

From the US Market Desk

Earnings Ahead



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Chris Galipeau

Head Market
Strategist
Franklin Templeton
Institute

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Macro

- Our real gross domestic product (GDP) forecast for 2026 is 2.5% (based on our [Global Investment Management Survey](#)) versus the Federal Reserve's (Fed's) forecast of 2.2% and the Wall Street consensus of around 2%. The main drivers of our GDP forecast are the continued capital expenditures by "Big Tech" to build out artificial intelligence (AI) infrastructure and the resilient consumer. We are about to enter earnings season, and what we hear from management teams should outweigh any economic data point. The big banks kick it off and I suspect we will hear more of the same from them—namely, a strong economic backdrop, a resilient consumer and a bullish capital market outlook.
- We are watching the inflation picture closely. As I am writing this, oil is trading at \$72 a barrel, down 40% from highs earlier in the year. This should serve to take some pressure off the Fed to make any policy moves in the near term. Our core Personal Consumption Expenditures forecast for the year is 3.0% - 3.5%; the most recent reading as of May was 3.4%. Historically, US two-year note yields are a strong predictor of what the Fed will eventually do. If the two-year yield is above the effective fed funds rate, the bond market is telling us the Fed needs to raise rates. Right now, the two-year yield stands at 4.17%, 50 basis points (bps) over the effective fed funds rate. So that would call for two rate hikes. Fed fund futures are now pricing in one-and-a-half 25 bps hikes for December. However, breakeven rates tell a completely different story.
- Breakeven inflation rates have completely collapsed. One-year breakeven rates are now 1.45% (down from 5.50%), the lowest level since October of 2024. Two-year breakeven rates are also back to October of 2024 levels, closing at 2.05% (down from 3.50%). Finally, five-year breakeven rates are 2.30%, also back to where they were in October of 2024. The bond market seems less concerned about inflation, and the five-year number is basically at the Fed's 2% target. These numbers represent the bond markets' pricing of annualized inflation out one, two and five years. I'm not sure what to make of this conflict right now, so I'll keep monitoring the situation and report back as it evolves.
- On the currency front, we are expecting the US dollar to be essentially flat for the year despite the recent volatility. The US Dollar Index is currently trading at \$100.86, breaking out from a one-year base a few weeks ago and consolidating now. This move is strongly against the market consensus for a weaker dollar and slightly against our rangebound forecast, with \$100 at the top of that range.

Equities

- We are constructive on US equities and have established a year-end target range of 7400 - 7800 for the S&P 500 Index, driven by 15+% year-over-year (Y/Y) earnings per share (EPS) growth. First-quarter earnings exceeded consensus expectations, which have served to drive the S&P 500's 2026 earnings estimate to \$344 today, up from \$310 at the start of the year.
- Earnings season begins next week, and I think this will be the next big catalyst for the tape. Earnings season is like Christmas day to me. (I know, I have issues.) (See Franklin Templeton Institute's [Global Investment Management Survey](#) for more on earnings and our forecasts.)
- We reiterate our "broadening" call on equities and emphasize our bullish call on US small- and mid-cap stocks and continue to favor emerging market equities and Japan. Earnings estimates have steadily ticked up all year and I'll repeat: *earnings drive stock prices—not geopolitics*.
- The earnings picture continues to look very robust. In fact, the price-earnings (P/E) multiple on the S&P 500 is 21.9x with the tape at 7500. The P/E multiple was 22.5x on January 1, with the tape at 6850. Much like 2025, earnings have been driving the move, not multiples.
- My view is that it makes sense to continue using pullbacks to add exposure.
- Over the past month I have written about my concern in the semiconductor space. I have no argument with the fundamentals; rather, my issue was the parabolic nature of those names. The Philadelphia Semiconductor Index has quickly declined about 18% peak to trough (off the highs in late June). Micron Technology fell 29%. That correction took some of the froth out without pressuring the tape. The S&P 500 is within 1% of its all-time high as of this writing. Rotation, not detonation.
- Year-to-date, the leaderboard is as follows: The Russell 2000 Value Index is up 22.20%, the Russell 2000 Index is up 21.42%, the Russell 2000 Growth Index is up 20.70%, the S&P MidCap 400 Growth Index is up 18.67%, the Russell 1000 Value Index is up 18.07%, the S&P MidCap 400 Index is up 15.20%, the Equal Weight S&P 500 Index, representing the "average stock," is up 12.51%, the S&P MidCap 400 Value Index is up 11.66%, the S&P 500 Index is up 10.86%, the Russell 1000 Index is up 10.82%, the Russell 1000 Growth Index is up 4.55% and the Magnificent Seven group is up 1.95%.
- A quick update from our June 26 "From the US Market Desk: Rotation Nation. Large-Cap Growth On Sale" call, wherein the relative strength index was indicating a buy signal. Since then, the Bloomberg Mag 7 Total Return Index is up 7.81% and the Russell 1000 Growth Index is up 3.57% vs the S&P 500, up 2.61%. I'd say that call is working.
- Bottom line: We think it's prudent to have a diversified equity playbook that includes US large-, mid- and small-cap exposure with a balance of growth and value. Large growth is on sale here. The same can be said for ex-US equity exposure; emerging markets and Japanese stocks look attractive. Our takeaway: Reduce concentration and spread one's bets. Consider using any further consolidation to your advantage.

