



## From the US Market Desk

### Resilience meets overbought readings



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#### Macro

- Our real gross domestic product (GDP) growth forecast for 2026 is 2.5%, versus the Federal Reserve's (Fed) forecast of 2.3% and the Wall Street consensus of around 2%. The main drivers of our GDP forecast are the continued capital investment (capex) by big technology firms, a resilient consumer and higher tax refunds, and the possibility of future interest-rate cuts, although rate cuts look unlikely from the viewpoint of today. The duration of the Middle East conflict is the primary risk to our forecast. Higher oil prices work like a tax on the consumer, and the negative impacts of higher oil and gas prices will broaden over time. The US economy is in a strong position to weather this storm. Last week, the management teams of JP Morgan and Bank of America reinforced this view during their earnings calls. Both management teams highlighted a resilient economy and a resilient consumer. Pepsi's CEO commented to CNBC that the consumer is resilient, globally.
- We expect the Fed to cut rates twice in 2026 and core Personal Consumption Expenditures (PCE) to remain stable in the 2.5%–3.0% range. The fed fund futures market is telling us we are wrong on the interest-rate cut call at the moment. The last tick for core PCE data came in at 3.0%, versus expectations of 3.0%. Higher oil prices will likely bleed through to core PCE if oil prices stay elevated. The U-3 unemployment rate is 4.3%, just off the recent high print of 4.5% last November.
- The conflict in the Middle East, should it persist and drive oil prices higher for longer, could put the Fed in a box with respect to its dual mandate. Fed Chair Jerome Powell has recently stated on multiple occasions that the "playbook" is to look through any oil-price-related situation. Taking Powell at his word, it seems unlikely the Fed will raise rates soon. Similarly, we know that the two-year Treasury note yield historically leads the Fed, and the two-year note yield is 3.77% as of this writing. Right now, the bond market is saying the Fed will do nothing.
- Inflation expectations were stable last week. One-year inflation breakeven rates were 3.56%, down from 5.10%, and have effectively been tracking oil prices. Two-year breakeven rates were 2.92%, down from 3.30% in the previous week. Finally, five-year breakeven rates were 2.67% and have been steady for the last few weeks. These numbers represent the bond markets' pricing of annualized inflation out one, two and five years.
- On the currency front, we are expecting the US dollar to be essentially flat for the year despite the recent volatility. The Dollar Index (DXY) is trading at \$98.25 and is in the middle of its 12-month range, defined as \$96–\$100.

#### Equities

- We are constructive on US equities and have established a target range of 7,000–7,400 for the S&P 500 Index based on our outlook for 8%–13% year-on-year earnings-per-share (EPS) growth (based on Franklin Templeton Institute's [Global Investment Management Survey](#)). I add a note of caution here: After the S&P 500's 11% rally in recent weeks, the relative strength index (RSI) for the S&P is 70. The RSI has risen from 28 when both the CBOE Volatility Index (VIX) reached 31 and the S&P 500 hit a low of 6,316. An RSI reading of 70 is considered a signal of short-term overbought conditions. I expect some consolidation in the index move. Finally, we expect volatility to persist until the Strait of Hormuz is fully open.

