

Good morning,

What's in this week's Report:

- Could Earnings Be More Important than War This Week?
- Weekly Market Preview: Will Earnings Be Strong Enough to Offset any Geopolitical Disappointment?
- Weekly Economic Cheat Sheet: Fed Decision on Wednesday (Will They Still Point to Rate Cuts?)
- Levels to Watch Amid Growing Geopolitical Uncertainty

Futures are little changed despite no ceasefire meeting between the U.S. and Iran over the weekend.

There were no additional ceasefire talks over the weekend, but markets still view the ceasefire process as ongoing, so the "no meeting news" isn't hitting stocks.

Economically, the only notable report was the German GfK Consumer Climate, which missed estimates (-33 vs. (E) -30).

This week could be very important for the rally, as we have critical earnings, a Fed decision on Wednesday, and potential progress on reopening the Strait of Hormuz all looming. But the week starts quietly as there are no notable economic reports today, so any U.S./Iran ceasefire deal headlines should continue to drive markets.

On earnings, this is the most important week of the reporting season (especially Thursday), and some results we're watching today include: VZ (\$1.22), DPZ (\$4.29), CLS (\$1.98), NUE (\$2.79), and UHS (\$5.29).

Market	Level	Change	% Change
S&P 500 Futures	7,194.75	0.00	0.00%
U.S. Dollar (DXY)	98.07	-0.29	-0.30%
Gold	4,724.10	-16.80	-0.35%
WTI	95.18	0.78	0.83%
10 Year	4.314%	0.005	0.12%

## Stocks

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

The squeezey, straight-line rally to all-time highs through the first three weeks of April lost some momentum last week on a resurgence of geopolitical uncertainty, rising oil prices, and renewed inflation concerns. The S&P 500 still hit record highs on strong tech/AI earnings, ending the week up 0.56%.

Stocks began the week with a modest pullback from the prior Friday's record highs after reports that both the U.S. and Iran seized opposing vessels over the weekend, ultimately leading to the reclosure of the Strait of Hormuz. With oil prices and Treasury yields rising, the S&P 500 closed down a modest 0.24% Monday.

The market continued lower on Tuesday as U.S. and Iranian negotiators canceled plans to travel to Pakistan for ceasefire talks, sending the S&P 500 to the lows, down 0.63%.

Stocks rebounded on Wednesday; however, after the close on Tuesday, President Trump announced an indefinite ceasefire. Between that and positive "chatter" about a rescheduled ceasefire meeting, the S&P 500 closed up 1.05% at fresh all-time highs.

Stocks initially extended gains into new record territory Thursday as a solid Composite PMI and resilience in high-frequency jobless claims data tamped down economic worries and offset earnings-related weakness in IBM, TSLA, and AXP. Geopolitical tensions flared again, however, as aggressive comments out of Israel's Defense Force leadership, paired with reports that the radicalized IRGC had effectively taken control of the Iranian government, sparked a sharp selloff with the S&P 500 falling ~100 points from intraday records before closing towards the middle of the session's trading range, down 0.41%.

Stocks gapped higher Friday as peace talks were suddenly back in the works, with both sides expressing intent to travel to Pakistan for weekend discussions. Tech sector strength drove the early gains all day, with INTC surging 23% on year/year earnings growth of +157%. A multi-billion-dollar GOOGL investment in Anthropic added to the bullish sentiment, sending the S&P 500 to a 0.80% gain and to all-time highs.

### *Why Earnings Could Be More Important Than the Strait of Hormuz This Week*

The situation in the Strait of Hormuz will continue to dominate headlines in the financial media. Still, barring a material setback in progress toward a ceasefire between the U.S. and Iran, this week will be as much driven by earnings as anything else, as it is the single most important week of Q1 earnings.

Strong earnings are a critical and underappreciated support for this market, despite headline volatility. Better-than-expected earnings results aren't the "reason" stocks have rallied to new highs (investors chasing to add exposure given the expectation for a ceasefire is the main reason). Still, it could just be the reason stocks hold on to most of these gains!

