
Will Earnings Blunt Mid-East Conflict?

Market Commentary | May 11, 2026

By Simeon Hyman, CFA, Kieran Kirwan, CAIA, and Bryan Gao, CFA



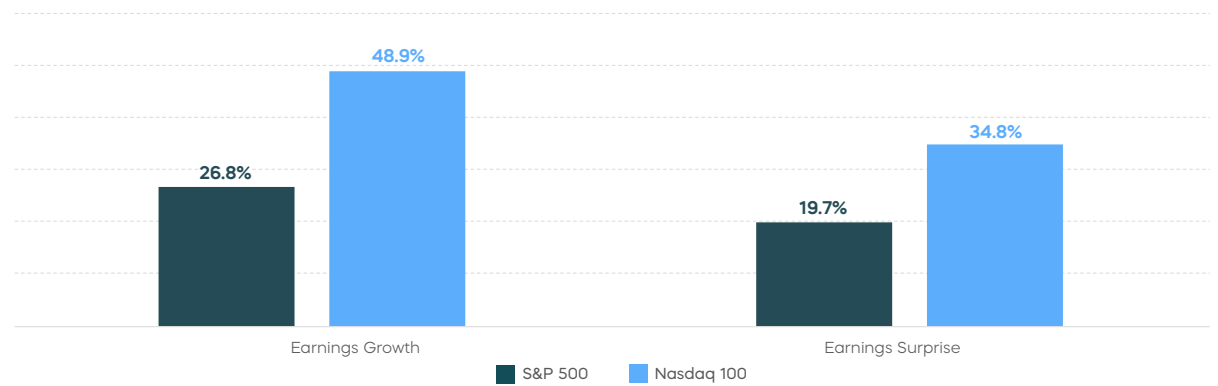
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Key Observations

The war in the Middle East is not over. The Strait of Hormuz is not open. And the price of oil has roughly doubled since the beginning of 2026.¹ Despite those headwinds, the stock market is bouncing around all-time highs, with the S&P 500 up over 10% in the month of April and the Nasdaq-100 Index up over 15%.¹ Is the earnings power of equities (and less exposure to oil shocks) enough to keep stock market momentum from faltering?

Chart of the Month

First Quarter Earnings Have Delivered a Surprise



Source: Bloomberg, data as of 5/5/26. Index returns are for illustrative purposes only and do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

With two-thirds of companies reporting, first-quarter 2026 earnings are up over 25% for the S&P 500 and nearly double that for the Nasdaq-100 Index.² Earnings expectations were high going into the quarter, but not that high. That growth translated into surprisingly robust earnings growth of nearly 20% for the S&P 500 and over 30% for the Nasdaq-100 Index.² And those reports look even better in a balance sheet context. Corporate borrowing, measured by S&P 500 net debt/EBITDA, stands at 1.5X compared to 3.9X at the turn of the century.¹

Also potentially influencing the resilience of the stock market—and the U.S. economy—is the diminished size of the energy sector. According to Bloomberg, the energy sector accounted for just 3.5% of the S&P 500 as of 4/30/26. That number was 6.5% at the turn of the century, and 13.5% in 1990.

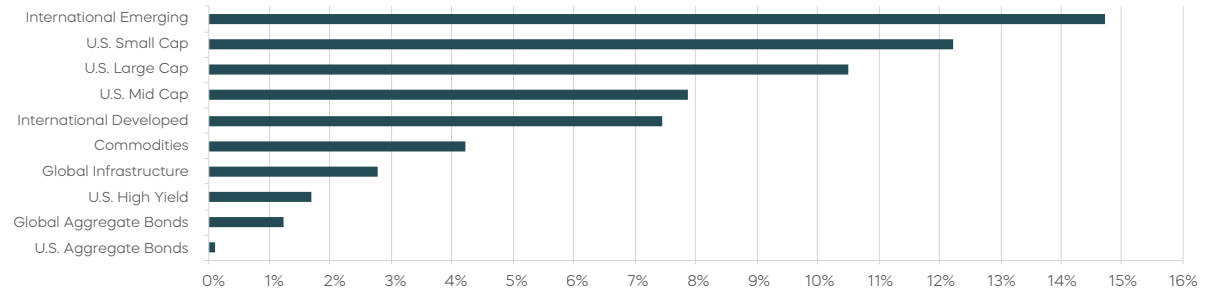
Even consumers seem largely unfazed. The Conference Board's measure of consumer confidence edged higher in April.

