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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **May 6, 2026**

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Last week's S&P 500 Index: +0.9%

Current focus

Key takeaways

- **Are investors too complacent and not taking into account the risks that still exist in the Persian Gulf?**
- **Should the Strait remain closed in the near-term one of the risks is further damage to fragile global energy supply chains.**

The S&P 500 Index notched another new record high last Friday, even as oil traded above $100 per barrel and negotiations between the U.S. and Iran do not seem to be going anywhere fast. Investors current focus is on spending related to Artificial Intelligence (AI) and first quarter (Q1) earnings reports. And for good reason. By some estimates, after raising their anticipated AI-related capital expenditures virtually every quarter in 2025, the biggest hyperscalers in the Magnificent Seven[1] were at it again in the Q1 earnings reporting season. Add in another large-cap tech company related to AI and the 2026 spending commitments are north of $800 billion (no, that is not a typo). And on top of that, first quarter earnings in the Tech sector, and the market in general, are surging well ahead of expectations. In fact, based on the companies that have reported through last Friday, earnings are up 28.1% from the year-ago period (again, not a typo).

So are investors too complacent and not taking into account the risks that still exist in the Persian Gulf? The question of when the Strait of Hormuz will fully open to tanker and other traffic is not clearer now than it was six weeks ago. When the strait does eventually open, it will likely take many weeks for vessel traffic to catch up and get back to normal operations. And after a period of relative calm in recent weeks, U.S. Central Command (CENTCOM) announced on Monday that the U.S. military had battled back attacks from Iranian missiles, drones, and smaller armed boats while aiding the passage of two U.S.-flagged vessels through the strait. As we have stated in a previous report, we continue to believe that while the outlook remains uncertain, it increasingly appears that neither Tehran nor Washington is seeking a return to full-scale military confrontation. But clearly, risk levels remain elevated.

Should the strait remain closed in the near-term, another risk is damage to fragile global energy supply chains. Many important raw materials used in the production of fertilizers, copper refining, and helium are shipped through the strait. Inventories of these materials at some point will be exhausted. At that point, price volatility will likely turn into an actual shortage that disrupts the supply of refined products.

The question for investors is where to focus. On April 6, we noted that the current environment has driven a temporary earnings windfall for the Energy sector of the S&P 500 Index, but that benefit appears priced into the market. In our view, Information Technology (IT) looks more attractive from a valuation perspective. We upgraded IT and downgraded Energy a month ago and still like that rebalancing move. We see the same rationale in our preference to rebalance from energy to metals commodities.

But there's another way to see opportunities amid the large uncertainties still swirling, namely, to look for subsectors that could be resilient, even as energy prices rise. Industrial Gas companies generally can pass input cost inflation along to customers via surcharges at contract renewal time or on new projects. Specialty Chemical companies produce specialized output that generally creates sticky customer demand, which we expect will allow surcharges that pass their higher raw material costs on to customers. Meanwhile, we believe the Machinery and Electrical Equipment companies should continue to benefit from the domestic data center buildout, while Aerospace and Defense should stand out for persistent upward rerating on valuations as the U.S. rebuilds its military arsenal.

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1. The magnificent 7 include Apple Inc., Microsoft Corporation, Alphabet Inc., Amazon.com, Inc., NVIDIA Corporation, Meta Platforms, Inc., and Tesla, Inc.

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Sector investing can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility. The **Energy** sector may be adversely affected by changes in worldwide energy prices, exploration, production spending, government regulation, and changes in exchange rates, depletion of natural resources, and risks that arise from extreme weather conditions. Risks associated with the **Technology** sector include increased competition from domestic and international companies, unexpected changes in demand, regulatory actions, technical problems with key products, and the departure of key members of management. Technology and Internet-related stocks, especially smaller, less-seasoned companies, tend to be more volatile than the overall market.

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