

# WEEKLY STRATEGY Perspectives

WEEK ENDED MAY 15, 2026

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## Q1 Earnings Update – It’s Fine, Everything’s Fine (*Really*)

*“One day everything will be well, that is our hope. Everything’s fine today, that is our illusion.”*

-Voltaire

**The Through Line:** Markets bounded higher this week, dragging investor anxiety along thanks to the many unresolved global issues. However, results from the nearly finished earnings reporting season show robust and widespread strength, helping justify the upmove; valuations are actually lower now than they were a year ago. We delve into the details and what they imply for the rest of the year.

### The fundamentals are “fine”

There’s an old joke around our house that when mom says “no worries, dear, it’s *fine*,” there’s a good chance that things are absolutely not fine. In fact, that phrase is a signal to immediately rethink whatever ill-fated course you’re on. Similarly, investors seem to have a lurking suspicion that someone somewhere is whispering “it’s all fine” as markets continue to push higher despite a barrage of horrible headlines.

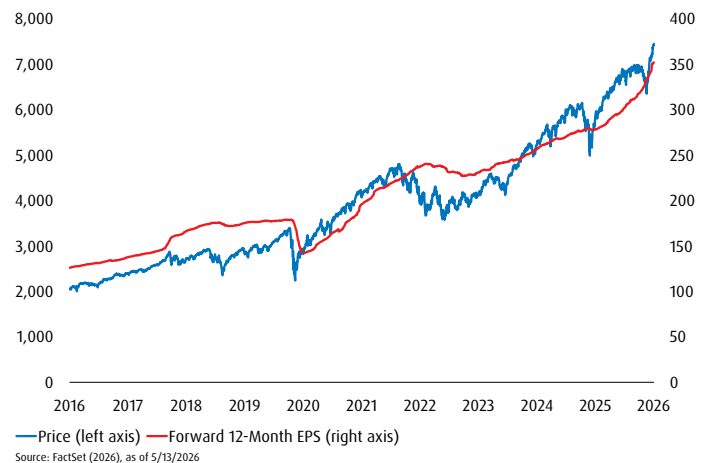
We’ve been writing for months that companies’ intense focus on margins would mean any positive top line (revenue) surprises could drop to the bottom line (earnings) in magnified fashion – and that is precisely what the results reported to date have shown. *With over 90% of S&P 500 company reports in, aggregate top line growth is nearly 11% - generating a bottom line increase of 25%, substantially above the low teens expectations as report season began.*<sup>i</sup>

**Notably, it’s not just the Mag 7 carrying the ball. Eight of 11 sectors produced double digit earnings growth with materials, consumer discretionary, tech and communication services sporting better than 40% bottom line increases.**

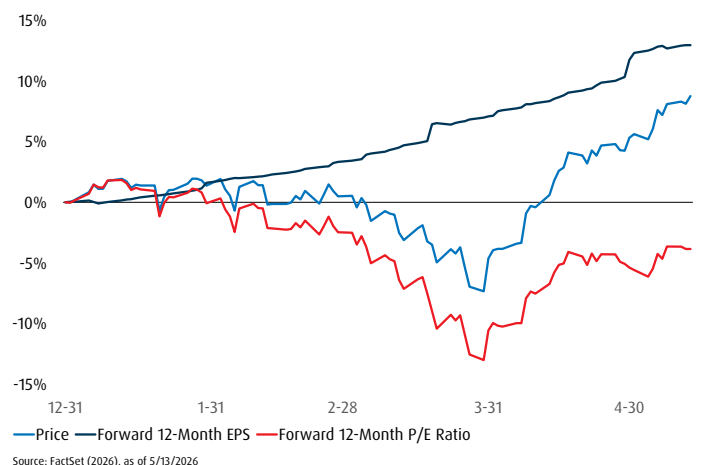
A slightly different set of eight of the 11 sectors saw double digit topline advances.

**Bottom line:** actual earnings moved up smartly in the period, pushing estimates of future earnings higher. This brings valuations (measured by dividing the price by expected earnings) down. The market’s advance is broad and well supported by fundamentals that are more than just fine.

