FOUNDED IN
1988

EMPLOYEES
80+

LOCATED IN
10+
COUNTRIES

ASSETS DIRECTLY UNDER MANAGEMENT
USD 1.6
BILLION

ASSETS HELD BY INVESTEE & AFFILIATED COMPANIES
USD 44.8
BILLION

ICM Monthly Outlook

MAY 2026

Market Review

Year to date, the S&P 500 is up 10% and the NASDAQ is up 14.95%, yet another all-time high, yet again demonstrating the equity market's irrepressible resilience.[1] It's an even more impressive return when you consider the S&P 500 had fallen more than 7% at its low on 30 March in response to the war in Iran, etc.

An assortment of contributory factors is supporting equity markets. To begin with, earnings have not deteriorated. In fact, across large parts of the market, they have remained remarkably resilient. Q1 earnings growth was much stronger than expected, at +31% year on year in the US and +5% year on year in Europe, implying positive surprise factors of 23% and 2%, respectively.[2] In the US, two-thirds of EPS growth is driven by the Tech, Communication Services, and Discretionary sectors. As we have noted previously, equity markets can tolerate a great deal of macro uncertainty as long as earnings remain intact.

The risk reduction in March forced the sharp sell-off mentioned above. Leveraged positions were unwound, and sentiment turned decidedly cautious. When the feared downside scenarios failed to materialise, capital was redeployed. Short covering, re-risking, and systematic flows have all contributed to the strength of the rebound.

As the war has dragged on, investors have steadily reduced the probability of a prolonged conflict. In other words, catastrophe has been repriced lower. Equity markets are once again looking through macro noise yet again taking comfort in policy expectations - TACO.

President Trump has allowed the ceasefire to drag on so long that investors' expectations have been rebuilt to such an extent that any reversal in expectations by the President will be severely punished by the market. The equity market has priced in war capitulation and won't take kindly to anything less.

And finally, no market review is complete without a shout-out to accelerating AI spending, adding momentum to momentum. Soaring AI capital expenditure is the only story that can compete with the geopolitical story. AI budgets just keep getting bigger. According to Morgan Stanley, U.S. Hyperscalers will spend over USD 800 billion on AI infrastructure in 2026, double the amount in 2025, but less than the USD 1.1 trillion forecast for 2027. [3] The Hyperscaler motto remains more, more, more: more demand, more chips, more power, please and thank you.

We regularly quip that markets like certainty. We'll rephrase slightly this month to say that equity markets do not need certainty; just a reduction in uncertainty. Markets appear to have converged on a similar view. Investors are not pricing in a totally benign outcome, but nor are they positioning for a worst-case scenario. Markets have a habit of making fools of those waiting for certainty. But then again, maybe I am just complacent; time will tell.

We regularly refer to the Schiller Cape ratio as a valuation-temperature gauge. Today, it's over 42,[4] it's the second-highest reading in history after the Dotcom bubble in 2000. But we see no reason for global growth to slow in the coming months. In December 2025's letter, we wrote, *"For fear of repeating ourselves, we expect 2026 to be another positive year, albeit unlikely to be another 16% year. We'll go with 10% for 2026."* It's time to revise up our forecast to 15%, for the following reasons.

Market Outlook

Investors When Iran controls the flow of billions of barrels of energy and the U.S. needs that energy; when Iran is running out of food and the President is running out of time before the mid-term elections; when the price of petrol in the U.S. is steadily rising ahead of the holiday season and the Chinese are encouraging Iran to stand down for everyone's benefit, then a deal seems the only outcome. It's only a question of how to spin it as a victory for all sides, which is exactly what we'll get.

Our central case remains one of managed de-escalation. It is possible that President Trump will stage one more military salvo of negligible impact, clickbait for claiming victory, and then pull back his blockade, freeing the Strait of Hormuz and restoring supply channels. The U.S.'s Middle East allies have no desire to restart bombing, as a prolonged conflict risks material damage to domestic economies and further damage to critical infrastructure.

