



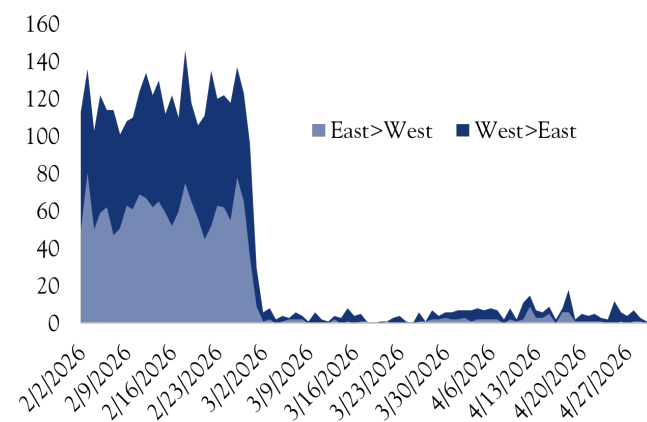
# SILVERCREST ASSET MANAGEMENT GROUP

## U.S. ECONOMIC & MARKET REVIEW—MAY 2026

### POLITICS VS. PROFITS

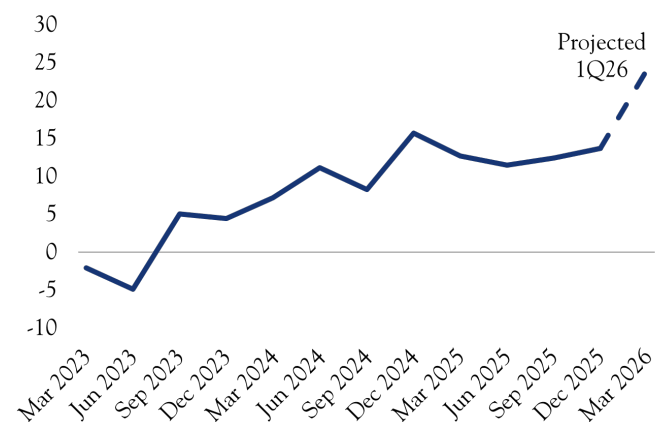
In a complex world, sometimes the simplest outcome is the one that materializes. Today, in markets, the high degree of geopolitical uncertainty is pitted against the undeniable strength of U.S. Equity earnings. The events in the Strait of Hormuz are creating inflationary pressures and may also have long-term implications in foreign relations. However, none of this has been enough to slow the tremendous trend of earnings growth. Faced with the choice of deciding whether and when the Strait of Hormuz will open, or simply following the earnings, investors are choosing to follow the earnings. Figures 1 and 2 show the ongoing mostly closed status of the Strait and earnings trends in the U.S. While the Hormuz closure is relatively recent, there has not yet been any disruption to the very powerful trend of earnings growth.

FIG. 1: STRAIT OF HORMUZ VESSEL CROSSINGS  
COMMERCIAL, BIDIRECTIONAL, DAILY



Source: Bloomberg.

FIG. 2: S&P 500 EARNINGS PER SHARE GROWTH  
QUARTERLY



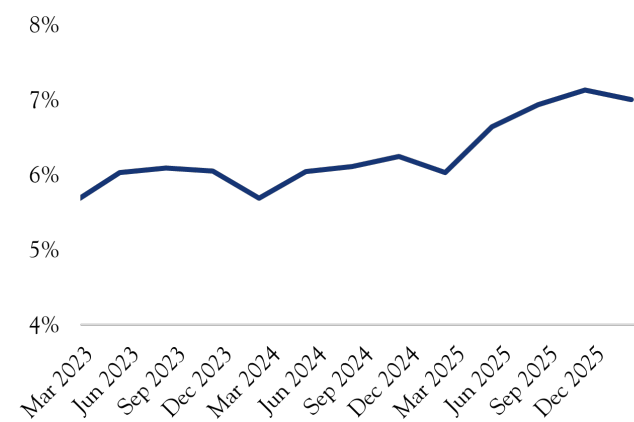
Source: Bloomberg.

