

## **A mixed week that did not end well as inflation, oil, and interest rates surged.**

The week ended on a down note as a number of negative data points hit the tape at the end of the week. The S&P500 (+0.13%) was positive for the week. But the Nasdaq (-0.1%) and DJ Industrial Average (-0.17%) edged lower while the Russell 2000 fell hard (-2.3%). Breadth narrowed as evidenced by the S&P500 equal weighted index dropping -1.2% w/w. The price of WTI oil surged over +10% on the week to over \$105/bbl and the price of Brent crude jumped +8% to over \$109/bbl. The US 10-year surged 23bp on the week to 4.59%, the highest in nearly a year. Inflation also came in hot with the PPI SA ex food and energy the hottest in 4 years up +1.0% m/m and the headline ex food and energy up 5.2% y/y. Granted the items that will impact the PCE were better, but not a good look. While President Xi and President Trump agree that Iran should not have a nuclear weapon, the US – China Summit left the US mostly empty handed despite some of the top CEOs that accompanied Mr. Trump for the trip. Further, President Xi warned specifically over US policy on Taiwan, the most important issue to China in US-China relations.

Sunday, night futures are down in the -0.4% to -0.7% range and President Trump issued another warning to Iran as the US and Iran are far apart on the key issues of nuclear sovereignty and control of the Strait of Hormuz. Our expectation going forward is that many stocks are extended. The S&P500 sits +7% above its 50-day moving average and 9% above the 200dma while the Nasdaq is 11% above the 50-dma and 14% above its 200dma. Consolidation would be welcome to let moving averages catch up but the risk of a pullback clearly rising.

## **Economic statistics showing inflation heating up, interest rates higher as well, resulting in rising risks for investors:**

- PPI ex Food and Energy SA up 1.0% for April, hottest in 4 years and headline PPI NSA Y/Y +6.0% (yikes) and NSA ex food and energy +5.2% y/y (yikes again),
- CPI had shelter distortion but was at +2.8% y/y slightly above consensus and hottest since Sept 2025 with April core CPI up +0.4% m/m vs consensus +0.3% and prior month +0.2% m/m. But headline CPI +0.6%, in line and annualized +3.8% vs consensus +3.7%, prior month +3.3% and highest since May 2023 (yuck!)
- US 10 yr up 23 bp rise w/w to 4.59% highest US 10-year rate since May 2025 when it hit 4.63%
- Brent oil up 8% w/w and WTI up 10.7% w/w
- Narrowing breadth in the market
- SOX 62% above 200dma
- Avg price of gasoline above \$4.50 gallon and grocery prices biggest increase since April 2022 (yikes)

- US-China summit showed the US and China agreeing that Iran should not have a nuclear weapon but not very clear on how China might help and on Taiwan, China's most important issue, President Xi issued a warning on US policy.
- "Operation Sledgehammer" being considered by US military amid resilient Iran as Iran military not as decimated as previously thought. For example, Iran has restored access to most of its missile sites along the Strait and regained access to 90% of its underground missile storage

**Positive offsets but is it enough against rising inflation and interest rates? Will NVDA earnings due May19 AMC, AVGO, and CRDO earnings due out June 2 come to the rescue?:**

- Retail sales seasonally adjusted m/m +0.5% and ex autos, +0.7% m/m above the +0.5% expected
- Empire State Index for May 19.6 vs 6.2 expected – highest since 2022
- New orders index up m/m to 22.7 from 19.3, highest in over 4 years
- Prices paid jumped to 62.6 from 51.0 and prices received jumped to 31.8 from 21.8, highest since 2022 for both
- Business conditions index grew more optimistic as it rose 14 points to 33.5 and over ½ respondents expect improvement next 6 months
- Industrial Production SA M/M for April +0.7% vs +0.3% expected nice
- Nvidia breaking out but pulled back on nothing from China release of surging inflation numbers. Earnings due out Tuesday AMC with sales expected to increase +79% y/y and EPS +116% y/y. The stock has been breaking out. A stellar print could help stabilize the market though NVDA earnings have been less important the past few quarters as other areas surged while NVDA has been churning sideways for some 9 months before breaking out this month. But any kind of meet and affirm or miss could trigger a sharper pull back across markets.

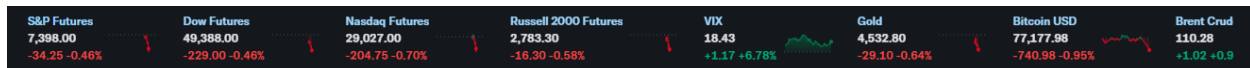


- Sectors were mixed but mostly lower. Energy (XLE) was the leader on the upside, rising +6.7% as West Texas Intermediate Crude Oil rose +10.5% to \$105.42/bbl as of Friday. Prices were up +2.7% to over \$108/bbl Sunday night. Technology (XLK, +0.4%) was flat. But Retail was sharply lower (XRT, -6.7% w/w) and Utilities (UTES, -4.6%) were sharply lower on weakness in the nuclear power plays.

**Outlook: NVDA earnings this week likely the most important event.**

- As a reminder from prior weeks, going back over six decades and looking at where markets are post middle east conflicts, out of the 16 conflicts the market was lower only twice after twelve months: (1973-1974) and with the events surrounding 9/11 where an invasion of Iraq followed a stock bubble. Geopolitical events such as ME conflicts have historically represented good dip buying opportunities. Still, the US-Iran conflict drags on and President Trump called the latest Iran response, “totally unacceptable.”

Sunday night stock futures are lower:



Source: Yahoo Finance

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

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

**AI infrastructure capex scenarios, 2025–2030**

*(Global, annual, rough order of magnitude ranges in USD)*

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

**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.



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BY INVESTOR'S BUSINESS DAILY

Source:

Decisive odds of rate cut remain well out in the future with Dec 8 meeting at ~6% 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.

The US 10-year interest rate rose +23bp to 4.59%.

### Stock Market Today/Week: May 15, 2026

Index	Level	Day change	Week Change
S&P 500	7,408.50	-1.24%	+0.13%
Nasdaq Composite	26,225.14	-1.54%	-0.08%
Dow Jones Industrial Avg.	49,526.17	-1.07%	-0.17%
US 10 year	4.59%		+23bps

Source: Factset

**Key events/headlines for the week ahead:** Key earnings due out are Nvidia and Home Depot.

5/18/2026 HUBG NAHB Housing Market Index

5/19/2026 EXP HD Pending home sales for April (+1.0% expected)

5/20/2026 ENS NVDA GLNG FOMC Minutes.

5/21/2026 DE ZM TEN Philadelphia Fed Index for May (17.0 expected vs 26.7 prior), S&P Global PMI Mfr for May (53.7 expected vs 54.5 prior), S&P Global PMI Services for May (51.7 vs 51.0 prior).

5/22/2026 GSL

*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 5/17/2026 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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