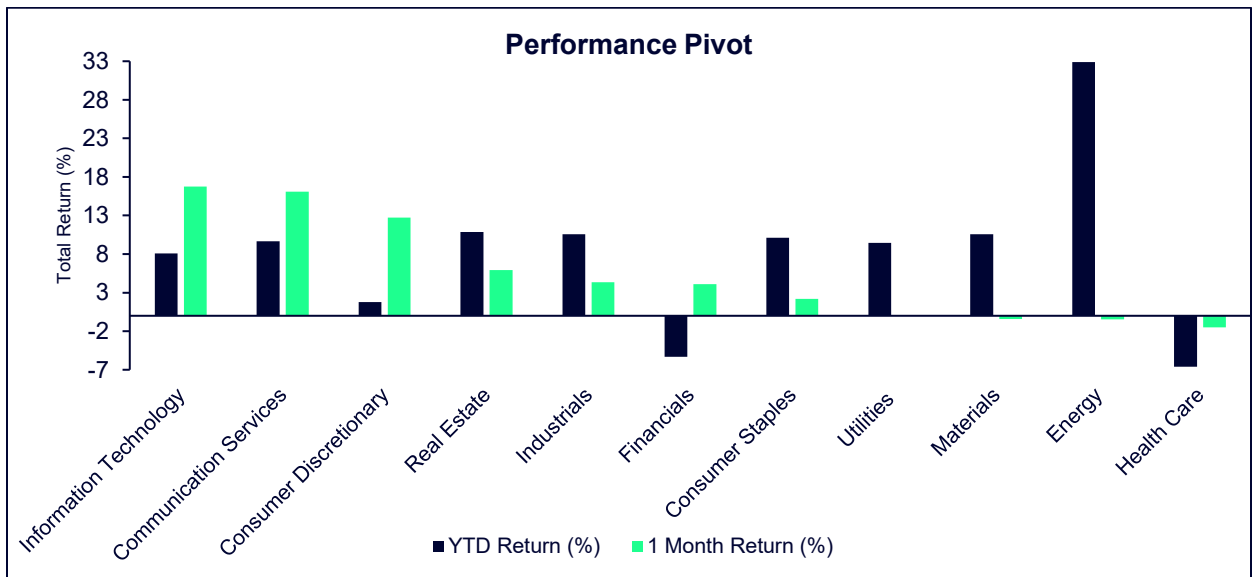


COMMENTARY

May 7, 2026

Mind on the Market

Chart of the Week



Source: FactSet, S&P, in USD as of May 4, 2026.

The first-quarter earnings season has delivered an unmistakable message at the aggregate level: corporate fundamentals remain firm. With over two-thirds of S&P 500 companies reporting, earnings growth has accelerated meaningfully to a reported rate of 26% (FactSet, as of May 6), driven by strong results across communication services, consumer discretionary, and technology. However, these strong results have been met with evolving market reactions. Several mega-cap technology companies, long viewed as the market’s foundation, reported earnings in the last week of April to sharply different investor responses. This selectivity is also evident at the sector level, where performance outcomes have diverged despite a broadly supportive earnings backdrop. This contrast speaks to a market that has moved beyond the initial repricing phase and into a more demanding stage ([Markets reprice, earnings endure | State Street](#)), one that is less about *whether* earnings are strong and more about *how* those earnings are delivered, discounted, and distributed across the market.

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Weekly Highlights

Contribution of Magnificent Seven to Overall Q1 S&P 500 Earnings Growth

61%

Source: FactSet, S&P, as of May 6, 2026.

Information Technology Weight in S&P 500

36%

Source: FactSet, S&P, as of May 6, 2026.

S&P 500 Companies with Positive Earnings Surprise

85%

Source: FactSet, S&P, as of May 6, 2026. Represents 85% of companies who have reported earnings as of May 6, 2026.