A decisive resolution is impossible. Neither side can secure a clean victory, and policymakers know this. Both sides will face significant consequences the longer this continues. In our view, Iran remains the most resilient of the participants, having dealt with sanctions for 40 years and being able to accommodate greater inconvenience in daily life.

A formal, comprehensive peace agreement appears extremely unlikely any time soon, but a prolonged and escalating conflict that materially impairs global growth is even less likely.

In practical terms, this implies the oil price falls, but remains elevated relative to pre-conflict levels, and stays range-bound, say, between $80 and $90.

The shoulder season will end in June, when an uptick in travel will push gasoline prices further above $5, compared with $3:30 at the start of 2026. The U.S. has already released approximately 80 million barrels from its strategic reserves. According to the Energy Information Administration, US motor fuel stocks have been drawn down to the five-year average reserve balance (c.434 million barrels), an important level in the psyche of politicians and oil analysts. If this trend of reserve drawdowns continues through June, the U.S will reach its lowest reserve levels in five years.

On top of this, the U.S. Treasury bond market is flexing its muscles and forewarning the U.S. President of the financial impact of persistent inflation linked to a prolonged blockade. The U.S. Treasury market is beginning to reassess the likelihood of a sustained inflation shock.

The inflation debate remains central to the global macro-outlook. Recent U.S. core PCE data, the Federal Reserve's preferred gauge, remains stubbornly above the 2% target, having recently risen to 3.2%.[5] This presents a familiar dilemma.

On the one hand, the composition of inflation matters. Energy-led inflation shocks are typically viewed as transitory, particularly when they stem from geopolitical events rather than demand-driven overheating.

On the other hand, persistence is what ultimately matters for policy. Core PCE has not yet convincingly rolled over in recent years. The belief that central banks will ultimately look through any near-term inflationary impulse remains intact, but it will not last forever, and the President's advisors know this.

The risk is that inflation proves more persistent than expected, particularly if higher energy prices feed into wages and broader price formation. That is not our base case, but it is not implausible either.

We believe the Federal Reserve will continue to adopt a wait-and-see approach for longer than forecast at the start of 2026; there's insufficient evidence to justify meaningful easing in the short term.

Neither the new Chairman nor President Trump has the appetite to tighten policy further, expecting the war in the Middle East to be just a temporary shock. The path of least resistance remains one of patience. Time and again, we have seen policymakers err on the side of accommodation when confronted with uncertainty.

Economic data points to further growth. PMI data (Global, developed market, and U.S.) all point to economic expansion. The JPMorgan Global Manufacturing Purchasing Managers Index was 52.6 at the end of April, remaining firmly in expansionary territory since briefly dipping below 50 in July 2025. Developed is 51.1, while the U.S. ISM Manufacturing PMI has consistently been 52+ all year.

The U.S unemployment rate has also dipped back to 4.3% at the end of Q1 2026, compared with 4.5% at the end of Q4 2025.

In conclusion

We find ourselves in a familiar position. Markets remain calm and optimistic despite low-level anxiety about elevated inflation, geopolitical uncertainty, and the delicate balance between growth and monetary policy. The path forward depends on inflation gradually easing, the Middle East conflict subsiding, and monetary policymakers remaining supportive. We expect the relief rally to continue if all three prove correct when President Trump de-escalates, and we can all go back to writing and reading about repetitive technical economic topics, overloaded with dry jargon.

Kind regards,

Conor Spencer

30 April, 2026

Source Data: ICM, Bloomberg as of 30 April, 2026.
[1] Bloomberg
[2] J.P. Morgan Q1 Earnings Season Tracker
[3] Morgan Stanley, What's Next in Global Macro.
[4] Shiller PE Ratio - Multpl
[5] Personal Consumption Expenditures Price Index, Excluding Food and Energy | U.S. Bureau of Economic Analysis (BEA)

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