

Good morning,

What's in this week's Report:

- Why Do Stocks Keep Rising? (Biggest Reason)
- Weekly Market Preview: Do tech earnings and economic growth stay strong?
- Weekly Economic Cheat Sheet: A Busy Week Highlighted by Friday's Jobs Report
- The "Memory Wall" and Why It's Caused the Latest AI-Driven Rally

Futures are modestly higher despite no U.S./Iran ceasefire, with AI enthusiasm continuing to support stocks.

There was no additional progress on a U.S./Iran agreement, and the two sides again exchanged limited strikes, but markets still expect a ceasefire agreement in the coming days.

Nvidia unveiled a new AI processor designed specifically for Windows, and that is boosting tech and futures.

This week is a busy and potentially important one from an economic standpoint, and it starts today with the ISM Manufacturing PMI (E: 53.3). Markets will want to see a Goldilocks reading of better-than-expected headline activity and tame price indices (the opposite would be stagflationary and negative for markets). We also get one Fed speaker today, Waller (8:30 a.m. ET), but he shouldn't move markets.

Market	Level	Change	% Change
S&P 500 Futures	7,609.00	13.25	0.17%
U.S. Dollar (DXY)	99.00	0.15	0.15%
Gold	4,530.09	-63.91	-1.37%
WTI	90.19	2.83	3.24%
10 Year	4.456%	0.004	0.09%

Stocks

Last Week (Needed Context as We Start a New Week)

Stocks gained momentum over the course of last week thanks to a combination of easing geopolitical tensions, more blockbuster AI earnings, and a welcome Goldilocks U.S. economic data. The S&P 500 rallied 1.44%.

U.S. equities gapped higher to start the holiday-shortened trading week as investor hopes for an imminent U.S.-Iran peace deal remained elevated. At the same time, an upgraded outlook and raised price target for chipmaker MU by a prominent UBS analyst rekindled a strong bid in AI-focused tech names. A better-than-anticipated Consumer Confidence report and news of rumors the U.S. Navy may resume Project Freedom were false, helped the S&P 500 rally 0.61% to a record close.

The market spent Wednesday largely consolidating Tuesday's breakout to new highs, as Iran's state television reported that a copy of the "framework" peace agreement between the U.S. and Iran included ship traffic through the Strait of Hormuz returning to pre-war levels within 30 days of a deal (market-positive). Notably, the broadcast stated Iran and Oman would jointly oversee commerce through the critical global oil chokepoint. Rhetoric from U.S. and Iranian leadership intensified slightly, preventing an afternoon rally, leaving the S&P 500 to end the session up a marginal 0.02%.

The rally resumed on Thursday after Axios reported that the U.S. and Iran had agreed to a 60-day ceasefire to shore up the details of a lasting peace deal to end the war. Additionally, Q1 GDP was revised lower, but it still showed that growth had accelerated meaningfully from Q4'25, while PCE inflation data was not worse than feared. Those positive catalysts paired with blowout earnings and guidance from cloud-computing giant SNOW saw the S&P 500 rise 0.58%.

Stocks maintained Thursday's bullish momentum into the open Friday as DELL was the latest legacy tech name to post blockbuster earnings thanks to strong AI-industry demand (shares were up ~35% at the open). At the same time, there were no material geopolitical breakthroughs reported overnight. The S&P 500 hit fresh records in early trade before the index pulled back on hawkish comments regarding inflation by the Fed's Bowman. From there, the market churned sideways in reaction to conflicting statements out of the U.S. and Iran regarding the status of the peace deal, whether it had been "finalized," and critically, what the imminent status of the Strait of Hormuz would be. The S&P 500 closed higher by 0.22% and at another all-time high.

Answering the "Why Do Stocks Keep Rising?" Question

This past weekend, I was asked by several investors, "Why do stocks keep rising?" My answer was well received, so I wanted to share it here. Here was my answer.

Stocks keep hitting new highs because companies keep making more and more money.

The single biggest driver of the surge in the S&P 500 since the March lows has been earnings growth, especially tech earnings growth. That was on display again last week as DELL and SNOW reported huge revenue and earnings growth, and these stocks jumped more than 30% after the results.

The power of this earnings growth is best demonstrated by Micron (MU), which has been the "star" stock over the past three months and has rallied more than 100%. But underscoring how this is earnings-driven is the fact that, despite rallying more than 100% in three months, Micron is trading around 10X forward earnings—an incredibly cheap valuation because earnings are rising just as fast as the stock price!

That reality drives home the fact that the gains in stocks, the reason stocks keep rising, are exceptional earnings growth. That's a very good thing because it's one of the "best" reasons stocks can rally.

However, that doesn't mean the rally is infallible. A massive data center buildout is driving the earnings growth, so for earnings to keep rising like this, money has to keep flowing into data centers. If there's any hesitation or disappointment in that, then we will see the rally of the past few months reverse, and in a hurry.