Earnings Strength Is Concentrated

At the headline level, earnings momentum looks compelling. Roughly 85% of constituents who have reported earnings so far in the S&P 500 have produced positive earnings surprise, and sector-level growth has been led by areas tied to digital services, consumer demand, and technology-driven investment. Communication services and consumer discretionary are leading in Q1 earnings growth reports at 53% and 52% respectively, and technology is following at 43% (FactSet, as of May 6). Looking further beneath the surface, this concentration becomes even more apparent. Unsurprisingly, a meaningful portion of the acceleration in aggregate earnings growth has come from the Magnificent Seven, which have contributed 61% to overall earnings growth; the rest of the S&P 500 have contributed roughly 17% (FactSet, as of May 6). This skew highlights how much of the headline improvement in earnings remains tethered to a small group of mega-cap tech firms.

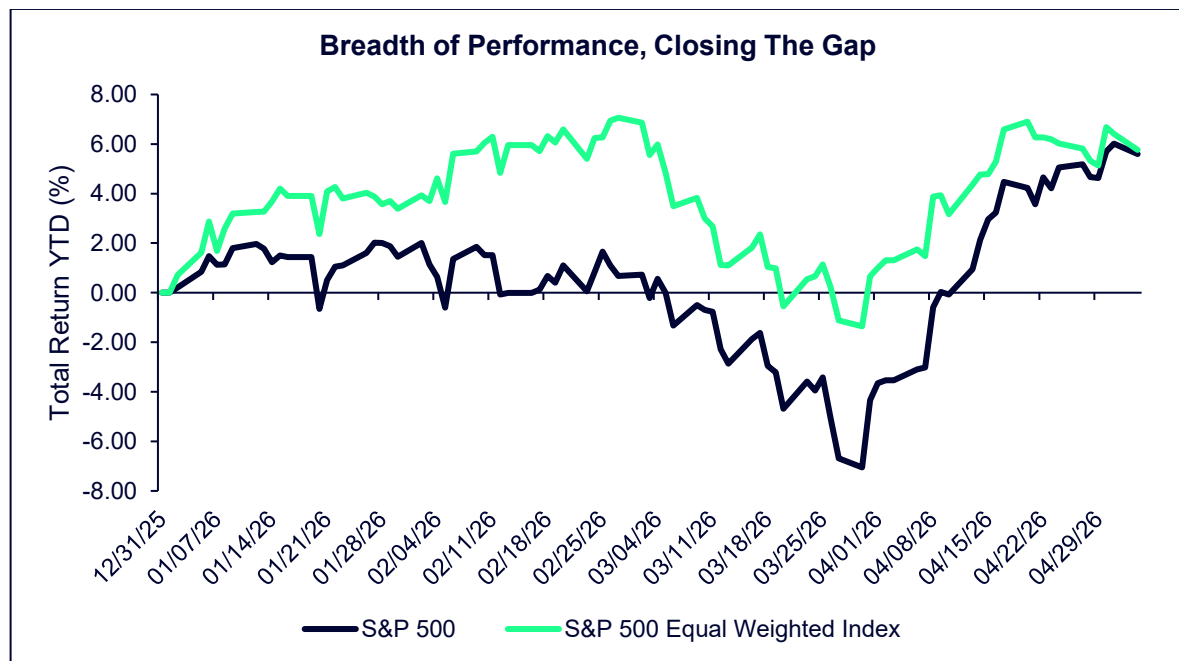
Looking ahead, forward expectations also exhibit concentration. Since the start of the year, only technology, energy, and materials have seen meaningful upward revisions to Q2 earnings estimates. Yet, energy and materials carry only low single-digit weights in the S&P 500, whereas technology alone now represents nearly 36% of the index (FactSet, as of May 5).

