

Basis Points | May 12, 2026

Climbing Higher

1. Blockbuster

The S&P 500 has crossed new all-time highs on over 50% of days in the last month. After gaining almost 17% since late March, a natural question arises: is this a fundamentally strong rally, or is it just the product of geopolitical relief and loftier sentiment? In our view, the answer is clear: this rally is backed by exceptionally strong earnings growth. S&P 500 earnings are up over 28% year-over-year, the fastest pace since Q4 2021, and analysts expect full-year growth in 2026 will be 21%, the highest since 2021.¹ In addition, revenue growth is strong nearly across the board, indicating these profits aren't just the result of cost cuts.

2. Catch-up, or catch-down

There is one snag. Upward earnings revisions – and market returns – are concentrated within a few mega-cap technology stocks, particularly the chip manufacturers selling the “picks and shovels” for the ongoing artificial intelligence build out. Over half of S&P 500 companies have delivered positive returns year to date, but it is the top companies that are responsible for the lion's share since the late-March market bottom. An equal-weighted index of the S&P 500 is up 8% in the last six weeks, but that is only half the return of the conventional market cap-weighted index. The largest tech firms have returned around three times that amount, making this one of the narrowest six-week rallies in several years. After markets disproportionately punished stocks for missing earnings expectations this quarter, investors will be increasingly focused on whether these firms are on track to meet the very high expectations set for them for sustained earnings and profit margins in coming quarters.

3. Higher hurdles

Oil prices and interest rates are also at relatively high levels. Although oil prices are off their recent peaks, they are still about 50% higher than before the Iran war. After 10 weeks, there is still basically no oil transiting the Strait of Hormuz, which before the war typically handled about 20% of the world's daily oil supply. Energy analysts argue that the effects of today's supply shock – the largest in history – have been relatively contained because the global oil market had unusually high buffers as the conflict broke out. That cushion – excess supply, floating storage, and barrels in reserve – is diminishing, and analysts emphasize that prices could take the next leg higher if the regular flow of 20 million barrels of oil per day doesn't make its way back through the Strait in relatively short order. Meanwhile, interest rates – which were at 17-month lows in late February – have moved about 40 basis points higher, as investors demand more yield to compensate for inflation and uncertainty. But so far, \$100 oil and a 10-year Treasury at 4.4% have done relatively little to impair equities and the economy, as markets remain relentlessly optimistic about the resolution of major risks.

CONTACT

Blake Taylor | VP, Market and Economic Research Analyst

blake.taylor@firstcitizens.com
919-716-7964

Phillip Neuhart | SVP, Head of Market and Economic Research

phillip.neuhart@firstcitizens.com
919-716-2403

Brent Ciliano, CFA | SVP, Chief Investment Officer

brent.ciliano@firstcitizens.com
919-716-2650

Jack Pettit | Research Analyst

jack.pettit@firstcitizens.com
919-986-3667

¹ Source: FactSet.

4. Rolling delays

The oil-price shock has caused inflation to pop higher, again postponing inflation's long-awaited return to the official 2% target. However, policymakers and forecasters appear willing to look through this morning's 3.8% inflation rate so long as price pressures are short-lived and well contained within the energy sector. These are reasonable base case assumptions, but we see risks as tilted to the upside. Inflation swaps data show investors are pushing their estimate for when inflation will peak further and further out as the complexity and duration of the Middle East conflict increases. Additionally, some core services prices were already rising quickly before the war, and higher costs from AI implementation could prove inflationary in the near term.

5. Carrying on

Recent economic statistics paint a picture of the economy as doing relatively well in the aggregate. Job growth has picked up, unemployment is low, and household income and spending are both growing at a decent pace. But at the same time, surveys show households are apprehensive about their economic situations. Fewer workers see the job market as offering many good options, and wage growth is softening – particularly for workers employed by small businesses. Consumer business executives have also emphasized in recent earnings calls that households are prioritizing necessities and value. For many individuals and families with little to no exposure to the recent surge in the equity and housing markets, gains have come largely from nominal wage growth – which has been steadily eroded by above-target inflation. But in the aggregate, this effect is probably being masked not just by stronger spending from households at the upper end, but also by the massive surge in private investment spending related to the artificial intelligence buildout, which has accounted for a significant share of economic growth in recent quarters.



[Sign up](#) to receive regular market & economic updates straight to your inbox.

FIRSTCITIZENS.COM/WEALTH

The views expressed are those of the author(s) at the time of writing and are subject to change without notice. First Citizens does not assume any liability for losses that may result from the information in this piece.

This material is for informational purposes only and is not intended to be an offer, specific investment strategy, recommendation, or solicitation to purchase or sell any security or insurance product, and should not be construed as legal, tax or accounting advice. Please consult with your legal or tax advisor regarding the particular facts and circumstances of your situation prior to making any financial decision. While we believe that the information presented is from reliable sources, we do not represent, warrant, or guarantee that it is accurate or complete.

Your investments in securities and insurance products and services are not insured by the FDIC or any other federal government agency and may lose value. They are not deposits or other obligations of, or guaranteed by any bank or bank affiliate and are subject to investment risks, including possible loss of the principal amounts invested.

About the Entities, Brands, Products and Services Offered

First Citizens Wealth® (FCW) is a registered trademark of First Citizens BancShares, Inc., a bank holding company. The following affiliates of First Citizens BancShares Inc. are the entities through which FCW products and services are offered. Brokerage products and services are offered through First Citizens Investor Services, Inc. (FCIS), a registered broker-dealer, Member FINRA and SIPC. Advisory services are offered through FCIS, First Citizens Asset Management, Inc. (FCAM), and SVB Wealth LLC (SVBW), all SEC registered investment advisers. Certain brokerage and advisory products and services may not be available from all investment professionals, in all jurisdictions, or to all investors. Insurance products are offered through FCIS, a licensed insurance agency. Banking, lending, trust products and services, and certain insurance products are offered by First-Citizens Bank & Trust Company, Member FDIC, and an Equal Housing Lender, and First Citizens Delaware Trust Company.

For more information about FCIS, FCAM or SVBW and its Investment Professionals click here: <https://www.firstcitizens.com/wealth/disclosures>

©2026 First-Citizens Bank & Trust Company.