Bottom line: while there are other influences on the markets, the reality is that this is an earnings-driven market, and as long as earnings keep blowing past expectations, it'll be hard for the market not to rally. But that does leave it very vulnerable to disappointment, so we need to keep watching earnings closely to avoid being blindsided by an air pocket (and we will).

Economic Data (What You Need to Know in Plain English)

Last Week

Inflation metrics were a bit better than expected last week, and while the data didn't remove inflation concerns, it did ease them (along with the drop in oil), and that was positive for stocks.

The key report last week was the Core PCE Price Index for April, the Fed's preferred measure of inflation, which was better than expected. The Core PCE Price Index rose 0.2% vs. (E) 0.3% m/m and 3.3% y/y, meeting expectations. That year-over-year reading is solidly above 3.0%. Still, it's not dramatically accelerating higher (at least not yet), which eased some concerns that the Fed would have to turn dramatically more hawkish (meaning the possibility of rate hikes in the summer).

Some better-than-expected housing metrics reinforced the no-worse-than-expected Core PCE Price Index, as the Case-Shiller March Home Price Index rose 0.8% y/y vs. (E) 1.0% and the FHFA Home Price Index rose 0.1% m/m and 1.7% y/y, meeting expectations. Housing price movements matter because they are currently a major source of CPI disinflation, so the better housing markets are, the less CPI should rise (which, again, will help keep the Fed on hold instead of hiking rates).

Bottom line, inflation pressures are clearly rising. Still, they weren't any worse than expected last week, and that did offer some relief, especially given falling oil prices and the looming ceasefire between the U.S. and Iran.

Turning to growth, the data was mixed: the key growth report was very strong on the headline (7.9% y/y vs. (E) 2.8%) but soft in the details. Of all the monthly economic reports, Durable Goods is the most volatile and potentially misleading, as the headline reading can be skewed by aircraft orders (which was the case in April). That's why we focus on New Orders for Non-Defense Capital Goods ex-Aircraft (NDCGXA), as that targets corporate investment and spending, and the data there was soft. NDCGXA fell -1.1% vs. (E) 0.4%, although that was offset by a positive revision to March (to 3.9% from 3.3%). It's just one number, but business investment is an important part of overall economic growth, and we'll want to see that number rebound in the coming months.

Finally, jobless claims remained low at 215k vs. (E) 213k. While that number is off the absolute lows near 200k, it's still incredibly low on a historical basis and continued to reinforce that the economy is in a "No Hire/No Fire" environment (which is generally fine for stocks).

Markets got a bit of relief from inflation pressures last week, and while that won't erase inflation concerns, it was welcomed. And between the data and falling oil prices, yields dropped, which helped support stocks.

Important Economic Data This Week

This week brings the "Big Three" monthly economic reports, and by Friday we'll have a much better idea of whether stagflation risks are building in the economy (if they are, that's negative for stocks and bonds; if they aren't, it's positive).

The key report this week is Friday's jobs report, and the key here is the stronger, the better. Yes, the Fed is getting more hawkish, but it's not because of the labor market. The labor market is stable, but if there's risk in a direction, it's weaker. The labor market isn't strong enough that it's adding to inflation, so the stronger the job adds on Friday, the better for the market because it'll push back on stagflation concerns.

Beyond the single jobs report, it's also "jobs week," with JOLTS on Tuesday, Challenger layoffs on Thursday, and jobless claims on Friday. In total, we should have a very good idea by Friday morning of the state of the labor market and how that will impact growth (remember, the labor market is the lynchpin supporting consumer spending despite high prices—so it needs to stay stable).

This week also brings the two May April ISM PMIs, manufacturing (Monday) and services (Wednesday). From a growth standpoint, both staying comfortably above 50 is key, as that will imply solid activity across the economy and a run-hot economy vs. stagflation. However, the price indices will be watched just as closely as the headline reading, and if we see further acceleration in the price indices (towards the 2022 highs), that will boost inflation anxiety, as these price indices proved to be a reliable leading indicator of inflation during the inflation surge of 2022 and 2023.

Bottom line, Goldilocks readings of solid activity and in-line or tame price increases are what's needed to further push back on stagflation fears and help underwrite a continued rally in this market. Conversely, if the data shows evidence of stagflation (disappointing growth and higher prices), that will be a new negative for markets as it'll send Treasury yields higher and stocks lower.

Special Reports and Editorial

The "Memory Wall" and Why It's Caused the Latest AI-Driven Rally

Memory stocks have been among the best-performing stocks in the market over the past two months, as large-cap memory makers Micron (MU), SanDisk (SNDK), and Western Digital (WDC) have surged approximately 115%, 145%, and 87%, respectively. These gains have helped revitalize AI enthusiasm and pulled the entire tech sector higher, and that, in turn, has lifted the S&P 500 to all-time highs. But the parabolic gains in memory stocks are making some investors nervous that it's come too far, too fast, so I want to explain why this surge is happening and whether it's sustainable going forward.