Fixed Income

- We expect 10-year US Treasury bond yields in the range of 4.25% - 4.75% for the year. As of this writing, the last trade was 4.54%. We think duration risk is attractive at or over 4.75%.
- The US yield curve has flattened 40 bps since February. The 2-year/10-year spread is now 30 bps.
- We expect short duration fixed income mandates and corporate credit to outperform cash again this year. Considering our views on US 10-year 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. Clipping coupons is attractive.
- Credit spreads have made big moves (tightening) in the last two months. Investment-grade (IG) spreads, as proxied by the Bloomberg US Corporate 1-3 year Option-Adjusted Spread (OAS), are now only 44 bps over comparable Treasuries. IG spreads are a few basis points from five-year tight. High-yield spreads, as proxied by the Bloomberg US Corporate HY OAS, are now 264 bps over, up a touch on the week.
- We bullish municipal bonds and find taxable-equivalent yields to be attractive along with robust fundamentals. Importantly, municipal bonds can offer potential diversification benefits relative to most taxable fixed income mandates. Consider using some cash to add muni exposure in taxable accounts. Have a read of our latest piece on municipal bonds, "[Municipal bonds are back.](#)"

Sentiment

- The percentage of bullish investors in the AAI survey is 36%. The percentage of bearish investors in the AAI survey is 37%. No signal here that I see. The wall of worry is still in place.
- Bull markets peak on euphoria. I don't think we are there yet.

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 July 10, 2026. Important data provider notices and terms are 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 AII (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.

A call option is an agreement that gives an investor the right (but not the obligation) to buy a stock, bond, commodity, or other instrument at a specified price within a specific time period.

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.

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

Global Industry Classification Standard (GICS®): Developed in 1999 by S&P Dow Jones Indices and MSCI, GICS was designed in response to the global financial community's need for accurate, complete and standard industry definitions.

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.

Margin: Margin refers to borrowed money that is used to purchase securities.

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.

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

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 Mag 7 Total Return Index: An equal-dollar weighted equity benchmark tracking a fixed basket of seven widely traded US companies representing the communications, consumer Discretionary and technology sectors as defined by Bloomberg's Industry Classification System.

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

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.

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.

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

ETFs trade like stocks, fluctuate in market value and may trade at prices above or below their net asset value. Brokerage commissions and ETF expenses will reduce returns. ETF may not readily trade in all market conditions and may trade at significant discounts in periods of market stress.

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.

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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