



From the US Market Desk Earnings are the next catalyst



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Chris Galipeau

Senior Market Strategist
Franklin Templeton Institute

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Macro

- Our forecast for 2026 real gross domestic product (GDP) growth is 2.5% (based on Franklin Templeton Institute's [Global Investment Management Survey](#)), versus the Federal Reserve (Fed) forecast of 2.3% and the Wall Street consensus view of around 2%. One of the main drivers of our GDP forecast is the continued capital expenditures (capex) by big technology firms to build out artificial intelligence (AI) infrastructure. This was evident in earnings last week from Texas Instruments and Intel. Also, the consumer remains resilient, as witnessed by last week's retail sales data along with comments from JP Morgan, Bank of America, Citigroup and Capital One, financial services firms that highlighted strength in consumer spending patterns on their earnings calls. Finally, higher tax refunds are filtering through and helping to offset some of the sting we are seeing from higher gas prices. 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 likely broaden over time. I think the US economy is in a strong position to weather this storm.
- We entered 2026 with the expectation that the Fed would cut interest rates twice and core personal consumption expenditures (PCE) would remain stable in the 2.5% to 3.0% range. Fed fund (FF) futures are telling us we are wrong on the rate-cut call, and we are adjusting our expectations down: We expect the Fed to stay on hold this week with the possibility of a cut later in the year. This view is also supported by the relationship of two-year Treasury yields relative to the FF rate. Two-year yields historically have led the Fed, and right now the two-year yield is 3.84%, roughly in line with the FF rate. 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 in November of 4.5%.
- Inflation expectations took another leg down last week. One-year breakeven rates are now 3.12%, down from 5.56%, and have effectively been tracking oil prices. Two-year breakeven rates are 2.85%. Finally, five-year breakeven rates are 2.73% and have generally been hovering between 2.60% and 2.70% for the last two months. These numbers represent the bond market's pricing of annualized inflation out one, two and five years.
- On the currency front, we are expecting the US dollar to be essentially flat this year despite the recent volatility. The US Dollar Index (DXY) is trading at \$98.71 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 year-end target range of 7,000 – 7,400 for the S&P 500 Index given on our expectations for 8%–13% year-on-year (y/y) earnings-per-share (EPS) growth (based on Franklin Templeton Institute's [Global Investment Management Survey](#)). A note of caution here—after the S&P 500's 13% rip since it reached an Iran-war low in late March, the relative strength index (RSI) on the S&P 500 is 68, up from 28 when the CBOE Volatility Index (VIX) reached 31 and the S&P was at the low of 6,316. An RSI reading of 70 is considered a short-term technical signal that the market is overbought. I'd expect some consolidation of this move either in terms of price, time or both. 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, the risk/reward balance in the Magnificent Seven (Mag 7) names (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia and Tesla) looks more appealing today versus the start of the year. In my view, earnings and earnings guidance will be the next catalyst for the tape. The earnings estimate for the S&P 500 Index now sits at \$327.25, up about \$4 in the last few weeks, and this represents y/y EPS growth of 18%, which is above the high end of our survey forecast. Earnings estimates have steadily ticked up all year, and earnings are the primary driver of stock prices as we look ahead, not geopolitics. Next week will be pivotal as we hear from Apple, Google, Amazon and others.
- Nine of 11 S&P 500 industry sectors have positive returns year-to-date (YTD) through April 23, led by energy, which is up 27%. Eight of 11 S&P 500 sectors are outperforming the S&P 500 YTD with consumer discretionary, financials and health care lagging. All in, I'd call this broad strength, which fits with our broadening call.
- At the individual stock level, 249 stocks are outperforming the S&P 500 Index YTD. That represents 50% of the components. Meanwhile, 253 stocks are underperforming the S&P 500 YTD. That's also 50%. In greater detail, 174 stocks (35%) are up more than 10% YTD, and 113 stocks (22%) are down more than 10% YTD. I call this a stock-pickers paradise.
- For other indexes, here is YTD performance (total return) through the close of April 23: Russell 2000 Value Index, up 14.48%, S&P MidCap 400 Growth Index, up 12.59%, Russell 2000 Index, up 12.23%, S&P MidCap 400 Index, up 10.34%, Russell 2000 Growth Index, up 10.16%, Russell 1000 Value Index, up 8.61%, S&P MidCap 400 Value Index, up 8%, S&P 500 Equal Weight Index (the average stock), up 6.18%, the S&P 500 Index, up 4.20%, Russell 1000 Index, up 4.17%, Russell 1000 Growth Index, up 0.08% and the Mag 7 basket, down 52 basis points (bps). Overseas, the MSCI Latin America Index is up 21.08%, MSCI Emerging Markets Index is up 14.51%, MSCI Japan Index is up 8.77%, and MSCI India Index is down 9.07% (all non-US total returns are in USD).
- Finally, I have been getting a lot of questions from intermediaries around equity returns during midterm years of national election cycles. It's true that midterm years usually have had lower equity returns. What is less known is that the third year of the presidential cycle historically has produced the strongest S&P 500 returns. Going back to 1970, the S&P 500 has averaged 17% in year three. That means it has been attractive to invest in equities during significant midterm related weakness. See our paper [“From US concentration to global opportunity”](#) and its exhibits 11-13 for the midterm data.
- Bottom line: We favor 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 across EM and developed international markets. Our approach: *Reduce concentration and spread your bets*. Broad strength is your friend.

Fixed income

- We expect US 10-Year Treasury bond yields to trade in a range of 4.0% to 4.25% in 2026. Yields recently traded slightly through the high end of our range, reaching 4.30%. I would consider adding duration risk if the yield moves north of 4.50%. The US Treasury yield curve has flattened recently, with the two-year–10-year spread at 49 bps. We expect more bull steepening for the yield curve in 2026 but 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 53 bps over Treasuries, flat on the week. High-yield (HY) spreads, as proxied by the Bloomberg US Corporate HY OAS, were 272 bps over Treasuries, flat on the week.
- Historically, when IG credit spreads have traded 200 bps over Treasuries, 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 index had a median forward return 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%. The market is not at that threshold, obviously, but if it trades there, we think bonds become more attractive.
- Similarly, when HY credit spreads trade at 600 bps over Treasuries, forward returns were positive out three months with a median return of 12.82%, out six months with a median return of 22.35%, out nine months with a median of 26.75%, and out 12 months with a median of 29.98%. Again, the market is not there, but if it trades to those levels, consider high yield.
- 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 appears to have run its course for now, and muni bonds have been performing well since last August. We think this trend can continue.

Sentiment

- The percentage of bullish investors in the AAI Investor Sentiment survey rocketed up 14 ticks last week to 46%. The percentage of bearish investors in the AAI survey dropped to 34%, down nine ticks on the week. Nothing changes sentiment like price!
- Are we seeing complacency kick in? Probably not yet, but bull readings over 55% will have my attention. This is a contrary tool.

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 24, 2026. Important data provider notices and terms available at 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 AAI (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.

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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