### CAPEX VS. MARGINS

As seen in Figure 3, capex continues to increase for large-cap companies. A few trends have converged to drive this spending, namely tax incentives, re-onshoring, and the AI buildout. While there have been concerns that increased capex could reduce profitability, so far in aggregate for the index, this has not happened. The clear beneficiaries are the recipients of the capex, and we expect users of AI tools to see benefits, particularly in companies with management teams able to execute change in ways that unleash productivity.

As a fun flashback, consider the introduction to the book *Reengineering the Corporation*, published in 1993. At that time, the cost of a long-distance call was falling, the use of fax machines was rising, and internet use was just getting underway. Communication had changed

FIG. 3: R1000 CAPEX AS % OF SALES REVENUE  
ROLLING 10-YEAR AVERAGE, QUARTERLY



Source: Bloomberg.

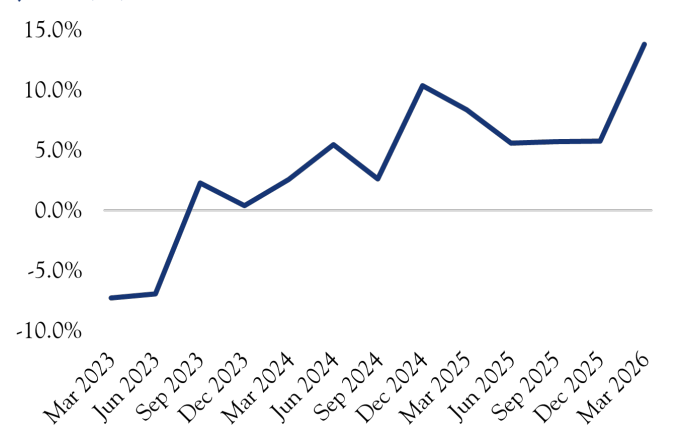
dramatically. The authors state, “America’s business problem is that it is entering the twenty-first century with companies designed during the nineteenth century.” Today, with AI usage on the rise, there is a legitimate argument to be made that the corporation must once again be reengineered. Those who adapt will thrive, and those who remain stagnant will likely struggle. These divergences should create significant dispersion across company results and a rich opportunity set for active management.

In fact, profit margins for the S&P 500 (Figure 4) are near all-time highs and above where they were one year ago, at nearly 14%. Some of the biggest winners here, with high and rising margins, are in tech and financials, the two sectors most obviously expected to benefit from AI-driven productivity gains. That said, it is still early days for the AI-to-profit-margin story, which will be a story of management-team execution and significant dispersion, even within sectors.

A review of the S&P 500 (using Bloomberg’s AskB tool) shows that 41% have headcounts that are flat or down on a year-over-year basis. The same analysis shows that about 50% of companies have increased profit margins on a year-over-year basis.

We believe this trend of increased productivity and profits is under-appreciated. Figures 5 and 6 below show the trend over the past 10 quarters for sales and earnings beats relative to consensus expectations. On average, sales have come in mostly on plan at +1.2% above expectations, while earnings have exceeded expectations by 7.0%. This is a clear sign that analysts continue to underappreciate the ability of companies to boost profits.

**FIG. 4: S&P 500 PROFIT MARGIN GROWTH**  
QUARTERLY



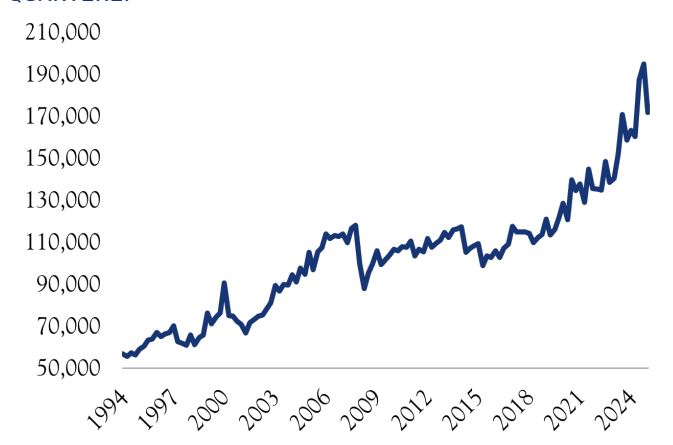
Source: Bloomberg.

