

AIQ May 2026 Market Review and Outlook

Data as of May 14, 2026, from Bloomberg Intelligence and AIQ Asset Management commentary

Executive Summary

- **Geopolitics on a knife edge.** U.S.–Iran ceasefire on life support after Trump rejected Iran's response as "totally unacceptable"; talks stalled, combat resumption back on the table. WTI above \$100, Hormuz heavily disrupted.
- **Inflation is re-accelerating in the data.** April headline CPI 3.8% (hottest since May '23), core 2.8%; April PPI hotter still at +1.4% MoM / +6.0% YoY, with stage-2 intermediate demand at 11.1% YoY. Energy pass-through bleeding into core.
- **Labor market cooling, not cracking.** April NFP +115K (vs +62K consensus), unemployment 4.3%, AHE +3.6% YoY. "No-hire, no-fire" environment persists.
- **Fed pricing has shifted hawkish.** Fed held at 3.50–3.75% in April. The Dot Plot was not updated and still shows one cut by YE while markets price ~50% odds of a hike by year-end, >90% by mid-2027. 10-Year near 4.5%, term premium rebuilding. Warsh confirmed as next chair.
- **AI and cloud are carrying the index.** Hyperscaler beats across the board (AWS +28%, GCP +63%, Azure +40%); 2026 capex revised to ~\$820B. S&P 500 ex-AI margins fell to 11.0% since 2022 while headline hit 14.1% — the full expansion is AI-driven. Equal Weight lags cap-weighted by 340 bps YTD.
- **Our scenario framework has evolved.** Reframed from January's three-scenario view (60/30/10) to a four-quadrant rate-path × growth framework: Higher-for-Longer with Growth Holding ~40% (base), Soft Landing ~25%, Goldilocks Redux ~20%, True Stagflation ~15%. Stagflation has roughly doubled.
- **Risks we are watching.** Hormuz re-escalation has materialized; inflation re-acceleration is in the data, not a forward risk to flag; the Fed's reaction function is unsettled under new leadership; long-end rates may pressure equity multiples; equity leadership remains narrow.

The first four months of 2026 have been defined by the most significant geopolitical shock since the 1970s energy crises: the U.S.–Iran conflict that began in late February. A two-week ceasefire was agreed in early April and subsequently extended, but the framework is fragile and has deteriorated meaningfully in recent days. On May 7, Iran launched missiles, drones, and small-boat attacks on U.S. destroyers in the Strait of Hormuz; the U.S. responded with targeted strikes on Iranian military sites near Bandar Abbas and Qeshm Island. As of mid-May, the ceasefire is on life support: President Trump has rejected Iran's response to the latest U.S. peace proposal as "totally unacceptable," talks have stalled, and the Administration is more seriously weighing a resumption of major combat operations than at any point in recent weeks. The Pakistan-mediated channel remains formally open, but the path to a comprehensive deal has narrowed.

The U.S. naval presence and blockade in the Persian Gulf remain active while Iran also continues to threaten non-friendly ships' passage. Strait of Hormuz traffic remains heavily disrupted; shipping is jammed and oil flows are restricted. Oil prices (WTI), which peaked above \$110/barrel during the height of the conflict, remain over \$100, with the recent escalation maintaining upward pressure on the energy complex. Separately, Israeli strikes on Hezbollah targets in Lebanon continue.

This environment has shifted our probability-weighted scenarios meaningfully while reinforcing the decoupled nature of the economy and markets. Earnings prints from the first quarter confirm that AI infrastructure demand remains very strong — but the broader economy, particularly cyclical and consumer-sensitive areas, continues to face headwinds from elevated energy costs and ongoing uncertainty. The K-shape in this economy predates the shock but the rapidly rising energy costs are widening it.

First-Quarter 2026 Economic Data Recap

First quarter economic data delivered a mixed picture consistent with our "rolling, but not booming" framework, with clear energy-related drags now visible across the data:

GDP: Real GDP grew at a modest 2.1% annualized rate in Q1 (advance estimate, late April), slightly below consensus. The drag came primarily from higher energy costs, geopolitical uncertainty, and cautious business and consumer spending. Consumer spending held up better than feared due to prior fiscal stimulus, but business investment slowed outside of AI-related capex.

