Monthly Update | Issue 110 | May 2026

Oil shock meets AI boom

Why markets are shrugging off the Iran war — and whether it can last

Source: iAI generated

Key takeaways

- Markets have remained resilient this year despite a near 10% correction in March and ongoing geo-political uncertainty.
- While valuations already reflect considerable optimism and markets may consolidate in the near term, we do not currently see the conditions for a deep or prolonged downturn.
- Recessions and aggressive Federal Reserve tightening — typical triggers for major market declines — are not yet in place. Moreover, successfully timing markets is extremely difficult, as investors must correctly predict both when to exit and when to re-enter.
- As a result, we continue to favour equities over fixed income, while using gold, commodities, and hedge funds as portfolio hedges.

Syz PRIVATE BANKING

Charles-Henry Monchau, CFA, CAIA, CMT - *Chief Investment Officer*
Reto Cueni, PhD - *Chief Economist*
Gregory Diche, CEFA - *Head of Advisory*
Gaël Fichan - *Senior Investment Advisor*
Florian Marini, CFA, CMT - *Head of Equities*
Gianluca Oderda, PhD, CFA, CQF - *Head of Discretionary Portfolio Management*
Adrien Pichoud - *Head of Fixed Income*
Colla Rensch - *Head of Alternatives, Funds & Quant Research*

THE BIG PICTURE

There is a paradox at the heart of markets right now. The Strait of Hormuz is blocked. Roughly 13% of global oil supply — some 14.4 million barrels a day — has been knocked out. US gasoline has jumped around 50% year-to-date, the 10-year Treasury yield has broken above 4.6%, and Federal Reserve funds futures now imply roughly a 70% probability of a rate hike rather than a cut. By any conventional playbook, this is the kind of energy and rates shock that ends bull markets. And yet equities have largely shrugged it off. The S&P 500 has continued to climb, the Nasdaq sits in a steep upward channel, and risk assets are having a strong year. What explains the disconnect?

The answer is simple: the AI boom is offsetting the macro shock. We are living through a collision between a nightmare scenario in the Gulf and one of the most powerful structural tailwinds in a generation — and, so far, the tailwind is winning.

Two forces pulling in opposite directions

On one side sits a textbook supply shock. Crude is not merely transport fuel; it is woven into food packaging, electronics, auto parts and medical supplies through the entire petrochemical chain — polypropylene, the base polymer for most consumer goods, is up around 20%. The pass-through is already visible in the real economy: headline CPI near 3.8%, producer prices running at their fastest pace since 2022, and real wages slipping into negative territory for the first time since mid-2023. The pain is concentrated on consumers and energy importers, with the lowest-income households bearing the brunt.

On the other side sits the AI boom. Investors continue to pour capital into AI infrastructure, manufacturing and electrification, and US manufacturing has just flipped into expansion after three years of contraction. The result is an unmistakably K-shaped economy: consumers and import-dependent sectors strained at the bottom, while industrial, commodity and technology sectors ride a structural investment wave at the top. The market, in aggregate, is choosing to look at the top half of the K.

Earnings are winning the tug of war

The reason this is more than wishful thinking is earnings. The first quarter of the 2026 reporting season was genuinely exceptional. The aggregate US earnings surprise reached 18% — one of the strongest beats outside the distorted post-COVID re-opening period. With the vast majority of the S&P 500 reported, 82% of companies beat EPS estimates and aggregate earnings grew roughly 23% year-on-year. When profits are accelerating at that pace, investors have a real, fundamental reason to tune out the daily headline noise rather than react to it.

Crucially, this is not a story about a handful of mega-caps alone. Yes, the Magnificent 7 did the heavy lifting, with EPS growth around 52% — their strongest print since early 2024. But the more encouraging signal is breadth. The S&P 500 excluding the Mag-7 still grew earnings around 14%, seven of eleven sectors delivered double-digit EPS growth, and cyclicals outpaced defensives across every major region. Forward estimates for 2026 and 2027 are being revised higher, not lower. This is what a broadening, healthy earnings cycle looks like — not a narrow, fragile one.

You can even hear the priorities shift in the language of corporate leaders. Across S&P 500 earnings transcripts this quarter, mentions of "AI and machine learning" outnumbered mentions of "economic slowdown" by a factor of roughly 75 to one. Management teams are not battening down the hatches against an oil shock; they are racing to deploy capital into AI. That tells you where the conviction lies.