S&P 500 Price vs. Forward 12-Month EPS



S&P 500 Year-to-Date Return Breakdown

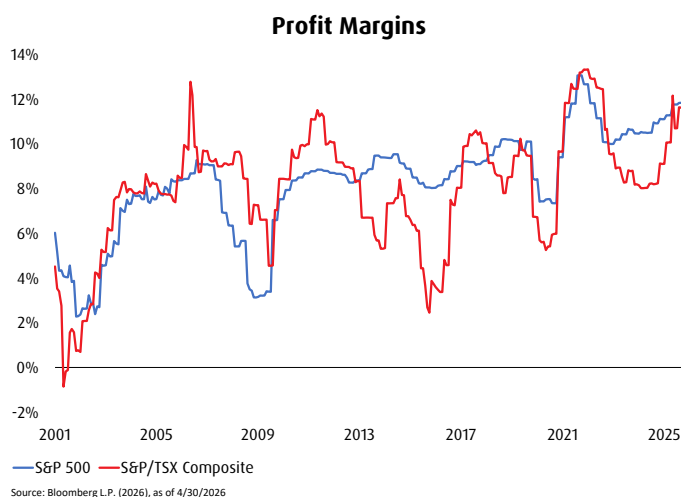


## Businesses are fine

The surprisingly strong earnings trends have been facilitated by increasingly skilled execution of business models (despite repeated changes in supply chains, cost, employment and regulatory policies) plus resilient end demand. Managements are carefully evaluating cost inputs, selling prices, vendor relationships, internal process improvements and employment levels in progressively sophisticated ways. At the same time, they are beginning to deploy a variety of technological advances that raise the exercises – and the potential productivity gains – to a whole new level.

Although the race to build data centers and AI models attracts most of the attention, in fact roads, bridges, power plants and other infrastructure projects have been steadily ramping for years. The impetus has been aging infrastructure and a number of investment programs initiated during the Biden administration. In Canada, Prime Minister Mark Carney's government has unveiled a variety of plans to "build Canada strong," including infrastructure, data centers, mining capacity and core infrastructure projects.

Econ 101 tells us that investment in a society's productive capacity can yield substantial long-term benefits in productivity (the ability to produce more goods per unit of capital input). It seems we are starting to see that trend take hold as margins continue to rise. While mega projects dominated over the past few years, commentary from earnings calls and conversations with our BMO Commercial Banking colleagues hints at strategic expansions and line extensions to accommodate steadier than expected demand and growing cash flows among smaller companies as well. Mergers and Acquisitions (M&A) are also running at a fevered pace as large companies hive off non-strategic businesses and/or conduct tuck in mergers to focus on key competitive advantages. Such activity helps industry after industry more finely tune strategic positioning – and ultimately profitability.



## Consumers are fine

One of the biggest surprises to date in this earnings season has been the substantial strength in consumer discretionary earnings. With three-quarters of companies in that sector having reported, revenues are up 10% and earnings have advanced 48%. Spending resilience has been notable despite weak (and getting weaker) sentiment numbers, political polarization and significant hikes in energy prices. Record levels of stock ownership among consumers, bigger tax refunds thanks to the tax act passed last summer and low unemployment help provide a quasi-wealth effect. As we noted a few weeks ago ([WSP - What to Watch for This Earnings Season](#)) consumer financials remain in reasonably solid shape – though we don't discount the substantial challenge increased food and energy prices represent for many.

For their part, consumer goods companies have undertaken a variety of moves – including sharpening pricing on key staples and wringing costs out of business processes – aimed at fine tuning operational productivity and enhancing market share and profitability.

## Rewiring the labor force = fine

It's true that unemployment remains low, but recent economic reports hint that employees are growing more and more anxious about losing their jobs – particularly in the face of AI rollouts and the accelerating use of other transformational technologies. AI will undoubtedly come for some jobs, though it will also undoubtedly create new roles and job descriptions.

As expected, many companies – especially in the technology industry – simultaneously announced strategic head-count reductions and higher earnings. Statista notes that overall tech employment is down more than 500,000 from peak in 2022<sup>ii</sup> – though part of the rationalization is that the job cuts are arguably more about right-sizing businesses after large pandemic-era expansions in payrolls. From a PR standpoint, it's better for a company to tell investors that they're reducing employee numbers through attrition, buyouts and slow-walking new hires thanks to the more rapid deployment of AI rather than attribute lower payroll numbers to the need for streamlining after pandemic bloat.

Perhaps ironically, rhetoric is starting to intensify re the quickly mounting costs of trying to channel too much through AI. Data center buildout and AI are still undersupplied relative to demand – meaning the cost of processing power (measured in tokens) remains high. Engineers race to prove their work by the number of tokens they use in a day, week or month whereas company financial leadership is finding the costs increasingly prohibitive. Providing a substantial monthly token budget is becoming a negotiating tactic when trying to lure key personnel.

