

The Big First Quarter Picture

Earnings Strength vs. Geopolitical Stress

First-quarter 2026 earnings have been much stronger than Wall Street expected, and the gains are broadening beyond a small group of mega-cap technology companies. With roughly two-thirds of S&P 500 companies reporting, the share beating estimates is well above typical five- and ten-year averages. The share missing forecasts is also near the lowest level since the early stages of the post-pandemic recovery.

FactSet's blended earnings data show S&P 500 year-over-year profit growth in the high-20% range so far. If that pace holds, it would mark the strongest quarterly earnings growth since late 2021 and extend the index's streak of double-digit profit growth. That is notable in a quarter when markets were weighing the Iran-Gulf conflict, tariff concerns, and an oil-driven inflation spike.

For advisors, the message is balanced. Markets have reached repeated all-time highs on the strength of earnings. At the same time, the main sources of macro risk - geopolitics, energy prices, and policy uncertainty - have not disappeared and may not be fully reflected in prices.

The key takeaway for clients is straightforward: current returns are supported by real earnings power, not only by speculative enthusiasm. But elevated valuations and a still-uncertain risk backdrop argue for disciplined positioning rather than performance chasing.

Beyond Big Tech: A Broader Profit Engine

Mega-cap technology remains a powerful driver of index-level performance, but this quarter's story is broader than in prior years. Information technology companies in the S&P 500 are on track for roughly 50% per-share earnings growth, outpacing the broader index's roughly 30% gain. Still, companies outside technology have delivered some of the sharpest positive surprises relative to expectations entering the quarter.

Cloud spending, AI infrastructure, and digital advertising continue to support strong revenue and earnings from major platforms. Semiconductor companies have also become an important leadership group, with the Philadelphia Semiconductor Index recently closing at record highs after a sharp multi-week rally. Just as important, earnings beats are not limited to a small cohort. Sector breadth is stronger than it was in earlier stages of this bull market.

From an advisory perspective, wider earnings participation argues against portfolios that depend too heavily on one narrow theme or a handful of large stocks. It supports diversified exposure across quality U.S. equities, including sectors that benefit from AI and digitalization indirectly, such as industrials, select financials, and high-quality consumer companies.

Tech's AI Arms Race: Opportunity with Capital-Spending Risk

The largest technology and platform companies - Microsoft, Amazon, Alphabet, Meta, and Apple - represent a large share of the S&P 500's market value, so their earnings and guidance have an outsized effect on the broader index. Their latest results were generally stronger than expected, confirming continued momentum in cloud services, digital advertising, device ecosystems, and emerging AI-related revenue streams.

Markets did not reward all of these companies equally. Some stocks sold off after earnings as investors focused on aggressive capital-expenditure plans tied to AI infrastructure and data-center build-outs. That reaction highlights an important point: the AI capital-spending cycle is a real source of demand for chips, software, and cloud services, but it also raises questions about future returns on that investment.

For clients, AI is better viewed as a long-duration theme than as a short-term trade. Allocations to mega-cap platforms and select semiconductor companies can make sense within a diversified growth sleeve. But concentrated positions can leave portfolios exposed to swings in sentiment, regulatory risk, or a slowdown in AI spending.

Banking Is Back, but Rate and Credit Risks Remain

Large U.S. banks have reported one of their most profitable quarters on record, even after a choppy start to the year for bank stocks. The KBW Bank Index, which tracks large U.S. banks, has rebounded sharply since early April as investors reassessed earnings power and valuations.

Several forces are supporting the recovery. Loan demand remains solid. Capital-markets and wealth-management fees are helping revenue. Management teams have generally described consumer and business balance sheets as healthy, with spending and credit metrics not yet showing the severe stress some investors feared. Analysts also see room for AI

and automation to lower costs and support margins over time.

Still, this is not an all-clear signal. A higher-for-longer interest-rate path could pressure funding costs, compress net interest margins, and increase deposit competition, especially for regional and mid-size banks. Some bank leaders have also warned that a credit downturn, if it develops, could be sharper than current market pricing suggests.

For clients, bank exposure should be deliberate. Large, well-capitalized banks with diversified income streams may fit in a value or dividend allocation. By contrast, overexposure to smaller lenders with concentrated loan books or less stable funding could add unwanted tail risk if credit conditions weaken.