So far, the offset has held — but the cracks are visible

Three caveats keep us grounded. First, leadership is narrow and extended: the Philadelphia Semiconductor Index has traded around 62% above its 200-day moving average, well beyond the ~35% average seen at historical bubble peaks, and "long global semiconductors" is now the single most crowded trade in investor surveys. A pullback there would pressure the whole market. Second, the rates backdrop is unfriendly. History shows that median weekly equity returns turn negative once the 10-year yield pushes above ~4.5%, and the current move is being driven by a rising term premium — the classic "bad rates up" regime, characterised by multiple compression without an offsetting growth benefit. Third, revisions can lag shocks, as we learned in 2022; the earnings strength is real, but it is partly backward-looking.

Will it last? Duration is the key variable

This is where the Strait of Hormuz becomes decisive. The market is fixated on the size of the shock. We would argue the real risk is its persistence. A useful way to frame it: macro damage scales not with the oil price alone but with the oil move multiplied by the square of time — a short, sharp spike is absorbable; a prolonged closure is corrosive. Floating oil inventories, the importers' buffer, are depleting. If the Strait remains closed for another few weeks, prices risk going parabolic into summer, and the arithmetic changes.

The hinge: if May CPI breaks above 4%

A persistent conflict that pushes inflation above 4% would tie the Fed's hands, deepen the deterioration in consumer fundamentals, and make today's premium equity valuations very hard to justify. At that point the AI tailwind, however powerful, would struggle to offset the macro drag. The newly installed Fed under Chair Warsh adds a further wrinkle: markets have historically tested every new Fed chair, with an average 12% drawdown in the first three months since 1930.

Our house view

Our base case is that the shock proves transitory and is contained within roughly three months. The political constraints are simply too binding for an indefinite standoff — gasoline above $4 a gallon is the kind of pressure that forces a rapid resolution. As long as corporate profits keep accelerating, the path of least resistance for equity markets remains upward, Middle East-linked profit warnings notwithstanding. Long-term trends, momentum and global breadth are all still intact, even if equities are overbought near term and a consolidation would be healthy.

Accordingly, we are positioned slightly overweight equities, underweight fixed income, and overweight gold and commodities, with a structural overweight to the US balanced by retained exposure to the rest of the world. We would turn more defensive on three signals:

- **Rates breaking decisively higher,** driving a renewed, broad-based compression in valuations.
- **Credit spreads widening,** giving clear evidence of contagion into high-yield and investment-grade markets.
- **Breadth and momentum deteriorating,** confirming that participation is narrowing and the underlying trend is weakening.

For now, the AI boom is doing exactly what a structural tailwind should do in the face of a cyclical shock: it is absorbing the blow. The question for the months ahead is not whether AI is real — the earnings settle that — but whether the Gulf gives markets the time they need. Watch the Strait and watch May's inflation print. They will tell us whether the offset endures.

OUR TOP-DOWN CORE SCENARIO

We have adjusted our macro scenario probabilities to reflect a more resilient global backdrop than previously expected. The probability of the "growth freeze" scenario has been reduced from 30% in April to 25% in May, while our baseline "Indian summer" scenario remains unchanged at 40%.

The decline in downside growth risks is driven by a set of more supportive-than-expected developments: fiscal policy is increasingly cushioning the impact of the energy shock, trade uncertainty has stabilised, and capex remains strong — supporting the global manufacturing cycle, particularly in emerging markets. In addition, US consumption continues to hold up, underpinned by a still solid labour market.

At the same time, we have increased the probability of the "inflation heatwave" scenario from 30% to 35%. This reflects mostly the ongoing Middle East crisis, which has pushed energy prices higher again and lifted near-term inflation risks after a temporary easing in April – but also the latest increase in underlying price pressures, outside of energy related parts of the CPI. However, as we continue to expect the conflict to remain contained and energy prices to gradually decline into June, we maintain our "Indian summer" scenario as the baseline.

How does it lead us in terms of asset allocation preferences and portfolio positioning?

Below we review the weight of the evidence and subsequent investment decisions.