## Reorganizing workflows is going fine

As we wrote last week ([WSP - A Brave New World](#)) personal AI adoption rates have been mind-numbingly fast but it takes a bit (to a lot) more time to reorganize and redirect corporate work flows. From sales incentives and proprietary distribution lists to confidential client records – turning data over to a system that sometimes lies, cheats and hallucinates is a giant leap of faith. Still, earnings calls had many examples of how AI, robotics, autonomous vehicles and other inventions are being deployed. As companies look to expand markets and strategic business lines, the opportunity to do so with enhanced technology is strong. Small and medium enterprises can theoretically deploy these technologies more nimbly as they have fewer and less entrenched processes.

## Inflation and interest rates are...not so fine

Tuesday's Consumer Price Index (CPI) report hinted that higher energy prices are already bleeding through more broadly and to core items. Prices increased not just in headline numbers – those such as food and energy that are considered too volatile over short term time frames and are removed when reporting "core" inflation – but also showed up in core series. The Fed has historically tended to look through one time shocks (tariffs, hopefully the energy price shock) that move prices up dramatically in the short run but then fade when the event subsides. But investors are now questioning whether a series of "one time" shocks becomes so engrained that consumers will come to expect a permanently higher level of inflation. In Fed speak, this equates to whether inflation expectations are "well anchored" or not – a key consideration for the body's current members in considering the opportunity to resume rate cuts or remain on the sidelines. Some Fed governors are even whispering that persistent movement in those expectations may argue for rate hikes in the not too distant future.

Wednesday's Producer Price Index (PPI) didn't help the debate any. The PPI contains more granular measurements of input costs and the expenses to produce goods (such as logistics and business to business transactions) that often translate into inflation in the ultimate consumer prices at a later date. The PPI came in quite hot – with the headline number at 1.4% (month over month). Estimates going into the data print had averaged 0.5%.<sup>iii</sup> It's notable however, that final demand came in substantially higher than expected as well, hinting at an economy that is bounding ahead robustly.

Examples of those bleed through impacts were evident in the latest CPI report, for example, with notable hikes in airfares, lodging away from home and clothing. These higher prices – coupled with slowing wage growth – mean affordability is likely to remain a key (if not THE key) issue on consumers' minds – coloring sentiment and perhaps influencing the upcoming mid-term elections. This week's toasty inflation releases nudged bond yields higher and expectations for Fed rate cuts this year lower. Tracking the trend of the 10-year bond is especially important as mortgage and other longer-term loans are tied to it.

## Implications for investors – the markets are fine

According to FactSet, if current trends hold then the first quarter's earnings results will be the strongest since Q4 2021 (when the economy was just stepping out of the pandemic).<sup>iv</sup> The fundamental progress helped buttress stock markets breaking to new highs. Spending on AI, capital, infrastructure and supply-constricted semiconductor chips has contributed to the optimism and is likely to continue while the secular nature of the technology transformation continues.

On the flip side, equity markets often begin to struggle when 10- and 30-year government bond yields approach 4.5% / 5.0%, respectively, which they did on Tuesday after the CPI report. Now that earnings season is almost over, investors will need to look elsewhere for news flow to support or refute market levels. A barbell-like approach of leaning into growth assets and simultaneously balancing with now higher-yielding fixed income could help smooth the way. **Overall, the fundamentals remain overarchingly and legitimately strong as the secular nature of the massive economic rewrite (which we are in the early stages of) takes hold. However, investors' understanding and faith in that trend may be tested by evolving headlines that highlight interim volatility.**

## In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

### This week

**Canadian bank reports on the docket** – Canada’s key banks will start reporting their quarterly results on May 27. BMO Capital Markets expects that the benefits of the Canadian banks’ diversified business models will once more be on display this quarter. Continued revenue tailwinds (NIM and fee-revenue growth) will be balanced by muted loan growth and ongoing trade/geopolitical uncertainty. Credit costs should be lower year over year (but remain above through-the-cycle averages), reflecting large preemptive performing reserve builds last year. Overall, earnings are expected to be up 19% year over year and it’s anticipated that a number of banks will boost dividends. Current bank valuations sit at a premium relative to historical averages, reflecting strong sector fundamentals and a more encouraging Canadian macroeconomic outlook.