That is not to say that there aren't still significant risks. Energy, of course, still matters and there are other key materials impacted by the shutting of Hormuz, such as helium and fertilizer.

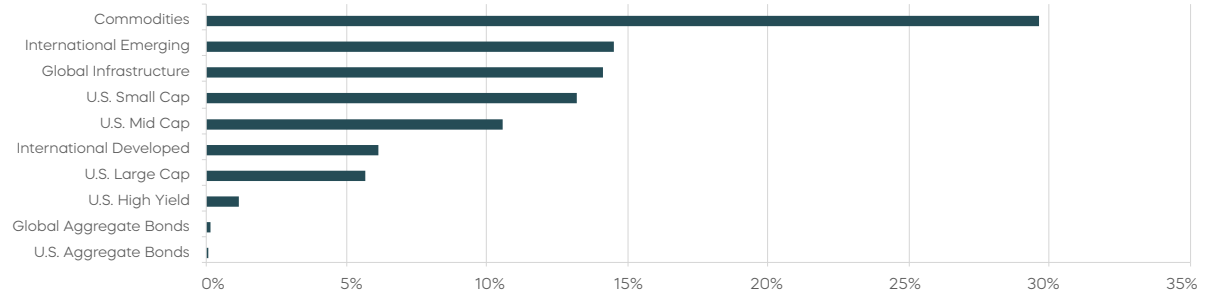
Meanwhile, market concentration remains high. The top 10 stocks in the S&P 500 account for nearly 40% of its value. That's double what it was at the turn of the century.¹ With the broadening of stock market participation that began during the second half of 2025, investors would be well reminded to remember the basic tenants of rebalancing and diversification. With so few stocks driving gains, to put a twist on a famous quote from former Federal Reserve Chair Alan Greenspan—the stock market's performance of late may best be characterized as rational exuberance.

Asset Class Perspectives

Asset Class Returns – April 2026



Asset Class Returns – Year-to-Date 2026



Source: Bloomberg. April returns 4/1/26–4/30/26; year-to-date returns 1/1/26–4/30/26. Index returns are for illustrative purposes only and do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

The following are observations on a range of asset classes. For each, green indicates a constructive backdrop, yellow indicates a neutral environment, and red would indicate a challenging backdrop.

Asset Class	Key Observations
Equity	
U.S. Large Cap	● Strong Q1 earnings provide fundamental support to the rally from Iran war lows.
U.S. Mid Cap	● Strong Q1 earnings growth and a material valuation discount to large cap stocks may present opportunity.
U.S. Small Cap	● Higher commodity prices may hinder Fed cuts that can benefit small caps.
International Developed	● Last year's outperformance barely dented a substantial valuation discount.
International Emerging	● Valuations are now slightly higher than international developed stocks—but higher commodity prices may provide a boost.
Fixed Income	
U.S. Aggregate Bonds	● Bleed-through of oil prices into inflation still presents risk, as consumers have so far proven resilient while absorbing the energy shock.
U.S. High Yield	● Spread tightening coinciding with the stock market rally presents a valuation challenge, as default rates are expected to rise.
Global Aggregate Bonds	● Opportunities may emerge in select countries where markets have aggressively priced in rate hikes tied to energy shocks.
Alternatives/Real Assets	
Commodities	● A modest overweight may be timely during periods of heightened geopolitical risk and conflict.
Global Infrastructure	● Consider a focus on the owners of infrastructure assets, whose business models are generally inflation and recession resistant.