Growth freeze probability: 25%

"Freeze-risks" to our baseline scenario (triggering low growth and inflation):

- **US lower & middle** income classes freeze their consumption
- **US AI investment** cycle leads firms to layoff employers to justify investments
- **US AI capex** cycle breaks down as expectations (productivity, RoI) cannot be met
- **Financial system instabilities** lead to **credit woes**
- **Fiscal debt** starts to backfire, "austerity" comes back in the US or France (EU)
- **China's involution policy** chokes domestic growth and global capex cycle

Indian summer for 2026 Scenario probability: 40%

Our baseline growth:

- **Global** growth to recover from low levels (less trade uncertainty, more investment)
- **US** economy keeps good growth thanks to well balanced fiscal stimulus, re-leveraging & (AI) productivity gains
- **Eurozone** will finally see growth grinding towards potential
- **China and EM** will enjoy a growth recovery thanks to less trade uncertainty

Inflation:

- **Globally,** inflation stays calm as regions counterbalance each other
- **US and UK** will see substantial above target inflation, followed by **Japan**
- **Eurozone** will show only mild price pressures and **Switzerland** only very weak ones

Inflation heatwave probability: 35%

"Heatwave-risks" to our baseline scenario (triggering high inflation & mostly high growth):

- **More fiscal stimulus, re-leveraging** of households and firms (AI capex) pushes **growth into a boom that lets inflation surge** (overheating) also due to a **lack of productivity gains**
- **Central bank** (US Fed) becomes too "dovish" and gets "behind the curve" and needs to catch up finally
- **Stark escalation of trade disputes** could derail supply chains and push goods prices up
- **A strong geopolitical eruption** could lead to an **energy price inflation scare**

SPECIAL FOCUS: Q1 REPORTING SEASON

US exceptionally strong, Europe more challenged

With 94% of S&P 500 companies and around 80% of STOXX 600 companies having now reported, the picture is almost complete. The US earnings season is shaping up as one of the strongest of the past decade, while Europe remains positive but structurally challenged. Japan, despite severe weakness in autos, is proving more resilient than feared. Forward earnings expectations continue to move higher across major regions, and companies globally are reporting operating margins higher than ever, reinforcing the view that the global earnings cycle remains intact despite energy and geopolitical uncertainty.

United States: S&P 500

94% of S&P 500 companies have now reported Q1 2026 results, with 84% beating EPS estimates, the highest beat rate since Q2 2021, and the blended earnings growth rate standing at 28.4%, well above the 13.0% consensus at quarter-end. NVIDIA was the last major name to report (May 20), completing the Magnificent Seven earnings season. Ten out of eleven sectors are delivering positive earnings growth, with healthcare the sole exception. Forward estimates continue to be revised upward, with S&P 500 CY+1 EPS growth now at +22.7% and CY+2 at +15.1%, with 1-month revisions of +3.6 and +2.8 percentage points respectively.

Europe: STOXX 600

The European season remains positive but structurally weaker than the US. Approximately 60% of companies beat EPS estimates, with the aggregate EPS surprise improving +4 percentage points as late reporters came in above expectations. EPS growth stands at +5% YoY, while revenue growth remains slightly negative, highlighting weaker operating leverage and softer demand conditions than in the US.

Earnings estimates continue to move higher

The most important signal of the season remains the continued upward revision in forward EPS expectations. Despite geopolitical uncertainty and elevated energy prices, analysts have continued to revise estimates higher into the final weeks of reporting. S&P 500 full-year 2026 EPS growth expectations now stand at +22.7%, versus +13% at the start of January, the largest in-season upgrade since at least 2021. Emerging markets are seeing particularly strong momentum, with MSCI Emerging Markets CY+1 revisions up +4.0 percentage points and CY+2 up +7.9 percentage points over the past month. STOXX 600 2026 EPS growth expectations have risen to +16.7%, MSCI Japan to +15.3%, and MSCI Emerging Markets to +51%.