The U.S. Consumer Remains Resilient but Stretched

Despite energy-driven inflation and war-related uncertainty, U.S. consumer activity has held up better than many economists expected at the start of the year. Macro data showed a sharp monthly increase in the Consumer Price Index in March, largely driven by energy and shelter costs. That was the biggest one-month jump since the post-pandemic inflation surge.

Yet the inflation shock has not fully derailed consumer-facing companies. Consumer discretionary stocks, which include retailers, homebuilders, and travel-and-leisure firms, posted double-digit gains in April and outperformed the broader S&P 500. Leadership within the sector was also broad, with online platforms, specialty retailers, housing-related companies, and travel and lodging businesses all contributing to the advance.

The underlying picture is more nuanced. Higher gasoline and housing costs are forcing households to be more selective. Some spending is shifting toward value and essentials, while consumers are still making room for experiences, travel, and targeted discretionary purchases. Survey work suggests sentiment about personal finances has improved from prior lows, but willingness to increase spending on non-essential items remains fragile.

Advisors should prepare clients for a consumer that is bending but not breaking. Quality matters. Companies with pricing power, strong brands, and healthy balance sheets are better positioned if oil volatility persists or the Federal Reserve delays rate cuts.

Positioning Portfolios Now

This backdrop points to a practical portfolio message: earnings are strong, the economy remains resilient, and risks are still real. Investors do not need to choose between optimism and caution. A disciplined plan can reflect both.

Within equities, advisors may want to emphasize quality. Companies with strong balance sheets, durable cash flows, and a history of navigating cycles are better suited to this environment than highly speculative companies that depend on a single theme. In U.S. large caps, a balanced approach across growth and value can capture AI- and technology-driven upside while also participating in the recovery in financials and select cyclicals.

Diversification also matters. The breadth of earnings beats beyond technology supports exposure to financials, industrials, and high-quality consumer companies, rather than a portfolio built only around mega-cap platforms. Select small- and mid-cap positions can benefit from continued economic expansion and better credit availability, but they are more sensitive to rate shocks, credit stress, and slower growth.

Fixed income should be handled with the same discipline. With inflation reaccelerating on a monthly basis and the Federal Reserve cautious about declaring victory, markets may need to adjust to fewer or later rate cuts than previously expected. That argues for blending high-quality core bonds with selective credit exposure, rather than stretching too far down the quality spectrum for yield.

Geopolitical and commodity risks should also stay in view. The Gulf conflict and related oil volatility are classic external shocks. They can reprice risk assets quickly, even when earnings are strong. Diversification across asset classes, including real assets or energy-sensitive exposures where

appropriate, can help provide a buffer if energy prices remain elevated or unstable.

For clients who are uneasy about new market highs during a period of conflict and inflation surprises, advisors can frame the current period clearly: fundamentals support a constructive baseline view, but prudent risk management remains essential.

Investor Takeaways: Turning a Wall of Worry into a Plan

For many investors, the central question is simple: If earnings are so strong, why does the market still feel risky? The answer is that markets are forward-looking. Today's strong profits are already reflected in elevated index levels. Future returns will depend on how earnings, inflation, interest rates, and policy evolve from here.

That does not mean investors should move to the sidelines. It does mean they should be intentional. Corporate America is delivering robust earnings growth, with fewer misses than usual and strength that extends beyond the largest technology companies. Banks, semiconductors, and consumer discretionary companies are all participating in the expansion, which points to underlying economic resilience despite geopolitical and inflation shocks.

The major risks - higher-for-longer rates, a potential credit downturn, and persistent oil volatility - are real. They can be managed through diversification, quality tilts, and alignment with long-term goals rather than reactions to short-term headlines.

Your advisor's role is to translate this complex environment into an actionable plan. That means calibrating equity exposure to each client's time horizon and risk tolerance, using fixed income and cash as risk-management tools rather than all-or-nothing alternatives, and revisiting allocations as the data and the client's circumstances change.

Your starting point is time horizon. Are you investing primarily for the next three to five years, or for ten years and beyond? The answer should guide how much risk to take, where to take it, and how to stay disciplined when headlines become unsettling.

Sources: [factset](#), [ig.com](#), [bls.gov](#), [nasdaq](#), [barchart](#), [Bloomberg](#), [Deloitte](#), [spglobal](#)

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