Inflation: March CPI jumped to 3.3% year-over-year from 2.4% in February — the largest monthly increase in years. The surge was driven almost entirely by energy (+10.9% in the index, with gasoline +21.2%). Core CPI (ex-food and energy) was more moderate at 2.6% at that point. The April CPI release on May 12 confirmed that energy pass-through is beginning to bleed into core: headline accelerated to 3.8% year-over-year (the hottest reading since May 2023) on a +0.6% monthly print, while core ticked up to 2.8% year-over-year on its fastest monthly print since January 2025. Gasoline rose 28.4% year-over-year; energy alone accounted for over 40% of the headline gain. April PPI, released May 13, was hotter still — final demand rose +1.4% month-over-month against a 0.5% consensus, with year-over-year final demand at +6.0%. Stage-2 intermediate demand prices rose 11.1% year-over-year, the largest 12-month increase since September 2022. The pipeline for additional inflation is still building.

Labor Market: April nonfarm payrolls printed +115K, well above the Bloomberg consensus of +62K, with March revised up to +185K. The April print marks the first back-to-back monthly gains in nearly a year — the labor market is cooling but remains broadly resilient. Gains were concentrated in health care (+37K), transportation and warehousing (+30K), and retail trade (+22K); federal government (-9K), information (-13K), and manufacturing (-2K) continued to shed jobs. Unemployment ticked up to 4.3% from 4.1% in March. Average hourly earnings rose

0.2% month-over-month and 3.6% year-over-year — moderate wage growth that fits the "no-hire, no-fire" environment, with reduced net migration and tariff-related uncertainty continuing to limit broader wage acceleration outside AI-related sectors.

Consumer: Confidence remains subdued but showed a small uptick in March. Spending is value-focused, with discretionary categories under pressure from higher gasoline prices. Retail sales data for March showed resilience in necessities but softness in big-ticket items. Notable gaps have emerged based on income levels, with mid- and lower-income consumers expressing less confidence than upper-income consumers as higher gas prices take a significant toll on their discretionary budgets.

Housing: Existing-home sales continued their gradual thaw, but price growth stayed tame (+0.4% YoY). Inventory is edging higher, but the lock-in effect from low-rate mortgages keeps supply constrained.

Federal Reserve: The Fed held rates steady at 3.50–3.75% in April and maintained an easing bias, though the rapid increase in energy prices has several committee members visibly concerned. The Fed's current median projection continues to show one 25 bp cut for the remainder of 2026, but forecasts were not updated at this meeting, and we would not be surprised if that cut is removed at the next opportunity. Following the April CPI and PPI prints, market pricing has shifted further: Fed Funds futures now imply no cuts for 2026 and roughly a 50% probability of a hike by year-end and more than 90% odds by mid-2027. With Iran unresolved and a new chairman (Kevin Warsh) now confirmed, we expect Fed-pricing volatility to continue.

Longer-term rates have moved up meaningfully as well. The 10-Year Treasury yield currently sits near 4.5%, with the term premium rebuilding alongside concerns over Treasury supply and sticky inflation. The long end is increasingly stubborn even as the front end is pinned. As rates trend toward the higher end of our targeted range, duration is becoming more attractive, but energy prices are key – difficult to analyze – variable, so we expect rates to remain volatile. Duration in client portfolios remains shorter (less interest rate sensitivity) than benchmarks.

Q1 Earnings Recap — AI and Cloud Are Doing the Lifting

First quarter earnings confirmed that AI infrastructure demand has remained the structural support beneath index-level growth. Hyperscaler results were strong across the board: AWS revenue grew 28% (its fastest pace in 15 quarters), Google Cloud grew 63%, Microsoft Intelligent Cloud grew 30%, with Azure at 40%. Apple, Alphabet, Meta, and Amazon all delivered double-digit revenue growth. Aggregate hyperscaler capex for 2026 was revised up to roughly \$820 billion (from a prior \$750 billion view), and Google Cloud's contracted backlog reached \$462 billion in Q1 — nearly doubling quarter-over-quarter, with over half expected to be recognized as revenue over the next 24 months.

The dispersion within the rest of the index is harder to ignore. Per Bloomberg Intelligence, S&P 500 ex-AI margins fell from 11.4% to 11.0% since 2022, while headline margins rose to 14.1% over the same period — the full margin expansion is AI-driven. The S&P 500 Equal Weight has lagged the cap-weighted index by 340 basis points YTD as of May 14th. Tech sector consensus EPS growth is running near 40% versus 12.5% for the broader S&P 500, with semiconductors at +82.7% and electronics at +31.9%. Concentration is doing the work.

