; it fundamentally changes the growth trajectory of the economy.

Technical Conditions: The Bull Keeps Running

From a technical standpoint, this market is doing something remarkable: it is shaking off bad news like a dog shakes off water. Oil above \$100. Inflation sticky. Geopolitical uncertainty elevated. And the market's response? New all-time highs. The S&P 500 and Nasdaq both confirmed the continuation of the bull market with simultaneous record closes on May 1st. Breadth has been solid, with advancing issues outnumbering decliners on both the NYSE and NASDAQ. The Russell 2000 closed at 2,813, within striking distance of its own 52-week high, suggesting the rally is broadening beyond just the mega-caps.

That said, the market is frothy—and I want to be honest about that. Retail clients who have been waiting for a pullback to put money to work are starting to give up and chase. Bespoke's "Ludicrous List"—their measure of stocks with market caps above \$500 million, price-to-sales above 10x, and prices that have doubled in a year—now contains more than 800 names, and its share of total market capitalization has surpassed the dot-com bubble peak. The froth is real. But frothy markets can stay frothy for a very long time, especially when they are backed by the kind of earnings power we are seeing today.

The AI infrastructure trade remains the dominant force. Hyperscaler capital expenditure is now trending at approximately 2.5% of U.S. GDP—a staggering number—and consensus estimates keep rising. Here's the important part: that spending is still well below operating cash flow for the big four (Microsoft, Amazon, Meta, and Alphabet). They are financing this buildout from earnings, not leverage. That is a critical distinction from prior technology booms. According to Ramp Economics data, more than half of U.S. businesses now have paid AI subscriptions, with adoption spreading broadly across industries. Semiconductors, memory stocks, and power infrastructure names continue to lead. The Philadelphia Semiconductor Index has been on a tear, and newer thematic vehicles like the Defiance AI and Power Infrastructure ETF and the Roundhill Memory ETF are tracking the buildout in real time.

Looking Ahead: 2026 Has More Room to Run

There are headwinds—I am not Pollyanna. The Iran conflict is far from resolved. Brent crude sits near \$120 and OECD commercial petroleum inventories have been drawn down by an estimated 900 million barrels since the crisis began. Energy prices act as a tax on the consumer, and retailers are starting to show technical weakness. The Fed is on hold with no rate cuts priced in for this year, and the incoming Fed Chair Kevin Warsh faces a committee that has shifted more hawkish with Governor Waller's recent

pivot. Inflation remains sticky in services, even after stripping out tariff and energy effects.

But here is the bull case, and I think it's the stronger one. Warsh, during his confirmation hearing last week, signaled openness to viewing AI-driven productivity gains as a deflationary force that could justify lower rates than traditional models would suggest. He expressed support for alternative inflation measures like median and trimmed-mean readings—which strip out the temporary oil and tariff spikes—rather than setting policy based on supply shocks the Fed cannot control. If Warsh follows through on that framework, it is constructive for equities and especially for the AI-levered parts of the market.

The bigger picture is this: we are in the early-to-middle innings of what I believe is the second great technological wave—comparable in scale and economic impact to the electrification of America a century ago. The infrastructure buildout phase is well underway, and the application layer is just beginning to emerge. The productivity gains that Rieder and Warsh are both pointing to are not hypothetical anymore—companies are reporting 15% to 30% efficiency improvements right now, and Microsoft says 35% of its code is already written by AI. This is a secular story with a long runway, and it is the central theme of my new book, *Investing in the Second Wave: An AI Investor's Approach to Recognizing Historical Patterns in Technological Markets*, due out early November of this year. The historical parallels between what we are living through now and what investors experienced during the great buildouts of the past are striking—and understanding those patterns is how we stay on the right side of the trade.

We continue to own AI infrastructure investments and remain positioned for what we believe will be a strong year for equities. We have not yet committed all cash reserves in this frothy environment—discipline matters—but we are actively seeking new opportunities and believe the path of least resistance for the market remains higher. Buy in May, plan to stay, and let the compounding do its work.

CJ Brott

Chairman Emeritus, Capital Ideas

The material presented is for informational purposes only and is believed to be accurate. Sources include but are not limited to publications by FactSet, Dow Jones, Yardeni Research, and Bespoke Investment Group. All expressions of opinion reflect the judgment of the author as of the date of publication and are subject to change. The author may hold securities mentioned in this commentary.