**U.S. consumer sentiment continues to soften** – results from the University of Michigan’s monthly consumer confidence survey continued to trend lower in May with the Sentiment Index falling 3.2% from April levels to a new record low of 48.2. Survey Director Joanne Hsu noted a recent “surge in concerns about high prices” and declining expectations for real income. In both cases, elevated 12-month forward inflation expectations appear to be at the center of both trends, sitting at 4.5%. This week’s CPI report revealed headline inflation exceeded average hourly earnings growth, implying negative real wage growth for the first time since May 2023. Recent commentary from consumer companies highlighted continued strain on customers, especially among lower and middle-income cohorts. While productivity gains continue to be part of the broader positive equity investment thesis, Bureau of Labor Statistics data released last week highlighted that **labor’s share of output has fallen to the lowest level in records going back to 1947, reinforcing the view that productivity gains are increasingly benefiting capital and corporate margins rather than workers.**

**U.S. consumer prices accelerate** – April consumer price inflation was hotter than economists had anticipated, but not as bad as the market feared. Core CPI rose 2.8% year-over-year, the largest increase since May 2023. Headline inflation was up 3.8% YoY driven in large part by higher energy prices. The big question for investors and Federal Reserve officials is whether the inflationary impacts of the Middle East conflict and U.S. tariff policy are transitory in nature or if higher energy costs will prove persistent and permeate into core inflation data and weigh on longer-term consumer expectations. Federal policy-related examples that stood out include airline fares up 20.7% YoY, while tomato prices rose 37.9% YoY with roughly 60% of U.S. supply imported from Mexico and now subject to a 17.1% antidumping duty. The Strait of Hormuz has now been closed for 11 weeks with no clear

sign of when supply chains may normalize. This summer the Trump administration expects to announce new Section 232 and 301 tariffs, and it remains unclear how individual products and countries will be impacted and just what the final effective tariff rate might be. As of Tuesday afternoon, CME Group’s FedWatch tool put the odds of Fed policy rates after the December 2026 meeting being flat or higher relative to current levels at 80.7% as inflation fears take control of the narrative.

**Canadian employment fell** – by 17,700 in April, the third decline in the past four months, and weak enough to push up the jobless rate two ticks to 6.9%. Full-time jobs fell heavily again, dropping 46,700 and shaving total hours worked yet again. The sectoral split was not friendly, with health care and social services one of the rare bright spots, while all of the goods-producing sectors reported job losses. The big mover to the downside last month was Quebec, which saw a drop of 43,300 jobs, which was almost precisely offset by a 42,400 bounce in next-door Ontario. The Canadian economy has shed 111,000 full-time jobs just since the start of the year, and youth unemployment is back up to 14.3%. For the Bank of Canada it is likely to be incredibly tough to see the logic behind the market’s pricing of more than one rate hike later this year, when the economy is struggling mightily to take even one step forward. Even with the big slowdown in population growth, slack appears to be re-building in the job market, which should help keep a lid on any secondary inflation pressures from the oil shock.

### Next week

Earnings season winds down amid a relatively light eco data week. In the U.S., FOMC meeting minutes, released Wednesday, are likely to be much scrutinized given the number of dissenters and their vocal comments subsequently relative to positioning; are cuts on the table in the near- to intermediate-term or not?

**Monday 5/18** – none scheduled

**Tuesday 5/19** – U.S. Pending home sales | Canada Inflation reports, New housing price index

**Wednesday 5/20** – U.S. Minutes from May FOMC meeting | Canada none scheduled

**Thursday 5/21** – U.S. Initial jobless claims, Housing starts and Building permits, S&P Flash services and manufacturing PMIs | Canada none scheduled

**Friday 5/22** – U.S. Consumer sentiment and Leading Economic Indicators (LEI) | Canada CFIB Business barometer, Retail sales