## Equities (*continued*)

- We reiterate our “broadening” call on equities and emphasize our bullish call on US small- and mid-cap stocks. We also continue to favor emerging market (EM) equities and Japan. Additionally, I find the risk/reward balance in the Magnificent Seven names (the Mag 7 are Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia and Tesla) more appealing today versus the start of the year. I believe earnings and earnings guidance will be the next catalyst for the tape.
- Speaking of EMs, have a listen to Putnam Emerging Market Equity Portfolio Manager Brian Freiwald in our latest [Talking Markets podcast](#). Brian shares his views and zeros in on EMs’ forward earnings power.
- As I have written in recent weeks, I consider a weekly VIX close over 30 as an initial entry point for taking risk up. That signal went live on Friday, March 27. Discipline over emotion worked again! Let’s look at index performance from the close of March 27 through April 16: the Mag 7 stocks were up 17.91%, the Nasdaq Composite Index rose 15.08%, the Russell 1000 Growth jumped 13.74%, the Russell 2000 Growth nearly matched that at 13.62%, the small-cap Russell 2000 was up 11.10%, the S&P 500 was up 10.62%, and the S&P MidCap 400 Growth Index was up 9.01%, while the Russell 2000 Value Index advanced 8.52%, the S&P MidCap 400 was up 8.11%, the S&P MidCap 400 Value was up 7.17%, the Russell 1000 Value was up 7.08%, and the S&P 500 Equal Weight Index was up 6.49%. Broad participation is typically bullish.
- At the factor level, we observe relative strength in both the MSCI international momentum factor, up 9.07%, and the MSCI international quality factor, up 8.10%, versus the MSCI USA momentum factor up 7.96% and the MSCI USA quality factor up 3.11%. This pairs well with our bullish stance on emerging market equities.
- The majority of questions from Franklin Templeton clients last week were centered on the risks present in the Middle East versus the move up in equities. I would point to a few things here. First, the US economy has been strong, and recent earnings have also been strong. Second, when the VIX index has closed above 30 on a weekly basis, it has been a favorable time to increase risk exposure in equities, regardless of the news flow. That view worked once again in recent weeks, with an 11% gain in the S&P 500 over 12 days. Second, according to Citadel, in the past five trading days the firm saw the largest amount of retail call-option-buying they have ever seen on their platform. Third, according to Goldman Sachs, commodity trading advisors (CTAs) bought \$86 billion of equities in the past five trading days, which ranks among the top five largest amounts in history. Looking forward, Citadel reminds us that corporate buybacks will start next week with the largest amount ever authorized. This is a mix of mechanical buying and retail “buying the dip,” coupled with a strong US economy and a resilient US consumer. Earnings estimates have remained solid during this conflict as well. The stock market has a strong track record in estimating future earnings.
- My bottom line is to have a diversified equity playbook that includes large-, mid-, and small-cap exposure in the United States with a balance of growth and value. The same can be said for ex-US equity exposure; I find it attractive to own emerging markets, along with developed international markets. My approach is to reduce concentration and spread bets.

## Fixed income

- We expect the 10-year US Treasury bond yield to trade in a range of 4.0% to 4.25% this year. The yield traded slightly through the high end of our range last week to 4.30%. I would consider adding duration risk if the yield rises above 4.50%. The two-year yield also came in last week to 3.77%. The US yield curve has flattened recently, with the two-year–10-year spread at 54 basis points (bps). We expect more bull steepening of the yield curve in 2026, but we are on the wrong side of that call at the moment.
- We expect short duration fixed income mandates and corporate credit to outperform cash again this year. Considering our views on US 10-year Treasury yields, we do not expect duration to be a significant driver of total return this year. Rather, all-in yield capture seems to be the play, although recent spread widening might create an opportunity for additional total return.
- Credit spreads have made big moves in the last few weeks. Investment-grade (IG) spreads (one-year/three-year option-adjusted spreads, or OAS) were 52 bps over Treasuries, in 2 bps on the week. High-yield (HY) spreads, as proxied by the Bloomberg US Corporate HY OAS, were 269 bps over Treasuries, in 10 bps on the week.
- Historically, when IG credit spreads have traded 200 bps over, forward returns for the Bloomberg US Aggregate Bond Index have been positive. Rick Polsinello, Senior Market Strategist-Fixed Income at Franklin Templeton Institute, tells us that when spreads reached those levels, the US Aggregate Bond Index had median forward returns out three months of 1.92%, out six months of 4.19%, out nine months of 4.75% and out 12 months of 3.97%. Spreads are not at the thresholds yet, obviously, but if we trade there I view it as a potential buying opportunity.
- Similarly, when HY credit spreads have traded at 600 bps over Treasuries, forward returns have been positive out three months with a median return of 12.82%, out six months with a 22.35% median return, out nine months with a 26.75% median return, and out 12 months with a 29.98% median return. Again, not there yet, but it may be prudent to be ready to act if we trade there.