Economic Calendar

Date Time	Event	Prior
5/11/2026 10:00	Existing Home Sales MoM	-3.60%
5/12/2026 8:30	CPI MoM	0.90%
5/12/2026 8:30	Core CPI MoM	0.20%
5/12/2026 8:30	CPI YoY	3.30%
5/12/2026 8:30	Core CPI YoY	2.60%
5/14/2026 8:30	Import Price Index MoM	0.80%
5/14/2026 8:30	Retail Sales Advance MoM	1.70%
5/15/2026 8:30	Empire Manufacturing	11
5/15/2026 9:15	Industrial Production MoM	-0.50%
5/15/2026 9:15	Capacity Utilization	75.70%
5/19/2026 10:00	Pending Home Sales MoM	1.50%
5/20/2026 14:00	FOMC Meeting Minutes	-
5/21/2026 8:30	Housing Starts	1502k
5/21/2026 8:30	Building Permits	-
5/26/2026 10:00	Conf. Board Consumer Confidence	92.8
5/28/2026 8:30	Personal Income	0.60%
5/28/2026 8:30	Personal Spending	0.90%
5/28/2026 8:30	PCE Price Index YoY	3.50%
5/28/2026 8:30	Core PCE Price Index YoY	3.20%
5/28/2026 8:30	Durable Goods Orders	-
5/28/2026 8:30	GDP Annualized QoQ	2.00%
5/28/2026 8:30	Personal Consumption	1.60%
5/28/2026 8:30	GDP Price Index	3.60%
5/28/2026 10:00	New Home Sales	-
5/29/2026 8:30	Wholesale Inventories MoM	-
6/01/2026 10:00	ISM Manufacturing	52.7
6/01/2026 10:00	Construction Spending MoM	-
6/03/2026 8:15	ADP Employment Change	-
6/03/2026 10:00	ISM Services Index	-
6/03/2026 10:00	Factory Orders	-
6/03/2026 14:00	Fed Releases Beige Book	-
6/04/2026 7:30	Challenger Job Cuts YoY	-
6/05/2026 8:30	Change in Nonfarm Payrolls	-
6/05/2026 8:30	Average Hourly Earnings YoY	-
6/05/2026 8:30	Unemployment Rate	-
6/09/2026 8:30	Trade Balance	-
6/09/2026 10:00	Existing Home Sales MoM	-
6/10/2026 8:30	CPI MoM	-
6/10/2026 8:30	Core CPI MoM	-
6/10/2026 8:30	CPI YoY	-
6/10/2026 8:30	Core CPI YoY	-

Source: Bloomberg, data as of 5/1/26.



Kieran Kirwan, CAIA
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Equity Perspectives

Stocks Up, Dispersion Up More

Stocks rallied sharply across market caps, sectors, and geographies during April, but the month's most meaningful story may be the historically large gap between the returns of winning and losing stocks.

A measure of the gap, known as "stock dispersion," reached 55% for the S&P 500 during April. Dispersion, now at the highest level since 2009 for the S&P, is elevated among small-caps and global stocks as well.³

Elevated levels of stock dispersion have important implications for investors.

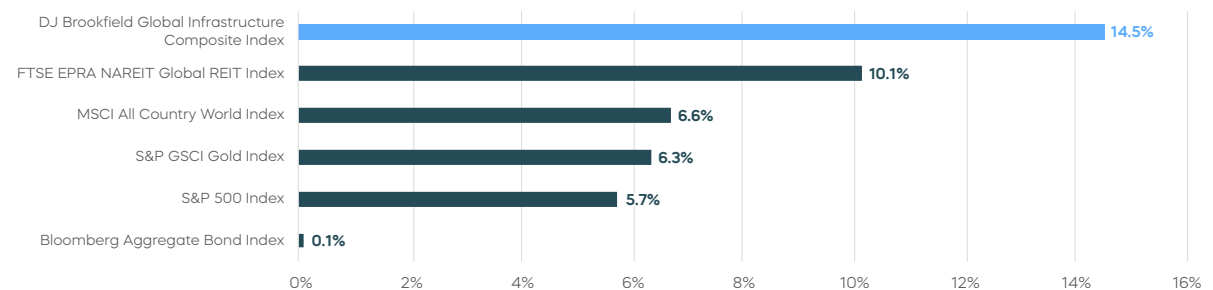
- First, high levels of dispersion typically mean that correlation between individual stocks declines. When there are large gaps between winners and losers, there are more potential opportunities to outperform broad, market-cap weighted benchmarks.
- Second, high dispersion tends to coincide with periods of macroeconomic uncertainty. Given current global dynamics, high levels of dispersion seem likely to persist.
- Third, diversification could become critically important again as market leadership continues to evolve and broaden. It seems appropriate to remind investors of our mantra not to risk becoming an accidental market timer.