## Data scorecard as of May 13, 2026

Equity Market Total Returns						
	5/13/2026 Level	WTD	YTD	2025	2024	5-Year*
S&P 500	7,444	0.6%	9.2%	17.9%	25.0%	14.4%
NASDAQ	26,402	0.6%	13.8%	21.2%	29.6%	13.4%
DOW	49,693	0.2%	3.9%	14.9%	15.0%	11.6%
Russell 2500	4,956	-0.7%	15.2%	11.9%	12.0%	7.3%
S&P/TSX	34,041	-0.1%	8.2%	31.7%	21.7%	16.1%
MSCI EAFE	11,406	0.0%	7.6%	31.2%	3.8%	8.9%
MSCI EM	936	-0.3%	22.1%	33.6%	7.5%	4.2%
Bond Market Total Returns						
		WTD	YTD	2025	2024	5-Year*
Bloomberg U.S. Aggregate		-0.5%	-0.1%	7.3%	1.3%	-0.4%
Bloomberg U.S. Treasury		-0.5%	-0.4%	6.3%	0.6%	-1.0%
Bloomberg U.S. Corporate		-0.4%	0.0%	7.8%	2.1%	-0.1%
Bloomberg U.S. High Yield		-0.2%	1.1%	8.6%	8.2%	4.5%
Bloomberg 1-10 Year Munis		-0.2%	0.3%	5.1%	0.9%	1.2%
Bloomberg Canada Aggregate		-0.6%	0.3%	2.4%	4.0%	-0.4%
Bloomberg Canada Treasury		-0.6%	0.1%	1.4%	2.9%	-0.8%
Bloomberg Canada Corporate		-0.4%	0.5%	4.4%	6.9%	1.5%
Government Bond Yields						
	5/13/2026	Last Month End	Last Quarter End	2025	2024	5-Year Average
U.S. 10-Year Treasury	4.47%	4.37%	4.32%	4.17%	4.57%	3.37%
Canada 10-Year Government	3.57%	3.54%	3.47%	3.43%	3.23%	2.81%
U.K. 10-Year Gilt	5.06%	5.01%	4.91%	4.48%	4.56%	3.16%
German 10-Year Bund	3.10%	3.04%	3.00%	2.85%	2.36%	1.66%
Japan 10-Year Government	2.58%	2.52%	2.35%	2.06%	1.09%	0.65%
Currencies & Real Assets						
	5/13/2026 Level	WTD	YTD	2025	2024	5-Year*
USD Index	98.52	0.6%	0.2%	-9.4%	7.1%	1.8%
CAD:USD	\$0.73	-0.2%	0.1%	4.8%	-7.9%	-1.5%
Bitcoin	\$79,675.73	-0.6%	-9.1%	-6.5%	120.5%	24.8%
Gold	\$4,688.76	-0.6%	8.6%	64.6%	27.2%	17.9%
Oil (WTI)	\$101.02	5.9%	75.9%	-19.9%	0.1%	3.4%

\*Annualized

5-Year data as of December 31, 2025. Benchmark data does not reflect actual investment performance but reflects benchmark results of the underlying indices referenced. You cannot invest directly in an index. Index definitions can be found at the end of this publication.

## Index Definitions

### Equity indices

**S&P 500® Index** is an index of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

**NASDAQ Composite Index** is a market-cap weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange.

**Dow Jones Industrial Average (“DOW”)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

**Russell 2000® Index** (Russell 2000®) is an unmanaged index that measures the performance of the smallest 2000 U.S. companies in the Russell 3000® Index.

**S&P/TSX Index** is a capitalization-weighted equity index that tracks the performance of the largest companies listed on Canada’s primary stock exchange, the Toronto Stock Exchange (TSX).

**MSCI EAFE Index (Developed Markets —Europe, Australasia, and Far East Index)** is a standard unmanaged foreign securities index representing major non-U.S. stock markets, as monitored by Morgan Stanley Capital International. The index captures large and mid-cap representation across 21 developed markets countries around the world, excluding the U.S. and Canada.

**MSCI Emerging Markets Index** is a market capitalization weighted index representative of the market structure of the emerging markets countries in Europe, Latin America, Africa, Middle East and Asia. Prior to January 1, 2002, the returns of the MSCI Emerging Markets Index were presented before application of withholding taxes.

### Fixed income indices

**Bloomberg U.S. Aggregate Bond Index** is an unmanaged index that covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities.

**Bloomberg U.S. Treasury Index** is an unmanaged index that includes a broad range of U.S. Treasury obligations and is considered representative of U.S. Treasury bond performance overall.

**Bloomberg U.S. Corporate Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

**Bloomberg U.S. Corporate High Yield Index** is an unmanaged index that covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody’s, Fitch and S&P is Ba1/BB+ or below.

**Bloomberg 1-10 Year Blend Municipal Bond Index** is a market value-weighted index which covers the short and intermediate components of the Bloomberg Capital Municipal Bond Index — an unmanaged, market value-weighted index which covers the U.S. investment-grade tax-exempt bond market.

**Bloomberg Canada Aggregate Bond Index** measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market. It includes treasuries, government-related, and corporate issuers.

**Bloomberg Canada Aggregate Bond Index - Treasury** is the treasury sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.

**Bloomberg Canada Aggregate Bond Index - Corporate** is the Corporate sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.



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Precious metal investing involves greater fluctuation and potential for losses.

<sup>i</sup> S&P 500 Earnings Season Update: May 8, 2026

<sup>ii</sup> Biggest tech layoffs since COVID-19 worldwide 2025| Statista

<sup>iii</sup> US Producer Prices Rise 0.7% in February, Exceeding Forecasts - Bloomberg

<sup>iv</sup> S&P 500 Earnings Season Update: May 8, 2026