**FIG. 5: SALES & REVENUE BEATS VS. CONSENSUS**  
QUARTERLY

	SALES BEAT	EARNINGS BEAT
4Q23	1.10%	7.20%
1Q24	1.00%	9.20%
2Q24	0.70%	4.40%
3Q24	1.30%	6.10%
4Q24	1.00%	7.60%
1Q25	0.60%	6.40%
2Q25	2.10%	8.70%
3Q25	0.90%	6.00%
4Q25	1.70%	4.00%
1Q26	2.00%	10.20%
<b>Average</b>	<b>1.24%</b>	<b>6.98%</b>

Source: Bloomberg.

**FIG. 6: R1000 REVENUE PER EMPLOYEE**  
QUARTERLY



Source: Bloomberg.

One driver of increased profitability has been a rise in revenue per employee. Some companies have made note of deliberately lagging headcount vs. revenue, while encouraging the use of productivity-enhancing tech. Interestingly, the chart of revenue per employee (Figure 6) shows a clear, rapid rise in the internet era through the 2008 financial crisis, a long sideways stretch, and then an acceleration in the COVID and AI eras. This fits our thesis that companies have become incredibly agile.

In the third comparison (Figure 7), we illustrate the no-hire, no-fire economy. This backdrop is sub-optimal from an economic policy standpoint but positive for the earnings outlook. Current payroll gains, paired with wage gains and ongoing wealth creation, are enough to drive 2.0%+ economic growth, which is sufficient for strong earnings gains, especially in conjunction with the drive for efficiency underway at many companies.

## OUTLOOK

While economic growth remains in solid territory, some signs of consumer trepidation are emerging. With the heart of earnings season just getting underway, it remains a bit early to deduce whether strong earnings will be enough to drive further equity gains. Following two quarters of prices marking time, this quarter certainly seems consequential. On the year thus far, smaller companies have participated in price advances, though other measures of breadth, such as the percentage of companies in the S&P 500 above their 200-day moving average, remain weak. For the equity rally to continue, we see three requirements:

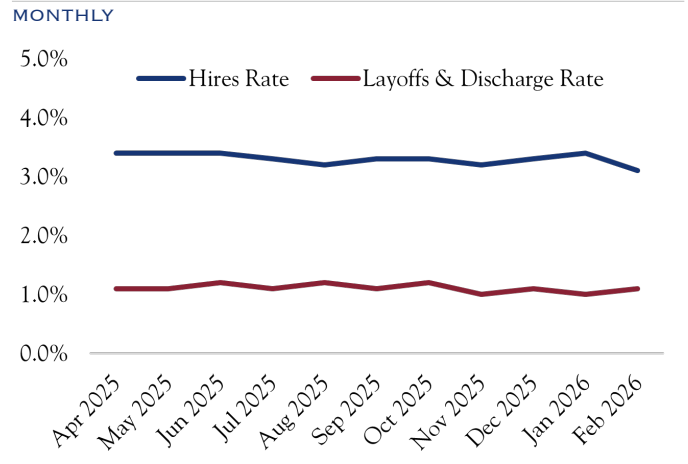
1. Earnings growth emanating from a larger segment of companies. There should be signs of broader adoption and divergences in execution.
2. Events in Hormuz being more clearly off the table and thus alleviating further inflation concerns.
3. A strong stock price response to earnings.

For now, the micro is beating the macro, as earnings are tracking to a 15% year-over-year gain, powerful enough to overcome macro concerns.

May 1, 2026

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FIG. 7: JOLTS HIRES RATE VS. FIRES RATE



Source: Bureau of Labor Statistics.

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