The explosion in memory stocks began earlier this year, when tech engineers found a way to overcome the "memory wall." The memory wall was a term that described this simple constraint: computing (think processor speed) has roughly tripled every two years, but memory data transfer speed has grown only about half as fast. That creates a problem: AI processors could theoretically execute trillions of calculations per second, but they can only do so as quickly as memory can deliver the data needed for the calculations. An apt analogy is having a Ferrari that can go 200+ miles per hour, but the car is stuck in Manhattan traffic and has to stop at every red light (the data transfer from the memory chips).

This concept, that memory transfer speeds were limiting processing power, was named the "memory wall," and it was becoming a substantial problem for AI development, because if memory transfer speeds didn't drastically improve, then making ultra-fast processors to power AI would be useless, as no one could extract their full use.

To solve this, engineers literally started stacking memory chips on top of one another and then placing this "memory tower" on top of processors from Nvidia, Taiwan Semi and others, to increase memory transfer time. In regular PCs, the memory chip (usually just one) sits on the motherboard, away from the processor, and it's connected to the processor by a copper wire, which aids data transfer.

For AI servers, engineers literally started stacking high-performance memory chips on top of one another and essentially drilling tiny holes straight to the processor. The result was a much closer “route” and dramatically faster memory transfer speeds, as memory was now stacked on top of, rather than lying flat away from, the processor, unlocking the potential of these ultra-fast AI processors.

While this solved the memory wall problem, it created another one: A dramatic increase in memory demand.

While “memory” may seem like an abstract concept, all we’re talking about here is memory chips, which are made out of silicon. In a normal computer, they need just one chip. A normal server may need eight memory chips.

However, a modern AI server requires at least eight of these memory “towers,” and each tower can have 12 to 16 memory chips. So, at the low end, an AI server now needs eight towers with 12 chips per stack, for a total of 96 memory chips. So, from eight memory chips to 96 (on the low end) for a server.

This really becomes a problem when we realize that hyperscalers have placed orders for hundreds of thousands of AI servers, each requiring at least 96 memory chips. The net result has been an explosion in short-term demand for memory and, predictably, memory prices. That, in turn, has led to surges in revenue and profits for memory stocks, with Micron, Western Digital, SanDisk, and others seeing revenue and earnings rise over the past year.

So, is this sustainable? Over the medium term, the answer appears to be “yes.”

First, demand is very strong. Order backlogs are massive for the memory stocks, with Micron announcing that its entire 2026 capacity is already sold out. The situation is similar for other memory companies. The only solution for this is increased supply, but that’s likely years away because manufacturing a “clean room” capable of producing memory wafers is time-consuming and expensive. Most industry experts believe there will be a memory supply shortage for at least another two years.

Looking at valuation, the memory stocks aren’t expensive, thanks to huge jumps in earnings, revenue, and free cash flow. For instance, trailing 12-month free cash flow for Micron was just under \$2 billion in June 2025. Trailing 12-month free cash flow is expected to be \$10 billion at the next quarterly update! The story is similar for Western Digital (trailing 12-month free cash flow from \$800 million to just under \$3 billion), and SanDisk (trailing 12-month FCF of zero a year ago to \$4.46 billion at last reading!). This explosion of revenue, earnings, and FCF in these names has kept valuations stable, despite 100%-plus rallies over the past several months. To that point, MU and SNDK trade at just under 10X forward earnings while WDC trades at a more expected 34X forward earnings. Bottom line, we’re not seeing the type of P/E surge you’d expect given the rallies, because earnings are rising faster than the share prices (notably, this is just what we saw with semiconductors starting three years ago).

To that point, semiconductor stocks offer a reasonable reference point. Three years ago, at the outset of the AI boom, the semiconductor industry was largely commoditized, with processors generally the same and companies facing stable demand. Earnings of these companies (NVDA and TSM) were driven by supply/demand of the chips themselves (semiconductors were very much commodities before AI). But when AI demand came into the picture, specialty semiconductor manufacturers surged. Despite concerns about a demand peak and increased competition, the major semiconductor manufacturers have continued to see earnings surge ever since.

It's very reasonable to expect we see something similar in memory (which was also a commodity before the "stacking" of "memory dies" or what they call a memory chip). While technology will advance and likely make memory more efficient (and prices for non-AI DRAM chips will decline in the coming years), the demand for memory from AI will likely not be contracting and if technological leaps help solve that problem, we can reasonably assume it's going to come from the memory majors (MU/WDC/SNDK, Seagate (STX), Samsung, etc.).

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