## Fixed income (continued)

- We are bullish on municipal bonds and find taxable-equivalent yields to be attractive, along with robust fundamentals. Importantly, the increased supply in the muni marketplace has run its course for now, and municipal bonds have been performing well since last August. We think this trend is likely to continue.

## Sentiment

- The percentage of bullish investors in the AAIL Investor Sentiment survey moved down four ticks last week, to 32%. The percentage of bearish investors in the survey was 43%, unchanged from the previous week.
- Neither of these readings is at an extreme, but sentiment is cautious. I would want to see the bullish percentage under 25% and the bearish percentage over 55% from this contrary indicator to view it as a potential signal. For now, the wall of worry is still in place.

I will continue to analyze the markets and will offer insights again next week.

Source of data (except where noted) is Bloomberg and Franklin Templeton Institute, as of April 17, 2026. Important data provider notices and terms available at [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com).

The Franklin Templeton Institute Global Investment Management Survey is a biannual outlook survey designed to give a view across our investment teams. The Franklin Templeton Institute identifies the median across the survey answers and develops the outlook. The survey received responses from around 200 portfolio managers, directors of research and chief investment officers, representing participation across equity, private equity, fixed income, private debt, real estate, digital assets, hedge funds and secondary private markets. Each of our investment teams is independent and has its own views.

## Glossary of terms

**The AAIL (American Association of Individual Investors) Sentiment Survey:** This survey offers insight into the opinions of individual investors by asking them their thoughts on where the market is heading in the next six months.

**Breakeven rates:** The difference between yields of Treasury bonds and TIPS for issues of the same tenor/maturity, calculated by subtracting TIPS yields from Treasuries; a measure of inflation.

**Capital expenditure (capex):** Funds that companies spend to acquire, upgrade or maintain physical assets, such as buildings, technology or equipment, with the purpose of maintaining or growing future operations.

**Duration:** A measure of how much a bond's price changes relative to changes in interest rates.

**Federal funds (FF) rate:** The interest rate that depository institutions such as banks charge other institutions for holding overnight reserves.

**Hit rate:** The percentage of positive positions or returns over a specific period.

**Magnificent Seven:** Refers to shares of Apple, Microsoft, Amazon, Alphabet, Meta Platforms, Nvidia, and Tesla.

**Option-adjusted spread (OAS):** Measures the spread between a bond's interest rate and the risk-free rate, while adjusting for any embedded options like callables or mortgage-backed securities.

**Personal Consumption Expenditures (PCE) and core PCE:** Measures the price changes in goods and services purchased by US households; core PCE excludes food and energy prices. Both are measures of inflation.

**Relative Strength Index (RSI):** A momentum indicator that measures the speed and magnitude of recent security price changes, used in technical stock market analysis.

**Tape:** A reference to broad market performance, based on the ticker tape that transmitted stock prices during the 19th and 20th centuries.

**Taxable-equivalent yield:** The yield of a municipal bond investment calculated to reflect the benefits of income tax exemption and to be comparable to the yield of a taxable bond.

**U-3 unemployment rate:** The official measure used by the US Bureau of Labor Statistics (BLS) to report the percentage of the labor force that is unemployed and actively seeking work.

**Yield spreads/tights:** Spreads are the difference between yields on differing debt instruments of varying maturities, credit ratings, issuers or risk levels. "Tight" in reference to spreads indicates small differences in yields.

## Indexes

**Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. Past performance is not an indicator of future results.**

**Bloomberg US Aggregate Bond Index:** The Barclays U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage and asset-backed issues, rated investment grade or higher, and having at least one year to maturity. Please note an investor cannot invest directly in an index.

**Bloomberg US Corporate High Yield Index:** Tracks the performance of the USD-denominated, high yield, fixed-rate corporate bond market.

**MSCI Emerging Markets Index:** A free float-adjusted, market capitalization-weighted index designed to measure the equity market performance of global emerging markets.

**MSCI Europe Index:** A free float-adjusted, market capitalization index that is designed to measure developed market equity performance in Europe: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

**MSCI India Index:** This index is designed to measure the performance of the large- and mid-cap segments of the Indian market. With 64 constituents, the index covers approximately 85% of the Indian equity universe.