An Evolved Scenario Framework

In our January outlook, we presented three probability-weighted scenarios:

- **AI-led rolling expansion (60%, base case)** — selective tech and AI pockets driving modest growth, with inflation cooling and the Fed delivering additional cuts. Earnings concentrated but expanding to enablers.
- **Cyclical reacceleration (30%, upside)** — fiscal stimulus, deregulation, the lapping of 2025's tariffs, and easing monetary policy broadening earnings beyond AI, pushing GDP higher and favoring cyclicals and small caps.
- **Stagflation tail (10%, downside)** — sticky inflation paired with slower growth, the Fed constrained, yields higher-for-longer and equities pressured.

The ground has shifted materially since. The Iran shock reset the macro setup. Inflation is no longer cooling — March CPI jumped to 3.3% on energy pass-through and core has not yet rolled. The Fed is not delivering cuts; futures now imply no cuts for 2026 and roughly a 50% probability of a hike by year-end. The "AI-led rolling expansion" half of our base case still holds as first quarter earnings prints confirm that AI/cloud demand has been resilient — but the macro wrapper around it has changed. Cyclical reacceleration now requires a durable Iran resolution and a clean reopening of energy infrastructure to become reality and not just the hope trade. A higher-for-longer rate environment has moved from a background risk to the modal outcome. The probability of the stagflation tail has roughly doubled: still a tail, but a meaningfully larger one.

These shifts called for a more analytically rigorous framework than our three-scenario narrative alone could provide. We have, thus, built a four-quadrant framework that decomposes the macro outlook on two axes — rate path and growth — and assigns probabilities to four mutually exclusive cells. This decomposition provides us with a cleaner read on where each sleeve of the portfolio is contracted to perform.

OUTLOOK · 2x2 MATRIX



Scenarios broken out by growth and rate environments

	HIGHER FOR LONGER / HIKE RISK	CUTS RETURN
GROWTH RESILIENT (>2%)	Higher-for-longer, growth holds ~40% Sticky inflation, no cuts in '26 priced. AI capex + labor carry the economy. Our positioning thrives.	Goldilocks redux ~20% War ends, oil rolls, inflation cools, cuts come back. Broaden into duration + R2K.
GROWTH DECELERATING (<2%)	True stagflation ~15% Escalation + labor cracks. Defensives, gold, options earn their keep.	Soft landing ~25% Growth slows but inflation cools enough to allow cuts. Quality + selective duration extension.

*Probabilities provided are the opinion of AIQ Asset Management and are not guaranteed.

Stagflation moved from a 10% tail in our January three-scenario view to a 15% probability in this framework — still a tail, but a meaningfully larger one. The four-quadrant lens lets us reason about positioning more directly: in a higher-for-longer/growth-holding world, our concentration in quality AI and short duration is designed to be resilient; in a true stagflation situation, our gold and options hedges are intended to provide ballast; in a soft landing, we would evaluate extending duration while continuing to focus on growth; in Goldilocks, broadening into cyclicals and small-cap quality would become a consideration. Each sleeve is positioned with a specific macro environment in mind.

Higher-for-Longer with Growth Holding (~40%). Sticky inflation, no Fed cuts in 2026, growth resilient above 2%. AI capex and a stable labor market carry the economy. Quality AI, short-duration credit, and our current positioning are designed to be well-suited for this environment. This is the mainstay of our base case.

Goldilocks Redux (~20%). A durable Iran resolution allows oil to roll, inflation to cool, and Fed cuts to return while lower prices and decreased uncertainty drive accelerating growth. The A broader rally may develop, the Russell 2000 may gain traction, and selectively extending duration would become a consideration.

True Stagflation (~15%). Higher-for-longer rates combined with decelerating growth — Iran re-escalation, labor cracks, or supply-chain damage compound the cost shock. Defensives, gold, and option hedges may earn their keep while the existing AI/tech/growth companies could act as defensive investments given the strong secular trends.

Soft Landing (~25%). Growth slows below 2% but inflation cools enough to allow Fed cuts. A quality bias plus moderate duration extension would be consistent with this scenario.

Risks We Are Watching

Several developments will shape the next leg.