A Diversifier for Times Like These

Because of their unique combination of asset characteristics and return drivers, global listed infrastructure stocks may be well suited to act as a portfolio diversifier in high-dispersion environments. But choose carefully. There is no single definition for what precisely constitutes infrastructure, and different approaches to investing in it exist, so style matters greatly.

The Dow Jones Brookfield Global Infrastructure Composite Index represents a "pure-play" approach to infrastructure owners and operators. Unlike strategies that focus on cyclical infrastructure, a pure-play approach focuses on companies that derive the majority of their cash flows from owning and operating essential real infrastructure assets (like transportation networks, energy pipelines, and communications systems).

Pure-Play Infrastructure Has Outperformed in 2026



Source: Morningstar. Data from 1/1/26 to 4/30/26. Index returns are for illustrative purposes only and do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

Pure-play, listed infrastructure provides exposure to a distinct asset class whose performance can differ meaningfully from traditional equities in a portfolio. The owners and operators of these real assets provide essential services—the sort which may enjoy inelastic demand regardless of broader economic conditions. As a result, their earnings and cash flow are generally more stable and predictable than those of companies in cyclical sectors. In periods of high dispersion, when performance differences between sectors or stocks widen, such stability may help dampen portfolio volatility.

Owners & operators also often operate under regulated frameworks with long-term contracts, many of which have explicit or implicit inflation-linkage mechanisms. This gives pure-play infrastructure companies the ability to pass rising costs through to consumers, making them relatively resilient during inflationary environments—conditions that often coincide with elevated dispersion across broader markets.



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Fixed Income Perspectives

How Long Can U.S. Consumer Resilience Last?

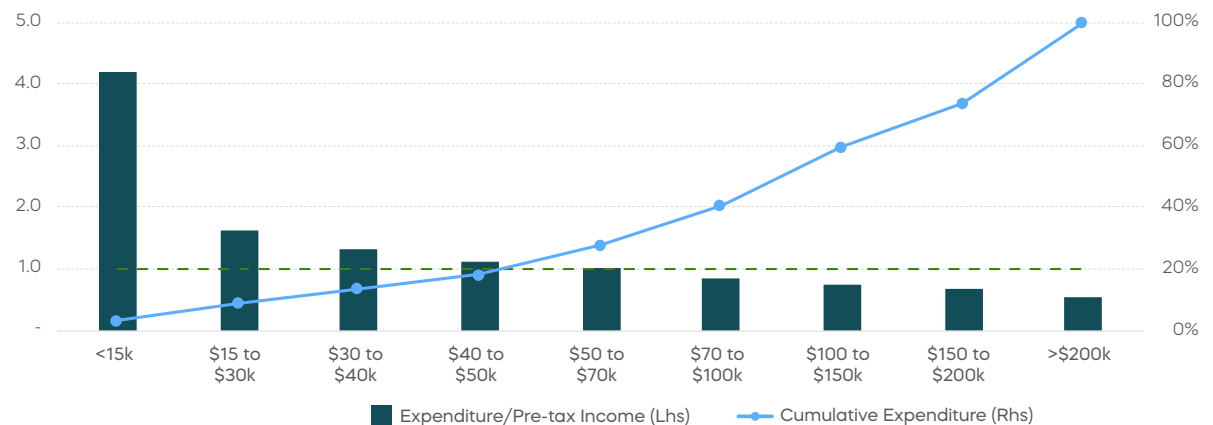
U.S. real GDP expanded at a 2.0% annualized rate in the first quarter of 2026, supported by a 10.4% quarter-over-quarter increase in business fixed investment.⁴ AI-related capital spending remained the dominant growth theme, but consumers also played an important role: personal consumption grew 1.6% and contributed 1.1 percentage points to overall GDP growth.⁴

Over the past three years, since the launch of ChatGPT helped ignite a wave of AI investment, U.S. consumers have contributed nearly three times as much to GDP growth as fixed investment. That should be no surprise, as consumption remains the largest share of the U.S. economy. Sustained GDP growth requires ongoing support from the consumer, and for now, that engine appears to be running.

