

# Biweekly Investment Insights: New highs in U.S. equities vs. higher inflation outlook & elevated Treasury yields

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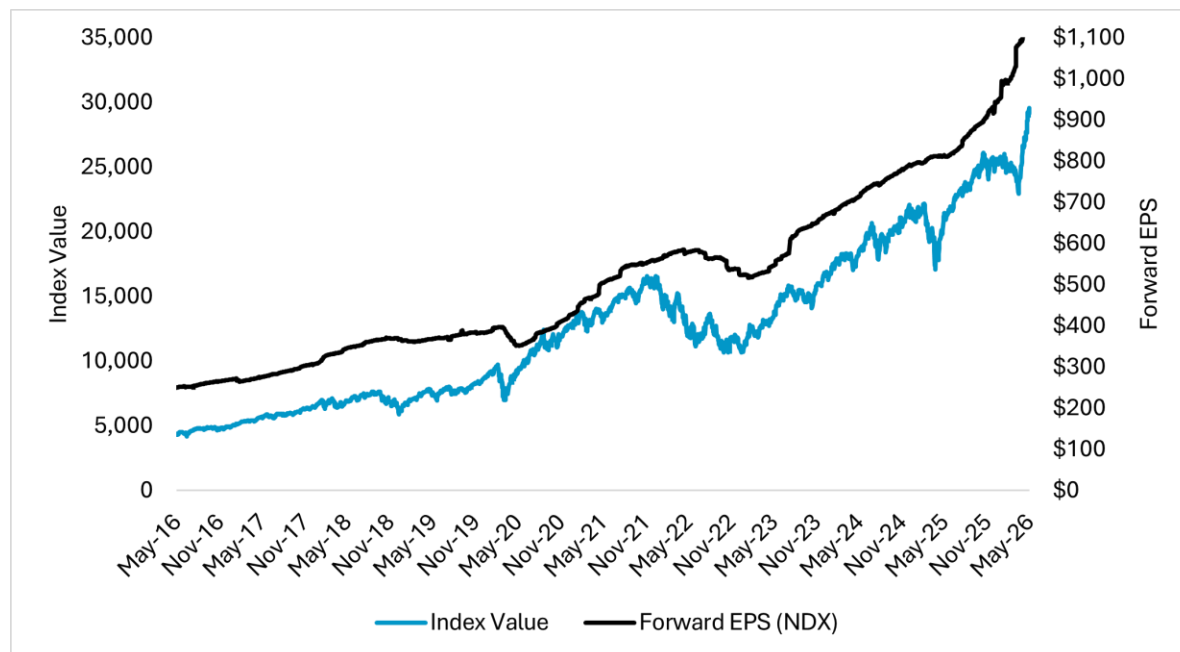
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## Key Points

- Investors look for the next catalyst after an impressive Q1 earnings season
- Higher energy prices filtering through to recent U.S inflation readings
- Inflation expectations accounted for majority of YTD increase in nominal Treasury 10-year yields since early April. But the most recent rate spike was driven by an increase in real rates on tighter Fed policy expectations. Equities have faced headwinds since 2023 when 10-year yields are rising and at least 4.50%

## Biweekly Chart in Focus: Nasdaq-100 forward 12-month EPS vs. index value



Source: Nasdaq Index Insights, FactSet. Data as of 5/15/26.

## Summary

Sometimes we are envious of people who do not follow macro and market developments for a living (...not really, but let's go with it for now...). On one end there are the tectonic shifts of the past decade across geopolitics, trade alliances, and technology which are likely to have profound implications on the world order for years to come. At the other end is the day-to-day data and frantic news flow which can complicate the narrative. As such, sometimes it is better to keep things straightforward.

That is why we chose this particular Biweekly Chart in Focus. At the end of the day, as Nasdaq-100 Index® (NDX®) forward EPS estimates go, so too goes the index—illustrating the micro tailwinds for U.S. equities from strong corporate fundamentals. If one had invested \$10,000 in the Nasdaq-100 at the beginning of April 2016, it would have grown to approximately \$64,500 ten years later. Amidst both the long- and short-term noise, stay invested. (We will save our Legal colleagues the time and pull this from the fine print in the Disclaimer: “Past performance is not indicative of future results.”)

The latest record highs have been driven by a strong corporate earnings backdrop and the AI theme. With estimates that AI investment accounted for about half of overall GDP growth in Q1 2026 (per Pantheon Macroeconomics via The Wall Street Journal), this initial micro trend (e.g., the launch of ChatGPT in November 2022) has become a full-bore global macro theme.