I say that because the event risk between the U.S. and Iran has now tilted slightly negative, as the market is already largely assuming (and pricing in) a lasting ceasefire agreement. So, whenever it happens, it likely won't be a catalyst for a further rally. On the other hand, with a ceasefire already priced in, any surprise resumption of direct fighting between the U.S. and Iran will spike oil prices and send stocks down sharply, as investors are complacent about those risks. The key difference to watch will be which headlines imply a delay on a still-intact path to a ceasefire (that's what this weekend's news was) versus an event that makes investors worry a ceasefire won't happen (that would be a negative event and likely take 3%-5% off the S&P 500 in a hurry—and we will be watching and tell you if that happens).

Earnings, which have been strong so far in the Q1 reporting season, offer a potential offset to any geopolitical disappointment, as long as results this week are strong. This is the most important week of the Q1 season and will impact markets positively or negatively. Wednesday after the close will be the most important earnings day of the week because we will see results from four of the Mag 7: Google (GOOGL), Amazon (AMZN), Meta (META), and Microsoft (MSFT). Put simply, these mega-cap tech companies remain the engines of earnings growth, powering the S&P 500 to new highs over the past three weeks. So, for the Q1 earnings season to stay good, we will need to see strong results and guidance from these companies.

Staying in tech, we also get notable earnings results from some important semiconductor and memory companies. These two tech sectors are seeing earnings growth explosions driven by demand for AI infrastructure. If aggregate S&P 500 earnings estimates for 2026 are going to rise, we'll need to see continued strong "beat and raises" results from these sectors. Key reports in those spaces (which will matter to the broader market) come on Tuesday from NXP Semiconductor (NXPI) and Seagate Technologies (STX), and on Thursday from SanDisk (SNDK) and Western Digital (WDC). Again, these matter because we're not getting aggregate earnings growth that beats estimates without strong semi and memory results.

On the consumer spending side, these reports are more important than usual because of stagflation fears. Put simply, markets are nervous that spiking oil and gas prices will constrict discretionary spending, which, over time, will hurt the economy. So, some reports we will be watching this week include Visa (V) (tomorrow), which will give us insight into the state of the consumer from the spending standpoint, and also several reports from casual eateries such as Yum Brands (YUM), Buffalo Wild Wings (WING), and Brinker (EAT). These are the types of restaurants that should see weakness if consumers start reducing spending amid higher costs. Conversely, if, as most other companies have said so far in Q1, management from these companies provides strong qualitative commentary, it will further reinforce that the U.S. consumer remains in good shape and be bullish for markets. The financial media will stay focused on the U.S. and Iran, and we understand why. Still, it's very important to stay focused on earnings this week, as they are the critical support for this market, and we need a continuation of a strong Q1 earnings season to help sustain these gains.

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

### Last Week

Economic data last week continued to point to a run-hot economy over stagflation, as economic metrics were strong and price indices were elevated. The key report was the April flash composite PMIs, which is the first major national report of the month, and the results were strong. The headline composite PMI rose to 52.0 vs. (E) 50.3, while the flash manufacturing PMI (54.0 vs. (E) 52.5) and flash service PMI (51.3 vs. (E) 50.0) also beat estimates and rose from March. These metrics accelerated in April compared to March, directly countering the idea that higher oil and gas prices and geopolitical uncertainty would weigh on consumer spending and economic growth.

However, while the growth metrics in the flash PMIs were strong, the price indices for both manufacturing and services also rose sharply, and the reality is that survey-based inflation measures are spiking. Importantly, that doesn't automatically mean we'll see the "hard" inflation data, such as CPI and the Core PCE Price Index, also spike (remember, they are statistical calculations). Still, they are correlated, and the jump in survey-based price indices is a reminder that inflation risks are real. The longer oil stays elevated, the longer we see inflation metrics creep higher, further reducing rate-cut hopes (and increasing rate-hike chances).

Other data last week showed solid growth. March retail sales were better than expected on the headline (1.7% vs. (E) 1.4%), and that's to be expected given the surge in gasoline prices (remember, retail sales is an aggregate number, so if gas prices rise but people buy the same number of gallons, aggregate retail sales will be sharply higher even though people aren't buying more gas). More importantly, the "control" group of retail sales, which is retail sales less gas, autos, and building materials, was also strong and rose 0.7% vs. (E) 0.2%, and there was a slightly positive revision to 0.6% from 0.5%. The control group is our best gauge of truly discretionary retail spending, and, in aggregate, it remained strong, pushing back against slowdown fears.