Still, some headlines point to a deteriorating consumer backdrop, particularly among lower-income households facing pressure from a softer labor market and elevated prices. The reality is more nuanced. U.S. consumers entered last year from a position of strength. The 2024 Consumer Expenditure Survey, while a lagging indicator, generally remains one of the best sources for assessing the so-called K-shaped economy. It confirms that the lowest-income cohort (roughly the bottom 20% of consumers, with incomes below \$30,000) has been under strain. However, the median consumer still looks healthy relative to historical norms.

Over the past decade, the surveys have shown that the median consumer's pretax income has been roughly in line with total spending. At the end of 2024, that relationship remained intact for the 48th percentile consumer (with a pre-tax income of \$70,000). Meanwhile, households earning \$70,000 or more, which make up roughly half of all consumers, accounted for 72% of aggregate spending. Their balance sheets remain healthy, with income levels still supporting a solid propensity to consume.

Consumers Entered 2025 From a Position of Strength



Source: Bureau of Labor Statistics, consumer expenditure survey, 2024. Data by consumer units.

Since the end of 2024, wages have softened and the unemployment rate has gradually risen, as we discussed in our 2026 Market Outlook. Job creation has also slowed meaningfully, in what appears to be an unusual balance. Labor supply and labor demand have declined in tandem, though the exact dynamics have been difficult to pin down. This softer labor market has almost certainly left consumers in a weaker position than they were a year ago.

Even so, several labor-market indicators have shown modest improvement since the second half of last year. For example, job switchers typically see larger wage gains when labor markets are tight and employers compete aggressively for talent (as occurred during the post-COVID period). As labor conditions cooled, wage growth for job switchers converged with that of job stayers. In recent months, however, job-switcher wage growth has again begun to outpace that of stayers.

Continuing jobless claims tell a similar story. Claims had been rising over the past few years, reflecting a growing number of workers facing difficulty finding employment. Since the middle of last year, however, continuing claims have declined. While the economy seems to remain in a low-hiring, low-firing environment, we think a gradually cooling labor market can still sustain consumption growth in the near term, particularly because the labor market began this cycle from a position of strength.

Some Indicators Have Improved Even as Labor Market Cooled



Source: Federal Reserve Bank of Atlanta, 3-month moving average of median wage growth, Mar 2026. U.S. Department of Labor, weekly data seasonally adjusted, as of 4/17/26.

Fiscal policy should also provide near-term support for U.S. consumers, who are widely expected to benefit from fiscal momentum associated with the One Big Beautiful Bill (OBBB), introduced last year. The bill included retroactive tax cuts, which should translate into larger tax refunds in 2026. According to IRS tax-filing statistics through the week of April 17, gross refunds in 2026 were \$43 billion higher than in 2025, a 17% year-over-year increase. The total amount of tax savings accruing directly to individuals may be even larger, as many taxpayers who owe taxes should also see lower final bills. There are also reports that the new deduction for overtime pay may be claimed by roughly twice as many taxpayers as initially projected.

That said, fiscal policy benefits to consumers should not be overstated. Although total fiscal support in 2026 is estimated to exceed tariff revenues, which can be viewed as a tax burden on consumers, much of the OBBB consists of permanent extensions of existing Tax Cuts and Jobs Act (TCJA) tax cuts from 2017. The Bipartisan Policy Center has estimated that seven major TCJA extensions could cost \$3.7 trillion over ten years, exceeding the estimated \$3.4 trillion net cost of the OBBB. As a result, the rate-of-change boost to consumers could be much smaller than the headline fiscal numbers suggest. Still, retroactive tax cuts should provide a near-term tailwind for consumption.