Similar to what we discussed in our [report](#) from mid-August 2025, these micro tailwinds of a strong earnings environment come against the backdrop of ongoing macro headwinds—from tariffs to geopolitics to energy supply shocks to ongoing fiscal concerns. The latest risk to watch for the markets is the rise in inflation expectations stemming from the Iran war which have driven yields markedly higher. The scope for higher inflation—on top of already sticky inflation data—has the markets increasingly pricing in a Federal Reserve hike by the end of 2026.

Coupled with the gravitational pull from spikes in international government bond yields—with the latest epicenter being potential political shifts clouding the U.K. fiscal outlook—U.S. Treasury 10-year yields recently reached 4.67%, the highest since January 2025. Over the past few years, median weekly U.S. equity returns have been negative when yields are over 4.5% and rising.

Prospects for a peace deal in the Iran war, along with ongoing AI tailwinds, have helped lift U.S. equities to new highs. There is scope for the markets to trade sideways in the near-term as investors pivot from the Q1 earnings story in search of the next equity market catalyst while contending with a surge in global bond yields. Higher rates can tighten financial conditions and increase the cost of capital for businesses and consumers. Yet we continue to focus on the longer-term fundamentals for equities whose resilient earnings story has, thus far, overcome higher energy prices, the markets pricing in a Fed pivot, and elevated yields. We will change our constructive outlook if the (micro) data changes meaningfully.

## Details

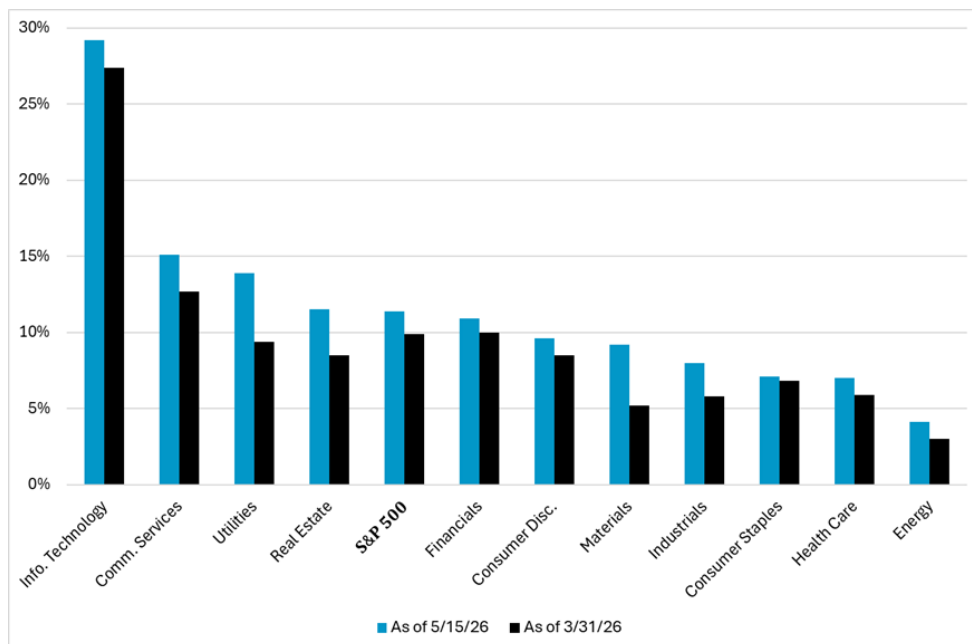
### Q1 2026 earnings on pace for strongest EPS growth rate since Q4 2021

Continuing the thread from our [prior piece](#) as an impressive Q1 U.S. earnings season winds down, Nasdaq-100 blended (actual plus estimated) EPS growth is tracking at 44.6% YoY—which would be the 12th straight quarter of double-digit growth. The S&P 500’s blended EPS growth is on pace for 27.7% YoY—the highest growth rate in over four years (per FactSet).