This degree of concentration also raises the bar for market reactions, as the companies doing the heaviest lifting for earnings growth are often the same ones facing the greatest scrutiny around guidance, capital spending, and valuation. As recent market responses to Magnificent Seven earnings illustrated, beating expectations is no longer sufficient on its own. Greater weight is being placed on

forward guidance, margin durability, capital intensity, and confidence in future cash flows. In this setting, even strong earnings can prompt selling if guidance introduces uncertainty or if expectations had already moved too far ahead of fundamentals. This dynamic explains why some of the market's most profitable companies are facing a higher bar, while others are quietly rewarded for consistency.

Participation Was Widening...

While attention remains fixed on the largest technology names, market breadth tells a complementary story. YTD, the S&P 500 Equal Weight Index has outperformed its market capitalization counterpart, however this performance differential has been narrowing over the past few weeks. Investors had been rewarded by market breadth earlier this year, but the S&P 500 Index has quickly closed that relative underperformance gap throughout April and into early May.



Source: FactSet, S&P. Total return in USD as of May 4, 2026.

Even within the S&P 500, investors appear to be shifting away from the high valuation relief rally. For example, the one-month total return of sectors in the S&P 500 shows IT, Communication Services and Consumer Discretionary leading the US market higher, whereas the YTD figures favor Energy, Real Estate and Materials (FactSet, as of May 4).

While the outperformance of the equal-weight index has narrowed, US small caps continue to stand out. The S&P 600 has outperformed the S&P 500 Equal Weight Index by nearly 8% YTD (FactSet, as of May 5), supported by improving EPS revisions since the beginning of the year, and lower starting valuations that give runway for further upside. Rate cuts in the latter half of 2025 have also eased financing pressures for smaller companies, supporting cash flow and balance sheet flexibility. While the War has introduced uncertainty around the path of further easing, our house view is still calling for two cuts this year. In addition, small caps are relatively insulated from geopolitical pressures given their more domestically focused revenue base. From a sector perspective, the S&P 600's tilt toward Industrials, its largest exposure at roughly 18%, positions it to benefit from potential tailwinds from ongoing infrastructure and technology related investment.

From Curve Pressure to Cash Flow Discipline

The yield curve remains a useful lens for interpreting current market preferences. While recent months have brought volatility, today's positively sloped curve looks meaningfully different from the acute flattening fears that began in early February. It's a shift that matters for equities. A less restrictive curve reduces pressure on broad market participation, allowing returns to be driven more by fundamentals than by pure discount rate adjustments. That said, scrutiny has not disappeared; it has become more targeted. Investors appear less focused on aggregate valuation levels and more concerned with whether future cash flows are resilient enough to justify long duration equity exposure. By contrast, short duration equities are typically more cyclical because a greater share of their value is tied to near term cash flows that rise and fall with economic activity, margins, and operating leverage. Resilient cash flows do not eliminate duration risk, but they do reduce valuation fragility. This dynamic helps explain how markets can rally in aggregate while remaining unsettled beneath the surface, particularly across high profile names.