FORWARD 12 MONTH EPS in Developed and Emerging Markets

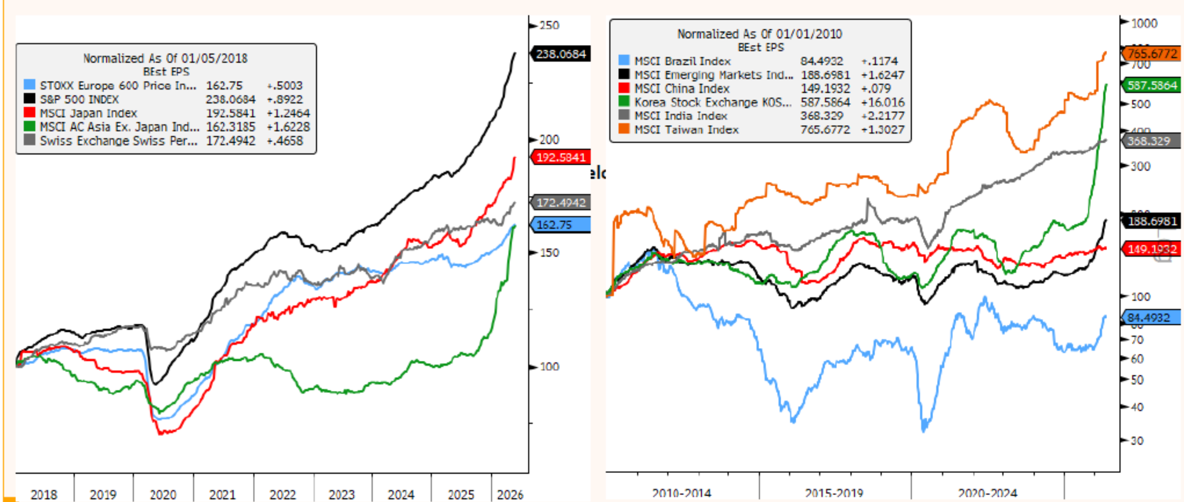

Chart: Despite unprecedented turmoil, the trend in forward 12-month EPS continues to improve in Developed and EM

THE WEIGHT OF THE EVIDENCE

Our asset allocation preferences are based on 5 indicators, including 4 macro and fundamental indicators (leading) and 1 market dynamics (coincident). The weight of the evidence suggests a constructive view on equities (positive). Below we review the main drivers for each of them.

- **Macro cycle (NEUTRAL – unchanged):** given our baseline scenario of a limited duration and scale of the Middle East crisis, global growth is likely to return to the positive trend it was on prior to the escalation; however, uncertainty remains high. As long as the crisis persists, energy prices will remain high. This will weigh on growth and increasing price pressures, eventually spreading to non-energy sectors and dampening consumption. Supportive fiscal policies — including additional fiscal spending to cushion the negative energy impacts — should, together with stabilising trade uncertainty and strong capex spending, help offset high energy prices and underpin the recovery once the conflict is resolved.
  Inflation and central banks: latest CPI prints were largely confirmed the ongoing energy crisis is keeping upward pressure on inflation and inflation expectations. We expect to see central banks shift to a more "restrictive" rhetoric, but the uncertainty surrounding the Middle East conflict remains high. A prolonged conflict and a sustained high level of energy prices could prompt central banks to raise their key rates at some point; a relaxation of the conflict could allow for a "look through" approach. We currently expect the Fed to drop its "easing bias" but to keep its key rate stable at the next meeting, as well as the ECB, the SNB and the BoE. Yet the ECB seems closest to changing course and hiking rates already in June. We still expect the BoJ to likely conduct a rate hike in June or July.
- **Liquidity (moderately POSITIVE – unchanged):** we keep for our liquidity pillar the "moderately positive" score after the latest developments in the Middle East, as current money supply remains favourable but the still high energy prices revived expectations for a possibly more restrictive central bank policy.
- **Earnings growth (POSITIVE – unchanged):** the fundamental backdrop has strengthened. US Q1 EPS growth materially exceeded historical norms, with broad participation across sectors and market caps. Management guidance remained constructive, while operating margins reached record highs across the US, Europe, Japan, and Asia ex-Japan.
- **Valuations (NEUTRAL - unchanged):** US large cap stocks trade above their 10-year averages, while international equities trade at a discount vs. the US However, equity risk premium remains low in both the US and Europe.
- **Market factors (POSITIVE from moderately positive):** symphony scores have been volatile over the past month — ranging 55–82% in the US (latest: 82%) and 60–80% in Europe (latest: 70%). Both regions saw negative contributions from the relative strength index (overbought signal) and put-call ratios (complacency signal). Symphony indicators are still positive at 100% allocation to equity (75% US / 25% EU). Both European and US volume indicators turned positive during the week. In Europe, participation indicators also improved, bringing the overall market breadth assessment back into positive territory. As a result, the European market raw score increased from 60 to 70. In the US, the upgrade in the volume indicator led to a more significant improvement in the raw score, which rose from 64 to 82. As a result, the total equity allocation was increased to 100%.