Tech and chip momentum has stretched — the iShares Semiconductor ETF registered its highest 25-day rolling rally since March 2000 during the first week of May — and we are watching closely. Market breadth at the one-year average (percent of NYSE stocks above their 200-day moving average) tempers the concern but does not eliminate it.

Hormuz re-escalation has returned, with the May 7 exchange and the deterioration of peace talks since showing how quickly the cease-fire posture can tip. Inflation re-acceleration is no longer a forward risk to flag — it is now in the data as highlighted above. The longer the Iran hostilities drag on, the harder this becomes for the Fed to look past the acceleration in inflation as transitory. The Fed itself could move in either direction; with new leadership in place, the reaction function is itself unsettled. Long-end rates may continue to pressure equity multiples even with the front end pinned. And concentration of leadership remains narrow; broadening is the bull case but not yet durable.

We will continue to monitor the situation closely — particularly developments around the cease-fire, incoming consumer and inflation data, and weekly jobless claims. A durable truce and a clean reopening of global oil infrastructure would tilt probabilities back toward the upside scenario. While each account's positioning may differ based on objectives, risk tolerance, and circumstances, we overall remain selective and defensive.

This commentary reflects the current views of AIQ Asset Management and is not a guarantee of future results or an indication of how any specific account is or will be positioned.

For more information:

AIQ Asset Management

15110 Dallas Parkway, Suite 500
Dallas, TX 75248

700 Larkspur Landing Circle, Suite 199
Larkspur, CA 94939

investorrelations@aiqam.com
(415) 707-6409

Important Disclosures:

This commentary is provided for informational purposes only, does not take into account the specific objectives, financial situation, or particular needs of any specific investor, and should not be interpreted as a recommendation to purchase or sale any security or strategy. The information contained in this commentary has been derived from sources believed to be reliable and providing accurate information. Any forecasts, opinions or statements of financial market trends expressed may not materialize and are subject to change without notice.

Investment advice offered through Advisor Resource Council (“ARC”), a registered investment adviser.

Additional information, including management fees and expenses, is provided on our Form ADV Part 2, available at the SEC’s Investment Advisor Public Disclosure [website](#). Advisory services are only offered to clients or prospective clients where ARC and its representatives are properly licensed or exempt from licensure. No advice may be rendered by ARC or its representatives unless a client service agreement is in place. The commentary is being provided to existing clients under an existing advisory agreement, and prospective clients should review the ADV before engaging. The services of ARC will only be provided in states where the Firm is registered or may be exempt from registration. As with any investment strategy, there is potential for profit as well as the possibility of loss. We do not guarantee any minimum level of investment performance or the success of any portfolio or investment strategy. All investments involve risk (the amount of which may vary significantly) and investment recommendations will not always be profitable. The underlying holdings of any presented portfolio are not federally or FDIC-insured and are not deposits or obligations of, or guaranteed by, any financial institution. **Past performance is not a guarantee of future results.**

Any market indexes discussed are unmanaged, and generally, considered representative of their respective markets. Index performance is not indicative of the past performance of a particular investment. Indexes do not incur management fees, costs, and expenses. Individuals cannot directly invest in unmanaged indexes.

The Standard & Poor’s 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot directly invest in an index.

The Russell 1000 Index measures the performance of the large-cap segment of the US equity universe. It includes approximately 1,000 largest US stocks, representing approximately 93% of the value of the US equities market. It is not possible to invest directly in an index.

The Russell 2000 Index measures the performance of the small-cap segment of the US equity universe. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. It is not possible to invest directly in an index.

MSCI EAFE: The MSCI EAFE Index (Europe, Australasia, Far East) is designed to measure the equity market performance of developed markets outside of the U.S. and Canada. You cannot directly invest in this index.

MSCI Emerging Markets Index captures large and mid-cap representation across 24 Emerging Markets (EM) countries*. With 1,330 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg US Aggregate Index is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. You cannot directly invest in an index.

Bloomberg Barclays U.S. Corporate High Yield Index measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody’s, Fitch and S&P is Ba1/BB+/BB+ or below. The index excludes emerging market debt. It is not possible to invest directly in an index.

FTSE (3M) Treasury Bill Index is intended to track the daily performance of 3-month US Treasury bills. The indices are designed to operate as a reference rate for a series of funds.