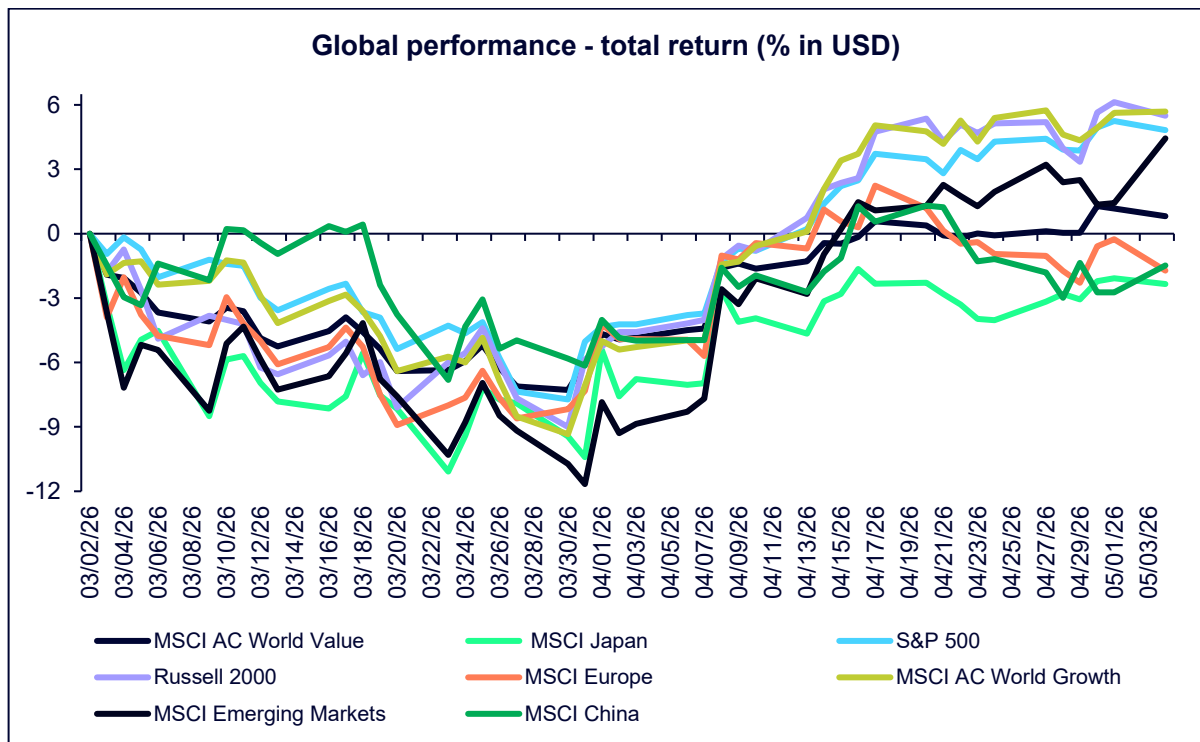
This framing is consistent with our recent analysis in [The Yield Curve's Message for Equity Markets](#), which highlights how a shift away from an aggressively flattening curve backdrop raises the bar for valuation risk (long-growth names are more sensitive to rate changes) while reinforcing the market's focus on cash flow quality and earnings fundamentals.

US Exhibits Earnings Strength Relative to Regional Counterparts

This framework also helps to explain recent regional performance post the onset of the Iran War, whereby longer duration equities, such as the IT names found within the growth factor and US region, have outperformed. Conversely, value heavy markets such as Europe and the UK have struggled, where equity indices carry higher weights in financials, industrials, materials, and energy. Japan sits between pure cyclical and structural improvement: while its market remains tilted toward cyclicals, balance

sheet repair and governance reforms have reduced sensitivity to the domestic cycle alone. Emerging markets also occupy a middle ground on duration, shorter than the US, longer than Europe, but behave more like leveraged cyclicals, amplifying global growth, commodity, and financial conditions cycles.

Next week's *Mind on the Market* will delve deeper into regional differences relative to recent earnings revisions.



Source: FactSet, S&P, MSCI, Russell. Total return as of February 28 – May 4, 2026.

Transition, Not Resolution

In another macro-driven environment YTD, earnings have moved into focus but are being judged with greater selectivity. With rate volatility persistent and stagflation risks unresolved, markets are rewarding clarity, favoring resilient cash flows and strong balance sheets over fragile growth narratives vulnerable to geopolitical shocks and elevated energy prices. This remains a period of transition rather than resolution, where higher hurdles for conviction mean only companies offering clear visibility into sustainable earnings are attracting consistent investor support.

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* This figure is presented as of March 31, 2026 and includes ETF AUM of \$1,940.32 billion USD of which approximately \$184.18 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Investment Management are affiliated. Please note all AUM is unaudited.

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Generally, among asset classes, stocks are more volatile than bonds or short-term instruments. Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns. U.S. Treasury Bills maintain a stable value if held to maturity, but returns are generally only slightly above the inflation rate.