Some more observations regarding Q1 S&P 500 earnings season (per FactSet):

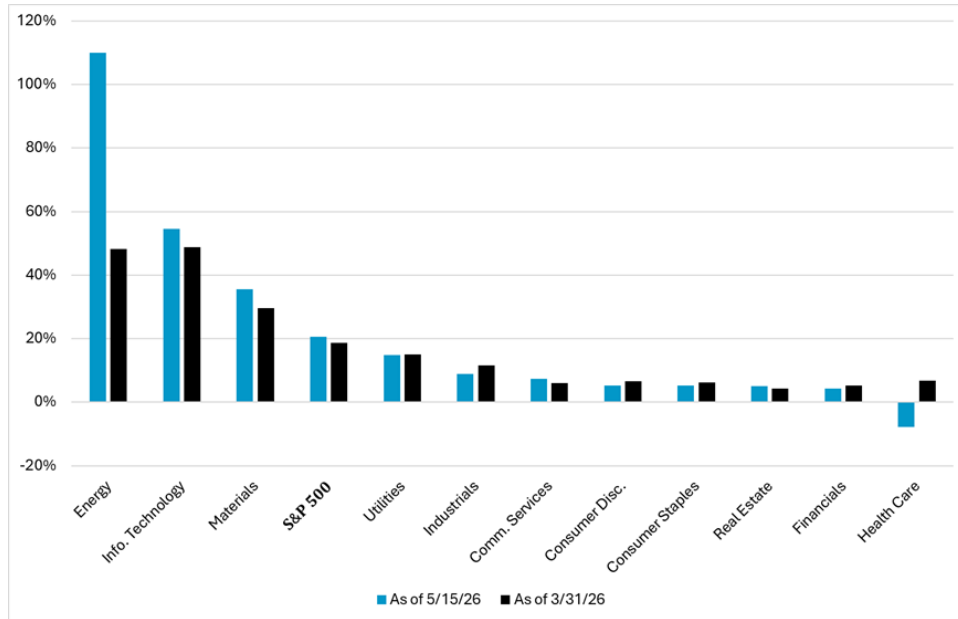
- 10 of the 11 sectors are reporting positive EPS growth YoY.
- The current revenue growth of 11.4% YoY would be the highest since Q2 2022—speaks to solid top-line growth driven by resilient nominal U.S. GDP as well as passing through higher prices to customers. All 11 sectors are on pace for positive revenue growth YoY (Figure 2).
- 84% of companies are reporting positive EPS surprises—above the 1-year (79%), 5-year (78%) and 10-year (76%) averages. This is the highest share of companies reporting a positive EPS surprise since Q2 2021.
- Looking forward, analysts are projecting Q2 earnings growth of 20.5% YoY versus 18.7% at the end of Q1 (Figure 3).

Figure 2: S&P 500 revenue growth YoY% on pace for highest since Q2 2022 with all 11 sectors positive



Source: FactSet. As of 5/15/26.

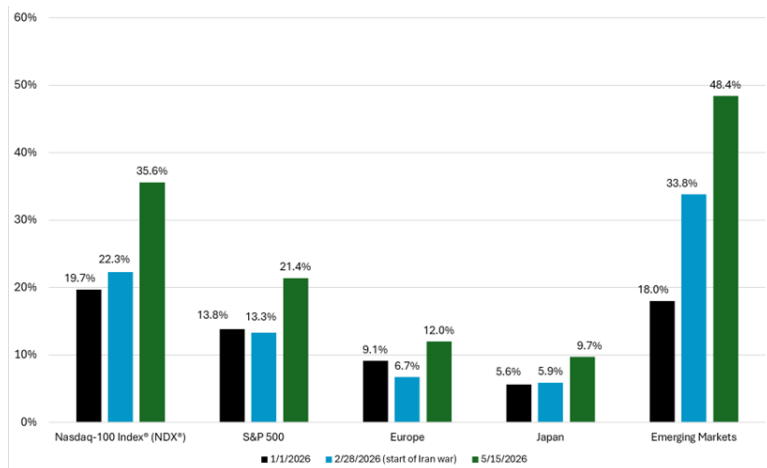
Figure 3: Analysts projecting over 20% S&P 500 EPS growth YoY in Q2



Source: FactSet. As of 5/15/26.

