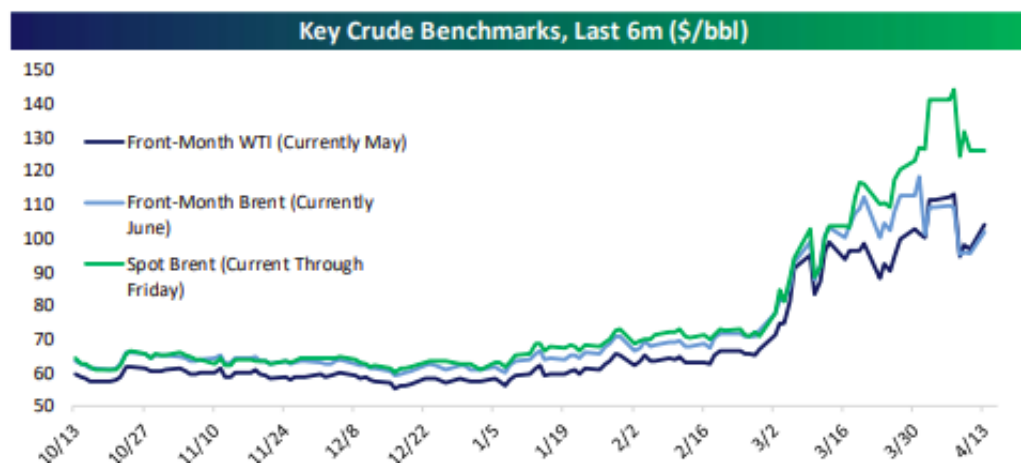


When an external shock occurs — such as a geopolitical event, like a war — markets typically begin to rally once peak fear subsides, often well before the event is fully resolved. Following last week’s announcement of a two-week ceasefire between the United States and Iran, the S&P 500 has climbed roughly 5% and now sits about 10% above the late-March lows. Although no clear end to the conflict is yet in sight, markets appear to have moved past the height of anxiety. Simply stepping back from the most severe escalation fears has been enough to shift investor focus elsewhere and ignite the current rally.

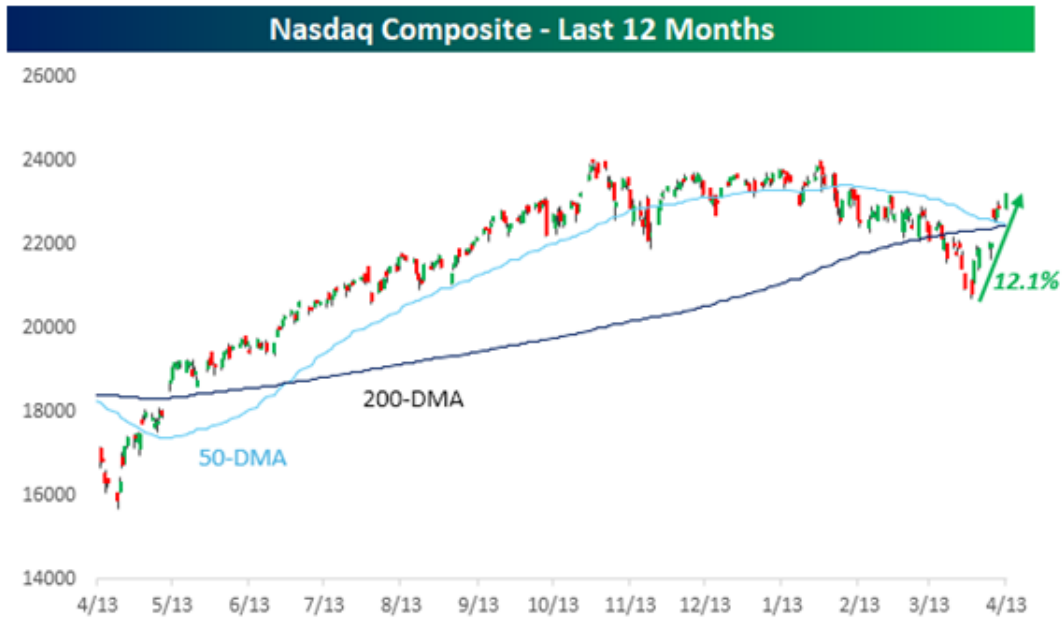
Oil prices have stabilized, although at levels well above the start of the year. While elevated energy costs will weigh on consumers and businesses in the near term, these pressures are expected to moderate as the year progresses.



Source: Bespoke Investment Group

More importantly, investors have now shifted their focus to the far bigger driver: corporate earnings. The good news is that forward profit estimates continue to be revised higher, even after factoring in the drag from higher energy prices. This earnings resilience explains why equities held up relatively well during the recent shock and why the rally has resumed so quickly. Headline geopolitical events may create short-term noise, but underlying corporate profits remain the primary driver of stock performance over the medium to longer term.

With mid-teens earnings growth expected for this year and further gains anticipated in 2027, the fundamental backdrop for this secular bull market remains solidly intact. Much of this growth is likely to come from the technology sector, where unprecedented capital investment continues to fuel the AI infrastructure buildout.



Source:

Bespoke Investment Group

Productivity gains should also broaden across other sectors, supporting healthy top-line expansion and margin improvement. Furthermore, although the energy sector represents a small slice of the S&P 500's combined market capitalization, its improved profitability should still contribute a notable lift to overall profit growth, helping to cushion the broader margin impact from higher energy expenses elsewhere.

I remain optimistic regarding the outlook for corporate profits and believe earnings expansion should do the heavy lifting from here, providing strong fundamental support for the current bull market's durability. With earnings season now underway, investors will scrutinize management commentary and guidance. I expect an overall constructive tone, with strong demand and capital spending plans reaffirmed across sectors such as technology and industrials. While there will likely be some cautious commentary across energy-sensitive sectors such as airlines and goods transportation, I do not anticipate any challenge to the key secular themes underpinning this bull market.

Andrew P, Kerai, CFA®

Chairman & Managing Partner

Capital Ideas, Inc.

Disclaimer

The information presented is for educational purposes only and is believed to be factual and up-to-date. All expressions of opinion reflect the judgment of the author(s) as of the date of publication and are subject to change. Nothing in this commentary should be construed as investment advice and does not take into consideration your specific situation. All investments involve risk. Past performance does not guarantee future results. Advisory services offered through Capital Ideas, an investment adviser registered with the U.S. Securities and Exchange Commission.