**MSCI Latin America Index:** This index captures large and mid-cap representation across 5 Emerging Markets (EM) countries in Latin America.

**MSCI USA Quality Factor:** Measures performance of US large- and mid-capitalization stocks as identified through three fundamental variables: return on equity, earnings variability and financial leverage; designed to represent the performance of companies with durable business models and sustainable competitive advantages.

**MSCI International Quality Factor:** Measures the performance large- and mid-capitalization stocks across developed market countries excluding the United States and Canada as identified through three fundamental variables: return on equity, earnings variability and financial leverage; designed to represent the performance of companies with durable business models and sustainable competitive advantages.

**MSCI USA Momentum Factor:** Measures the performance of US large- and mid-capitalization, high momentum companies—those showing strong performance over the past 12 months that also appear poised to benefit from continued trends and market conditions.

**MSCI International Momentum Factor:** Measures the performance of non-US large- and mid-capitalization, high-momentum companies—those showing strong performance over the past 12 months that also appear poised to benefit from continued trends and market conditions.

**Russell 1000® Index:** A market capitalization-weighted that measures the performance of the 1,000 largest companies in the Russell 3000® Index, which represents the majority of total US market capitalization.

**Russell 1000® Growth Index:** A market capitalization-weighted index that measures the performance of Russell 1000® Index companies with relatively higher price-to-book ratios and higher forecasted growth rates.

**Russell 1000® Value Index:** A market capitalization-weighted index that measures the performance of Russell 1000® Index companies with relatively lower price-to-book ratios and lower forecasted growth rates.

**Russell 2000® Index:** A market capitalization-weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

**Russell 2000® Growth Index:** A market capitalization-weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000 Index with relatively higher price-to-book ratios and higher forecasted growth rates.

**Russell 2000® Value Index:** A market capitalization-weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000 Index with relatively lower price-to-book ratios and lower forecasted growth rates.

**S&P 500® Index (SPX):** A market capitalization-weighted index of 500 stocks, a measure of broad US equity market performance.

**S&P 500 Equal Weight Index (EWI):** The equal-weight version of the S&P 500 Index. The index includes the same constituents as the capitalization weighted S&P 500, but each company is allocated a fixed weight, or 0.2% of the index total, at each quarterly rebalance.

**S&P MidCap 400® Index:** A market capitalization-weighted index of 400 stocks of mid-size companies, distinct from the large-cap S&P 500.

**The S&P MidCap® 400 Growth Index:** An unmanaged, float-adjusted market capitalization-weighted index comprised of stocks from the S&P MidCap 400 that are classified as growth stocks based on three factors: sales growth, the ratio of earnings change to price, and momentum.

**The S&P MidCap® 400 Value Index:** An unmanaged, float-adjusted market capitalization-weighted index comprised of stocks from the S&P MidCap 400 that are classified as value stocks based on three factors: the ratios of book value, earnings and sales to price.

**US Dollar Index:** A basket of six foreign currencies (euro, Japanese yen, UK pound sterling, Canadian dollar, Swedish krona, and Swiss franc) used to track the relative strength of the US dollar, with a higher index value representing US dollar strength.

**The Chicago Board Options Exchange (CBOE) Volatility Index (VIX):** A measure of market expectations of near-term volatility as conveyed by S&P 500 stock index option prices.

## WHAT ARE THE RISKS?

**All investments involve risks, including possible loss of principal.**

The **allocation of assets** among different strategies, asset classes and investments may not prove beneficial or produce desired results.

**Diversification** does not guarantee a profit or protect against a loss.

**Equity securities** are subject to price fluctuation and possible loss of principal.

**Fixed income securities** involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default.

**International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**.

The **investment style** may become out of favor, which may have a negative impact on performance.

**Large-capitalization companies** may fall out of favor with investors based on market and economic conditions.

**Small- and mid-cap stocks** involve greater risks and volatility than large-cap stocks.

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**Commodity-related investments** are subject to additional risks such as commodity index volatility, investor speculation, interest rates, weather, tax and regulatory developments.

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