### **Important Economic Data This Week**

The key event this week is Wednesday's FOMC decision, even though there will be no change to rates (a rate cut or hike is virtually impossible). But even though rates won't change, the meeting can still impact markets through the Fed's commentary.

Markets will be focused on how much the Fed addresses rising inflation risks and its expectation to cut rates later in the year. That commentary will come via any changes to the statement and Powell's press conference, and from a market standpoint, the stakes here are pretty straightforward: Anything the Fed does to reduce the expectation for rate cuts in 2026 will be an incremental market negative, and if the Fed hints that rate hikes could be possible in the future, that will be a more substantial negative. The best-case scenario is for the Fed to provide no surprises and instead keep market expectations intact.

Looking at economic data this week, there aren't many reports, but the ones we get could be market-moving. The most important report this week comes on Friday via the ISM Manufacturing PMI. Given stagflation concerns, the best-case scenario will be continued solid growth (so at or above expectations), but no big spike in the price indices. The worst case is the opposite: an underwhelming headline reading (that pushes it back towards or below 50) and a spike in prices.

Turning to inflation, the Fed's preferred measure, the Core PCE Price Index, is released on Thursday (right after the Fed decision). The Core PCE Price Index has been rising faster than CPI because, among other things, Core PCE isn't as influenced by housing prices, which matters. After all, it implies greater inflation pressures than CPI. If that number is higher than expectations, we could see yields rise on reduced rate-cut expectations or, worse, a slight uptick in rate-hike fears, which would be negative for markets. Conversely, an in-line number that further quells inflation fears will be welcomed by markets (remember CPI and PPI were both no worse than feared and helped to ease stagflation concerns, and that'd be welcomed here, too).

### **Special Reports and Editorial**

#### **Levels to Watch Amid Growing Geopolitical Uncertainty**

Anyone who has worked in the financial markets long enough knows that the sharp and swift rally off the late-March closing lows, which has notably carried the S&P 500 back to record territory, could not go on forever. However, last week's new intraday record highs, followed by a close in the red, was an attention-grabbing signal that an immeasurable amount of bullish momentum has faded, leaving stocks at risk of a potential new period of headline-driven volatility as we saw through the end of March. As such, I wanted to provide some key levels to watch in the S&P 500 and oil futures to help navigate the uncertain sessions ahead.

**S&P 500:** The S&P 500's latest move to all-time highs ran out of steam when the index approached 7,150 at the end of the previous week. A retest of that same level last week marked the session high before the spike in intraday volatility and the pullback to Tuesday's low of 7,050, a level that was notably defended before stocks turned back higher amid the afternoon relief rally. As such, the bounds of last week's trading range have acquired meaningful technical significance, and a close above 7,150 or below 7,050 would very likely signal a new market move in the direction of the binary break.

**Oil:** The active month WTI crude oil futures contract has rolled from May to June since the initial ceasefire was announced on Apr. 7, which proved to be a meaningful risk-on catalyst for global markets across asset classes. As a result, "continuous" front-month futures charts will be misleading, as there was still a significant backwardation dynamic (premium in the May contract relative to June) in the term structure of the oil market back in early April. Point being, the June WTI contract is the critical oil price measure to monitor right now, and prices pushed up into the critical resistance band between \$95 and \$100/barrel yesterday. A close above \$100 should be viewed as evidence that a risk-off/war-on catalyst has occurred, and investors should brace for more volatility. Conversely, a close in WTI below the Apr. 17 low of \$82.59 would signal a fresh "all-clear," setting stocks up to resume their rally to new record territory.

Last week served as a stark reminder that, despite the rapid relief rally to new all-time highs in the major equity benchmarks, we are still in the midst of a wartime market. That means stocks remain susceptible to "air pocket" selloffs as well as bullish "breakaway gap" rallies like investors steadily enjoyed leading into this week.

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