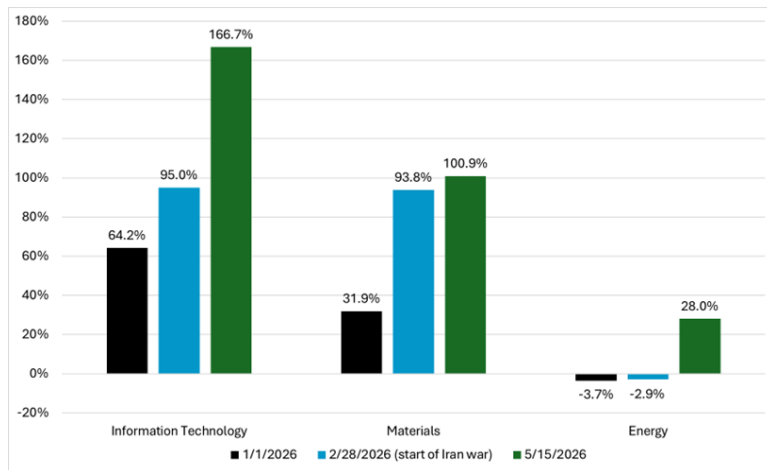
As we’ve also [recently discussed](#), emerging markets (EM) estimated 2026 EPS YoY growth rates are the highest globally and have materially accelerated since the start of the year (Figure 4). With a nearly 37% weight in the EM index—versus just 8.3% in the Europe index—the EM technology sector continues to benefit from the AI theme. Consequently, the step-up in overall EM EPS growth rates has been driven by the tech as well as the materials and energy sectors—the latter two, of course, fueled by higher commodity prices due to the Middle East supply shock (Figure 5).

Figure 4: Emerging market equities have the highest estimated 2026 EPS growth YoY%



Source: Bloomberg. As of 5/15/26. Notes: international markets based on MSCI indices.

Figure 5: EM estimated EPS growth YoY% driven more recently by tech & energy sectors

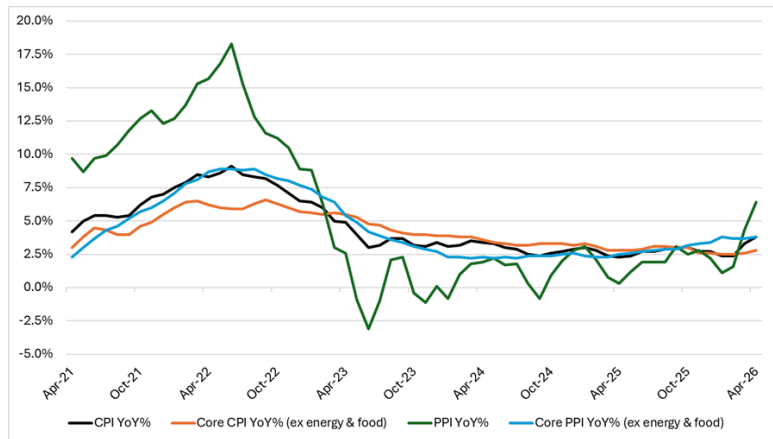


Source: Bloomberg. As of 5/15/26.

### Upward pressure on the U.S. inflation backdrop

The micro tailwinds from a strong U.S. corporate earnings season and the global AI revolution are juxtaposed by the latest inflation concerns due to increases in commodity prices. U.S. consumer prices have drifted higher the past couple of months. Concurrently, headline producer prices hit their highest since January 2023 as steep increases in energy prices course through supply chains (Figure 6).

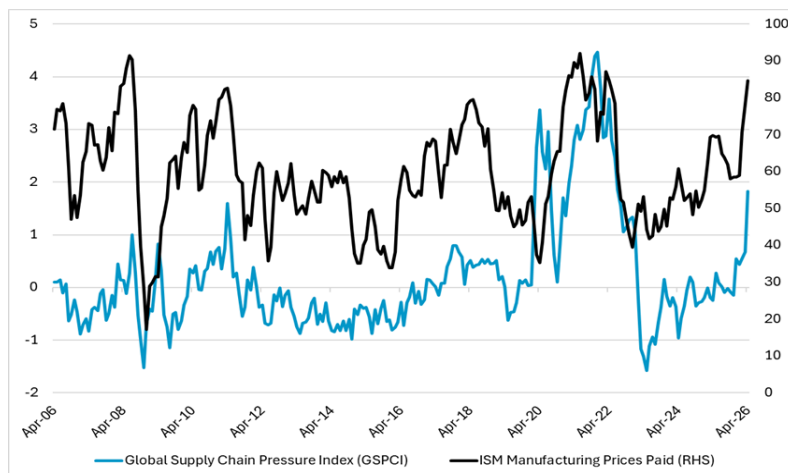
Figure 6: U.S. inflation measures YoY% have broadly drifted higher



Notes: Bloomberg. As of April 2026.