Taken together, we expect U.S. consumers to continue spending well into 2026. For now, their underlying strength may keep the Fed patient and could help anchor the front end of the yield curve in the near term.

- 1 Source: Bloomberg, data as of 4/30/26.
- 2 Source: Bloomberg, data as of 5/5/26.
- 3 Source: Standard & Poor's, data as of 4/30/26.
- 4 Source: Bureau of Economic Analysis, 1Q 2026.

Sources for data and statistics: Bloomberg, FactSet, Morningstar, and ProShares.

The different market segments represented in the performance recap charts use the following indexes: U.S. Large Cap: S&P 500 TR; U.S. Large Cap Growth: S&P 500 Growth TR; U.S. Large Cap Value: S&P 500 Value TR; U.S. Mid Cap: S&P MidCap TR; U.S. Small Cap: Russell 2000 TR; International Developed Stocks: MSCI Daily TR NET EAFE; Emerging Markets Stocks: MSCI Daily TR Net Emerging Markets; Global Infrastructure: Dow Jones Brookfield Global Infrastructure Composite; Commodities: Bloomberg Commodity TR; U.S. Bonds: Bloomberg U.S. Aggregate; U.S. High Yield: Bloomberg Corporate High Yield; International Developed Bonds: Bloomberg Global Agg ex-USD; Emerging Market Bonds: DBIQ Emerging Markets USD Liquid Balanced.

The different market segments represented in the fixed income returns charts use the following indexes: Global Agg Bond Market: Bloomberg Global-Aggregate Total Return Index Value Unhedged USD; Mortgage Backed Securities: Bloomberg U.S. MBS Index Total Return Value Unhedged USD; Treasury Bonds: Bloomberg U.S. Treasury Total Return Unhedged USD; U.S. Agg Bond Market: Bloomberg U.S. Agg Total Return Value Unhedged USD; Corporate Bonds: Bloomberg US Corporate Total Return Value Unhedged USD; High Yield Bonds: Bloomberg U.S. Corporate High Yield Total Return Index Value Unhedged USD; Interest Rate-Hedged High Yield Bonds: FTSE High Yield (Treasury Rate-Hedged) Index; Treasury Inflation Protected (TIPS): Bloomberg U.S. Treasury Inflation Notes TR Index Value Unhedged USD; Short term (1-3 Yr) High Yield: Bloomberg U.S. Corporate 0-3 Year Total Return Index Value Unhedged USD; Senior Loans: Morningstar LSTA U.S. Leveraged Loan 100 Index; Short term (1-3 Yr) Corp Bonds: Bloomberg U.S. Corporate 1-3 Yr Total Return Index Value Unhedged USD; Floating Rate: Bloomberg U.S. FRN < 5 yrs Total Return Index Value Unhedged USD; Interest Rate-Hedged Corporate Bonds: FTSE Corporate Investment Grade (Treasury Rate-Hedged) Index.

The S&P 500 is a benchmark index published by Standard & Poor's (S&P) representing 500 companies with large-cap market capitalizations. The Nasdaq-100 Index is designed to measure the performance of 100 of the largest Nasdaq-listed non-financial companies. The Dow Jones Brookfield Global Infrastructure Composite Index measures the performance of companies in developed markets that are owners and operators of pure-play infrastructure assets. The FTSE EPRA Nareit Global REIT Index is designed to provide investors with the diversification that real estate offers due to its low correlation with other asset classes, along with sufficient liquidity to gain access to the asset class easily. The MSCI ACWI captures large and mid cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. With 2,515 constituents, the index covers approximately 85% of the global investable equity opportunity set. The S&P GSCI Gold Index provides investors with a reliable and publicly available benchmark tracking the COMEX gold future. The Bloomberg US Aggregate Bond Index is a broad-based benchmark tracking the taxable, investment-grade, U.S. dollar-denominated fixed-income market. **THESE ENTITIES AND THEIR AFFILIATES MAKE NO WARRANTIES AND BEAR NO LIABILITY WITH RESPECT TO PROSHARES.**

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