Indicator*	USA	Europe
Trend	NEUTRAL	NEUTRAL
Technicals	POSITIVE	POSITIVE
Market Breadth	POSITIVE	POSITIVE
Sentiment	POSITIVE	NEUTRAL
Volume	POSITIVE	POSITIVE
Aggregate	POSITIVE	POSITIVE

*as of 21.05.2026

TACTICAL ASSET ALLOCATION (TAA) DECISIONS

The weight of the evidence lead us to stay NEUTRAL on equities. However, we are aligning the weights with the recent market drift, leading us to reducing cash while slightly increasing the allocation to Japan, Eurozone and Emerging Markets equities. All regions are now neutral in the preference grid.

We currently maintain an overall underweight stance on Fixed Income.

In alternatives, we stay overweight gold and overweight commodities.

We stay neutral hedge funds.

In FX, we are shifting our stance on the dollar against all currencies from positive to NEUTRAL. As a reminder, we increased our view on the dollar to positive at the start of the Iran war as we identified the greenback as a portfolio hedge. This is indeed what happened during the escalation phase. Now that a ceasefire has been agreed, the dollar is losing steam again. In the medium to long run, we still expect a weaker USD trajectory. This is due to a most likely looser monetary policy versus other currencies and a higher accumulated inflation. Meanwhile, political intentions to weaken the USD remain (attempts to dismantle the institutional set up behind the USD) and the twin deficit persists.

Short-term factors balance each other out, but economic policies seem key:

- a higher interest rate differential and a stronger economic activity in the US vs the EMU speaks for the USD.
- market volatility if tensions in the Middle East persist.

As such, we expect the USD to move side-ways versus the other currencies in the short-term, hence our current neutral stance (despite a long-term negative view).

ASSET ALLOCATION GRID - TACTICAL ASSET ALLOCATION (TAA) – 21 MAY 2026

	Underweight -	Neutral =	Overweight +
Asset Classes		Cash	
		Equities	
	Fixed Income		
		Alternatives	
Fixed Income	Govies 1-10		
	Govies 10+		
		Corporate IG (local)	
		High Yield (local / global hdg)	
		EM Debt	
Equity		United States	
		Eurozone	
		UK	
		Switzerland	
		Japan	
		Emerging Markets	
		China	
Alternatives		Hedge Funds	
Commodities			Gold
			Commodities
Forex (vs. USD)		EUR	
		CHF	
		GBP	
		JPY	
		EM Currencies	

Arrows show our latest TAA moves.

Investment conclusions

- ☑ Markets have shown remarkable resilience this year. Despite a near 10% correction in March and continued uncertainty surrounding the conflict with Iran and oil prices, equities have rebounded and are once again trading close to all-time highs.
- ☑ A question many investors may be asking after this strong market rally is whether it's time to take profits and reduce exposure.
- ☑ While a significant amount of optimism is already reflected in current valuations — and markets may experience a period of consolidation or sideways trading after recent gains — we do not yet see the conditions that typically lead to a deep or prolonged market downturn, and this is true for at least two reasons.
- ☑ First, we do not see a fundamental breakdown in the current market narrative. Historically, major market downturns tend to occur when a recession is approaching or when the Federal Reserve is aggressively tightening monetary policy — conditions that, in our view, are not in place — at least for now.
- ☑ Second, market timing is notoriously difficult to execute successfully. Investors are generally poor at consistently identifying market tops and bottoms. Importantly, selling requires getting two decisions right: when to exit and when to re-enter the market. That is not an investment strategy we typically recommend.
- ☑ As such, we stick to our preference for stocks over fixed income, using gold, commodities and hedge funds as hedges.

Welcome to Syzerland®

For further information

Banque Syz SA
Quai des Bergues 1
CH-1201 Geneva
T. +41 58 799 10 00
syzgroup.com

Charles-Henry Monchau, CFA, CAIA, CMT
Chief Investment Officer
charles-henry.monchau@syzgroup.com

Reto Cueni, PhD
Chief Economist
reto.cueni@syzgroup.com

Gregory Diche, CEFA
Head of Advisory
gregory.diche@syzgroup.com

Gaël Fichan
Senior Investment Advisor
gael.fichan@syzgroup.com

Florian Marini, CFA, CMT
Head of Equities
florian.marini@syzgroup.com

Gianluca Oderda, PhD, CFA, CQF
Head of Discretionary Portfolio Management
gianluca.oderda@syzgroup.com

Adrien Pichoud
Head of Fixed Income
adrien.pichoud@syzgroup.com

Colla Rensch, Head of Alternatives, Funds & Quant Research
colla.rensch@syzgroup.com