The latest pressure on global supply chains is exemplified in Figure 7 which shows the Federal Reserve Bank of New York’s [Global Supply Chain Pressure Index \(GSCPI\)](#). The GSCPI is an amalgamation of various global metrics which can exhibit supply chain disruptions, such as: global transportation costs, airfreight costs, and supply chain-related components from various countries’ manufacturing Purchasing Managers’ Index (PMI) surveys. Figure 7 plots the GSCPI and the U.S. manufacturing PMI prices paid component.

Figure 7: U.S. manufacturing PMI prices paid component has spiked alongside the GSCPI

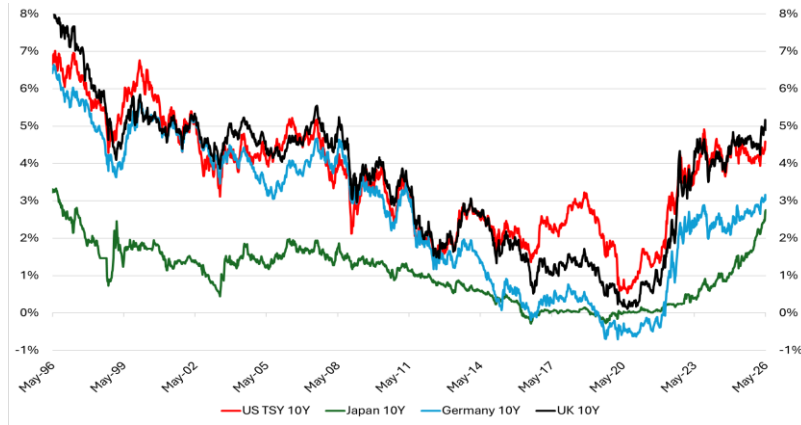


Notes: Bloomberg, Federal Reserve Bank of New York. GSCPI shows the standards deviations from the average value. As of April 2026.

**Watching government debt yields as a near-term risk to equity markets**

Inflation angst, coupled with the gravitational pull from the latest flare up in fiscal concerns, has led to a sharp backup in global bond yields (Figure 8). The most recent epicenters are concerns around Japan’s fiscal outlook and the U.K. as the markets price in the scope for a Labour Party challenger, who favors more government spending, to current U.K. PM Starmer—U.K. 10-year Gilt yields approached 5.20%, their highest since June 2008.

Figure 8: Inflation & government debt concerns have driven global bond yields higher

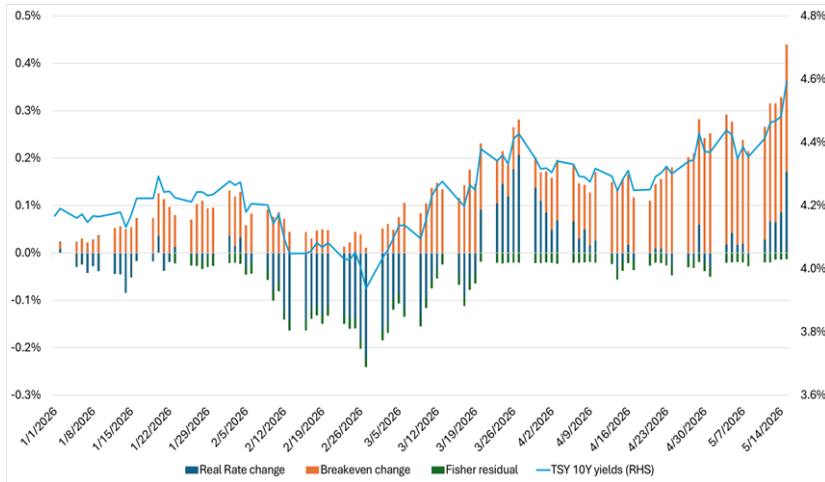


Notes: Bloomberg. As of 5/22/26, weekly.

It is always important to ask and prod further when it comes to the “why.” Figure 9 breaks down the year-to-date change in nominal Treasury 10-year yields. Real rates are a proxy for the market’s future growth expectations and monetary policy stance; breakevens for inflation expectations; and the “Fisher residual” is used to account for mismatches between how these three yield series are quoted and timed.

While not an exact science given the confluence of drivers in the roughly \$31 trillion U.S. Treasury market, based on this high-level view, nearly all of the rise in 10-year yields in 2026 were driven by changes in inflation expectations as of May 11th. By week’s end (May 15th), this had fallen to approximately 63% attributed to changes in inflation expectations and 40% due to changes in real rates, with the remainder as the residual mismatch (Figure 9). The spike in real rates came as breakeven remained flat. Hence, it is the jump in nominal rates given the market focus on higher inflation which led to higher real rates as the markets, as of May 28th, are pricing in nearly a 60% chance of a Fed rate hike by December 2026.

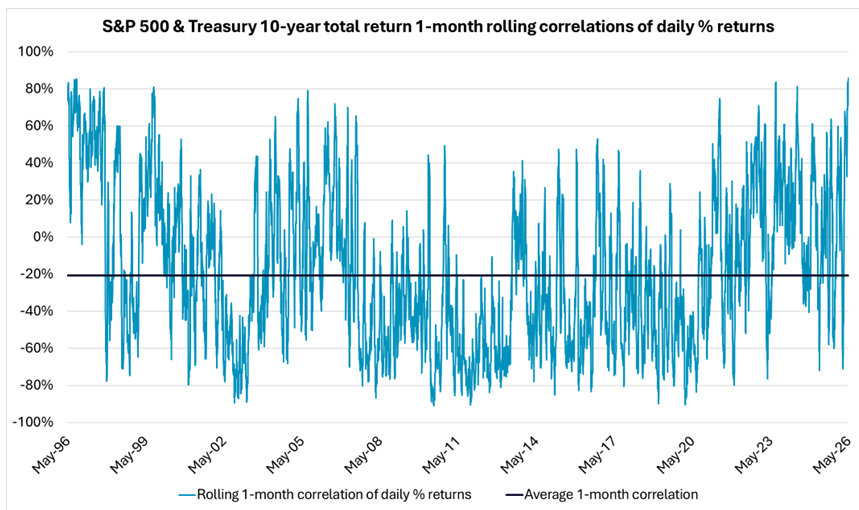
Figure 9: YTD decomposition of nominal Treasury 10-year yield change



Source: Bloomberg. As of 5/15/26. Notes: “Fisher residual” stems from using the Fisher equation as the means of decomposition:  $Nominal \approx Real + Breakeven$  is a direct application of Irving Fisher’s equation.

Figure 10 below is an updated historical view of a chart from our [prior report](#). The 1-month rolling correlation of U.S. large cap equities and Treasury 10-year bond total returns hit 86% on May 13<sup>th</sup>—the highest in at least 30 years of data. Again, the step up in stock-bond return correlations since Covid-19 has made it more challenging for investors to find portfolio ballasts.

Figure 10: U.S. stock-bond 1-month return correlation hit 86%—highest in at least 30 years

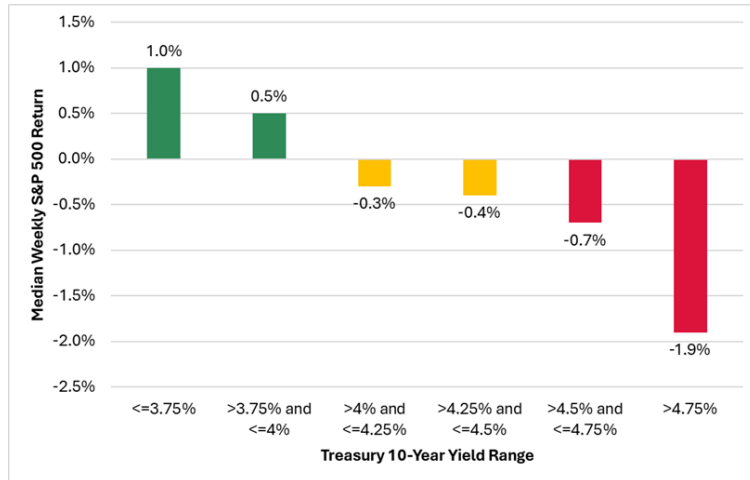


Source: Bloomberg.

With Treasury 10-year nominal rates hovering around 4.45% as of the time of this writing, this has oscillated around the threshold which has portended for weaker U.S. equity returns since 2023 on a median weekly basis as financing costs rise and financial conditions tighten (Figure 11). Consequently, although equities hit new highs on the prospects of the U.S. and Iran finalizing a

peace deal, equities could trade in a range in the interim as investors shift from a strong Q1 earnings season and contend with the higher rates backdrop as they look for the next catalyst.

Figure 11: Median weekly S&P 500 return 2023-present when TSY 10yr yields are rising, by yield level range



Source: Bloomberg, Piper Sandler

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